

India

HOLD (no change)

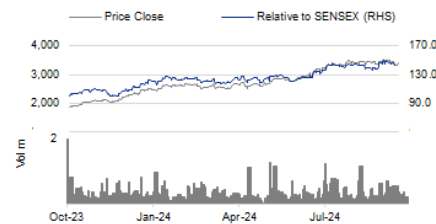
Consensus ratings*: Buy 22 Hold 7 Sell 4

Current price:	Rs3,433
Target price: ▲	Rs3,450
Previous target:	Rs3,171
Up/downside:	0.5%
InCred Research / Consensus:	2.2%
Reuters:	TORP.NS
Bloomberg:	TRP IN
Market cap:	US\$13,817m
	Rs1,161,780m
Average daily turnover:	US\$10.8m
	Rs908.4m
Current shares o/s:	338.4m
Free float:	28.7%

*Source: Bloomberg

Key changes in this note

- Raise our target price to Rs3,450 from Rs3,171 earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.1	11.3	78.6
Relative (%)	7.9	14.0	43.5

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

Research Analyst(s)



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Torrent Pharmaceuticals Ltd

Decent performance

- Strong growth in India (+13% YoY) in 2Q offset the muted growth in Brazil (+4% YoY). Margin continues to trend higher with 90bp QoQ improvement to 32.5%.
- The focus remains on making the US business profitable led by new product launches. The double-digit growth is likely to continue in India as well as Brazil.
- We broadly retain our earnings estimates & a HOLD rating, given the unfavourable risk-reward ratio. The TP has been increased to Rs3,450.

India business surprises positively

Torrent Pharmaceuticals or TPL posted a robust 13% YoY growth in India in 2QFY25, led by strong growth in the cardiac portfolio. The growth was broad-based, driven by 1% volume, 8% price and 3% new products. The consumer segment has taken off well and now covers 72,000 outlets (68,000 in 1QFY25). Brazil business grew by 4% YoY, led by currency problems. In constant currency or CC terms, Brazil business grew by 17% YoY. TPL expects Brazil to grow in double digits in FY25F. Germany business is likely to grow in high single digits, led by recent tender wins, which should start contributing from 2HFY25F. The US business was steady at US\$32m (flat QoQ). The revenue was impacted by scheduled shutdown of the insulin plant (Rs400m impact) in Aug 2024. The facility will be on stream in Dec 2024F, and the shortfall is likely to be entirely recouped in 4QFY25F.

Consistent strong performance on margin front

TPL's 2QFY25 margin rose by 90bp QoQ, led by better gross margin and operating leverage. Gross margin improved by 80bp QoQ, led by a higher contribution from the branded business. TPL expects the 2Q gross margin to broadly sustain. 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 on the back of 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

TPL's US business is now breaking even (ex-R&D) and should start contributing positively with new product launches. TPL is actively scouting for acquisitions in India and the international market (branded segment mostly but will look at generic business opportunities too).

Retain HOLD rating due to an unfavourable risk-reward ratio

Our FY25F/26F EPS estimates remain broadly unchanged. TPL now trades at 46x FY26F EPS and the valuation is unfavourable from a risk-reward perspective. We still expect TPL to outperform on a relative basis. We have increased the target price on it to Rs3,450 from Rs3,171 earlier. Slowdown in India is a downside risk while 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	119,422	133,191
Operating EBITDA (Rsm)	24,310	28,420	33,680	38,981	44,283
Net Profit (Rsm)	7,770	12,450	16,560	20,168	25,319
Core EPS (Rs)	32.0	36.8	47.1	59.6	74.8
Core EPS Growth	(13.4%)	14.8%	28.0%	26.5%	25.5%
FD Core P/E (x)	107.14	93.32	72.89	57.61	45.89
DPS (Rs)	24.0	22.0	30.0	30.0	30.0
Dividend Yield	0.70%	0.64%	0.87%	0.87%	0.87%
EV/EBITDA (x)	49.21	42.47	35.36	30.56	26.53
P/FCFE (x)	34.08	50.06	18.64	43.12	19.86
Net Gearing	58.5%	73.7%	43.1%	38.0%	14.2%
P/BV (x)	19.52	18.75	16.95	14.79	12.39
ROE	18.4%	20.5%	24.4%	27.4%	29.4%
% Change In Core EPS Estimates				0.18%	(0.91%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	22,910	24,910	24,910	25,910	26,600	27,320	27,450	28,590	28,890	9%	1%
Consumption of raw materials	6,410	7,300	7,040	6,500	6,600	6,970	6,790	6,940	6,780	3%	-2%
as % of sales	28.0%	29.3%	28.3%	25.1%	24.8%	25.5%	24.7%	24.3%	23.5%		
Employee costs	3,940	4,230	4,410	4,990	5,030	4,960	4,860	5,500	5,430	8%	-1%
as % of sales	17.2%	17.0%	17.7%	19.3%	18.9%	18.2%	17.7%	19.2%	18.8%		
R&D costs	1,210	1,230	1,500	1,290	1,320	1,300	1,390	1,350	1,450	10%	7%
as % of sales	5.3%	4.9%	6.0%	5.0%	5.0%	4.8%	5.1%	4.7%	5.0%		
Other expenditure	4560	4910	4690	5220	5400	5400	5580	5760	5840	8%	1%
as % of sales	19.9%	19.7%	18.8%	20.1%	20.3%	19.8%	20.3%				
EBITDA	6,790	7,240	7,270	7,910	8,250	8,690	8,830	9,040	9,390	14%	4%
Margins (%)	29.6%	29.1%	29.2%	30.5%	31.0%	31.8%	32.2%	31.6%	32.5%		
Depreciation	1,630	1,930	1,960	1,910	2,010	2,130	2,030	1,970	1,980		
Other Income	160	-100	90	340	260	-330	310	240	-160		
Interest	690	1,020	1,070	1,030	910	800	800	750	640		
PBT	4,630	4,190	4,330	5,310	5,590	5,430	6,310	6,560	6,610	18%	1%
Total tax	1,510	1,360	1,460	1,530	1,730	1,880	1,820	1,990	2,080		
Tax rate (%)	32.6%	32.5%	33.7%	28.8%	30.9%	34.6%	28.8%	30.3%	31.5%		
PAT before MI	3,120	2,830	2,870	3,780	3,860	3,550	4,490	4,570	4,530	17%	-1%
Minority interest (MI)	0	0	0	0	0	0	0	0	0		
Adj. PAT before extraordinary items	3,120	2,830	2,870	3,780	3,860	3,550	4,490	4,570	4,530	17%	-1%
Extraordinary expenses	0	0	0	0	0	880	0	0	0		
Reported PAT	3,120	2,830	2,870	3,780	3,860	4,430	4,490	4,570	4,530	17%	-1%
No. of shares	338.4	338.4	338.4	338.5	338.5	338.5	338.5	338.5	338.5		
EPS	9.2	8.4	8.5	11.2	11.4	10.5	13.3	13.5	13.4		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

Margin (%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	72%	71%	72%	75%	75%	74%	75%	76%	77%	134	81
EBITDA	30%	29%	29%	31%	31%	32%	32%	32%	33%	149	88
Adj. PAT	14%	11%	12%	15%	15%	13%	16%	16%	16%	117	-30
Effective tax rate	33%	32%	34%	29%	31%	35%	29%	30%	31%	52	113

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
US formulations	2,920	2,910	2,800	2,930	2,480	2,740	2,620	2,590	2,680	8%	3%
% total revenue	12.7%	11.7%	11.2%	11.3%	9.3%	10.0%	9.5%	9.1%	9.3%		
Europe	2,200	2,410	2,530	2,580	2,660	2,700	2,800	2,840	2,880	8%	1%
% total revenue	9.6%	9.7%	10.2%	10.0%	10.0%	9.9%	10.2%	9.9%	10.0%		
Latin America	1,850	2,480	3,180	1,900	2,520	3,120	3,720	1,960	2,630	4%	34%
% total revenue	8.1%	10.0%	12.8%	7.3%	9.5%	11.4%	13.6%	6.9%	9.1%		
India formulations	12,240	12,590	12,570	14,260	14,440	14,150	13,800	16,350	16,320	13%	0%
% total revenue	53.4%	50.5%	50.5%	55.0%	54.3%	51.8%	50.3%	57.2%	56.5%		
ROW, CRAMS & others	3,700	4,520	3,830	4,240	4,500	4,610	4,510	4,850	4,380	-3%	-10%
% total revenue	16.2%	18.1%	15.4%	16.4%	16.9%	16.9%	16.4%	17.0%	15.2%		
Total revenue	22,910	24,910	24,910	25,910	26,600	27,320	27,450	28,590	28,890	9%	1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rsm)	28,890	29,450	(1.9)	29,711	(2.8)
EBITDA (Rsm)	9,390	9,387	0.0	9,589	(2.1)
Margin (%)	32.5	31.9		32.3	
PAT (Rsm)	4,530	4,751	(4.7)	4,943	(8.4)

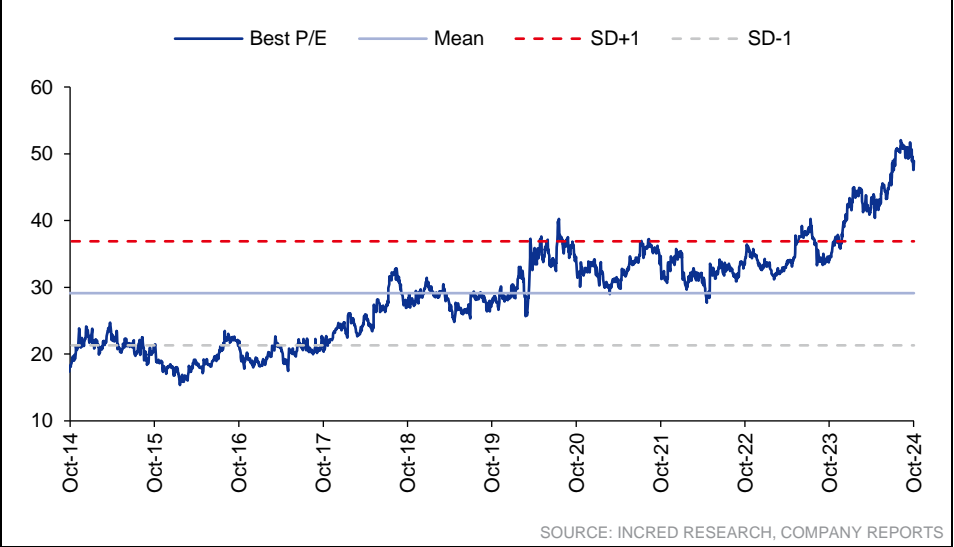
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

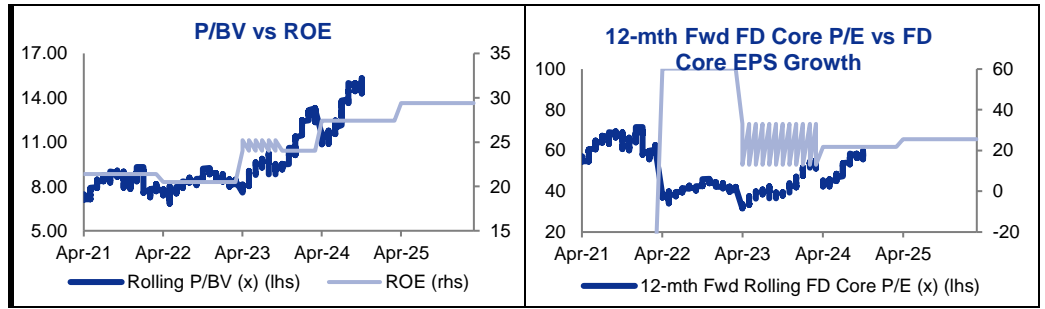
	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	1,19,335	1,19,422	0.1	1,34,190	1,33,191	-0.7
EBITDA (Rsm)	38,759	38,981	0.6	44,800	44,283	-1.2
Margin (%)	32.5	32.6		33.4	33.2	
PAT (Rsm)	20,131	20,168	0.2	25,550	25,319	-0.9

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Torrent Pharma stock trades significantly above the SD+1 level



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	119,422	133,191
Gross Profit	60,650	68,850	80,420	90,752	101,988
Operating EBITDA	24,310	28,420	33,680	38,981	44,283
Depreciation And Amortisation	(6,620)	(7,070)	(8,080)	(8,100)	(8,500)
Operating EBIT	17,690	21,350	25,600	30,881	35,783
Financial Income/(Expense)	(2,550)	(3,330)	(3,540)	(2,670)	(2,100)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,970	450	580	600	1,000
Profit Before Tax (pre-EI)	17,110	18,470	22,640	28,811	34,683
Exceptional Items	(4,850)		880		
Pre-tax Profit	12,260	18,470	23,520	28,811	34,683
Taxation	(4,490)	(6,020)	(6,960)	(8,643)	(9,364)
Exceptional Income - post-tax					
Profit After Tax	7,770	12,450	16,560	20,168	25,319
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	7,770	12,450	16,560	20,168	25,319
Recurring Net Profit	10,844	12,450	15,940	20,168	25,319
Fully Diluted Recurring Net Profit	10,844	12,450	15,940	20,168	25,319

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	24,310	28,420	33,680	38,981	44,283
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,519)	(182)	4,180	(15,366)	(4,173)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(2,762)	(4,557)	(5,200)	(8,643)	(9,364)
Net Interest (Paid)/Received	(2,550)	(3,330)	(3,540)	(2,670)	(2,100)
Tax Paid	2,669	(1,674)	(3,120)	(6,573)	(8,264)
Cashflow From Operations	18,030	23,681	32,660	14,972	30,746
Capex	(1,970)	(4,152)	(2,990)	(3,000)	(3,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments		(20,000)			
Other Investing Cashflow					
Cash Flow From Investing	16,060	(471)	29,670	11,972	27,746
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)	(10,020)	(4,408)
Cash Flow From Financing	(16,200)	1,841	(27,140)	(20,174)	(14,561)
Total Cash Generated	(140)	1,370	2,530	(8,202)	13,184
Free Cashflow To Equity	34,090	23,210	62,330	26,944	58,491
Free Cashflow To Firm	36,640	26,540	65,870	29,614	60,591

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	1,598	14,783
Total Debtors	16,330	19,440	18,440	23,884	26,638
Inventories	24,620	22,300	22,790	29,856	33,298
Total Other Current Assets	4,800	4,280	5,080	5,971	6,660
Total Current Assets	51,650	53,290	56,110	61,309	81,378
Fixed Assets	32,470	34,600	35,780	30,680	25,180
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	89,400	83,900
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	18,426	20,152
Other Current Liabilities	8,310	9,670	10,030	10,529	11,515
Total Current Liabilities	44,150	54,470	54,260	52,295	55,007
Total Long-term Debt	21,600	24,960	16,040	8,090	4,782
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	19,840	16,532
Total Provisions					
Total Liabilities	71,470	88,140	82,050	72,135	71,539
Shareholders Equity	59,530	61,980	68,560	78,574	93,739
Minority Interests					
Total Equity	59,530	61,980	68,560	78,574	93,739

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	6.3%	13.1%	11.5%	11.3%	11.5%
Operating EBITDA Growth	(2.2%)	16.9%	18.5%	15.7%	13.6%
Operating EBITDA Margin	28.6%	29.5%	31.4%	32.6%	33.2%
Net Cash Per Share (Rs)	(102.82)	(135.03)	(87.40)	(88.14)	(39.41)
BVPS (Rs)	175.89	183.13	202.57	232.16	276.97
Gross Interest Cover	6.94	6.41	7.23	11.57	17.04
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	64.68	69.23
Inventory Days	384.20	313.09	306.36	335.11	369.37
Accounts Payables Days	278.12	223.74	256.02	250.27	225.64
ROIC (%)	13.3%	13.8%	17.5%	19.3%	22.6%
ROCE (%)	18.1%	19.8%	23.0%	28.3%	30.9%
Return On Average Assets	10.7%	10.6%	12.2%	14.7%	17.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.