

February 29, 2024

## Tata Medical and Diagnostics Limited: Long-term ratings reaffirmed and withdrawn; Short-term ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term – Fund based/ non-fund-based limits	30.00	70.00	[ICRA]A1; reaffirmed
Long-term/Short-term Unallocated limits	70.00	0.00	[ICRA]A+ (Stable) reaffirmed and withdrawn / [ICRA]A1; reaffirmed
<b>Total</b>	<b>100.00</b>	<b>70.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings reaffirmation factor in Tata Medical and Diagnostics Limited's (TMD/the company) strong parentage and robust financial flexibility as a 99.99% subsidiary of Tata Sons Private Limited (TSPL; rated [ICRA]AAA(Stable)/[ICRA]A1+). The parent company infused around Rs. 400-crore equity since inception for funding TMD's operational requirements (including loss funding, capital expenditure and working capital requirements (of both the diagnostics business which has been wound up and its ongoing business)). ICRA believes TSPL will continue to provide need-based fund infusion to TMD. ICRA notes that the company has discontinued its operations in the diagnostics segment and is running a pilot of its subscription-based healthcare service offering which focuses on providing proactive and personalised care to patients. Based on the outcome of its pilot, the company will crystallise on its plan to expand its operations going forward. TMD's ability to successfully commercialise and scale-up its operations remains a key rating monitorable. The ratings also factor in the stable long-term industry outlook for the healthcare services industry with rising incidences of chronic and lifestyle diseases, which is expected to support the business prospects of the company.

The rating is, however, constrained by TMD's nascent stages of operations and its modest financial profile characterised by continued operating and net losses since inception, making it reliant on its parent for funding its operations. ICRA notes that the company incurred operating loss of Rs. 112.6 crore in FY2023, primarily towards funding its operations in the diagnostics space in addition to winding up the same. Further, the company has incurred operating loss of ~Rs. 55 crore in 9M FY2024, partly towards winding up its diagnostics operations in addition to funding its ongoing operations.

The long-term outstanding rating on Unallocated Limits of Tata Medical and Diagnostics Limited has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings and as requested by the company.

### Key rating drivers and their description

#### Credit strengths

**Strong parentage as a 99.99% subsidiary of TSPL** – TMD is a 99.99% subsidiary of TSPL and is one of the companies with operations part of the Tata Group's new focus sectors for its strategic growth. Hence, continuous support is expected. Further, the management team also consists of other industry experts and personnel from other Tata Group companies. TSPL has infused Rs. 400-crore equity since TMD's incorporation. ICRA believes that the company will continue to receive adequate and timely financial support from TSPL, which will further help TMD to ramp-up its operations.

**Stable long-term industry outlook** – Over the longer term, high awareness on prevention and wellness, increased evidence-based treatments in the healthcare segment in addition to rising incidences of chronic and lifestyle diseases are expected to support the company's business prospects.

### Credit challenges

**Nascent stages of operations** – TMD commenced its operations in the diagnostics segment in FY2021 and reported revenues of Rs. 13.7 crore in FY2023 with operating loss of Rs. 112.6 crore, majorly from its diagnostics business. Subsequently, the company discontinued its operations in the diagnostics segment and incurred incremental costs towards inventory write-off and shutting down this business segment in 9M FY2024. The company is currently incurring losses due to its nascent stages of operations and high fixed costs in developing its digital platform and setting up its delivery model. The ability of TMD to successfully commercialise and ramp-up its operations by adding new centres will remain a key monitorable.

**Modest financial profile** – The company witnessed revenue of Rs. 13.7 crore in FY2023 compared to Rs. 60.6 crore and Rs. 1.6 crore in FY2022 and FY2021, respectively. During 9M FY2024, the revenue was Rs. 12.9 crore, majority of which is derived from the diagnostics business. TMD's modest financial profile is characterised by continued operating and net losses since its inception, making it reliant on its parent for funding its operations. ICRA notes that the company incurred operating loss of Rs. 112.6 crore in FY2023, primarily towards funding its operations in the diagnostics space in addition to winding up the same. Further, the company has incurred operating loss of ~Rs. 55 crore in 9M FY2024, partly towards winding up its diagnostics operations in addition to funding its ongoing operations. The company is expected to incur both operating and net losses in the near term till its new business model achieves scale and turnaround.

### Liquidity position: Adequate

The company's liquidity position remains adequate, with undrawn overdraft limits of Rs. 44 crore and unencumbered liquid investments of Rs. 26.4 crore as on December 31, 2023. The company does not have long-term debt obligations. The average working capital utilisation remained at 38% during January to December 2023. Depending on the outcome of its pilot project, the company will crystallise its plans to expand to other cities in India which will require incremental capex. As part of the Tata Group, TMD enjoys healthy relationships with banks, which indicates robust financial flexibility supporting its overall liquidity profile. Further, being a 99.99% subsidiary of TSPL, timely funding is expected to support its liquidity and operational requirements till it achieves breakeven of operations.

### Rating sensitivities

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

**Negative factors** – Pressure on the rating could arise, in case of delays in ramp-up in operations, impacting turnaround of operations. Any revision in TSPL's funding support 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	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology- Hospitals</a> <a href="#">Policy on Withdrawal of Credit Rating</a>
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

Tata Medical and Diagnostics Ltd (TMD) is a 99.99% subsidiary of Tata Sons Private Limited. Incorporated on July 23, 2020, the company started its commercial production in November 2020. It was earlier involved in the business of inter-alia providing healthcare services, manufacturing and supply of medical devices and equipment for prevention and treatment of communicable diseases. However, in Q4 FY2023, the company shifted its focus to the healthcare segment and started the process of exiting the diagnostic space. TMD is in the pilot stage of developing its new healthcare business model which is a subscription-based, patient-centric health monitoring programme to provide proactive and personalised care. At present, the company operates a pilot clinic that offers treatment for chronic healthcare conditions such as diabetes, hypertension, thyroid, obesity, etc.

## Key financial indicators (audited)

	FY2022	FY2023
Operating income	60.6	13.7
PAT	-108.4	-125.8
OPBDIT/OI	-ve	-ve
PAT/OI	-ve	-ve
Total outside liabilities/Tangible net worth (times)	0.2	-0.0
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	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Amount outstanding as of December 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2022
				Feb 29, 2024	Nov 10, 2022	-	-
1 Fund based/non-fund-based limits	Short-term	70.00	25.93	[ICRA]A1	[ICRA]A1	-	-
2 Unallocated facilities	Long-term/short-term	0.00	-	[ICRA]A+ (Stable)/[ICRA]A1; long-term withdrawn	[ICRA]A+ (Stable)/[ICRA]A1	-	-

Amounts in Rs. crore

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Short term – Fund based	Simple
Short term – Non-Fund based	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based/ non-fund-based facilities	Jan-22	6M-MCLR + 0.25%	NA	70.00	[ICRA]A1
NA	Unallocated facilities	NA	NA	NA	0.00	[ICRA]A+ (Stable)/[ICRA]A1; long-term withdrawn

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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