

# India Ratings Upgrades Torrent Pharmaceuticals and its NCDs to 'IND AA+'; Outlook Stable

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India Ratings and Research (Ind-Ra) has upgraded Torrent Pharmaceuticals Limited's (Torrent) Long-Term Issuer Rating to 'IND AA+' from 'IND AA'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating	Rating Action
Term loan	-	-	-	14 December 2025	INR23.5	IND AA+/Stable	Upgraded
Non-convertible debentures (NCDs)#	-	-	-	-	INR12.42 (reduced from INR14.09)	IND AA+/Stable	Upgraded

#Change in size of issue, details in annexure

**Analytical Approach:** The agency continues to take a consolidated view of Torrent and its subsidiaries while arriving at the ratings, because of the strong legal, operational and strategic linkages between them. Torrent has 14 subsidiaries (<https://indiaratings.co.in/data/Uploads/Others/Subs/Torrent%20subs.pdf>) overseas.

The upgrade reflects Torrent's improving business mix towards the higher return on capital employed (RoCE) India business, led by the above-average industry growth in key therapy areas. Healthy EBITDA generation during 9MFY22 and the successful amalgamation of previous acquisitions give further confidence on the execution capabilities. Torrent has been able to repay scheduled payments and consequently reduce its net leverage to around 1x at FYE22. Ind-Ra believes any further debt-led acquisitions shall not lead to Torrent breaching the net leverage trigger of over 2x on a sustainable basis, over the near to medium term.

## Key Rating Drivers

**Improving Presence in Domestic Business:** Torrent's domestic business' contribution to the revenue increased to 51% during 9MFY22 (FY21 : 47% ; FY20 : 44%). Ind-Ra believes improving contribution is a positive given the higher RoCE generated in the domestic formulations business (over 30% RoCE). The company is ranked eighth in Indian pharma market, as per All Indian Origin Chemists & Distributors Ltd. It also holds a domestic leading position in most chronic therapies. The chronic and sub-chronic segment, which has historically witnessed sustained revenue growth and high profitability, comprised 74% of the total domestic revenues during moving annual total February 2022. Its top five therapies namely cardiac (7% yoy), gastrointestinal (28%), neuro/central nervous system (18%), vitamins (16%) and anti-diabetic (17%) reported healthy growth during MAT February 2022. Torrent's domestic formulations business grew at a CAGR of 15% over FY16-FY21.

During 9MFY22, the revenue grew 15% yoy. Ind-Ra expects Torrent to witness domestic business revenue growth in line with the Indian pharma market (IPM) growth or outperform the market growth on a yoy basis over the near-to-medium term, led by its focus on chronic therapies and new launches and an improvement in field force productivity. The company has successfully integrated two large domestic business acquisitions of Elder Pharmaceuticals Ltd (in December 2013) and Unichem Laboratories Ltd (December 2017). Inorganic growth remains an integral part of its growth strategy; however, Ind-Ra has not factored the same in its estimates.

**Strong Operating Performance & Focus on Productivity:** Torrent's consolidated EBITDA margins remained healthy at 29.4% during 9MFY22 (FY21: 31.1%; FY20: 27.3%), in line with Ind-Ra's expectation. This was led by the successful integration of past acquisitions and improvement in field force productivity. Field force productivity improved to over INR12 million/MR (medical representatives) during FYE222 from INR5.76 million/MR annually during FY18.

**Deleveraging on Track:** Torrent's consolidated leverage ratio (net debt/operating EBITDA) is likely to have been at around 1.3x at end-9MFY22 (FY21: 1.6x; FY20: 2.3x), driven by an improvement in the operating EBITDA and reduced debt levels. Torrent's scheduled repayment was over INR10 billion during FY22 (FY21: INR14.45 billion) and over INR9 billion is due during FY23 and FY24 each. Accordingly, as per Ind-Ra estimates, the total debt stood would have been over INR39 billion during FY22 (FY21: INR48 billion; FY20: INR58.40 billion). Ind-Ra expects the net leverage ratios to decline below 1.0x over next two years with lower capex intensity (INR2.5 billion-3 billion FY22-FY24) and a sustained operating performance.

**Liquidity Indicator - Adequate:** Torrent's consolidated cash flow from operations stood at INR9.03 billion during 1HFY22 (FY21: INR20.10 billion; FY20: INR13.91 billion), due to improving operating profitability. This is likely to continue in FY22-FY24, leading to adequate liquidity for upcoming debt repayments. Torrent's working capital cycle expanded to 97 days during FY21 (FY20: 79 days, FY19: 61 days), as the company built-up high inventory levels to mitigate any supply dependency risk. Torrent's average utilisation of fund-based limits stood at 17% for the 12 months ended February 2022. The company had high consolidated cash balances of over INR6.50 billion at end-September 2021 as well as unutilised fund-based limits of around INR14 billion..

**Diversification across Markets; US Sales Decline:** Torrent has a well-diversified presence across key markets of the US, Germany, Brazil and rest of the world markets. However, Torrent's presence in the US market (12% of 9MFY22 revenue) has been impacted by the regulatory overhang on two of its facilities located at Indrad and Dahej in India impacting new approvals. The company's US market revenue fell to USD102 million during 9MFY22 (FY21: USD166 million, FY20: USD207 million), led by lack of new approvals and the ongoing erosion in the base business. Ind-Ra will closely monitor the regulatory developments in the US market and its impact on the consolidated financial and credit metrics. Despite the USFDA overhang, Torrent continues to strengthen its pipeline through strong abbreviated new drug application (ANDA) filings. Ind-Ra notes the USFDA has completed the inspection of Torrent's manufacturing facility at Levittown in Pennsylvania US successfully during December 2021, according to the management.

**Regulatory Risks:** According to Torrent, only around 9% of its domestic portfolio is under price control, which is not material. However, any addition of its medicines/formulations to the affordable drug list under National List of Essential Medicines could subject the company to the price ceiling issued under Drug Pricing Control Order, which may inhibit its growth in the domestic market. Torrent's US-focused facilities are already facing regulatory issues. While commercial operations are not impacted, new product approvals will be restricted until these issues are resolved which has led to price erosion in existing basket of products and a decline in sales. The company is awaiting re-inspection from the US Food & Drug Administration (USFDA) to its facilities.

These facilities contribute majority to the revenues and pending ANDAs. Torrent has implemented remediation measures and submitted closure report to the USFDA. It awaits further guidance from the USFDA for a re-inspection of its facilities. Torrent had around 54 ANDAs pending for approval from the USFDA at end-March 2021. Given the scale of US exposure, Ind-Ra believes the scale of backward integration will be lower than its peers'.

**M&A Risk:** The agency will assess the impact of mergers and acquisitions on a case-to-case basis and review the ratings accordingly, as a higher-than-expected debt-funded acquisition can slowdown the deleveraging.

**Standalone Credit Profile:** Torrent reported a revenue of INR50.82 billion during 9MFY22 (FY21: INR64.51 billion; FY20: INR61.68 billion), operating EBITDA margins of 31.9% (34.1%; 31.1%), net debt/operating EBITDA of around 1.3x (1.9x; 2.6x) and operating EBITDA/interest expense of 8.7x (6.5x; 4.5x).

## Rating Sensitivities

**Positive:** Continued strong market growth in the India business coupled with an improvement in the scale and profitability of the other businesses (Germany, Brazil, US), on a sustained and consolidated basis, will lead to a positive rating action.

**Negative:** Any adverse regulatory actions having a significant impact on operating performance, significant decline in operating performance and /or large debt-funded acquisition, resulting in a consolidated net debt/EBITDA ratio significantly above 1.5x, on a sustained basis, could result in a downgrade in the rating.

## ESG Issues

**ESG Factors Minimally Relevant to Rating:** Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on Torrent, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](https://www.indiaratings.co.in/PressRelease?pressReleaseID=56916) (https://www.indiaratings.co.in/PressRelease?pressReleaseID=56916). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](https://www.indiaratings.co.in/PressRelease?pressReleaseID=57016) (https://www.indiaratings.co.in/PressRelease?pressReleaseID=57016).

## Company Profile

Incorporated in 1959, Torrent manufactures branded and generic formulations. Dosage forms include tablets, capsule and extended release formulations. Its major markets include India, the US, Germany and Brazil.

### FINANCIAL SUMMARY – Consolidated

Particulars	FY21	FY20
Revenue (INR billion)	80.0	79.3
EBITDAR (INR billion)	24.9	21.7
EBITDAR margin (%)	31.05	27.34
Gross interest coverage (x)	6.94	4.82
Net leverage (x)	1.6	2.3
Source: Company		

## Solicitation Disclosures

Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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## Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (billion)	Rating	5 May 2021	7 May 2020	21 April 2020	10 May 2019
Issuer rating	Long-term	-	IND AA+/Stable	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/Stable
Term loans	Long-term	INR23.5	IND AA+/Stable	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/Stable
NCDs	Long-term	INR12.42	IND AA+/Stable	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/Stable



## Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
NCDs	INE685A07082	13 December 2017	Variable	12 December 2025	INR5.72	IND AA+/Stable
NCDs	INE685A07090	16 September 2019	Variable	31 August 2022	INR3.0	IND AA+/Stable
NCDs	INE685A07116	14 May 2020	Variable	21 April 2023	INR2.0	IND AA+/Stable
NCDs	INE685A07108	24 April 2020	7.7	24 April 2023	INR1.70	IND AA+/Stable

## Bank wise Facilities Details

Click here to see the details (</racbankwisefacility/58214>)

## Complexity Level of Instruments

Instrument Type	Complexity Indicator
Term loans	Low
NCDs	Low

For details on the complexity levels of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators> (<https://www.indiaratings.co.in/complexity-indicators>).

## Contact

### Primary Analyst

Nishith Sanghvi

Associate Director

India Ratings and Research Pvt Ltd

Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East, Mumbai - 400051

022 4000 1712

For queries, please contact: [infogrp@indiaratings.co.in](mailto:infogrp@indiaratings.co.in) (<mailto:infogrp@indiaratings.co.in>).

### **Secondary Analyst**

Poornima H

Analyst

+91 44 43401723

### **Chairperson**

Abhishek Bhattacharya

Senior Director and Head Large Corporates

+91 22 40001786

### **Media Relation**

Ankur Dahiya

Manager – Corporate Communication

+91 22 40356121

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