Torrent Pharmaceuticals Limited Revised

May 24, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	3,100.00	3,100.00	[ICRA]AA (Stable) reaffirmed; removed from ratings watch with developing implications
Commercial Paper	560.00	560.00	[ICRA]A1+ reaffirmed; removed from ratings watch with developing implications
Fund based-Term Loan	197.67	197.67	[ICRA]AA (Stable) reaffirmed; removed from ratings watch with developing implications
Fund based- Cash Credit	1,795.00	1,795.00	[ICRA]AA (Stable) reaffirmed; removed from ratings watch with developing implications
Proposed long term loans	1,600.00	1,600.00	[ICRA]AA (Stable) reaffirmed; removed from ratings watch with developing implications
Total	**7,252.67**	**7,252.67**	

Rating action

ICRA has reaffirmed [ICRA]AA (pronounced as ICRA double A) to the Rs. 1,795.0 crore Cash Credit, Rs. 197.67 crore term loans, Rs.1600 crore proposed facility and Rs. 3,100.00 crore NCD programme of Torrent Pharmaceuticals Limited (TPL). ICRA has also reaffirmed [ICRA]A1+ (pronounced as ICRA A one plus) ratings to the Rs. 560.0 crore Commercial Paper programme of the company. The Ratings have been removed from Rating Watch with developing implications and the Outlook on the long term rating is Stable.

Rationale

ICRA had earlier put the Ratings on "Rating Watch with Developing Implications" following company's announcement of acquisition of Biopharm Inc, in the USA. The acquisition is expected to improve TPL's foothold in the US market with the USFDA approved, cGMP certified manufacturing facility and research centre of Biopharm. With sustained pricing pressure for US market, TPL's revenue growth is expected to be supported by existing and future ANDAs filings by the target. The $63 million acquisition is expected to have minimal impact on TPL's financial profile which remains supported by cash and liquid investments to the tune of over Rs. 1,800.0 crore as of December 31, 2017. This along with healthy accruals from existing domestic and international operations will support in deleveraging the company over the medium term.

The ratings continue to take comfort from TPL's established market position in the Indian domestic pharmaceutical market with leading brands and its past track record of successfully integrating acquired Elder brands. Over the FY2014-2017 period, the acquired Elder brands have grown at a CAGR of 23% against the representative market growth of 11%. Shelcal and Chymoral brands acquired, have crossed Rs. 300.0 crore and Rs. 100.0 crore mark respectively and have been increasing their market shares consistently (Source: AIOCD).

TPL's market position is also strengthening post the acquisition of Unichem portfolio through higher doctor coverage, brand recognition and increased distribution reach. The Indian Pharma Market (IPM) value rank will improve from 16th (MAT March 2017, AIOCD) to 8th while prescription rank will improve from 14 (MAT March 2017, AIOCD) to 7. Further, the acquisition will strengthen TPL's position in the fast growing Cardiology, Diabetology, Gastro-Intestinals and CNS segment.

TPL's international operations 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. The significant ramp up in R&D spend from FY2017 onwards resulting in accelerated ANDA filings including complex generics augurs well for the international markets especially US, where the company is facing pricing pressure arising majorly out of channel consolidation and faster approvals by USFDA.

Overall at a consolidated level the company has been generating healthy operating margins as well as free cash flows despite various small ticket acquisitions and capex over the past two years. The operating margins stood at 23.7% for FY2017 and 23.0% for 9MFY2018. While ICRA expects the Rs. 3,600 crore debt funded Unichem acquisition to stretch TPL's balance sheet in the near term, it is expected to ease over the medium term supported by healthy accruals. By virtue of free cash flows the company has also built up liquidity in the form of unencumbered investments to the tune of approximately Rs. 1,000 crore on standalone basis and cash surpluses lying in its overseas subsidiaries which supports its credit profile in addition to undrawn working capital bank lines. Going forward, 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.

Outlook: Stable

ICRA believes Torrent Pharmaceutical financial profile will benefit in the medium term from the aggressive ANDA filings for US market backed by higher R&D spend and margin expansion for acquired Unichem portfolio. This will lead to improvement in debt protection metrics from current levels (including debt for Unichem portfolio acquisition) over the medium term. The outlook may be revised to 'Negative', if cash accruals are lower than expected at consolidated level or the company pursues further debt funded acquisitions.

Key rating drivers

Credit strengths

- **Established position in the domestic formulations market with strong presence in the fast growing life style related therapeutic segments; acquisition of Unichem Portfolio to strengthen overall market position**
  The Company is currently ranked 16th in the IPM as per AIOCD data set (Indian Pharma Market, MAT March 2017) with significant presence in Cardiac, CNS, Vitamin, GI, Anti-Diabetic and Pain therapies. The Company's 13 brands are in top 500 brands of Indian pharmaceuticals market. 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. With the acquisition of Unichem portfolio, the market rank of Torrent is expected to move to Top 10 in the IPM. Further, with both the company's strong focus in the chronic TAs of the IPM, the combined entity will strengthen its focus on fast growing Cardiac, Diabetology, Gastro-Intestinals and CNS segment.

- **Focus on regulated/semi-regulated generics market through higher R&D spend and aggressive ANDA filings including complex generics**
  TPL has substantially increased its R&D spend from 4.0% FY2016 to 7% FY2017 and expects to maintain it around 6-8% of revenues. With respect to USA, the Company has filed 16 ANDAs in FY2017 and plans to file 15-20 ANDAs every year including FTFs, complex generics and niche therapeutic areas such as Dermatology and Oncology. The company has 31 ANDAs with 12 FTFs pending approval, 87 plus new products under development and 65 approved ANDAs for the US market. The company also optimises its R&D spend towards other branded generic markets such as India, Brazil

etc. through common product development. With increased thrust on R&D, the share of international markets is expected to increase over the medium term and is likely to improve the profitability.

- **Healthy operating profitability led by profitable domestic as well as international businesses at aggregate level**
  TPL continues to generate healthy operating margins by virtue of high margin domestic business as well as profitable international operations at an aggregate level. The operating margins stood at 41.5% FY2016, 23.7% FY2017 and 23.0% 9MFY2018. The operating margins spiked in FY2016 on account of launch of limited competition product for US market. While certain international markets such as US are experiencing pricing pressure on account of channel consolidation, the margins remain supported by other key markets such as Brazil, Germany and ROW in addition to domestic market during H1FY2018. ICRA also expects TPL to generate significant synergies for Unichem portfolio through increasing field force productivity and launching/promoting brand extensions over the next 2-3 years. This along with new launches for various international markets will support margin expansion over the medium term.

- **Liquidity position supported by cushion in the form of liquid investments and undrawn working capital lines**
  TPL has approximately Rs. 1,000 crore of liquid investments on standalone basis as well as surplus lying in its overseas subsidiaries which can be freely remitted to India on need basis. This along with buffer in the form of undrawn bank lines supports its liquidity position.

Credit weaknesses

- **Significantly debt funded acquisition of Unichem's domestic branded portfolio to put pressure on debt protection metrics (TD/OPBDITA) in the medium term; long tenure debt repayment and healthy cash flow generation ability provides cushion**
  The Rs. 3,600 crore debt funded acquisition of Unichem's portfolio will lead to stretched debt protection metrics in the near term. However, ICRA expects the same to deleverage over the next 2-3 years led by healthy free cash flows from existing operations as well as acquired portfolio. Further, long tenure debt provides cushion to repay the same from own cash flows.

- **Sustaining profitability of export ventures by continuing to build up size through new product launches and market expansion**
  TPL international generic business is characterized by pricing pressure and it is essential to launch new products to maintain profitability. While TPL has built significant scale for its Brazil and German operations it is yet to achieve significant scale for other key markets such as USA.

- **Managing legal and regulatory changes in various markets in which TPL operates**
  The company is exposed to regulatory changes in the Indian and global markets. These are reflected in increasing scrutiny and inspections by regulatory authorities including the US Food and Drug Administration (FDA). However, TPL has so far had a relatively clean regulatory track record. In the domestic market, regulatory impact of policy changes such as drug price control order (DPCO) and FDC had relatively small impact on TPL though further policy changes such as compulsory genericisation can have major impact on the industry margins and TPL.

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 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.

The company reported a net profit of Rs.933.6 crore in FY2017 on an operating income of Rs.5,827.5 crore at the consolidated level as against a net profit of Rs.1,733.3 crore on an operating income of Rs.5,827.5 crore in FY2016.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	6676.42	5827.47
PAT (Rs. crore)	1733.27	933.58
OPBDIT/ OI (%)	41.47%	23.63%
RoCE (%)	54.07%	23.57%
Total Debt/ TNW (times)	0.67	0.58
Total Debt/ OPBDIT (times)	0.85	1.82
Interest coverage (times)	15.05	6.70

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	FY2018	FY2017	FY2016
					May 2018	January 2018	September 2016	June 2015
1	Term Loans	Long term	197.67	176.18	[ICRA]AA (Stable)	[ICRA]AA&	[ICRA]AA/ Positive	ICRA]AA/ Stable
2	Cash Credit	Long term	1,795.00	NA	[ICRA]AA (Stable)	[ICRA]AA&	[ICRA]AA/ Positive	ICRA]AA/ Stable
3	NCD	Long term	3,100.00	2,898.80	[ICRA]AA (Stable)	[ICRA]AA&	[ICRA]AA/ Positive	ICRA]AA/ Stable
4	CP/STD	Short term	560.00	NA	[ICRA]A1+	[ICRA]A1+ &	[ICRA]A1+	[ICRA]A1+
5	Proposed long-term facility	Long term	1600.00	NA	[ICRA]AA (Stable)	[ICRA]AA&	NA	NA

Note: &- ratings watch with developing 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
	Term Loan	Dec-2013	-	June 30, 2022	197.67	[ICRA]AA (Stable)
INE685A14054	CP/STD	-	-	7-365 days	560.00	[ICRA]A1+
INE685A07025	NCD	June 24, 2015	9.20%	June 22, 2018	84.00	[ICRA]AA (Stable)
INE685A07033	NCD	June 24, 2015	9.20%	June 24, 2019	83.00	[ICRA]AA (Stable)
INE685A07041	NCD	June 24, 2015	9.20%	June 24, 2020	83.00	[ICRA]AA (Stable)
INE685A07058	NCD	June 24, 2015	9.20%	March 26, 2018 March 25, 2019 March 24, 2020	240.00	[ICRA]AA (Stable)
INE685A07066	NCD	December. 13, 2016	7.95%	Dec. 13, 2018 Dec. 13, 2019 Dec. 14, 2020 Dec. 13, 2021	500.00	[ICRA]AA (Stable)
INE685A07074	NCD	December 29, 2016	7.80%	Dec. 28, 2018 Dec. 27, 2019 Dec. 29, 2020	500.00	[ICRA]AA (Stable)
INE685A07082	NCD	December 14, 2017		Dec 13, 2019 Dec 14, 2020 Dec 14, 2021 Dec 14, 2022 Dec 14, 2023 Dec 13, 2024 Dec 12, 2025	1,000.00	[ICRA]AA (Stable)
	Cash Credit	-	-	-	1,795.00	[ICRA]AA (Stable)
	Proposed Bank Lines	-	-	-	1600.00	[ICRA]AA (Stable)

Source: Torrent Pharmaceuticals Limited

Corrigendum

Document dated May 24, 2018 has been corrected with revisions as detailed below:

Annexure 1; Page number: 07

Instrument details pertaining to ISIN number- INE685A08015 has been removed, since the facility is not rated by ICRA

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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