

September 21, 2017

Torrent Pharmaceuticals Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
CP/STD	560.0 (Enhanced from 60.0)	[ICRA]A1+ assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a short term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the enhanced Rs. 560.0 crore (enhanced from Rs. 60.0 crore) to the Commercial Paper programme/Short term debt programme of Torrent Pharmaceuticals Limited¹. ICRA also has an outstanding rating of [ICRA]AA to the Rs. 1,171 crore term loans, Rs. 1,795 crore cash credit and Rs. 1,500 crore Non Convertible Debenture programme of Torrent Pharmaceuticals Limited. The outlook on the long-term rating is 'Positive'.

Rationale

The rating takes into account TPL's established market position in the Indian domestic pharmaceutical market, strengthened by the acquisition of the identified domestic branded formulations business of Elder Pharma. The rating is supported by TPL's profitable and expanding international operations and healthy cash flow generation ability of existing and acquired business. The product portfolio acquisitions of Elder and the recent acquisition of brands from Novartis AG provides TPL a strong foothold in the nutraceuticals/women's healthcare segment with market leading brands such as *Shelcal*, *Regestrone*, and *Chymoral*. TPL's existing domestic branded business also enjoys strong market position and is ranked amongst the top 10 Companies in CVS (CardioVascular), CNS (Central Nervous System), Vitamins and GI (Gastro Intestinal) therapeutic areas. Further, acquisition of Zyg Pharma comprising of its USFDA approved manufacturing facility enables Torrent Pharma to diversify into niche Dermatology segment especially in the developed markets like US and Europe and emerging markets of India and Brazil. To build pipeline for future launches in both domestic and international business, TPL is also investing into R&D and the total spend increased from 4% in FY 2016 to 7% of revenues in FY 2017. Torrent Pharma filed 16 ANDAs for US in the FY 2016-17.

Its international operations that are in scale up mode have shown consistent profitability at an aggregate level, although ICRA notes that TPL's position in certain individual international markets is yet to achieve meaningful size with consistent profitability track record for each of these markets.. TPL has established itself as a quality CRAMS partner through various tie-ups with global pharma majors that will also aid revenue growth and profitability. The company's ability to sustain its performance across multiple geographies and its ability to scale up the acquired business would remain critical to sustaining its financial profile.

The debt funded acquisition of Elder portfolio has led to higher debt levels and interest outgo, although the capital structure and coverage indicators remain comfortable by virtue of strong operating margins and healthy net cash accruals. The company has surplus cash and liquid investments to the tune of Rs. 1,697 crore against total debt of Rs. 2,510 crore as on March 2017. The Positive outlook reflects ICRA's expectation that the financial profile will further improve owing to healthy cash flow generation and moderate capex plans. Furthermore, while ICRA expects TPL to sustain its credit profile through its future investment plans, any significant investment / acquisition would be evaluated by ICRA on a case-by-case basis for its impact on the credit profile

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

- **Established position in the domestic formulations market; strong presence in the fast growing, lifestyle related therapeutic segments; product portfolio acquisition of Elder Pharma / Novartis AG has strengthened overall market position**

The Company is ranked 16th in the IPM with significant presence in Cardiac, CNS, VMN, GI, Anti-Diabetic and Pain therapies. The Company's 13 brands are in top 500 brands of Indian pharmaceuticals market. The India formulations business registered growth of 13% (FY2017) over the previous year. Brands like Shelcal, Chymoral, Nikoran, Dilzem, Nebicard, Nexpro, etc. have been contributing significantly to the India sales and strengthening the Company's stand in therapies like Cardiology, Diabetes, Gastrointestinal, Nutraceuticals, Pain and Women Healthcare.
- **Profitable International operations at an aggregate level supported by common R&D expenditure, new product launches and market penetration;**

TPL has presence in key international markets such as USA, Germany, Brazil as well as RoW. Torrent, despite being a late entrant in the US pharma market is ranked No. 10 amongst the US generic Indian companies. In Brazil and Germany it is the No. 1 ranked Indian company. The international operations have exhibited consistent profitability track record at aggregate level over the last few years despite several markets in scale up phase.
- **Healthy operating margins and cash flows generation ability to enable debt repayments primarily through own funds**

The company operating margins have remained healthy in the range of 23-25% with positive free cash flows. leading to reduction in net debt levels over the last few years
- **Healthy liquidity position with cushion of liquid investments**

The company has surplus cash and liquid investments to the tune of Rs. 1,697 crore against total debt of Rs. 2,510 crore as on March 2017. The working capital limit utilization has been minimal over the last few years.
- **Focus on R&D as a vehicle for growth through product launches, and rationalisation of development costs by introduction of common products across geographies and dossier out-licensing**

The company R&D spend stood at 7% in FY2017 compared to 4% in FY2016. The Company received 5 ANDA approvals in FY 2017. The Company has 65 ANDA approvals (including 4 tentative approvals) and its pipeline consists of 28 pending approvals and 150 products under development as on March 2017. For the Brazilian market it has approvals of 22 generic products and 26 branded generics as on March 2017. TPL optimizes R&D cost through common product launches across territories.

Credit weaknesses

- **Debt funded acquisition of Elder Pharmaceuticals' identified domestic branded formulation business to put pressure on debt protection metrics (TD/OPBDITA); long tenure debt repayment and healthy cash flow generation ability provides cushion**

With acquisition of Elder Portfolio, TPL took debt of approximately Rs. 1,400 crore leading to increase in total debt from Rs. 1,131 crore March 2014 to Rs. 2,510 crore March 2017. With increase in debt levels the coverage indicators have also moderated with TD/OPBDITA of 2.7x in FY2015

though with one-time gains from launch of limited competition product gablify in FY2016 TD/OPBDITA has moderated to 1.8x in FY2017.

- **Sustaining profitability of export ventures by continuing to build up size through new product launches and market expansion**

The US market is characterized by pricing pressure on base generic portfolio leading to margin pressure and new product launches are critical to maintain profitability. Majority of the German market is tender driven and the share of tenders is expected to grow in foreseeable future putting pressure on the margins of the industry. Overall, new product launches and expanding market reach through introduction in new therapy areas or geographies remains critical to sustaining profitability.

- **Managing regulatory and legal changes in various markets in which TPL operates**

The international as well as domestic market face regulatory challenges in the form of DPCO, GDUFA, supply chain consolidation, product litigations, pricing controls etc; which needs to be successfully managed to maintain profitability.

- **Managing currency risks as around 60% of its revenue comes from international markets.**

As majority of the revenues are generated from international markets coupled with foreign currency denominated debt, managing currency risk through timely and adequate hedges remains imperative to maintain profitability.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Pharmaceutical Industry](#)

About the company:

Torrent Pharmaceuticals Limited (TPL) is a strong player in the domestic market with a significant presence in Cardiovascular (CVS) and Central Nervous System (CNS), VMN, Anti Diabetic and Pain therapies. The company has an arrangement for the manufacture and supply of insulin for the Indian market with Novo Nordisk. The export business of TPL is carried out both by its foreign subsidiaries as well as directly by the parent company.

In FY 2006, TPL acquired Heumann Pharma GmbH & Co. Generica KG (Heumann), a Pfizer group company, engaged in generic medicines marketing 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 neutraceuticals therapeutic segment. The acquisition has complemented TPL's existing therapies and will provide a strong foothold in the neutraceuticals/WHC segment and pain segment. In May 2017, TPL acquired two hormonal brands from Novartis AG for Indian market. The acquisition has complemented TPL's existing therapies and will provide a strong foothold in the neutraceuticals/WHC segment.

With the acquisition of ZYG Pharma's US FDA approved facility, the company will embark 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. TPL markets both branded (to semi-regulated markets) and unbranded generics (to regulated markets), and also participates in the institutional segment of export markets. Among its key branded generics markets are India and Brazil, while its generic generics business



spans Germany and USA. The company has USFDA and EU approved formulations and API facilities. It is vertically integrated to manage costs.

In FY2017, on a consolidated basis, the company reported a net profit of Rs. 933.6 crore on an operating income of Rs. 5815.7 crore, as compared to a net profit of Rs. 1733.3 crore on an operating income of Rs. 6666.9 crore in the previous year.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	6666.9	5815.7
PAT (Rs. crore)	1733.3	933.58
OPBDIT/ OI (%)	41.5%	23.7%
RoCE (%)	53.8%	23.6%
Total Debt/ TNW (times)	0.7	0.6x
Total Debt/ OPBDIT (times)	0.8	1.8
Interest coverage (times)	15.1	6.7
NWC/ OI (%)	6.7%	13.9%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					Sep. 2017	Sep. 2016	June 2015	March 2015
1	Term Loans	Long term	1,171	208	[ICRA]AA Positive	[ICRA]AA Positive	ICRA]AA Stable	ICRA]AA Stable
2	Cash Credit	Long term	1,795	-	[ICRA]AA Positive	[ICRA]AA Positive	ICRA]AA Stable	ICRA]AA Stable
3	NCD	Long term	1,500	1,490	[ICRA]AA Positive	[ICRA]AA Positive	ICRA]AA Stable	ICRA]AA Stable
4	CP/STD	Short term	560	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Term Loans	-	-	Quarterly instalment of Rs. 10.2 crore till June 30, 2022	1,171	[ICRA]AA/ Positive
	Cash Credit	-	-	-	1,795	[ICRA]AA/ Positive
	CP/STD	-	-	-	560	[ICRA]A1+
INE685A07025	NCD	June 24, 2015	9.20%	June 22, 2018	84	[ICRA]AA/ Positive
INE685A07033	NCD	June 24, 2015	9.20%	June 24, 2019	83	[ICRA]AA/ Positive
INE685A07041	NCD	June 24, 2015	9.20%	June 24, 2020	83	[ICRA]AA/ Positive
INE685A07058	NCD	June 24, 2015	9.20%	March 26, 2018 March 25, 2019 March 24, 2020	240	[ICRA]AA/ Positive
INE685A07066	NCD	December. 13, 2016	7.95%	Dec. 13, 2018 Dec. 13, 2019 Dec. 14, 2020 Dec. 13, 2021	500	[ICRA]AA/ Positive
INE685A07074	NCD	December 29, 2016	7.80%	Dec. 28, 2018 Dec. 27, 2019 Dec. 29, 2020	500	[ICRA]AA/ Positive

Source: the company

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About ICRA Limited:

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