August 24, 2023

Torrent Pharmaceuticals Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture (NCD) programme	571.42	428.57	[ICRA]AA+ (Stable); reaffirmed
Commercial paper programme	200.00	200.00	[ICRA]A1+; reaffirmed
Fund-based term loan	925.01	633.93	[ICRA]AA+ (Stable); reaffirmed
Fund-based working capital facilities	1,795.0	2,745.0	[ICRA]AA+ (Stable); reaffirmed
Long-term – unallocated	674.99	16.07	[ICRA]AA+ (Stable); reaffirmed
Total	**4,166.42**	**4,023.57**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings of Torrent Pharmaceuticals Limited (TPL) factors in its strong position in the domestic formulations market with strong presence in chronic therapeutic segments, coupled with diversified international operations with a focus on regulated/semi-regulated generics markets. TPL is the sixth largest[1] (against eighth in FY2022) domestic player in the Indian pharmaceutical market (IPM), with presence among the top five players in key therapeutic areas of cardiovascular (CVS), central nervous system (CNS), vitamins, minerals and nutrients (VMN), and gastrointestinal (GI). The company derived ~70% of its FY2023 revenues from branded generics business, which has shown consistent growth over the last few quarters and is expected to sustain the growth momentum going forward as well.

In the regulated markets, TPL has started to register growth in its Germany business owing to incremental tender wins. Considering the tenders are for a period of two years, this gives TPL a good revenue visibility from the Germany business over the near to medium term. TPL's US business continues to be impacted by price erosion and muted product launches on account of regulatory observations from the USFDA[2] for its Dahej and Indrad (Gujarat) facilities. The facilities account for most of TPL's US business and abbreviated new drug application (ANDA) filings pending approvals. ICRA takes note of the recent issuance of establishment inspection report (EIR) by the USFDA to TPL's Dahej facility. However, resolution of regulatory observations at the Indrad facility are pending. While the US business shall continue to remain impacted to some extent till the resolution of the same, its impact on TPL's overall performance shall remain moderate owing to a relatively low revenue contribution from the US business (12% in FY2023). The lower operating performance in the US business is, however, offset by the robust performance in other geographies.

The ratings also factor in TPL's strong financial profile supported by its healthy operating margins on the back of a significant contribution from the domestic business. This has translated into steady healthy cash flow generation for the company. Despite some moderation due to the increase in debt because of acquisition of Curatio Healthcare (India) Private Limited (Curatio), the financial profile of TPL continues to remain healthy, as marked by strong credit metrics and liquidity position. ICRA also notes the successful integration of the Curatio business with TPL's dermatology portfolio. Curatio's business has shown a healthy double-digit growth and improvement in margins since the acquisition and the momentum is expected to

[1] *As per AIOCD Pharmasofttech AWACS Pvt. Ltd. (AIOCD) and company data*

[2] *United States Food and Drug Administration*

sustain over the near term. The acquisition has improved TPL's ranking[3] in the dermatology therapy to seventh from twenty-first. The coverage and leverage metrics are expected to strengthen further supported by strong accrual generation and scheduled debt repayments, with net debt/ OPBDITA of below 1.0 time over the near to medium term.

Akin to its peers in the pharmaceutical industry, TPL's operations continue to be exposed to regulatory risks including scrutiny by regulatory agencies, price controls in the domestic market and addition of more products in the national list of essential medicines (NLEM) drugs. Given that a sizeable part of TPL's revenue is generated from international markets, it also remains exposed to foreign currency fluctuations, largely mitigated by its comprehensive hedging policy.

The Stable outlook in the long-term rating reflects ICRA's opinion that TPL will continue to benefit from its established business position in the domestic market and higher contribution from branded generics markets, which shall continue to support its healthy internal accrual generation and overall credit profile.

Key rating drivers and their description

Credit strengths

Established position in the domestic formulations market with strong presence in chronic therapeutic segments – TPL's domestic business contributed 55% to its Q1 FY2024 revenues (52% in FY2023). It has an established position in the domestic formulations market and was ranked sixth in the IPM in FY2023 against eighth in FY2022. Its market position is supported by a leading position[4] in therapies like cardiac (second), CNS (third), VMN (fourth) and GI (fourth). Its position in dermatology has also improved form twenty-first to seventh, following the acquisition of Curatio. TPL continues to outperform the growth in IPM and is expected to sustain its growth momentum over the near to medium term, supported by patent expiry linked launches, brand extension, improving productivity of its sales force and integration of the Curatio business.

Diversified international operations with focus on regulated/semi-regulated generics market through consistent R&D spend – TPL has a well-diversified global presence with the domestic market contributing 52% to its consolidated revenues in FY2023, and international business operations in key markets of USA (12%), Brazil (10%), Germany (10%), other countries (11.0%) and others (5%). The branded generics markets have performed well with a healthy growth momentum over the last few quarters and TPL is expected to sustain the growth momentum going forward as well. Its growth strategy in these markets is focused on maintaining a healthy launch momentum, gaining market share through speciality focus, and by enhancing its sales force productivity and reach. Generic-generics are primarily supplied to the US and Germany. The Germany business is expected to have a positive growth momentum on account of new launches and incremental tender wins by TPL, which provide revenue visibility for two years. TPL recorded R&D spend of 5.5% in FY2023. Going forward, R&D is expected to be focused on branded generics markets (India and Brazil), oncology (on a global basis) and a few US specific products. Accordingly, TPL has shifted focus from US intensive R&D to a more global and branded generics orientation, which will support its growth in branded generics.

Healthy operating profitability led by profitable domestic business and select international businesses; operating leverage and cost control further boost profitability – TPL registered operating and net margins of 29.5% and 12.9%, respectively, in FY2023 against 28.6% and 9.1%, respectively, in FY2022. Operating and net margins for Q1 FY2024 were 30.5% and 14.6%, respectively. TPL has been able to register an improvement in its operating margins on account of lower raw material prices, higher contribution from branded generics, better product mix and successful implementation of cost efficiency measures. Going forward, margins are expected to continue to be supported by a growing branded generics segment, new product launches, further integration of the Curatio portfolio and improvement in sales force productivity.

Healthy financial profile characterised by strong credit metrics and liquidity position – Despite some moderation in its credit metrics due to increase in debt because of acquisition of Curatio in FY2023, TPL continues to maintain a heathy financial profile

[3] *As per AIOCD and company data*

[4] *As per AIOCD and company data*

supported by steady revenue growth and healthy profitability. As on March 31, 2023, it had a gearing of 0.9 time (0.7 time as on March 31, 2022) and net debt/OPBDITA of 1.6 times (1.4 times as on March 31, 2022). The coverage and leverage indicators are expected to strengthen further supported by strong accrual generation and scheduled debt repayments. Moreover, TPL's liquidity position remains strong supported by strong internal accruals, undrawn working capital limits and cash, cash equivalents and liquid investments of Rs. 751.1 crore as on March 31, 2023.

Credit challenges

Performance in the US market remains weak due to pricing pressures and delay in new product launches – The performance of TPL's US business continues to be impacted by continued price erosion and muted new product launches on account of regulatory observations from the USFDA for its Dahej and Indrad facilities that form a significant part of TPL's US business and ANDA filings pending approvals. USFDA has issued an EIR to TPL's Dahej facility which shall support pending ANDA approvals and new product launches to some extent. TPL is awaiting communication from the USFDA regarding inspection dates for the Indrad facility. However, the impact of the challenges in the US business continues to remain moderate on account of its relatively low revenue contribution (12.1% in FY2023) on a consolidated basis.

Exposure to regulatory risks – Like its peers in the pharmaceutical industries, TPL's operations remain exposed to regulatory risks including scrutiny by regulatory agencies like USFDA, pricing controls in the domestic market and the possibility of inclusion of more products in the list of NLEM drugs. It has pending regulatory observations from the USFDA for its Indrad facility while the Dahej facility was issued an EIR by the USFDA in August 2023 and the inspection has now been successfully closed by the USFDA. TPL is also exposed to product safety related litigations and any developments in this regard shall be evaluated on a case-to-case basis.

Vulnerability of profitability to forex fluctuations – Considering ~40-45% of TPL's consolidated revenue is driven by international markets; it remains exposed to forex risks. However, the risk is largely mitigated by its comprehensive hedging policy.

Environmental and Social Risks

Environmental concerns – TPL does not face any major physical climate risk. To minimise the impact of environmental risks on its operations TPL has identified three key areas to enhance its positive impact on the environment, namely, carbon emissions and energy management, water stewardship and waste management.

Social concerns – TPL, in line with the industry, faces social risks related to product safety and the associated litigation risks, access to qualified personnel for R&D and process engineering, and maintenance of high manufacturing compliance standards. Further, government intervention related to price caps/control also remains a social risk faced by entities in the pharmaceutical industry.

To address the associated ESG risks, TPL has adopted a sustainable growth framework with four core pillars of Responsible Consumption, Responsible Practices, Responsible Communication and Responsible Supply Chain. It has also instituted suitable governance processes to monitor progression and mitigation of ESG risks on a regular basis.

Liquidity position: Strong

TPL's liquidity position is **strong**, supported by healthy internal accrual generation and unencumbered cash and liquid investments of ~Rs. 751.1 crore as on March 31, 2023, on a consolidated basis. The liquidity profile is further supported by sizeable undrawn working capital limits of ~Rs. 785 crore as on March 31, 2023. The company has modest capex plans of ~Rs. 250-300 crore per year between FY2024 and FY2025, in the absence of any capacity expansion requirements, which are primarily to be funded by internal accruals. TPL's strong operating cash flows and surplus liquidity are expected to remain comfortable for servicing its debt repayments over the near to medium term.

Rating sensitivities

Positive factors – TPL's rating might be upgraded if there is significant growth across all key geographies leading to significant increase in scale, higher market share and strengthening of its business profile, while maintaining strong credit metrics and liquidity position on a sustained basis.

Negative factors – TPL's rating may be downgraded if there is any significant weakening in the company's earnings profile on a sustained basis and/or increase in debt levels due to any capex/inorganic investments, leading to an increase in net debt/OPBDITA above 1.0x on a sustained basis. Any further regulatory non-compliances issued to TPL for its products and/or manufacturing facilities, thereby impacting its product launches and, thus, revenues and profitability, would also be a negative trigger. Adverse outcomes of ongoing litigations would also remain an event risk, and the impact of the same on the company's business and credit profile would be monitored on a case-by-case basis.

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, 2023, the company had 13 subsidiaries and three step-down subsidiaries, which are listed in Annexure-II.

About the company

TPL is the sixth 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. Its exports business is carried out by its foreign subsidiaries as well as by TPL directly. TPL markets both branded generics and generic-generics and participates in the institutional segment of export markets. Among its key branded generics markets are India (52% share of FY2023 revenues) and Brazil (10%), while its generic-generics business spans the US (12%) and Germany (10%). It also caters to other countries that comprised 11% of its FY2023 revenues and other business segments that brought in 6%.

TPL has seven manufacturing facilities in India. Its manufacturing facilities are approved by various regulatory authorities, including the USFDA, UK MHRA, MCC (South Africa), TGA (Australia), Health Canada and ANVISA (Brazil).

Key financial indicators (audited)

TPL - Consolidated	FY2022	FY2023
Operating income	8,508.0	9,620.2
PAT	777.2	1,245.2
OPBDIT/OI	28.6%	29.5%
PAT/OI	9.1%	12.9%
Total outside liabilities/Tangible net worth (times)	1.2	1.4
Total debt/OPBDIT (times)	1.7	1.9
Interest coverage (times)	9.5	8.5

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

Rating history for past three years

Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on June 30, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
				Aug 24, 2023	October 04, 2022	Aug 25, 2022	Aug 30, 2021	Aug 31, 2020
NCD	Long-term	428.57	428.57	**[ICRA]AA+ (Stable)**	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)
NCD	Long-term	-	-	-	-	[ICRA]AA+ (Stable); withdrawn	[ICRA]AA (Positive)	[ICRA]AA (Stable)
Commercial Paper	Short term	200.00	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
Term Loan	Long-term	633.93	633.93	**[ICRA]AA+ (Stable)**	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)
Working capital	Long-term	2,745.00	-	**[ICRA]AA+ (Stable)**	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)
Unallocated	Long-term	16.07	-	**[ICRA]AA+ (Stable)**	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	-

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	8.63%*	Dec. 13, 2019 Dec. 14, 2020 Dec. 14, 2021 Dec. 14, 2022 Dec. 14, 2023 Dec. 13, 2024 Dec. 12, 2025	428.57	[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	357.15	[ICRA]AA+ (Stable)
NA	Term loan 2	Dec. 2017	NA	Sep. 14, 2025	214.28	[ICRA]AA+ (Stable)
NA	Term Loan 3	May 2019	NA	May 17, 2024	62.50	[ICRA]AA+ (Stable)
NA	Working capital facility	NA	NA	NA	2,745.00	[ICRA]AA+ (Stable)
NA	Unallocated	NA	NA	NA	16.07	[ICRA]AA+ (Stable)

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

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

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	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 Ltd.	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
Curatio Inc, Philippines	100.00%	Full Consolidation
Curatio International Lanka (PVT) Ltd.	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 FY2023 Note: ICRA has taken a consolidated view of the parent (TPL), its subsidiaries and associates while assigning the ratings.

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About ICRA Limited:

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