November 10, 2022 (Revised)

Tata Medical and Diagnostics Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Short-term – Fund-based/Non-fund Based Limits	30.00	[ICRA]A1; assigned
Long-term/Short-term – Unallocated Limits	70.00	[ICRA]A+(Stable)/[ICRA]A1; assigned
Total	**100.00**	

**Instrument details are provided in Annexure I*

Rationale

The assigned ratings factor in Tata Medical and Diagnostics Limited's (TMD/the company) strong parentage and robust financial flexibility as a wholly-owned subsidiary of Tata Sons Private Limited (TSPL; rated [ICRA]AAA(Stable)/[ICRA]A1+). The parent company infused Rs 300.0 crore equity in FY2021 and FY2022 for funding TMD's operational requirements. ICRA believes TSPL will continue to provide need-based fund infusion to TMD. The ratings also factor in the company's healthy product pipeline in the in-vitro diagnostics (IVD) space backed by its research and development (R&D) capabilities, which is expected to help ramp-up its operations. ICRA notes that the company is expected to launch few products in H2 FY2023. TMD's ability to successfully commercialise such launches and scale up its operations through product diversification remain key rating monitorables. Over the longer term, high awareness on prevention and wellness, higher evidence-based treatments and rise in chronic and lifestyle diseases are expected to support the company as well as the medical products and devices industry.

The rating is, however, constrained by TMD's moderate working capital intensity and its operating losses of Rs. 58.4 crore in FY2022 and ~Rs. 44.0 crore in H1 FY2023, due to nascent stages of operations and high fixed costs. TMD is also exposed to stiff competition from other domestic as well as international players in the IVD space. The ratings also consider the company's exposure to regulatory risks pertaining to product approvals, compliance norms and pricing regulations, if any.

The Stable outlook reflects continuous financial support available to the company from TSPL, as required, and the strong financial flexibility it enjoys as part of the Tata Group.

Key rating drivers and their description

Credit strengths

Strong parentage as a 100% subsidiary of TSPL – TMD is a wholly-owned subsidiary of TSPL and is one of the companies with operations in one of Tata Group's new focus sectors. Further, the management team also consists of other industry experts and personnel from other Tata Group companies. TSPL has infused Rs. 300-crore equity since the incorporation of the company. ICRA believes that the company will continue to receive adequate and timely financial support from TSPL.

Healthy R&D capabilities and product pipeline – The company is expected to launch its products over the near to medium term in key IVD segments, including molecular diagnostics, clinical chemistry, haematology, and immuno-diagnostics. This is expected to be backed by its healthy R&D capabilities. The company has invested ~Rs. 3.5 crore (~6% of revenues) in FY2022 on R&D and expects to incur incremental investments in the development of products in FY2023. Further, TMD's expected collaboration for certain medical devices shall also support its scale of operations. The ability of the company to successfully commercialise such launches and scale up its operations through product diversification remain a key rating monitorable.

Stable long-term industry outlook – Over the longer term, high awareness on prevention and wellness, higher evidence-based treatments and rise in chronic and lifestyle diseases are expected to support the company as well as the medical products and devices industry.

Credit challenges

Nascent stages of operations – The company is currently incurring losses due to its nascent stages of operations and high fixed costs. TMD reported revenues of Rs. 60.6 crore in FY2022 with operating loss of Rs. 58.4 crore. Net loss was higher due to exceptional loss pertaining to inventory provisioning of Rs. 82.5 crore. Going forward, the timelines for scale up of operations backed by product launches remain key monitorables.

Moderate working capital intensity – As of March 31, 2022, the net working capital (NWC) intensity (NWC/operating income) remained high at over 70% primarily due to increased receivables (as most of FY2022 revenues was recognised in Q4 FY2022) and goods and service tax (GST) receivables (which are yet to be adjusted/refunded). However, the debtors have reduced substantially to ~Rs. 6.0 crore as of October 15, 2022 (from ~Rs. 25 crore as of March 31, 2022). Going forward, the working capital intensity is expected to reduce gradually backed by ramp-up in operations from FY2022 levels. However, with minimum inventory levels, which need to be maintained for meeting its product commercialisation timelines and slightly higher receivables (as the company will be largely catering to Government agencies initially), working capital intensity is expected to be moderate over the medium term.

High competitive intensity – The company is exposed to stiff competition from established domestic as well as international players in the IVD market. While TMD will supply products under the established "Tata" brand, demand resistance to new brands by customers in this market may pose a challenge to the company. However, the company expects to possess pricing flexibility, to partially offset the competition risk.

Exposure to regulatory risks – Akin to other industry players, TMD is exposed to regulatory risks pertaining to timeline of product approvals and compliance norms. Any pricing regulations could also impact its profitability to a certain extent.

Liquidity position: Adequate

The company's liquidity position remains adequate with undrawn overdraft limits of Rs. 15 crore and unencumbered liquid investments of ~Rs. 4.0 crore as of September 30, 2022. The company does not have long-term debt obligations. The average working capital utilisation remained at 28% during February - September 2022. The company has capex plans of ~Rs. 95-100 crore over the next two years primarily pertaining to capacity expansion and R&D expenditures. As part of the Tata Group, it enjoys healthy relationships with banks, which indicates robust financial flexibility supporting its overall liquidity profile. Further, being a 100% subsidiary of TSPL, timely funding is expected to support its liquidity levels.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings in case of significant increase in scale of operations, profit margins and improvement in debt coverage metrics through product launches and ramp-up in operations.

Negative factors – Pressure on the rating could arise, in case of delays in product launches, impacting turnaround of operations. Any revision in TSPL's funding policy towards the company or decrease in TMD's strategic importance, or any weakening in the credit profile of TSPL will also be negative rating factors.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach – Implicit Support from Parent or Group
Parent/Group Support	Parent company – TSPL (rated [ICRA]AAA(Stable)/[ICRA]A1+) ICRA expects TSPL to provide need-based fund infusion to TMD. There exists a track record of TSPL extending financial support to the company.
Consolidation/Standalone	ICRA has considered the standalone financial statement of TMD.

About the company

Incorporated on July 23, 2020, TMD (100% subsidiary of TSPL), commenced its operations from November 2020. It is engaged in inter-alia providing healthcare services, manufacturing and supplying medical kits, devices and equipment for prevention and treatment of communicable diseases. It has a manufacturing plant at Sriperumbudur, Tamil Nadu, and has appointed 75 distributors, covering 21 states for distribution of its products across the country.

Key financial indicators

TMD Standalone	FY2021	FY2022
Operating income (Rs. crore)	1.6	60.6
PAT (Rs. crore)	-28.8	-108.4
OPBDIT/OI (%)	-ve	-ve
PAT/OI (%)	-ve	-ve
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	-ve	-ve
Interest coverage (times)	NM	NM

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; NM – Not meaningful

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 of Oct 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Nov 10, 2022	-	-	-
1	**Fund based/non-fund-based limits**	Short-term	30.00	--	**[ICRA]A1**	--	--	--
2	**Unallocated facilities**	Long-term/Short-term	70.00	--	**[ICRA]A+ (Stable)/[ICRA]A1**	--	--	--

Amount in Rs. Crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short term – Fund based/non-fund-based limits	Simple/Very Simple

Long term/Short term - Unallocated limits	Not Applicable

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 No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based/non-fund-based facilities**	Jan-22	6M-MCLR + 0.25%	NA	30.00	[ICRA]A1
NA	**Unallocated facilities**	NA	NA	NA	70.00	[ICRA]A+ (Stable)/[ICRA]A1

Source: Company; Note: Amounts in Rs. Crore

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

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

Corrigendum

Document dated November 10, 2022, has been corrected with revisions as detailed below:

The rating methodology on implicit support from parent or group is captured in the applicable rating methodology section.

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 5328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Mythri Macherla
+91 80 4332 6407
mythri.macherla@icraindia.com

Seetha Pillai
+91 80 4332 6411
seetha.pillai@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches