

Troikaa Pharmaceuticals Limited

March 31, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two); and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB+; Stable (Triple B Plus; Outlook: Stable); and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A2 (A Two); and Withdrawn
Total Bank Facilities	-		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. has reaffirmed and subsequently withdrawn the outstanding ratings of 'CARE BBB+; Stable/ CARE A2' [Triple B Plus; Outlook: Stable/ A Two] assigned to the bank facilities of Troikaa Pharmaceuticals Limited (TPL) with immediate effect. The above action has been taken at the request of TPL and 'No Objection Certificates'/ 'No Dues Certificate' received from the bank(s) that have extended the facilities rated by CARE Ratings Ltd.

The ratings assigned to the bank facilities of TPL continue to derive strength from the rich experience of its promoters in the pharmaceutical industry, TPL's long standing track record of operations with focus on Research & Development (R&D) for developing New Drug Delivery System (NDDS) with diversified, proprietary & difficult to manufacture product portfolio including five patented products, strong presence in pain management therapeutic segment and established marketing & distribution network. The ratings further continue to derive comfort from its growing scale of operation with improvement in operating profitability aided by strong growth in export revenue, its healthy debt protection indicators and adequate liquidity.

The ratings are, however, constrained by its large size debt-funded on-going green-field project which is envisaged to result in moderation in its leverage over the period of next two years from the present level apart from the inherent implementation & stabilization risk associated with such a large project. The ratings further continue to remain constrained due to its relatively moderate operating profitability (PBILDT) margins in light of high overhead costs as well as its higher presence in the acute therapeutic segments; albeit its operating profitability margins have gradually improved over the past three years ended FY21, its large working capital requirement due to long operating cycle, and its presence in a competitive domestic formulation industry along with inherent regulatory risk associated with the pharmaceutical industry.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters: Dr. Ketan R Patel, Chairman and Managing Director of TPL, has more than three decades of experience in the pharmaceutical industry. Dr. Patel is a Master in Pharmacy (Gold Medalist) with specialization in Pharmaceutical Chemistry and a Ph.D. in Pharmaceutical Technology. He has been conferred with many awards for his various inventions and has several patents to his credit. Mr. Milan R Patel, Joint Managing Director, who has more than 30 years of industrial experience looks after the production, purchase and regulatory affairs of the company. The management is further reinforced by the induction of Mr. Asheel Ketan Patel, B.Pharm, MS (Molecular Biology & Genetics) having 9 years of experience in marketing and responsible for development and growth of various products of TPL as well as Mr. Nisheel Ketan Patel, MS (Pharmaceutics & Drug design) and Mr. Kush Milan Patel, MS (Molecular Microbiology & Immunology) both of whom are actively involved in R&D activities and plant operations of TPL since nearly past 5 years. Further, the Board of Directors consists of six executive and four non-executive directors. The directors are well supported by technically sound and experienced professionals.

Established track record with strong presence in pain management therapeutic segment: TPL has a Department of Scientific & Industrial Research (DSIR) recognized R&D facility and is engaged in research and development of drugs through NDDS with major focus on pain management. It has been awarded for its innovations & excellence by DSIR, Federation of Gujarat Industries (FGI), Indian Drug Manufacturers Association (IDMA), Indian Institute of Packaging (IIP), Pharmaceutical Export Promotional Council (Pharmexcil), Department of Pharmaceuticals (Ministry of Chemicals & Fertilizer, Government of India) among others. TPL has a strong presence in the pain management therapeutic segment with 'Dynapar' being the leading brand which consists of parenterals, oral and topical formulations out of which 'Dynapar AQ' and 'Dynapar QPS' are the major patented products of TPL. The sales of 'Dynapar' have been increasing steadily indicating good acceptance and penetration of the product in the domestic as well as export markets. TPL has also launched a new patented product i.e. 'Naso B12' which is a nasal spray used as a supplement to treat Vitamin B12 deficiency. The company has introduced to the world 1st Intra-nasal drug delivery of methylcobalamin which is manufactured by Nasomax technology, globally patented by TPL. As informed by the management, the pan-India launch of 'Naso B12' has been completed in a phased manner in November 2019 (started in

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

January 2019), however, due to Covid-19 pandemic, the company could not scale up the sales. TPL is among the very few companies in India which has 5 patented products; and difficult to manufacture products with proprietary technology in its portfolio which reflects the strong R&D capability of the company. Recently, TPL has launched few more products namely Hyginium 100 ml (therapeutic area/ broad usage: hand sanitizer/disinfection), Hyginium 100 ml (hand sanitizer/disinfection), Troycobal SR 1X10T (Vitamin B supplement), Dexit 50 1X0.5 ml (General anaesthesia/sedatives), Xykaa LD 10X10 Cap (pain management) among others. As informed by the management, 3 more products are at clinical trial stage and ~7 unique drug delivery systems are in the R&D pipeline. R&D cost of the company stood at Rs.26.94 crore during FY21 (~4.16% of TOI). Its ability to generate higher returns from its investments in R&D going forward would be crucial for its prospects.

Established marketing & distribution network: TPL has an established distribution network and sales team across the country comprising of around 1,260 medical representatives and 24 C&F agents presently. The products are marketed domestically through five different marketing divisions namely Spectra, Aura, Altius, Hospitroy and Novogen each catering to different therapeutic segments.

Strong growth in export market: TPL had started business development activities in various semi-regulated countries like Philippines, Taiwan, Thailand, Malaysia, France and Brazil among others by entering into agreement with various foreign partners to market their products in various countries. Further, TPL along with its foreign partners had appointed more than 20 country managers & dedicated field staff in the overseas market to penetrate its products in the market. On account of its continuous focus on export market, TPL's export sales grew by around 25% on y-o-y basis and stood at Rs.242 crore during FY21 as against Rs.194 crore in FY20.

Growing scale of operation with improving operating profitability: Total operating income (TOI) of the company registered a compounded annual growth rate (CAGR) of 9% in the last four years ended FY21 and it grew by a 5% on y-o-y basis during FY21 (A) backed by healthy revenue growth from export market whereas the domestic sales of the company dipped by 4% on Y-o-Y basis in light of Covid-19 related challenges.

PBILDT margin of the company improved by 125 bps and stood at 15.93% during FY21 as compared to 14.68% during FY20 primarily due to saving in travelling and legal & professional cost during the year. The gross cash accruals (GCA) of the company increased by 18% on y-o-y basis and stood at Rs.124 crore during FY21. Furthermore, its cash flow from operations stood at Rs.101 crore during FY21 which enabled it to lower its working capital borrowings.

Improved capital structure and healthy debt protection indicators: TPL's capital structure marked by overall gearing ratio and TOL/ TNW ratio improved and remained moderate at around 0.40 times (adjusted) and 0.98 times (adjusted) respectively as on March 31, 2021 as against the 0.62 times and 1.31 times respectively as on March 31, 2020 backed by healthy accretion of profit to reserve and reduced debt level. However, the capital structure is expected to moderate over the period of next two years on account of its on-going large size debt funded green-field project.

Due to improvement in its profitability and healthy growth in gross cash accruals, debt coverage indicators marked by PBILDT interest coverage and Total Debt/ GCA improved and remained healthy at 10.97 times and 1.12 times respectively in FY21 (P.Y.: 6.24 times and 1.57 times respectively).

Key Rating Weaknesses

Inherent risk associated with implementation and stabilization of its large size predominantly debt funded on-going project: The company has started implementation of its green-field project for setting-up various manufacturing lines for vials, ampoule and inhalation lines at its existing plant situated at Virochannagar, Sanand (Gujarat). The total cost of the project was expected to be Rs.227.40 crore, to be incurred over two years i.e. FY21 and FY22. The project cost was expected to be funded through term loan of Rs.169.34 crore and remaining from internal accruals translating into high project debt/equity ratio of 2.92:1 times. The company has already availed term loan (ECB facility) of EURO 14.10 million (~Rs.124.34 crore) and received the letter of intent (LOI) from a German bank for purchase of two major imported machineries. The company has incurred cost of nearly Rs.25 crore till February 28, 2021 towards the project, which was funded through term loan of Rs.9 crore and remaining from internal accruals. The operations from the new plant were expected to commence from May 2022. However, as per the latest available update, there has been time and cost overrun due to adverse impact of Covid-19 and sharp rise in commodity prices apart from some change in project scope.

The rationale for the project as envisaged by the management is to achieve further growth in its scale of operation through fulfilling the growing demand for some of its products along with penetrating into newer geographies including some stringent regulated export markets and for reducing the company's reliance on job-work which is likely to benefit the company in terms of better control on quality of its products as well as cost savings. Further, the company's profitability may also improve as a result of achieving economies of scale as it will be able to manufacture the products with larger batch size.

Moreover, in the pharmaceutical industry, regulatory compliance is of utmost important. The process of regulatory audit, product registration, validation batches, etc. for a new manufacturing facility may take 6 months to 2 years period. Large size projects are susceptible to inherent implementation risks and consequently any delay in execution of the project and delay in regulatory registration of the plant & product to be manufactured there may result in cost overrun and impact the currently envisaged timelines for cash flow generation. Moreover, the compliance cost and fixed overhead cost for pharmaceutical plant are relatively high and hence the profitability of the company may be impacted till the time the company achieves the optimum capacity utilisation. Presently, company is incurring job work charges of around Rs.15 crore annually whose manufacturing can be done from the new plant once it is commercialised; thereby providing support to its profitability. As per the management, the saving in job work charges would off-set the incremental interest cost on drawal of term debt for capex and it would not

materially impact the profitability in case of under-utilisation of project in the initial stage. Timely completion of the project within envisaged cost parameters and realization of envisaged benefit thereof would be a key rating sensitivity.

Relatively moderate profitability margin: Despite improvement in the operating profitability margin, it remained relatively lower compared to its peers due to its large presence in acute therapeutic segment in the competitive domestic market apart from its presence in semi-regulated export markets. PBILDT margin of TPL remained in the range of 12% to 16% over the period of last five years ended FY21. PBILDT margin has remained at a moderate level on account of its high overhead costs. PAT margin of the company improved due to improvement in PBILDT margin coupled with saving in interest cost; it remained moderate at 6.55% during FY21 on account of high depreciation and amortization in light of goodwill of Rs.342.72 crore; generated due to reverse merger a few years back.

Large working capital requirement due to long operating cycle: Operation of TPL remained working capital intensive marked by net-working capital to total capital employed of 46% in FY21 (54% in FY20) and gross operating cycle days stood at 171 days in FY21 (167 days in FY20). The primary reason of long working capital cycle is requirement of stocking of finished goods inventories (finished goods remained 50% of total inventory in FY21) as company needs to keep minimum level of inventories for each product. Further, TPL needs to maintain the finished goods stock of multiple products at its plant, centralized godown and at C&F levels along with that to achieve the benefit of economy of scale the company is manufacturing the finished good as per the optimum batch size which has also resulted into high finished goods. Also, export sales entail higher receivable period which adds to its working capital intensity.

Regulatory risk associated with pharmaceutical Industry; albeit steady growth prospects: The company is exposed to regulatory risk since the players in the pharmaceutical industry need to manufacture products that meet the set quality standards of the various regulators. Good Manufacturing Practice (GMP) has to be followed for the control and management of manufacturing and quality control testing of drugs. Further, the pharmaceutical industry is highly regulated in many other jurisdictions and requires various approvals, licenses, registrations and permissions for business activities. The approval process for a new product registration is complex, lengthy and expensive. The domestic demand for formulations is expected to grow steadily backed by increasing instances of chronic diseases, increasing per capita income, improvement in access to healthcare facilities and penetration of health insurance. However, the Government of India wants to ensure the availability of drugs at reasonable prices and so it may continue with the drug price control regime which can have an impact on prices and in turn put pressure on the industry growth and profitability. The industry is expected to continue to see pricing pressure in both the markets, domestic and exports. However, CARE Ratings believes that the steady growth in demand from domestic market coupled with a likely increase in export volumes to North American and African markets will support the industry's growth.

Analytical Approach: Standalone

Applicable Criteria

[Policy on Withdrawal of ratings](#)

[Criteria on assigning outlook and credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating methodology for manufacturing companies](#)

[Rating methodology for Pharmaceutical sector](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial sector entities](#)

About the Company

Incorporated in 1999, Ahmedabad-based TPL was formed by the amalgamation of Troikaa Parenterals (proprietorship concern) and Troikaa Laboratories (partnership concern) which were started in 1983. TPL was initially promoted by Mr. Rajni V. Patel and is now managed by his sons Dr. Ketan R Patel and Mr. Milan R. Patel. TPL is engaged in the manufacturing of various branded generics and formulations at its three WHO-GMP certified manufacturing facilities located at Thol (Gujarat), Sanand (Gujarat) and Dehradun (Uttarakhand) with an installed capacity of 20 lakh per shift per day for manufacturing of tablets, 3.10 lakh per shift per day for injectable, 2.72 lakh per shift per day for capsules, 2.30 lakhs per shift per day for liquid ampoule, 0.80 lakh per shift per day for liquid vial, 0.35 lakhs per shift per day for Non Betalactum powder filling, 0.25 lakhs per shift per day prefilled syringes, 0.10 lakhs per shift per day for liquid inhalation bottle filling along with 102.29 lakh tubes per annum for ointments and 98.11 lakh bottles per annum for topical solutions as on February 28, 2021. TPL had undergone reverse merger with Troikaa Exports Private Limited (TEPL) with effect from April 01, 2015 subsequent to which TEPL ceased to exist as a private company and was converted into a public limited company as Troikaa Exports Limited (TEL). Thereafter, the name of TEL was changed to TPL.

Brief Financials of TPL (Rs. Crore)	FY20 (A)	FY21 (A)	9MFY22 (UA)
Total Operating Income	615.70	648.16	NA
PBILDT	90.36	103.26	NA
Depreciation and amortisation	54.81	52.81	NA
Reported PAT	11.32	42.47	NA
Gross Cash Accruals	76.76	95.28	NA
Overall Gearing ratio @	0.46	0.32	NA
Adj. Overall gearing ratio @ #	0.62	0.40	NA
Adj. TOL/ TNW ratio @ #	1.31	0.98	NA
PBILDT Interest coverage (times)	6.24	10.97	NA

A: Audited; UA: Un-audited; NA: Not Available

@ After removing goodwill and other intangible assets except the value of patent, for arriving value of tangible network

Considering the relevant adjustment to tangible network in respect to fair value of assets acquired at the time of reverse merger

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Covenant of rated instrument/ facility: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Complexity level of various instruments rated for this company: Please refer Annexure-3

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-Working Capital Demand loan	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Forward Contract	-	-	-	-	0.00	Withdrawn
Fund-based - ST-Line of Credit	-	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Term Loan-Long Term	LT	-	Withdrawn	-	1)CARE BBB+; Stable (30-Mar-21) 2)CARE BBB+; Stable (14-Jul-20)	1)CARE BBB+; Stable (18-Mar-20)	1)CARE BBB+; Stable (12-Mar-19)
2	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST*	-	Withdrawn	-	1)CARE BBB+; Stable / CARE A2 (30-Mar-21)	1)CARE BBB+; Stable / CARE A2 (18-Mar-20)	1)CARE BBB+; Stable / CARE A3+ (12-Mar-19)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
						2)CARE BBB+; Stable / CARE A2 (14-Jul-20)		
3	Fund-based - LT-Forward Contract	LT	-	Withdrawn	-	1)CARE BBB+; Stable (30-Mar-21) 2)CARE BBB+; Stable (14-Jul-20)	1)CARE BBB+; Stable (18-Mar-20)	1)CARE BBB+; Stable (12-Mar-19)
4	Fund-based - ST-Line of Credit	ST	-	Withdrawn	-	1)CARE A2 (30-Mar-21) 2)CARE A2 (14-Jul-20)	1)CARE A2 (18-Mar-20)	1)CARE A3+ (12-Mar-19)
5	Non-fund-based - LT/ ST-BG/LC	LT/ST*	-	Withdrawn	-	1)CARE BBB+; Stable / CARE A2 (30-Mar-21) 2)CARE BBB+; Stable / CARE A2 (14-Jul-20)	1)CARE BBB+; Stable / CARE A2 (18-Mar-20)	1)CARE BBB+; Stable / CARE A3+ (12-Mar-19)
6	Fund-based - LT-Term Loan	LT	-	Withdrawn	-	1)CARE BBB+; Stable (30-Mar-21) 2)CARE BBB+; Stable (14-Jul-20)	1)CARE BBB+; Stable (18-Mar-20)	1)CARE BBB+; Stable (12-Mar-19)
7	Term Loan-Long Term	LT	-	Withdrawn	-	1)CARE BBB+; Stable (30-Mar-21) 2)CARE BBB+; Stable (14-Jul-20)	1)CARE BBB+; Stable (18-Mar-20)	1)CARE BBB+; Stable (12-Mar-19)

* Long Term / Short Term

Annexure 3: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Forward Contract	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-Working Capital Demand loan	Simple
4	Fund-based - ST-Line of Credit	Simple
5	Non-fund-based - LT/ ST-BG/LC	Simple
6	Term Loan-Long Term	Simple

Annexure 4: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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