

August 1, 2022

## Q1FY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,750		1,625	
Sales (Rs. m)	93,278	1,06,141	93,735	1,05,966
% Chng.	(0.5)	0.2		
EBITDA (Rs. m)	27,706	33,531	27,929	33,415
% Chng.	(0.8)	0.3		
EPS (Rs.)	41.4	54.5	41.1	53.3
% Chng.	0.6	2.1		

### Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	80,040	85,080	93,278	1,06,141
EBITDA (Rs. m)	24,840	24,312	27,706	33,531
Margin (%)	31.0	28.6	29.7	31.6
PAT (Rs. m)	12,510	7,778	13,998	18,436
EPS (Rs.)	36.8	37.3	41.4	54.5
Gr. (%)	(39.0)	1.3	10.9	31.7
DPS (Rs.)	35.0	48.0	37.0	40.0
Yield (%)	2.3	3.1	2.4	2.6
RoE (%)	23.5	13.2	23.6	30.6
RoCE (%)	17.1	17.1	22.3	30.8
EV/Sales (x)	7.0	6.5	5.9	5.2
EV/EBITDA (x)	22.6	22.7	20.0	16.4
PE (x)	41.6	41.0	37.0	28.1
P/BV (x)	8.9	8.7	8.8	8.4

### Key Data

TORP.BO | TRP IN

52-W High / Low	Rs.1,643 / Rs.1,235
Sensex / Nifty	57,570 / 17,158
Market Cap	Rs.517bn/ \$ 6,528m
Shares Outstanding	338m
3M Avg. Daily Value	Rs.582.81m

### Shareholding Pattern (%)

Promoter's	71.25
Foreign	10.79
Domestic Institution	7.76
Public & Others	10.20
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	7.7	15.7	1.2
Relative	(0.8)	14.9	(7.4)

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## Strong growth across key branded generic markets

### Quick Pointers:

- Brazil and India growth to sustain
- 300bps margin improvement QoQ

**Torrent Pharma's (TRP) revenue growth across key branded generic markets were healthy which is likely to sustain. Further price hike in branded generic business and cost optimization steps have aided margins. TRP's high exposure to branded generic business (~70% of total revenues) and chronic therapies provides comfort. Going ahead, timely resolution of plants will pick-up revenue growth in US and benefit operating leverage. We expect 21% EPS CAGR over FY22-24E. Our FY23 and FY24E EPS broadly remains unchanged. Maintain 'Buy' rating with revised TP of Rs 1,750/share (Rs1625 earlier), 32x FY24E EPS.**

- **Strong revenue growth across India and Brazil markets:** TRP's Q1FY22 sales increased 10% YoY to Rs23.5bn. Adjusted for one - time settlement income (Rs380mn), revenues were in line with our estimate aided by higher domestic formulation and Brazil sales. Domestic formulations grew by 13% YoY. ROW market grew strongly by 16% YoY while Germany sales were down 18% YoY. Brazil grew strongly by 20% YoY, in-line with our estimate. US sales (adj for one off) was down by 10% QoQ to \$34mn. Other operating income includes one-of income of Rs 380mn towards a settlement income in the US.
- **In line EBIDTA:** TRP reported EBIDTA of Rs7.1bn. Adjusted for one off, EBIDTA was in line with our estimate. Adj OPM came in at 29.3% vs 26.3% in Q4FY22. R&D cost came in at 5.2% of sales; down 12% QoQ. GMs were up 80 bps QoQ to 71.2%. Other expenses came in to Rs5.6bn, down 5% QoQ led by cost initiatives and shutdown of liquid formulation facility. Staff cost was up 9% YoY given addition of new field force. Resultant reported PAT stood at Rs3.5bn; up 7% YoY.
- **Key concall takeaways: (1)** In Q1FY23, TRP added 300 MRs brought the total strength of field force to 4200. Two new divisions (CNS & Cardiovascular) have been commercialized. As per AIOCD; growth in domestic formulation was aided by 8% price hike, 5% volume growth and 3% new launches. **(3) Germany business** – growth was muted lost due to competition in tender biz though have won some tenders which will flow from Q3FY23 onwards **(4) Trade generic business** - 2.5% contribution of India biz continues to scale up **(5) Double digit ANDA filing in US from FY24 onwards as plant gets cleared. (5) Brazil market** - Price hike + new launches aiding growth which is likely to sustain **(6)** Freight cost remain elevated and should come off in coming quarters. However, QoQ raw material prices was stable. **(7)** Entry into diagnostic venture was not in listed entity **(8)** Margin improvement going forward will be function more of revenue growth and marginal cost efficiency.

**Exhibit 1: 1QFY23 Result Overview (Rs m). In line EBITDA**

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
<b>Net Sales</b>	<b>23,470</b>	<b>21,340</b>	<b>10.0</b>	<b>21,310</b>	<b>10.1</b>
Raw Material	6,600	5,880	12.2	6,220	6.1
<i>% of Net Sales</i>	<i>28.1</i>	<i>27.6</i>		<i>29.2</i>	
Personnel Cost	4,200	3,850	9.1	3,640	15.4
<i>% of Net Sales</i>	<i>17.9</i>	<i>18.0</i>		<i>17.1</i>	
Others	5,550	4,840	14.7	5,840	(5.0)
<i>% of Net Sales</i>	<i>23.6</i>	<i>22.7</i>		<i>27.4</i>	
Total Expenditure	16,350	14,570	12.2	15,700	4.1
<b>EBITDA</b>	<b>7,120</b>	<b>6,770</b>	<b>5.2</b>	<b>5,610</b>	<b>26.9</b>
<i>Margin (%)</i>	<i>30.3</i>	<i>31.7</i>		<i>26.3</i>	
Depreciation	1,550	1,650	(6.1)	1,620	(4.3)
<b>EBIT</b>	<b>5,570</b>	<b>5,120</b>	<b>8.8</b>	<b>3,990</b>	<b>39.6</b>
Other Income	300	400	(25.0)	560	(46.4)
Interest	550	680	(19.1)	570	(3.5)
<b>PBT</b>	<b>5,320</b>	<b>4,840</b>	<b>9.9</b>	<b>3,980</b>	<b>33.7</b>
Total Taxes	1,780	1,540	15.6	310	474.2
<i>ETR (%)</i>	<i>33.5</i>	<i>31.8</i>		<i>7.8</i>	
Minority interest	-	-		-	
<b>Reported PAT</b>	<b>3,540</b>	<b>3,300</b>	<b>7.3</b>	<b>3,670</b>	<b>(3.5)</b>
Extra-Ord. Inc./Exps.	-	-		(4,850)	
<b>Adjusted PAT</b>	<b>3,540</b>	<b>3,300</b>		<b>(1,180)</b>	

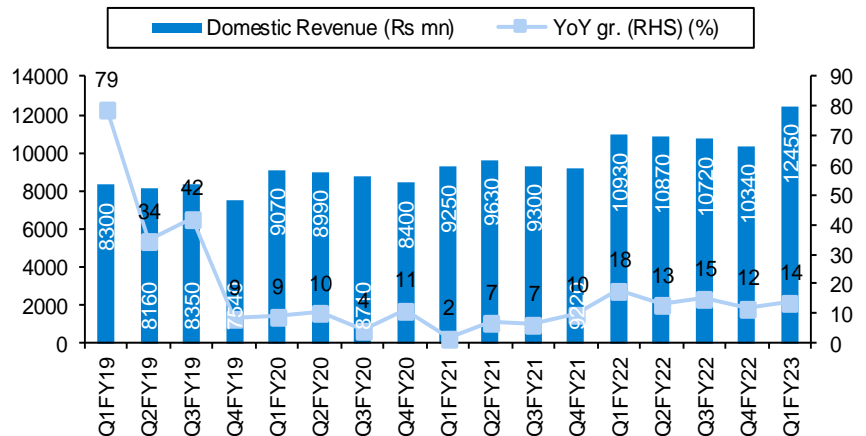
Source: Company, PL

**Exhibit 2: Sources of Revenue**

Geographic break up of revenues	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
<b>Domestic Sales</b>	<b>13990</b>	<b>13672</b>	<b>2.3</b>	<b>12775</b>	<b>9.5</b>
Branded Business	12450	12174	2.3	11372	9.5
<i>% of Net Sales</i>	<i>53.0</i>	<i>51.9</i>		<i>48.5</i>	
Contract Manufacturing	1540	1498	2.8	1403	9.8
<i>% of Net Sales</i>	<i>6.6</i>	<i>6.4</i>		<i>6.0</i>	
<b>Exports</b>	<b>9480</b>	<b>9726</b>	<b>(2.5)</b>	<b>9500</b>	<b>(0.2)</b>
<i>% of Net Sales</i>	<i>40.4</i>	<i>41.4</i>		<i>40.5</i>	
Brazil	1840	1747	5.3	2685	(31.5)
<i>% of Net Sales</i>	<i>7.8</i>	<i>7.4</i>		<i>11.4</i>	
USA	2990	3050	(2.0)	2470	21.0
<i>% of Net Sales</i>	<i>12.7</i>	<i>13.0</i>		<i>10.5</i>	
Germany	2140	2585	(17.2)	2235	(4.2)
<i>% of Net Sales</i>	<i>9.1</i>	<i>11.0</i>		<i>9.5</i>	
RoW	2510	2343	7.1	2111	18.9
<i>% of Net Sales</i>	<i>10.7</i>	<i>10.0</i>		<i>9.0</i>	
<b>Total Sales</b>	<b>23470</b>	<b>23398</b>	<b>0.3</b>	<b>22275</b>	<b>5.4</b>

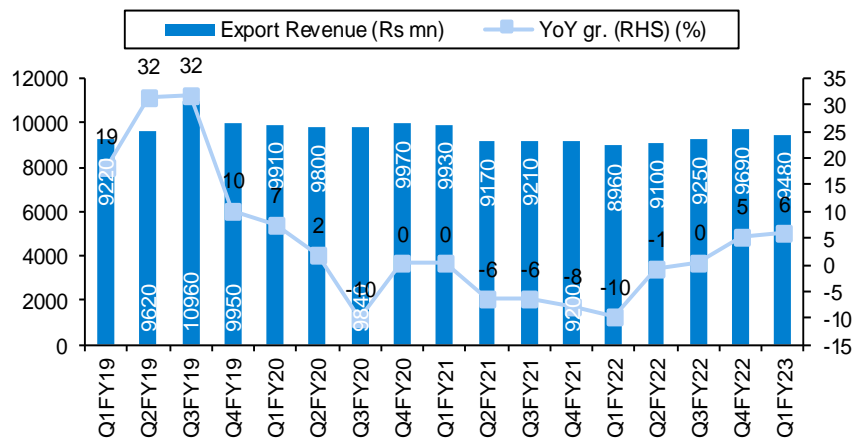
Source: Company, PL

**Exhibit 3: Domestic Sales (Rs in mn): Outperform the IPM growth**



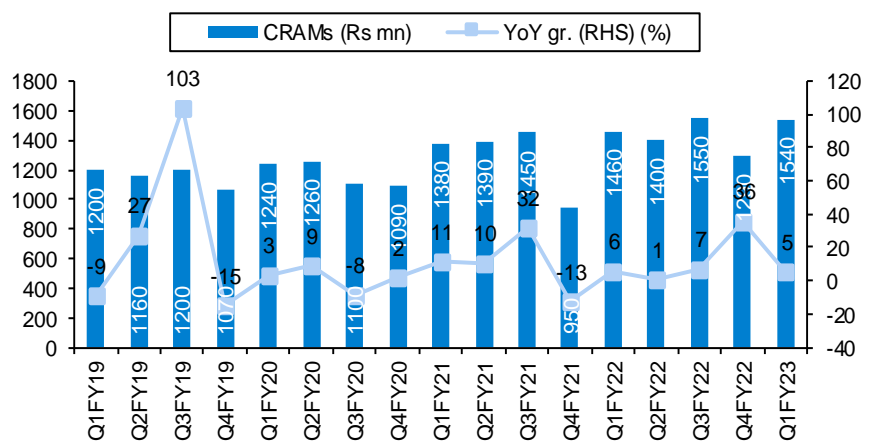
Source: Company, PL

**Exhibit 4: Export Revenue (Rs in mn): Strong growth across Brazil & RoW**



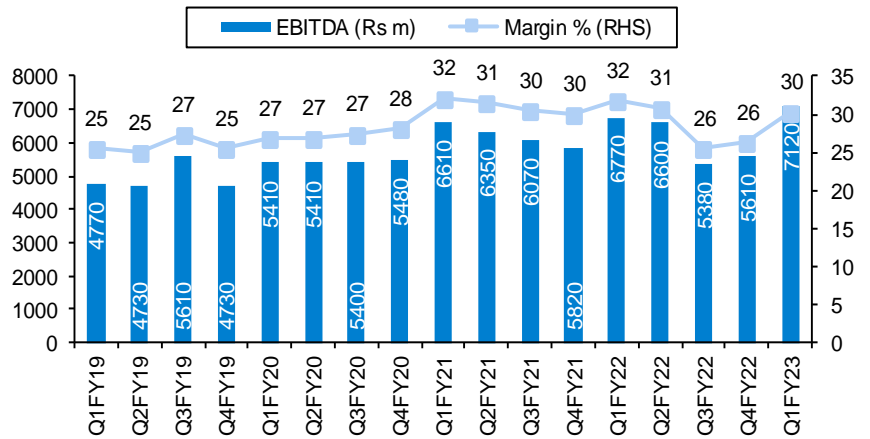
Source: Company, PL

**Exhibit 5: Revenue from CRAMs (Rs in mn)**



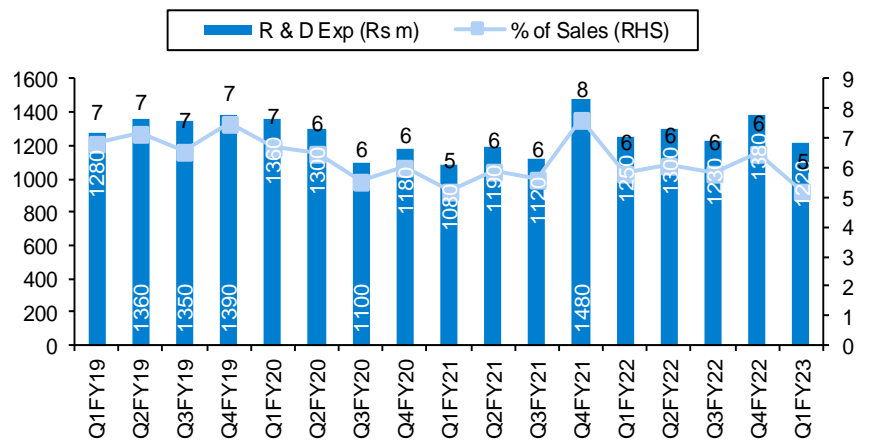
Source: Company, PL

**Exhibit 6: EBITDA, margin: 300bps QoQ improvement in margins**



Source: Company, PL

**Exhibit 7: Investment in R&D (Rs in mn)**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Net Revenues</b>	<b>80,040</b>	<b>85,080</b>	<b>93,278</b>	<b>1,06,141</b>
YoY gr. (%)	0.8	6.3	9.6	13.8
Cost of Goods Sold	25,992	29,168	31,997	35,342
Gross Profit	54,048	55,912	61,281	70,799
Margin (%)	67.5	65.7	65.7	66.7
Employee Cost	14,400	15,265	16,791	18,470
Other Expenses	4,870	5,160	5,676	6,244
<b>EBITDA</b>	<b>24,840</b>	<b>24,312</b>	<b>27,706</b>	<b>33,531</b>
YoY gr. (%)	14.5	(2.1)	14.0	21.0
Margin (%)	31.0	28.6	29.7	31.6
Depreciation and Amortization	6,580	6,622	6,622	6,820
<b>EBIT</b>	<b>18,260</b>	<b>17,691</b>	<b>21,085</b>	<b>26,711</b>
Margin (%)	22.8	20.8	22.6	25.2
Net Interest	3,580	2,551	2,000	1,400
Other Income	570	1,966	1,500	1,800
<b>Profit Before Tax</b>	<b>15,250</b>	<b>17,106</b>	<b>20,585</b>	<b>27,111</b>
Margin (%)	19.1	20.1	22.1	25.5
Total Tax	2,740	4,488	6,587	8,676
Effective tax rate (%)	18.0	26.2	32.0	32.0
<b>Profit after tax</b>	<b>12,510</b>	<b>12,618</b>	<b>13,998</b>	<b>18,436</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>12,510</b>	<b>7,778</b>	<b>13,998</b>	<b>18,436</b>
YoY gr. (%)	22.1	(37.8)	80.0	31.7
Margin (%)	15.6	9.1	15.0	17.4
Extra Ord. Income / (Exp)	-	4,840	-	-
<b>Reported PAT</b>	<b>12,510</b>	<b>12,618</b>	<b>13,998</b>	<b>18,436</b>
YoY gr. (%)	22.1	0.9	10.9	31.7
Margin (%)	15.6	14.8	15.0	17.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,510	12,618	13,998	18,436
<b>Equity Shares O/s (m)</b>	<b>340</b>	<b>338</b>	<b>338</b>	<b>338</b>
<b>EPS (Rs)</b>	<b>36.8</b>	<b>37.3</b>	<b>41.4</b>	<b>54.5</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>1,01,703</b>	<b>1,02,731</b>	<b>1,06,731</b>	<b>1,11,731</b>
Tangibles	43,521	44,540	45,673	47,812
Intangibles	58,182	58,191	61,058	63,918
<b>Acc: Dep / Amortization</b>	<b>34,469</b>	<b>41,091</b>	<b>47,712</b>	<b>54,532</b>
Tangibles	14,688	17,510	20,331	23,237
Intangibles	19,781	23,581	27,381	31,295
<b>Net fixed assets</b>	<b>67,234</b>	<b>61,640</b>	<b>59,018</b>	<b>57,198</b>
Tangibles	28,833	27,030	25,342	24,575
Intangibles	38,401	34,610	33,677	32,623
Capital Work In Progress	12,306	8,880	8,880	8,880
Goodwill	-	-	-	-
Non-Current Investments	420	420	420	420
Net Deferred tax assets	4,210	3,000	3,000	3,000
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	1,390	1,840	1,840	1,840
Inventories	26,810	24,620	28,110	32,126
Trade receivables	15,230	16,330	17,888	20,444
Cash & Bank Balance	6,040	4,030	(7,039)	(12,430)
Other Current Assets	7,060	8,250	8,663	9,096
<b>Total Assets</b>	<b>1,36,540</b>	<b>1,26,060</b>	<b>1,17,831</b>	<b>1,17,624</b>
<b>Equity</b>				
Equity Share Capital	850	846	1,692	1,692
Other Equity	57,530	58,684	57,182	59,777
<b>Total Networkth</b>	<b>58,380</b>	<b>59,530</b>	<b>58,875</b>	<b>61,470</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	29,410	21,230	11,230	9,230
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	18,840	18,950	18,950	13,950
Trade payables	20,670	16,740	19,166	23,365
Other current liabilities	13,450	12,610	12,610	12,610
<b>Total Equity &amp; Liabilities</b>	<b>1,36,540</b>	<b>1,26,060</b>	<b>1,17,831</b>	<b>1,17,624</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	14,680	15,140	19,085	25,311
Add. Depreciation	6,580	6,622	6,622	6,820
Add. Interest	3,580	2,551	2,000	1,400
Less Financial Other Income	570	1,966	1,500	1,800
Add. Other	-	-	-	-
Op. profit before WC changes	24,840	24,312	27,706	33,531
Net Changes-WC	(3,370)	(4,870)	(3,035)	(2,806)
Direct tax	(1,760)	(4,210)	(6,587)	(8,676)
<b>Net cash from Op. activities</b>	<b>19,710</b>	<b>15,232</b>	<b>18,084</b>	<b>22,050</b>
Capital expenditures	(3,350)	(2,026)	(4,000)	(5,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(3,350)</b>	<b>(2,026)</b>	<b>(4,000)</b>	<b>(5,000)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(10,153)	(8,070)	(10,000)	(7,000)
Dividend paid	(3,380)	(6,769)	(14,653)	(15,841)
Interest paid	(3,580)	(2,551)	(2,000)	(1,400)
Others	133	2,173	1,500	1,800
<b>Net cash from Fin. activities</b>	<b>(16,980)</b>	<b>(15,216)</b>	<b>(25,153)</b>	<b>(22,441)</b>
<b>Net change in cash</b>	<b>(620)</b>	<b>(2,010)</b>	<b>(11,069)</b>	<b>(5,391)</b>
Free Cash Flow	16,360	13,206	14,084	17,050

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<b>Net Revenue</b>	<b>21,370</b>	<b>21,080</b>	<b>21,310</b>	<b>23,470</b>
YoY gr. (%)	5.9	5.7	10.0	10.0
Raw Material Expenses	5,950	6,380	6,220	6,600
Gross Profit	15,420	14,700	15,090	16,870
Margin (%)	72.2	69.7	70.8	71.9
<b>EBITDA</b>	<b>6,600</b>	<b>5,380</b>	<b>5,610</b>	<b>7,120</b>
YoY gr. (%)	3.9	(11.4)	(3.6)	5.2
Margin (%)	30.9	25.5	26.3	30.3
Depreciation / Depletion	1,680	1,670	1,620	1,550
<b>EBIT</b>	<b>4,920</b>	<b>3,710</b>	<b>3,990</b>	<b>5,570</b>
Margin (%)	23.0	17.6	18.7	23.7
Net Interest	710	620	570	550
Other Income	510	480	560	300
<b>Profit before Tax</b>	<b>4,720</b>	<b>3,570</b>	<b>3,980</b>	<b>5,320</b>
Margin (%)	22.1	16.9	18.7	22.7
Total Tax	1,560	1,080	310	1,780
Effective tax rate (%)	33.1	30.3	7.8	33.5
<b>Profit after Tax</b>	<b>3,160</b>	<b>2,490</b>	<b>3,670</b>	<b>3,540</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>3,160</b>	<b>2,490</b>	<b>(1,180)</b>	<b>3,540</b>
YoY gr. (%)	1.9	(16.2)	(136.4)	7.3
Margin (%)	14.8	11.8	(5.5)	15.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,160</b>	<b>2,490</b>	<b>(1,180)</b>	<b>3,540</b>
YoY gr. (%)	1.9	(16.2)	(136.4)	7.3
Margin (%)	14.8	11.8	(5.5)	15.1
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>3,160</b>	<b>2,490</b>	<b>(1,180)</b>	<b>3,540</b>
Avg. Shares O/s (m)	338	338	338	338
<b>EPS (Rs)</b>	<b>9.3</b>	<b>7.4</b>	<b>10.8</b>	<b>10.5</b>

Source: Company Data, PL Research

**Key Financial Metrics**

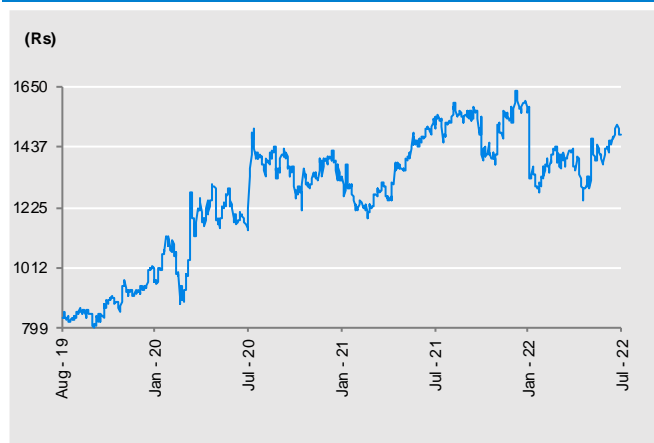
Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	36.8	37.3	41.4	54.5
CEPS	56.1	42.5	60.9	74.6
BVPS	171.7	175.9	173.9	181.6
FCF	48.1	39.0	41.6	50.4
DPS	35.0	48.0	37.0	40.0
<b>Return Ratio(%)</b>				
RoCE	17.1	17.1	22.3	30.8
ROIC	14.1	14.7	17.1	20.8
RoE	23.5	13.2	23.6	30.6
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.7	0.6	0.6	0.5
Net Working Capital (Days)	97	104	105	100
<b>Valuation(x)</b>				
PER	41.6	41.0	37.0	28.1
P/B	8.9	8.7	8.8	8.4
P/CEPS	27.2	35.9	25.1	20.5
EV/EBITDA	22.6	22.7	20.0	16.4
EV/Sales	7.0	6.5	5.9	5.2
Dividend Yield (%)	2.3	3.1	2.4	2.6

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY21	FY22	FY23E	FY24E
Domestic	37,390	42,860	48,218	54,245
Export	37,490	36,520	38,961	45,370
Contract Manufacturing	5,160	5,700	6,099	6,526

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	BUY	3,250	2,900
2	26-May-22	BUY	3,250	2,635
3	08-Apr-22	BUY	3,560	2,753
4	27-Jan-22	BUY	3,560	3,161
5	07-Jan-22	BUY	3,600	3,141

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	3,884
2	Aster DM Healthcare	BUY	234	183
3	Aurobindo Pharma	Accumulate	635	544
4	Cipla	BUY	1,085	946
5	Divi's Laboratories	Accumulate	4,300	3,659
6	Dr. Reddy's Laboratories	BUY	4,750	4,260
7	Eris Lifesciences	BUY	850	643
8	Fortis Healthcare	BUY	330	238
9	Glenmark Pharmaceuticals	Accumulate	450	390
10	HealthCare Global Enterprises	BUY	347	274
11	Indoco Remedies	BUY	430	377
12	Ipca Laboratories	BUY	1,085	946
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,600	1,220
15	Lupin	Hold	600	630
16	Max Healthcare Institute	BUY	427	370
17	Narayana Hrudayalaya	BUY	773	639
18	Sun Pharmaceutical Industries	BUY	1,020	838
19	Torrent Pharmaceuticals	BUY	3,250	2,900
20	Zydus Lifesciences	BUY	450	366

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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