

India Ratings Rates Torrent Pharmaceuticals's Additional NCDs at 'IND AA+' /Stable; Affirms Existing Ratings

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India Ratings and Research (Ind-Ra) has taken the following rating actions on Torrent Pharmaceuticals Limited (Torrent):

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating	Rating Action
Long-Term Issuer Rating						IND AA+/Stable	Affirmed
Proposed non-convertible debentures (NCDs)					INR5.0	IND AA+/Stable	Assigned
Term loan	-	-	-	25 July 2030	INR23.5	IND AA+/Stable	Affirmed
NCDs#	-	-	-	-	INR9.17 (reduced from INR12.42)	IND AA+/Stable	Affirmed



#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 11 subsidiaries (100% owned) and three step-down subsidiaries overseas, and one subsidiary in India.

Key Rating Drivers

Acquisition for Entry into High-growth Cosmetic Dermatology Space: On 27 September 2022, Torrent entered into a definitive agreement to acquire a 100% stake in Curatio India Pvt Ltd (Curatio), which has operations in India, Nepal, Sri Lanka and Philippines. The acquisition of Curatio by Torrent was at an enterprise value of INR20 billion (INR18.85 billion ex-cash).

Curatio reported revenues of INR1.31 billion and INR2.22 billion during 1HFY23 and FY22, respectively (FY21: INR1.71 billion). It has a portfolio of over 50 brands in the dermatology segment and derives 95% of revenues from the dermatology segment. Paediatric products contributed 60% of to the total FY22 revenues, acne/face

care products 20% and hair/scalp care contributed 12%. Curatio has primary focus on the cosmetic dermatology (CD) segment. As per All Indian Origin Chemists & Distributors Ltd (AIOCD), India's CD segment grew at a CAGR of 16% over 2012-2022 vs the Indian pharmaceutical market (IPM) growth at 10% during the same period.

Ind-Ra believes the acquisition adds to the diversification of Torrent's existing portfolio, further strengthening the company's presence in the high-return on capital employed (RoCE) India business which comprised 50% of FY22 revenue. The acquisition will improve Torrent's presence in dermatology (rank in the Indian dermatology market will improve from 21 to top 10 post acquisition, as per AIOCD- moving annual total (MAT) (June 2022)) by adding key brands in cosmetic and paediatric dermatology segments. Given Torrent was actively looking at large acquisitions, Ind-Ra had included a debt-funded acquisition of a scale similar to Curatio's in its earlier estimates. Ind-Ra expects the net leverage (net debt/EBITDA) to remain above 1x during FY23-FY24 and decline below 1x FY25 onwards (FY22: 1.4x) despite Curatio's primarily debt-funded acquisition, led by healthy EBITDA generation.

Strong Presence in Domestic Business: Torrent's domestic business' contribution to the revenue increased to 50% during FY22 (FY21: 47%; FY20: 44%). Ind-Ra believes this improving contribution is a positive given the higher RoCE generated in the domestic formulations business (over 21% corporate RoCE at FYE22). The company is ranked eighth in Indian pharma market, as per AIOCD. It also holds a leading position in the most chronic therapies in India. The chronic and sub-chronic segments, which have historically witnessed sustained revenue growth and high profitability, comprised 76% of the total domestic revenues during MAT March 2022. Its top five therapies include cardiac, gastrointestinal, neuro/central nervous system, vitamins and anti-diabetic. Torrent's domestic formulations business grew at a CAGR of 17% over FY17-FY22.

During FY22, the overall revenue grew 15% yoy. Ind-Ra expects Torrent to witness domestic business revenue growth in line with the 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 - 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 28.6% during FY22 (FY21: 31.1%; FY20: 27.3%), in line with Ind-Ra's expectation. This was led by the successful integration of past acquisitions and an improvement in field force productivity. Field force productivity improved to over INR9.2 million/MR (medical representatives) annually during FY22 from INR4.4 million/MR annually during FY18.

Healthy Credit Metrics: Torrent's consolidated leverage ratio (net debt/operating EBITDA) was 1.4x during FY22 (FY21: 1.6x; FY20: 2.3x), due to 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 (excluding the debt to be availed for the Curatio acquisition). The total debt stood at INR40.18 billion during FY22 (FY21: INR48 billion; FY20: INR58.40 billion). Ind-Ra expects the net leverage ratio to decline below 1.0x over the next two years with lower capex intensity (INR2.5 billion-3 billion over FY23-FY24) and a sustained operating performance.

Liquidity Indicator - Adequate: Torrent's consolidated cash flow from operations stood strong at INR18.02 billion during FY22 (FY21: INR20.10 billion; FY20: INR13.91 billion), due to its healthy operating profitability. This is likely to continue over FY23-FY24, leading to adequate liquidity for upcoming debt repayments. Torrent's working capital cycle elongated to 104 days during FY22 (FY21: 97 days, FY20: 79 days), as the company built up high inventory levels to mitigate any supply dependency risk and witnessed fewer creditor days due to weaker sales in Germany. Torrent's average utilisation of its fund-based limits stood at 18% for the 12 months ended October 2022. The company had high consolidated cash balances of over INR6.50 billion at end-September 2022.

Diversification across International 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 FY22 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 USD140 million during FY22 (FY21: USD166 million, FY20: USD207 million), led by the 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.

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. These facilities contribute majority to the revenues and pending ANDAs. The Indrad facility underwent a USFDA inspection during 2QFY23 and received three observations. Torrent has submitted its remediation plan to the USFDA for the same and expects a response during 3QFY23.

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 Profile: Torrent reported a revenue of INR67.42 billion during FY22 (FY21: INR64.51 billion; FY20: INR61.68 billion), operating EBITDA margins of 31.2% (34.1%; 31.1%), net debt/operating EBITDA of around 1.5x (1.9x; 2.6x) and operating EBITDA/interest expense of 8.9x (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, the US), on a sustained and consolidated basis, will lead to a positive rating action.

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



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](#).

For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

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 (INR billion)	FY22	FY21
Revenue	85.0	80.0
EBITDA	24.3	24.8
EBITDA margin (%)	28.6	31.1
Gross interest coverage (x)	9.53	6.94
Net leverage (x)	1.40	1.77
Source: Torrent; Ind-Ra		

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Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook					
	Rating Type	Rated Limits (billion)	Rating	28 April 2022	5 May 2021	7 May 2020	21 April 2020	10 September 2019	25
Issuer rating	Long-term	-	IND AA+/Stable	IND AA+/Stable	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/
Term loans	Long-term	INR23.5	IND AA+/Stable	IND AA+/Stable	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/
NCDs	Long-term	INR14.17	IND AA+/Stable	IND AA+/Stable	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue/Outstanding (billion)	Rating
NCDs	INE685A07082	13 December 2017	Variable	12 December 2025	INR5.72	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	INR1.45	IND AA+/Stable
NCDs	INE685A07090	16 September 2019	Variable	31 August 2022	INR3.0	WD (Paid in full)

Total					INR9.17	
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Bank wise Facilities Details

[Click here to see the details](#)

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>.

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

Secondary Analyst

Poornima H

Analyst

+91 44 43401723

Chairperson

Abhishek Bhattacharya

Senior Director and Head Large Corporates

+91 22 40001786

Media Relation

Ankur Dahiya

Senior Manager – Corporate Communication

+91 22 40356121

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