

June 26, 2023

Midmark India Private Limited: Ratings upgraded to [ICRA]BBB (Stable)/[ICRA]A3+; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Working Capital/ Cash Credit	19.0	19.0	[ICRA]BBB (Stable); ratings upgraded from [ICRA]BBB- (Positive); outlook revised to Stable from Positive
Long-term – Fund-based – Term Loan	5.0	0.0	-
Short-term – Non-fund Based – LC/BG	16.5	16.5	[ICRA]A3+; ratings upgraded from [ICRA]A3
Long-term/ Short-term – Unallocated Limits	4.5	4.5	[ICRA]BBB (Stable)/ [ICRA]A3+; ratings upgraded from [ICRA]BBB- (Positive)/ [ICRA]A3; outlook revised to Stable from Positive
Total	45.0	40.0	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade factors in Midmark India Private Limited's (MIPL) improved credit profile as a result of strengthening of its capital structure and coverage metrics; and increase in scale of operations in recent years. MIPL's capital structure remains strong owing to zero outstanding debt as on March 31, 2023, which coupled with steady operating profits has led to healthy coverage metrics. Moreover, the company is expected to report healthy revenue growth in FY2024 supported by its order book position as well as enhancement/automation of manufacturing capacities. The ratings continue to factor in MIPL's established operational track record and extensive experience of its management in the hospital furniture and medical equipment manufacturing business. MIPL is a wholly-owned subsidiary of Midmark Corporation and its associates (parent; US clinical furniture manufacturers) and continues to enjoy operational and financial support from its parent.

The ratings are, however, constrained by MIPL's moderate scale of operations, accentuated by the highly competitive and fragmented nature of the industry, which limits its pricing flexibility and exposes it to volatility in profit margins. Moreover, the working capital intensity of operations remains high, partly due to high receivable levels from public sector clients, including those outstanding for more than six months. However, with the company's increasing focus on private clients over the past two years (~90% revenue contribution) and gradual improvement in collection, its working capital cycle is expected to improve.

The Stable outlook on MIPL's rating reflects ICRA's opinion that the company is expected to report steady accrual generation, while maintaining its comfortable capital structure and liquidity position, supporting its credit profile.

Key rating drivers and their description

Credit strengths

Established operational track record and extensive experience of management – Since its inception as a partnership firm in 1951, MIPL has been manufacturing medical equipment and furniture. The company's management has an extensive experience in the healthcare and medical equipment industry. Over the years, the company has maintained its diversified product profile while sustaining its clientele, aided by its long operational track record and established brand in the industry.

Operational and financial synergies from US-based parent company – MIPL is a 100% subsidiary of Midmark Corporation (USA) and its affiliates. Midmark Corporation, a privately held company founded in 1915, provides medical, dental and veterinary equipment in USA. The company is present in India and Italy via its subsidiaries. Mr. Jon Wells, the President and CEO of the company, has an experience of around 30 years across industries. He is also a board member of MIPL. MIPL continues to benefit from the operational and financial synergies derived from its parent, in the form of technological assistance and funding support.

Comfortable capital structure and healthy coverage metrics – MIPL's capital structure has remained comfortable in recent years due to limited dependency on external debt and increase in net worth base. It had no outstanding debt as on March 31, 2023, which coupled with steady operating profits has led to an improvement in coverage metrics. Interest coverage ratio and Total Debt/OPBITDA were reported at 55.2x and nil, respectively, for FY2023 (41.9x and 0.1x, respectively, for FY2022). Going forward, the company is expected to maintain a net debt negative status, resulting in a comfortable capital structure and coverage metrics.

Credit challenges

Moderate scale of operations – The company faces stiff competition from domestic and international markets, which has limited its scope of expansion of its profit margins. MIPL's profitability has also remained volatile, although improving in the past two years, reflected by its operating profit margin of 8-9%, which is expected to remain steady over the medium term. Coupled with its moderate scale of operations, reflected by revenues of Rs. 130-140 crore in the past two years, this further constrains its competitive position in the industry.

Relatively high working capital intensity – MIPL's working capital intensity remains high, primarily driven by high receivable levels from public sector clients, including debtors outstanding for more than six months. While the revenue contribution from public sector customers has reduced to 5% in FY2023 (from 32% in FY2021) through its continued focus on shifting to private customers, the level of receivables outstanding for greater than six months continue to be high. Going forward, the same is expected to improve as collections from these customers are expected by the company. Nonetheless, any sizeable provisioning against the same in the future can adversely impact MIPL's profitability and will remain a key monitorable.

Highly competitive and fragmented nature of industry limits pricing flexibility – The medical equipment and healthcare devices industry in India consists of large multinationals with extensive service networks, along with small and medium enterprises. Despite having a sales mix of direct selling and sales through exclusive dealers, MIPL faces competition from its competitors operating on diverse business models for both the domestic and international markets. The high competitive intensity and fragmented nature of the industry limits its margin flexibility.

Liquidity position: Adequate

MIPL's liquidity position is adequate, supported by steady internal accrual generation, cash/ fixed deposits/ liquid investments of ~Rs. 27 crore as on April 30, 2023, and undrawn bank lines of ~Rs. 19 crore as of end-April 2023. MIPL plans to incur capex of Rs. 14 crore over FY2024-FY2025, which is proposed to be met completely through internal accruals and available surplus liquidity. Also, the willingness of the parent company to provide operational and financial support to MIPL in time of exigencies provides further comfort.

Rating sensitivities

Positive factors – MIPL's ratings could be upgraded if it reports healthy revenue growth and accrual generation, while maintaining a comfortable coverage metrics and liquidity position. Moreover, improvement in the parent's credit profile could also trigger a ratings upgrade.

Negative factors – MIPL's ratings could be downgraded if there is a considerable decline in its revenue and cash accruals, or a stretch in the working capital cycle, exerting pressure on the liquidity position. Moreover, weakening of the parent's credit profile or any weakening of the linkage between MIPL and Midmark Corporation could also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach – Implicit support from Parent or Group
Parent/Group Support	ICRA expect MIPL's parent, Midmark Corporation, USA, to be willing to extend financial support to the company, should there be a need, given the high strategic importance that it holds for the parent for meeting its diversification objectives. Both entities also share a common name, which in ICRA's opinion would persuade the parent to provide financial support to MIPL to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	

About the company

Established in 1951, MIPL provides healthcare solutions, particularly patient care equipment—namely, intensive care beds, emergency and recovery trolleys, electrically operated hospital beds and several other hospital equipment—that are manufactured at its facility in Umergaon, Gujarat. MIPL supplies equipment to most national and regional hospitals across India as well as several international hospitals in Asia and Africa. MIPL is a 100% subsidiary of Midmark Corporation, USA, and its affiliates, which are also engaged in manufacturing healthcare and medical equipment.

Key financial indicators (audited)

MIPL – Standalone	FY2022	FY2023 (Prov.)
Operating income	144.7	130.5
PAT	11.5	9.3
OPBDITA/OI	10.6%	8.8%
PAT/OI	8.0%	7.1%
Total outside liabilities/Tangible net worth (times)	0.7	0.6
Total debt/OPBDITA (times)	0.1	-
Interest coverage (times)	41.9	55.2

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jun 26, 2023	Apr 13, 2022	Apr 08, 2021	-
1 Working Capital/Cash Credit	Long-term	19.0	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	-
2 Term Loan	Long-term	0.0	-	-	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	-
3 LC/BG	Short-term	16.5	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	-
5 Unallocated Limits	Long-term/Short-term	4.5	-	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB- (Positive)/[ICRA]A3	[ICRA]BBB- (Stable)/[ICRA]A3	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Working Capital/Cash Credit	Simple
Short-term – Non fund-based – LC/BG	Very Simple
Long Term/Short term – Unallocated Limits	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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working Capital/ Cash Credit	NA	NA	NA	19.00	[ICRA]BBB (Stable)
NA	LC/BG	NA	NA	NA	16.50	[ICRA]A3+
NA	Unallocated limits	NA	NA	NA	4.50	[ICRA]BBB (Stable)/[ICRA]A3+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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