

Torrent Pharma

BSE SENSEX 57,108 S&P CNX 17,007



Stock Info

	TRP IN
Bloomberg	
Equity Shares (m)	338
M.Cap.(INRb)/(USDb)	519 / 6.4
52-Week Range (INR)	1643 / 1236
1, 6, 12 Rel. Per (%)	2/12/4
12M Avg Val (INR M)	607
Free float (%)	28.8

Financials Snapshot (INR b)

Y/E MARCH	FY22	FY23E	FY24E
Sales	85.1	96.5	111.0
EBITDA	24.3	28.9	35.1
Adj. PAT	11.6	14.5	18.3
EBIT Margin (%)	20.8	22.7	24.5
Cons. Adj. EPS (INR)	34.3	42.8	54.0
EPS Gr. (%)	-8.4	24.7	26.2
BV/Sh. (INR)	175.9	217.9	252.4

Ratios

Net D:E	0.7	0.6	0.3
RoE (%)	19.7	21.7	23.0
RoCE (%)	14.9	14.9	17.3
Payout (%)	54.0	35.5	36.1

Valuations

P/E (x)	44.7	35.9	28.4
EV/EBITDA (x)	22.9	19.2	15.0
Div. Yield (%)	0.7	0.8	1.1
FCF Yield (%)	3.1	0.8	6.3
EV/Sales (x)	6.5	5.7	4.8

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	71.3	71.3	71.3
DII	10.0	9.7	8.4
FII	10.8	10.9	11.7
Others	8.0	8.1	8.7

FII Includes depository receipts

CMP: INR 1,534 TP: INR1,500 (-2%) Neutral

Curatio acquisition strengthens derma portfolio

Deal at expensive valuation

- Torrent Pharma (TRP) is set to acquire Curatio Healthcare (Curatio) for enterprise value of INR19b.
- While the acquisition will help with the company's portfolio expansion and widen its reach to dermatologists/paediatricians, the deal valuation is expensive at 6.8x EV/ FY23 sales, 22.4x EV/FY23 EBITDA basis.
- We reduce our EPS estimate by 2% for FY24 to factor in the Curatio acquisition. We value TRP at 26x 12M forward earnings to arrive at a price target of INR1500. Considering its limited upside potential, we reiterate our Neutral stance on the stock.

Deal background

- TRP has entered into a definitive agreement to acquire 100% of Curatio for INR20b. Considering Curatio's cash and cash equivalent of INR1.15b on its balance sheet, the enterprise value would be INR19b.
- The transaction is expected to be completed within a month.
- The historical sales of Curatio Healthcare has been INR1.8b/INR1.7b/INR2.2b for FY20/FY21/FY22.

Call takeaways:

- While ~15-20% of Curatio's sales are over the counter, 80-85% of its sales are prescription based.
- The EBITDA margin of Curatio is ~29%. TRP does not expect regulatory agencies to enforce any cap on price hikes on the Curatio portfolio.
- Over the past 12 months, TRP has recorded sales of INR1.2b from its dermatology segment.
- Management guided for 24% YoY growth in sales from the Curatio portfolio in FY23 and has enough potential to sustain the growth going forward as well.
- TRP indicated regional expansion of the Curatio portfolio into North/East India as one of the levers of growth in addition to new launches/line extensions.

Valuation and view:

- Considering TRP has had minimal exposure to the dermatology segment (2% of Domestic formulation sales; DF), the acquisition would not only increase its offerings, but also widen its scope by connecting with dermatologists and pediatricians.
- Further, TRP can leverage its strength to market its derma portfolio in the North/East region, which remains untapped by Curatio.
- Also, considering 600MRs, the MR productivity of Curatio at INR3Lacs PCPM is less than industry average. Thus, there is significant scope for improving its MR productivity as well, thereby increasing the margins from the Curatio business.
- Having said this, the valuation is expensive, considering recent deals in domestic formulation space (Exhibit 1).

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■ We have tweaked our EPS estimate by -2% for FY24 to factor in Curatio acquisition. We continue to value TRP at 26x 12M forward earnings to arrive at a price target of INR1500. While TRP remains a leading player in the DF segment, we reiterate our Neutral rating on its limited upside potential.

Exhibit 1: Recent deal snapshot in DF space

Company	Target portfolio	Amount paid (INRm)	Sales (INRm)	Year ending	EV/sales (x)
JB Chemicals and Pharma	4 brands of Dr. Reddy's Lab	1000	330	FY22	3.0
BSV	TTK healthcare's human pharma	8050	1610	FY21	5
Mankind Pharma	Panacea biotech formulation brands	18720	2600	FY22*	7.2
JB Chemicals and Pharma	Brands from Sanzyme	6280	1600	CY21	3.9
Lupin	Anglo-French brands	3250	1534	FY21	2.1

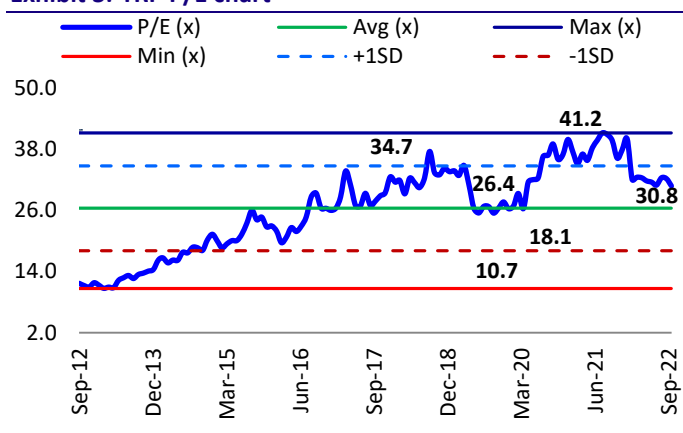
- 1HFY22 sales normalized on full year basis; Source: MOFSL, Company

Exhibit 2: Relative valuation snapshot on consolidated basis

	EV/sales (x)		EV/EBITDA (x)	
	FY22	FY23E	FY22	FY23E
Ajanta Pharma	4.7	4.2	17.6	16.8
Sun Pharma	5.5	4.8	21.1	18.6
Cipla	3.7	3.7	17.9	15.9
Alkem Labs	4.1	3.5	20.3	25.2
Dr Reddy's Labs	3.3	3.0	15.0	12.4
Torrent Pharma	6.0	5.9	22.9	18.7
Ipca Labs	4.6	3.5	16.5	17.1
JB Chem & Pharma	5.0	4.9	22.4	20.9
Alembic	25.7	NA	12.2	17.1

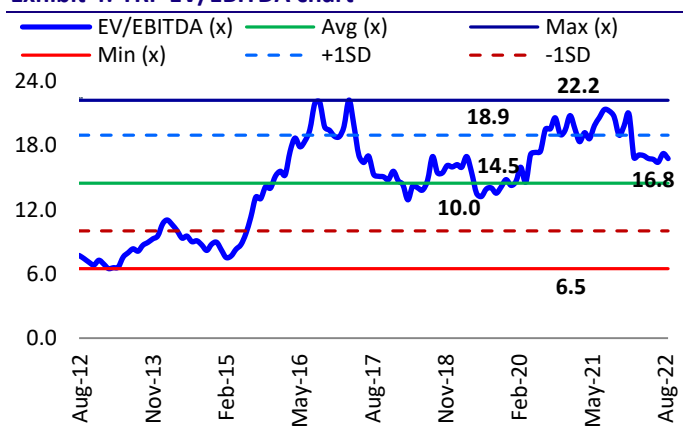
Source: MOFSL, Company, Bloomberg

Exhibit 3: TRP P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 4: TRP EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

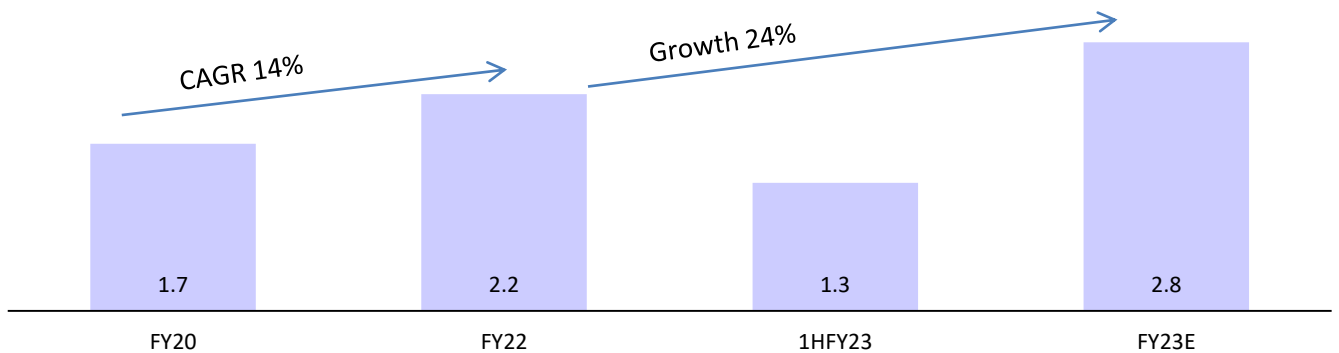
Curatio expands TRP's derma offerings

- Curatio has delivered a strong show in FY22 (up 25% YoY), after two years of stable sales.
- Curatio has a strong presence in the cosmetic dermatology segment with a portfolio of over 50 brands, marketed in India. The top 10 brands of Curatio accounted for ~75% of its FY22 revenue.
- Tedipar, contributing 35% to FY22 sales, is used to treat Dryness and irritation associated with atopic dermatitis.

Curatio sales to grow by 25% in FY23E

- In FY22, Curatio sales were INR2.2b, registering a YoY growth of 25%. In 1HFY23, Curatio sales were INR1.3b and expected to achieve a turnover of INR2.8b in FY23.
- Derma is the key therapy, accounting for 95% of sales for Curatio.
- Within derma therapy, Curatio derives 84% of sales from cosmo derma, which is a high growth area, while 16% of its sales is from medical derma.

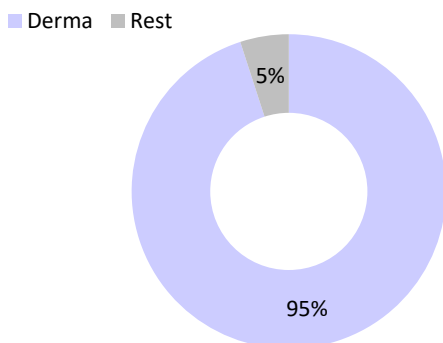
Exhibit 5: Curatio sales grew at 14% CAGR over FY20-22



Source: MOFSL, Company

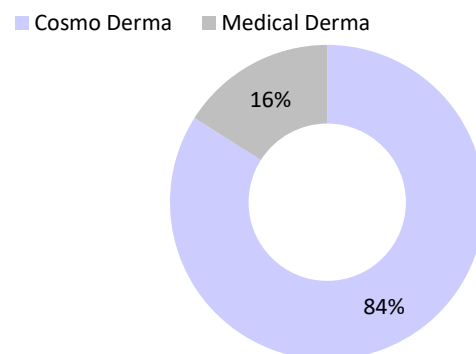
- Over the last decade, cosmetic dermatology as a therapy has delivered an 18% CAGR at the industry level, which is 1.6x of the IPM CAGR

Exhibit 6: Derma therapy contributes 95% to sales (FY22)



Source: MOFSL, Company

Exhibit 7: Cosmo contributes 84% to Derma sales (FY22)



Source: MOFSL, Company

Top 5 brands contribute ~60% of Curatio portfolio

- Curatio has a strong presence in the cosmetic dermatology segment with a portfolio of over 50 brands, marketed in India.
- The top 5 brands are Tedibar, Atogla, Spoo, B4 Nappi, and Permite, forming ~60% of FY22 Curatio sales.
- The top 10 brands of Curatio account for ~75% of the company's total revenue.
- With this acquisition, Torrent Pharma will be adding a Field Force of 600 MRs and a distribution network of 900 stockists.

Exhibit 8: Top 5 brands expected to deliver 22% YoY growth in FY23E

Brand	FY22 sales (INRm)	FY22 contribution (%)	FY23 sales (INRm)	FY23E contribution (%)	YoY growth (%)
Tedibar	760	35	950	35	25
Atogla	270	12	320	12	19
Permite/Perlice	140	6	170	6	21
Spoo	130	6	140	5	8
Clinmiskin	80	4	100	4	25
Top 5 brands	1,380	63	1,680	61	22
Other products	820	37	1,070	39	30
Total sales	2,200	100	2,750	100	25

Source: MOFSL, Company

Tedibar – India's 1st synthetic detergent (Syndet) with a pH of 5.5

- Tedibar is India's leading low pH cleansing bar and is made from synthetic detergent to maintain pH levels of 5.5. It has a high gross contribution product with significant headroom for increase. The detergent can be used across age groups, starting from as early as with a toddler.
- Tedibar, contributing 35% to FY22 sales, is used to treat dryness and irritation associated with atopic dermatitis among patients by maintaining the pH balance of the skin at 5.5.

Exhibit 9: Curatio brands rank among the top in the respective markets

	Market size (INRb)	Market CAGR 2Y (%)	Rank
Tedibar	14.8	11	2nd
Atogla	13.0	11	5th
Spoo	1.7	10	1st
B4 nappi	14.7	11	3rd

Source: MOFSL, Company

Exhibit 10: Usage snapshot of Curatio portfolio

Portfolio	FY22 sales contribution (%)	3Y CAGR (%)	Key products
Pedia products	60	17	Tedibar : Low Ph bathing bar for Atopic Dermatitis Atogla Lotion & Cream : Emollients for Atopic Dermatitis Spoo : Rx Driven shampoo for cradle cap
Acne/Face care	20	15	Tracnil : Therapy resistant acne, excessive hair due to PCOS Acnemoist : Dryness of skin caused by acne medications Clinmiskin : Antibiotics used for treatment of acne Fash : Purifying face wash for sensitive skin
Hair/Scalp care	12	9	Perlice : Lice infestation treatment Proanagen : Hair thinning/ Shedding face by women Noskurf : Anti dandruff long contact lotion

Financials and valuations

Income Statement									(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	66,760	58,570	60,020	76,100	79,390	80,050	85,080	96,507	110,952
Change (%)	43.5	-12.3	2.5	26.8	4.3	0.8	6.3	13.4	15.0
EBITDA	27,201	13,774	13,990	19,490	21,700	25,010	24,310	28,856	35,061
Margin (%)	40.7	23.5	23.3	25.6	27.3	31.2	28.6	29.9	31.6
Depreciation	2,460	1,469	1,639	1,985	2,346	2,374	6,620	6,944	7,907
EBIT	24,741	12,305	12,351	17,506	19,354	22,636	17,690	21,912	27,154
Int. and Finance Charges	1,859	2,060	3,080	5,040	4,510	3,580	2,550	2,668	2,498
Other Income - Rec.	2,156	2,230	2,990	570	1,220	570	1,970	1,900	2,150
PBT before EO Expense	25,039	12,475	12,261	13,036	16,064	19,626	17,110	21,144	26,806
EO Expense/(Income)	1,400	0	500	3,220	0	160	4,850	-380	0
PBT after EO Expense	23,639	12,475	11,761	9,816	16,064	19,466	12,260	21,524	26,806
Current Tax	6,414	1,540	2,530	1,260	1,620	2,740	4,490	6,780	8,523
Deferred Tax	-813	0	0	0	0	0	0	0	1
Tax	5,601	1,540	2,530	1,260	1,620	2,740	4,490	6,780	8,524
Tax Rate (%)	22.4	12.3	20.6	9.7	10.1	14.0	26.2	32.1	31.8
Reported PAT	18,038	10,935	9,231	8,556	14,444	16,726	7,770	14,744	18,282
Less: Minority Interest	0	0	0	0	0	0	0	0	0
Adj PAT	10,109	10,935	7,782	7,228	9,496	12,680	11,617	14,491	18,282

Balance Sheet									(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	846	846	850	850	850	850	850	1,692	1,692
Total Reserves	34,095	42,655	45,370	46,390	47,390	57,530	58,680	72,063	83,744
Net Worth	34,941	43,501	46,220	47,240	48,240	58,380	59,530	73,755	85,436
Minority Interest	5	5	10	0	0	0	0	0	0
Deferred liabilities	-1114	-2085	-2760	-3630	-4330	-4210	-4940	-4940	-4940
Total Loans	18,534	22,408	57,370	48,540	44,080	36,450	40,180	43,180	28,180
Capital Employed	52,365	63,830	100,840	92,150	87,990	90,620	94,770	111,995	108,676
Gross Block	34,661	44,172	92,168	99,848	102,918	102,848	104,548	126,198	128,698
Less: Accum. Deprn.	6,070	7,288	11,378	17,558	24,098	30,678	37,298	44,242	52,149
Net Fixed Assets	28,591	36,884	80,790	82,290	78,820	72,170	67,250	81,956	76,549
Capital WIP	10,416	5,195	4,230	4,790	7,120	8,710	6,720	6,720	6,720
Investments	1	1	0	50	40	440	440	440	440
Curr. Assets	48,739	56,071	54,650	50,380	50,070	55,220	51,650	65,602	83,736
Inventory	13,580	15,592	19,660	19,350	21,480	26,810	24,620	25,517	28,812
Account Receivables	14,451	13,442	12,540	14,360	16,490	15,230	16,330	23,162	26,628
Cash and Bank Balance	6,470	8,937	8,670	8,160	6,660	6,040	4,030	9,686	20,369
Loans & Advances	14,238	18,100	13,780	8,510	5,440	7,140	6,670	7,238	7,927
Curr. Liability & Prov.	35,382	34,321	38,830	45,360	48,060	45,920	31,290	43,103	59,149
Account Payables	31,644	30,384	32,690	38,330	40,490	37,910	23,490	34,318	48,819
Provisions	3,738	3,937	6,140	7,030	7,570	8,010	7,800	8,785	10,330
Net Current Assets	13,358	21,750	15,820	5,020	2,010	9,300	20,360	22,499	24,587
Appl. of Funds	52,365	63,830	100,840	92,150	87,990	90,620	94,770	111,995	108,676

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EPS	29.9	32.3	23.0	21.4	28.1	37.5	34.3	42.8	54.0
Cash EPS	60.6	36.6	32.1	31.1	49.6	56.4	42.5	64.1	77.4
BV/Share	103.2	128.5	136.6	139.6	142.5	172.5	175.9	217.9	252.4
DPS	20.6	5.0	6.5	9.0	16.0	11.2	10.3	12.8	16.2
Payout (%)	46.6	18.7	28.7	43.0	45.1	27.4	54.0	35.5	36.1
Valuation (x)									
P/E	51.4	47.5	66.8	71.9	54.7	41.0	44.7	35.9	28.4
Cash P/E	25.3	41.9	47.8	49.3	30.9	27.2	36.1	24.0	19.8
P/BV	14.9	11.9	11.2	11.0	10.8	8.9	8.7	7.0	6.1
EV/Sales	8.0	9.1	9.5	7.4	7.0	6.9	6.5	5.7	4.8
EV/EBITDA	19.5	38.7	40.6	28.7	25.7	22.0	22.9	19.2	15.0
Dividend Yield (%)	1.3	0.3	0.4	0.6	1.0	0.7	0.7	0.8	1.1
Return Ratios (%)									
RoE	33.8	27.9	17.3	15.5	19.9	23.8	19.7	21.7	23.0
RoCE	40.4	21.3	14.4	16.4	19.7	21.3	14.9	14.9	17.3
RoIC	54.1	25.3	14.2	18.9	22.7	26.0	16.4	16.7	21.0
Working Capital Ratios									
Fixed Asset Turnover (x)	2.3	1.8	1.0	0.9	1.0	1.1	1.2	1.3	1.4
Debtor (Days)	83	87	79	65	71	72	68	75	82
Inventory (Days)	74	97	120	93	99	122	106	97	95
Working Capital Turnover (Days)	38	80	43	-15	-21	15	70	48	14
Leverage Ratio (x)									
Interest Cover Ratio	13.3	6.0	4.0	3.5	4.3	6.3	6.9	8.2	10.9
Debt/Equity	0.5	0.5	1.2	1.0	0.9	0.6	0.7	0.6	0.3

Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Oper. Profit/(Loss) before Tax	25,810	13,950	13,396	11,794	18,410	17,634	18,880	28,088	34,713
Interest/Dividends Recd.	3,149	1,234	1,983	8,005	2,207	3,400	6,890	768	348
Direct Taxes Paid	-5,773	-3,843	-2,836	-2,812	-2,840	-1,760	-4,210	-6,780	-8,524
(Inc)/Dec in WC	4,236	-1,252	-3,602	994	-3,858	-3,370	-3,530	3,516	8,596
CF from Operating incl EO Expense	27,421	10,088	8,942	17,981	13,918	15,904	18,030	25,592	35,132
(inc)/dec in FA	-5,925	-4,859	-7,892	-6,605	-4,028	-3,340	-1,970	-21,650	-2,500
Free Cash Flow	21,496	5,230	1,050	11,376	9,890	12,564	16,060	3,942	32,632
(Pur)/Sale of Investments	-2,454	-3,010	-39,178	4,192	2,513	-1,150	-10	0	0
CF from Investments	-8,379	-7,869	-47,070	-2,413	-1,516	-4,490	-1,980	-21,650	-2,500
Issue of shares	0	0	0	0	0	0	0	0	0
(Inc)/Dec in Debt	-3,837	2,020	39,578	-5,013	-3,129	-9,220	-8,140	7,711	-15,000
Interest Paid	-2,117	-1,913	-2,757	-5,034	-4,854	-3,610	-2,580	-768	-348
Dividend Paid	-10,922	-2,037	-2,648	-3,097	-7,185	-3,380	-6,770	-5,230	-6,601
CF from Fin. Activity	-16,877	-1,929	34,174	-13,145	-15,490	-16,560	-17,810	1,714	-21,949
Inc/Dec of Cash	2,166	290	-3,954	2,424	-3,088	-5,146	-1,760	5,656	10,683
Opening Balance	8,650	10,499	10,676	7,020	9,401	10,812	10,234	4,030	9,686
Add/(less) Forex in Cash/Cash eq	-316	-113	246	-43	306	362	-4,444	0	0
Closing Cash and Cash Eq.	10,499	10,676	7,020	9,401	6,618	6,028	4,030	9,686	20,369
Bank balances*	-4,029	-1,739	1,650	-1,241	42				
Total Cash and Cash Eq.	6,470	8,937	8,670	8,160	6,660	6,028	4,030	9,686	20,369

(INR m)

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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