

January 31, 2020

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	132.0	132.0	[ICRA]AA- (Stable) / [ICRA]A1+; re-affirmed
Total	132.0	132.0	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation takes into account Transasia Bio-medicals Limited's (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 Medica and Diesse, among others, for distribution of advanced IVD instruments and reagents in India. 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. The financial profile of the company is strong with healthy profitability and strong liquidity. On a consolidated basis, the company had a net cash surplus of ~Rs. 266 crore as on March 31, 2019.

Transasia's international operations, which largely comprises debt-funded acquisitions that are yet to achieve any significant scale and profitability level, remain a drag on its consolidated financial profile. However, ICRA notes the company's initiatives, including setting up a sales team for its European operations and cost rationalisation measures at its US subsidiaries undertaken during CY2018, to improve the scale and profitability of its international operations. Furthermore, on account of Transasia's high dependence on international suppliers, whose business constitute a major portion of the former's domestic turnover, its profitability remains susceptible to the fluctuations in the foreign exchange rate.

ICRA notes the termination of agreement by Sysmex, one of the company's main international suppliers, on the expiry date of March 31, 2019. Transasia acted as a sole distributor of Sysmex for IVD instruments and reagents in the haematology space in India. While this resulted in almost flat sales in FY2019 on a standalone basis, the impact of implementation of IND AS 115 resulted in a revenue decline of 2.9% on a standalone basis. However, as indicated by the management, such arrangement has now been substituted with supplies from Transasia's wholly-owned subsidiary, Erba Lachema s.r.o., which is not expected to have any adverse impact on its standalone profitability. Coupled with the management's assertion that no other tie-ups with other international players are due for expiry in the near term and the company's plan of launching its indigenous products by CY2021, this mitigates the risk to some extent.

ICRA also notes the settlement entered into by Transasia's US subsidiary, Erba Diagnostics Inc, with its minority shareholders during FY2019, to resolve the class action suit filed for materially false and misleading financial statements disseminated by the company, and that no objections were raised in the final hearing on the matter, which took place in January 2019. The settlement amount, on part of Erba Diagnostics Inc., of \$1.1 million was entirely covered and paid by its insurance company. ICRA notes that the company has denied any violations or any wrongdoing whatsoever and

stated that the stipulation of settlement should not be deemed to be an admission, concession, or finding of any fault, liability or wrongdoing whatsoever by any of the defendants.

Key rating drivers and their description

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 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 and half 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 (OPM) of ~38% and net profit margin (NPM) of ~28% in FY2019, on a standalone basis. On a consolidated basis, the OPM was relatively lower at ~23% in FY2019, primarily due to its loss making international operations, mainly in the US and Europe. Nonetheless, the OPM remains healthy. The NPM at the consolidated level in FY2019 was further impacted by ~Rs. 50 crore of mark-to-market foreign exchange losses, primarily pertaining to translation losses on foreign currency borrowings of its overseas entities.

Strong capital structure and coverage indicators and liquidity – Transasia enjoys a comfortable financial profile characterised by a strong capital structure (gearing of 0.6 time as on March 31, 2019 on a consolidated basis) and coverage indicators (interest coverage of 7.4 times in FY2019 on a consolidated basis). The company also enjoys strong liquidity as witnessed in its consolidated cash and bank balances, along with liquid investments of ~Rs. 1,123 crore as on March 31, 2019. Of this balance, ~Rs. 835 crore was encumbered against the borrowings of its international subsidiaries, aggregating to ~Rs. 772 crore.

Credit challenges

Discontinuation of agreement by one of the key international suppliers, Sysmex; break up with other international partnerships could lead to substantial fall in revenues and profitability – More than 60% of Transasia's revenues from the domestic market are derived from its trading activities, which primarily comprise distribution of products under exclusive distribution arrangements with its international partners. Transasia earns strong gross profit margins from such trading activities, which contribute to its healthy OPM from its domestic operations. Thus, any impact on the tie-ups with its major partners could impact Transasia's revenues and profitability. Sysmex, one of the leading suppliers for Transasia, for whom the latter acted as a sole distributor, terminated the agreement on the expiry date of March 31, 2019. However, as indicated by the management, such arrangement has now been substituted with supplies from Transasia's wholly-owned subsidiary, Erba Lachema s.r.o., and is not expected to have any adverse impact on its standalone profitability. Coupled with the management's assertion that no other tie-ups with other international players are due for expiry in the near term and the company's plan of launching its indigenous products by CY2021, this mitigates the risk to some extent.

International operations yet to achieve any significant 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 continue to drag Transasia's financial profile at a consolidated level. However,

the company has initiated certain cost rationalisation activities at its US subsidiaries in CY2018 which will be reflected in CY2019. The company is also expected to benefit from the R&D investments by its international subsidiaries on the back of the expected launch of the indigenous products by CY2021. Coupled with the expansion plans of its European subsidiaries, this is expected to improve the scale and profitability of its international operations in the near to medium term.

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.

Liquidity position: Strong

Transasia’s liquidity is strong with healthy cash flow from operations, on a consolidated basis, on the back of healthy OPM and moderate working capital intensity. As on March 31, 2019, on a consolidated basis, Transasia had Rs. 559.0 crore long-term loans, of which, ~Rs 0.1 crore is scheduled for repayment in FY2020, ~Rs. 523.0 crore in FY2021 and ~Rs. 36.0 crore in FY2022. Furthermore, the company also had short-term loans of Rs. 175 crore outstanding as on March 31, 2019. The Company, however has the flexibility to prepay any of these loans on interest reset date. The company had a balance of cash and liquid investments of ~Rs. 1,123 crore as on March 31, 2019, of which free cash and liquid investments were ~Rs. 289.0 crore. The company also has cushion available in the form of undrawn working capital limits with average utilisation for the Rs. 132 crore sanctioned working capital limits (fund-based and non-fund based) at ~51% for the 12-months ended September 30, 2019.

Rating sensitivities

Positive triggers – ICRA could upgrade Transasia’s rating if the company demonstrates sustained and profitable growth in the domestic operations, coupled with a substantial turnaround of the international operations. Improvement in ROCE above 20% on a sustained basis would also be a positive trigger.

Negative triggers – Any significant debt-funded acquisition / capital expenditure (capex) leading to weakening credit metrics, would pose a downward pressure on Transasia’s rating. Furthermore, the inability to turnaround the operations of the overseas subsidiaries could also exert a negative pressure on the company's rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent / Group Support	Not Applicable
Consolidation / Standalone	The rating is based on consolidated financial statements of the company. As on March 31, 2019, Transasia had three subsidiaries, 26 step-down subsidiaries, and an associate entity, which are listed out in Annexure-2.

About the company

Transasia 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 65,000 installations all over the country. In collaboration with leading International companies like Medica and Diesse, among others, 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 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 389 people and 288 service engineers as on March 31, 2019.

Key financial indicators (Consolidated, Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1,047.7	1,033.4
PAT (Rs. crore)	183.5	97.7
OPBDIT/OI (%)	25.0%	23.2%
RoCE (%)	16.1%	9.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9
Total Debt/OPBDIT (times)	3.1	3.6
Interest Coverage (times)	10.5	7.4
DSCR	1.6	1.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2016
					31-Jan-2020	25-Oct-2018	06-Apr-2017	05-Feb-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+	[[ICRA]AA-(Stable) / [ICRA]A1+

Amount in Rs. crore

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	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

Annexure-2: List of entities considered for consolidated analysis

Company Name	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
Delta Biologicals S.r.l, Italy	83.33%	Full Consolidation
Diamedix Corporation, USA	83.33%	Full Consolidation
Immuno Vision Inc, USA	83.33%	Full Consolidation
Drew Scientific Inc, USA	83.33%	Full Consolidation
JAS Diagnostics Inc, UK	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
Microplate Dispensers, Inc	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: Transasia Bio-Medicals Limited

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