May 10, 2019

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 programme	3,100.00	3,100.00	[ICRA]AA(Stable); reaffirmed
Commercial paper	560.00	560.00	[ICRA] A1+; reaffirmed
Fund-based term loan	197.67	1797.67	[ICRA]AA(Stable); reaffirmed
Fund-based working capital facilities	1,795.00	1,795.00	[ICRA]AA(Stable); reaffirmed
Long-term unallocated	1,600.00	0.0	-
Total	**7,252.67**	**7,252.67**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation of Torrent Pharmaceuticals Limited (TPL) takes into account its established presence in the domestic market driven by organic and inorganic initiatives and its diversified international business operations in the key markets of USA, Germany and Brazil. It has limited coverage under the drug price control order (DPCO) at ~11% versus the Indian pharmaceutical market (IPM) that stands at around 18%. The ratings also take into account TPL's continued focus on recurring and lifestyle-related chronic/sub-chronic therapies, which comprise 75% of its portfolio. It is the eighth largest domestic player with a market share of 3.25% and enjoys significant presence in the key therapeutic areas of cardiovascular (CV), central nervous system (CNS), vitamin minerals nutrients (VMN), gastrointestinal (GI), diabetology and pain management segments. The company continues to strengthen its domestic product profile by launching products and brand extensions with 25 launches in FY2017, 24 in FY2018 and 16 in FY2019. Post the acquisition of Unichem Laboratories Limited's (Unichem's) portfolio in December 2017, the market share for the combined business has grown across all therapeutic areas, with eight brands generating more than Rs. 100 crore revenues as per AIOCD MAT data (December 2018).

The branded business of Unichem (India and Nepal) was acquired by TPL in December 2017. It acquired more than 120 brands from Unichem including Losar (the second largest anti-hypertensive brand in the IPM) and Unienzyme. TPL has benefitted from integration and realisation of cost synergies including optimisation of field forces, brand building, speciality focus and improving the sales representatives' in-clinic effectiveness. As per AIOCD MAT (December 2018), the top five brands acquired from Unichem grew at 21% in the quarter ended December 2018.

TPL's international operations have shown consistent profitability at an aggregate level; although, ICRA notes that in certain individual international markets, TPL faces volatility in performance owing to various regulatory and legal challenges especially, the US market that is facing pricing pressure on account of faster abbreviated new drug application (ANDA) and consolidation in the distribution supply chain. TPL's US business has shown high volume growth in 9M FY2019 though the desired profitability is expected to be achieved over the medium term. The company continues to maintain its R&D spend at 7-8%, resulting in a healthy pipeline and basket of ANDA filings for the international markets, especially the US. TPL is ramping up its pipeline with products in oral liquids, ophthalmic, ointment and oncology.

Overall, at a consolidated level, the company generated healthy operating margins of 22.6% in FY2018 and 26.0% in 9M FY2019. While the coverage indicators are moderately high, they are expected to improve in the near term given the healthy accruals and the comfort derived from the long tenure of loans. The liquidity on a standalone basis (Rs. 528.3 crore of cash and liquid investments as of March 2018) and consolidated basis (Rs. 1,359.5 crore as of March 2018), along with the substantial undrawn bank limits (average utilisation of 20.4% of sanctioned limits), provides comfort to the company's overall financial profile. TPL generated positive fund flows from operations (FFO) for the last five years, though capex requirement and previous debt-funded acquisitions led to negative free cash flows in FY2018. TPL's modest current capex requirement will lead to positive free cash flows; however, any additional debt-funded acquisition will need to be evaluated. The company's debt coverage indicators are expected to improve going forward, as synergies from the Unichem acquisition flows in. Going forward, the company's ability to sustain its performance across multiple geographies, maintain clean inspection track record for its manufacturing facilities, and reducing its leverage would remain critical in sustaining its financial profile.

Outlook: Stable

ICRA expects TPL's financial profile to benefit from its established position in the domestic market (post organic and inorganic growth), diversified presence in international markets, aggressive ANDA filings and healthy product pipeline for the international business (especially the US) backed by higher R&D spend, sustained profitability, and ample liquidity on a consolidated basis. Healthy accruals and focus on lowering leverage will lead to improvement in the debt protection metrics from current levels over the medium term. The outlook may be revised to Positive if there is a sustained growth in revenues and profit margins leading to overall improvement in financial metrics. The outlook may be revised to Negative if cash accruals are lower than expected at consolidated level or if the company pursues further debt-funded acquisitions.

Key rating drivers

Credit strengths

Established position in domestic formulations market, with strong presence in the fast-growing life style related therapeutic segments and successful integration of Unichem acquisition - The company is currently ranked eighth in the IPM with a market share of 3.25% in FY2018. It has a significant presence in CV, CNS, VMN, GI, diabetology and pain management segments. The company's 19 brands are in the top 500 brands of the IPM and eight brands generate ~Rs. ~100 crore as per the latest AIOCD MAT data in 9M FY2019. Brands like Shelcal, Losar, Nexpro, Chymoral, Nebicard, Deplatt, Azulix etc have contributed significantly to the domestic sales, strengthening the company's position in key therapies. TPL acquired Unichem in December 2017, and as per AIOCD MAT (December 2018), the top five brands acquired from Unichem grew at 21% in the quarter ended December 2018. TPL benefits from integration and realisation of cost synergies including optimisation of field forces, brand building, speciality focus and improving the sales representatives' in-clinic effectiveness. Losar, which was the largest brand, stood at Rs. 212 crore and grew at 6% versus 0% in the covered market. TPL's other brands, such as Shelcal grew at 30% versus 9% in the covered market, Chymoral grew at 27% versus 15% in the covered market, and Regestrone grew at 41% versus 26% in the covered market[1].

Diversified international operations with focus on regulated/semi-regulated generics market through consistent R&D spend and filings - TPL has diversified operations across the US (20.9%), Brazil (8.3%), Germany (13.2%), and 42 rest of the world (RoW) countries (8.6%) of consolidated revenues in 9M FY2019. TPL markets both branded generics to semi-

[1] Source: AIOC MAT (December 2018)

regulated markets (India and Brazil) and unbranded generics to regulated markets (the US and Germany). It also participates in the institutional segment of export markets.

The company's growth strategy in the international markets is growth via new product launches and higher volumes sold. In line with its new product launches, TPL increased its R&D spend to 6.9% in 9M FY2019 from 5.0% in FY2016, and expects to maintain it at 7-8% of revenues going forward. It intends to focus on complex and niche filings for the US market, primarily in the space of oral liquids, ophthalmic, ointment and oncology. As of December 2018, the company had six tentative approvals and 42 ANDA pending approvals for the US business. The company also has a healthy pipeline of products under approval and development in Brazil. Meanwhile in Germany, TPL successfully launches 8-10 products annually, with four-five being launched on day one. With the increased thrust on R&D, the share of international markets is expected to increase over the medium term and is likely to complement 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 its high-margin domestic business as well as profitable international operations at an aggregate level. The operating margins stood at 22.6% in FY2018 and 26.0% in 9M FY2019. The margins in FY2018 were lower on account of integration impact of the Unichem portfolio, which was acquired in December 2017.

US is experiencing pricing pressure where new product launches and higher market share is expected to drive future performance. Meanwhile, the profitability remains supported by other key markets, such as Germany, RoW countries and India.

Liquidity position supported by liquid investments and undrawn working capital lines - TPL had ample liquidity in the form of liquid investments, and cash and bank balances to the tune of Rs. 1,359.5 crore and Rs. 1,677.3 crore in FY2018 and H1 FY2019, respectively, on a consolidated basis. On a standalone basis also, the company had Rs. 528.3 crore and Rs. 836.3 crore in liquid investments, and cash and bank balances. The surplus funds in its overseas subsidiaries can be freely remitted to India. The company also enjoys a buffer in the form of undrawn bank lines, which supports its liquidity position.

Credit challenges

Moderately high coverage indicators due to significant debt-funded acquisitions; expected to improve in near term - With the debt-funded acquisitions of Unichem and Biopharm in FY2018, TPL's debt levels rose significantly impacting its coverage indicators. On a consolidated basis, gross debt/OPBDITA increased from 1.8 times in FY2017 to 4.8 times in FY2018 and 3.5 times in H1 FY2019, while net debt/OPBDITA increased from 0.6 times in FY2017 to 3.8 times in FY2018 and 2.6 times in H1 FY2019. The leverage indicators are expected to improve in the near term given ample liquidity, healthy accruals and long-tenure debt providing cushion to repay the same from own cash flows.

Sustaining profitability of exports by continuing to build up size through product launches and market expansion - TPL's international generic business is characterised 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 a significant scale for the largest generic market of the US.

Managing legal and regulatory changes in various markets - The company is continuously exposed to regulatory changes in Indian and global markets. These are reflected in the increasing scrutiny and inspections by regulatory authorities, including the USFDA. The company had received observations for its two plants at Dahej (Gujarat) and Indrad

(Gujarat) in March 2019 and April 2019, respectively. As per the management, these observations are procedural in nature and they do not foresee any impact of the same on operations. The company has already reverted on the Dahej and Indrad observations. In the domestic market, regulatory impact of policy changes such as the DPCO and the fixed dose combinations (FDC) was relatively small on TPL, though further policy changes such as compulsory genericisation can have a major impact on TPL and the industry as a whole.

Liquidity position

The company generated positive FFO for the last five years, though capex requirement and previous debt-funded acquisitions led to negative free cash flows in FY2018. TPL's ongoing capex requirement has moderated to Rs. 300-350 crore; however, any further acquisition in the near term will impact its cash flows adversely. The liquidity profile remains supported by the company's ability to refinance debt, the sufficient liquid investments, the cash and bank balances, and the low utilisation of existing working capital limits (average utilisation of 20.4% of sanctioned limits).

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, 2019, the company had 12 subsidiaries and four step-down subsidiaries which are listed in Annexure-2.

About the company

TPL is the eighth largest player in the domestic market with a significant market share of 3.25% in FY2018. The company also has an arrangement with Novo Nordisk for the manufacture and supply of insulin in the domestic market. TPL's export business is carried out both by its foreign subsidiaries as well as directly by the parent company.

In FY2006, TPL acquired Heumann Pharma GmbH & Co. Generica KG (Heumann), a Pfizer Group company, involved 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. 2,004 crore. Elder's acquired business comprised a portfolio of 30 brands including leading brands for women's healthcare (WHC), pain management, wound care and neutraceuticals therapeutic segment. The acquisition complemented TPL's existing therapies and provided a strong foothold in neutraceuticals/WHC segment and pain segment. In May 2017, TPL acquired two hormonal brands from Novartis AG for the Indian market. This acquisition further added to TPL's established position in the WHC segment. With the acquisition of ZYG Pharma's USFDA approved facility, the company embarked into the niche dermatological segment, especially in the developed markets of North America and Europe as well as the emerging markets of India and Brazil. In December 2017, TPL acquired the branded business of Unichem (India and Nepal) for approximately Rs. 3,600.0 crore, strengthening its position in the key segments of cardiology, diabetology, gastrointestinal and CNS therapies. Following this, TPL also acquired Biopharm in January 2018 to establish its presence in the US. The USFDA approved facility provides capabilities for controlled substances, which can be manufactured in the US only as per Government guidelines (DEA Schedule II-V).

The company has eight manufacturing plants approved by multiple authorities like the USFDA and the EU for formulations and active pharmaceutical ingredients (API).

Key financial indicators (audited)

	FY2017	FY2018	H1 FY2019
Operating Income (Rs. crore)	5,856.9	6,002.1	3,766.0
PAT (Rs. crore)	933.6	678.1	342.0
OPBDIT/OI (%)	23.5%	22.5%	25.2%
RoCE (%)	23.5%	14.6%	12.7%
Total Debt/TNW (times)	0.6	1.4	1.4
Total Debt/OPBDIT (times)	1.8	4.8*	3.5
Net Debt/OPBDIT (times)	0.6	3.8	2.6
Interest Coverage (times)	6.7	4.4	3.8

**Owing to Unichem portfolio acquisition in Dec-2017, TD/OPBDITA for FY2018 is not comparable across years*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating May 2019	Date & Rating in FY2019 May 2018	Date & Rating in FY2019 Jan 2018	Date & Rating in FY2017 Oct 2016
1	NCD	Long term	3,100.00	1,956.95	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA&	[ICRA]AA (Positive)
2	Commercial paper	Short term	560.00	276.60	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+&	[ICRA]A1+
3	Term loans	Long term	1797.67	1656.68	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA&	[ICRA]AA (Positive)
4	Working capital	Long term	1,795.00	-	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA&	[ICRA]AA (Positive)
5	Proposed long-term facility	Long term	0.00	-	-	[ICRA]AA (Stable)	[ICRA]AA&	-

Note: &- ratings under 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
INE685A07033	NCD	Jun. 24, 2015	9.20%	Jun. 24, 2019	83.00	[ICRA]AA (Stable)
INE685A07041	NCD	Jun. 24, 2015	9.20%	Jun. 24, 2020	83.00	[ICRA]AA (Stable)
INE685A07058	NCD	Jun. 24, 2015	9.20%	Mar. 26, 2018 Mar. 25, 2019 Mar. 24, 2020	240.00	[ICRA]AA (Stable)
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	7.98%*	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	Commercial paper	NA	NA	7-365 days	560.00	[ICRA]A1+
NA	Term loan 1	Dec. 2013	NA	Jun. 30,2022	95.41	[ICRA]AA (Stable)
NA	Term loan 2	Dec. 2013	NA	Jun. 30,2022	70.78	[ICRA]AA (Stable)
NA	Term loan 3	Dec. 2013	NA	Jun. 30,2022	31.48	[ICRA]AA (Stable)
NA	Term Loan 4	Dec. 2017	NA	Dec. 12, 2025	1000.00	[ICRA]AA (Stable)
NA	Term loan 5	Dec. 2017	NA	Sep. 14 2025	600.00	[ICRA]AA (Stable)
NA	Working capital facility	NA	NA	NA	1,795.00	[ICRA]AA (Stable)

*Source: Company, *7.98% is initial interest rate, thereafter on every reset date 182 days T-bill rate + 1.72% p.a.*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Zao Torrent Pharma	100.00%	Full Consolidation
Torrent Pharma Gmbh	100.00%	Full Consolidation
Torrent Do Brasil Ltda.	100.00%	Full Consolidation
Torrent Pharma Inc.	100.00%	Full Consolidation
Torrent Pharma Philipine 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
Aptil Pharma Limited	100.00%	Full Consolidation

Source: Company

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