Transasia Bio-Medicals Limited

October 25, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term / Short-term, Fund-based / Non-fund Based Limits	132.0	132.0	[ICRA]AA- (Stable) / [ICRA]A1+; re-affirmed
Total	**132.0**	**132.0**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus)[1] and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 132.0-crore[2] long-term / short-term, fund-based / non-fund based bank lines of Transasia Bio-Medicals Limited ('Transasia' or 'the company'). The outlook on the long-term rating is Stable.

Rationale

The ratings re-affirmation takes into account Transasia's leadership position in the domestic in-vitro diagnostics (IVD) market and its strong promoter background and management expertise. This has translated into a healthy credit profile for the company with strong liquidity. Transasia has a pan India marketing and distribution network with a strong focus on after sales service, which is a source of competitive advantage. The company has exclusive tie-ups with international players like Sysmex, Medica, and Diesse, among others, for advance IVD equipment. It also services all healthcare segments comprising private hospitals and pathology laboratories (labs), public hospitals and Government-owned entities. Through its various acquisitions, the company has expanded its geographical footprint and built a research and development (R&D) base for instruments and reagents production.

During April 2017, Transasia acquired the Calbiotech Group of companies in the US for a consideration of US$ 25 million. This is expected to provide R&D impetus and strengthen Transasia's presence in the immunoassay segment, although successful monetisation of such investment remains to be seen. The company also acquired WSS Medical GmbH, Austria, during April 2018 for EUR 3,32,000, which is also expected to add to its R&D capabilities. The financial risk profile of the company is strong with healthy profitability and return on capital employed. On a consolidated level, the company had a net cash surplus of ~Rs. 110 crore as on March 31, 2018. Transasia's international operations are currently incurring losses, and thus are a drag on the consolidated profitability. However, the company has initiated certain cost rationalisation activities at its US subsidiaries to limit the losses.

Transasia faces high dependence on international suppliers, whose business constitute a major portion of its domestic turnover, thereby exposing margins to volatility in foreign exchange. The company's large-scale debt-funded acquisitions are also yet to achieve meaningful scale and profitability. Going forward, any further large-scale debt-funded acquisition could potentially affect the financial risk profile of the company and will be evaluated on a case-to-case basis.

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[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[2] *100 lakh = 1 crore = 10 million*

ICRA also notes the settlement entered into by Transasia's US subsidiary—Erba Diagnostics Inc.—with its minority shareholders, to resolve the class action suit filed for financial irregularities and allegedly misleading statements. The settlement amount is entirely covered by insurance policy.

Outlook: Stable

ICRA expects Transasia to continue to benefit from its established position in the domestic IVD market and maintain its current strong credit profile on the back of healthy cash accruals. The outlook may be revised to Positive if Transasia is able to turn around and scale up its international operations in a profitable and sustainable manner, which will further strengthen its financial risk profile. The outlook may be revised to Negative if cash accruals are lower than expected, or if Transasia is not able to generate meaningful returns from its debt-funded acquisitions, thereby impacting its credit profile.

Key rating drivers

Credit strengths

One of the largest players in the Indian IVD market; extensive experience of the promoters – Transasia is one of the leading players in the Indian IVD market. Through its own manufacturing facilities and its partnerships with international manufacturers of IVD instruments and reagents such as Sysmex, Medica, and Diesse, among others, the company enjoys a presence across various IVD segments like bio-chemistry, immunology, haematology and others. 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 the promoters of more than three decades in the IVD space supports its established market position.

Consistent and high profitability track record; generating free cash flows – The profitability and cash accruals of Transasia remain strong on the back of its established position in the India IVD market, with an operating profit margin of ~34% and net profit margin of ~29% in FY2018, on a standalone basis. On a consolidated basis, the operating profit margins are relatively lower at around 25%, primarily on account of its loss making international operations, mainly in the US. Nonetheless, they remain healthy. The company is expected to benefit from R&D investments by its international subsidiaries in the long-term.

Strong capital structure and coverage indicators along with healthy liquidity – Transasia enjoys a comfortable financial risk profile characterised by a strong capital structure (gearing of 0.7 time as on March 31, 2018 on a consolidated basis) and debt coverage indicators (interest coverage of 10.5 times and Total Debt/OPBDITA of 3.0 times as on March 31, 2018). While the same witnessed some moderation due to the debt-funded acquisition of the Calbiotech Group of companies, they remain healthy. The company also enjoys strong liquidity as witnessed in its consolidated cash and bank balances, along with liquid investments of ~Rs. 914 crore as on March 31, 2018.

Credit challenges

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 are derived from its trading activities, which primarily comprises dispersal of products under exclusive distribution arrangements with its international partners, mainly Sysmex. Transasia earns strong gross profit margins from such trading activities, which contribute to its 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.

International acquisitions yet to achieve meaningful scale and profitability – Transasia's international operations, carried out through its overseas subsidiaries in Europe and the US, are yet to achieve meaningful scale and profitability. They are currently making losses, and thus are a drag on the consolidated profitability. However, the company has initiated certain cost rationalisation activities at its US subsidiaries to limit the losses.

Exposed to volatility in foreign exchange rates – With a major part of the standalone revenues coming from trading of imported products in the domestic market, the company remains susceptible to the fluctuations in foreign currency rates.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodology as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology]

About the company:

Transaasia Bio-Medicals Limited was founded by Mr. Suresh Vazirani in 1985 to provide services to the medical community in the domestic market. 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 base with over 50,000 installations all over the country. In collaboration with leading International companies like Sysmex, Medica, and Diesse, it offers an extensive range of products in the IVD space. The company manufactures the entire range of clinical chemistry analysers, elisa readers and microplates. Its manufacturing operations are undertaken at its facilities at Daman, SEEPZ (Mumbai), Baddi (Himachal Pradesh) and Sikkim in India. 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, with a sales team of around 385 people and 320 service engineers as on March 31, 2018.

Key financial indicators (Consolidated)

	FY2017	FY2018 (Provisional)
Operating Income (Rs. crore)	978.9	1,049.4
PAT (Rs. crore)	123.1	183.5
OPBDIT/OI (%)	26.2%	25.2%
RoCE (%)	14.5%	15.7%
Total Debt/TNW (times)	0.6	0.7
Total Debt/OPBDIT (times)	2.4	3.0
Interest coverage (times)	11.4	10.5

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth (TNW) + Deferred Tax Liability - Capital Work - in Progress)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating October 2018	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018 April 2017	Date & Rating in FY2017 -	Date & Rating in FY2016 February 2016
1	Fund-based / Non-fund Based Limits	Long-term / Short-term	132.0	-	[ICRA]AA-(Stable) / [ICRA]A1+	[ICRA]AA-(Stable) / [ICRA]A1+	-	[ICRA]AA-(Stable) / [ICRA]A1+

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	Long-term / Short-term, Fund-based / Non-fund Based Limits	NA	NA	NA	132.0	[ICRA]AA- (Stable) / [ICRA]A1+

Source: Transasia Bio-Medicals Limited

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About ICRA Limited:

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