December 26, 2022

CPC Diagnostics Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	16.50	27.50	[ICRA]BBB (Stable); reaffirmed/ assigned
Long-term Fund-based – Term Loan	5.25	9.00	[ICRA]BBB (Stable); reaffirmed/ assigned
Non-fund Based Sub-limit	(1.50)	(1.50)	[ICRA]A3+; reaffirmed
Long-term Fund-based – Overdraft	-	0.48	[ICRA]BBB (Stable); assigned
Total	**21.75**	**36.98**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings consider CPC Diagnostics Private Limited's (CPC) long track record of over three decades in the medical instruments industry along with its diversified customer base and distribution channel spread across India. The rating also factors in the favourable demand prospects for the reagents and medical instruments in the medium term, which augurs well for CPC's growth prospects. The ratings continue to positively reflect the company's diversified customer base of reputed clientele and its widespread distribution channel across India.. The company acquired its point-of-care testing (POCT) business from an Indian player for a total consideration of Rs. 56 crore in FY2023. The acquisition enables CPC to act as sole distributor for POCT kits imported from Boditech Med Inc., South Korea. The acquisition was funded through internal accruals and the company's financial profile remains comfortable with healthy capital structure and coverage metrics.

The ratings, however, remain constrained by the company's moderate scale of operations in the medical products and devices industry, which is characterised by firm competition. However, ICRA notes that the company is expected to record healthy revenue growth of 35-40% in FY2023 on the back of healthy demand for reagents and medical instruments; growth would also be supported by new products introduced during the year. The ratings further consider the high supplier concentration risk as CPC is dependent on a few suppliers for a substantial portion of its product portfolio. Nevertheless, its long-term, exclusive tie-ups and symbiotic relationships with manufacturers of reagents and medical instruments mitigate the risk to an extent. The company's operating margins remain vulnerable to foreign exchange (forex) fluctuation risk as the products are primarily imported.

The Stable outlook on the rating reflects ICRA's opinion that CPC will continue to benefit from its diversified products and customers and expand its scale of operations, while its debt metrics continue to remain comfortable.

Key rating drivers and their description

Credit strengths

Established presence in the medical instruments 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. CPC also manufactures reagents and few medical instruments under Jeev Diagnostics Private limited, a joint venture between CPC and Awareness Technology Inc., USA.

Healthy financial profile – The company witnessed a healthy revenue growth of 30.6% in FY2022 and is expected to record a revenue growth of 35.0–40.0% in FY2023 aided by increase in sale of reagents and medical instruments, whose demand remains robust. The company acquired its POCT business from an Indian player for a total consideration of Rs. 56 crore in FY2023. This acquisition and tie-up with Boditech Med Inc. for POCT kits is expected to support growth, going forward. The company's margins also improved in FY2022 and H1 FY2023 on account of better absorption of fixed expenses. Improved scale and profits with healthy net worth helped to improve the company's debt metrics. CPC has a comfortable capital structure with low debt levels (gearing of 0.0 time as on March 31, 2022) and healthy debt protection metrics as reflected by expected interest coverage of 14–21.0 times and Total Debt/ OPBITDA of 0.5–1.0 time during FY2023–FY2025.

Diversified customer base with pan India distribution network – CPC has a diversified customer portfolio of hospitals and diagnostics centres. It supplies reagents and medical instruments to customers directly as well as through distribution channels. Its top ten customers contributed 42% and 29% to the total revenues in FY2022 and 7M FY2023, respectively, indicating a well-diversified customer base.

Credit challenges

Moderate scale of operations – CPC faces firm competition in the industry as it has a moderate scale of operations and market share. Its scale of operations restricts the benefits from the economies of scale to an extent. However, the favourable demand prospects for the medical products and devices industry in the medium term is expected to support CPC's revenue growth. The acquisition of POCT business enables the company to act as the sole distributor for POCT kits of Boditech Med Inc., aiding revenue growth. The acquisition included takeover of debtors, inventory, and creditors (and significant premium), which led to increase in working capital intensity to 23.2% in H1 FY2023. However, it is expected to moderate in the near term.

High supplier concentration risk – CPC is an exclusive supplier of reagents and medical instruments manufactured by Euroimmun Gmbh (EG) and Awareness Technology Inc. (ATI). It also started selling instruments and reagents manufactured by YHLO Biotech Co. Ltd. (YHLO) from July 2019. A substantial revenue contribution comes from the sale of reagents. Sale of medical instruments depends on import from EG, ATI and YHLO, leading to high supplier concentration risk. However, the risk is partly mitigated by CPC's extensive track record, its strong technical expertise, wide marketing network and training initiatives that have created an interdependent relationship with its suppliers over the years.

Vulnerability of profitability to forex fluctuations – The company imports 75.0–80.0% of its products from Germany, the US and Japan without any hedging mechanism. However, the price escalation clause, with respect to forex prices in the agreement with the customers, mitigates the exchange rate fluctuation risk to an extent.

Liquidity position: Adequate

CPC's liquidity is adequate with expected retained cash flows of Rs. 5.0–10.0 crore, undrawn working capital limits of Rs. 11.0–13.0 crore and unencumbered cash and bank balance of Rs. 9.4 crore as on October 31, 2022, against repayment obligations of Rs. 1.0 crore for FY2023 and Rs. 1.9 crore for FY2024.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if there is a sustained improvement in the company's scale of operations and business risk profile (through new product launches, new tie-ups) while sustaining the capital structure and liquidity position.

Negative factors – ICRA may downgrade the ratings if there is a sharp decline in the company's profitability on a sustained basis or a sharp elongation in the working capital cycle, impacting the cash flows or debt protection metrics. Specific credit metrics for a rating downgrade would be ROCE of less than 13%.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]()
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

CPC Diagnostics Pvt. Ltd. is a provider of products and services to the clinical laboratory industry in India, Sri Lanka and Bangladesh. The promoters have been engaged in the same business segment since 1987. CPC has a technical collaboration with AL SYSTEME, Germany, to manufacture haematology analysers in India through its manufacturing arm, CPC Medical Systemz. Jeev Diagnostics Private Limited, a joint venture between CPC and ATI, USA, . The company sells reagents and instruments, mostly imported from Germany, Japan and the US, and some indigenously manufactured, from its facility in Porur, Chennai. CPC offers a spectrum of instruments and reagents in the clinical chemistry, haematology, coagulation and immunodiagnostic categories.

Key financial indicators (audited)

Standalone	FY2021	FY2022	H1 FY2023*
Operating income	111.2	145.2	97.0
PAT	-1.8	8.2	8.6
OPBDIT/OI	10.5%	12.1%	15.8%
PAT/OI	-1.6%	5.6%	8.8%
Total outside liabilities/Tangible net worth (times)	0.4	0.3	0.7
Total debt/OPBDIT (times)	0.6	0.2	0.8
Interest coverage (times)	8.0	25.0	15.9

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional*

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
					Dec 26, 2022	Sep 06, 2021	May 08,2020	-
1	Cash Credit	Long term	27.50	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-
2	Term Loan	Long term	9.00	9.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-
3	Non Fund Based-Sublimit	Short term	(1.50)	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	-
4	Overdraft	Long term	0.48	-	[ICRA]BBB (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term-Fund based -Cash Credit	Simple
Long term-Fund based Term Loan	Simple
Non-fund based sublimit	Very Simple
Long term-Fund based Overdraft	Simple

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	**Cash Credit**	-	NA	-	27.50	[ICRA]BBB (Stable)
NA	**Term Loan**	April 2022	NA	October 2027	9.00	[ICRA]BBB (Stable)
NA	**Non-fund-based facility – Sub-limit**	-	NA	-	(1.50)	[ICRA]A3+
NA	**Overdraft**	-	NA	-	0.48	[ICRA]BBB (Stable)

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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