August 31, 2020

Torrent Pharmaceuticals Limited: Ratings reaffirmed and removed from Watch with Negative Implications; Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture (NCD) programme	3,100.00	3,100.00	[ICRA]AA; reaffirmed, removed from ratings watch with negative implications; Stable outlook assigned
Commercial paper	200.00	200.00	[ICRA] A1+; reaffirmed, removed from ratings watch with negative implications
Commercial paper	360.00	-	[ICRA] A1+; removed from ratings watch with negative implications; reaffirmed and withdrawn
Fund-based term loan	1797.67	1600.0	[ICRA]AA; reaffirmed, removed from ratings watch with negative implications; Stable outlook assigned
Fund-based working capital facilities	1,795.00	1,795.00	[ICRA]AA; reaffirmed, removed from ratings watch with negative implications; Stable outlook assigned
Total	**7,252.67**	**6695.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has withdrawn the ratings assigned to Torrent Pharmaceuticals Limited's (TPL's) Rs. 360.0 crore commercial paper programme as no amount is outstanding against these rated instruments. The ratings were withdrawn at the request of the company and as per ICRA's policy on the withdrawal and suspension of credit ratings.

ICRA had placed the ratings on watch with negative implications following the United States Food and Drug Association (USFDA) classification for Dahej (Gujarat) and Indrad (Gujarat) under Official Action Indicated (OAI) and warning letter respectively in July 2019 and October 2019 coupled with one-time expenses such as product recalls and impairment expenses for intangible assets and goodwill. TPL's manufacturing facility in Levittown, USA subsequently also received a warning letter in October 2019. These facilities together account for the majority of TPL's US operations in addition to abbreviated new drug application (ANDAs) filings for future launches. These regulatory observations did not disrupt the existing supplies to the US (ANDA already approved) though will delay pipeline launches until the USFDA clearance is received. The US market contributes approximately 18.0%-19.0% of TPL revenues and, therefore, resolution of these observations remains key to the company's operations. Despite the OAI and warning letter classifications, TPL's overall profitability remained stable owing to the diversified nature of operations and cost optimisation measures undertaken by the company. In view of that, ICRA has removed the ratings from negative watch and assigned a Stable outlook.

The ratings reaffirmation takes into account TPL's established presence in the domestic market, driven by organic and inorganic opportunities and its diversified international business operations in the key markets of the US, Germany and Brazil. The ratings also take into account TPL's established position as the eighth largest domestic player with a market share of 3.2% and its presence amongst the top five players in key therapeutic areas of CV, CNS, VMN, and GI. ICRA notes TPL's limited coverage under the Drug Price Control Order (DPCO) at ~9% versus the Indian pharmaceutical market (IPM) that stands at around 16%.

The overall revenue growth of 3.5% in FY2020 was supported by growth in the key markets of India (8.8% YoY growth) and Brazil (3.8% YoY growth). Despite these regulatory observations and inherent pricing pressure in the US generic industry, TPL's US revenues only contracted by 4.2% YoY in FY2020. Owing to the essential nature of the prescription drugs coupled with high focus on chronic therapies, TPL's operations are unlikely to be impacted owing to Covid-19, though there could be some moderation in the overall growth owing to lower demand.

In FY2020, the company recorded an improvement in operating and net margins to 27.3% and 12.9% respectively, from 25.8% and 5.7% respectively in FY2019 growth. The improvement in FY2020 was driven by synergies from the Unichem Laboratories Limited (Unichem, acquired in December 2017) portfolio, cost control measures and improvement in field force productivity. The company continues to maintain its R&D spend at 6-7%, resulting in a healthy pipeline and basket of ANDA filings for the international markets. TPL high debt levels, which are primarily owing to Unichem's acquisition, were lower compared to FY2019 and are expected to further reduce in the near term owing to healthy cash accruals. The Net debt/OPBDITA stood at 2.3 times in FY2020 compared to 2.4 times in FY2019. The liquidity profile remained strong supported by healthy internal cash accruals, unencumbered cash and cash equivalents of Rs. 753.7 crore as on March 31, 2020 on a consolidated basis and undrawn working capital lines buffer.

The Stable Outlook reflects ICRA's opinion that TPL will continue to benefit from its established position in the domestic market, diversified presence in international markets, ANDA filings and healthy product pipeline for the international business, sustained profitability, and ample liquidity. Healthy accruals and focus on deleveraging will lead to improvement in the debt protection metrics from current levels in the near to medium term.

Key rating drivers and their description

Credit strengths

Established position in domestic formulations market, with strong presence in chronic therapeutic segments - The company is ranked eighth in the IPM with a market share of 3.2% in FY2020. It ranks amongst the top five players in key therapeutic areas of CV, CNS, VMN, and GI. The company's 16 brands are in the top 500 brands of the IPM with 10 brands generating more than Rs. 100 crore revenues as per AIOCD MAT data (June 2020) compared to its eight brands in FY2019, a result of TPL's continued focus on brand building. Since TPL caters primarily to the chronic and sub-chronic segment (73% of revenues in FY2020), the impact of Covid-19 was limited, compared to acute therapies that were more severely impacted. As per AIOCD data, in Q1 FY2021, while the overall IPM contracted by -6%. the chronic IPM grew by 4%. TPL recorded an 8% YoY growth in the chronic portfolio and 0% growth in the sub-chronic segment, performing better than IPM due to its established brand portfolio[1].

Diversified international operations with focus on regulated/semi-regulated generics market through consistent R&D spend and filings - TPL has diversified operations across US (18.1% of revenues), Brazil (6.8% of revenues), Germany (12.0% of revenues), and other countries (11.4% of revenues) of consolidated revenues in Q1 FY2021.

[1] *Source: Company, AIOCD*

TPL markets branded generics to India, Brazil and Rest of the World (RoW) while generics-generics are primarily supplied to US and Germany.

The company's growth strategy in the international markets is via new product launches, through market share gains by ramping up volumes and building TPL's brand presence in the branded generic markets. In line with its targeted new launches, TPL's R&D spend was recorded at 6.2% in FY2020 and it expects to maintain it at around 7% of consolidated revenues going forward. It intends to focus on complex and niche filings for the US market, primarily in the space of oral oncology, liquids, ophthalmology and ointments. As on March 31, 2020 the company had 96 ANDA approvals (including six tentative approvals) and its pipeline consists of 48 pending ANDA approvals and 34 products under development. In other key international markets, TPL targets to launch two to three products in Brazil and seven to eight products in Germany on a yearly basis.

Improvement in operating profitability led by cost control and productivity measures - TPL continues to generate healthy operating margins by virtue of its high-margin domestic business, synergies from acquired portfolio and profitable international operations at an aggregate level. The operating margins and net margins stood at 27.3% and 12.9% respectively, in FY2020 compared to 25.8% and 5.7% respectively, in FY2019 with an improvement in its operating margin led by the successful integration of the Unichem portfolio, improvement in field force productivity and other cost optimisation measures. The net margins reduced to 5.7% in FY2019 due to one-time expenses such as product recalls and impairmenet of goodwill and intangible assets

In Q1 FY2021, the operating and net margins further improved to 32.1% and 15.6% respectively compared to 26.8% and 10.7% respectively in Q1 FY2020. This improvement was driven by lower R&D expenses and operating expenses amid the pandemic-induced lockdown as field and promotion activities were low. A large part of these expenses is expected to normalise gradually as the field activities resume.

Liquidity position supported by strong cash and cash equivalents and undrawn working capital lines - The liquidity profile remained healthy supported by healthy internal cash accruals, unencumbered cash and cash equivalents of Rs. 753.7 crore as on March 31, 2020 on a consolidated basis. On a standalone basis, it recorded a cash and cash equivalent balance of Rs. 386.6 crore. The liquidity profile is further supported by TPL's undrawn working capital limits. The surplus funds in its overseas subsidiaries can be freely remitted to India, if required.

TPL availed a three-month moratorium on term loan repayment due in March 2020 as permitted by the Reserve Bank of India (RBI) as a part of the 'Covid-19 – Regulatory Package' announced on March 27, 2020. No further moratorium was availed by the company.

Credit challenges

Moderately high coverage indicators due to significant debt-funded acquisitions; expected to improve in the near term - TPL's elevated long-term debt is attributable to the debt-funded acquisitions of Unichem and Bio-pharm in December 2017 and January 2018 respectively. On a consolidated basis, the gearing reduced to 1.2 times in FY2020 from 1.3 times in FY2019. Other coverage indicators also improved with a reduction in Gross TD/OPBITDA to 2.7 times in FY2020 from 3.0 times in FY2019. The Net debt/OPBITDA also improved to 2.3 times in FY2020 from 2.4 times in FY2019. The Net debt/OPBDITA is expected to improve further, in line with healthy internal cash accruals and consequent debt repayments in FY2021.

Sustaining profitability of exports in international generic markets – The US profitability was impacted by lack of new product launches and pricing pressures during FY2020. Germany's operations in FY2020 were temporarily impacted by quality management and standard operating procedure upgradations that are likely to be resolved by

Q2 FY2021. Therefore, the company's growth strategy for the international generic market is developing a healthy pipeline of new product launches and increasing market share in the existing molecules by ramping up the volumes.

Managing legal and regulatory changes in various markets - TPL is exposed to legal and regulatory risk such as pricing controls, compulsory genericization for domestic markets, manufacturing facility approvals, local manufacturing requirement by various Government authorities. The company currently has three manufacturing facilities under some form of regulatory action (warning letter or OAI) and owing to diversified nature of operations, the impact has been moderate. Successful resolution of such issues remains a key monitorable. Any adverse legal or regulatory changes impacting TPL or industry will be evaluated on a case to case basis.

Liquidity position: Strong

TPL's liquidity position is strong, marked by consolidated unencumbered cash and liquid investments of Rs. 753.7 crore as on March 31, 2020 and Rs. 386.6 crore on a standalone basis. The company has maintained its track record of generating strong operating cash flows, driven by its healthy business profile. The liquidity profile is further supported by TPL's undrawn working capital limits. The company has ongoing maintenance capex requirements to the tune of ~Rs. 200-250 crore per annum going forward. However, any large debt-funded capacity expansion in the near term will impact its cash flows adversely.

Rating sensitivities

Positive triggers – A rating upgrade for TPL is unlikely in the near term. The ratings could be positively impacted by a sustained improvement in TPL's revenue profile across key geographies, working capital intensity and its ability to maintain operating margins at current levels. Specific credit matrices that could lead to an upgrade are TD/OPBITA of less than 1.0x on a sustained basis and DSCR of more than 2.5 times on a sustained basis.

Negative triggers – Negative pressure on the ratings could emerge if there is weakening in the company's revenues and profitability, leading to an adverse impact on its credit profile. A specific credit metric that could lead to a downgrade is a net debt/OPBITDA of more than 1.5 times on a sustained basis. Large debt-funded inorganic investments by the company would remain an event risk and the impact of such investments on its 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, 2020, the company had 12 subsidiaries and three step-down subsidiaries which are listed in Annexure-2.

About the company

Torrent Pharma (TPL) is the eighth largest player in the domestic market with an approximate market share of 3.2% and is among the top five players in therapeutic segments of CVS, GI, CNS and VMN. As on June 30, 2020, the company had 16 brands in top 500 IPM category. TPL is also an exclusive contract manufacturer of insulin crystals for Novo Norsdisk in India. TPL's product portfolio comprises branded generic and generic-generic products catering to key markets of India, Brazil, USA and Germany. TPL's export business of TPL is managed by it foreign subsidiaries as well as directly by the parent company. The company's facilities are audited and approved by various regulatory authorities like the USFDA, WHO – GMP, ANVISA (Brazil), Health (Canada), Australia, EU-GMP (Europe), EDQM (CEP, Europe) Mexico and MHRA (UK).

In FY2006, TPL acquired Heumann Pharma GmbH & Co. Generica KG (Heumann), a Pfizer Group company, which markets generic medicines in Germany. In June 2014, TPL acquired Elder Pharma's branded domestic formulation business in India and Nepal for a consideration of Rs. 2004 crore. Elder's acquired business comprises a portfolio of 30 brands including leading brands for women's healthcare (WHC), pain management, wound care and the nutraceuticals therapeutic segment. With the acquisition of ZYG Pharma's USFDA-approved facility in May 2015 the company embarked into the niche dermatological segment, especially in the developed markets of North America and Europe, as well as in the emerging markets of India and Brazil. In May 2017, TPL acquired two hormonal brands from Novartis AG for the Indian market. It acquired the branded business of Unichem Laboratories Limited (India and Nepal) in December 2017 for approximately Rs. 3,600.0 crore, strengthening its position in the key segments of cardiology, diabetology, gastrointestinal therapies. Following this acquisition, TPL also acquired Bio-Pharm in January 2018 with the purpose of establishing its presence in the US.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	7672.8	7939.3
PAT (Rs. crore)	436.3	1024.7
OPBDIT/OI (%)	25.8%	27.3%
PAT/OI (%)	5.7%	12.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	1.8
Total Debt/OPBDIT (times)	3.0	2.7
Net Debt/OPBDIT (times)	2.4	2.3
Interest Coverage (times)	3.9	4.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years							
		Type	Amount Rated	Amount Outstanding	Rating	FY2020			FY2019	FY2018			
					31-Aug 2020	18-Oct-2019	26-Jul-2019	10-May-2019	24-May-2018	24-Jan-2018	08-Dec-2017	06-Nov-2017	21-Sep-2017
1	NCD	Long Term	3100.0	1324.00	[ICRA]AA (Stable)	[ICRA]AA @	[ICRA]AA @	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA&	[ICRA]AA (Stable)	[ICRA]AA&	[ICRA]AA (Positive)
2	Commercial paper	Long Term	200.0	-	[ICRA]A1+	[ICRA] A1+@	[ICRA] A1+@	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+&	[ICRA] A1+	[ICRA] A1+&	[ICRA] A1+
3	Term loans	Short Term	1600.0	1577.24	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA&	[ICRA]AA (Stable)	[ICRA]AA&	[ICRA]AA (Positive)
4	Working capital	Long Term	1795.0	-	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA&	[ICRA]AA (Stable)	[ICRA]AA&	[ICRA]AA (Positive)
5	Unallocated	Long Term	-	-		-	-	-	[ICRA]AA (Stable)	[ICRA]AA&	[ICRA]AA (Stable)	-	-

Amount in Rs. crore; Note: &- ratings under watch with developing Implications; Note: @- ratings under watch with negative Implications

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
INE685A07066	NCD	Dec. 13, 2016	7.95%	Dec. 13, 2018 Dec. 13, 2019 Dec. 14, 2020 Dec. 13, 2021	500.00	[ICRA]AA (stable)
INE685A07074	NCD	Dec. 29, 2016	7.80%	Dec. 28, 2018 Dec. 27, 2019 Dec. 29, 2020	500.00	[ICRA]AA (stable)
INE685A07082	NCD	Dec. 14, 2017	5.23%*	Dec. 13, 2019 Dec. 14, 2020 Dec. 14, 2021 Dec. 14, 2022 Dec. 14, 2023 Dec. 13, 2024 Dec. 12, 2025	1000.00	[ICRA]AA (stable)
NA	NCD	Not issued	Not issued	Not issued	1100.00	[ICRA]AA (stable)
NA	Commercial paper	NA	NA	7-365 days	200.00	[ICRA]A1+
NA	Commercial paper	NA	NA	NA	360.00	[ICRA]A1+; withdrawn
NA	Term loan 1	Dec. 2013	NA	Jun. 30, 2022	40.17	[ICRA]AA (stable)
NA	Term loan 2	Dec. 2013	NA	Jun. 30, 2022	29.80	[ICRA]AA (stable)
NA	Term Loan 3	Dec. 2017	NA	Dec. 12, 2025	785.71	[ICRA]AA (stable)
NA	Term loan 4	Dec. 2017	NA	Sep. 14, 2025	471.42	[ICRA]AA (stable)
NA	Term Loan 5	May 2019	NA	May 17, 2024	250.00	[ICRA AA (stable)
NA	Proposed term loan	NA	NA	NA	22.90	[ICRA AA (stable)
NA	Working capital facility	NA	NA	NA	1,795.00	[ICRA]AA (stable)

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
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
Heumann Pharma Gmbh & Co. Generica KG	100.00%	Full Consolidation
Torrent Australasia Pty Limited	100.00%	Full Consolidation
Torrent Pharma S.R.L	100.00%	Full Consolidation
Laboratorios Torrent S.A. de C.V.	100.00%	Full Consolidation
Heunet Pharma Gmbh	100.00%	Full Consolidation
Norispharm Gmbh	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
Torrent Pharma France S.A.S.	100.00%	Full Consolidation

Source: Annual Report of TPL as on March 31, 2020

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