August 30, 2021

Torrent Pharmaceuticals Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture (NCD) Programme	1,500.00	864.28	[ICRA]AA reaffirmed; outlook revised to Positive from Stable
Non-convertible Debenture (NCD) Programme	1,600.00	-	[ICRA]AA reaffirmed; outlook revised to Positive from Stable and rating withdrawn
Commercial Paper Programme	200.00	200.00	[ICRA]A1+; reaffirmed
Fund-based Term Loan	1,600.00	1,253.00	[ICRA]AA reaffirmed; outlook revised to Positive from Stable
Fund-based Working Capital Facilities	1,795.00	1,795.00	[ICRA]AA reaffirmed; outlook revised to Positive from Stable
Long term- Unallocated	-	347.00	[ICRA]AA reaffirmed; outlook revised to Positive from Stable
Total	**6,695.00**	**4,459.28**	

**Instrument details are provided in Annexure-1*

Rationale

The change in outlook on the long-term rating to Positive factors in Torrent Pharmaceuticals Limited's (TPL's) ongoing deleveraging exercise, supported by its healthy operating profit margins (OPM) and cash generation, thereby leading to healthy credit metrics. TPL reported an OPM of 31.1% and 31.7% in FY2021 and Q1 FY2022, respectively, compared to 27.3% in FY2020. Despite the lower operating performance in its US business in FY2021 and in Q1 FY2022, TPL's OPM is supported by its geographically diversified business operations with focus on high margin branded generics in the domestic, Brazil, and rest of the world (RoW) markets, new product launches, cost control initiatives and productivity improvement measures. On a consolidated basis, the total debt[1]/OPBITDA[2] and net debt/OPBITDA improved to 2.0 times and 1.7 times, respectively, as on March 31, 2021 from 2.7 times and 2.3 times, respectively, as on March 31, 2020. The net debt/OPBDITA is expected to improve further, in line with healthy internal cash generation and subsequent debt repayments in FY2022-FY2023.

ICRA notes that three of TPL's manufacturing facilities, which are under regulatory observations from the USFDA[3], collectively account for most of its US business and abbreviated new drug application (ANDA) filings. The lower operating performance in the US business is, however, offset by the robust performance in other geographies and the low revenue contribution of the US business to TPL's overall revenues (12.5% of its Q1 FY2022 revenues).

The ratings consider TPL's established presence in the domestic market (51.2% share of its Q1 FY2022 revenues) and its diversified international business operations in key markets of the US (12.5%), Germany (12.2%), Brazil (7.2%) and other countries (10.2%). The ratings also consider TPL's established position as the eighth largest domestic player in the Indian pharmaceutical market (IPM) and its presence amongst the top five players in key therapeutic areas of cardiovascular (CVS), central nervous system (CNS), vitamins, minerals and nutrients (VMN), and gastrointestinal (GI).

TPL's YoY revenue growth of 0.8% in FY2021 and 3.8% in Q1 FY2022 was supported by growth in its business in India (6.3% in FY2021 and 18.2% in Q1 FY2022) and Germany (9.6% in FY2021 and 5.7% in Q1 FY2022). The revenues from Brazil grew by

1 Total debt includes operating lease liability of Rs. 48.7 crore in FY2021 and Rs. 55.7 crore in FY2020

2 Operating profit before interest, tax, depreciation and ammortisation

3 United States Food and Drug Association

9.3% YoY in Q1 FY2022 in Rupee terms; although it declined by 11.9% YoY in FY2021 in Rupee terms because of local currency depreciation (constant currency growth of 11.0% YoY in FY2021). The revenues from the US markets declined by 17.2% YoY in FY2021 and 28.7% YoY in Q1 FY2022 as a result of discontinuation of certain products, lack of new product launches and mid-high single digit price erosion across base portfolio.

Owing to high chronicity and inelastic demand for pharma products, TPL's operations were not severely impacted by Covid-19 in FY2021, though there was some moderation owing to lower patient footfall amid the pandemic. The future growth visibility is driven by new product launches, market share gains by ramping up volumes, building TPL's brand presence, increased revenue share from branded generics (domestic and international markets) and higher overall market growth in key geographies.

The company's operations remain exposed to regulatory risks, arising out of the greater scrutiny by regulatory agencies as well as pricing controls in the domestic market. ICRA notes the ~9.4% coverage of its domestic formulations portfolio (lower than overall IPM of 16-17%) under the NLEM[4]. The company also remains vulnerable to litigations or regulatory changes impacting TPL or the industry. Its operations also remain exposed to foreign currency fluctuations (due to exports, imports and foreign currency borrowings), mitigated by company's comprehensive 100% hedging policy.

TPL has debt repayment obligations of ~Rs. 1,000- 1,200 crore in FY2022 and FY2023 each. However, ICRA derives comfort from its unencumbered cash and cash equivalents of Rs. 764.0 crore (consolidated basis) and undrawn working capital lines of Rs. 1,464 crore (at standalone level) as on March 31, 2021. The surplus funds in its overseas subsidiaries can be utilised, when required.

ICRA has withdrawn the rating assigned to TPL's Rs. 1,600.0 crore non-convertible debenture 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.

Key rating drivers and their description

Credit strengths

Established position in domestic formulations market, with strong presence in chronic therapeutic segments - The company was ranked eighth in the IPM in FY2021. Sixteen of TPL's brands are in the top 500 brands of the IPM with 10 brands generating more than Rs. 100 crore revenues as per AIOCD[5] MAT[6] data (March 2021) compared to eight brands in FY2019, a result of TPL's continued focus on brand building. The top five therapies and top five products drove 85.3% and 36.3%, respectively, of the company's revenues in FY2021. TPL continues to cater primarily to the chronic and sub-chronic segments (76% of domestic revenues in FY2021), compared to 55% for the IPM in FY2021. TPL's domestic formulations business outpaced IPM growth in FY2021 led by new product introductions and pricing growth, partly offset by volume decline amid the pandemic. However, the company's decline was lower than the IPM's volume decline. TPL's domestic revenues were insulated to an extent from the adverse impact of Covid-19, because of its dependence on chronic therapies. In Q1 FY2022, amid the second wave of the pandemic, the IPM outpaced the company's growth driven by higher volumes in acute segments, including a surge in Covid therapies where TPL has a small presence. ICRA notes, that TPL outpaced its covered market growth in chronic/sub-chronic segment in Q1 FY2022. Also, with normalisation following the second Covid wave, TPL's domestic revenues are expected to achieve robust growth in FY2022.

[4] *National list of essential medicines*
[5] *AIOCD Pharmasofttech AWACS Pvt. Ltd.*
[6] *Moving annual total*

Diversified international operations and consistent research and development (R&D) spend and filings - TPL has diversified operations across the US (12.5% of its Q1 FY2022 revenues), Brazil (7.2%), Germany (12.2%), and other countries (10.2%). TPL markets branded generics in India, Brazil and RoW markets, while generics-generics are primarily supplied to the US and Germany. The company's growth strategy in international markets is via new product launches, market share gains by ramping up volumes, building TPL's brand presence, price increase in branded generic markets and higher overall market growth in key geographies. In line with its targeted new launches, TPL's R&D spend was recorded at 6.1% of its revenues in FY2021 and it expects to maintain it this around 6-7% of consolidated revenues, going forward. It intends to focus on complex and niche filings for the US market, primarily in the space of complex generics, oral oncology, liquids, ophthalmology, dermatology and ointments. As on March 31, 2021, the company had 103 ANDAs approved (including six tentative approvals) and its pipeline consists of 54 pending ANDA approvals and more than 40 products under development to be filled in next 3 years. In other key international markets, TPL targets to low to mid-single digit branded generic products in Brazil in FY2022 and mid to high single digit products in Germany on a yearly basis.

Improvement in OPM led by cost control and productivity improvement measures – TPL reported OPM and net profit margin of 31.1% and 15.6%, respectively, in FY2021, compared to 27.3% and 12.9% respectively, in FY2020. TPL's OPM is supported by its geographically diversified business operations with focus on branded generics, high-margin domestic business, new product launches, cost control initiatives and improved productivity improvement measures, despite lower operating performance in its US business. In Q1 FY2022, TPL reported OPM and net profit margin of 31.7% and 15.5%, respectively, compared to 32.1% and 15.6%, respectively, in Q1 FY2021. The OPM was marginally impacted in Q1 FY2022 because of lack of export incentive (withdrawal of MEIS[7] scheme) and higher concentration of revenues from acute portfolio products. The improved productivity of its field force, profitability from branded generic markets (India and international operations), new product launches and benefits of cost savings are expected to sustain OPM, going forward.

Improvement in capitalisation and coverage indicators as company continues to deleverage; maintains strong liquidity position; expected to sustain going forward - TPL's long-term debt exposure is attributed 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 0.8 times as on March 31, 2021 from 1.2 times as on March 31, 2020. Other coverage indicators also improved with an improvement in TD/OPBITDA and net debt/OPBITDA to 2.0 times and 1.7 times, respectively, as on March 31, 2021 from 2.7 times and 2.3 times, respectively, as on March 31, 2020. The interest coverage and TOL/TNW[8] also improved to 6.9 times and 1.5 times, respectively, in FY2021, compared to 4.8 times and 2.0 times, respectively, in FY2020. The Net debt/OPBDITA is expected to improve further, in line with healthy internal cash generation and subsequent debt repayments in FY2022-FY2023.

TPL's liquidity profile remains strong supported by heathy cash generation, leading to unencumbered cash and cash equivalents of Rs. 764.0 crore (consolidated basis) and undrawn working capital lines of Rs. 1,464 crore (standalone basis) as on March 31, 2021. The surplus funds in its overseas subsidiaries can be utilised, when required.

Credit challenges

Lower operating performance in the US business due to pending resolution of USFDA observations on three manufacturing plants; however, US contributes to only 12.5% of its Q1 FY2022 revenues – TPL reported lower operating performance in its US business in FY2021 and Q1 FY2022 because of increased pricing pressures (mid-high single digits) given the increased competition for its existing product portfolio that mainly comprises mature molecules. TPL's lack of new product launches in FY2020 and FY2021 is because of pending resolution of the regulatory observations by the USFDA (official action indicated (OAI) and warning letters) for its Dahej (Gujarat; OAI), Indrad (Gujarat; warning letter) and Levittown (Pennsylvania, US; warning letter) facilities. These facilities together account for most of TPL's US business, in addition to ANDA filings for future launches. These facilities together account for the majority of TPL's US business in addition to ANDA filings for future launches. These regulatory observations, however, did not disrupt the existing supplies to the US (ANDAs already approved) though are

[7] *Merchandise Exports from India Scheme*

[8] *Total outside liabilities/ tangible net worth*

delaying new launches until the USFDA clearance is received. The inspection of the facilities is delayed amid travel restrictions because of the ongoing pandemic. Despite regulatory observations, in FY2021, TPL launched three molecules from its USFDA approved dermatology facility and via partner filings. Additionally, the Levittown plant is expected to start operations (was under plant remediation) by H2 FY2022 with launch of approved ANDAs that is expected to contribute to US revenues. Furthermore, in FY2021 US business growth was impacted due to the base impact of sartan portfolio discontinuation, which the company plans to relaunch in FY2022. The lower operating performance in the US business are, however, offset by TPL's robust performance in other geographies and the low revenue contribution of the US business to TPL's overall revenues (12.5% of Q1 FY2022 revenues).

Debt repayment obligations - TPL has debt repayment obligations of ~Rs. 1,000- 1,200 crore in FY2022 and FY2023 each. However, ICRA derives comfort from its healthy cash generation, leading to a strong liquidity position with unrestricted consolidated cash and bank balance as well as liquid investments of ~Rs. 764 crore and unutilised bank lines of Rs. 1,464 crore (at a standalone level) as on March 31, 2021.

Exposure to regulatory and foreign currency fluctuation risks – The company's operations remain exposed to regulatory risks, arising out of the greater scrutiny by regulatory agencies as well as pricing controls in the domestic market. ICRA notes the ~11% coverage of its domestic formulations portfolio (lower than overall IPM of 17-18%) under NLEM, and the fact that the same has not impacted its profit margins. TPL is yet to resolve the OAI and warning letters issued by the USFDA to its three manufacturing facilities, which has delayed product launches in the US and exposed its US revenues and margins to significant pricing pressure. Successful resolution of such issues and subsequent new product launches remain key monitorables. Any litigations or regulatory changes impacting TPL or the industry will be evaluated on a case-to-case basis. Its operations also remain exposed to foreign currency fluctuations, mitigated by company's comprehensive 100% hedging policy.

Liquidity position: Strong

TPL's liquidity position is **strong**, marked by consolidated unencumbered cash and liquid investments of Rs. 764.0 crore as on March 31, 2021 and Rs. 201.1 crore on a standalone basis. The liquidity profile is further supported by Rs. 1,464 crore undrawn working capital limits against sanctioned limits as on March 31, 2021 (sanctioned limit of Rs. 1,795 crore). The company has modest capital expenditure (capex) plans of ~Rs. 250-300 crore in FY2022, to be funded by internal accruals and debt (yet to be sanctioned). The company has debt repayments of ~Rs. 1,180 crore in FY2022, nonetheless, comfort is drawn from TPL's available liquidity and strong operating cash flow generation.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company continues to deleverage as envisaged, sustains the operating profit margins at the current level, leading to strengthening of its financial profile. Specific credit metric that could lead to an upgrade is net debt/OPBDITA of less than 1.0x on a sustained basis.

Negative factors – The rating may be downgraded if there is any significant weakening in the company's operating profit margins on a sustained basis and/or increase in debt levels, leading to an increase in net debt/ OPBDITA above 1.5x on a sustained basis. Any further regulatory non-compliances issued to TPL for its products and/or manufacturing facilities, impacting its product launches and, thus, its revenues and profitability, would also be a negative trigger. Large debt-funded inorganic investments by the company or any adverse outcome of litigations would 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 ICRA's Policy on Withdrawal and Suspension of Credit Rating
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TPL. As on March 31, 2021, the company had 12 subsidiaries and two step-down subsidiaries which are listed in Annexure-2.

About the company

Torrent Pharmaceuticals Limited (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 exports business of TPL is carried out both by its foreign subsidiaries as well as directly by the parent company. 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 (51.2% share of Q1 FY2022 revenues) and Brazil (7.2%), while its generic generics business spans Germany (12.2%) and USA (12.5%). It also caters to other countries that comprised 10.2% of its Q1 FY2022 revenues.

TPL has seven manufacturing facilities in India and one in Levittown, Pennsylvania, USA. TPL's manufacturing facilities are approved by various regulatory authorities, including the USFDA, UK MHRA[9], MCC[10] (South Africa), TGA[11] (Australia), Health Canada and ANVISA[12] (Brazil).

Key financial indicators (audited)

TPL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	7939.3	8004.8
PAT (Rs. crore)	1024.7	1251.9
OPBDIT/OI (%)	27.3%	31.1%
PAT/OI (%)	12.9%	15.6%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	1.5
Total Debt/OPBDIT (times)	2.7	2.0
Interest Coverage (times)	4.8	6.9

Source: *Company; 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

[9] *Medicines and Healthcare Products Regulatory Agency of the United Kingdom*

[10] *Medicines Control Council*

[11] *Therapeutic Goods Administration*

[12] *The National Health Surveillance Agency or ANVISA (Agência Nacional de VigilânciaSanitária)*

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020			Date & Rating in FY2019
					Aug 30, 2021	Aug 31, 2020	Oct 18, 2019	Jul 26, 2019	May 10, 2019	May 24, 2018
1	NCD	Long-term	864.28	864.28	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	NCD	Long-term	1600.0	-	[ICRA]AA (Positive); withdrawn	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Commercial Paper	Short term	200.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+	[ICRA]A1+
4	Term Loan	Long-term	1253.0	1253.0	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5	Working capital	Long-term	1795.0	-	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable)
6	Unallocated	Long-term	347.0	-	[ICRA]AA (Positive)	-	-	-	-	[ICRA]AA (Stable)

@= 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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Banker Name	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	150.00	[ICRA]AA (Positive)
INE685A07074	NCD	Dec. 29, 2016	7.80%	Dec. 28, 2018 Dec. 27, 2019 Dec. 29, 2020	500.00	[ICRA]AA (Positive); withdrawn
INE685A07082	NCD	Dec. 14, 2017	5.36%*	Dec. 13, 2019 Dec. 14, 2020 Dec. 14, 2021 Dec. 14, 2022 Dec. 14, 2023 Dec. 13, 2024 Dec. 12, 2025	714.28	[ICRA]AA (Positive)
Not issued	NCD	Not issued	Not issued	Not issued	1100.00	[ICRA]AA (Positive); withdrawn
Not issued	Commercial paper	Not issued	Not issued	Not issued	200.00	[ICRA]A1+
NA	Term loan 1	Dec. 2013	NA	Jun. 30, 2022	20.0	[ICRA]AA (Positive)
NA	Term loan 2	Dec. 2013	NA	Jun. 30, 2022	15.0	[ICRA]AA (Positive)
NA	Term Loan 3	Dec. 2017	NA	Dec. 12, 2025	643.0	[ICRA]AA (Positive)
NA	Term loan 4	Dec. 2017	NA	Sep. 14, 2025	386.0	[ICRA]AA (Positive)
NA	Term Loan 5	May 2019	NA	May 17, 2024	189.0	[ICRA]AA (Positive)
NA	Working capital facility	NA	NA	NA	1,795.00	[ICRA]AA (Positive)
NA	Unallocated	NA	NA	NA	347.0	[ICRA]AA (Positive)

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

Annexure-2: 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
Torrent Pharma S.R.L	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
Torrent Pharma France S.A.S.	100.00%	Full Consolidation
Step-down Subsidiaries		
Heumann Pharma Gmbh & Co. Generica KG	100.00%	Full Consolidation
Heunet Pharma Gmbh	100.00%	Full Consolidation

Source: *TPL annual report FY2021, As on March 31, 2021*

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Gaurav Jain
+91 020 6606 9922
Gaurav.jain@icraindia.com

Kinjal Shah
+91 022 61143400
kinjal.shah@icraindia.com

Vanshika Gupta
+91 020 6606 9919
Vanhika.gupta@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches