January 31, 2022

Skanray Technologies Limited: Rating upgraded to [ICRA]BBB (Stable)

Summary of rating action

Instrument*	Previous Rated Amount	Current Rated Amount	Rating action
Long Term – Fund Based -TL	65.0	50.0	[ICRA]BBB (Stable); upgraded from [ICRA]BB+ (Positive)
Long Term - Unallocated	-	15.0	[ICRA]BBB (Stable); upgraded from [ICRA]BB+ (Positive)
Total	**65.0**	**65.0**	

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

Rationale

ICRA has changed its analytical approach considered financials of Skanray Technologies Limited (Skanray/STL/ the company) and its subsidiaries for arriving at the rating as against considering standalone financials earlier.

The rating upgrade factors in improvement in Skanray's financial risk profile aided by healthy revenue growth, significant expansion in profitability, debt metrics and liquidity position on the back of healthy demand scenario for the company's products. The rating also factors in the long-term growth potential of the company in the domestic medical equipment industry supported by healthy demand outlook. The rating also takes continues to take note of the extensive experience of Skanray's promoters in the medical healthcare business, its diversified product portfolio in patient monitoring systems, electrosurgical units, radiology products, etc., and its well-established marketing and service capabilities.

The company achieved a significant revenue growth of 222% in FY2021 to Rs. 388.8 crore on the back of increase in sale of ventilators given the backdrop of the Covid-19 pandemic. The growth in revenue also included a one-time licensing income of Rs. 165.0 crore from Bharat Electronics Limited (BEL). Going forward, Skanray is expected to achieve a significant growth in revenues in FY2022 from FY2021 level (excluding the one-time revenue of Rs. 165.0 crore in FY2021) on the back of healthy demand for its products supported by expansion of its distribution network in the domestic and international market. The operating margins of the company expanded to 48.7% in FY2021 on the back of benefit from the licensing income from BEL and increased scale of operations. Going forward, while Skanray's operating margin is expected to remain healthy in FY2022 supported by increase in sale of margin-accretive products and healthy demand from the export markets, the sustainability of the same in the medium to long term will remain a key rating monitorable for the company.

The improved cash accruals in FY2021 has allowed Skanray to not only prepay its high cost debt and but has also significantly improved its liquidity position. The decline in overall debt levels and improvement in profitability has resulted in comfortable capital structure and strong coverage indicators in FY2021 and Skanray is expected to maintain the healthy financial risk profile in FY2022. The company will be filing for an Initial Public Offering (IPO) in the near term which is expected to lead to fresh equity of ~Rs. 400.0 crore into the company. Part of the ~Rs. 400.0 crore funds will be used towards inorganic growth and the credit implication arising from the same will remain a key rating monitorable for the company.

The rating is constrained by moderate customer concentration risk with top 5 customers contributing 33% of the revenues in FY2021 (excluding the licensing income from BEL). The rating is also constrained by intense competition in the industry given the presence of established players restricting pricing flexibility to a certain extent. The rating also factors in the Skanray's moderate working capital intensity owing to high inventory levels maintained by the company.

The stable outlook on the long-term rating reflects ICRA's opinion that the company will benefit from healthy demand outlook for its products while maintaining its comfortable financial risk profile.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and founders in medical healthcare business – The promoters have extensive experience in the medical healthcare business, enabling the company to carry out its operations with focused guidance. Skanray is backed by Mr. Arun Kumar Pillai, founder of Strides Pharma Science Limited (rated [ICRA]A+ (Stable)/[ICRA]A1), who has invested in the company through his family office, and Ascent Capital. Further, the company had acquired and retained the entire experienced team of L&T's medical equipment division, which was established in 1987.

Diversified product portfolio with well-established marketing and service network – Skanray has a wide product portfolio, which includes respiratory management systems (RMS), patient monitoring systems, cardiology devices, radiology products, spares and accessories among others. In FY2021 and H1 FY2022, the company has expanded its distribution network in the domestic and export market by entering into partnership with marketing and distribution companies. Additionally, Skanray provides low-cost service to its customers through an experienced in-house team.

Improved financial risk profile – Skanray's financial risk profile improved in FY2021 on the back of healthy growth in revenues and expansion of operating margin with favourable demand for the company's product given the backdrop of the Covid-19 pandemic. The improved revenue and profitability has led to improved cash accruals in FY2021 has allowed Skanray to not only prepay its high cost debt and but has also significantly improved its liquidity position. The decline in overall debt levels and improvement in profitability has resulted in comfortable capital structure and strong coverage indicators in FY2021 and Skanray is expected to maintain the healthy financial risk profile in FY2022.

Credit challenges

Moderate customer concentration risk – The customer concentration risk of Skanray remains moderate with top 5 customers contributing 33% of the revenues in FY2021 (excluding the licensing income from BEL). However, the same is expected to improve in FY2022 on the back of expansion of its distribution network in the domestic and export market leading to addition of new customers.

Intense competition with presence of established players – Skanray's competitors include other well-established and much larger players in the healthcare equipment manufacturing industry such as GE Healthcare (a division of General Electric Company USA), Philips Healthcare (a division of Koninklijke Philips Electronics NV), and Siemens Healthcare (a division of Siemens) among others. The intense competition restricts the pricing flexibility of the company to a certain extent. The company's ability to increase its presence in key markets will remain a key rating monitorable for the company.

Moderate working capital intensity: Skanray's working capital intensity remains moderate with high inventory days. The company is currently maintaining a high raw material inventory level of ~100 days with increase in back up stock for semi-conductors on the backdrop of shortage being faced by the industry. Further, the company maintains a higher finished goods inventory based on the company's forecast of higher orders to be received in Q4 FY2022.

Liquidity position: Adequate

Skanray's liquidity position remains adequate with healthy operational cashflows, adequate cash balance of ~88.0 crore as on September 30, 2021 and a buffer of ~ Rs 15.0 crore in its overdraft facility. The liquidity position is further supported by absence of any significant debt repayment obligation in the near to medium term. The company will be filing for an IPO in the near term which is expected to lead to a fresh fund infusion of ~Rs. 400.0 crore to the company. Part of the ~Rs. 400.0 crore funds will be used towards inorganic growth and the credit implication arising from the same will remain a key rating monitorable for the company.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company demonstrates sustained improvement in its scale of operations while maintaining its strong profitability and debt protection metrics.

Negative factors – Negative pressure on Skanray's rating could arise with any sharp decline in the company's revenues and profit margins. Negative pressure on the ratings could also arise if there is debt-funded capex or inorganic growth leading to deterioration in the company's credit metrics and liquidity profile. Specific credit metrics for downgrade will be Total Debt/OPBIDTA greater than 3.0 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Skanray

About the company

Skanray Technologies Ltd., founded by Mr. Vishwaprasad Alwa, was formed in 2007. It has been involved in the development of the core technology for radiology products (high frequency X-ray imaging systems). Skanray Healthcare Pvt. Ltd. (SHPL) was formed in November 2012 to acquire L&T's medical equipment division. SHPL was merged with Skanray with effect from April 1, 2013. Skanray generates revenues from the manufacturing, trading and servicing of medical equipment. Its product range includes patient monitoring systems, high frequency X-ray devices, electrosurgical units, anaesthesia workstations, ICU ventilators, syringe pumps and critical care devices. It has USFDA-approved manufacturing facilities in Mysore (two facilities) and Europe (three facilities). The company employs about 500 people and has over 100 dealers and 50 service franchisees catering to 1830 customers across 20 countries. Its customers include major hospitals and healthcare providers in the country, which are served by an extensive dealer network.

Key financial indicators (audited)

Skanray (Consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	145.6	422.4
PAT (Rs. crore)	-8.5	128.9
OPBDIT/OI (%)	-3.5%	44.9%
RoCE (%)	-6.5%	86.3%
Total Outside Liabilities/Tangible Net Worth (times)	7.2	1.1
Total Debt/OPBDIT (times)	-25.7	0.4
Interest Coverage (times)	-0.3	17.5
DSCR (times)	0.1	3.8

: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years				
			Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020			Date & Rating in FY2019
					Jan 31, 2022	01-Oct-2020	29-Jan-2020	20-Jan-2020	16-Sep-2019	30-Nov-2018
1	Term Loan	Long Term	50.0	-	[ICRA]BBB (Stable)	[ICRA]BB+ (Positive)	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	-	-
2	Unallocated	Long Term	15.0	-	[ICRA]BBB (Stable)		-	-	[ICRA]BB- (Stable) ISSUER NOT COOPERATING	[ICRA]BB+ (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term – Fund Based -TL	Very Simple
Long Term – Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	O/s Rating and Outlook
NA	Fund Based Term Loan	-	NA	-	50.00	[ICRA]BBB (Stable)
NA	Unallocated	-	NA	-	15.00	[ICRA]BBB (Stable)

Source: *Company;*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Skan-X Radiology Devices S.P.A	100.0%	Full Consolidation
Skanray Healthcare Global Private Limited	100.0%	Full Consolidation

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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.

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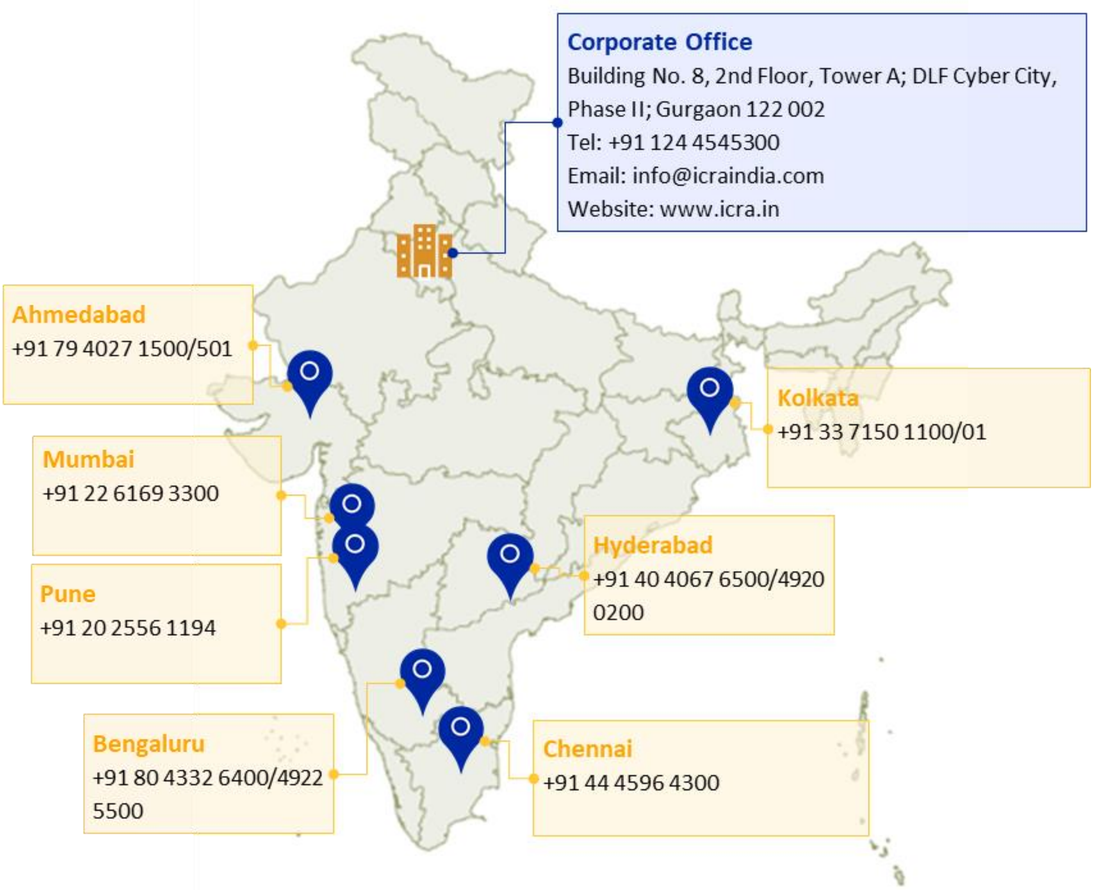

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