

February 12, 2020

## Futuristic Diagnostic Imaging Centre Private Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - working capital limits	3.00	5.00	[ICRA]BB(Stable); Reaffirmed
Unallocated Limits	12.00	10.00	[ICRA]BB(Stable); Reaffirmed
<b>Total</b>	<b>15.00</b>	<b>15.00</b>	

*\*Instrument details are provided in Annexure-1*

### Rationale

The rating positively factors in the significant experience of the management of Futuristic Diagnostic Imaging Centre Private Limited (FDI) in the medical industry and its healthy financial profile with high operating margins, low gearing and comfortable coverage indicators for the past three financial years. The rating also considers the limited competition due to the capital and technology intensive nature of the business and the healthy demand outlook for the nuclear medicine market.

The rating, however, is constrained by FDI's small scale of operations in the medical and healthcare industry as it manufactures a single product – fluorodeoxyglucose (FDG), which has a short shelf life. The rating is also constrained by high geographical concentration risk as Karnataka contributes a major portion to its revenues. The rating considers the regulatory risks as the product is highly regulated by the Atomic Energy Regulatory Board (AERB). The rating also notes the moderate working capital intensity of operations, resulting from high receivables, and the ongoing capital expenditure project to enhance its production capacity, which may weaken FDI's capital structure and coverage indicators, going forward.

The Stable outlook reflects ICRA's opinion that FDI will continue to benefit from the extensive experience of its management, and healthy demand prospects of its product.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of management and established relationship with diverse customers** – The promoter, Mr. Pundaleeka Krishnappa Sarode, has over three decades of experience in the medical industry. The company has been operating for more than a decade and has established strong relationship with its customers, which includes reputed hospitals and diagnostic chains across India.

**Healthy financial profile** – FDI's financial profile has been healthy with a gearing of 0.3 times as on March 31, 2019, healthy coverage indicators with an interest coverage ratio of 18.8 times, and NCA/Total debt ratio of 57% along with high operating margins of 28.1% in FY2019.

**Capital and technology intensive nature of operations restrict competition** – With a limited number of FDG manufacturers in India, the competition remains low. Moreover, highly technical and capital intensive nature of operations serve as entry barriers and restrict new entrants.

**Healthy demand prospects for the company's product** – The use of FDG for PET scanning and imaging applications in oncology, neurology and cardiology has been growing steadily. Increasing cases of cancer detection, increased awareness and acceptance among doctors and patients, and improving ecosystem with installation of more PET scanners by diagnostic centres and oncology hospitals, are expected to drive the demand growth, going forward.

## Credit challenges

**Small scale of operations, short shelf life of the product limit operational flexibility** – With a revenue of Rs. 19.1 crore in FY2019, FDI’s scale of operations has been small. FDG, being a radioactive substance, has a half-life of 110 minutes, restricting the shelf life of the product. FDI’s single product profile and its short shelf-life restrict the revenue growth potential and operational flexibility.

**Ongoing capacity expansion project likely to weaken capital structure and coverage indicators** – The company is undertaking a capital expenditure of ~Rs. 32.8 crore for expanding its capacity and for installation of a 2.2-MW solar power plant. As a part of the capex is debt funded, the capital structure is likely to weaken from FY2020. A part of the funding is yet to be tied up, so any delays in securing the required funds can weaken FDI’s liquidity position. Going forward, the ability of the company to complete its project within the budgeted timeline and costs and scale up the operations and achieve breakeven with the enhanced capacity remain important for maintaining its financial profile.

**High geographical concentration with Karnataka as the major revenue contributor** – The customer profile of the company includes various hospitals and diagnostic chains across various states in India. However, Karnataka contributes more than half to its revenues, as its manufacturing plant is located in Bangalore and transporting the product to distant locations increases its cost. Although the entry barriers are high, any new entrant in Karnataka region can significantly impact the company’s revenues and pricing flexibility.

**Regulatory risks as the product is highly regulated by AERB** – FDI is susceptible to regulatory risks as the production, transportation and administration of FDG are highly regulated by AERB.

## Liquidity position: Stretched

FDI’s liquidity position is stretched due to the ongoing capital expenditure. While the retained cash flows of the company are estimated to be sufficient to meet its term loan repayment obligation of ~Rs. 1.2 crore in FY2020, the minimal cash balances and near-full utilisation of working capital limits provide limited buffer for any contingencies. Any higher-than-estimated capital expenditure or delays in disbursements of proposed loans, could tighten the liquidity position.

## Rating sensitivities

**Positive Triggers** – ICRA may upgrade FDI’s rating if the company demonstrates a sustained improvement in its revenues, while maintaining its margins and healthy coverage indicators. Also, improvement in FDI’s working capital intensity, leading to an improvement in the liquidity position would also be a key factor for a higher rating.

**Negative Triggers** – Pressure on FDI’s rating may arise if the company’s revenues or margins decline, leading to weakened cash accruals. Any increase in working capital intensity, higher-than-anticipated capital expenditure or any delay in securing the required funds for the capex, leading to further weakening of the liquidity, may also lead to a downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	The ratings are based on standalone financial statements of the company

## About the company

FDI, incorporated in 2004, manufactures fluorodeoxyglucose (FDG) fluids, a radioactive substance injected into a patient before performing a Positron Emission Tomography scan. FDI has its manufacturing unit at Jigani Industrial Area, [www.icra.in](http://www.icra.in)

Bangalore, with an installed capacity of 10 curies per batch and started operations in FY2008. The company also operated a PET scanning centre at Narayana Hrudayalaya - Mazumdar Shaw Medical Centre, Bommasandra, Bangalore from FY2010. However, this was sold in October 2019.

FDI reported an operating income (OI) of Rs.19.1 crore and a net profit of Rs.2.8 crore in FY2019 against an OI of Rs. 17.5 crore and net profit of Rs. 2.1 crore in FY2018.

### Key financial indicators (Audited)

	FY 2018	FY2019
Operating Income (Rs. crore)	17.5	19.1
PAT (Rs. crore)	2.1	2.8
OPBDIT/ OI (%)	27.8%	28.1%
RoCE (%)	7.3%	10.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.0	0.2
Total Debt/ OPBDIT (times)	0.8	1.7
Interest coverage (times)	38.9	18.8
DSCR	39.6	19.3

Source: FDI

### Status of non-cooperation with previous CRA: Not Applicable

### Any other information: None

### Rating history for last three years

Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
	Type	Amount Rated	Amount Outstanding	Rating 12-Feb-2020	FY2019 27-Nov-2018	FY2018	FY2017
1 Fund based - working capital limits	Long Term	5.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-
2 Unallocated Limits	Long Term	10.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working Capital limit	-	-	-	5.00	[ICRA]BB(Stable)
NA	Unallocated Limits	-	-	-	10.00	[ICRA]BB(Stable)

Source: FDI

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