

May 08, 2020

CPC Diagnostics Private Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	16.50	16.50	[ICRA]BBB- (Stable); reaffirmed; Outlook revised to Stable from Positive
Term Loan	5.25	5.25	[ICRA]BBB- (Stable); reaffirmed; Outlook revised to Stable from Positive
Non-fund based facility - Sublimit	(1.50)	(1.50)	[ICRA]A3; reaffirmed
Total	21.75	21.75	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation and the Stable outlook on the long-term rating reflect ICRA's expectations that CPC Diagnostics Private Limited (CPC) will continue to benefit from the extensive experience of the promoters/management, its long track record of operations and strong pan-India distribution network. The ratings continue to positively reflect the company's diversified customer base comprising reputed clientele and its distribution channel spread across India. The ratings factor in its healthy financial profile, characterised by a robust capital structure with a gearing of 0.2 times as on March 31, 2019 and as on December 31, 2019 on account of reduction in debt levels and stable accruals.

However, the ratings are constrained by the company's moderate scale of operations in the medical products and devices industry, which is characterised by stiff competition. ICRA notes the high supplier concentration risk as CPC is dependent on a few suppliers for a substantial portion of its product portfolio. Nonetheless, the presence of long-term exclusive tie-ups and symbiotic relationship with manufacturers of reagents and medical instruments alleviate the risk to an extent. The ratings are restrained by the moderate working capital intensity due to high debtor levels. The company's operating margins remain vulnerable to the foreign exchange fluctuation risk as the products are primarily imported.

The revision in outlook from Positive to Stable reflects the lower-than-expected revenue growth and profitability in FY2020 and ICRA's expectation of pressure on revenue growth and profitability in FY2021 due to likely economic slowdown.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in industry – The promoters have an experience of more than three decades in the industry. CPC was incorporated in 1987 for distributing reagents and medical instruments in India. The company manufactures reagents under Jeev Diagnostics Private limited, a joint venture between CPC and awareness technology Inc.

Diversified customer base with pan-India distribution network – CPC has a diversified customer portfolio mix of hospitals and diagnostics centres, to which reagents and medical instruments are supplied primarily through distribution

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channels and directly by the company to key customers. The top ten customers contributed to 22.7% and 19.2% of the total revenues in FY2019 and 11M FY2020, respectively, indicating a diversified customer base. It has a pan-India presence with the South Indian markets accounting for 60% and 55% of its OI in FY2019 and 11M FY2020, respectively.

Healthy capital structure – Coupled with equity infusion, reduction in debt level and stable accruals resulted in healthy capital structure as witnessed from gearing of 0.2 times as on March 31, 2019 and December 31, 2019, respectively. The availability of funds from equity infusion is likely to drive growth in the company's scale of operations and support its medium-term liquidity. CPC's profitability, despite witnessing a decline, remained healthy as reflected by an operating margin of 10.3% in 9M FY2020. ICRA noted that its profit margin remains vulnerable to volatility in foreign currency fluctuation.

Credit challenges

Moderate scale of operations – The company has recorded revenue of Rs. 97.3 crore in FY2019 and Rs. 68.8 crore in 9M FY2020. Being a player with moderate scale of operations and market share, CPC faces stiff competition in the industry and moderate scale of operations restricts the benefits from economies of scale.

High supplier concentration risk – CPC is an exclusive supplier of reagents manufactured by EuroimmunGmbH (EG) and Awareness Technology Inc (ATI) for the supply of medical instruments. It has started to sell instruments and reagents manufactured by YHLO Biotech Co Ltd (YHLO) from July 2019. Substantial revenue contribution (~60%) from the sale of reagents and sale of medical instruments remain dependent on import from EG, ATI and YHLO, thus resulting in supplier concentration risk. However, the risk is mitigated partly by the company's extensive track record, its strong technical expertise on the supplier's products, wide marketing networks and training initiative undertaken that have, over the years, created an interdependent relationship with the suppliers.

Moderate working capital intensity– The company offers a credit period of around two months for reagents and three instalments for semi-automated machines and five-to-ten instalments for mid-sized and fully-automated machines, which has resulted in high debtor days over the years. The working capital intensity remained moderate at 28.8% and 34.7% in FY2019 and 9M, FY2020 respectively.

Vulnerability of profitability due to exposure to forex – CPC imports 85% of its products from Germany, US and Japan without a hedging mechanism. However, the price escalation clause, with respect to forex prices in the agreement with the customers, mitigates the forex risk to some extent.

Liquidity position: Adequate

CPC's liquidity is **adequate** with likely sustained fund flow from operation amidst modest term loan repayment, stable working capital intensity and access to undrawn credit lines, given the utilisation levels of around 77% in the past twelve months. ICRA expects that in the near-term the buffer available in its borrowing limits will remain adequate to meet any significant rise in its working capital intensity during the current year. ICRA takes note of the Rs. 19.0-crore fixed deposit held in bank for capital expenditure in the medium term.

Rating sensitivities

Positive triggers – ICRA could upgrade the company's rating if there is sustainable improvement in the scale of operations and business risk profile (through introduction of new products, new tie-ups, etc), while maintaining a healthy capital structure and liquidity position.

Negative triggers – ICRA could downgrade the company's rating if there is a decline in profitability or increase in working capital cycle impacting its cash flow from operations or debt protection metrics on a sustained basis. Specific credit metrics that may result in a rating downgrade include decline in Total Debt/OPBDITA to more than 3.0 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation/Standalone	Standalone

About the company

CPC is a provider of products and services to the clinical laboratory industry in India, Sri Lanka and Bangladesh. The company was incorporated in 1987. It has a joint venture with Awareness Technology Inc in the name of Jeev Diagnostics Private Limited for manufacturing of reagents. It offers reagents and instruments, which are mainly imported from Germany, Japan and US and some are indigenously manufactured from its facility located in Porur, Chennai. The company offers a spectrum of instruments and reagents in clinical chemistry, haematology and coagulation and immunodiagnostic. In December 2018, Everstone Capital, a global equity investor acquired a stake (39.0%) in CPC Diagnostics Private Limited via Everlife Holding PTE Limited (Everlife). Mr. R. Kailasanath is the Chairman. Mr. R. Panchanath is a Joint Managing Director and Mrs. Malini Kailasnath is a Director. Mr. Raman Gandothra and Dr. Amit Kakar are the Directors from Everlife.

Key financial indicators (audited)

	FY2018	FY2019	9M FY2020*
Operating Income (Rs. crore)	90.2	97.3	68.8
PAT (Rs. crore)	5.2	5.5	3.0
OPBDIT/OI (%)	13.4%	13.7%	10.3%
RoCE (%)	22.2%	17.0%	9.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.7	0.7	0.6
Total Debt/OPBDIT (times)	1.1	1.1	1.5
Interest Coverage (times)	5.2	5.2	4.5
DSCR	4.2	4.2	4.3

*provisional statements

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current Rating (FY2021)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2019 (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					08-May 2020	-	31-Jan 2019	27-Oct 2017
1	Cash Credit	Long term	16.50	11.70	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Positive)	[ICRA]BB+ (Stable)
2	Term Loan	Long term	5.25	2.20	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Positive)	[ICRA]BB+ (Stable)
3	Non-fund based facility	Short term	(1.50)	-	[ICRA]A3	-	[ICRA]A3	[ICRA]A4+
4	Unallocated facility	Long/ Short term	-	-	-	-	-	[ICRA]BB+ (Stable) / [ICRA]A4+

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	16.50	[ICRA]BBB- (Stable)
NA	Term Loan 1	July 2017	-	July 2021	4.00*	[ICRA]BBB- (Stable)
NA	Term Loan 2	July 2017	-	July 2020	1.25*	[ICRA]BBB- (Stable)
NA	Non-fund based facility – Sub-limit	-	-	-	(1.50)	[ICRA]A3

Source: CPC Diagnostics Private Limited; *sanctioned limits

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
-	-	-

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