

27 January 2023

Torrent Pharmaceuticals

Its Brazil and India business boost growth; maintaining a Buy

With good growth in its brand-name business (India, Brazil, RoW) but counter-balanced by weak sales in Germany, Torrent's Q3 revenues grew 18% y/y to Rs24.9bn. Adj. for one-time over-absorption of expenses, the gross margin was steady at 71-72%. Even as the EBITDA margin was a sturdy 29%, higher interest and depreciation costs dragged profits to Rs2.8bn. On the good traction in its brand-name generics through launches, market-share gains and greater MR productivity, we expect 11%, 15% and 21% CAGRs over FY22-25 in respectively revenue, EBITDA and PAT. We retain a Buy rating on the stock, at an unchanged TP of Rs.1,915 (18x FY25e EV/EBITDA).

Growth driven by brand-name generics. Brand-name generics grew 21% y/y, driven by launches and the good performances in top brands. Several launches in Brazil and its home markets drove healthy growth. Q3 captures 2-2.5 months' sales from the recently acquired Curatio, which helped Torrent report 17% growth in its India sales. We expect its brand-name generics (70% of sales) to grow a healthy 14% over FY22-25.

Fresh tenders, or FDA clearance would help to more-than-anticipated growth. A few launches in Germany would drive single-digit revenue growth, while fresh tenders could further boost growth. Even as the US base business is faced with severe (double-digit) price erosion, clearance of the Dahej site would help hasten 16 pending approvals from there. Torrent is working toward a resolution of the Indrad site (again classified as OAI on a follow-up inspection).

Major debt repayment plans. Torrent is due to repay Rs12-14bn debt by FY24, hence, net debt is expected to be maintained at Rs30bn. With plans to repay significant debt by FY25, it expects net debt of ~Rs10bn-11bn.

Valuation. Strong growth in domestic chronic therapies and launches in India, Brazil and the RoW would drive 21% earnings growth in FY22-25. We retain a Buy, with an unchanged target price of Rs1,915. **Risks:** Pricing risk in its domestic portfolio, currency fluctuations, regulatory issues at plants.

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Sales (Rs m)	80,048	85,080	94,129	106,148	117,499
Net profit (Rs m)	12,519	10,844	14,180	16,015	19,075
EPS (Rs)	36.8	31.9	41.7	47.1	56.1
PE (x)	41.8	48.2	36.9	32.7	27.4
EV / EBITDA (x)	23.1	23.4	19.9	17.1	14.5
P/BV (x)	9.0	8.8	7.6	6.6	5.8
RoE (%)	23.5	18.4	22.1	21.8	22.5
RoCE (%)	14.3	11.2	13.1	13.5	15.9
Dividend yield (%)	2.8	3.4	0.9	0.9	1.1
Net debt / equity (x)	0.9	0.8	0.8	0.5	0.2

Source: Company, Anand Rathi Research

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Rating: Buy

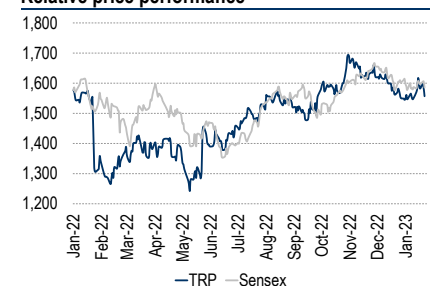
Target Price: Rs.1,915

Share Price: Rs.1,538

Key data	TRP IN / TORP.BO
52-week high / low	Rs.1750 / 1235
Sensex / Nifty	59331 / 17604
3-m average volume	\$4.7m
Market cap	Rs.518bn / \$6347.9m
Shares outstanding	338m

Shareholding pattern (%)	Dec'22	Sep'22	Jun'22
Promoters	71.3	71.3	71.3
- of which, Pledged	0.0	0.0	0.0
Free float	28.8	28.8	28.8
- Foreign institutions	12.1	12.1	10.8
- Domestic institutions	8.9	8.9	11.5
- Public	7.8	7.8	6.5

Relative price performance



Source: Bloomberg

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Quick Glance – Consolidated Financials and Valuations

Fig 1 – Income statement (Rs m)

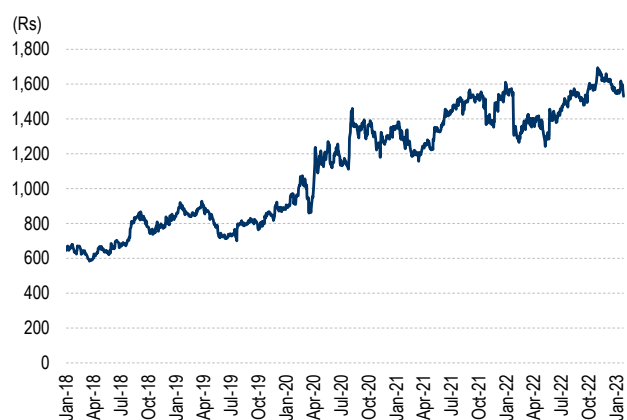
Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Net revenues	80,048	85,080	94,129	106,148	117,499
Growth (%)	0.8	6.3	10.6	12.8	10.7
Direct costs	21,464	24,430	26,638	30,040	32,900
SG&A	33,727	36,340	38,554	43,248	47,587
EBITDA	24,857	24,310	28,937	32,860	37,012
EBITDA margins (%)	31.1	28.6	30.7	31.0	31.5
- Depreciation	6,578	6,620	6,787	7,995	8,139
Other income	567	1,970	1,379	1,517	1,669
Interest expenses	3,583	2,550	2,676	2,830	2,490
PBT	15,263	12,260	20,852	23,551	28,052
Effective tax rate (%)	18.0	36.6	32.0	32.0	32.0
+ Associates / (Minorities)	-	-	-	-	-
Net income	12,519	7,770	14,180	16,015	19,075
Adjusted income	12,519	10,844	14,180	16,015	19,075
WANS	340	340	340	340	340
FDEPS (Rs / sh)	36.8	31.9	41.7	47.1	56.1
R&D (% of sales)	6.1	6.1	6.5	6.4	6.2

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
PBT (adj. for other inc. / int.)	18,279	12,840	22,149	24,865	28,873
+ Non-cash items	6,578	6,620	6,787	7,995	8,139
Oper. prof. before WC	24,857	19,460	28,937	32,860	37,012
- Incr. / (decr.) in WC	14,474	5,124	-905	3,034	-5,446
Others incl. taxes	3,341	3,420	6,673	7,536	8,976
Operating cash-flow	7,042	10,916	23,169	22,290	33,482
- Capex (tang. & intang.)	3,668	-2,395	22,000	2,500	2,000
Free cash-flow	3,375	13,311	1,169	19,790	31,482
Acquisitions	0	0	0	0	0
- Div. (incl. buyback & taxes)	7,212	9,936	6,043	5,850	6,968
+ Equity raised	0	4	850	0	0
+ Debt raised	2,467	-7,814	17,000	-14,000	-14,000
- Fin investments	1,790	452	-1,840	0	0
- Misc. (CFI + CFF)	-2,529	-2,890	447	1,313	821
Net cash-flow	-631	-1,997	14,369	-1,373	9,693

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

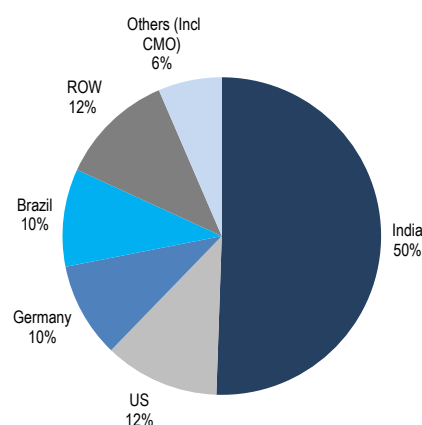
Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	846	850	1,700	1,700	1,700
Net worth	58,372	59,530	68,517	78,682	90,789
Debt	60,311	52,496	69,496	55,496	41,496
Minority interest	-	-	-	-	-
DTL / (Assets)	-4,217	-3,001	-3,001	-3,001	-3,001
Capital employed	114,466	109,026	135,012	131,177	129,284
Net tangible assets	28,833	27,026	26,921	26,676	25,821
Net intangible assets	38,401	34,606	50,424	45,672	40,888
Goodwill	3,412	2,595	2,595	2,595	2,595
CWIP (tang. & intang.)	8,894	6,298	5,798	5,298	4,798
Investments (strategic)	-	-	-	-	-
Investments (financial)	1,811	2,263	423	423	423
Current assets (excl. cash)	49,143	49,241	51,988	57,669	55,318
Cash	6,035	4,034	17,553	16,180	25,873
Current liabilities	22,064	17,037	20,690	23,337	26,432
Working capital	27,079	32,204	31,298	34,332	28,886
Capital deployed	114,466	109,026	135,012	131,177	129,284
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	41.8	48.2	36.9	32.7	27.4
EV / EBITDA (x)	23.1	23.4	19.9	17.1	14.5
EV / Sales (x)	7.2	6.7	6.1	5.3	4.6
P/B (x)	9.0	8.8	7.6	6.6	5.8
RoE (%)	23.5	18.4	22.1	21.8	22.5
RoCE (%) - after tax	14.3	11.2	13.1	13.5	15.9
ANDA filings	155.0	-	-	-	-
DPS (Rs / sh)	35.0	48.0	14.6	14.1	16.8
Dividend yield (%)	2.8	3.4	0.9	0.9	1.1
Dividend payout (%) - incl. DDT	57.6	127.9	42.6	36.5	36.5
Net debt / equity (x)	0.9	0.8	0.8	0.5	0.2
Receivables (days)	69	70	74	74	65
Inventory (days)	122	106	95	95	80
Payables (days)	94	72	79	79	81
CFO : PAT %	56.3	100.7	163.4	139.2	175.5

Source: Company, Anand Rathi Research

Fig 6 – Revenue break-up (Q3 FY23)



Source: Company

Result highlights

Fig 7 – Quarterly financials (Rs m)

Quarterly results (YE Mar)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	% Y/Y	% Q/Q
Sales	20,560	20,170	19,950	19,370	21,340	21,370	21,080	21,310	23,470	22,910	24,910	18.2	8.7
Gross profit	15,210	14,630	14,330	14,410	15,460	15,420	14,700	15,090	16,870	16,500	17,610	19.8	6.7
Gross margins (%)	74.0	72.5	71.8	74.4	72.4	72.2	69.7	70.8	71.9	72.0	70.7	96bps	-133bps
R&D	1,080	1,190	1,120	1,480	1,250	1,300	1,230	1,380	1,220	1,210	1,230	0.0	1.7
EBITDA	6,610	6,350	6,070	5,820	6,770	6,600	5,380	5,610	7,120	6,790	7,240	34.6	6.6
EBITDA margins (%)	32.1	31.5	30.4	30.0	31.7	30.9	25.5	26.3	30.3	29.6	29.1	354bps	-57bps
Finance expenses	1,020	920	910	730	680	710	620	570	550	690	1,020	64.5	47.8
Depreciation	1,610	1,650	1,670	1,650	1,650	1,680	1,670	1,620	1,550	1,630	1,930	15.6	18.4
Other income	40	60	80	390	400	510	480	560	300	160	(100)	-120.8	-162.5
PBT	4,020	3,840	3,570	3,830	4,840	4,720	3,570	(870)	5,320	4,630	4,190	17.4	-9.5
Tax	810	740	600	590	1,540	1,560	1,080	310	1,780	1,510	1,360	25.9	-9.9
Effective tax rate (%)	20.1	19.3	16.8	15.4	31.8	33.1	30.3	(35.6)	33.5	32.6	32.5	221bps	-16bps
Reported PAT	3,210	3,100	2,970	3,240	3,300	3,160	2,490	(1,180)	3,540	3,120	2,830	13.7	-9.3
Adjusted PAT	3,210	3,100	2,970	3,240	3,300	3,160	2,490	3,210	3,540	3,120	2,830	13.7	-9.3
EPS (Rs)	9.4	9.1	8.7	9.5	9.7	9.3	7.4	(3.5)	10.5	9.2	8.4	13.7	-9.3

Source: Company, Anand Rathi Research

Fig 8 – Revenue break-up (Rs m)

Quarterly results (YE Mar)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	% Y/Y	% Q/Q
India	9,250	9,630	9,300	9,220	10,930	10,870	10,720	10,340	12,450	12,240	12,590	17.4	2.9
% of sales	45.0	47.7	46.6	47.6	51.2	50.9	50.9	48.5	53.0	53.4	50.5		
Brazil	1,400	1,290	1,730	1,890	1,530	1,560	1,820	2,510	1,840	1,850	2,480	36.3	34.1
% of sales	6.8	6.4	8.7	9.8	7.2	7.3	8.6	11.8	7.8	8.1	10.0		
Germany	2,460	2,610	2,650	2,670	2,600	2,510	2,370	2,180	2,140	2,200	2,410	1.7	9.5
% of sales	12.0	12.9	13.3	13.8	12.2	11.7	11.2	10.2	9.1	9.6	9.7		
US	3,730	3,270	2,920	2,690	2,660	2,840	2,350	2,820	2,990	2,920	2,910	23.8	-0.3
% of sales	18.1	16.2	14.6	13.9	12.5	13.3	11.1	13.2	12.7	12.7	11.7		
ROW	2,340	2,000	1,910	1,950	2,170	2,190	2,270	2,180	2,520	2,390	2,910	28.2	21.8
% of sales	11.4	9.9	9.6	10.1	10.2	10.2	10.8	10.2	10.7	10.4	11.7		
Others (incl. CMO)	1,380	1,390	1,450	950	1,460	1,400	1,550	1,290	1,540	1,310	1,610	3.9	22.9
% of sales	6.7	6.9	7.3	4.9	6.8	6.6	7.4	6.1	6.6	5.7	6.5		
Total	20,560	20,190	19,960	19,370	21,350	21,370	21,080	21,320	23,480	22,910	24,910	18.2	8.7

Source: Company, Anand Rathi Research

Fig 9 – Performance of the top-10 brands (Rs m)

Brands	Molecule	Therapy	Chronic / Acute	Q3 FY23	Q3 FY22	% Y/Y	Q2 FY23	% Q/Q
Shelcal	Calcium Carbonate + Vit D3	Vitamins / Minerals / Nutrients	Sub Chronic	728	667	9.2	813	-10.5
Chymoral Forte	Chymotrypsin + Trypsin	Pain / Analgesics	Acute	566	485	16.9	591	-4.2
Nexpro Rd	Domperidone + Esomeprazole	Gastro-intestinal	Acute	458	397	15.4	476	-3.7
Shelcal Xt	Other calcium combinations	Vitamins / Minerals / Nutrients	Sub Chronic	403	318	27.0	426	-5.3
Nikorán	Nicorandil	Cardiac	Chronic	376	351	7.2	423	-11.1
Nebicard	Nebivolol	Cardiac	Chronic	323	294	9.9	329	-2.0
Azulix-Mf	Glimepiride + Metformin	Anti-diabetes	Chronic	307	285	7.5	320	-4.2
Veloz D	Domperidone (30mg) + Rabeprazole (20mg)	GI	Chronic	305	262	16.6	318	-3.9
Unienzyme	Digestive enzymes	Gastro-intestinal	Acute	274	255	7.8	305	-10.2
Dilzem	Diltiazem	Cardiac	Chronic	254	215	18.4	233	9.2
Top-10 brand sales				3,995	3,527	13.3	4,235	-5.7

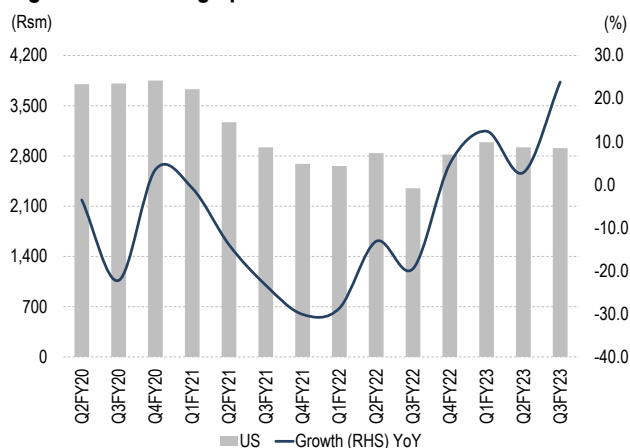
Source: AIOCD

Fig 10 – Key therapies

Key therapies (Rs m)	Q3 FY23	Q3 FY22	% Y/Y	Q2 FY23	% Q/Q
Cardiac	4,267	3,963	7.7	4,492	-5.0
Gastro-intestinal	2,770	2,472	12.1	2,969	-6.7
Neuro / CNS	2,469	2,099	17.6	2,539	-2.8
Vitamins / Minerals / Nutrients	1,893	1,698	11.5	2,073	-8.6
Anti-diabetes	1,431	1,225	16.8	1,453	-1.6
Derma	1,124	397	182.8	456	146.5
Pain / Analgesics	1,062	887	19.7	1,085	-2.1
Anti-infective	477	475	0.3	527	-9.5
Gynaecological	376	319	17.8	373	1.0
Others	347	170	104.3	364	-4.6
Overall domestic sales	16,217	13,707	18.3	16,330	-0.7

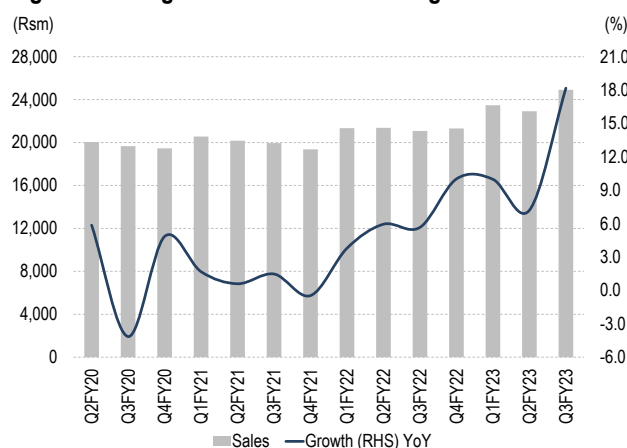
Source: AIOCD

Fig 11 – Double-digit price erosion in US



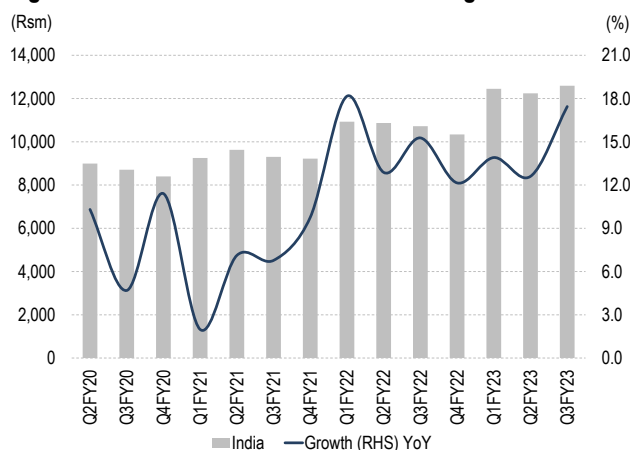
Source: Company, Anand Rathi Research

Fig 12 – Good growth in its brand-name generics business



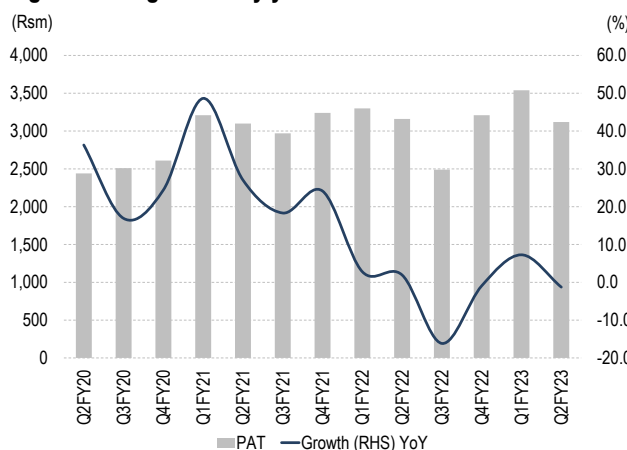
Source: Company, Anand Rathi Research

Fig 13 – Curatio sales drove India business growth



Source: Company, Anand Rathi Research

Fig 14 – PAT grew 14% y/y to Rs2.8bn



Source: Company, Anand Rathi Research

Result update; Concall highlights

■ Domestic business (~50% of sales)

- Management has retained its **12-13%** revenue **growth guidance**. As earlier stated, Curatio's 2--2.5 months' sales is reflected in Q3.
- According to AIOCD, the company grew 12%, of which volume growth was 0.2%, price growth 8.1% and new products 3.5%. Management believes that price hikes would aid growth for the next few quarters.
- In generic **Sitagliptin** (for diabetes), Torrent is ranked No.1 among products launched in Jul'22. In this generic it clocks Rs50m revenues a month.

Brazil (~10% of sales)

- In constant currency, revenue grew 17% y/y to 159m Brazilian reals. Per secondary data, Torrent grew 17%, vs. 13% for the BGx market growth in Q3.
- In Q2, Torrent had expanded its CNS field force (to~310), as it had planned launches, which would be a lever in future.
- The company launched 22 products in Brazil.

Germany (~10% of sales)

- Management guided to mid- to high-single-digit revenue growth in FY24, aided by tender wins and launches.
- In CC, revenue grew 4% to €29m, attributable to good traction in recent launches.
- Tender duration in Germany is two months.

US (12% of sales)

- Torrent Pharma clocked revenues of \$35m (down 6% q/q). Price erosion is still in high double-digits.
- **Revlimid** launch is not expected in the next 12 months.
- The company aims to file 5-6 ANDAs in Q4.
- **US FDA update on the Indrad site.** With the US FDA follow-up inspection in Sep'22 with three observations the Indrad site is now again under OAI status. It was issued a warning letter in Oct'19 (four observations with OAI status in Aug'19). Resolution of this would result in approvals of ~19 ANDAs, which have been withheld since 2019. Indrad capacity utilisation is 50%+.
- **US FDA update on Dahej site.** Re-inspection awaited. This site has been under OAI status since Jun'19 (five observations). Resolution of this would result in approvals of ~16 ANDAs, which have been withheld since 2019. Dahej capacity utilisation is 70%+.

Other highlights

- RoW (12% of sales). Some added opportunities in Russia drove the RoW business higher
- In Q3, the adj. GM rose only 0.6% due to a 15-20 day shutdown in Oct'22 for cleaning and validation consequent on the US FDA inspection. Manufacturing was halted and sales couldn't be recorded for that period but raw materials had already been purchased. This led to the Q3 GM declining 0.6ppts.
- Capex for the next three years would be Rs2.5-3bn a year
- Net debt on 31st Mar'23 would be Rs43bn. In FY24 Rs12-14bn debt has to be repaid and the company intends to repay most of it in FY25.

Fig 17 – Sales and assumptions

(Rs m)	FY21	FY22	FY23e	FY24e	FY25e
India	37,390	42,860	49,363	58,165	65,499
% Y/Y	6.3	14.6	15.2	17.8	12.6
% of sales	46.7	50.4	52.4	54.8	55.7
US	12,610	10,670	10,348	10,195	10,520
% Y/Y	-17.2	-15.4	-3.0	-1.5	3.2
% of sales	15.8	12.5	11.0	9.6	9.0
Brazil	6,300	7,420	8,725	9,859	11,042
% Y/Y	-11.9	17.8	17.6	13.0	12.0
% of sales	7.9	8.7	9.3	9.3	9.4
RoW	8,200	8,810	9,515	10,371	11,201
% Y/Y	5.7	7.4	8.0	9.0	8.0
% of sales	10.2	10.4	10.1	9.8	9.5
Germany	10,380	9,660	9,988	10,688	11,543
% Y/Y	9.6	-6.9	2.0	7.0	8.0
% of sales	13.0	11.4	10.6	10.1	9.8
Others (incl. CRAMS)	5,170	5,670	6,203	6,885	7,712
% Y/Y	12.1	9.7	9.4	11.0	12.0
% of sales	6.5	6.7	6.6	6.5	6.6
TOTAL	80,050	85,090	94,142	106,163	117,516

Source: Company, Anand Rathi Research

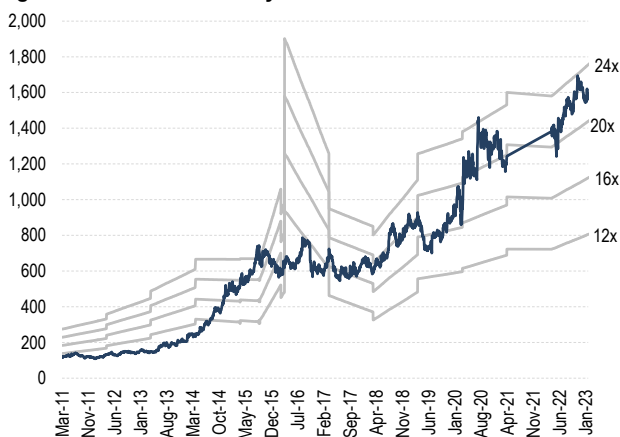
Valuations

Q3 results have been broadly in line with our and street expectations. Growth of brand-named generics in Brazil and India is expected to be sound, attributable chiefly to launches (in CNS, anti-diabetes and GI therapies), supported by traction in the recently acquired brands (Curatio as well), greater MR productivity, and market outperformance of its top brands. We expect a 14-15%/revenue CAGR over FY22-25 in its India and Brazil markets.

A few launches in Germany would drive single-digit revenue growth, while fresh tenders could further boost growth. The US base business continues to be faced with severe price erosion (in double-digits); FDA clearance of the Dahej site would hasten approvals for 16 pending ANDAs withheld since 2019.

At the CMP of Rs1,538, the stock quotes at 17x and 15x respective FY24e and FY25e EV/EBITDA. We expect 11%, 15% and 21% CAGRs over FY22-25 in revenue, EBITDA and adj. PAT respectively. We maintain our Buy recommendation, with an unchanged TP of Rs1,915 (at FY25e 18x EV/EBITDA).

Fig 18– EV/EBITDA – one-year-forward



Source: Bloomberg, Anand Rathi Research

Fig 19 – EV/EBITDA Standard deviation – one-year-forward



Source: Bloomberg, Anand Rathi Research

Risks

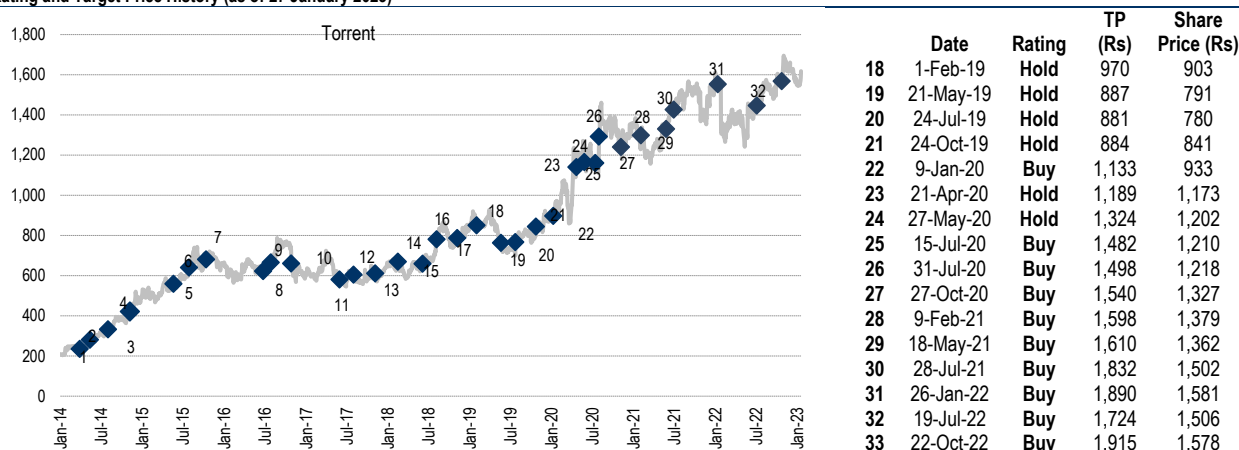
- Currency fluctuations (50% exports)
- Delay in regulatory issues at any plant
- Delay in product approvals and launches.

Appendix

Analyst Certification

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