

06th May, 2021

The Dy. General Manager (Listing Dept.)
BSE Limited
Corporate Relationship Dept.,
1st Floor, New Trading Ring,
P. J. Towers, Dalal Street, Fort,
Mumbai - 400 001
(BSE Scrip Code: 500420)

The Manager – Listing Dept.,
National Stock Exchange of India Ltd.,
Exchange Plaza, 5th Floor,
Plot No. C/1, G. Block,
Bandra - Kurla Complex, Bandra (E),
Mumbai – 400 051
(NSE Scrip Code: TORNTPHARM)

Dear Sir,

Sub.: Intimation of Credit Rating

Pursuant to Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, it is hereby informed that India Ratings and Research Private Limited has revised outlook to 'Positive' from 'Stable', and affirmed long term issuer rating at IND AA. The instrument wise rating actions are as follows:

Instrument Type	Earlier rating	Revised rating
Term loan	IND AA (Stable)	IND AA (Positive)
Non-convertible debentures (NCDs)	IND AA (Stable)	IND AA (Positive)

The rating letter issued by the India Ratings and Research Private Limited is enclosed herewith.

This is for your information and record.

Thanking you,

Yours Sincerely,

For TORRENT PHARMACEUTICALS LIMITED

MAHESH AGRAWAL
VP (LEGAL) & COMPANY SECRETARY

Encl.: A/a

TORRENT PHARMACEUTICALS LIMITED

CIN: L24230GJ1972PLC002126

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India Ratings Revises Torrent Pharmaceuticals' Outlook to Positive; Affirms 'IND AA'

05

MAY 2021

By [Nishith Sanghvi](#)

India Ratings and Research (Ind-Ra) has revised Torrent Pharmaceuticals Limited's (Torrent) Outlook to Positive from Stable while affirming the Long-term Issuer Rating at 'IND AA'. 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/Positive	Affirmed; Outlook revised to Positive
Non-convertible debentures (NCDs)#	-	-	-	-	INR14.09 (reduced from INR16.95)	IND AA/Positive	Affirmed; Outlook revised to Positive
Proposed NCDs*	-	-	-	-	INR0.05	WD	Withdrawn

#Change in size of issue, details in annexure

*The ratings have been withdrawn as the company is no longer proceeding with the instrument as envisaged.

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 15 subsidiaries overseas.

The Positive Outlook reflects 1) over 200bp growth outperformance by Torrent's India business vs the Indian pharma market (IPM) since FY19, led by a higher value chronic and sub-chronic therapy portfolio; 2) improving growth visibility in the key markets of the US, Germany and Brazil; 3) an improvement in the consolidated operational performance with the EBITDA margins rising 400bp to 31.4% during 9MFY21 from the FY20 levels, led by the successful integration of acquired business and cost-saving initiatives; and 4) a net debt reduction of close to INR10 billion in FY21.

KEY RATING DRIVERS

Strong Presence in Domestic Business: Torrent's domestic business contributed 46% to its 9MFY21 revenues. The company is ranked eighth in IPM, 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 comprises 76% of the total domestic revenues which has historically witnessed sustained revenue growth and high profitability. Also, Torrent's domestic revenue grew 4.1% during

March 2021 as per All Indian Origin Chemists & Distributors, outperforming IPM of 2.0%, primarily due to the strong presence in the chronic therapies which continued to witness growth despite COVID induced lockdowns due to high prescription stickiness.

Torrent's domestic formulations business grew at a 21% CAGR over FY17-FY20. As per the management expectation, the company will continue to outperform the domestic market growth, led by its strong focus on chronic therapies and new launches in the line extensions and anti-diabetic and derma category products. 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 in India remains an integral part of its growth strategy; however, Ind-Ra has not factored the same in its estimates.

Healthy Diversification Across Markets: Torrent has a well-diversified presence across key markets of the US, Germany, Brazil & Rest of World Markets. Torrent's presence in the US market (16% of 9MFY21 revenue) has been impacted by the regulatory overhang on three of its facilities located at Indrad and Dahej in India and Levittown in the US. Torrent has implemented remediation measures and submitted closure report to US Food & Drug Administration (USFDA). It awaits further guidance from USFDA for re-inspection of its facilities. Despite the USFDA overhang, Torrent continues to strengthen its pipeline through double-digit abbreviated new drug application (ANDA) filings. The company reported revenue of USD137 million during 9MFY21 (FY20: USD207 million).

Ind-Ra expects US sales to have declined during FY21, due to (a) the temporary discontinuation of Sartans based products, (b) the lack of new approvals, and c) the ongoing price erosion in the base business. In the US, the company products are in the top three market share category for over 50% of the portfolio on a consistent basis. The company expects Germany sales to revert to its double-digit growth trajectory post upgradation of quality management systems. Brazil sales are also expected to improve with the stabilisation of Brazilian currency. Torrent will continue to focus on these markets to gain market share through expansion and product launches. The company has adequate manufacturing capacity to sustain growth in these markets over the medium term.

Strong Focus on Productivity & Operating Performance: Torrent's consolidated EBITDA margins grew consistently to 30% during 3QFY21 from 21% during 4QFY17 and to 31.4% in 9MFY21 (FY20: 26.9%; FY19: 25.8%), on account of the successful implementation of acquisition related cost synergies, productivity enhancement, specialty focus & brand building, operating leverage and covid-induced cost savings in FY21. Led by successful integration, field force strength reduced to 3,600 in during FY21 from over 5,500 in during FY18 (including Unichem MRs). Filed force productivity thus could improve to over INR10.08 million/MR during FY21 from INR5.28 million/MR annually. While the benefits of EBITDA margin improvement may not be entirely sustainable as operating expenses start to increase post the lockdown, the company expects to sustain margins at 28%-30% over the medium to long term. Torrent expects any annual margin improvement to be led by price improvements in its portfolio and operating leverage benefits.

Deleveraging on Track: Torrent's consolidated leverage ratio (net debt/operating EBITDA) reduced to around 1.6x in 9MFY21 (FY20 : 2.5x, FY19: 2.5x), driven by an improvement in the operating EBITDA and debt level. Torrent's scheduled repayment was INR14.45 billion during FY21 and management expected to make net repayments of close to INR10 billion during the year. Accordingly, as per Ind-Ra estimates, the total debt stood would have been over INR48 billion during FY21 (FY20: INR58.40 billion; FY19: INR60.38 billion). The company has annual debt repayments of over INR10 billion annually during FY22-FY24. Management expects the net leverage ratios to decline significantly below 1.0x over next two years with lower capex intensity (around INR3 billion FY22-FY24) and a sustained operating performance.

Liquidity Indicator - Adequate: Torrent's consolidated cash flow from operations stood at INR11.3 billion in 1HFY21 (FY20: INR13.91 billion; FY19: INR17.98 billion) due to improving operating profitability and it would continue in FY22-FY24, leading to adequate liquidity for upcoming debt repayments. Torrent's gross working capital cycle expanded to 187 days during 1HFY21 (FY20: 175 days, FY19: 160 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 14% for the 12 months ended March 2021. The company had high consolidated cash balances of over INR7.5 billion at end-March 2021 as well as unutilised fund-based limits of INR16.95 billion for use in FY22.

Regulatory Risks: According to Torrent, only around 10% of the company's 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 them to the price ceiling issued under Drug Pricing Control Order, which may inhibit the company's 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. The company is awaiting re-inspection from USFDA to its facilities. However, the company expects them to get delayed due to the COVID-19 lockdown in the US. These facilities contribute majority of the revenues and pending ANDAs. Torrent had around 47 ANDAs pending for approval and six tentative approvals from the USFDA at end-December 2020. 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 M&A on a case-to-case basis and review the ratings accordingly, as a higher-than-expected debt-funded acquisition can slowdown deleveraging.

Standalone Credit Profile: Torrent reported revenue of INR49.83 billion in 9MFY21 (FY20: INR61.68 billion; FY19: INR57.62 billion) and operating EBITDA margins of 35.4% (34.8%: 27.9%). The company's net debt/operating EBITDA was 2.4x in 1HFY21 (FY20: 2.29x; FY19: 3.19x) and operating EBITDA/interest expense was 6.5x (5.1x; 3.4x).

RATING SENSITIVITIES

Positive: Continued strong market growth in the India business coupled with improvement in the scale and profitability of the other businesses (Germany, Brazil, US), leading to net debt/EBITDA reducing below 1.0x on a sustained basis will lead to a positive rating action.

Outlook Revision to Stable: Adverse regulatory actions having a significant impact on operating performance, significant decline in operating performance and /or large debt-funded acquisition, resulting in the consolidated net debt/EBITDA remaining significantly above 1.0x, on a sustained basis, could result in a revision of the Outlook.

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	9MFY21	FY20	FY19
Revenue (INR million)	60,680	79,393	76,728
EBITDA (INR million)	19,034	21,367	19,831
EBITDA margin (%)	31.4	26.9	25.8
Interest coverage (x)	6.70	4.74	3.94
Net leverage (x)	-	2.42	2.46
Source: Company			

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	7 May 2020	10 September 2019	3 January 2019
Issuer rating	Long-term	-	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/Stable
Term loans	Long-term	INR23.5	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/Stable
NCDs	Long-term	INR14.09	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
NCDs	INE685A07082	13 December 2017	Variable	12 December 2025	INR7.14	IND AA/Positive
NCDs	INE685A07090	16 September 2019	Variable	31 August 2022	INR3.0	IND AA/Positive

NCDs	INE685A07116	14 May 2020	Variable	21 April 2023	INR2.0	IND AA/Positive
NCDs	INE685A07108	24 April 2020	7.7	24 April 2023	INR1.95	IND AA/Positive
NCDs	-	-	-	-	INR0.05	WD

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>.

SOLICITATION DISCLOSURES

Additional information is available at 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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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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Applicable Criteria

Corporate Rating Methodology
Short-Term Ratings Criteria for Non-Financial Corporates

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