

## SRL Limited

February 13, 2018

### Summary of Rated Instrument:

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund based facilities	24.00	24.00	[ICRA]A-; downgraded from [ICRA]A+ (rating continues to be on watch with negative implications)
Short term fund based interchangeable	(24.00)	(24.00)	[ICRA]A2+; downgraded from [ICRA]A1+ (rating continues to be on watch with negative implications)
Non-fund based facilities	4.50	4.50	[ICRA]A-/A2+; downgraded from [ICRA]A+/A1+ (rating continues to be on watch with negative implications)
<b>Total</b>	<b>28.50</b>	<b>28.50</b>	

### Material Event

ICRA has downgraded the ratings of SRL Limited's (SRL or 'the company') parent 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 ratings of SRL has been downgraded to [ICRA]A-/A2+ from [ICRA]A+/A1+ 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. SRL's ratings continue to be on rating watch with negative implications.

SRL continues to maintain its leading market position and its financial performance continues to be stable and in line with ICRA expectations. However, SRL's debtor days have increased significantly because of increase in receivables from its group companies (Rs. 83 crore as on October 31, 2017). ICRA will continue to monitor developments related to events at the group level and assess its impact on SRL's credit rating.

## Key rating drivers

### Credit strengths

**Leading player with strong brand recognition and wide-spread network of laboratories and collection centres** - SRL is among the market leaders in the diagnostic industry with highly diversified customer base and pan India presence

**Comprehensive range of diagnostic tests including specialty tests labs** - The company has one of the most comprehensive range of diagnostic tests and has four service verticals – pathology, radiology, wellness and clinical trials.

**Stable business generated from parent company Fortis Healthcare** - SRL receives steady income from Fortis hospitals by virtue of being the sole provider of diagnostic services (pathology as well as imaging) at all Fortis hospitals.

**Healthy volume growth with stable profit margins and significant cash accruals** – SRL continues to maintain steady profit margins and volume growth in an increasingly competitive diagnostic services industry.

### Credit weaknesses

**Profitability indicators lower than peers** - The company's profit indicators lag peers because of lower share of walk-in customers and higher number of 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.

**Significant and gradually increasing receivables from parent and group companies** – SRL's receivable days have increased significantly since last year because of rise in receivables from its parent company FHL and other group companies

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

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

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