

India

ADD (no change)

Consensus ratings*: Buy 25 Hold 5 Sell 3

Current price:	Rs1,877
Target price:	Rs2,266
Previous target:	Rs2,266
Up/downside:	20.7%
InCred Research / Consensus:	5.2%

Reuters:	TORP.NS
Bloomberg:	TRP IN
Market cap:	US\$7,637m
	Rs635,335m
Average daily turnover:	US\$9.3m
	Rs771.9m
Current shares o/s:	338.4m
Free float:	28.7%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.5	(3.2)	19.3
Relative (%)	3.7	(0.5)	10.5

Major shareholders	% held
Promoters	71.3
BlackRock	1.3
Kotak Mahindra MF	1.2

Analyst(s)



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Torrent Pharmaceuticals Ltd

Marches ahead steadily

- 2QFY24 earnings were broadly in line with estimates. Strong India growth at 12% (ex-Curatio) and sustenance of 75%+ gross margin are the key positives.
- Margins expanded by 50bp QoQ, despite absorption of increased SG&A expenses. Torrent Pharma discontinued certain low-margin products in the US.
- No major change in our earnings estimates. Retain ADD rating on the stock with an unchanged target price of Rs2,266.

Margins sustain despite higher SG&A expenses

2QFY24 revenue and EBITDA of Torrent Pharma were broadly in line with our estimates as well as consensus estimates. Margins stood at 31%, a sequential improvement of 50bp; this was despite absorbing higher SG&A expenses relating to consumer health business. Gross margin expanded by 30bp QoQ, led by price hikes and discontinuation of low-margin products in the US; the company expects gross margin to remain at a similar level in 2QFY25F. Brazil sales grew 23% YoY in constant currency or CC terms, partly led by spillover sales from 1QFY24. The business in Germany was up 8% YoY in CC terms, as the recently won tender supplies commenced; the company expects German market traction to broadly sustain. The US market revenue declined by 16% QoQ, as the company discontinued certain low-margin products. Torrent Pharma recently commercialized its new oral oncology facility at Bileshwarpura (Indrad) and is working on 10 oncology assets that will be commercialized over the next three-to-four years. Its Dahej plant recently received EIR from the US FDA, which paves the way for new product nods from the facility. Further, it has completed remediation of its Indrad plant, which is awaiting the US FDA inspection.

India business continues to outperform

Torrent Pharma's India business grew 12% YoY, excluding Curatio, much ahead of peers and IPM growth of 4% (AIOCD) led by continued double-digit growth in chronic therapies, revival in gastro-intestinal products demand, traction in consumer division & new launches like Sitagliptin (expect Rs1bn in MAT sales). Curatio grew 17% YoY, led by strong growth in the top focused brands (especially Tedibar, which was up 25% YoY). Curatio's margins are now 1,400bp higher since its acquisition, largely reflecting the impact of price hikes and productivity improvement, in our view. The pilot launch of Shelcal-500 in the consumer health division has been successful & Torrent Pharma is now rolling it at the national level.

Retain ADD rating with a target price of Rs2,266

Torrent Pharma's large presence in branded generics empowers it to consistently take price hikes and sustain its above-industry margins. Further improvement in Curatio's profitability and a potential cut in plant-related remediation costs by 2HFY24F, along with the launch of new products from the affected plants, should help absorb fixed costs better, thereby boosting margins. We broadly retain our earnings estimates and reiterate our ADD rating on the stock with a target price of Rs2,266. Slowdown in Indian pharmaceutical market is key downside risk.

Financial Summary

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	80,050	85,080	96,200	108,203	120,910
Operating EBITDA (Rsm)	24,850	24,310	28,420	33,551	38,126
Net Profit (Rsm)	12,520	7,770	12,450	16,352	20,573
Core EPS (Rs)	37.0	32.0	36.8	48.3	60.8
Core EPS Growth	22.1%	(13.4%)	14.8%	31.3%	25.8%
FD Core P/E (x)	50.75	58.59	51.03	38.85	30.88
DPS (Rs)	10.0	24.0	22.0	15.0	17.5
Dividend Yield	0.53%	1.28%	1.17%	0.80%	0.93%
EV/EBITDA (x)	26.79	27.55	23.95	20.09	17.21
P/FCFE (x)	17.78	18.64	27.37	17.58	12.57
Net Gearing	52.1%	58.5%	73.7%	55.2%	24.7%
P/BV (x)	10.88	10.67	10.25	8.96	7.36
ROE	23.5%	18.4%	20.5%	24.6%	26.2%
% Change In Core EPS Estimates				(4.71%)	(0.17%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 2QFY24 results snapshot

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Revenue	22,910	24,910	24,910	25,910	26,600	16%	3%
Consumption of raw materials	6,410	7,300	7,040	6,500	6,600	3%	2%
<i>as % of sales</i>	<i>28.0%</i>	<i>29.3%</i>	<i>28.3%</i>	<i>25.1%</i>	<i>24.8%</i>		
Employee costs	3,940	4,230	4,410	4,990	5,030	28%	1%
<i>as % of sales</i>	<i>17.2%</i>	<i>17.0%</i>	<i>17.7%</i>	<i>19.3%</i>	<i>18.9%</i>		
R&D costs	1,210	1,230	1,500	1,290	1,320	9%	2%
<i>as % of sales</i>	<i>5.3%</i>	<i>4.9%</i>	<i>6.0%</i>	<i>5.0%</i>	<i>5.0%</i>		
Other expenditure	4560	4910	4690	5220	5400	18%	3%
<i>as % of sales</i>	<i>19.9%</i>	<i>19.7%</i>	<i>18.8%</i>	<i>20.1%</i>	<i>20.3%</i>		
EBITDA	6,790	7,240	7,270	7,910	8,250	22%	4%
<i>Margins (%)</i>	<i>29.6%</i>	<i>29.1%</i>	<i>29.2%</i>	<i>30.5%</i>	<i>31.0%</i>		
Depreciation	1,630	1,930	1,960	1,910	2,010		
Other income	160	-100	90	340	260		
Interest	690	1,020	1,070	1,030	910		
PBT	4,630	4,190	4,330	5,310	5,590	21%	5%
Total Tax	1,510	1,360	1,460	1,530	1,730		
<i>Tax Rate (%)</i>	<i>32.6%</i>	<i>32.5%</i>	<i>33.7%</i>	<i>28.8%</i>	<i>30.9%</i>		
PAT before MI	3,120	2,830	2,870	3,780	3,860	24%	2%
Minority interest (MI)	0	0	0	0	0		
Adj. PAT before extraordinary items	3,120	2,830	2,870	3,780	3,860	24%	2%
Extraordinary expenses	0	0	0	0	0		
Reported PAT	3,120	2,830	2,870	3,780	3,860	24%	2%
No. of shares	338.4	338.4	338.4	338.5	338.5		
EPS	9.2	8.4	8.5	11.2	11.4		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

Margins (%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Gross	72%	71%	72%	75%	75%	4%	0%
EBITDA	30%	29%	29%	31%	31%	5%	2%
Adj. PAT	14%	11%	12%	15%	15%	7%	-1%
Effective tax rate	33%	32%	34%	29%	31%	-5%	7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue contribution

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
US formulations	2,920	2,910	2,800	2,930	2,480	-15%	-15%
<i>% total revenue</i>	<i>12.7%</i>	<i>11.7%</i>	<i>11.2%</i>	<i>11.3%</i>	<i>9.3%</i>		
Europe	2,200	2,410	2,530	2,580	2,660	21%	3%
<i>% total revenue</i>	<i>9.6%</i>	<i>9.7%</i>	<i>10.2%</i>	<i>10.0%</i>	<i>10.0%</i>		
Latin America	1,850	2,480	3,180	1,900	2,520	36%	33%
<i>% total revenue</i>	<i>8.1%</i>	<i>10.0%</i>	<i>12.8%</i>	<i>7.3%</i>	<i>9.5%</i>		
RoW	2,390	2,910	2,770	2,930	2,800	17%	-4%
<i>% total revenue</i>	<i>10.4%</i>	<i>11.7%</i>	<i>11.1%</i>	<i>11.3%</i>	<i>10.5%</i>		
India formulations	12,240	12,590	12,570	14,260	14,440	18%	1%
<i>% total revenue</i>	<i>53.4%</i>	<i>50.5%</i>	<i>50.5%</i>	<i>55.0%</i>	<i>54.3%</i>		
CRAMS/ others	1,310	1,610	1,060	1,310	1,700	30%	30%
<i>% total revenue</i>	<i>5.7%</i>	<i>6.5%</i>	<i>4.3%</i>	<i>5.1%</i>	<i>6.4%</i>		
Total revenue	22,910	24,910	24,910	25,910	26,600	16%	3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. Incred and Bloomberg estimates

(Rs m)	2QFY24A	Incred Estimates	Variation (%)	Bloomberg Estimates	Variation (%)
Revenue	26,600	26,595	0%	26,269	1%
EBITDA	7,910	8,080	-2%	8,099	-2%
EBITDA Margin (%)	30%	30%	65bp	31%	109bp
PAT	3,780	3,563	6%	3,832	-1%

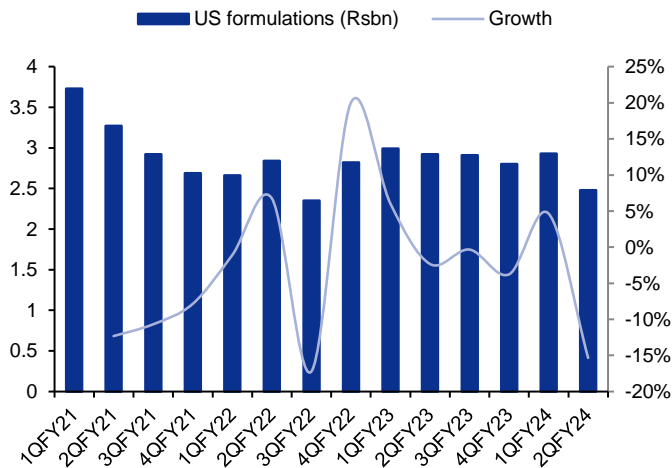
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: Our revised earnings estimates

(Rs m)	Old Estimates		New Estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	1,08,075	1,20,028	1,08,203	1,20,910	0%	1%
EBITDA	33,899	38,441	33,551	38,126	-1%	-1%
EBITDA Margin (%)	31%	32%	31%	32%	-36bp	-49bp
PAT	17,223	20,609	16,352	20,573	-5%	0%

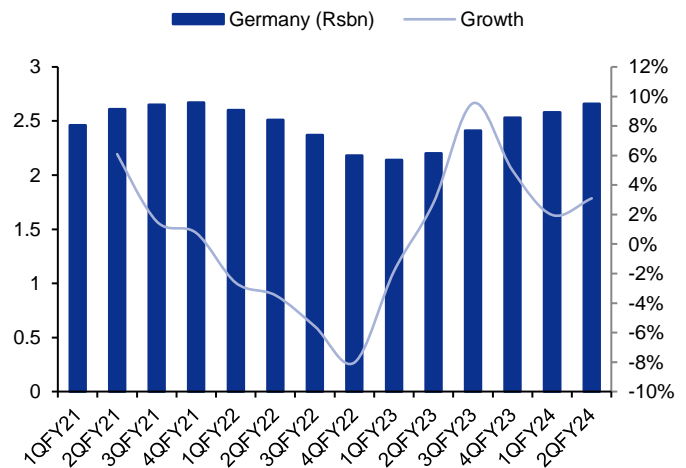
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: US market's performance impacted by warning letters for Indrad and Dahej plants



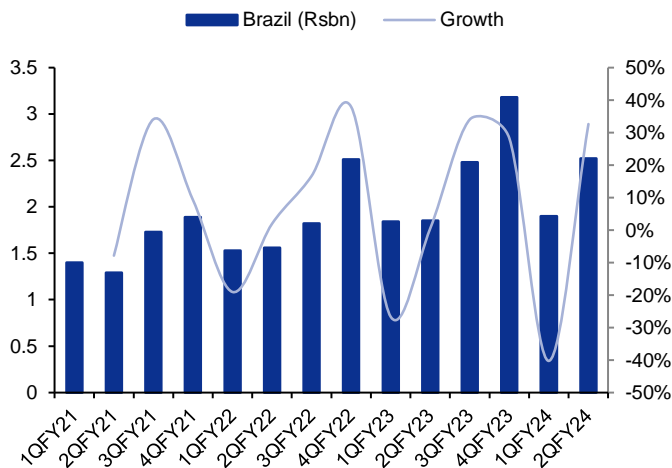
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: German market has been through a rough patch, but is now recovering



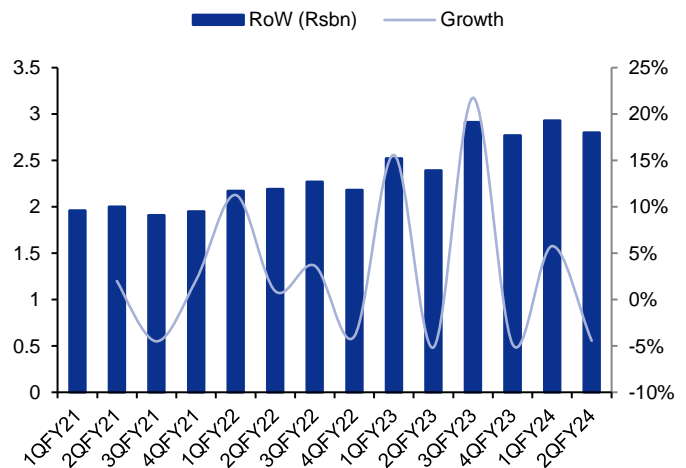
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Brazil business recovers from its lows in 1QFY24



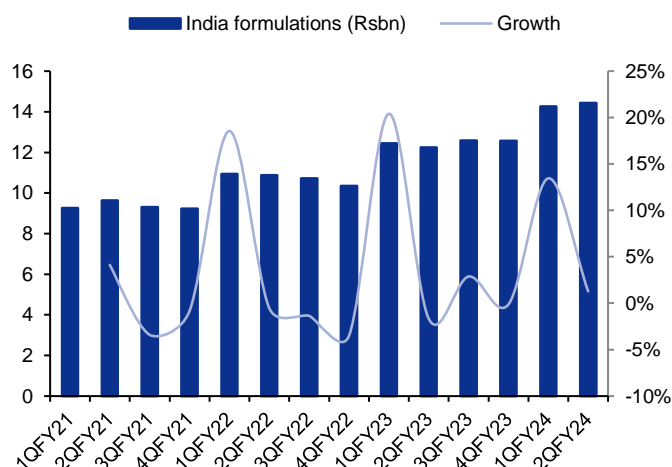
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: RoW business performance has been steady



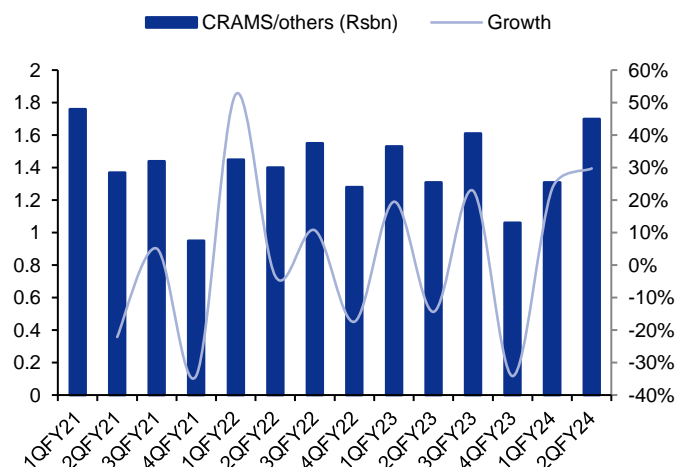
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: India business has been growing steadily



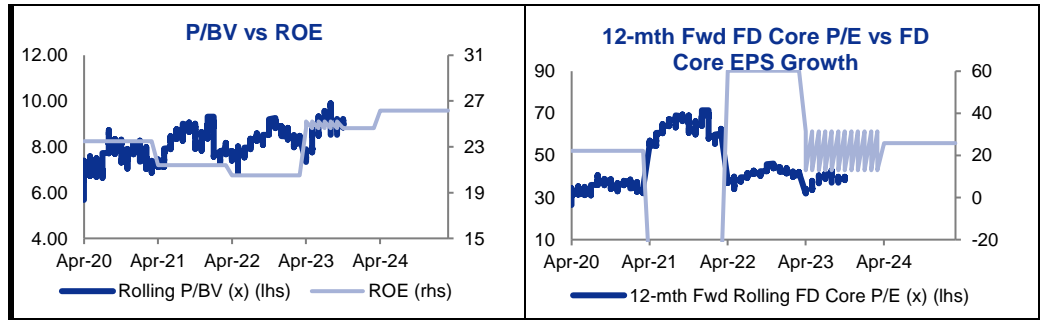
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: CRAMS business is small and is growing at 5-6% annually



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	80,050	85,080	96,200	108,203	120,910
Gross Profit	58,580	60,650	68,850	79,788	88,883
Operating EBITDA	24,850	24,310	28,420	33,551	38,126
Depreciation And Amortisation	(6,580)	(6,620)	(7,070)	(7,820)	(8,250)
Operating EBIT	18,270	17,690	21,350	25,731	29,876
Financial Income/(Expense)	(3,580)	(2,550)	(3,330)	(3,760)	(2,500)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	570	1,970	450	1,200	1,600
Profit Before Tax (pre-EI)	15,260	17,110	18,470	23,171	28,976
Exceptional Items		(4,850)			
Pre-tax Profit	15,260	12,260	18,470	23,171	28,976
Taxation	(2,740)	(4,490)	(6,020)	(6,819)	(8,403)
Exceptional Income - post-tax					
Profit After Tax	12,520	7,770	12,450	16,352	20,573
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	12,520	7,770	12,450	16,352	20,573
Recurring Net Profit	12,520	10,844	12,450	16,352	20,573
Fully Diluted Recurring Net Profit	12,520	10,844	12,450	16,352	20,573

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	24,850	24,310	28,420	33,551	38,126
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,383)	(3,519)	(182)	(7,158)	(2,956)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(1,358)	(2,762)	(4,557)	(6,819)	(8,403)
Net Interest (Paid)/Received	(3,580)	(2,550)	(3,330)	(3,760)	(2,500)
Tax Paid	1,640	2,669	(1,674)	(4,259)	(7,503)
Cashflow From Operations	20,110	18,030	23,681	19,574	26,767
Capex	(3,340)	(1,970)	(4,152)	(3,000)	(3,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments			(20,000)		
Other Investing Cashflow	(1,150)				
Cash Flow From Investing	15,620	16,060	(471)	16,574	23,767
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,610)	(6,770)	(8,630)	(7,446)	(5,077)
Preferred Dividends					
Other Financing Cashflow	(12,630)	(9,430)	10,471	(9,454)	(12,423)
Cash Flow From Financing	(16,240)	(16,200)	1,841	(16,899)	(17,500)
Total Cash Generated	(620)	(140)	1,370	(325)	6,267
Free Cashflow To Equity	35,730	34,090	23,210	36,148	50,533
Free Cashflow To Firm	39,310	36,640	26,540	39,908	53,033

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	6,040	5,900	7,270	6,945	13,211
Total Debtors	15,230	16,330	19,440	21,641	24,182
Inventories	26,810	24,620	22,300	27,051	30,228
Total Other Current Assets	7,140	4,800	4,280	5,410	6,046
Total Current Assets	55,220	51,650	53,290	61,046	73,667
Fixed Assets	36,290	32,470	34,600	29,780	24,530
Total Investments		420	430	430	430
Intangible Assets	43,250	38,050	54,270	54,270	54,270
Total Other Non-Current Assets	5,990	8,410	7,530	7,530	7,530
Total Non-current Assets	85,530	79,350	96,830	92,010	86,760
Short-term Debt	7,040	19,100	28,010	28,010	28,010
Current Portion of Long-Term Debt					
Total Creditors	20,490	16,740	16,790	17,426	19,588
Other Current Liabilities	21,380	8,310	9,670	9,958	11,193
Total Current Liabilities	48,910	44,150	54,470	55,393	58,790
Total Long-term Debt	29,410	21,600	24,960	18,066	6,543
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	4,050	5,720	8,710	8,710	8,710
Total Non-current Liabilities	33,460	27,320	33,670	26,776	15,253
Total Provisions					
Total Liabilities	82,370	71,470	88,140	82,170	74,044
Shareholders Equity	58,380	59,530	61,980	70,887	86,383
Minority Interests					
Total Equity	58,380	59,530	61,980	70,887	86,383

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	0.8%	6.3%	13.1%	12.5%	11.7%
Operating EBITDA Growth	14.5%	(2.2%)	16.9%	18.1%	13.6%
Operating EBITDA Margin	31.0%	28.6%	29.5%	31.0%	31.5%
Net Cash Per Share (Rs)	(89.85)	(102.82)	(135.03)	(115.62)	(63.06)
BVPS (Rs)	172.49	175.89	183.13	209.45	255.23
Gross Interest Cover	5.10	6.94	6.41	6.84	11.95
Effective Tax Rate	18.0%	36.6%	32.6%	29.4%	29.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	72.32	67.70	67.86	69.29	69.16
Inventory Days	410.48	384.20	313.09	316.96	326.38
Accounts Payables Days	348.25	278.12	223.74	219.75	210.91
ROIC (%)	14.7%	13.3%	13.8%	16.3%	19.3%
ROCE (%)	19.6%	18.1%	19.8%	22.2%	25.1%
Return On Average Assets	10.8%	10.7%	10.6%	12.6%	14.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

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