

22<sup>nd</sup> April, 2020

The Dy. General Manager (Listing Dept.)  
BSE Limited  
Corporate Relationship Dept.,  
1<sup>st</sup> 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, 5<sup>th</sup> 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**

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Pursuant to Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, it is hereby informed that India Ratings and Research Private Limited has affirmed / assigned the rating on various instruments of the Company. 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

SD/-  
MAHESH AGRAWAL  
VP (LEGAL) & COMPANY SECRETARY  
Contact No: +91 79 26599000

Encl.: A/a

Note - The above intimation is not signed on account of Work from Home policy adopted by the Company due to coronavirus outbreak.

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**TORRENT PHARMACEUTICALS LIMITED**

CIN: L24230GJ1972PLC002126

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## India Ratings Affirms Torrent Pharmaceuticals at 'IND AA'/Stable; Rates NCDs

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By Krishnanath Munde

APR 2020

India Ratings and Research (Ind-Ra) has affirmed Torrent Pharmaceuticals Limited's (Torrent) Long-Term Issuer Rating at '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	Affirmed
Non-convertible debentures (NCDs)	INE685A07082	13 December 2017	7.98	12 December 2025	INR10.0	IND AA/Stable	Affirmed
NCDs	INE685A07090	16 September 2019	7.92	31 August 2022	INR3.0	IND AA/Stable	Affirmed
Proposed NCDs*					INR2.05	Provisional IND AA/Stable	Assigned
NCDs#\$					INR1.95	IND AA/Stable	Assigned

\* The final rating will be assigned following the closure of the issue upon the receipt of the final documentation, conforming to the information already received by Ind-Ra.

#The NCDs are non-convertible, secured, rated, listed and redeemable in nature. The proceeds of the issue will be used for the general corporate purposes.

\$yet to be issued

**Analytical Approach:** The agency continues to take a consolidated view of Torrent and its subsidiaries (shareholding as of 31 March 2019) to arrive at the ratings. Torrent has one partnership firm in India and 16 (including four step-down subsidiaries) subsidiaries overseas.

### KEY RATING DRIVERS

**Deleveraging on Track:** Torrent's consolidated operating EBITDA margins improved to 27.1% in 9MFY20 (FY19: 25.8%; FY18: 22.5%), led by the benefits of Unichem Limited's domestic business acquisition completed in December 2017. The consolidated leverage ratio (net debt/operating EBITDA) improved to 2.1x for the trailing 12 months ended December 2020 (FY19: 2.5x, FY18: 3.9x), driven by an increase in its operating EBITDA (FY19: 47% up yoy) and a reduction in consolidated debt to INR54.13 billion at end-December 2019 (FYE19: INR61.34 billion; FYE18: INR65.61 billion).

**Successful Integration of Unichem:** Torrent has successfully integrated the domestic businesses of Unichem, in line with the guidance provided by the management. Consequently, EBITDA margin jumped 440bp to 27.1% in 9MFY20 from 22.7% in FY18 on the successful implementation of the acquisition-related cost synergies, productivity enhancement, in-clinic efficiency improvement, specialty focus and cross-selling initiatives. The company has also strengthened its chronic/sub-chronic business (75% of domestic sales), led by leveraging the existing field force. Its field force strength reduced to 4,000 at end-3QFY20 from around 5,500 immediately after acquisition. This led to a significant improvement in the field force productivity to around INR0.72 million per MR/month at end-December 2019 (FY19: INR0.62 million per MR/month; FY18: INR0.44 million per MR/month).

**Liquidity Indicator - Adequate:** Based on Ind-Ra calculations, Torrent's consolidated cash flow from operations stood at INR5.31 billion in 1HFY20 (FY19: INR13.03 billion, FY18: INR6.25 billion) due to the successful integration of Unichem's portfolio and an improvement in the operating profitability. Due to higher concentration in branded generic markets, particularly India, Torrent provides strong visibility on margin improvement trajectory and cash flow generation, leading to adequate liquidity for the upcoming debt repayments (FY21: INR13.91 billion; FY22: INR10.29 billion). At FYE20, Torrent's working capital cycle is likely to marginally increase to 216 days (FY19: 197, FY18: 254 days) due to higher inventory and receivable days. Liquidity is further supported by high cash balances of INR9.86 billion at end-December- 2019 as well as unutilised fund-based limits of INR9.77 billion at end-March 2020. The agency expects the company's sustainable margin improvement and comfortable liquidity to mitigate repayment risks, if any.

**Limited COVID-19 Impact:** The pharmaceuticals sector falls under essential services; hence, is operational despite the ongoing nation-wide lockdown. However, the companies in the sector are facing challenges regarding logistics and plants are operating at a sub-optimal level due to manpower and transport-related issues. China remains a major source for the procurement of intermediates and active pharmaceutical ingredients for Indian pharmaceutical companies. On the demand side, considering Torrent has higher concentration of chronic and sub-chronic portfolio (75%), its existing prescription is not impacted due to the ongoing lockdown. On the supply side, Torrent has limited direct exposure to the sourcing of raw material from China. On the manufacturing side, Torrent's manufacturing facilities are operating at around 70% of its normal capacity utilisation, as the company has implemented social distancing norms across its facilities. However, Torrent has adequate inventory of raw material and finished goods, ensuring continuity of supplies and catering of demand. The company is also seeing gradual normalisation in manufacturing as well as logistic activities.

**Regulatory Risk:** Around 10% of the company's domestic portfolio is under price control. The addition of medicines/formulations to the affordable drug list under National List of Essential Medicines may inhibit the company's margin in the domestic market. Torrent's US focused facilities at Indrad (warning letter) and Dahej (classified as official action indicated) are facing regulatory issues from the United States Food & Drug Administration (USFDA). While commercial operations and existing supplies have not been impacted, new product approvals will be restricted till these issues resolved. The company's implementation of remediation plan is on-track and is now awaiting re-inspection from the USFDA at its facilities. These facilities contribute the majority of the pending abbreviated new drug applications. Torrent had 45 abbreviated new drug applications pending for approval from the USFDA and six tentative approvals at end-December 2019.

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

**Standalone Performance:** Torrent reported revenue of INR57.62 billion in FY19 (FY18: INR42.44 billion) and operating EBITDA margins of 27.99% (21.38%).

## RATING SENSITIVITIES

**Positive:** The successful integration of the acquired businesses, coupled with an improvement in the scale and profitability of the US business, leading to the net debt/EBITDA reducing below 1.0x on a sustained basis will lead to a positive rating action.

**Negative:** Delays in the integration or lower-than-expected synergies from the acquired businesses resulting in subdued profitability and /or large debt-funded acquisitions leading to net debt/EBITDA remaining above 2.0x beyond FY20 will lead to a negative rating action.

## 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	9MFY20	FY19	FY18
Net revenue (INR billion)	59.93	76.73	59.50
Operating EBITDA (INR billion)	16.22	19.83	13.49
Operating EBITDA margin (%)	27.06	25.85	22.68
Operating EBITDA/Gross interest expense (x)	4.65	3.94	4.37
Net debt/Operating EBITDA (x)		2.50	3.86
Total debt (INR billion)		61.34	65.61
Free cash and liquid investments (INR billion)		11.67	13.59
Source: Company, Ind-Ra			

## RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook	
	Rating Type	Rated Limits (billion)	Rating	10 September 2019	3 January 2019
Issuer rating	Long-term	-	IND AA/Stable	IND AA/Stable	IND AA/Stable
Term loans	Long-term	INR23.5	IND AA/Stable	IND AA/Stable	IND AA/Stable
NCDs	Long-term	INR17.0	IND AA/Stable	IND AA/Stable	IND AA/Stable

## COMPLEXITY LEVEL OF INSTRUMENTS

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

## SOLICITATION DISCLOSURES

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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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## ABOUT INDIA RATINGS AND RESEARCH

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**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.

India Ratings is a 100% owned subsidiary of the Fitch Group.

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## Applicable Criteria

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[Corporate Rating Methodology](#)

## Analyst Names

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