

Rating: BUY | CMP: Rs1,557 | TP: Rs1,820

January 26, 2023

Q3FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,820		1,850	
Sales (Rs. m)	1,08,043	1,23,464	1,09,716	1,23,995
% Chng.	(1.5)	(0.4)		
EBITDA (Rs. m)	32,902	39,078	34,891	40,141
% Chng.	(5.7)	(2.6)		
EPS (Rs.)	47.0	60.0	51.4	62.9
% Chng.	(8.5)	(4.6)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	85,080	95,476	1,08,043	1,23,464
EBITDA (Rs. m)	24,312	28,406	32,902	39,078
Margin (%)	28.6	29.8	30.5	31.7
PAT (Rs. m)	7,778	12,722	15,916	20,306
EPS (Rs.)	37.3	37.6	47.0	60.0
Gr. (%)	1.3	0.8	25.1	27.6
DPS (Rs.)	48.0	15.0	18.0	20.0
Yield (%)	3.1	1.0	1.2	1.3
RoE (%)	21.4	20.2	22.5	25.0
RoCE (%)	17.1	19.5	21.3	26.8
EV/Sales (x)	6.6	6.0	5.2	4.4
EV/EBITDA (x)	23.1	20.2	17.1	14.1
PE (x)	41.8	41.4	33.1	25.9
P/BV (x)	8.9	7.9	7.0	6.0

Key Data

TORP.BO | TRP IN

52-W High / Low	Rs.1,750 / Rs.1,235
Sensex / Nifty	60,205 / 17,892
Market Cap	Rs.527bn/ \$ 6,457m
Shares Outstanding	338m
3M Avg. Daily Value	Rs.381.6m

Shareholding Pattern (%)

Promoter's	71.25
Foreign	12.09
Domestic Institution	8.21
Public & Others	8.45
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.4)	4.9	(1.0)
Relative	(1.0)	(2.9)	(4.8)

Param Desai

paramdesai@plindia.com | 91-22-66322259

Akshaya Shinde

akshayashinde@plndia.com | 91-22-66322490

In line EBITDA; strong growth in key markets

Quick Pointers:

- Growth momentum to continue in India, Brazil and Row markets.
- Curatio acquisition registered strong growth of 20% in Q3FY23.

We cut our FY24E/25E EBITDA by 6%/3% to factor in lower US sales given recent OAI status to its Indrad unit along with higher interest cost. Torrent Pharma's (TRP) 3QFY23 EBITDA was largely in line, however PAT was below our estimate led by forex loss and higher interest cost. TRP has Rs 70bn (75% of total sales) worth of highly profitable branded formulation sales spread across India, Brazil and RoW markets. In the near term, Curatio acquisition will increase the company's net debt and we see this acquisition as EPS dilutive. Also historically TRP has successfully managed to integrate Unichem and Elder acquisition which gives us comfort. We expect 17% EBITDA CAGR over FY23-25E. Maintain 'BUY' rating at TP of Rs 1,820/share, 17x EV/EBITDA to Dec 2024E.

- **Strong revenue growth at 18% YoY to Rs25bn across key markets** was broadly in line with our estimate aided by higher India and Brazil sales. Domestic formulation grew strongly by 17% YoY led by base business and Curatio consolidation. ROW market grew strongly by 28% YoY while Germany sales were down 14% YoY. Brazil grew significantly by 36% YoY, above our estimate aided by market share gain and new launches. US sales were also steady to \$35mn (flat QoQ).
- **In-line EBITDA; Forex loss and higher interest cost led to PAT miss:** TRP reported EBITDA of Rs7.2bn; largely in line with our estimate. GM came in at 70.3%; there was one-time impact of 0.6%, due to under absorption of manufacturing cost given temporary shutdown of facility. OPM came in at 29.1% (down 50 bps QoQ). Other expenses came in at Rs6.1bn, up 6.4% QoQ led by Curatio consolidation. Other income was negative due to Rs400mn forex loss. Tax came in higher at 33%. Resultant reported PAT stood at Rs2.8bn; up 14% YoY vs our estimate of Rs3.3bn.
- **Key concall takeaways: (1) Domestic formulation market:** TRP base business grew 12% led by price hike of 8%, 0.2% volume and 3.5% from new launches. TRP now has 13 brands with more than Rs1bn of sales. The recent launch of Sitagliptin has been scaling up well and clocking Rs45-50m/month **(2) Brazil market:** CC growth was 17% aided by new launches and CNS franchise. Despite intense competition for Rivaroxaban (a recently launched molecule), Rx market share remains healthy at 8%. **(3) Germany market:** In CC growth was 4% YoY, a sign of recovery led by new launches along with contribution from recent won tenders. TRP launched 4 new products in Q3 and expects Germany business to continue to improve on QoQ basis. **(4) US market:** Company has received OAI classification for Indrad facility. As of Dec'22, 55 ANDAs filed with USFDA of which 19-20 are from Indrad **(5) Guided** for +Rs12bn of debt reduction in FY24 with annual capex requirement of Rs2.5-3bn.

Exhibit 1: 3QFY23 Result Overview (Rs m). Broadly in line EBITDA; 0.6% one-time impact

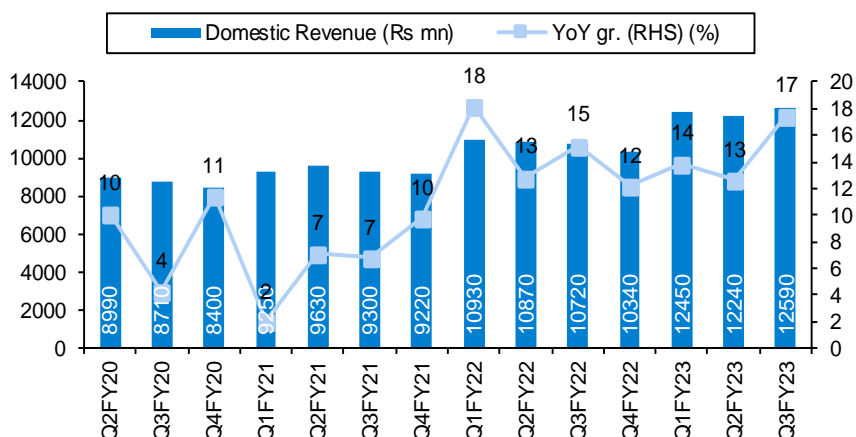
Y/e March	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Net Sales	24,910	21,080	18.2	22,910	8.7	71,290	63,790	11.8
Raw Material	7,300	6,380	14.4	6,410	13.9	20,310	18,210	11.5
<i>% of Net Sales</i>	<i>29.3</i>	<i>30.3</i>		<i>28.0</i>		<i>28.5</i>	<i>28.5</i>	
Personnel Cost	4,230	3,880	9.0	3,940	7.4	12,370	11,620	6.5
<i>% of Net Sales</i>	<i>17.0</i>	<i>18.4</i>		<i>17.2</i>		<i>17.4</i>	<i>18.2</i>	
Others	6,140	5,440	12.9	5,770	6.4	17,460	15,210	14.8
<i>% of Net Sales</i>	<i>24.6</i>	<i>25.8</i>		<i>25.2</i>		<i>24.5</i>	<i>23.8</i>	
Total Expenditure	17,670	15,700	12.5	16,120	9.6	50,140	45,040	11.3
EBITDA	7,240	5,380	34.6	6,790	6.6	21,150	18,750	12.8
<i>Margin (%)</i>	<i>29.1</i>	<i>25.5</i>		<i>29.6</i>		<i>29.7</i>	<i>29.4</i>	
Depreciation	1,930	1,670	15.6	1,630	18.4	5,110	5,000	2.2
EBIT	5,310	3,710	43.1	5,160	2.9	16,040	13,750	16.7
Other Income	(100)	480	(120.8)	160	(162.5)	360	1,390	(74.1)
Interest	1,020	620	64.5	690	47.8	2,260	2,010	12.4
PBT	4,190	3,570	17.4	4,630	(9.5)	14,140	13,130	7.7
Total Taxes	1,360	1,080	25.9	1,510	(9.9)	4,650	4,180	11.2
<i>ETR (%)</i>	<i>32.5</i>	<i>30.3</i>		<i>32.6</i>		<i>32.9</i>	<i>31.8</i>	
Minority interest	-	-		-		-	-	
Reported PAT	2,830	2,490	13.7	3,120	(9.3)	9,490	8,950	6.0

Source: Company, PL

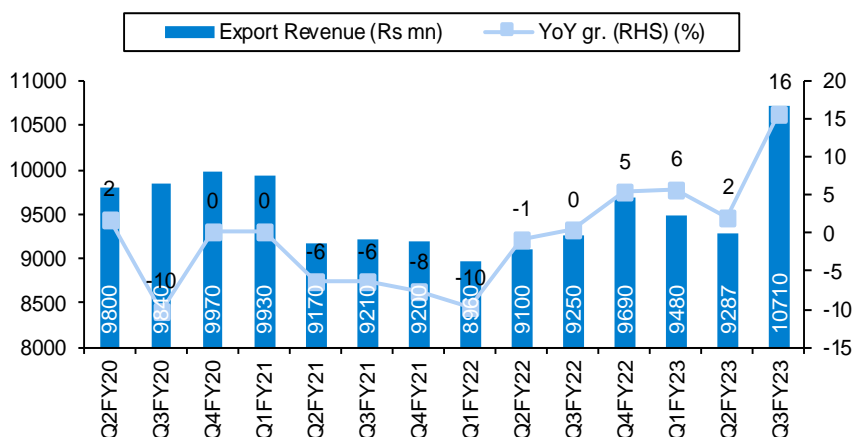
Exhibit 2: Sources of Revenue – Strong revenue growth across key segments

Geographic break up of revenues	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Domestic Sales	14,190	12,270	15.6	13,550	4.7	41,730	38,212	9.2
Branded Business	12,590	10,720	17.4	12,240	2.9	37,280	33,764	10.4
<i>% of Net Sales</i>	<i>50.5</i>	<i>50.9</i>		<i>53.4</i>		<i>52.3</i>	<i>52.9</i>	
Contract Manufacturing	1,600	1,550	3.2	1,310	22.1	4,450	4,448	0.0
<i>% of Net Sales</i>	<i>6.4</i>	<i>7.4</i>		<i>5.7</i>		<i>6.2</i>	<i>7.0</i>	
Exports	10,710	9,250	15.8	9,287	15.3	29,477	27,685	6.5
<i>% of Net Sales</i>	<i>43.0</i>	<i>43.9</i>		<i>40.5</i>		<i>41.3</i>	<i>43.4</i>	
Brazil	2,480	1,820	36.3	1,850	34.1	6,170	5,127	20.3
<i>% of Net Sales</i>	<i>10.0</i>	<i>8.6</i>		<i>8.1</i>		<i>8.7</i>	<i>8.0</i>	
USA	2,910	2,350	23.8	2,850	2.1	8,750	7,815	12.0
<i>% of Net Sales</i>	<i>11.7</i>	<i>11.1</i>		<i>12.4</i>		<i>12.3</i>	<i>12.3</i>	
Germany	2,410	2,810	(14.2)	2,200	9.5	6,750	7,830	(13.8)
<i>% of Net Sales</i>	<i>9.7</i>	<i>13.3</i>		<i>9.6</i>		<i>9.5</i>	<i>12.3</i>	
RoW	2,910	2,270	28.2	2,387	21.9	7,807	6,913	12.9
<i>% of Net Sales</i>	<i>11.7</i>	<i>10.8</i>		<i>10.4</i>		<i>11.0</i>	<i>10.8</i>	

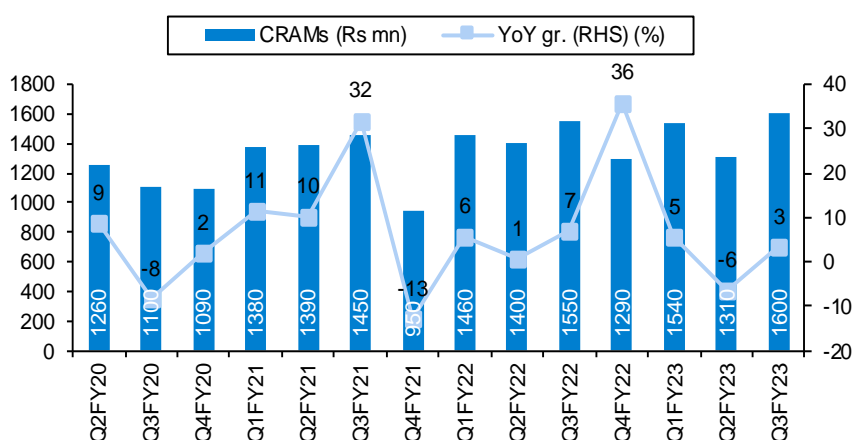
Source: Company, PL

Exhibit 3: Domestic Sales (Rs in mn): In-line with IPM growth


Source: Company, PL

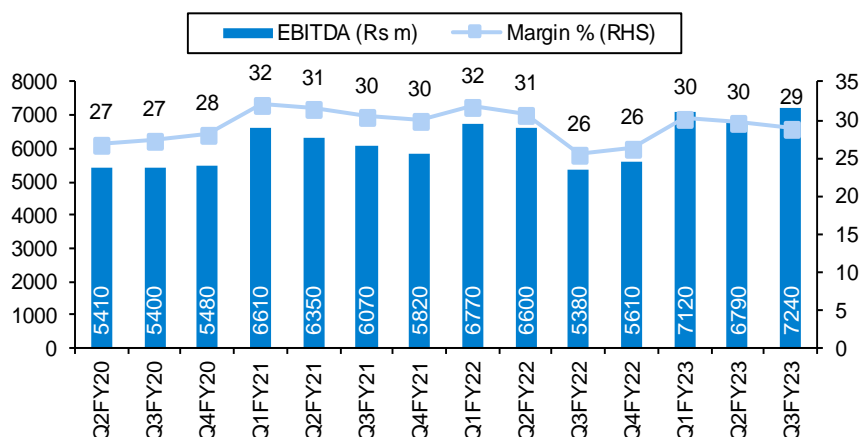
Exhibit 4: Healthy growth in export led by Brazil and RoW markets


Source: Company, PL

Exhibit 5: Revenue from CRAMs (Rs in mn)- Growth was above estimates


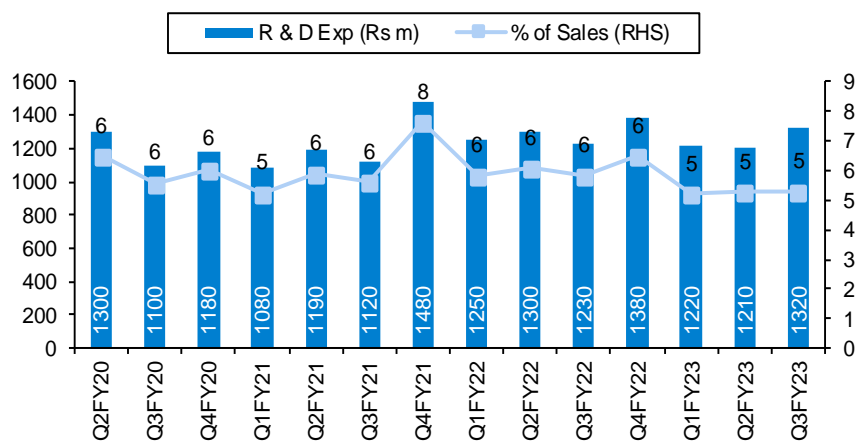
Source: Company, PL

Exhibit 6: EBITDA margin: Adjusted OPM came in at 29.7%



Source: Company, PL

Exhibit 7: R&D came in at 5.3% of sales



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	85,080	95,476	1,08,043	1,23,464
YoY gr. (%)	6.3	12.2	13.2	14.3
Cost of Goods Sold	29,168	32,840	36,369	41,110
Gross Profit	55,912	62,636	71,674	82,354
Margin (%)	65.7	65.6	66.3	66.7
Employee Cost	15,265	16,879	19,021	21,187
Other Expenses	5,160	5,676	6,244	6,868
EBITDA	24,312	28,406	32,902	39,078
YoY gr. (%)	(2.1)	16.8	15.8	18.8
Margin (%)	28.6	29.8	30.5	31.7
Depreciation and Amortization	6,622	7,097	7,859	8,017
EBIT	17,691	21,310	25,042	31,062
Margin (%)	20.8	22.3	23.2	25.2
Net Interest	2,551	3,300	2,975	2,300
Other Income	1,966	700	1,000	1,100
Profit Before Tax	17,106	18,710	23,067	29,862
Margin (%)	20.1	19.6	21.4	24.2
Total Tax	4,488	5,987	7,151	9,556
Effective tax rate (%)	26.2	32.0	31.0	32.0
Profit after tax	12,618	12,722	15,916	20,306
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	7,778	12,722	15,916	20,306
YoY gr. (%)	(37.8)	63.6	25.1	27.6
Margin (%)	9.1	13.3	14.7	16.4
Extra Ord. Income / (Exp)	4,840	-	-	-
Reported PAT	12,618	12,722	15,916	20,306
YoY gr. (%)	0.9	0.8	25.1	27.6
Margin (%)	14.8	13.3	14.7	16.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,618	12,722	15,916	20,306
Equity Shares O/s (m)	338	338	338	338
EPS (Rs)	37.3	37.6	47.0	60.0

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	1,28,581	1,31,581
Tangibles	44,540	47,721	50,146	51,316
Intangibles	58,191	77,860	78,434	80,264
Acc: Dep / Amortization	41,091	48,187	56,047	64,063
Tangibles	17,510	20,534	23,883	27,299
Intangibles	23,581	27,654	32,164	36,765
Net fixed assets	61,640	77,393	72,534	67,517
Tangibles	27,030	27,187	26,264	24,018
Intangibles	34,610	50,206	46,270	43,500
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	28,752	31,815	36,399
Trade receivables	16,330	18,296	20,814	23,812
Cash & Bank Balance	4,030	3,412	4,229	4,021
Other Current Assets	8,250	8,663	9,096	9,550
Total Assets	1,26,060	1,47,706	1,49,677	1,52,490
Equity				
Equity Share Capital	846	1,692	1,692	1,692
Other Equity	58,684	64,620	73,408	85,793
Total Network	59,530	66,312	75,100	87,486
Non-Current Liabilities				
Long Term borrowings	21,230	33,230	22,230	9,230
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	19,603	23,787	27,214
Other current liabilities	12,610	12,610	12,610	12,610
Total Equity & Liabilities	1,26,060	1,47,706	1,49,677	1,52,490

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	15,140	18,010	22,067	28,762
Add. Depreciation	6,622	7,097	7,859	8,017
Add. Interest	2,551	3,300	2,975	2,300
Less Financial Other Income	1,966	700	1,000	1,100
Add. Other	-	-	-	-
Op. profit before WC changes	24,312	28,406	32,902	39,078
Net Changes-WC	(3,519)	(3,647)	(1,830)	(4,610)
Direct tax	(4,210)	(5,987)	(7,151)	(9,556)
Net cash from Op. activities	16,583	18,772	23,920	24,912
Capital expenditures	(2,026)	(22,850)	(3,000)	(3,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(2,026)	(22,850)	(3,000)	(3,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(8,070)	12,000	(11,000)	(13,000)
Dividend paid	(6,769)	(5,940)	(7,128)	(7,920)
Interest paid	(2,551)	(3,300)	(2,975)	(2,300)
Others	822	700	1,000	1,100
Net cash from Fin. activities	(16,567)	3,460	(20,103)	(22,120)
Net change in cash	(2,010)	(618)	817	(208)
Free Cash Flow	14,557	14,772	20,920	21,912

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	21,310	23,470	22,910	24,910
YoY gr. (%)	10.0	10.0	7.2	18.2
Raw Material Expenses	6,220	6,600	6,410	7,300
Gross Profit	15,090	16,870	16,500	17,610
Margin (%)	70.8	71.9	72.0	70.7
EBITDA	5,610	7,120	6,790	7,240
YoY gr. (%)	(3.6)	5.2	2.9	34.6
Margin (%)	26.3	30.3	29.6	29.1
Depreciation / Depletion	1,620	1,550	1,630	1,930
EBIT	3,990	5,570	5,160	5,310
Margin (%)	18.7	23.7	22.5	21.3
Net Interest	570	550	690	1,020
Other Income	560	300	160	(100)
Profit before Tax	3,980	5,320	4,630	4,190
Margin (%)	18.7	22.7	20.2	16.8
Total Tax	310	1,780	1,510	1,360
Effective tax rate (%)	7.8	33.5	32.6	32.5
Profit after Tax	3,670	3,540	3,120	2,830
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(1,180)	3,540	3,120	2,830
YoY gr. (%)	(136.4)	7.3	(1.3)	13.7
Margin (%)	(5.5)	15.1	13.6	11.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(1,180)	3,540	3,120	2,830
YoY gr. (%)	(136.4)	7.3	(1.3)	13.7
Margin (%)	(5.5)	15.1	13.6	11.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(1,180)	3,540	3,120	2,830
Avg. Shares O/s (m)	338	338	338	338
EPS (Rs)	10.8	10.5	9.2	8.4

Source: Company Data, PL Research

Key Financial Metrics

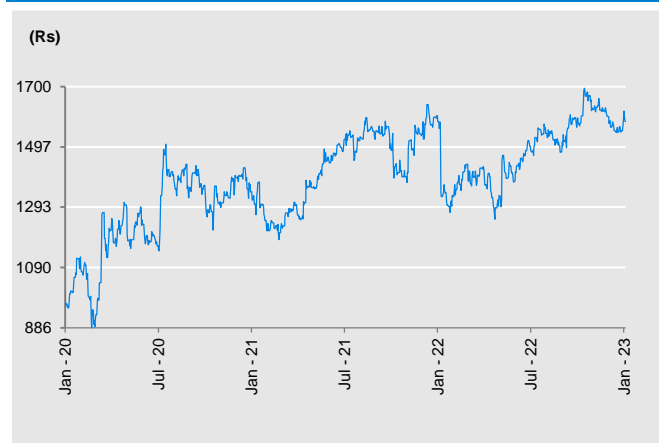
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	37.3	37.6	47.0	60.0
CEPS	42.5	58.6	70.2	83.7
BVPS	175.9	195.9	221.9	258.5
FCF	43.0	43.6	61.8	64.7
DPS	48.0	15.0	18.0	20.0
Return Ratio(%)				
RoCE	17.1	19.5	21.3	26.8
ROIC	14.7	15.0	17.4	21.2
RoE	21.4	20.2	22.5	25.0
Balance Sheet				
Net Debt : Equity (x)	0.6	0.7	0.5	0.3
Net Working Capital (Days)	104	105	97	98
Valuation(x)				
PER	41.8	41.4	33.1	25.9
P/B	8.9	7.9	7.0	6.0
P/CEPS	36.6	26.6	22.2	18.6
EV/EBITDA	23.1	20.2	17.1	14.1
EV/Sales	6.6	6.0	5.2	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	49,363	57,820	65,271
Export	36,520	40,128	43,819	51,341
Contract Manufacturing	5,700	5,985	6,404	6,852

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	BUY	1,850	1,561
2	25-Oct-22	BUY	1,850	1,567
3	06-Oct-22	BUY	1,850	1,579
4	28-Sep-22	BUY	1,850	1,535
5	01-Aug-22	BUY	1,750	1,529
6	07-Jul-22	BUY	3,250	2,900
7	26-May-22	BUY	3,250	2,635
8	08-Apr-22	BUY	3,560	2,753
9	27-Jan-22	BUY	3,560	3,161

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,387
2	Aster DM Healthcare	BUY	265	228
3	Aurobindo Pharma	Accumulate	550	444
4	Cipla	BUY	1,300	1,088
5	Divi's Laboratories	Hold	3,300	3,462
6	Dr. Reddy's Laboratories	BUY	4,900	4,295
7	Eris Lifesciences	BUY	850	652
8	Fortis Healthcare	BUY	360	285
9	Glenmark Pharmaceuticals	Accumulate	460	434
10	HealthCare Global Enterprises	BUY	375	285
11	Indoco Remedies	BUY	430	363
12	Ipca Laboratories	Accumulate	950	858
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,992
14	Krishna Institute of Medical Sciences	BUY	1,660	1,505
15	Lupin	Hold	650	742
16	Max Healthcare Institute	BUY	500	433
17	Narayana Hrudayalaya	BUY	920	712
18	Sun Pharmaceutical Industries	BUY	1,175	1,015
19	Torrent Pharmaceuticals	BUY	1,850	1,561
20	Zydus Lifesciences	Accumulate	465	433

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



ANALYST CERTIFICATION

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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