July 09, 2024

Chennai Fertility Centre and Research Institute: [ICRA]BB (Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	66.06	[ICRA]BB (Stable); assigned
Long-term – Unallocated	9.83	[ICRA]BB (Stable); assigned
Total	**75.89**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the rating, ICRA has taken a consolidated view of Chennai Fertility Centre and Research Institute, CFC Pharmacy and Novazion Pharmaceuticals (collectively referred to as CFC/the firm), given the common promoter/management and significant operational and financial linkages among them. The assigned rating factors in CFC's established business in the fertility space, vast experience of the promoters in the industry and its strong operating margin profile. CFC's credit profile is expected to be supported by the favourable demand outlook for the In vitro fertilisation (IVF) industry in India and consequent improvement in accruals and debt metrics expected, in the absence of significant debt-funded capex plans over the medium term. The company's operating margins were strong at 43.7% in FY2024[1] (PY: 34.3%), broadly in line with the margins of other industry players. This has resulted in accruals of Rs. 13-15 crore per year in the last two years. While CFC's Debt/OPBITDA stood at 2.0 times in FY2024 (PY: 2.6 times) and the interest coverage ratio was 3.3 times for the same period (PY: 4.1 times), the firm's coverage metrics are also likely to improve over the medium term.

The demand outlook for the IVF industry remains favourable in India, with several factors such as rise in the trend of late marriages, increased pregnancy age, rising infertility rate, higher awareness on infertility treatment and technological advancement leading to an increased success rate for the IVF treatment. Further with increasing regulations in the industry, there is a demand shift expected towards organised players, which could benefit players like CFC.

However, the ratings are constrained by CFC's modest scale of operations with revenues of Rs. 89.4 crore in FY2024. The firm remains exposed to event-based risks emanating from pending litigations against one of the promoters, Dr V.M. Thomas. Further, CFC is exposed to the risks related to a partnership firm, including the capital withdrawal risk. There have been withdrawals in the range of Rs. 3-4 crore in FY2023 and FY2024. Like other players, CFC is exposed to the regulatory risks inherent to the industry. Also, the Indian IVF industry is intensely competitive, and CFC faces competition from both specialised IVF players as well as multi-speciality hospital chains, that offer fertility services.

The 'Stable' outlook on the long-term rating reflects ICRA's expectation that the firm will be able to sustain its credit profile benefitting from its established position and favourable demand outlook for the IVF industry going forward.

[1] According to unaudited financials

Key rating drivers and their description

Credit strengths

Established business position and vast experience of the promoters – CFC was established in September 2010 by Dr. V.M. Thomas and his wife, Ms. Annakili Manickam. Dr. V.M. Thomas is an experienced embryologist and IVF scientist. He has over 25 years of experience in this field and has worked with reputed institutions including Sri Ramachandra Medical College, The Madras Medical Mission and Billroth Hospitals, among others. The firm has a total of 155 beds, spread across four fertility centres and a multi-speciality hospital. It expects to expand to other regions over the medium term.

Favourable demand outlook for the IVF industry – The demand outlook for the IVF industry remains favourable in India, with several factors such as rise in the trend of late marriages, increased pregnancy age, rising infertility rate, higher awareness on infertility treatment and technological advancement leading to an increased success rate for the IVF treatment. Further with increasing regulations in the industry, there is a demand shift expected towards organised players, which could benefit players like CFC.

Strong margins; expected improvement in debt metrices going forward – The company's operating margins were strong at 43.7% in FY2024 (PY: 34.3%), broadly in line with the margins of other industry players. This has resulted in accruals of Rs. 13-15 crore per year in the last two years. The firm has undertaken debt funded capex in the past and this has resulted in moderate coverage metrics. CFC's Debt/OPBITDA stood at 2.0 times in FY2024 (PY: 2.6 times) and the interest coverage ratio was 3.3 times for the same period (PY: 4.1 times). However, its coverage metrics are likely to improve over the medium term with improvement in accruals and absence of significant debt-funded capex plans going forward.

Credit challenges

Litigations against one of the promoters; risks related to partnership nature of the firm – The firm remains exposed to event-based risks emanating from pending litigations against one of the promoters, Dr V.M. Thomas. Further, CFC is exposed to the risks related to a partnership firm, including the capital withdrawal risk. There have been withdrawals in the range of Rs. 3-4 crore in FY2023 and FY2024.

Modest scale of operations – CFC has moderate scale of operations with 155 beds and revenues of Rs. 89.4 crore in FY2024. A higher scale would enhance resilience to volatility in demand and enable better cost absorption. Although the firm's scale would improve over the medium term, aided by growth in the existing facilities and expansion of hospitals/beds, it is expected to remain modest going forward as well.

Exposure to regulatory risks inherent in the sector – Like other players, CFC is exposed to the regulatory risks inherent to the industry. The IVF industry is exposed to the Assisted Reproductive Technology (Regulation) Act, 2021, which aims at the regulation and supervision of assisted reproductive technology (ART) clinics and banks, limit on donor supply and embryo transfer to ensure prevention of misuse, and safe and ethical practice of ART services. The impact of the ART regulations on the firm and the industry will continue to remain a key monitorable. While the industry does not have any pricing cap as on date, any adverse regulation impacting pricing power of the industry players may result in moderation in CFC's revenues and profitability metrics.

Relatively high competition – The Indian IVF industry is intensely competitive, with CFC facing competition from both specialised IVF players as well as multi-speciality hospital chains, that offer fertility services. A certain degree of competition also emanates from the local/ fragmented IVF players. Such intense competition may result in moderation in profit margins, although its established track record is expected to support CFC's business prospects.

Liquidity position: Stretched

CFC's liquidity position is stretched with minimal cash and liquid investments of Rs. 4.8 crore and no undrawn working capital lines as on March 31, 2024. Against this, CFC has debt repayment obligation of Rs. 15.8 crore in FY2025, Rs. 14.3 crore in FY2026 and Rs. 13.7 crore in FY2027 on its existing loans. Further, the firm has capex plans of Rs. 20-25 crore per annum over the medium term, expected to be funded through internal accruals and fund infusion from the promoter, if required. Capital withdrawals, akin to the past, are expected going forward as well.

Rating sensitivities

Positive factors – ICRA could consider a rating upgrade if the firm is able to achieve a significant improvement in revenues and liquidity position, while maintaining the profitability and debt metrics on a sustained basis.

Negative factors – Negative pressure could arise from sustained weak performance or significant capex/ partner capital withdrawals resulting in deterioration in debt metrices and liquidity position. Any adverse developments on the ongoing litigations against the promoter could also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hospitals
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has taken a consolidated view on Chennai Fertility Centre and Research Institute , CFC Pharmacy and Novazion Pharmaceuticals (collectively referred to as CFC/the firm), given the common promoter/management and significant operational and financial linkages among them

About the company

Chennai Fertility Centre and Research Institute was established as a partnership firm by Dr. V.M. Thomas and his wife, Ms. Annakili Manickam in September 2010 in Chennai, for providing fertility care and support services. Dr. V.M. Thomas, who is an embryologist and IVF scientist and has over 25 years of experience in this field. The firm, over the years, has started fertility centres in Puducherry, Tirupati and Kolkata, apart from Chennai with a cumulative count of 105 beds. The firm also started a multi-speciality hospital in Chennai in 2021 with 50 beds. The pharmacy business for both the multi-speciality hospital and the fertility centres operates through a sole proprietorship entity under the name 'CFC Pharmacy'. Novazion Pharmaceuticals, a partnership firm by Dr. V.M Thomas and Ms. Annakili Manickam, was established to procure medicines on wholesale basis for the hospitals and pharmacy outlets. In FY2024, 67% of revenues came from fertility centres, 10% was from the multi-speciality hospital, and the remaining was from pharmacy income.

Key financial indicators

Consolidated	FY2023 (Audited)	FY2024 (Unaudited)
Operating income	84.9	89.4
PAT	10.9	13.2
OPBDIT/OI	34.3%	43.7%
PAT/OI	12.9%	14.7%
Total outside liabilities/Tangible net worth (times)	2.3	1.7
Total debt/OPBDIT (times)	2.6	2.0
Interest coverage (times)	4.1	3.3

Source: Firm, ICRA Research; Amount in Rs. Crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Financial ratios in this document is ICRA adjusted figures and may not be directly comparable with results reported by the firm in some instances

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				July 09, 2024	-	-	-
1	**Term loans**	Long term	66.06	**[ICRA]BB (Stable)**	-	-	-
2	**Unallocated**	Long term	9.83	**[ICRA]BB (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term – Unallocated	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	Long-term Fund-based – Term loan	FY2020	8.01-21.00%	FY2045	66.06	[ICRA]BB (Stable)
NA	Long-term – Unallocated	NA	NA	NA	9.83	[ICRA]BB (Stable)

Source: Firm

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Name	Ownership	Consolidation Approach
Chennai Fertility Centre and Research Institute	100.00% (rated entity)	Full Consolidation
CFC Pharmacy	100.00%	Full Consolidation
Novazion Pharmaceuticals	100.00%	Full Consolidation

Source: Firm

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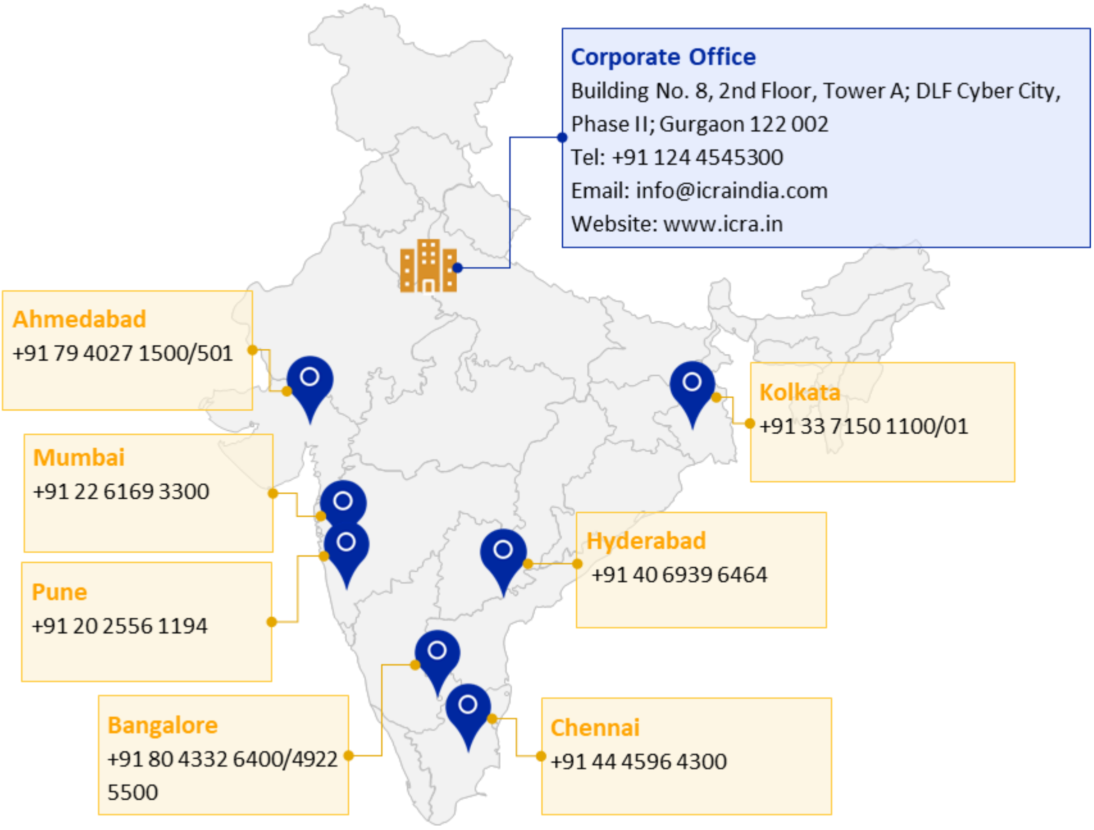

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