September 29, 2022

Transasia Bio-medicals Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short -term – Fund Based/Non-Fund Based Limits – Working capital Facilities	92.00	92.00	[ICRA]AA- (stable)/[ICRA]A1+; reaffirmed
Total	**92.00**	**92.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation continues to factor in the extensive experience of the promoter of Transasia Bio-medicals Limited (Transasia) in diagnostic equipment space along with its technically sound management team, which has enabled the company to maintain its stronghold in the domestic in-vitro diagnostics (IVD) industry. The ratings also continue to draw comfort from the company's strong distribution network with a pan-India presence along with its widened geographical reach through its various overseas acquisitions, which has enhanced its research and development (R&D) capabilities for instruments and its reagent production. Additionally, the company is engaged in distributorship of advanced IVD instruments and reagents international players which renders support to its revenues and earnings. The superior product offering in both its manufacturing and trading segment has enabled the company to maintain robust profitability and generate healthy cash accrual. Moreover, a sizable prepayment of term borrowings in the current and past two fiscals by diluting part of its debt investments have resulted in notable reduction in debt levels, leading to comfortable capital structure and healthy coverage indicators. Further, ICRA notes of the company's effort towards R&D especially in the in-vitro immunology space, wherein it is looking at launching few products from FY2024. The ability of the company to successfully commercialise such launches and scale up its operations through product diversification remain key rating monitorables.

The rating, however, continues to be constrained by Transasia's overseas operations, which largely comprises acquisitions that are yet to achieve any significant scale and profitability, thereby putting pressure on the financial profile at a consolidated level. Transasia, however, has taken multiple steps to curtail its losses by shutting down, initiating dissolution, selling off entities and suspending operations of its loss-making subsidiaries with no scope of business turnaround. Further, in FY2021, the company created a sizable provisioning against the loans and advances, investments, and receivables in its 100% subsidiary, Erba Diagnostics Mannheim Gmbh, consequent to winding up of its subsidiary in the US, in August 2021 and absence of dividend income from its subsidiary companies.

Also, ICRA notes that in July 2020, there was a temporary suspension of trading in the shares of 'Erba Diagnostic Inc. USA' (subsidiary of Erba Diagnostics Mannheim Gmbh) on the back of irregularity in filing quarterly and annual results since 2015, initiated by the US Securities and Exchange Commission (SEC). Subsequently, the shares of 'Erba Diagnostic Inc. USA' were revoked from the OTC market effective August 28, 2020 (in the past the shares of 'Erba Diagnostic Inc, USA' were suspended and discontinued at the New York Stock Exchange (NYSE) in 2016). As indicated by the management, 'Erba Diagnostic Inc. USA' has discontinued its operations and filed for winding up in August 2021. The ratings also remain constrained by the company's high dependence on imports for its trading operation which results in susceptibility of earnings to fluctuations in foreign exchange rates. ICRA also notes the company's divestment from its real estate business to promoter owned entities, effective from the National Company Law Tribunal (NCLT) approval order dated January 29,2022. While the divestment from the real estate business will not materially impact the revenues and earnings in the future, it has moderated its asset base, liquid investments and networth base to an extent. Despite this, the company's liquidity profile continues to remain sufficient with sizable cash and liquid investments along with buffer of undrawn fund based working capital limit.

The Stable outlook reflects the company's established position in the domestic IVD market in the clinical chemistry and hematology space, its growing visibility in the immunology diagnostic vertical and the favourable credit profile of the company on the back of heathy cash accruals and strong liquidity profile.

Key rating drivers and their description

Credit strengths

Among the largest players in the Indian IVD segment; extensive experience of promoters in diagnostic instruments and reagent business – Transasia enjoys a strong presence across IVD segments like bio-chemistry and hematology, while it is improving its visibility in the immunology segment. The company's wide range of offerings and extensive distribution reach in the Indian market gives it a competitive edge. Furthermore, the extensive experience of around four decades of its promoter in the IVD space supports its established market position.

Healthy profitability track record, reflecting superior product offerings – The cash accruals of Transasia remain strong on the back of its established position in the domestic IVD market and its superior product offering leading to a robust operating profit margin of ~33% in FY2022 (provisional), on a standalone basis. On a consolidated basis, the operating profit margin is relatively lower at around ~22%, primarily on account of its loss-making international operations, mainly in the US (subsidiary of Erba Diagnostics Mannheim Gmbh). Going forward, the company is expected to benefit from its R&D investments in international subsidiaries along with closure or winding up of loss-making overseas subsidiaries.

Strong capital structure and coverage indicators with healthy liquidity levels –The capital structure of the company remains strong with low gearing level of 0.10 time as on March 31, 2021 (audited) and 0.08 time as on March 31, 2022 (estimated) at consolidated level owing reduction in debt level with sizable prepayment of term debt by partly diluting its debt investments. In addition, in June 2022, the company has fully repaid its outstanding term loans and has only working capital debt at a consolidated level. Due low dependence on debt and high operating profit the company's coverage indicators remains robust (with interest coverage of 80.0 times in FY2022 compared to 13.8 times in FY2021 on a consolidated basis). As on March 31, 2022 (provisional), the company had a healthy liquidity position which stood at ~Rs.255 crore of cash and bank balances, along with liquid investments at a standalone basis.

Credit challenges

International operation continues to be a drag on earnings at consolidated level, subsidiaries yet to achieve meaningful scale and profitability; margin exposed to volatility in forex– Transasia's international operations, carried out through its overseas subsidiaries in Europe and the US, are yet to achieve meaningful scale and profitability. Currently, international operation is making losses and, thus remain drag on the group's earnings. Transasia, however, has taken multiple steps to curtail its losses by shutting down, initiating dissolution, selling off entity and suspending operations of loss-making subsidiaries where there is no scope of business turnaround which continue to remain a drag on its group earnings. Working on the same strategy, the company provisioned Rs.381.2 crore in FY2021 towards investment and loans and advances in one of its subsidiaries and two associate companies leading to impact on net worth at standalone level. In addition, a major part of its India operation is generated from trading of imported products in the domestic market which exposes it operations to vagaries of foreign currency movement.

Return indicators remain suppressed at consolidated level, driven by losses in most subsidiaries – The company's RoCE at the consolidated level remain suppressed on the back of losses of its international subsidiaries over the last few years. The turnaround of its international operations by scaling up operations through better reach and acceptance of products remains critical and has to be seen from the credit perspective at a consolidated level. Also, given that three overseas entities are also involved in R&D, wherein the gestation period of launches and commercialisation remain long, ability of the company to leverage on its R&D strength and successfully launch and commercialize products in the near to medium term also remains critical from a credit perspective.

Break up with international partnerships could lead to substantial fall in revenues and profitability – More than half of Transasia's revenues from the domestic market come from its purchase activities, which primarily comprises distribution/ supplier arrangements of products with international players. Moreover, the company also has an arrangement with its step-down subsidiary, 'Erba Lachema S.r.o' for supply of its hematology instruments. Transasia earns strong gross profit margins from such trading activities, which contribute to healthy operating profit margins from its domestic operations. Thus, any impact on the tie-ups with its major partners could impact Transasia's revenues and profitability

Liquidity position: Strong

Transasia's liquidity position is strong, supported by sizable free cash and bank balances and liquid investments of Rs.255 crore at a standalone level as on March 31, 2022. Besides healthy cash flow, Transasia also has considerable cushion available in the form of undrawn working capital limits on a standalone level of Rs 56 crore as on July 2022 (interchangeable limits of Rs.92 crore is sanctioned of which non fund limits are largely utilized by the company). Also, on a consolidated level, Transasia has repaid it external term loans of ~Rs. 83 crore in June 2022 and has only working capital and lease liabilities on its books. Moreover, the company is estimated to maintain a sizable liquidity in form of free cash and bank balances and liquid investments, at a consolidated level, as March 31, 2022. Further, given the company does not have any debt funded capex plan in the near term supports its strong liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade Transasia's rating if the company demonstrates sustained and profitable growth at a consolidated level , with a meaningful and sustained turnaround of its international operations. Improvement in RoCE above 20% on a sustained basis would also be a positive trigger.

Negative factors – Debt-funded acquisition or large capital expenditure leading to weakening credit metrics would pose a downward pressure on Transasia's rating. Furthermore, the inability to materially turnaround the operations of its overseas subsidiaries, which continue to weaken the credit profile at a consolidated level, could also exert a negative pressure on the company's rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. As on March 31, 2021 (audited), Transasia had multiple subsidiaries which are enlisted in Annexure 2.

About the company

Transasia Bio-medicals Limited was founded by Mr. Suresh Vazirani in 1985 to provide services to the IVD space. Currently, the company is a leading player in the diagnostic instruments and reagents industry in India. It has one of the largest sales and installation bases with over 88,000 installations all over the country. In collaboration with leading international companies, it offers an extensive range of products in the IVD space. The company manufactures a wide range of clinical chemistry analysers, elisa readers and microplates. Its manufacturing operations facilities are at Daman, SEEPZ (Mumbai), Baddi (Himachal Pradesh), Visakhapatnam (Andhra Pradesh) and Sikkim. It also has manufacturing facilities in the US and the Czech Republic. All its facilities are ISO 9001:2000 certified. Headquartered in Mumbai, Transasia's offices are spread across India.

Key financial indicators (Audited)

Consolidated	FY2020	FY2021
Operating income (Rs. crore)	1076.8	1056.0
PAT (Rs. crore)	110.6	173.0
OPBDIT/OI (%)	24.2%	21.5%
PAT/OI (%)	10.3%	16.4%
Total outside liabilities/Tangible net worth (times)	0.8	0.2
Total debt/OPBDIT (times)	3.1	0.7
Interest coverage (times)	8.2	13.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

Key financial indicators (Audited)

Standalone	FY2020	FY2021
Operating income (Rs. crore)	811.6	747.2
PAT (Rs. crore)	256.2	60.2
OPBDIT/OI (%)	39.6%	33.4%
PAT/OI (%)	31.6%	8.1%
Total outside liabilities/Tangible net worth (times)	0.1	0.0
Total debt/OPBDIT (times)	0.3	0.0
Interest coverage (times)	55.9	73.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on August 30, 2022 (Rs. crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2020	Date & rating in FY2019
					29 Sep 2022	17June 2021	31 Jan 2020	25 Oct 2018
1	Fund-based / Non-fund Based Limits – Working capital Facilities	Long Term/Short term	92.00	-	[ICRA]AA-(stable)/[ICRA]A1+	[ICRA]AA-(stable)/[ICRA]A1+	[ICRA]AA-(stable)/[ICRA]A1+	[ICRA]AA-(stable)/[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – Fund Based/Non-Fund based Limits – working capital facilities	Simple/Very Simple

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: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Working capital facilities	-	NA	-	92.00	[ICRA]AA-(stable)/ [ICRA]A1+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
Care Data Infomatics Private Limited, India	96.00%	Full Consolidation
Erba Diagnostics Mannheim GmbH, Germany	100.00%	Full Consolidation
Erba Diagnostics Inc, USA	83.33%	Full Consolidation
Erba Diagnostics UK Ltd, UK	100.00%	Full Consolidation
Erba Diagnostics Holdings Limited	100.00%	Full Consolidation
Erba Diagnostics Limited	100.00%	Full Consolidation
Erba Corporate Services Limited	100.00%	Full Consolidation
Erba USA Inc., USA	100.00%	Full Consolidation
Calbiotech Inc	100.00%	Full Consolidation
Calbiotech Veterinary Diagnostics, Inc	100.00%	Full Consolidation
Micropiate Dispensers, Inc	100.00%	Full Consolidation
Immuno Vision Inc, USA	100.00%	Full Consolidation
Erba Lachema s r o . Czech Republic	100.00%	Full Consolidation
Erba RUS ZAO, Russia	100.00%	Full Consolidation
Erba Diasis Diagnostik Sistemler Ticaret VE Sanyyi A.S , Turkey	100.00%	Full Consolidation
Erba Diagnostics France S.A R.L , France	100.00%	Full Consolidation
Erba Polska sp.z o.o, Poland	100.00%	Full Consolidation
Erba Diagnostics Ukraine LLC	100.00%	Full Consolidation
Erba Diagnostics SRL	100.00%	Full Consolidation
Lumora Ltd	100.00%	Full Consolidation
Erba Technologies Austria GmbH	100.00%	Full Consolidation
Erba Diagnostics Brazil	100.00%	Full Consolidation
Erba Diagnostics Vietnam Co Ltd	100.00%	Full Consolidation
Erba Diagnostics DMCC	100.00%	Full Consolidation
Erba Czech SRO	100.00%	Full Consolidation
Sysmex Transasia Services Pvt. Ltd, India	49.00%	Equity Method

Source:

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About ICRA Limited:

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