Troikaa Pharmaceuticals Limited

March 18, 2020

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long-term Bank Facilities	66.37 (Reduced from Rs.86.55 Crore)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long-term/ Short term Bank Facilities	126.50	**CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)**	**Revised from CARE BBB+; Stable/ CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)**
Short-term Bank Facilities	9.70	**CARE A2 (A Two)**	**Revised from CARE A3+ (A Three Plus)**
Total Facilities	**202.57 (Rupees Two Hundred Two Crore and Fifty Seven Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the short term rating assigned to the bank facilities of Troikaa Pharmaceuticals Limited (TPL) takes into account improvement in its liquidity arising from its healthy profitability and cash accruals during 9MFY20 which has also resulted in reduced reliance on external borrowings.

The ratings continue to derive strength from the rich experience of its promoters in the pharmaceutical industry, TPL's long standing track record of operations along with diversified product portfolio including 5 patented products, strong presence in pain management therapeutic segment and established marketing & distribution network. The ratings also derive comfort from healthy growth in its total operating income (TOI) during 9MFY20 (Un-audited; refer to the period April 01 to December 31) on a y-o-y basis supported by strong growth in export revenue and its comfortable debt coverage indicators.

The ratings, however, continue to remain constrained due to its relatively moderate operating profitability margins in light of high overhead costs as well as large presence in acute therapeutic segments, moderate capital structure due to modest tangible net worth, working capital intensive operations and its presence in an intensely competitive domestic formulation industry with high reliance on few brands. The ratings are further constrained by inherent regulatory risk associated with pharmaceutical industry.

Rating Sensitivities

Positive Factors

- Sustained improvement in PBILDT margin in the range of 16%-18% and ROCE of around 18%
- Improvement in capital structure marked by overall gearing (on adjusted basis) below 0.70 times

Negative Factors

- Sustained decline in the PBILDT margin below 10%
- Large size debt-funded capex adversely affecting its debt-coverage indicators apart from resulting in deterioration of its overall gearing ratio to above 1.25 times
- Any adverse change in regulatory guidelines which may impact TPL's credit profile and growth prospects

Detailed description of the key rating drivers

Key Rating Strengths

Healthy growth in total operating income (TOI) along with improvement in profitability during 9MFY20: TOI of the company grew by 23% on y-o-y basis and stood at Rs.457 crore during 9MFY20 supported by healthy growth in some of its products including Dynapar AQ, Dynapar QPS, Propofol injection, Isoflurance & Sevoflurance among others. The growth in TOI coupled with steps taken by the management in terms of capacity optimization has resulted in better absorption of certain overhead costs, resulting in improvement in its PBILDT margin by 536 bps to 13.55% during 9MFY20 as against 8.29% in 9MFY19. The improvement in profitability has resulted in strong growth of over 170% in gross cash accruals to Rs.51.42 crore during 9MFY20 as against Rs.18.59 crore in 9MFY19. The company utilized the cash flow generated during 9MFY20 towards the working capital requirement and reduced its reliance on external working capital

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

borrowings. The average utilization of fund based working capital limits remained low at 47% for trailing twelve months ended December 2019. (Avg. utilization of the trailing 6 month ended December 2019 stood even lower at 34%).

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 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 26% on y-o-y basis and stood at Rs.160 crore during FY19. Furthermore, TPL earned revenue of Rs.132 crore from export market during 9MFY20 (~ 31% y-o-y growth) has and it had export orders worth Rs.72 crore as on December 31, 2019.

Experienced and resourceful promoters: Dr. Ketan R Patel, Chairman and Managing Director of TPL, has more than three decades of experience in pharmaceutical industry. 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 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 Ketal Patel, MS (Pharmaceutics & Drug design) and Mr. Kush Milan Patel, MS (Molecular Microbiology & Immunology) both are actively involved in R&D activities and plant operations of TPL over a period of nearly 5 years. Further, the Board 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 Novel Drug Delivery System (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 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 fast acceptance and penetration of the product in the domestic as well as export market. Recently, TPL has launched 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 manned in November 2019 (started in January 2019). Till December 2019, TPL earned revenue of Rs.3.81 crore from Naso B12. TPL is among the very few companies in India which has 5 patented products in its portfolio that reflects the strong R&D capability of the company. Moreover, the company has diversified product portfolio marked by sales from top 10 products contributing around 58% of its gross sales during FY19.

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. The products are marketed domestically through five different marketing divisions namely Spectra, Aura, Altius, Hospitroy and Novogen each catering to different therapeutic segment.

Stable financial risk profile during FY19: TPL's TOI registered a Compounded Annual Growth Rate (CAGR) of 11% in last three years ended FY19 and it grew by 15% on y-o-y basis and stood at Rs.519 crore during FY19 on the back of increase in market penetration of its existing products coupled with growth in export revenue. Further, PBILDT margin of the company remained stable at a moderate level of 12.74% during FY19 as compared with 12.65% during FY18. TPL reported net loss in FY19 on account of high depreciation and amortization charges. However, GCA of the company increased by 19% and stood at Rs.51 crore during FY19 as compared with Rs.43 crore in FY18. Moreover, debt coverage indicators marked by interest coverage and Total Debt to GCA (TDGCA) continued to remain healthy at 4.09 times and 3.59 times respectively as on March 31, 2019.

Liquidity: Adequate

Liquidity of the company remains adequate on account of steady cash accruals of Rs.51 crore each during FY19 and during 9MFY20 as against relatively low repayment obligation of around Rs.20 crore each in FY20 and FY21. Further, working capital limit utilization remained low at 47% for the trailing 12 months ended December 2019 which also provides cushion to its liquidity. Furthermore, current ratio and quick ratio also improved and stood moderate at 1.34 times and 0.68 times respectively as on March 31, 2019.

Key Rating Weaknesses

Relatively moderate profitability margin: PBILDT margin of TPL has remained within a moderate range of 12% to 13% over a period of last three years ended FY19. TPL's PBILDT margin remained moderate due to its higher overhead cost in terms of relatively higher employee cost, travelling & conveyance expenses and legal & professional expenses. The operating profitability of the company also remained relatively lower compared to its peers due to its large presence in acute therapeutic segments in competitive domestic market apart from its presence in semi-regulated export market. Furthermore, CARE also notes that the company procured raw material (primarily API) worth Rs.33.70 crore in FY19 from China (~28% of total raw material consumed in FY19) thereby demonstrating low direct reliance on China. However, the profitability margin of the company is not free from any adverse impact of corona virus on pharmaceutical industry. As informed by the management, the company held sufficient inventory of raw material required to meet the current needs of production. Presently, the company is not facing any supply challenges as articulated by the management.

Moderate leverage: TPL's capital structure marked by overall gearing ratio and TOL/ TNW ratio remains relatively moderate at around 1.18 times (adjusted) and 1.81 times (adjusted) respectively as on March 31, 2019 due to modest tangible networth base along with relatively high debt level.

Working capital intensive operations: Operations of TPL remained working capital intensive marked by net-working capital to total capital employed of 53% in FY19 (46% in FY18) and gross current assets days at 173 days in FY19 (167 days in FY18). Operating cycle of the company remained elongated at 109 days in FY19 (113 days in FY18) due to high stock of finished goods inventories. TPL needs to maintain the finished goods stock of multiple products at its plant, centralized godown and at C&F levels. Additionally, the receivables of the company increased by 36% and stood at Rs.94 crore in FY19 as against Rs.69 crore in FY18 due to longer credit period given by TPL to its export customer as well as skewed export revenue in Q4 of the financial year.

Inherent 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 by a likely increase in export volumes to North American and African markets will support the industry's growth.

Analytical Approach: Standalone

Applicable Criteria

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

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 (Uttrakhand) 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 along with 102.29 lakh tubes per annum for ointments and 98.11 lakh bottles per annum for topical solutions as on March 31, 2019. 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)	FY18 (Aud.)	FY19 (Aud.)
Total operating income	451.73	519.35
PBILDT	57.13	66.16
Reported PAT	2.89	(0.76)
Gross Cash Accruals	42.96	50.97
Overall Gearing ratio @	0.82	0.83
Adj. Overall gearing ratio @ #	*1.25*	*1.18*
Adj. TOL/ TNW ratio @ #	*1.89*	*1.81*
PBILDT Interest coverage (times)	3.83	4.09

@ After removing goodwill and other intangible assets except the value of patent, for arriving value of tangible networth
 # Considering the relevant adjustment to tangible networth in respect to fair value of assets acquired at the time of reverse merger

As per 9MFY20 (Un-audited) results, TPL earned a total operating income of Rs.456.94 crore with PBILDT of Rs.61.90 crore as against total operating income of Rs.371.25 crore with PBILDT of Rs.30.78 crore during 9MFY19 (Un-audited).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan - Long Term	-	-	June 30, 2024	61.37	CARE BBB+; Stable
Fund-based - LT-Forward Contracts	-	-	-	5.00	CARE BBB+; Stable
Fund-based - LT/ ST-Working Capital Demand loan	-	-	-	106.50	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-BG/LC	-	-	-	20.00	CARE BBB+; Stable / CARE A2
Fund-based - ST-Line of Credit	-	-	-	9.70	CARE A2

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan - Long Term	LT	61.37	CARE BBB+; Stable	-	1) CARE BBB+; Stable (12-Mar-19)	1) CARE BBB; Stable (26-Mar-18) 2) CARE BBB; Stable (12-Apr-17)	-
2.	Fund-based – LT - Forward Contracts	LT	5.00	CARE BBB+; Stable	-	1) CARE BBB+; Stable (12-Mar-19)	1) CARE BBB; Stable (26-Mar-18) 2) CARE BBB; Stable (12-Apr-17)	-
3.	Fund-based - LT/ ST - Working Capital Demand loan	LT/ST	106.50	CARE BBB+; Stable / CARE A2	-	1) CARE BBB+; Stable / CARE A3+ (12-Mar-19)	1) CARE BBB; Stable / CARE A3+ (26-Mar-18) 2) CARE BBB; Stable / CARE A3+ (12-Apr-17)	-
4.	Non-fund-based - LT/ ST - BG/LC	LT/ST	20.00	CARE BBB+; Stable / CARE A2	-	1) CARE BBB+; Stable / CARE A3+ (12-Mar-19)	1) CARE BBB; Stable / CARE A3+ (26-Mar-18) 2) CARE BBB; Stable / CARE A3+ (12-Apr-17)	-
5.	Fund-based - ST-Line of Credit	ST	9.70	CARE A2	-	1) CARE A3+ (12-Mar-19)	1) CARE A3+ (26-Mar-18) 2) CARE A3+ (12-Apr-17)	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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