

Rating: BUY | CMP: Rs1,535 | TP: Rs1,850

September 28, 2022

Event Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,850		1,750	
Sales (Rs. m)	94,424	1,09,716	93,278	1,06,141
% Chng.	1.2	3.4		
EBITDA (Rs. m)	28,050	34,891	27,706	33,531
% Chng.	1.2	4.1		
EPS (Rs.)	39.5	51.4	41.4	54.5
% Chng.	(4.5)	(5.6)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	85,080	94,424	1,09,716	1,23,995
EBITDA (Rs. m)	24,312	28,050	34,891	40,141
Margin (%)	28.6	29.7	31.8	32.4
PAT (Rs. m)	7,778	13,375	17,395	21,283
EPS (Rs.)	37.3	39.5	51.4	62.9
Gr. (%)	1.3	6.0	30.1	22.3
DPS (Rs.)	48.0	15.0	18.0	20.0
Yield (%)	3.1	1.0	1.2	1.3
RoE (%)	21.4	21.1	24.1	25.4
RoCE (%)	17.1	19.1	22.5	26.6
EV/Sales (x)	6.5	6.0	5.1	4.4
EV/EBITDA (x)	22.8	20.2	15.9	13.5
PE (x)	41.2	38.8	29.9	24.4
P/BV (x)	8.7	7.8	6.7	5.7

Key Data

TORP.BO | TRP IN

52-W High / Low	Rs.1,643 / Rs.1,235
Sensex / Nifty	57,108 / 17,007
Market Cap	Rs.519bn/ \$ 6,368m
Shares Outstanding	338m
3M Avg. Daily Value	Rs.435.51m

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	(0.8)	12.5	(0.1)
Relative	2.2	13.0	5.1

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Curatio acquisition; strengthening its domestic formulation business

Torrent Pharma's (TRP) has Rs 70bn (75% of total sales; including Curatio) worth of highly profitable branded formulation sales spread across India, Brazil and RoW markets. In the near term, Curatio acquisition will increase TRP's net debt and we see this acquisition as EPS dilutive. Post factoring in Curatio acquisition, our EPS for FY23 and FY24 stands reduced by ~5%. However, the deal is a strategic fit for TRP, given that it gives presence in high growing cosmetic derma segment and can enhance profitability of Curatio portfolio with cost synergies, geographical expansion and price hike as well as accelerate the topline growth. Historically TRP have managed to integrate successfully Unichem and Elder acquisition which gives us comfort. We expect 18% EBITDA and 19% EPS CAGR over FY22-25E. Maintain 'BUY' rating with revised TP of Rs 1,850/share (Rs1,750 earlier), 17x EV/EBITDA as we roll forward to Sept 2024E.

- Contours of the transaction:** TRP has entered into definitive agreement to acquire 100% stake of Curatio Healthcare (Curatio). for Rs 20bn. The consideration includes cash of Rs1.15bn; indicating an EV of Rs18.9bn. The company expects to close this transaction within one month. This acquisition will enhance TRP position in the cosmetic dermatology segment. The Curatio operates through a network of more than 900 distributors, reaching to over 6,000 doctors through 600 MRs with product basket of 50 products across India. The portfolio includes brands like Tedibar, Atogla, Spoo, Permite, Perlice. Top 10 brands contribute 75% to the portfolio.
- Expensive acquisition; price hike and geographical expansion to drive margins:** Curatio's 84% of revenue comes from high growth cosmetic dermatology. Curatio reported revenue of Rs2.3bn FY22 and expected to be at Rs 2.75bn in FY23. Currently Curatio's enjoys 26-27% OPM. The acquisition cost works out to be at 7x sales and ~23x EV/EBITDA on FY23E basis. However, given the growth profile and scalability margins acquisition cost works out to be 12x EV/EBITDA on FY25E. Management expect margins to scale up in coming quarters aided by geographical expansion and price hike in key brands like Tedibar along with cost synergies.
- Concall highlights: (1)** TRP base derma portfolio registered sales of Rs1.2bn. Post Curatio consolidation, TRP rank in derma segment will improve to 10 from current level of 21 **(2)** Curatio key product- Tedibar (Rs750mnsales) pricing is lower than its peers despite enjoying higher market share. Tedibar price/unit is Rs165 vs peer pricing at Rs200-250/unit. Mgmt sees scope of higher pricing for Tedibar given its market share. **(3)** Curatio 84% of portfolio falls under cosmetic license act and does not fall under purview of any regulatory price cap. Overall sees 5% price hike annually on sustainable basis across Curatio portfolio vs 1-2% taken earlier **(4)** TRP has Rs34bn of net debt as of FY22. Guided 75-80% of consideration likely to be funded by debt. Will amortize Curatio investments over 15 years. **(5)** TRP has supply extension of current manufacturing arrangements for 3 years with Curatio. Currently Curatio have limited presence in North and East markets where TRP intends to scale up. **(6)** Curatio 15-20% of revenues comes from OTC channel including digital segment. Initially company will be focusing on Rx segment and will be adding new products through OTC route over period of time which offers higher potential of growth

Exhibit 1: Top 5 brands contribute ~60% to the portfolio

Brand Name (Fig in Rs mn)	FY22	FY23E	YoY gr. (%)
Tedibar	760	950	25.0
Atogla	270	320	20.0
Permite/Perlice	140	170	21.0
Spoop	130	140	11.0
Clinmiskin	80	100	19.0
Top 5 Brands	1370	1670	22.0

Source: Company, PL

Exhibit 2: Exhibit 3: Curatio Brand market coverage

Tedibar	Atogla	Spoop	B4 Nappi
<ul style="list-style-type: none"> • Mkt Size: Rs 14.7bn • 2Y CAGR: 11% • Rank 2nd 	<ul style="list-style-type: none"> • Mkt Size: Rs 13bn • 2Y CAGR: 11% • Rank 5th 	<ul style="list-style-type: none"> • Mkt Size: Rs 1.8bn • 2Y CAGR: 10% • Rank 1st 	<ul style="list-style-type: none"> • Mkt Size: Rs 14.7bn • 2Y CAGR: 11% • Rank 3rd

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	85,080	94,424	1,09,716	1,23,995
YoY gr. (%)	6.3	11.0	16.2	13.0
Cost of Goods Sold	29,168	32,237	36,039	40,543
Gross Profit	55,912	62,186	73,677	83,452
Margin (%)	65.7	65.9	67.2	67.3
Employee Cost	15,265	17,032	19,167	21,306
Other Expenses	5,160	5,676	6,244	6,868
EBITDA	24,312	28,050	34,891	40,141
YoY gr. (%)	(2.1)	15.4	24.4	15.0
Margin (%)	28.6	29.7	31.8	32.4
Depreciation and Amortization	6,622	7,122	7,885	8,043
EBIT	17,691	20,929	27,006	32,098
Margin (%)	20.8	22.2	24.6	25.9
Net Interest	2,551	2,560	2,625	2,100
Other Income	1,966	1,300	1,200	1,300
Profit Before Tax	17,106	19,669	25,581	31,298
Margin (%)	20.1	20.8	23.3	25.2
Total Tax	4,488	6,294	8,186	10,015
Effective tax rate (%)	26.2	32.0	32.0	32.0
Profit after tax	12,618	13,375	17,395	21,283
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	7,778	13,375	17,395	21,283
YoY gr. (%)	(37.8)	72.0	30.1	22.3
Margin (%)	9.1	14.2	15.9	17.2
Extra Ord. Income / (Exp)	4,840	-	-	-
Reported PAT	12,618	13,375	17,395	21,283
YoY gr. (%)	0.9	6.0	30.1	22.3
Margin (%)	14.8	14.2	15.9	17.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,618	13,375	17,395	21,283
Equity Shares O/s (m)	338	338	338	338
EPS (Rs)	37.3	39.5	51.4	62.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	1,02,731	1,25,581	1,29,581	1,33,581
Tangibles	44,540	47,721	50,536	52,096
Intangibles	58,191	77,860	79,044	81,484
Acc: Dep / Amortization	41,091	48,212	56,097	64,140
Tangibles	17,510	20,544	23,904	27,332
Intangibles	23,581	27,668	32,193	36,809
Net fixed assets	61,640	77,368	73,483	69,440
Tangibles	27,030	27,176	26,632	24,765
Intangibles	34,610	50,192	46,851	44,675
Capital Work In Progress	8,880	8,880	8,880	8,880
Goodwill	-	-	-	-
Non-Current Investments	420	420	420	420
Net Deferred tax assets	3,000	3,000	3,000	3,000
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	1,840	1,840	1,840	1,840
Inventories	24,620	28,461	33,219	37,582
Trade receivables	16,330	18,111	21,139	23,916
Cash & Bank Balance	4,030	4,366	6,053	6,037
Other Current Assets	8,250	8,663	9,096	9,550
Total Assets	1,26,060	1,48,159	1,54,180	1,57,715
Equity				
Equity Share Capital	846	1,692	1,692	1,692
Other Equity	58,684	65,272	75,538	88,901
Total Networkth	59,530	66,964	77,231	90,593
Non-Current Liabilities				
Long Term borrowings	21,230	33,230	24,230	11,230
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	18,950	18,950	18,950	18,950
Trade payables	16,740	19,405	24,159	27,332
Other current liabilities	12,610	12,610	12,610	12,610
Total Equity & Liabilities	1,26,060	1,48,159	1,54,180	1,57,715

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	15,140	18,369	24,381	29,998
Add. Depreciation	6,622	7,122	7,885	8,043
Add. Interest	2,551	2,560	2,625	2,100
Less Financial Other Income	1,966	1,300	1,200	1,300
Add. Other	-	-	-	-
Op. profit before WC changes	24,312	28,050	34,891	40,141
Net Changes-WC	(3,519)	(3,369)	(3,465)	(4,421)
Direct tax	(4,210)	(6,294)	(8,186)	(10,015)
Net cash from Op. activities	16,583	18,387	23,240	25,704
Capital expenditures	(2,026)	(22,850)	(4,000)	(4,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(2,026)	(22,850)	(4,000)	(4,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(8,070)	12,000	(9,000)	(13,000)
Dividend paid	(6,769)	(5,940)	(7,128)	(7,920)
Interest paid	(2,551)	(2,560)	(2,625)	(2,100)
Others	822	1,300	1,200	1,300
Net cash from Fin. activities	(16,567)	4,800	(17,553)	(21,720)
Net change in cash	(2,010)	336	1,687	(16)
Free Cash Flow	14,557	14,387	19,240	21,704

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	21,370	21,080	21,310	23,470
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
EBITDA	6,600	5,380	5,610	7,120
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
EBIT	4,920	3,710	3,990	5,570
Margin (%)	23.0	17.6	18.7	23.7
Net Interest	710	620	570	550
Other Income	510	480	560	300
Profit before Tax	4,720	3,570	3,980	5,320
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
Profit after Tax	3,160	2,490	3,670	3,540
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,160	2,490	(1,180)	3,540
YoY gr. (%)	1.9	(16.2)	(136.4)	7.3
Margin (%)	14.8	11.8	(5.5)	15.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,160	2,490	(1,180)	3,540
YoY gr. (%)	1.9	(16.2)	(136.4)	7.3
Margin (%)	14.8	11.8	(5.5)	15.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,160	2,490	(1,180)	3,540
Avg. Shares O/s (m)	338	338	338	338
EPS (Rs)	9.3	7.4	10.8	10.5

Source: Company Data, PL Research

Key Financial Metrics

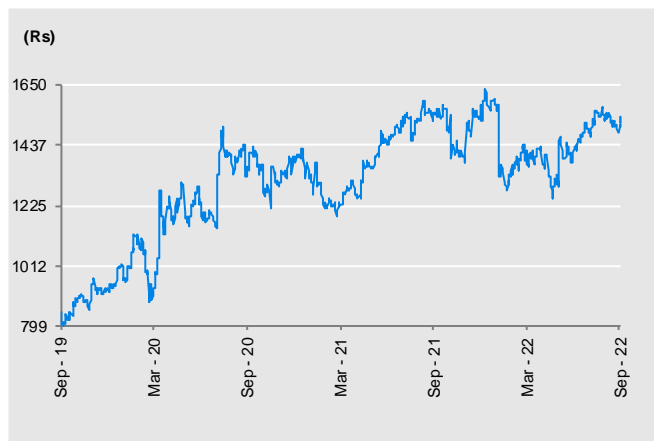
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	37.3	39.5	51.4	62.9
CEPS	42.5	60.6	74.7	86.6
BVPS	175.9	197.8	228.2	267.6
FCF	43.0	42.5	56.8	64.1
DPS	48.0	15.0	18.0	20.0
Return Ratio(%)				
RoCE	17.1	19.1	22.5	26.6
ROIC	14.7	14.7	18.5	21.4
RoE	21.4	21.1	24.1	25.4
Balance Sheet				
Net Debt : Equity (x)	0.6	0.7	0.5	0.2
Net Working Capital (Days)	104	105	100	101
Valuation(x)				
PER	41.2	38.8	29.9	24.4
P/B	8.7	7.8	6.7	5.7
P/CEPS	36.1	25.3	20.6	17.7
EV/EBITDA	22.8	20.2	15.9	13.5
EV/Sales	6.5	6.0	5.1	4.4
Dividend Yield (%)	3.1	1.0	1.2	1.3

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Domestic	42,860	48,218	54,245	60,802
Export	36,520	38,961	45,370	51,741
Contract Manufacturing	5,700	6,099	6,526	6,983

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	01-Aug-22	BUY	1,750	1,529
2	07-Jul-22	BUY	3,250	2,900
3	26-May-22	BUY	3,250	2,635
4	08-Apr-22	BUY	3,560	2,753
5	27-Jan-22	BUY	3,560	3,161
6	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	4,313
2	Aster DM Healthcare	BUY	234	204
3	Aurobindo Pharma	Accumulate	635	593
4	Cipla	BUY	1,110	977
5	Divi's Laboratories	Accumulate	4,140	3,726
6	Dr. Reddy's Laboratories	BUY	4,750	4,260
7	Eris Lifesciences	BUY	825	695
8	Fortis Healthcare	BUY	330	269
9	Glenmark Pharmaceuticals	Accumulate	450	390
10	HealthCare Global Enterprises	BUY	358	284
11	Indoco Remedies	BUY	430	396
12	Ipca Laboratories	Hold	1,010	1,016
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,550	1,204
15	Lupin	Hold	600	660
16	Max Healthcare Institute	BUY	427	362
17	Narayana Hrudayalaya	BUY	810	708
18	Sun Pharmaceutical Industries	BUY	1,070	943
19	Torrent Pharmaceuticals	BUY	1,750	1,529
20	Zydus Lifesciences	BUY	425	364

PL's Recommendation Nomenclature (Absolute Performance)

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



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