

# Ratings

# CRISIL

An S&P Global Company

Pursuant to SEBI notifications, CRISIL Limited (CRISIL) has transferred its Ratings business to its wholly owned subsidiary, CRISIL Ratings Limited (CRISIL Ratings), with effect from December 31st 2020. Any reference to CRISIL in the documents published by the Ratings division of CRISIL, such as Rating Rationales, Credit Rating Reports, Press Releases, Criteria, Methodology, FAQs, Policies and Disclosures, shall henceforth refer to CRISIL Ratings.

## Rating Rationale

November 20, 2020 | Mumbai

### Krsnaa Diagnostics Private Limited

*Rating outlook revised to 'Positive'; ratings reaffirmed*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.200 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL BBB/Positive (Outlook revised from 'Stable' and rating reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A3+ (Reaffirmed)</b>

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has revised its outlook on the long term bank facilities of Krsnaa Diagnostics Private Limited (KDPL) to '**Positive**' from 'Stable' while reaffirming the rating at '**CRISIL BBB**'. The short term rating has been reaffirmed at 'CRISIL A3+'

The revision in outlook reflects sharp improvement in KDPL's business performance in fiscal 2021, despite challenges faced due to the Covid-19 pandemic and the subsequent lockdown. The company undertook quick capital expenditure (capex) of nearly Rs 28 crore to set up testing labs and machinery and started Covid testing from May 2020, with required approvals from authorities.

Net sales of around Rs 209 crore were recorded for the first six months of the fiscal, backed by higher revenue from Covid-19 testing facilities. Revenue is likely to double in fiscal 2021 vis-a-vis the previous fiscal, with over 50% contribution expected from the Covid-19 testing labs. The company entered into tie-ups with over 2,500 hospitals during the pandemic, to continue drawing revenue from other non-Covid streams such as pathology or radiology. Operating margin should stabilise at 30-32% over the medium term. Sustenance of operating performance remains a key monitorable over the medium term.

Financial risk profile remains comfortable, as indicated by networth of Rs 199.9 crore and moderately high gearing of 1.26 times as on March 31, 2020. Gearing rose to 1.26 times as on March 31, 2020, from 0.91 time a year before, due to the debt-funded capex of Rs 83 crore. Investments in new projects i.e. setting up centres at new locations and new business opportunities lead to higher revenues. The company is likely to contract equity funds for any large project. Nonetheless, the gearing is likely to be maintained 1 time which will remain critical and will be key monitorable.

The ratings reflect KDPL's established market position in the healthcare public-private partnership segment, and the extensive experience of its promoters. These strengths are partially offset by the large working capital requirement and exposure to intense competition, and risks related to tender-based nature of operations and susceptibility of operating margin to any sudden cost hike.

#### Analytical Approach

Preference shares worth Rs 140.95 crore, as on March 31, 2020 have been treated as 100% equity as these are compulsorily convertible into equity shares.

#### Key Rating Drivers & Detailed Description

##### Strengths

**\* Established market position and extensive experience of the promoter:** The decade-long experience of the promoter in the diagnostic services industry, his strong understanding of market dynamics, and healthy relationships with customers and suppliers will continue to support the business risk profile. The company has established a strong market position with presence across 15 states through over 2,000 collection/ diagnostic centres. Revenue has thus recorded a compound annual growth rate (CAGR) of 47.62% for the three fiscals ended March 31, 2020. KDPL's HUB, where all radiology scans are centrally reported, is one of its kind in India, and accredited by the National Accreditation Board for Hospitals and Healthcare Providers (NABH). Presence in the radiology and pathology segments, also helps maintain the operating margin

around 30% and also, keeps the capital structure stable, as pathology is a less capital-intensive business.

\* **Moderate return on capital employed (RoCE):** KDPL's RoCE was moderate at 10% for fiscal 2020, aided by a healthy mix of revenue from radiology and pathology. Healthy revenue growth expected in fiscal 2021 and moderate capital investment should help the RoCE sustain above 13% over the medium term.

\* **Moderate financial risk prolife:** Despite the capital intensive nature of business, capital structure has been moderate, marked by a strong networth of Rs 199.9 crore and gearing of 1.26 times, as on March 31, 2020. Further the management's philosophy of maintaining 1:1 debt-to-equity ratio over the medium term also supports the financial risk profile. Debt protection metrics were adequate with interest coverage and net cash accrual to adjusted debt ratio of 3.03 times and 0.18 time, respectively, for fiscal 2020.

#### **Weaknesses:**

\* **Large working capital requirement:** The company draws a significant portion of its receivables from the PPP segment. Given the typical stretch in payments from government departments, receivables have been high in the range of 115-139 days in the past three fiscals (123 days as on March 31, 2020). However, with reducing revenue contribution from the PPP segment going forward, receivables are likely to improve marginally over the medium term.

\* **Exposure to intense competition, tender-based nature of business and susceptibility of operating margin to any sudden hike in cost:** KDPL derives nearly 70% of its revenue via tenders bagged from government departments. Revenue thus remains susceptible to the quantum of orders floated by the government. Further, the company faces competition in the PPP set-up from both established and regional players. Most of the contracts have a longer tenor of 7-10 years, with a price escalation of 2-3% available only after 3 or 5 years. Hence, any sudden or sharp hike in cost associated with running of diagnostic centres would be passed on with certain lag, and the operating margin may be impacted adversely.

#### **Liquidity Adequate**

Liquidity is expected to remain adequate over the medium term. Cash accruals are expected to be around Rs 75 crore in FY21 against repayment obligation of Rs 34 crore. Bank limit utilisation was high at 92% for the 12 months ended September 30, 2020, owing to sizeable receivables. Hence, any stretch in working capital requirements would impact its liquidity. Nonetheless, faster realisations from Covid-19 tests have improved cash flows and enabled a scale up in operations. Funding from a private equity (PE) investor led to high cash and bank balances that were partly used to avail an overdraft facility against fixed deposit limit. The company has unencumbered cash and bank balance worth Rs 27 crore as on March 31, 2020, apart from the encumbered balance of Rs 106.3 crore. Two PE investors, who have invested Rs 29.97 crore each, may exit by fiscal 2022, however there will be no financial liability on the company to provide an exit. Working capital management remains critical to maintain adequate liquidity over the medium term.

#### **Outlook: Positive**

CRISIL believes that KDPL's business risk profile will improve over the medium term driven by its established market position and presence across 15 states.

#### **Rating Sensitivity Factors**

##### **Upward factors**

- \* Sharp growth in revenue and profitability leading to cash accrual of more than Rs 90 crore
- \* Improvement in financial risk profile especially capital structure and liquidity, through sizable infusion of fresh equity funds

##### **Downward factors**

- \* Any larger than expected debt-funded capex or stretch in working capital cycle, leading to gearing of above 1.5 time
- \* Subdued operating performance in the post Covid scenario.

#### **About the Company**

Incorporated in 2010, KDPL, promoted by Mr Rajendra Mutha, runs diagnostic centres covering all tests under radiology and pathology, across India through the PPP and shop-in-shop models.

#### **Key Financial Indicators**

As on/for the period ended March 31	Unit	2020	2019
Operating income	Rs crore	183.11	147.60
Reported profit after tax	Rs crore	12.42	12.47
PAT margin	%	6.78	8.45
Adjusted debt/adjusted networkth	Times	1.26	0.91
Interest coverage	Times	3.03	3.91

**Any other information:** Not applicable

#### **Note on complexity levels of the rated instrument:**

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the

Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels).

#### Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity levels	Rating assigned With outlook
NA	Term Loan	NA	NA	Mar-2028	137	NA	CRISIL BBB/Positive
NA	Cash Credit	NA	NA	NA	30	NA	CRISIL BBB/Positive
NA	Bank Guarantee	NA	NA	NA	33	NA	CRISIL A3+

#### Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	167.00	CRISIL BBB/Positive			27-09-19	CRISIL BBB/Stable		--		--	--
						24-09-19	CRISIL BBB/Stable					
Non Fund-based Bank Facilities	LT/ST	33.00	CRISIL A3+			27-09-19	CRISIL A3+		--		--	--
						24-09-19	CRISIL A3+					

All amounts are in Rs.Cr.

#### Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	33	CRISIL A3+	Bank Guarantee	33.4	CRISIL A3+
Cash Credit	30	CRISIL BBB/Positive	Cash Credit	30	CRISIL BBB/Stable
Term Loan	137	CRISIL BBB/Positive	Proposed Long Term Bank Loan Facility	9.15	CRISIL BBB/Stable
--	0	--	Term Loan	127.45	CRISIL BBB/Stable
<b>Total</b>	<b>200</b>	<b>--</b>	<b>Total</b>	<b>200</b>	<b>--</b>

#### Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Approach to Recognising Default](#)

[CRISILs Criteria for rating short term debt](#)

#### For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p><b>Saman Khan</b> Media Relations <b>CRISIL Limited</b> D: +91 22 3342 3895 B: +91 22 3342 3000 <a href="mailto:saman.khan@crisil.com">saman.khan@crisil.com</a></p> <p><b>Naireen Ahmed</b> Media Relations <b>CRISIL Limited</b> D: +91 22 3342 1818 B: +91 22 3342 3000</p>	<p><b>Rahul Guha</b> Director - CRISIL Ratings <b>CRISIL Limited</b> D: +91 22 4097 8320 <a href="mailto:rahul.guha@crisil.com">rahul.guha@crisil.com</a></p> <p><b>Shirish Mujumdar</b> Associate Director - CRISIL Ratings <b>CRISIL Limited</b> D: +91 20 4018 1934 <a href="mailto:shirish.mujumdar@crisil.com">shirish.mujumdar@crisil.com</a></p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: <a href="mailto:CRISILratingdesk@crisil.com">CRISILratingdesk@crisil.com</a></p> <p>For Analytical queries: <a href="mailto:ratingsinvestor@crisil.com">ratingsinvestor@crisil.com</a></p>

[naireen.ahmed@crsil.com](mailto:naireen.ahmed@crsil.com)

**Jayesh Gaikwad**  
Rating Analyst - CRISIL Ratings  
**CRISIL Limited**  
D:+91 20 4018 1924  
[Jayesh.Gaikwad@crsil.com](mailto:Jayesh.Gaikwad@crsil.com)



**Note for Media:**

This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper / magazine / agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL. However, CRISIL alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites, portals etc.

**About CRISIL Limited**

CRISIL is a leading agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 1,00,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit [www.crisil.com](http://www.crisil.com)

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

**About CRISIL Ratings**

CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 1,10,000 MSMEs have been rated by us.

**CRISIL PRIVACY**

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit [www.crisil.com](http://www.crisil.com).

**DISCLAIMER**

This disclaimer forms part of and applies to each credit rating report and/or credit rating rationale that we provide (each a "Report"). For the avoidance of doubt, the term "Report" includes the information, ratings and other content forming part of the Report. The Report is intended for the jurisdiction of India only. This Report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the Report is to be construed as CRISIL providing or intending to provide any services in jurisdictions where CRISIL does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this Report does not create a client relationship between CRISIL and the user.

We are not aware that any user intends to rely on the Report or of the manner in which a user intends to use the Report. In preparing our Report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the Report is not intended to and does not constitute an investment advice. The Report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind or otherwise enter into any deal or transaction with the entity to which the Report pertains. The Report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Rating are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities / instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL assumes no obligation to update its opinions following publication in any form or format although CRISIL may disseminate its opinions and analysis. CRISIL rating contained in the Report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the Report should rely on their own judgment and take their own professional advice before acting on the Report in any way. CRISIL or its associates may have other commercial transactions with the company/entity.

Neither CRISIL nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, "CRISIL Parties") guarantee the accuracy, completeness or adequacy of the Report, and no CRISIL Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Report. EACH CRISIL PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. CRISIL's public ratings and analysis as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any) are made available on its web sites, [www.crisil.com](http://www.crisil.com) (free of charge). Reports with more detail and additional information may be available for subscription at a fee – more details about CRISIL ratings are available here: [www.crisilratings.com](http://www.crisilratings.com).

CRISIL and its affiliates do not act as a fiduciary. While CRISIL has obtained information from sources it believes to be reliable, CRISIL does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and / or relies in its Reports. CRISIL keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of CRISIL may have information that is not available to other CRISIL business units. CRISIL has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL has in place a ratings code of conduct and policies for analytical firewalls and for managing conflict of interest. For details please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>

CRISIL's rating criteria are generally available without charge to the public on the CRISIL public web site, [www.crisil.com](http://www.crisil.com). For latest rating information on any instrument of any company rated by CRISIL you may contact CRISIL RATING DESK at [CRISILratingdesk@crisil.com](mailto:CRISILratingdesk@crisil.com), or at (0091) 1800 267 1301.

This Report should not be reproduced or redistributed to any other person or in any form without a prior written consent of CRISIL.

