

SRL Diagnostics Private Limited

February 13, 2018

Summary of Rated Instrument:

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund based facilities	15.00	15.00	[ICRA]BBB+; downgraded from [ICRA]A- (rating continues to be on watch with negative implications)
Short term fund based interchangeable	(15.00)	(15.00)	[ICRA]A2; downgraded from [ICRA]A2+ (rating continues to be on watch with negative implications)
Non-fund based facilities	2.00	2.00	[ICRA]BBB+/A2; downgraded from [ICRA]A-/A2+ (rating continues to be on watch with negative implications)
Total	17.00	17.00	

Material Event

ICRA has downgraded the ratings of SRL Diagnostics Private Limited's (SRLD or 'the company') group company Fortis Healthcare Limited (FHL) to [ICRA]A-/A2+ from [ICRA]A+/A1+. The rating downgrade is because of recent disclosures by FHL indicating that considerable funds were transferred to third parties, which were later classified as promoter entities and current outstanding amount towards such entities is Rs. 473 crore. ICRA had been deriving comfort from FHL's strong liquidity position; with the above-mentioned development, the company's financial flexibility is expected to be constrained. The ratings of FHL continue to be on rating watch with negative implications.

Impact of the Material Event

The rating watch on SRLD has been changed from developing implications to negative implications because of credit concerns at the promoter level. ICRA has downgraded rating of FHL following its recent disclosure indicating that considerable funds were transferred to third parties, which were later classified as promoter entities and current outstanding amount towards such entities is Rs. 473 crore. SRLD's ratings continue to be on rating watch with negative implications.

SRLD is a leading provider of diagnostic services and its market position is supported by common branding with its parent company SRL Limited (SRL; rated [ICRA]A-@/A2+@). The company also receives financial support from its parent company SRL Limited in the form of unsecured term loans. ICRA will continue to monitor developments related to events at the group level and assess its impact on SRL and SRLD's credit rating.

Although the rating downgrade is because of credit concerns at group level, SRLD's standalone performance is in line with ICRA's expectations with marginal improvement in operating profit margins from 23.7% in FY2016 to 24.5% in FY2017. The company has been profitable at a net level FY2017 onwards because of lower depreciation, amortisation and overhead costs as compared to earlier periods.

Key rating drivers

Credit strengths

Strong operational and financial support from parent, SRL Limited (SRL) (rated [ICRA]A+@/A1+@) - SRLD receives financial support in terms on unsecured long term loans and benefits from the common management

Common branding with SRL Limited - SRLD shares the common brand of 'SRL Diagnostics' with 'SRL Limited' helps SRLD with higher bargaining power with suppliers and brand visibility through marketing campaigns

Improvement in profitability indicators – SRLD's profitability indicators have improved steadily because of shut down of non-performing labs in prior periods and lower depreciation and amortisation costs.

Credit weaknesses

High dependence on revenues from top five labs - The share of revenues from top five labs continue to be very high with smaller contribution from other labs

Significant competition from new diagnostic chains offering significant price discounts, incumbent diagnostic chains and the unorganized market - The competition in the diagnostics industry has increased substantially with significant investments from private equity players. In addition, entry of online aggregators that offer discounts to attract customers has put significant pressure on pricing.

Weak credit indicators – Despite improvement in the profitability, SRLD's credit indicators remain weak because of high interest outgo because of which it has modest coverage and capitalization indicators

The previous detailed rating rationale is available on the following link: [Click here](#)

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