

India

ADD (no change)

Consensus ratings*: Buy 25 Hold 4 Sell 4

Current price:	Rs2,051
Target price: ▲	Rs2,266
Previous target:	Rs2,135
Up/downside:	10.5%
InCred Research / Consensus:	19.4%

Reuters:	
Bloomberg:	TRP IN
Market cap:	US\$9,561m Rs694,256m
Average daily turnover:	US\$7.9m Rs574.6m
Current shares o/s:	338.4m
Free float:	28.7%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.8	24.3	31.8
Relative (%)	6.7	16.4	17.6

Major shareholders	% held
Promoters	71.3
BlackRock	1.3
ICICI Pru Life	1.3

Analyst(s)



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Torrent Pharmaceuticals Ltd

Steady 1Q performance; Curatio faring well

- TRP's 1Q results broadly in line with expectations. Strong India growth (+11% ex-Curatio) and gross margin expansion (+320bp QoQ) are key highlights.
- Margins expanded by 130bp QoQ. TRP's large presence in branded generics empowers it to consistently take price hikes and sustain its margins.
- Retain ADD rating on the stock with a higher target price of Rs2,266.

A no-surprise 1QFY24 performance

1QFY24 revenue and EBITDA of Torrent Pharmaceuticals (TRP) were broadly in line with our estimates as well as consensus estimates. Margins stood at 30.5%, a sequential improvement of 130bp QoQ. Gross margin expanded by 320bp QoQ, led by a better geography mix (higher India sales). Brazil sales declined by 2% YoY in constant currency terms, given supply delay to a large customer, but are likely to recover in the coming quarters. Germany business was up 20% YoY, as the recently won tender supplies commenced; TRP expects Germany's traction to sustain and pick up further from 4QFY24F as additional tenders won commence supplies. The US revenue declined by 2% YoY, as expected. TRP has recently commercialized its new oral oncology facility at Bileshwarpura (Indrad) and is working on 10 oncology assets which will be commercialized over the next three-to-four years.

India business growth ahead of peers

TRP's India business grew by ~15% while ex-Curatio growth was around 10-11%, much ahead of peers. While the gastro-intestinal portfolio was impacted due to seasonality, the rest of the portfolio did well led by chronic therapies, which grew in double digits. Curatio's margins are now 700bp higher since its acquisition and its productivity improved from Rs0.5m pcpm vs. 0.35m pcpm at the time of acquisition. The pilot launch of Shelcal in the consumer health division has been successful and TRP now intends to expand it to the national level.

Margins have further levers for expansion

We believe TRP's margins have further levers for expansion led by a) price hikes in India/Brazil, b) improving profitability of the Curatio portfolio (~700bp improvement already since integration; can go to TRP's India-level margins), and c) a potential cut in plant-related remediation cost by 2HFY24F and likely launch of new products from the affected plants (assuming the USFDA nod by FY24F), which should help absorb fixed costs better.

Retain ADD rating with a higher target price of Rs2,266

Our earnings estimates have been revised upwards by 9% for FY24F and 5% for FY25F on a faster-than-expected improvement in Curatio. We retain our ADD rating and increase the target price on the stock to Rs2,266 (Rs2,135 earlier), valuing it at 20x FY25F EV/EBITDA (to adjust for high amortization cost due to acquisitions in India), in line with its five-year average. Slowdown in India business growth is a key downside risk.

Financial Summary

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	80,050	85,080	96,200	107,954	120,028
Operating EBITDA (Rsm)	24,850	24,310	28,420	33,811	38,441
Net Profit (Rsm)	12,520	7,770	12,450	17,160	20,609
Core EPS (Rs)	37.0	32.0	36.8	50.7	60.9
Core EPS Growth	22.1%	(13.4%)	14.8%	37.8%	20.1%
FD Core P/E (x)	55.45	64.03	55.77	40.46	33.69
DPS (Rs)	10.0	24.0	22.0	15.0	17.5
Dividend Yield	0.49%	1.17%	1.07%	0.73%	0.85%
EV/EBITDA (x)	29.16	29.97	26.02	21.66	18.60
P/FCFE (x)	19.43	20.37	29.91	18.94	13.82
Net Gearing	52.1%	58.5%	73.7%	53.7%	24.0%
P/BV (x)	11.89	11.66	11.20	9.68	7.96
ROE	23.5%	18.4%	20.5%	25.7%	25.9%
% Change In Core EPS Estimates				4.23%	5.22%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 1QFY24 results snapshot

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	23,470	22,910	24,910	24,910	25,910	10%	4%
Consumption of raw materials	6,600	6,410	7,300	7,040	6,500	-2%	-8%
<i>as % of sales</i>	<i>28.1%</i>	<i>28.0%</i>	<i>29.3%</i>	<i>28.3%</i>	<i>25.1%</i>		
Employee cost	4,200	3,940	4,230	4,410	4,990	19%	13%
<i>as % of sales</i>	<i>17.9%</i>	<i>17.2%</i>	<i>17.0%</i>	<i>17.7%</i>	<i>19.3%</i>		
R&D cost	1,220	1,210	1,230	1,500	1,290	6%	-14%
<i>as % of sales</i>	<i>5.2%</i>	<i>5.3%</i>	<i>4.9%</i>	<i>6.0%</i>	<i>5.0%</i>		
Other expenditure	4330	4560	4910	4690	5220	21%	11%
<i>as % of sales</i>	<i>18.4%</i>	<i>19.9%</i>	<i>19.7%</i>	<i>18.8%</i>	<i>20.1%</i>		
EBITDA	7,120	6,790	7,240	7,270	7,910	11%	9%
<i>Margins (%)</i>	<i>30.3%</i>	<i>29.6%</i>	<i>29.1%</i>	<i>29.2%</i>	<i>30.5%</i>		
Depreciation	1,550	1,630	1,930	1,960	1,910		
Other Income	300	160	-100	90	340		
Interest	550	690	1,020	1,070	1,030		
PBT	5,320	4,630	4,190	4,330	5,310	0%	23%
Total tax	1,780	1,510	1,360	1,460	1,530		
<i>Tax Rate (%)</i>	<i>33.5%</i>	<i>32.6%</i>	<i>32.5%</i>	<i>33.7%</i>	<i>28.8%</i>		
PAT before MI	3,540	3,120	2,830	2,870	3,780	7%	32%
Minority interest (MI)	0	0	0	0	0		
Adj. PAT before extraordinary items	3,540	3,120	2,830	2,870	3,780	7%	32%
Extraordinary expenses	0	0	0	0	0		
Reported PAT	3,540	3,120	2,830	2,870	3,780	7%	32%
No. of shares	338.4	338.4	338.4	338.4	338.4		
EPS	10.5	9.2	8.4	8.5	11.2		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

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

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue composition

(Rs mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	Y-o-Y (%)	Q-o-Q (%)
US formulations	2,990	2,920	2,910	2,800	2,930	-2%	5%
<i>% total revenue</i>	<i>12.7%</i>	<i>12.7%</i>	<i>11.7%</i>	<i>11.2%</i>	<i>11.3%</i>		
Europe	2,140	2,200	2,410	2,530	2,580	21%	2%
<i>% total revenue</i>	<i>9.1%</i>	<i>9.6%</i>	<i>9.7%</i>	<i>10.2%</i>	<i>10.0%</i>		
Latin America	1,840	1,850	2,480	3,180	1,900	3%	-40%
<i>% total revenue</i>	<i>7.8%</i>	<i>8.1%</i>	<i>10.0%</i>	<i>12.8%</i>	<i>7.3%</i>		
RoW	2,520	2,390	2,910	2,770	2,930	16%	6%
<i>% total revenue</i>	<i>10.7%</i>	<i>10.4%</i>	<i>11.7%</i>	<i>11.1%</i>	<i>11.3%</i>		
India formulations	12,450	12,240	12,590	12,570	14,260	15%	13%
<i>% total revenue</i>	<i>53.0%</i>	<i>53.4%</i>	<i>50.5%</i>	<i>50.5%</i>	<i>55.0%</i>		
CRAMS/ others	1,530	1,310	1,610	1,060	1,310	-14%	24%
<i>% total revenue</i>	<i>6.5%</i>	<i>5.7%</i>	<i>6.5%</i>	<i>4.3%</i>	<i>5.1%</i>		
Total Revenue	23,470	22,910	24,910	24,910	25,910	10%	4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. estimates

(Rs m)	1QFY24A	Incrid Estimates	Variation (%)	Bloomberg Estimates	Variation (%)
Revenue	25,910	26,576	-3%	26,382	-2%
EBITDA	7,910	8,208	-4%	7,944	0%
EBITDA Margin (%)	31%	31%	-35bp	30%	41bp
PAT	3,780	3,778	0%	3,554	6%

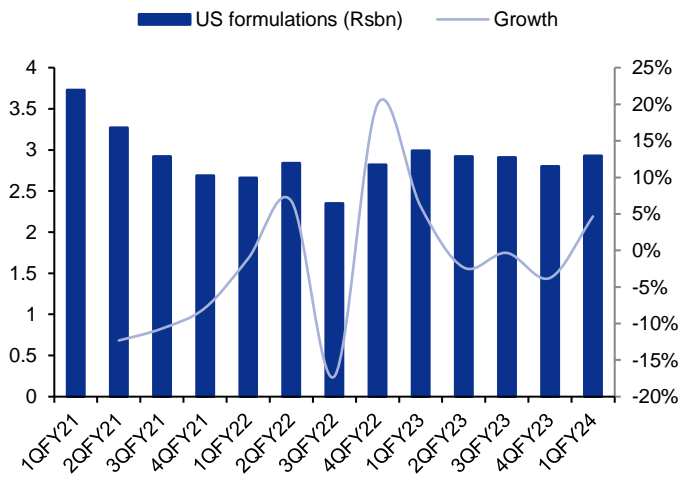
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

(Rs m)	Old Estimates		New Estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	1,07,801	1,18,320	1,07,954	1,20,028	0%	1%
EBITDA	33,250	37,234	33,811	38,441	2%	3%
EBITDA Margin (%)	31%	31%	31%	32%	47bp	55bp
PAT	16,632	19,589	17,160	20,609	3%	5%

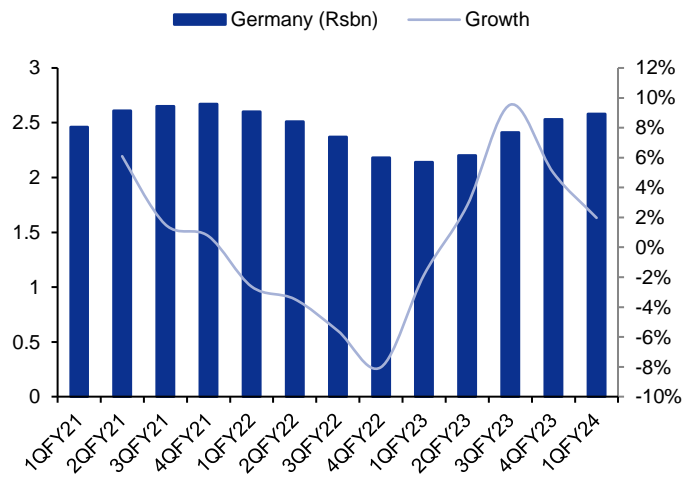
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



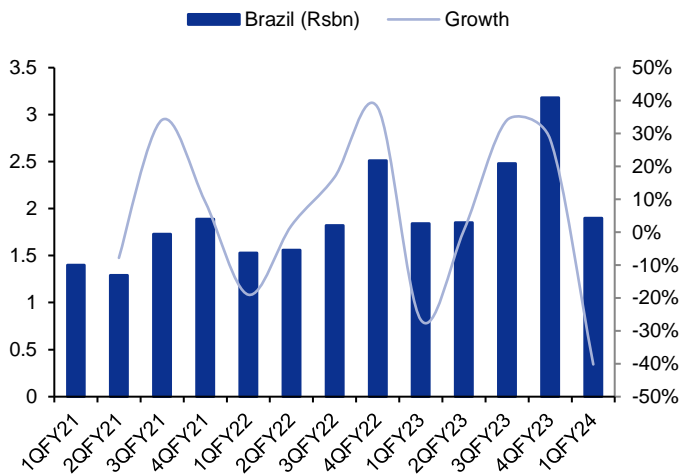
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



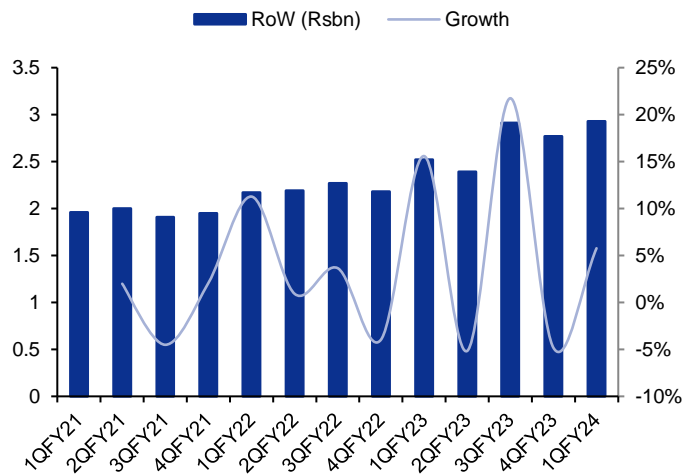
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Brazil business witnessed a decline in 1QFY24



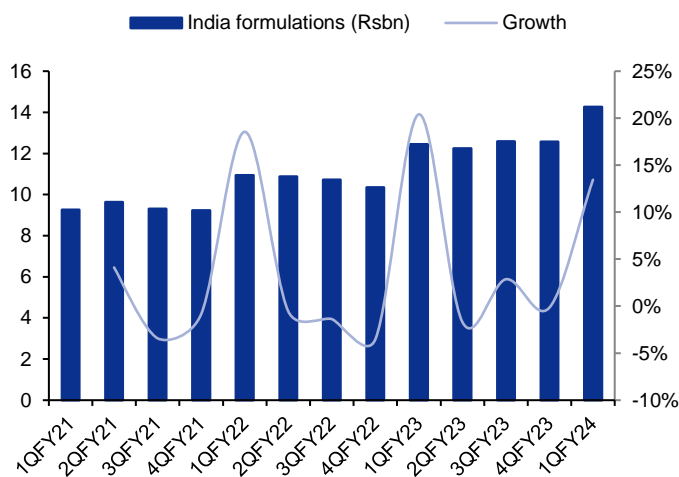
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: RoW performance has been steady



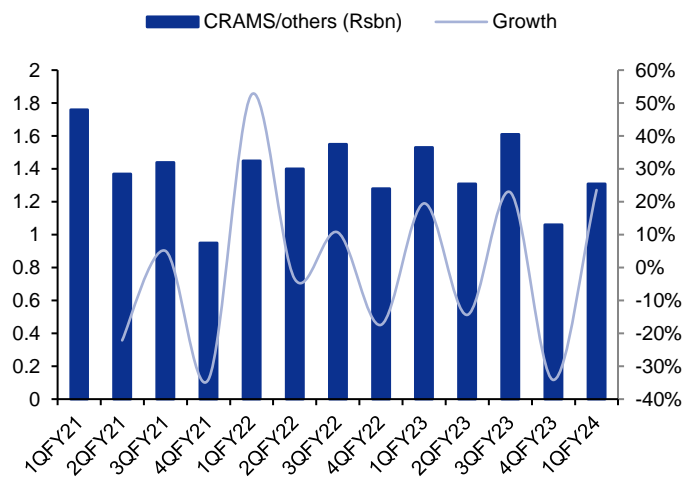
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: India business has been steadily growing



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



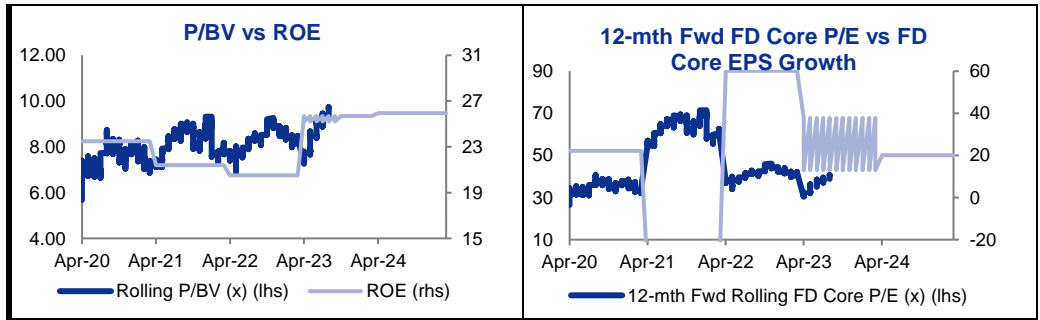
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: One year forward EV/EBITDA of TRP



SOURCES: 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	107,954	120,028
Gross Profit	58,580	60,650	68,850	79,157	88,234
Operating EBITDA	24,850	24,310	28,420	33,811	38,441
Depreciation And Amortisation	(6,580)	(6,620)	(7,070)	(7,460)	(8,000)
Operating EBIT	18,270	17,690	21,350	26,351	30,441
Financial Income/(Expense)	(3,580)	(2,550)	(3,330)	(3,030)	(2,000)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	570	1,970	450	835	1,000
Profit Before Tax (pre-EI)	15,260	17,110	18,470	24,156	29,441
Exceptional Items		(4,850)			
Pre-tax Profit	15,260	12,260	18,470	24,156	29,441
Taxation	(2,740)	(4,490)	(6,020)	(6,995)	(8,832)
Exceptional Income - post-tax					
Profit After Tax	12,520	7,770	12,450	17,160	20,609
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	12,520	7,770	12,450	17,160	20,609
Recurring Net Profit	12,520	10,844	12,450	17,160	20,609
Fully Diluted Recurring Net Profit	12,520	10,844	12,450	17,160	20,609

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	24,850	24,310	28,420	33,811	38,441
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,383)	(3,519)	(182)	(6,985)	(2,998)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(1,358)	(2,762)	(4,557)	(6,995)	(8,832)
Net Interest (Paid)/Received	(3,580)	(2,550)	(3,330)	(3,030)	(2,000)
Tax Paid	1,640	2,669	(1,674)	(4,800)	(7,832)
Cashflow From Operations	20,110	18,030	23,681	19,831	26,611
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)	16,831	23,611
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	(8,564)	(12,711)
Cash Flow From Financing	(16,240)	(16,200)	1,841	(16,009)	(17,788)
Total Cash Generated	(620)	(140)	1,370	821	5,823
Free Cashflow To Equity	35,730	34,090	23,210	36,661	50,222
Free Cashflow To Firm	39,310	36,640	26,540	39,691	52,222

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	8,091	13,915
Total Debtors	15,230	16,330	19,440	21,591	24,006
Inventories	26,810	24,620	22,300	26,989	30,007
Total Other Current Assets	7,140	4,800	4,280	5,398	6,001
Total Current Assets	55,220	51,650	53,290	62,068	73,929
Fixed Assets	36,290	32,470	34,600	30,140	25,140
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	92,370	87,370
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	17,457	19,391
Other Current Liabilities	21,380	8,310	9,670	9,975	11,081
Total Current Liabilities	48,910	44,150	54,470	55,442	58,481
Total Long-term Debt	29,410	21,600	24,960	18,591	6,881
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	27,301	15,591
Total Provisions					
Total Liabilities	82,370	71,470	88,140	82,744	74,072
Shareholders Equity	58,380	59,530	61,980	71,695	87,227
Minority Interests					
Total Equity	58,380	59,530	61,980	71,695	87,227

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	0.8%	6.3%	13.1%	12.2%	11.2%
Operating EBITDA Growth	14.5%	(2.2%)	16.9%	19.0%	13.7%
Operating EBITDA Margin	31.0%	28.6%	29.5%	31.3%	32.0%
Net Cash Per Share (Rs)	(89.85)	(102.82)	(135.03)	(113.79)	(61.98)
BVPS (Rs)	172.49	175.89	183.13	211.84	257.73
Gross Interest Cover	5.10	6.94	6.41	8.70	15.22
Effective Tax Rate	18.0%	36.6%	32.6%	29.0%	30.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	72.32	67.70	67.86	69.36	69.33
Inventory Days	410.48	384.20	313.09	312.36	327.16
Accounts Payables Days	348.25	278.12	223.74	217.03	211.51
ROIC (%)	14.7%	13.3%	13.8%	16.6%	19.5%
ROCE (%)	19.6%	18.1%	19.8%	22.6%	25.3%
Return On Average Assets	10.8%	10.7%	10.6%	12.8%	14.0%

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
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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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