

# Decoding Asset Leasing

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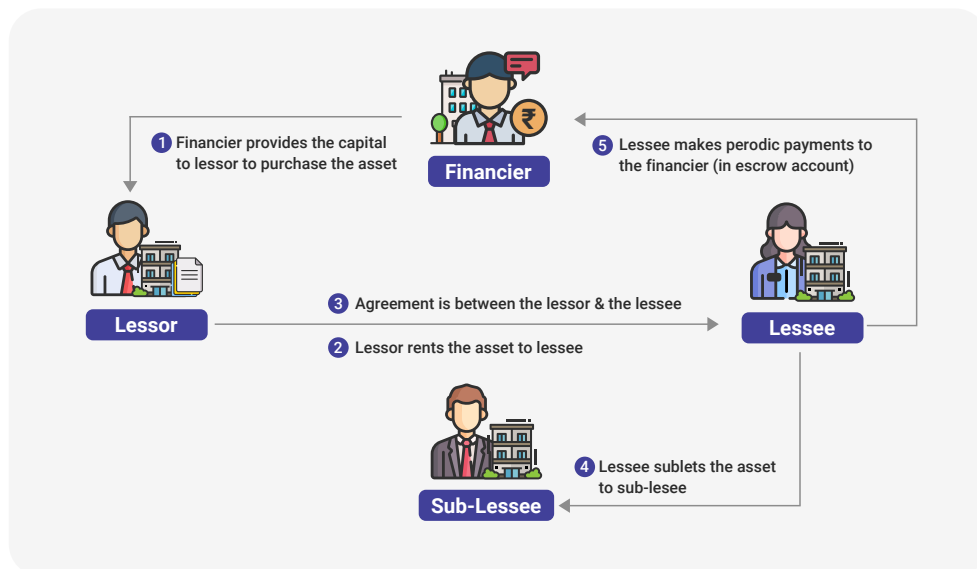
## Case Study #4



## Introduction

This case study explores an Asset Leasing model for an enterprise while outlining our due diligence process. In this model, Vivriti Capital (VCL) has acted as a financier to ABC Ltd. (the lessor), which entered into a leasing agreement with XYZ (the lessee). XYZ has further sub-let the asset to Alpha Ltd. (the sub-lessee), who has also acted as the guarantor to purchase the asset if XYZ defaults.

As per agreement, XYZ will pay periodic rents to VCL (the financier) instead of the lessor. At the end of the lease term, XYZ will purchase the asset from the lessor at its fair value.



The ticket size of our leasing ranges from INR 10 crore to 75 crores depending on the nature and type of the asset.

Below we present our key findings on Alpha Ltd., since it has acted as a guarantor for lease rental payments.

## Company Background

Alpha Ltd., based out of a Tier-1 metro city, founded by the first-generation entrepreneur with an experience of over a decade. The company provides radiology, and pathology services and mainly caters to government hospitals via public private partnership (PPP).

The promoter of the company holds ~30% of the stake in the company while the remaining shares are held by non-promoters.

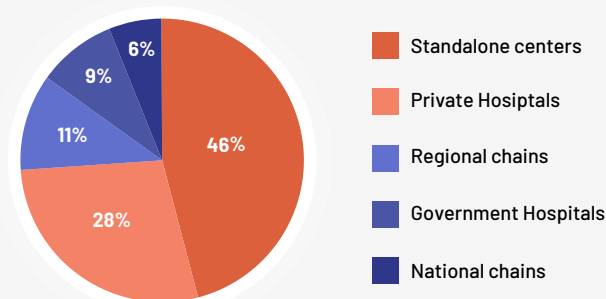
## Industry Outlook

- Diagnostics is an essential part of the healthcare industry as it helps in the treatment of diseases, starting from diagnosis and prognosis to post treatment monitoring of the patient. The Indian diagnostic industry was valued at ~INR 1 lakh crore in 2024 and grew at an annual rate of ~15% in FY17-FY24. It is further expected to grow by 12-15% YoY in FY25. The growth is driven by increase in healthcare spend by ageing population, rising demand

for radiology services, technological advancement in diagnostic test offerings, market penetration of health-care insurance, among others.

- Diagnostic sector is primarily divided into two major segments: **Pathology**, that involves analysis of fluids such as urine and blood samples and **Radiology**, also known as imaging diagnostics, that analyses health conditions using X-Ray, Ultrasound, CT scan and MRI Scan machines. Pathology accounts for ~60% of the market while Radiology make up ~40%.
- The diagnostic market is highly fragmented and due to low entry barrier as it is heavily skewed towards the unorganised sector. The unorganised players constitute roughly 70% of the market while organised players account for the remaining. In the unorganised space, standalone labs, which are independently owned diagnostics centres, account for ~45% of the overall diagnostic market.

Market share of diagnostic service providers (FY23)



Source: Statista

- The prescriptive diagnostic services (sickness) dominate the diagnostic market with 90% share, while preventive diagnostic services (wellness) hold the remaining. Notably, almost the entire diagnostic market is offline (98%). Furthermore, the outpatient diagnostic services make up 57% of the market, whereas inpatient diagnostic services account for 43%.
- To improve healthcare services and infrastructure, the Department of Health and Family Welfare has been allocated a budget of ₹ 87,656 crores for FY 2024-25, which is 12% higher than the last fiscal. Some initiatives undertaken by the government include creation of Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (AB-PMJAY), PM-Ayushman Bharat Health Infrastructure Mission (PM-ABHIM), and providing radiological diagnoses to underserved patients through Tele-Radiology and expanding CT scan services through a Public-Private Partnership (PPP) in district hospitals.

Our outlook for the sector is favourable given the industry's growth trajectory and government initiatives to improve healthcare facilities.

## Credit Profile & Funding Sources

Alpha Ltd. showcases a positive and stable credit profile:

**Internal Rating:** BBB+

**External Rating:** Rated A by a reputed credit rating agency.

**Debt Funding:** The company has a lender base of more than two tier-1 private sector banks and one co-operative bank.

**Equity Funding:** ABC Ltd. has successfully raised equity capital through initial public offering.

## Key Credit Committee Recommendation

Our recommendation to onboard Alpha Ltd. for asset leasing is based on the following factors:

**Well Established Business:** The company has been in operation for a decade and has an established a strong market presence in the Public Private Partnership (PPP) segment. By partnering with the government under the PPP model, established businesses can leverage government resources and stability to foster growth.

**Diverse Geographical Presence:** The company has 3500+ diagnostics centres across 15 states and 2 union territories in India. The Company has been recently awarded new contracts in various states of India and intends to further diversify its presence.

**Promoter Experience:** The promoter has a solid track record of building the company to one of the fastest growing diagnostic chains in the country.

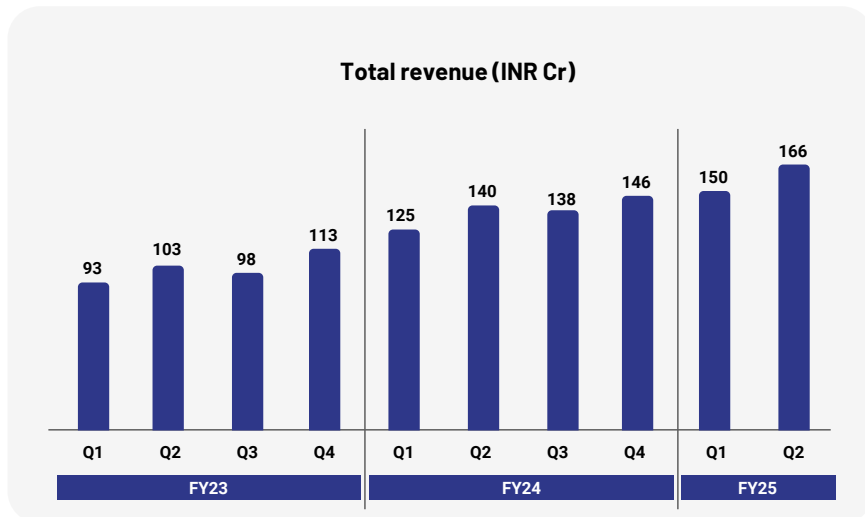
**Strong Bid Success Ratio:** The company has a bid-win ratio of more than 75%. The company's ongoing contracts range between 2-10 years, including some with renewal clause. The company's bid ratio is expected to remain healthy backed by its strong market presence.

**Medium Term Revenue Visibility:** The company majorly generates revenue from its diagnostic services under the PPP Model. The agreements for radiology and pathology related diagnostic services usually range for 5-10 years, providing visibility of the revenues.

**Expansion Strategies:** The company has solid expansion plans. Over the years, the company has strategically made investments and partnerships, adding over 10 hospitals to their network of hospitals and 30+ diagnostic centres in tier 2 and tier 3 cities of India.

## Financial Strengths:

1. The topline of the company grew at a healthy pace of ~27% from H1 FY23 to H1 FY25 due to increase in diagnostics test volume and scale of operations.



2. Alpha Ltd. has a net worth of over INR 700 crore as of September 2024.
3. The company's gearing ratio (Total Debt/Adjusted Tangible Net Worth) has consistently been less than 1 over the past three years.
4. Alpha Ltd.'s profitability margins have remained above 10% over the past three years and are expected to remain stable going forward.

## Conclusion

The trajectory of the diagnostics industry where the leasing entities operate in, appears to have considerable growth potential. Considering the business vintage, experience of the promoter, solid market fundamentals, healthy financials, expansion plans, and strategic investments and partnerships of Alpha Ltd., Vivriti Capital has considered to finance ABC Ltd. The proposed facility is at the upper end of the ticket size band set internally.

### Disclaimer:

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