



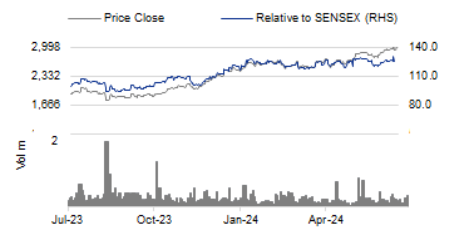
India

HOLD (previously ADD)

| | | | |
|------------------------------|--------------|--------|--------|
| Consensus ratings*: | Buy 28 | Hold 5 | Sell 2 |
| Current price: | Rs3,139 | | |
| Target price: | Rs3,171 ▲ | | |
| Previous target: | Rs2,912 | | |
| Up/downside: | 1.0% | | |
| InCred Research / Consensus: | 7.9% | | |
| Reuters: | | | |
| Bloomberg: | TRP IN | | |
| Market cap: | US\$14,628m | | |
| | Rs1,062,231m | | |
| Average daily turnover: | US\$9.7m | | |
| | Rs707.9m | | |
| Current shares o/s: | 338.4m | | |
| Free float: | 28.7% | | |
| *Source: Bloomberg | | | |

Key changes in this note

- Downgrade our rating to HOLD from ADD earlier.
- Reduce our revenue / EBITDA / EPS estimates by 1% each for FY25F.



| | | | |
|--------------------------|------|------|------|
| Price performance | 1M | 3M | 12M |
| Absolute (%) | 10.9 | 19.0 | 61.9 |
| Relative (%) | 6.6 | 9.3 | 33.6 |

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

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Torrent Pharmaceuticals Ltd**Decent start to FY25**

- Strong growth in India (+15% YoY) offset the muted growth in Brazil (+3% YoY). The Curatio portfolio grew by 19% YoY.
- The focus remains on turning its US business profitable led by seven-to-eight product launches. The double-digit growth to continue in India and Brazil.
- Earnings growth broadly retained, although its rating downgraded from ADD to HOLD, given the unfavorable risk-reward ratio. TP raised to Rs3,171.

India growth surprises positively

Torrent Pharmaceuticals or TPL posted a strong 15% YoY growth in India, led by strong growth in the base portfolio as well as in Curatio (+19% YoY). Growth was broad-based, driven by 2.5% in volume terms, 8.5% in pricing and 4% in new products. The consumer segment took off well, with Shelcal 500 posting a 17% YoY growth. Shelcal is now clocking around Rs3bn in annualized sales, while Unienzyme and Tedibar scaled to Rs1.4-1.5bn sales each. Brazil business grew by 3% YoY, led by currency problems. In constant currency or CC terms, Brazil business is likely to grow by 12-13% in FY25F led by five-to-six product launches. The German business is likely to grow in high single digits led by recent tender wins, which should start contributing from 2HFY25F.

Consistent strong performance on margin front

TPL's 1QFY25 margins declined by 60bp QoQ, impacted by one-off costs of Rs200m, excluding which margins are flat QoQ. Positively, gross margin improved by 40bp and TPL expects to sustain a 75% gross margin for the year. TPL's sizeable presence in branded generics empowers it to consistently take price hikes and sustain its above-industry margin. Despite the high base, management expects FY25F margin to improve by 50-100bp led by price hikes in branded markets, operating leverage benefits, branded generics and improvement in the US business profitability.

US business to start contributing positively from FY25F

The US market declined by 9% YoY (on an adjusted base), impacted by lack of launches; TPL expects to launch seven-to-eight products in the US market in FY25F, which should provide an impetus to US business profitability. This business is now breaking even (ex-R&D expenses) and should start contributing positively on the back of new launches. TPL is actively scouting for acquisitions both in India and international markets (branded segment mostly but will look at generic business opportunities too).

Downgrade rating to HOLD on unfavourable risk-reward ratio

Our FY25F/26F EPS estimates remain broadly unchanged. TPL now trades at 41x FY26F EPS, and the valuation is unfavourable from a risk-reward perspective. We still expect the stock to outperform on a relative basis. We downgraded our rating on the stock to HOLD (from ADD) with a higher target price of Rs3,171 (Rs2,912 earlier). Slowdown in India is a downside risk while the better-than-expected margin trajectory is an upside risk.

Financial Summary

| | Mar-22A | Mar-23A | Mar-24A | Mar-25F | Mar-26F |
|-----------------------------------|---------|---------|---------|---------|---------|
| Revenue (Rsm) | 85,080 | 96,200 | 107,280 | 119,335 | 134,190 |
| Operating EBITDA (Rsm) | 24,310 | 28,420 | 33,680 | 38,759 | 44,800 |
| Net Profit (Rsm) | 7,770 | 12,450 | 16,560 | 20,131 | 25,550 |
| Core EPS (Rs) | 32.0 | 36.8 | 47.1 | 59.5 | 75.5 |
| Core EPS Growth | (13.4%) | 14.8% | 28.0% | 26.3% | 26.9% |
| FD Core P/E (x) | 97.96 | 85.32 | 66.64 | 52.77 | 41.58 |
| DPS (Rs) | 24.0 | 22.0 | 30.0 | 30.0 | 30.0 |
| Dividend Yield | 0.76% | 0.70% | 0.96% | 0.96% | 0.96% |
| EV/EBITDA (x) | 45.11 | 38.97 | 32.41 | 28.16 | 24.03 |
| P/FCFE (x) | 31.16 | 45.77 | 17.04 | 39.68 | 18.77 |
| Net Gearing | 58.5% | 73.7% | 43.1% | 37.4% | 15.4% |
| P/BV (x) | 17.84 | 17.14 | 15.49 | 13.53 | 11.31 |
| ROE | 18.4% | 20.5% | 24.4% | 27.4% | 29.6% |
| % Change In Core EPS Estimates | | | | (1.39%) | (0.26%) |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

| (Rs m) | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | Y-o-Y (%) | Q-o-Q (%) |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-----------|-----------|
| Revenue | 23,470 | 22,910 | 24,910 | 24,910 | 25,910 | 26,600 | 27,320 | 27,450 | 28,590 | 10% | 4% |
| Consumption of raw materials | 6,600 | 6,410 | 7,300 | 7,040 | 6,500 | 6,600 | 6,970 | 6,790 | 6,940 | 7% | 2% |
| as % of sales | 28.1% | 28.0% | 29.3% | 28.3% | 25.1% | 24.8% | 25.5% | 24.7% | 24.3% | | |
| Employee costs | 4,200 | 3,940 | 4,230 | 4,410 | 4,990 | 5,030 | 4,960 | 4,860 | 5,500 | 10% | 13% |
| as % of sales | 17.9% | 17.2% | 17.0% | 17.7% | 19.3% | 18.9% | 18.2% | 17.7% | 19.2% | | |
| R&D costs | 1,220 | 1,210 | 1,230 | 1,500 | 1,290 | 1,320 | 1,300 | 1,390 | 1,350 | 5% | -3% |
| as % of sales | 5.2% | 5.3% | 4.9% | 6.0% | 5.0% | 5.0% | 4.8% | 5.1% | 4.7% | | |
| Other expenditure | 4,330 | 4,560 | 4,910 | 4,690 | 5,220 | 5,400 | 5,400 | 5,580 | 5,760 | 10% | 3% |
| as % of sales | 18.4% | 19.9% | 19.7% | 18.8% | 20.1% | 20.3% | 19.8% | 20.3% | | | |
| EBITDA | 7,120 | 6,790 | 7,240 | 7,270 | 7,910 | 8,250 | 8,690 | 8,830 | 9,040 | 14% | 2% |
| Margins (%) | 30.3% | 29.6% | 29.1% | 29.2% | 30.5% | 31.0% | 31.8% | 32.2% | 31.6% | | |
| Depreciation | 1,550 | 1,630 | 1,930 | 1,960 | 1,910 | 2,010 | 2,130 | 2,030 | 1,970 | | |
| Other income | 300 | 160 | -100 | 90 | 340 | 260 | -330 | 310 | 240 | | |
| Interest | 550 | 690 | 1,020 | 1,070 | 1,030 | 910 | 800 | 800 | 750 | | |
| PBT | 5,320 | 4,630 | 4,190 | 4,330 | 5,310 | 5,590 | 5,430 | 6,310 | 6,560 | 24% | 4% |
| Total tax | 1,780 | 1,510 | 1,360 | 1,460 | 1,530 | 1,730 | 1,880 | 1,820 | 1,990 | | |
| Tax rate (%) | 33.5% | 32.6% | 32.5% | 33.7% | 28.8% | 30.9% | 34.6% | 28.8% | 30.3% | | |
| PAT before minority interest (MI) | 3,540 | 3,120 | 2,830 | 2,870 | 3,780 | 3,860 | 3,550 | 4,490 | 4,570 | 21% | 2% |
| Minority interest (MI) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | |
| Adj. PAT before extraordinary items | 3,540 | 3,120 | 2,830 | 2,870 | 3,780 | 3,860 | 3,550 | 4,490 | 4,570 | 21% | 2% |
| Extraordinary expenses | 0 | 0 | 0 | 0 | 0 | 0 | 880 | 0 | 0 | | |
| Reported PAT | 3,540 | 3,120 | 2,830 | 2,870 | 3,780 | 3,860 | 4,430 | 4,490 | 4,570 | 21% | 2% |
| No. of shares | 338.4 | 338.4 | 338.4 | 338.4 | 338.5 | 338.5 | 338.5 | 338.5 | 338.5 | | |
| EPS | 10.5 | 9.2 | 8.4 | 8.5 | 11.2 | 11.4 | 10.5 | 13.3 | 13.5 | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

| Margins (%) | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | Y-o-Y (bp) | Q-o-Q (bp) |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|------------|------------|
| Gross | 72% | 72% | 71% | 72% | 75% | 75% | 74% | 75% | 76% | 81 | 46 |
| EBITDA | 30% | 30% | 29% | 29% | 31% | 31% | 32% | 32% | 32% | 109 | -55 |
| Adj. PAT | 15% | 14% | 11% | 12% | 15% | 15% | 13% | 16% | 16% | 140 | -37 |
| Effective tax rate | 33% | 33% | 32% | 34% | 29% | 31% | 35% | 29% | 30% | 152 | 149 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

| (Rs m) | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | Y-o-Y (%) | Q-o-Q (%) |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-----------|-----------|
| US formulations | 2,990 | 2,920 | 2,910 | 2,800 | 2,930 | 2,480 | 2,740 | 2,620 | 2,590 | -12% | -1% |
| % total revenue | 12.7% | 12.7% | 11.7% | 11.2% | 11.3% | 9.3% | 10.0% | 9.5% | 9.1% | | |
| Europe | 2,140 | 2,200 | 2,410 | 2,530 | 2,580 | 2,660 | 2,700 | 2,800 | 2,840 | 10% | 1% |
| % total revenue | 9.1% | 9.6% | 9.7% | 10.2% | 10.0% | 10.0% | 9.9% | 10.2% | 9.9% | | |
| Latin America | 1,840 | 1,850 | 2,480 | 3,180 | 1,900 | 2,520 | 3,120 | 3,720 | 1,960 | 3% | -47% |
| % total revenue | 7.8% | 8.1% | 10.0% | 12.8% | 7.3% | 9.5% | 11.4% | 13.6% | 6.9% | | |
| RoW | 2,520 | 2,390 | 2,910 | 2,770 | 2,930 | 2,800 | 2,800 | 2,825 | 3,050 | 4% | 8% |
| % total revenue | 10.7% | 10.4% | 11.7% | 11.1% | 11.3% | 10.5% | 10.2% | 10.3% | 10.7% | | |
| India formulations | 12,450 | 12,240 | 12,590 | 12,570 | 14,260 | 14,440 | 14,150 | 13,800 | 16,350 | 15% | 18% |
| % total revenue | 53.0% | 53.4% | 50.5% | 50.5% | 55.0% | 54.3% | 51.8% | 50.3% | 57.2% | | |
| CRAMS/ others | 1,530 | 1,310 | 1,610 | 1,060 | 1,310 | 1,700 | 1,810 | 1,685 | 1,800 | 37% | 7% |
| % total revenue | 6.5% | 5.7% | 6.5% | 4.3% | 5.1% | 6.4% | 6.6% | 6.1% | 6.3% | | |
| Total revenue | 23,470 | 22,910 | 24,910 | 24,910 | 25,910 | 26,600 | 27,320 | 27,450 | 28,590 | 10% | 4% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

| | Actuals | Incred Est. | Variance (%) | Bloomberg Est. | Variance (%) |
|---------------|---------|-------------|--------------|----------------|--------------|
| Revenue (Rsm) | 28,590 | 28,822 | (0.8) | 28,779 | (0.7) |
| EBITDA (Rsm) | 9,040 | 9,461 | (4.4) | 9,090 | (0.6) |
| Margin (%) | 31.6 | 32.8 | | 31.6 | |
| PAT (Rsm) | 4,570 | 4,803 | (4.9) | 4,608 | (0.8) |

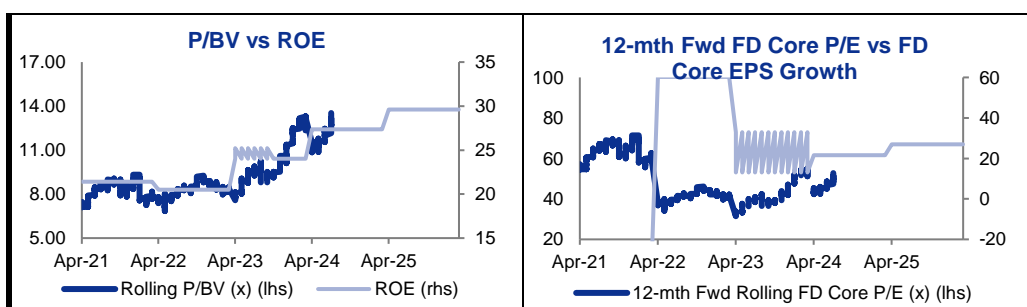
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

| | FY25F | | | FY26F | | |
|---------------|----------|----------|--------------|----------|----------|--------------|
| | Old | New | Variance (%) | Old | New | Variance (%) |
| Revenue (Rsm) | 1,20,767 | 1,19,335 | -1.2 | 1,34,319 | 1,34,190 | -0.1 |
| EBITDA (Rsm) | 39,165 | 38,759 | -1.0 | 44,891 | 44,800 | -0.2 |
| Margin (%) | 32.4 | 32.5 | | 33.4 | 33.4 | |
| PAT (Rsm) | 20,415 | 20,131 | -1.4 | 25,616 | 25,550 | -0.3 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

| (Rs mn) | Mar-22A | Mar-23A | Mar-24A | Mar-25F | Mar-26F |
|---|---------------|---------------|----------------|----------------|----------------|
| Total Net Revenues | 85,080 | 96,200 | 107,280 | 119,335 | 134,190 |
| Gross Profit | 60,650 | 68,850 | 80,420 | 90,093 | 102,085 |
| Operating EBITDA | 24,310 | 28,420 | 33,680 | 38,759 | 44,800 |
| Depreciation And Amortisation | (6,620) | (7,070) | (8,080) | (8,500) | (9,000) |
| Operating EBIT | 17,690 | 21,350 | 25,600 | 30,259 | 35,800 |
| Financial Income/(Expense) | (2,550) | (3,330) | (3,540) | (2,500) | (2,100) |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Non-Operating Income/(Expense) | 1,970 | 450 | 580 | 1,000 | 1,300 |
| Profit Before Tax (pre-EI) | 17,110 | 18,470 | 22,640 | 28,759 | 35,000 |
| Exceptional Items | (4,850) | | 880 | | |
| Pre-tax Profit | 12,260 | 18,470 | 23,520 | 28,759 | 35,000 |
| Taxation | (4,490) | (6,020) | (6,960) | (8,628) | (9,450) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 7,770 | 12,450 | 16,560 | 20,131 | 25,550 |
| Minority Interests | | | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 7,770 | 12,450 | 16,560 | 20,131 | 25,550 |
| Recurring Net Profit | 10,844 | 12,450 | 15,940 | 20,131 | 25,550 |
| Fully Diluted Recurring Net Profit | 10,844 | 12,450 | 15,940 | 20,131 | 25,550 |

Cash Flow

| (Rs mn) | Mar-22A | Mar-23A | Mar-24A | Mar-25F | Mar-26F |
|----------------------------------|-----------------|---------------|-----------------|-----------------|-----------------|
| EBITDA | 24,310 | 28,420 | 33,680 | 38,759 | 44,800 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | (3,519) | (182) | 4,180 | (15,245) | (4,558) |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | (2,762) | (4,557) | (5,200) | (8,628) | (9,450) |
| Net Interest (Paid)/Received | (2,550) | (3,330) | (3,540) | (2,500) | (2,100) |
| Tax Paid | 2,669 | (1,674) | (3,120) | (7,128) | (8,650) |
| Cashflow From Operations | 18,030 | 23,681 | 32,660 | 14,886 | 30,792 |
| Capex | (1,970) | (4,152) | (2,990) | (3,000) | (5,000) |
| Disposals Of FAs/subsidiaries | | | | | |
| Acq. Of Subsidiaries/investments | | (20,000) | | | |
| Other Investing Cashflow | | | | | |
| Cash Flow From Investing | 16,060 | (471) | 29,670 | 11,886 | 25,792 |
| Debt Raised/(repaid) | | | | | |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (6,770) | (8,630) | (10,150) | (10,153) | (10,153) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (9,430) | 10,471 | (16,990) | (9,465) | (4,035) |
| Cash Flow From Financing | (16,200) | 1,841 | (27,140) | (19,618) | (14,188) |
| Total Cash Generated | (140) | 1,370 | 2,530 | (7,733) | 11,604 |
| Free Cashflow To Equity | 34,090 | 23,210 | 62,330 | 26,771 | 56,584 |
| Free Cashflow To Firm | 36,640 | 26,540 | 65,870 | 29,271 | 58,684 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

| Balance Sheet | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (Rs mn) | Mar-22A | Mar-23A | Mar-24A | Mar-25F | Mar-26F |
| Total Cash And Equivalents | 5,900 | 7,270 | 9,800 | 2,067 | 13,671 |
| Total Debtors | 16,330 | 19,440 | 18,440 | 23,867 | 26,838 |
| Inventories | 24,620 | 22,300 | 22,790 | 29,834 | 33,547 |
| Total Other Current Assets | 4,800 | 4,280 | 5,080 | 5,967 | 6,709 |
| Total Current Assets | 51,650 | 53,290 | 56,110 | 61,735 | 80,766 |
| Fixed Assets | 32,470 | 34,600 | 35,780 | 30,280 | 26,280 |
| Total Investments | 420 | 430 | 320 | 320 | 320 |
| Intangible Assets | 38,050 | 54,270 | 49,210 | 49,210 | 49,210 |
| Total Other Non-Current Assets | 8,410 | 7,530 | 9,190 | 9,190 | 9,190 |
| Total Non-current Assets | 79,350 | 96,830 | 94,500 | 89,000 | 85,000 |
| Short-term Debt | 19,100 | 28,010 | 23,340 | 23,340 | 23,340 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 16,740 | 16,790 | 20,890 | 18,475 | 20,301 |
| Other Current Liabilities | 8,310 | 9,670 | 10,030 | 10,557 | 11,601 |
| Total Current Liabilities | 44,150 | 54,470 | 54,260 | 52,372 | 55,242 |
| Total Long-term Debt | 21,600 | 24,960 | 16,040 | 8,075 | 4,840 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 5,720 | 8,710 | 11,750 | 11,750 | 11,750 |
| Total Non-current Liabilities | 27,320 | 33,670 | 27,790 | 19,825 | 16,590 |
| Total Provisions | | | | | |
| Total Liabilities | 71,470 | 88,140 | 82,050 | 72,197 | 71,832 |
| Shareholders Equity | 59,530 | 61,980 | 68,560 | 78,538 | 93,934 |
| Minority Interests | | | | | |
| Total Equity | 59,530 | 61,980 | 68,560 | 78,538 | 93,934 |

| Key Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-22A | Mar-23A | Mar-24A | Mar-25F | Mar-26F |
| Revenue Growth | 6.3% | 13.1% | 11.5% | 11.2% | 12.4% |
| Operating EBITDA Growth | (2.2%) | 16.9% | 18.5% | 15.1% | 15.6% |
| Operating EBITDA Margin | 28.6% | 29.5% | 31.4% | 32.5% | 33.4% |
| Net Cash Per Share (Rs) | (102.82) | (135.03) | (87.40) | (86.71) | (42.87) |
| BVPS (Rs) | 175.89 | 183.13 | 202.57 | 232.05 | 277.55 |
| Gross Interest Cover | 6.94 | 6.41 | 7.23 | 12.10 | 17.05 |
| Effective Tax Rate | 36.6% | 32.6% | 29.6% | 30.0% | 27.0% |
| Net Dividend Payout Ratio | | | | | |
| Accounts Receivables Days | 67.70 | 67.86 | 64.44 | 64.70 | 68.96 |
| Inventory Days | 384.20 | 313.09 | 306.36 | 328.43 | 360.29 |
| Accounts Payables Days | 278.12 | 223.74 | 256.02 | 245.68 | 220.42 |
| ROIC (%) | 13.3% | 13.8% | 17.5% | 19.0% | 22.3% |
| ROCE (%) | 18.1% | 19.8% | 23.0% | 27.8% | 30.9% |
| Return On Average Assets | 10.7% | 10.6% | 12.2% | 14.6% | 17.1% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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