August 23, 2024

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	428.57	285.71	[ICRA]AA+ (Stable); reaffirmed
Commercial paper programme	200.00	200.00	[ICRA]A1+; reaffirmed
Fund-based term loan	633.93	342.86	[ICRA]AA+ (Stable); reaffirmed
Fund-based working capital facilities	2,745.0	2,745.00	[ICRA]AA+ (Stable); reaffirmed
Long-term – unallocated limits	16.07	307.14	[ICRA]AA+ (Stable); reaffirmed
Total	**4,023.57**	**3,880.71**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for Torrent Pharmaceuticals Limited (TPL) factors in its strong financial profile characterised by healthy profitability indicators, robust credit metrics and strong liquidity, which are expected to be sustained over the near to medium term. TPL's revenues registered a year-on-year growth of 11.5% to Rs. 10,728 crore in FY2024 supported by a double-digit growth across key branded markets and Germany. In Q1 FY2025, its revenues grew by 10.3% to Rs. 2,859 crore, supported by healthy growth in India, Germany and rest of the world (RoW). Furthermore, TPL's operating profit margins (OPM) improved to 31.6% in Q1 FY2025 (adjusted for one-off expenses, the same is 32.3%) and 31.4% in FY2024 from 29.5% in FY2023 on account of increased operating leverage and higher contribution from branded generics markets. Coupled with reduction in its debt following scheduled repayments of long-term debt, this has resulted in an improvement in its debt protection metrics with a net debt/OPBDITA of 0.9 times as on March 31, 2024, interest coverage of 9.5 times in FY2024 and gearing of 0.6 times as on March 31, 2024.

TPL is the fifth largest[1] (sixth in FY2023) player in the Indian pharmaceutical market (IPM), with a strong presence in chronic and sub-chronic therapies that drove around 75% of its FY2024 revenues. It is among the top five players in key therapeutic areas of cardiovascular (CVS), central nervous system (CNS), vitamins, minerals and nutrients (VMN), and gastrointestinal (GI). In Brazil, TPL has witnessed a continued double-digit growth in its business over the last few years. While performance moderated in Q1 FY2025 on account of a flood in a major province and depreciation of the currency, business is expected to recover from Q2 FY2025. Among the generic markets, TPL continues to perform well in Germany since the company's recovery in FY2024 and has been able to win incremental tenders, which shall help sustain its performance 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. ICRA takes note of the recent issuance of establishment inspection report (EIR) by the USFDA to TPL's Dahej, Gujarat facility in FY2024. However, resolution of regulatory observations at the Indrad, Gujarat facility is pending. However, TPL has been able to manage its portfolio to achieve a breakeven (before R&D expenses) in the US business. Further, with the expected improvement in launches supported by the EIR issued to its Dahej facility and launch of oncology molecules, the performance of its US generics business is expected to gradually improve over the medium term. While the US business shall continue to remain impacted to some extent till the resolution of regulatory issues at the facility located at

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

Indrad, its impact on TPL's overall performance shall remain moderate owing to a relatively low revenue contribution from the US business (10% in FY2024). The lower operating performance in the US business is, however, offset by the robust performance in other geographies.

The operations, however, remained exposed to regulatory risks including scrutiny by regulatory agencies (like the USFDA) and other litigations, including product liability and other commercial matters, especially in US and any developments in this regard shall be evaluated on a case-to-case basis. Akin to its peers in the pharmaceutical industry, TPL's operations continue to be exposed to the risk of price controls in the domestic markets, including addition of more products in the national list of essential medicines (NLEM). Further, inorganic growth fueled by acquisitions, if any, and the impact of such events, shall be analysed on a case-to-case basis.

The Stable outlook on the long-term rating reflects ICRA's opinion that TPL shall 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

One of the leading players in the domestic formulations market with strong presence in chronic and sub-chronic therapeutic segments – Supported by a strong presence in the chronic and sub-chronic therapies (contributed ~75% to domestic revenues and showed healthy growth), TPL has maintained a strong growth in its domestic portfolio. On FY2024 and Q1 FY2025, the portfolio grew by 14% and 15% YoY, respectively. This has resulted in an overall improvement in TPL's position within the domestic market with the company being ranked fifth in the IPM in FY2024, improving from sixth in FY2023. Moreover, it is positioned fourth in the combined chronic and sub-chronic therapies in the domestic market. Its market position continues to be supported by a leading position[2] in therapies like cardiac (second), CNS (third), VMN (fourth) and GI (fourth). ICRA also notes the successful integration of the portfolio of Curatio Healthcare (I) Private Limited (Curatio), which was acquired by TPL in October 2022. Curatio's revenues continue to grow in strong double-digits with a 19% YoY growth in Q1 FY2025 and its margins also continue to improve gradually on account of the cost synergies developed by the acquisition. Going forward, the performance of the domestic portfolio is expected to remain strong supported by growth in the base business, strong performance of in-licensed products, growing consumer healthcare business, and a healthy pace of new product launches.

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 53% to its consolidated revenues in FY2024, and international business operations in key markets of USA (10%), Brazil (10%), Germany (10%), other countries (11.0%) and others (6%). TPL is expected to sustain its robust performance in the branded generics markets, including India and Brazil, which continue to grow in healthy double-digits. While the portfolio in Brazil witnessed some moderation in Q1 FY2025 on account of a flood in one of its major provinces and depreciation of its currency, the underlying pharmaceutical industry is expected to continue to maintain a strong growth momentum over the near to medium term. This shall also support TPL's performance in Brazil. TPL's 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. After its recovery in H2 FY2023, the Germany business has performed well and is expected to continue to grow, supported by incremental tender wins by TPL. During Q1 FY2025, TPL won new incremental tenders in Germany, which will start delivering incremental sales from Q3 and Q4 FY2025 to support its growth. TPL recorded R&D spend of ~4.7% in FY2024, which is expected to continue going forward with a focus on global R&D.

Healthy operating profitability led by profitable domestic business and select international businesses; operating leverage and cost control further boost profitability – TPL's profitability continues to improve on the back of increasing operating

[2] *As per AIOCD and company data*

leverage, higher contribution from branded generics markets and successful implementation of cost efficiency measures. In FY2024, it registered operating and net margins of 31.4% and 15.4%, respectively, against 29.5% and 12.9%, respectively, in FY2023. Operating and net margins for Q1 FY2025 were 31.6% (32.3%, adjusted for one-off expenses) and 16.0%, respectively. TPL's margins are likely to be sustained, supported by its growing branded generics business.

Healthy financial profile characterised by strong credit metrics and liquidity position – TPL continues to maintain a healthy financial profile with strong credit metrics and liquidity position. In FY2024, it registered consolidated revenues of Rs. 10,728 crore with a growth of 11.5% and an OPM of 31.4%; in Q1 FY2025, it registered revenues of Rs. 2,859 crore and OPM of 31.6% (32.3%, adjusted for one-off expenses). Coupled with gradual reduction in its overall debt levels in FY2024 (after the increase in debt in FY2023 owing to the acquisition of Curatio), this has led to strengthening of its debt protection metrics with net debt/OPBDITA of 0.9 times for FY2024 (1.6 times for FY2023) and TOL/TNW of 1.2 times (1.4 times for FY2023). Moreover, given the expectation of continued strong internal accrual generation and no material increase in debt levels, TPL's debt protection metrics are expected to improve further over the medium term.

Credit challenges

Performance of US generics pharmaceutical business remains moderated – In FY2024, the US business remained impacted by the muted new product launches and degrowth in the base business on account of price erosion. New product launches remained low over the years (two launches per year in FY2023 and FY2024) on account of regulatory observation by the USFDA on TPL's key manufacturing facilities at Dahej and Indrad, which impacted its revenues and profitability. However, with the rationalisation of its portfolio and cost optimisation initiatives, TPL achieved breakeven status (before accounting for R&D expenses) in the US business. Moreover, in August 2023, TPL's Dahej facility received EIR status from the USFDA. Coupled with the USFDA clearance of the oncology facility at Bileshwarpura, Gujarat, this will support the new product launch momentum, going forward, and is expected to support the improvement in its US business over the medium term. The Indrad facility, which was issued a warning letter by the USFDA in October 2019, was also inspected by the USFDA in June 2024 after the completion of the remediation efforts by TPL. It was issued a Form 483 with five observations after the inspection; TPL has already submitted its responses to the same and further communication from the USFDA is awaited.

Exposure to regulatory risks and litigations, including product liability matters – Akin to its peers in the pharmaceutical industry, 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 NLEM. TPL has pending regulatory observations from the USFDA for its Indrad facility. Moreover, it is also exposed to product liability matters and any developments in this regard shall be evaluated on a case-to-case basis.

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 environmental, social and governance (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 cash equivalents of ~Rs. 864.4 crore and liquid investments of ~Rs. 141.0 crore as on March 31, 2024, on a consolidated basis. The liquidity profile is further supported by sizeable undrawn working capital limits of ~Rs. 800 crore as on March 31, 2024. The company has modest capex plans of ~Rs. 200-300 crore per year during FY2025–FY2027, which are expected to be funded through internal accruals. Its 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 their impact 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 pharmaceuticals
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TPL. As on March 31, 2024, the company had 14 subsidiaries and three step-down subsidiaries, which are listed in Annexure-II.

About the company

TPL is the fifth 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 (53% share of FY2024 revenues) and Brazil (10%), while its generic-generics business spans the US (10%) and Germany (10%). It also caters to other countries that generated 11% of its FY2024 revenues and other business segments that brought in 6%.

TPL has eight manufacturing facilities in India. Its 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	FY2023	FY2024
Operating income	9,620.2	10,727.8
PAT	1,245.2	1,656.4
OPBDIT/OI	29.5%	31.4%
PAT/OI	12.9%	15.4%
Total outside liabilities/Tangible net worth (times)	1.4	1.2
Total debt/OPBDIT (times)	1.9	1.2
Interest coverage (times)	8.5	9.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2025)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022
			Aug 23, 2024	Aug 24, 2023	October 04, 2022	Aug 25, 2022	Aug 30, 2021
NCD	Long-term	285.71	**[ICRA]AA+(Stable)**	[ICRA]AA+(Stable)	[ICRA]AA+(Stable)	[ICRA]AA+(Stable)	[ICRA]AA(Positive)
NCD	Long-term	-	**-**	-	-	[ICRA]AA+(Stable); withdrawn	[ICRA]AA(Positive)
Commercial Paper	Short term	200.00	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
Term Loan	Long-term	342.86	**[ICRA]AA+(Stable)**	[ICRA]AA+(Stable)	[ICRA]AA+(Stable)	[ICRA]AA+ (Stable)	[ICRA]AA(Positive)
Working capital	Long-term	2,745.00	**[ICRA]AA+(Stable)**	[ICRA]AA+(Stable)	[ICRA]AA+(Stable)	[ICRA]AA+ (Stable)	[ICRA]AA(Positive)
Unallocated	Long-term	307.14	**[ICRA]AA+(Stable)**	[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 limits	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	8.71%*	Dec. 13, 2019 Dec. 14, 2020 Dec. 14, 2021 Dec. 14, 2022 Dec. 14, 2023 Dec. 13, 2024 Dec. 12, 2025	285.71	[ICRA]AA+ (Stable)
NA	Commercial paper	Yet to be placed	NA	NA	200.00	[ICRA]A1+
NA	Term Loan 1	Dec. 2017	NA	Dec. 12, 2025	214.28	[ICRA]AA+ (Stable)
NA	Term loan 2	Dec. 2017	NA	Sep. 14, 2025	128.58	[ICRA]AA+ (Stable)
NA	Working capital facility	NA	NA	NA	2,745.00	[ICRA]AA+ (Stable)
NA	Unallocated	NA	NA	NA	307.14	[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's Ownership	Consolidation Approach
SUBSIDIARIES		
Zao Torrent Pharma	100.00%	Full Consolidation
Torrent Do Brasil Ltda.	100.00%	Full Consolidation
Torrent Pharma Gmbh (TPG)	100.00%	Full Consolidation
Torrent Pharma Inc.	100.00%	Full Consolidation
Torrent Pharma Philippines Inc.	100.00%	Full Consolidation
Laboratorios Torrent S.A. de C.V.	100.00%	Full Consolidation
Torrent Australasia Pty Ltd.	100.00%	Full Consolidation
Torrent Pharma (Thailand) Co. Limited	100.00%	Full Consolidation
TPL (Malta) 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
Torrent International Lanka (PVT) Ltd.	100.00%	Full Consolidation
Farmacéutica Torrent Colombia SAS	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: FY2024 Annual report

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