

October 04, 2022

Torrent Pharmaceuticals Limited: Update on Material Event

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Non-convertible Debenture (NCD) Programme	571.42	571.42	[ICRA]AA+ (Stable)
Commercial Paper Programme	200.00	200.00	[ICRA]A1+
Fund-based Term Loan	925.01	925.01	[ICRA]AA+ (Stable)
Fund-based Working Capital Facilities	1,795.00	1,795.00	[ICRA]AA+ (Stable)
Long-term – Unallocated	674.99	674.99	[ICRA]AA+ (Stable)
Total	4,166.42	4,166.42	

*Instrument details are provided in Annexure-I

Rationale

On September 27, 2022, Torrent Pharmaceuticals Limited (TPL) announced that it has entered into definitive agreements to acquire a 100% stake in Curatio Healthcare (I) Private Limited (Curatio) for Rs. 2,000 crore. The acquisition is proposed to be funded through a mix of debt (~ Rs. 1,700 crore) and internal accruals and is expected to be concluded within one month, subject to conditions precedent.

Curatio has a strong presence in the cosmetic and paediatric dermatology segment with a portfolio of over 50 brands being marketed in India, with the top five brands contributing to 60% of the total revenue in FY2022. This acquisition will enable TPL to strengthen its presence in the dermatology segment aided by Curatio's healthy market position, especially in the paediatric dermatology segment. The company's portfolio comprises a healthy mix of brands in the prescription segment with OTC potential in medium to long term. This acquisition is part of TPL's capital allocation strategy to further strengthen its position in the relatively stable domestic formulations market, which presently accounts for ~50% of its consolidated turnover.

Against ICRA's earlier expectation, TPL's deleveraging plans are now likely to get deferred by around a year, given the reliance on debt to fund this acquisition. While the potential synergies emanating from this acquisition remain to be seen, ICRA draws comfort from the company's established track record of successfully integrating major acquisitions (i.e. Elder and Unichem) in the past. Nonetheless, the performance of TPL's base business amid a challenging global macro-economic environment, and any further sizeable debt-funded inorganic investments that will materially impact its credit profile on sustainable basis, shall remain the key rating sensitivities. ICRA understands that Curatio's existing operating margins are considerably below TPL's domestic business margins and TPL's efforts to improve the same by exploring cost and revenue synergies will be critical, going ahead.

Please refer to the following link for the detailed rationale that captures the key rating drivers and their description, liquidity position and rating sensitivities: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TPL. As on March 31, 2022, the company had 11 subsidiaries and 3 step-down subsidiaries, which are listed in Annexure-II.

About the company

TPL is the eighth-largest player in the domestic pharmaceutical market with a presence in therapeutic segments like CVS, GI, CNS and VMN. The company has an arrangement with Novo Nordisk for manufacturing and supplying insulin for the Indian market. The export business of TPL is carried out by both its foreign subsidiaries as well as directly by TPL. TPL markets both branded generics and generic generics and participates in the institutional segment of the export markets. Among its key branded generics markets are India (53.0% share of Q1 FY2023 revenues) and Brazil (7.8%), while its generic generics business spans USA (12.7%) and Germany (9.1%). It also caters to other countries that comprised 10.7% of its Q1 FY2023 revenues and others contributing to 6.7%.

TPL has seven manufacturing facilities in India. TPL's manufacturing facilities are approved by various regulatory authorities, including the USFDA, UK MHRA¹, MCC² (South Africa), TGA³ (Australia), Health Canada and ANVISA⁴ (Brazil).

Key financial indicators (audited)

TPL Consolidated	FY2021	FY2022
Operating income	8004.8	8508.0
PAT	1251.9	777.2
OPBDIT/OI	31.1%	28.6%
PAT/OI	15.6%	9.1%
Total outside liabilities/Tangible net worth (times)	1.5	1.2
Total debt/OPBDIT (times)	2.0	1.7
Interest coverage (times)	6.9	9.5

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

¹ Medicines and Healthcare Products Regulatory Agency of the United Kingdom

² Medicines Control Council

³ Therapeutic Goods Administration

⁴ The National Health Surveillance Agency or ANVISA (Agência Nacional de Vigilância Sanitária)

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as on June 30, 2022 (Rs. crore)	Current rating (FY2023)		Chronology of rating history for the past 3 years				
				Date & rating		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020		
				Oct 4, 2022	Aug 25, 2022	Aug 30, 2021	Aug 31, 2020	Oct 18, 2019	Jul 26, 2019	May 10, 2019
1 NCD	Long-term	571.42	571.42	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA@	[ICRA]AA (Stable)
2 NCD	Long-term	150.00	-	-	[ICRA]AA+ (Stable); withdrawn	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA@	[ICRA]AA (Stable)
3 Commercial Paper	Short term	200.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+
4 Term Loan	Long-term	925.01	925.01	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA@	[ICRA]AA (Stable)
5 Working capital	Long-term	1795.0	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA@	[ICRA]AA (Stable)
6 Unallocated	Long-term	674.99	674.99	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	-	-	-	-

@= On rating watch with negative implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture (NCD) programme	Very Simple
Commercial paper	Very Simple
Fund-based term loan	Simple
Fund-based working capital facilities	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
INE685A07082	NCD	Dec. 14, 2017	7.35%*	Dec. 13, 2019 Dec. 14, 2020 Dec. 14, 2021 Dec. 14, 2022 Dec. 14, 2023 Dec. 13, 2024 Dec. 12, 2025	571.42	[ICRA]AA+ (Stable)
Not issued	Commercial paper	Not issued	Not issued	Not issued	200.00	[ICRA]A1+
NA	Term Loan 1	Dec. 2017	NA	Dec. 12, 2025	500.03	[ICRA]AA+ (Stable)
NA	Term loan 2	Dec. 2017	NA	Sep. 14, 2025	299.98	[ICRA]AA+ (Stable)
NA	Term Loan 3	May 2019	NA	May 17, 2024	125.00	[ICRA]AA+ (Stable)
NA	Working capital facility	NA	NA	NA	1,795.00	[ICRA]AA+ (Stable)
NA	Unallocated	NA	NA	NA	674.99	[ICRA]AA+ (Stable)

Source: Company; *Linked to 6-month Indian Treasury bill rate

Annexure II: List of entities considered for consolidated analysis

Company Name	TPL Ownership	Consolidation Approach
Subsidiaries		
Zao Torrent Pharma	100.00%	Full Consolidation
Torrent Pharma GmbH (TPG)	100.00%	Full Consolidation
Torrent Do Brasil Ltda.	100.00%	Full Consolidation
Torrent Pharma Inc.	100.00%	Full Consolidation
Torrent Pharma Philippines Inc.	100.00%	Full Consolidation
Torrent Australasia Pty Limited	100.00%	Full Consolidation
TPL (Malta) Limited	100.00%	Full Consolidation
Laboratorios Torrent S.A. de C.V.	100.00%	Full Consolidation
Torrent Pharma (Thailand) Co. Limited	100.00%	Full Consolidation
Torrent Pharma (UK) Limited	100.00%	Full Consolidation
Laboratories Torrent (Malaysia) SDN.BHD	100.00%	Full Consolidation
Step-down Subsidiaries		
Heumann Pharma GmbH & Co. Generica KG	100.00%	Full Consolidation
Heunet Pharma GmbH	100.00%	Full Consolidation
Torrent Pharma (Malta) Limited	100.00%	Full Consolidation

Source: TPL annual report FY2022, As on March 31, 2022

Note: ICRA has taken a consolidated view of TPL, its subsidiaries and associates while assigning the ratings.

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