

Press Release

Microbiological Laboratory

February 14, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 6.75 Cr.
Long Term Rating	SMERA BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB+**' (read as **SMERA BB plus**) on the Rs. 6.75 crore bank facilities of Microbiological Laboratory. The outlook is '**Stable**'.

Established in 1977, Microbiological Laboratory (Micro Lab) is a proprietorship concern headed by Mr. M. Mani. The Coimbatore-based firm provides laboratory investigation services for patients. The firm has around 20 branches and 62 collection centres in Tamil Nadu, Karnataka, Andhra Pradesh and Kerala.

Key Rating Drivers

Strengths

- **Experienced management**

Micro Lab is headed by Mr. M. Mani who possesses experience of around four decades in the healthcare industry.

- **Comfortable working capital operations**

The comfortable working capital cycle is marked by inventory and debtors of 13 days and 19 days respectively against creditors of 35 days in FY2016. The GCA stand at 79 days in FY2016 as compared to 74 days in FY2015.

- **Healthy financial risk profile**

The financial risk profile is marked by healthy debt protection metrics, gearing levels and comfortable net worth base. The interest coverage and debt service coverage ratios have been at 5.86 times and 2.24 times in FY2016 respectively. The gearing levels are comfortable and improved to 0.63 times in FY2016 from 0.71 times in FY2015 mainly due to accretion to reserves thereby increasing the net worth. The net worth base is comfortable and remains at levels of around Rs.10.64 cr. as on 31 March, 2016.

Weaknesses

- **Modest scale of operations**

The modest scale of operations is marked by revenue of Rs. 25.39 cr. in FY2016 and Rs. 20.96 cr. in FY2015. The firm reported revenue of Rs. 22.5 cr. till December 2016.

- **Intense competition**

The firm is exposed to intense market competition in a fragmented healthcare industry.

- **Impact of changing regulations**

The firm operates in a highly regulated healthcare sector. Unfavourable policy changes may have a bearing on the firm.

Analytical Approach

SMERA has taken a standalone view of the business and financial risk profiles of the firm.

Outlook: Stable

SMERA believes that Micro Lab will maintain a stable outlook in the medium term owing to its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' if Micro Lab scales up operations and profitability. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability or if the working capital cycle deteriorates.

About the Rated Entity - Key Financials

Micro Lab reported profit after tax (PAT) of Rs. 1.44 cr. on total operating income of Rs. 25.39 cr. in FY2016, as compared with PAT of Rs. 1.18 cr. on total operating income of Rs. 22.68 cr. in FY2015. The tangible net worth stood at Rs. 10.64 cr. in FY2016 as compared to Rs. 8.57 cr. in FY2015.

Status of non-cooperation with previous CRA (if applicable)

ICRA vide its release dated November 29, 2016 suspended the long-term rating of [ICRA]BB+ (stable) assigned to the Rs. 6.27 crore bank facilities of Microbiological Laboratory. The suspension follows its inability to carry out a rating surveillance in the absence of the requisite information from the firm.

Any other information

None

Applicable Criteria

- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entities In Services Sector - <https://www.smera.in/criteria-services.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash credit	Not Applicable	Not Applicable	Not Applicable	0.90	SMERA BB+ / Stable
Term loans	Not Applicable	Not Applicable	December 31, 2020	5.85	SMERA BB+ / Stable

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