

August 25, 2022

Torrent Pharmaceuticals Limited: Long-term rating upgraded; short-term rating reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture (NCD) Programme	714.28	571.42	[ICRA]AA+ upgraded from [ICRA]AA; outlook revised to Stable from Positive
Non-convertible Debenture (NCD) Programme	150.0	-	[ICRA]AA+ upgraded from [ICRA]AA; outlook revised to Stable from Positive and rating withdrawn
Commercial Paper Programme	200.00	200.00	[ICRA]A1+; reaffirmed
Fund-based Term Loan	1,253.00	925.01	[ICRA]AA+ upgraded from [ICRA]AA; outlook revised to Stable from Positive
Fund-based Working Capital Facilities	1,795.00	1,795.00	[ICRA]AA+ upgraded from [ICRA]AA; outlook revised to Stable from Positive
Long-term – Unallocated	347.00	674.99	[ICRA]AA+ upgraded from [ICRA]AA; outlook revised to Stable from Positive
Total	4,459.28	4,166.42	

*Instrument details are provided in Annexure-I

Rationale

The upgrade in Torrent Pharmaceutical Limited's (TPL) long-term rating factors in TPL's strong business position and performance in its key markets, India, Brazil and ROW, offsetting some moderation in performance witnessed in some other key markets (USA and Germany) in FY2022 and Q1 FY2023. ICRA notes the healthy profit margins that have translated into healthy internal accrual generations. Coupled with scheduled repayment of debt, this has led to steady strengthening of the company's capitalisation and coverage metrics in recent years. On a consolidated basis, TPL's Net Debt/OPBITDA has declined steadily over the years to 1.4 times as on March 31, 2022 from historical highs of 3.8 times as on March 31, 2018. Moreover, coverage metrics are expected to strengthen further with estimated net debt/OPBDITA of less than 1.0 time by the end of FY2023, supported by healthy internal cash generation and scheduled debt repayments.

The ratings continue to factor in TPL's established presence in the domestic market (53.0% share of its Q1 FY2023 revenues) and its diversified international business operations in key markets of the US (12.7%), Germany (9.1%), Brazil (7.8%), other countries (10.7%) and others (6.7%). TPL is the eighth largest domestic player in the Indian pharmaceutical market (IPM), with presence among 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 6.3% in FY2022 and 10.0% YoY growth in Q1 FY2023 was supported by growth in its business in India (15% in FY2022 and 14% in Q1 FY2023) and Brazil (18% in FY2022 and 20% in Q1 FY2023). The revenues from Germany de-grew by 7% in FY2022 and 18% in Q1 FY2023 due to inventory correction after consolidation of two wholesalers and increased competition, which led to loss of some high value tenders in FY2022. The revenues from the US markets declined by 15% YoY though the revenues grew by 12% YoY in Q1 FY2023 supported by a one-time income of Rs. 38.0 crore in the US business. The US business continues to be affected by lack of new product launches, pending re-inspection of facilities and price erosion of the base portfolio.

Despite some moderation in FY2022, TPL's operating margins (OPM) remained healthy at 28.6% and improved to 29.2% in Q1 FY2023 (including a one-time income of Rs. 38.0 crore in the US business, OPM was 30.3% in Q1 FY2023), supported by the branded generics business, which drives around 70% of the total revenue.

ICRA notes that two of TPL's manufacturing facilities, which are under regulatory observations from the USFDA¹, collectively account for most of its US business and abbreviated new drug application (ANDA) filings pending approvals. This has impacted the new launches in the US resulting in a significant decline in the revenue and operating margins, also impacted by the pricing erosion in the US. The lower operating performance in the US business is, however, offset by the robust performance in other geographies. Moreover, US has low revenue contribution of the US business to TPL's overall revenues (12.7% of its Q1 FY2023 revenues).

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 that TPL will benefit slightly from the recent price hike of 10.7% for scheduled drugs, which are under price control with ~9.0% coverage of its domestic formulations portfolio under NLEM². 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 the company's comprehensive hedging policy.

TPL has debt repayment obligations of around Rs. 2,000 crore over FY2023-FY2024. However, ICRA derives comfort from its strong liquidity profile, supported by healthy internal accrual generation, unencumbered cash and cash equivalents of Rs. 650 crore (consolidated basis) and undrawn working capital lines of Rs. 1,645 crore as on June 30, 2022.

ICRA has also withdrawn the rating assigned to TPL's Rs. 150-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.

The Stable outlook on the long-term rating reflects ICRA opinion that TPL will continue to benefit from its established business position in the domestic market, diversified presence in international markets and healthy product pipeline. Coupled with healthy internal accrual generation and continued deleveraging, this will continue to support the company's credit profile.

Key rating drivers and their description

Credit strengths

Established position in the domestic formulations market with strong presence in chronic therapeutic segments – TPL was ranked eighth in the IPM in FY2022 with a market share of around 3%. Seventeen of TPL's brands are in the top 500 brands of the IPM with 11 brands generating more than Rs. 100 crore revenues as per AIOCD MAT data (March 2022) 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 82.8% and 36.6%, respectively, of the company's revenues in FY2022. TPL continues to cater primarily to the chronic and sub-chronic segments with 76% of revenues in domestic market coming from chronic and sub-chronic therapies in FY2022. TPL's domestic formulations business outpaced IPM growth in FY2022 led by new launch momentum, robust performance of top brands and market share gains across focused therapies. TPL plans to continue its healthy launch momentum in the domestic market, going forward; and with some key molecules going to come out of patent expiry scenario during FY2024, it is expected to further strengthen its position in the chronic segment in the upcoming years with continued growth across key therapeutic areas.

Diversified international operations with focus on regulated/semi-regulated generics market through consistent R&D spend and filings – TPL has diversified operations across India (53.0% of its Q1 FY2023 revenues), USA (12.7%), Brazil (7.8%), Germany (9.1%), other countries (10.7%) and others (6.7%). TPL primarily 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

¹ United States Food and Drug Association

² National list of essential medicines

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. TPL's R&D spend was recorded at 6.1% of its revenues in FY2022 and it expects to maintain it at around 5.5% 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, ophthalmology, dermatology and ointments. As on March 31, 2022, the company had 105 ANDAs approved (including five tentative approvals) with a pipeline of 57 pending ANDA approvals (not including tentative or partnered filings) and 37 products under development to be filled in the next three years.

Healthy operating profitability led by profitable domestic business and select international businesses, operating leverage and cost control further boost profitability – TPL has continued to report healthy operating profitability 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. The company reported OPM and net margins of 28.6% and 9.1%, respectively, in FY2022, over 31.1% and 15.6%, respectively, in FY2021. While OPM moderated slightly due to input cost inflation and competitive pressures in some key markets (USA and Germany), the net margins were impacted by an impairment of Rs. 485 crore during Q4 FY2022 due to discontinuation of the liquid facility located in Pennsylvania, USA. In Q1 FY2023, TPL reported OPM and net profit margin of 29.2% (discounting for the one-time income of Rs. 38 crore in the US business) and 15.1%, respectively, over 31.7% and 15.5%, respectively, in Q1 FY2022. Improvement in the field force productivity, higher share of branded generic markets (India and international operations), new product launches and benefits of cost savings are expected to support margins, going forward.

Improvement in capitalisation and coverage indicators; expected to sustain as company continues to deleverage – TPL had undertaken sizeable debt-funded acquisitions of Unichem and Bio-pharm over 2017–2018, leading to an increase in its leverage levels. However healthy accretion to reserves and scheduled repayment of debt has led to steady improvement in TPL's capitalisation and coverage metrics in recent years. On a consolidated basis, TPL's gearing reduced to 0.7 time as on March 31, 2022 from 1.4 times as on March 31, 2018. Other coverage indicators have also witnessed an improvement, with net debt/OPBITDA of 1.4 times as on March 31, 2022 from 3.8 times as on March 31, 2018. The interest coverage and TOL/TNW³ also improved to 9.5 times and 1.2 times, respectively, in FY2022 from 6.9 times and 1.5 times, respectively, in FY2021. Moreover, coverage metrics are expected to strengthen further with estimated net debt/OPBDITA of less than 1.0 time by end of FY2023, supported by healthy internal cash generation and scheduled debt repayments.

Strong liquidity position supported by unencumbered cash and cash equivalents, undrawn working capital lines and healthy cash flow generation – TPL's liquidity profile remains strong supported by healthy cash generation, leading to unencumbered cash and cash equivalents of Rs. 650 crore (consolidated basis) and undrawn working capital lines of Rs. 1,645 crore as on June 30, 2022.

Credit challenges

Weakening profitability of US business amid pricing pressures; impacted by warning letters on one facility and OAI on one facility; lack of product launches in FY2022 – TPL reported lower operating performance in its US business in FY2022 and Q1 FY2023 because of increased pricing pressures (double digits) given the increased competition for its existing product portfolio that mainly comprises mature molecules. TPL's lack of new product launches since FY2020 is because of pending resolution of the regulatory observations by the USFDA (official action indicated (OAI) and warning letters) for its Dahej (Gujarat; OAI) and Indrad (Gujarat; warning letter) facilities. These facilities together account for most of TPL's USA 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 delaying new launches until the USFDA clearance is received. Though TPL had submitted its corrective action plan (CAPA) and closure report on all the findings of the USFDA, the inspection of the facilities was delayed. Successful resolution of such issues and subsequent new product launches remains a key monitorable. TPL closed its liquid facility in Pennsylvania and registered an impairment of Rs. 485 crore in Q4 FY2022. The facility required annual operational

³ Total outside liabilities/ tangible net worth

expenses of around Rs. 135 crore and had no revenues, which is expected to support the margins, going forward. Additionally, TPL's high margins and growth across the branded generics market offsets the lower operating performance in the US business.

Exposure to regulatory 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 ~9% coverage of its domestic formulations under NLEM which gain benefits from the 10.7% increase in prices, following recent Government directions, though the portfolio remains vulnerable to future price control measures or addition of more products in the list of NLEM drugs. Any litigations or regulatory changes impacting TPL, or the industry will be evaluated on a case-to-case basis.

Vulnerability of profitability to foreign currency fluctuation risks – Given that 45-50% of the revenue is generated from international markets, TPL remains exposed to foreign currency fluctuations on the same. However, the risk is largely mitigated by the company's comprehensive hedging policy.

Liquidity position: Strong

TPL's liquidity position is **strong**, supported by healthy internal accrual generation and unencumbered cash and liquid investments of ~Rs. 650 crore as on June 30, 2022, on a consolidated basis. The liquidity profile is further supported by sizeable undrawn working capital limits of ~Rs. 1,645 crore as on June 30, 2022). The company has modest capital expenditure (capex) plans of ~Rs. 300 crore in FY2023, in the absence of any capacity expansion requirements, which are primarily to be funded by internal accruals. While TPL has sizeable debt repayments of ~Rs. 972 crore in FY2023, the company is expected to service the same comfortably through its strong operating cash flows and surplus liquidity.

Rating sensitivities

Positive factors – TPL's rating might be upgraded if there is significant growth across all key geographies leading to significant increase in scale, higher market share and strengthening of its business profile, while maintaining strong credit metrics on a sustained basis.

Negative factors – TPL's rating may be downgraded if there is any significant weakening in the company's earnings profile on a sustained basis and/or increase in debt levels due to any capex/inorganic investments, leading to an increase in net debt/OPBDITA above 1.0x on a sustained basis. Any further regulatory non-compliances issued to TPL for its products and/or manufacturing facilities, thereby impacting its product launches and, thus, revenues and profitability, would also be a negative trigger. Adverse outcome of ongoing litigations would also 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 Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TPL. As on March 31, 2022, the company had 11 subsidiaries and 3 step-down subsidiaries, which are listed in Annexure-II.

About the company

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 by both its foreign subsidiaries as well as directly by TPL. 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 (53.0% share of Q1 FY2023 revenues) and Brazil (7.8%), while its generic generics business spans USA (12.7%) and Germany (9.1%). It also caters to other countries that comprised 10.7% of its Q1 FY2023 revenues and others contributing to 6.7%.

TPL has seven manufacturing facilities in India. TPL's manufacturing facilities are approved by various regulatory authorities, including the USFDA, UK MHRA⁴, MCC⁵ (South Africa), TGA⁶ (Australia), Health Canada and ANVISA⁷ (Brazil).

Key financial indicators (audited)

TPL Consolidated	FY2021	FY2022
Operating income	8004.8	8508.0
PAT	1251.9	777.2
OPBDIT/OI	31.1%	28.6%
PAT/OI	15.6%	9.1%
Total outside liabilities/Tangible net worth (times)	1.5	1.2
Total debt/OPBDIT (times)	2.0	1.7
Interest coverage (times)	6.9	9.5

Source: Company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2023)			Chronology of Rating History for the past 3 years				
		Amount Rated (Rs. crore)	Amount Outstanding as on June 30, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020		
				Aug 25, 2022	Aug 30, 2021	Aug 31, 2020	Oct 18, 2019	Jul 26, 2019	May 10, 2019
1 NCD	Long-term	571.42	571.42	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA@	[ICRA]AA (Stable)
2 NCD	Long-term	150.00	-	[ICRA]AA+ (Stable); withdrawn	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA@	[ICRA]AA (Stable)
3 Commercial Paper	Short term	200.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+
4 Term Loan	Long-term	925.01	925.01	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA@	[ICRA]AA (Stable)
5 Working capital	Long-term	1795.0	-	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA@	[ICRA]AA@	[ICRA]AA (Stable)
6 Unallocated	Long-term	674.99	674.99	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	-	-	-	-

@= On rating watch with negative implications

⁴ Medicines and Healthcare Products Regulatory Agency of the United Kingdom

⁵ Medicines Control Council

⁶ Therapeutic Goods Administration

⁷ The National Health Surveillance Agency or ANVISA (Agência Nacional de Vigilância Sanitária)

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 analysing 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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	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+ (Stable); 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	571.42	[ICRA]AA+ (Stable)
Not issued	Commercial paper	Not issued	Not issued	Not issued	200.00	[ICRA]A1+
NA	Term Loan 1	Dec. 2017	NA	Dec. 12, 2025	500.03	[ICRA]AA+ (Stable)
NA	Term loan 2	Dec. 2017	NA	Sep. 14, 2025	299.98	[ICRA]AA+ (Stable)
NA	Term Loan 3	May 2019	NA	May 17, 2024	125.00	[ICRA]AA+ (Stable)
NA	Working capital facility	NA	NA	NA	1,795.00	[ICRA]AA+ (Stable)
NA	Unallocated	NA	NA	NA	674.99	[ICRA]AA+ (Stable)

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

Annexure II: 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
TPL (Malta) Limited	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
Step-down Subsidiaries		
Heumann Pharma GmbH & Co. Generica KG	100.00%	Full Consolidation
Heunet Pharma GmbH	100.00%	Full Consolidation
Torrent Pharma (Malta) Limited	100.00%	Full Consolidation

Source: TPL annual report FY2022, As on March 31, 2022

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

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545328

shamsherd@icraindia.com

Kinjal Shah

+91 22 61143400

kinjal.shah@icraindia.com

Deepak Jotwani

+91 124 4545870

deepak.jotwani@icraindia.com

Gaurav Kushwaha

+91 22 61143465

gaurav.kushwaha@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



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