April 02, 2020

Therapiva Private Limited: [ICRA]B- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term loans	103.80	[ICRA]B- (Stable); assigned
Long-Term Fund based/CC	39.00	[ICRA]B- (Stable); assigned
Long-Term Unallocated	75.20	[ICRA]B- (Stable); assigned
Total	**218.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating favourably factors in the operational and financial support that Therapiva Private Limited (Therapiva) receives from its promoters. The company is a 61:39 joint venture (JV) between Omnicare Drugs India Private Limited (a wholly-owned subsidiary of Neopharma International Holding Company (Neopharma Holding), Dubai, which in turn is owned by Dr. B.R. Shetty) and Laxai Life Sciences Pvt. Ltd (Laxai; a contract research organisation promoted by Mr. Vamsidhar Maddipatla). Therapiva benefits from the research and development capabilities of Laxai and gets marketing and financial support from from Dr. B. R. Shetty Group entities (Neopharma LLC, Dubai providing marketing support and financial support derived from Neopharma Holding). The company has received equity infusion of Rs. 30.5 crore and unsecured loans of Rs. 156.3 crore as on March 31, 2019 from Neopharma Holding. The rating is also underpinned by the company's healthy customer profile comprising Dr. Reddy' Laboratories [DRL; rated [ICRA]AA+ (Stable)] and Mylan Laboratories Private Limited, to name a few. With committed orders from DRL for FY2020/H1 FY2021 and a healthy pipeline of active pharmaceutical ingredients (APIs) expected to be commercialised during FY2021–FY2023 (at present under various stages of development), the company's revenues are likely to witness healthy improvement going forward.

The rating is, however, constrained by the weak financial profile of the company, characterised by operating losses of -15.3% and -20.4% in FY2019 and H1 FY2020, respectively, weak capitalisation and coverage indicators, and stretched liquidity. Owing to high debt levels and relatively low net worth, the company' capital structure and coverage indicators were stretched with adjusted[1] gearing and adjusted total debt/OPBITDA of 5.1 times and -8.4 times, respectively as on September 30, 2019. Going forward, the company has sizeable debt-funded capex of Rs. 250.0 crore over FY2020–FY2021, which is likely to be funded through term loans of Rs. 175.0 crore. The remaining is expected to be funded through equity infusion/loans from promoters. This is likely to result in high debt levels and the capitalisation and coverage indicators are expected to remain stretched further going forward. ICRA notes that the company's breakeven revenues are Rs. 520.0 crore and it is expected to post net losses in FY2020 and FY2021 as well. On the liquidity front, ICRA expects the promoters to infuse funds as and when required to meet Therapiva's repayment obligations and other operational requirements. Akin to other pharmaceutical players, the company remain susceptible to regulatory risks inherent in the pharmaceutical industry.

[1] *Adjusted for part equity credit for unsecured loans from promoters*

Key rating drivers and their description

Credit strengths

R&D capabilities, marketing and financial support received from promoters: Therapiva is a 61:39 JV of Omnicare Drugs Private Limited (100% subsidiary of Neopharma Holding) and Laxai Life Sciences Private Limited (promoted by Mr. Vamsidhar Maddipatla). The company receives R&D support from Laxai, while it receives marketing and financial support from Dr. B. R. Shetty Group entities (Neopharma LLC, Dubai providing marketing support and financial support derived from Neopharma Holding). The company has received equity infusion of Rs. 30.5 crore and unsecured loans of Rs. 156.3 crore as on March 31, 2019 from Neopharma Holding. The company's management team has several decades of experience in the pharmaceutical business across global markets.

Healthy customer profile: The company caters to reputed companies such as DRL and Mylan Pharmaceuticals Private Limited, to name a few. DRL contributed to Rs. 55.6 crore and Rs. 57.9 crore of revenues in FY2019 and H1 FY2020, respectively.

Healthy revenue visibility arising from the API pipeline and committed orders from DRL for FY2020/H1 FY2021: The company has a two-year supply contract (ending October 2020) with DRL and has a confirmed order book of ~Rs. 145.0 crore in FY2020. It also has a healthy pipeline of APIs in various stages of development in Laxai, for which the manufacturing would be carried out by Therapiva. These are expected to be commercialised over the next two-three years. Committed orders from DRL and healthy API pipeline are expected to support the company's revenues over the medium term.

Credit challenges

Limited operational track record; modest scale of operations: The company commenced operations in April 2018 and hence, FY2020 is its first full year of operations. With nearly four-five months of operations in FY2019, the company clocked Rs. 77.0 crore of revenues in FY2019, while it reported revenues of Rs. 76.1 crore in H1 FY2020, limiting the operational and scale-related flexibilities. Healthy anticipated revenue growth backed by the API pipeline and committed orders are likely to improve the operational flexibility over the medium term.

Financial profile characterised by operating losses, weak capitalisation and coverage indicators and stretched liquidity: Owing to Therapiva's modest scale of operations and higher fixed costs, the company incurred operating losses with operating margin (OPM) of -15.3% and -20.4% in FY2019 and H1 FY2020, respectively. Also, with high debt levels and relatively low net worth, the company' capital structure and coverage indicators were stretched with adjusted gearing and adjusted total debt/OPBDITDA of 5.1 times and -8.4 times, respectively as on September 30, 2019. With breakeven revenues of Rs. 520 crore, the company is expected to report net losses in FY2020 and FY2021 also.

Sizeable debt-funded capex in the anvil: The company has sizeable capex plans of Rs. 250.0 crore to be incurred during FY2020 and FY2021 towards upgrade and expansion of one of its manufacturing facilities. ICRA understands that the capex is expected to be funded through debt of Rs. 175.0 crore (untied), while the remaining would be funded through a mix of equity and promoter loans. With anticipated accruals and debt-funded capex, the capitalisation and coverage indicators are expected to remain stretched further going forward.

Exposure to regulatory risks: Akin to other players, Therapiva is also exposed to uncertainties in approval pathway for molecules under development and consequent volatility in launch timelines. It also remains vulnerable to revenue risks arising from issues in facility approvals.

Liquidity position: Stretched

Therapiva's liquidity is **stretched** with operating losses, resulting in negative cash flow from operations in FY2019 and H1 FY2020. The company's average working capital utilisation was ~60% of the sanctioned limits during November 2018–October 2019, while it was over 95% for September 2019–October 2019. The company had cash and liquid investments of Rs. 41.8 crore as on September 30, 2019. Therapiva has capex plans of ~Rs. 250 crore during FY2020–FY2021, primarily towards the expansion and upgrade of one of its manufacturing facilities. The capex is likely to be funded through a mix of debt of Rs. 175 crore (untied) and equity/promoter loans. For the term loans on its books as September 30, 2019, the company has repayment obligations of Rs. 4.1 crore, Rs. 11.2 crore and Rs. 13.9 crore in FY2020, FY2021 and FY2022, respectively. The fund infusion by promoters in the form of unsecured loans have supported the liquidity during the last 12 months, and ICRA expects further infusion of funds by the promoters to ensure timely payment of debt-related obligations and other payables.

Rating sensitivities

Positive triggers: Scaling up operations and profitability significantly would result in an upgrade.

Negative triggers: Inability to scale up revenues, weaker than expected performance amidst the Covid-19 pandemic or higher-than-expected capex leading to deterioration in debt metrics or liquidity position could lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA's Rating methodology for Pharmaceutical industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Therapiva Private Limited is a 61:39 JV between Omnicare Drugs Private Limited (a 100% subsidiary of Neo Pharma LLC) and Laxai Life Sciences Private Limited (promoted by Mr. Vamsidhar Maddipatla). It manufactures API, intermediates and specialty chemicals for regulated and unregulated markets. It was incorporated in December 2017 and commenced operations in April 2018 through the acquisition of a manufacturing facility at Pashamylaram (old factory), Hyderabad from Ogene Systems India Limited (which was a sick unit). Therapiva bought the second manufacturing unit at Jeedimetla, Hyderabad from DRL in November 2018. While the first manufacturing facility complies with all regulatory guidelines and requirements of current Good Manufacturing Practices (cGMP), the second manufacturing has approvals from USFDA, EDQM, COFEPRIS, KFDA, MHRA and PMDA.

Key financial indicators (Audited)

Standalone	FY2018	FY2019
Operating Income (Rs. crore)	-	77.0
PAT (Rs. crore)	-	-16.6
OPBDIT/OI (%)	-	-15.3%
RoCE (%)	-	-12.8%
Adjusted Total Debt/TNW (times)*	-	2.4
Adjusted Total Debt/OPBDIT (times)*	-	-15.6
Interest Coverage (times)	-	-1.4
DSCR (times)	-	-1.4

*Source: Company; PAT: Profit after tax, OPBDIT: Operating profit before depreciation, interest and taxes, RoCE: Return on capital employed, TNW: Tangible net worth; *adjusted for part equity credit for unsecured loans from promoters*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on September 30, 2019	Date & Rating 02-Apr-20	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Term Loans	Long Term	103.80	96.50	[ICRA]B- (Stable)			
2	Cash Credit	Long Term	39.00	38.90	[ICRA]B- (Stable)			
3	Unallocated	Long Term	75.20	-	[ICRA]B- (Stable)			

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2019	9.75%	FY2027	103.80	[ICRA]B- (Stable)
NA	Cash Credit	FY2019	9.75%	NA	39.00	[ICRA]B- (Stable)
NA	Unallocated	NA	NA	NA	75.20	[ICRA]B- (Stable)

Source: Company

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Pavethra Ponniah
+91 44 45964314
pavethrap@icraindia.com

Vinutaa S
+91 44 4596 4305
Vinutaa.s@icraindia.com

William Charles
+91 44 4297 4305
william.charles@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
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