



3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	Grey	Red

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	Green	↓	Grey
RQ	Green	↔	Green
RV	Green	↓	Grey

ESG Disclosure Score

NEW

ESG RISK RATING 36.60
Updated Apr 13, 2023

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

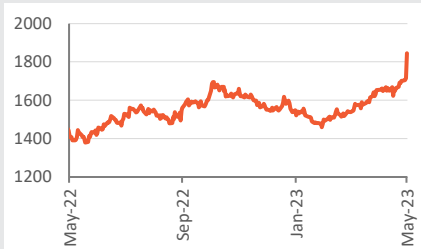
Company details

Market cap:	Rs. 62,131 cr
52-week high/low:	Rs. 1,885 / 1,745
NSE volume: (No of shares)	46.6 lakh
BSE code:	500420
NSE code:	TORNTPHARM
Free float: (No of shares)	9.7 cr

Shareholding (%)

Promoters	71.3
FII	12.0
DII	9.0
Others	7.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.1	22.9	10.8	29.6
Relative to Sensex	8.6	18.2	11.9	16.9

Sharekhan Research, Bloomberg

Torrent Pharmaceuticals Ltd

Mixed quarter; downgrade to HOLD

Pharmaceuticals

Sharekhan code: TORNTPHARM

Reco/View: Hold



CMP: Rs. 1,836

Price Target: Rs. 1,910



Upgrade



Maintain



Downgrade

Summary

- Torrent Pharma posted mixed results for Q4FY23, as while it outperformed on the sales front due to stronger growth in India, Brazil and Germany markets than anticipated it underperformed on net income basis due to lower other income and higher interest costs than anticipated.
- Revenue growth was driven by strong growth across markets; partially offset by the weakness in the US market.
- The existing base business in the US is witnessing decline due to huge price erosions without additional product launches. Hence, we downgrade the stock to HOLD as all the potential margin expansion and strong revenue growth prospects are already factored in, in the prices.
- The stock is currently trading at ~34.0x/29.2x its FY24E and FY25E EPS, which is at a premium to the historical multiples it has traded at.

Torrent Pharmaceuticals reported mixed results in Q4FY23. While its was in line on sales front it underperformed on operating profitability and net income basis. The company posted ~16.9% y-o-y increase in revenue to Rs. 2,491 Cr. It was ~1.4% above our estimate and ~1.7% above the consensus estimate. It was driven by improved growth (compared to last 2 quarters) in India market, which grew at ~21.6% y-o-y to Rs 1,257 Cr; recovery in growth in Germany market from a decline y-o-y in Q2FY23 to ~16.1% y-o-y rise in the revenue to Rs. 253 Cr. The growth in revenue has also been aided by continued strong growth in Brazil, which grew at ~27.2% y-o-y to Rs. 318 Cr and Rest of the world (RoW) markets growing at ~27.1% y-o-y to Rs. 277 Cr. in Q4FY23. The US, however, showed a subdued performance as it declined ~0.7% y-o-y to Rs. 280 Cr. in Q4FY23 due to price erosions in the base business without new product launches.

Key positives

- India, Germany, Brazil, and Rest of the World (RoW) continues to grow at higher rate than in the previous quarters.
- The company intends to deepen its presence in branded generics market along with Curatio's acquisition, new launches and entering in new therapy areas.
- Branded generics is ~70.0%+ of revenue and there are 2 important levers that can improve margins, which is pricing and operating leverage.
- On a long term, the margins can expand by ~60-100 bps y-o-y.

Key negatives

- Delay in the resolution of OAI/WL at Indrad and Dahej plants.

Management Commentary

- As of Q4FY23, the leverage in terms of net debt to EBITDA stands at ~1.55x, which the company intends to bring down to less than ~1x by the end of FY24E.
- The company's top 3 focus areas are branded generics with innovation led products in India, launching 10-15 products in Brazil p.a. and oncology products on a global basis. Then there are projects with which the company will work for the US, Europe, and Germany and for the out-licensing business in Europe. As a result, the R&D spend is likely to increase.
- The company has gained two ranks and now is the sixth largest player in the Indian pharmaceutical market (IPM). The rank in FY22 was 8th, and this is now currently 6th. Torrent has 18 brands in top 500 brands of IPM with 13 brands of over ~Rs. 100 crores.

Revision in estimates – Torrent Pharma has almost met our estimates for FY23 on operating and net income basis. Factoring in ~450 bps expansion in the margins, from here on driven by its leadership in branded generics space and pricing power, we enhance its EPS estimates by ~8.8% for FY24E and maintain it for FY25E.

Our Call

View – Downgrade it to HOLD with a revised PT of Rs. 1910: The company's prospects are strong as it is expected to be driven by strong traction in India Rx business on the back of product launches and pricing power in the branded business side, the Germany's tender business recovering, and Brazil continuing to clock in strong growth. However, the company entering in the Consumer business with a product i.e., Shelcal from Q4FY23 may have offsetting impact on its margins over short term due to increased spending on marketing and distribution costs. Additionally, the company does not intend to launch gRevlimid immediately. Also, its own plants such as Dahej are not expected to be able to launch products over the next 6-9 months given the USFDA remedial measures being underway. Additionally, the existing base business in the US is witnessing decline due to huge price erosions without additional product launches. Hence, we downgrade the stock to HOLD as all the potential margin expansion and strong revenue growth prospects are already factored in in the prices. The stock is currently trading at ~34.0x/29.2x its FY24E and FY25E EPS, which is at a premium to the historical multiples it has traded at.

Key Risks

Delays in the resolution of USFDA issues at its plants and heightened competitive pressures in the U.S.

Valuation (Consolidated)

Rs cr

Particulars	FY2021	FY2022	FY2023E	FY2024E	FY2025E
Net sales	8,005.0	8,508.0	9,620.0	10,892.1	12,117.3
OPM (%)	31.0	28.6	29.5	33.5	34.0
Adjusted net profit	1252.0	1262.0	1245.0	1835.0	2135.7
EPS (Rs)	36.8	37.1	36.6	54.0	62.8
PER (x)	49.9	49.5	50.1	34.0	29.2
EV/EBITDA (x)	27.0	27.2	23.7	17.3	14.9
P/BV (x)	10.5	10.3	10.1	8.4	6.9
ROCE (%)	16.9	18.4	19.5	24.7	25.9
RONW (%)	23.1	21.1	20.3	26.9	26.0

Source: Company; Sharekhan estimates

Q4FY2023 Concall Highlights

- ♦ **Outlook:** The company intends to deepen its presence in branded generics market along with Curatio's acquisition, new launches and entering in new therapy areas. Germany is expected to continue to witness recovery driven by incremental tender wins and OTC expansion. Until the US facilities get cleared, the focus for the US would be to maintain niche and profitable presence in the US. The company expects to grow its India business with a ~2.0% volumes growth and pricing growth will be similar to the past. The company intends to beat the IPM growth by ~200.0 bps on the back of new product launches and field force expansion. Initial response is quite positive for the consumer segment.
- ♦ **Margins:** The company suggests Q1FY24 to be indicative of margins for FY24E. Q1FY23 to directionally give the margin trend for FY24E. Branded generics is ~70.0%+ of revenue and there are 2 important levers that can improve margins, which is pricing and operating leverage. On a long term, the margins can expand by ~60-100 bps y-o-y. Price increases to likely reflect from May or June of a year.
- ♦ **Sales growth:** Q4FY23 continued to witness robust growth in branded generic markets, aided by market share gain, performance of the top brands, and new launches. The branded generic market constitutes ~70% + of the total revenue and has grown at ~20% plus rate.
- ♦ **Curatio's acquisition:** The scheme of arrangement for amalgamation of Curatio is approved by NCLT. And pursuant to this, the business combination has been recognized with effect from October 14, 2022, which was the acquisition date or the appointed date. The financials now reflect the effect of amalgamation effective October 14, 2022. Curatio is now fully integrated into Torrent Pharma. Curatio has grown at ~19.0% y-o-y and there has been improvement in its margins by 4-5% and with integration already happened the margin accretion is expected to be faster. India business grew at ~22.0% including Curatio and at ~15.0% excluding Curatio. The base business grew as a result of 3.0% volumes growth, 7.0% pricing growth, and rest of the growth came in from new product launches.
- ♦ **Leverage and Dividend:** As of Q4FY23, the leverage in terms of net debt to EBITDA stands at ~1.55x, which the company intends to bring down to less than ~1x by the end of FY24E. The Board of Directors have recommended a final dividend of Rs. 8 per equity share for FY23.
- ♦ **India business:** India revenue grew at ~22.0% y-o-y to Rs. 1,257 Cr for the quarter. As per AIOCD secondary data, Torrent's growth for the quarter was ~12% versus IPM growth of ~11%. For the full year FY23, Torrent's growth was ~16% versus the IPM growth of ~9%. Growth was aided by the strong performance of top brands in chronic therapies, new launch momentum, and the growth synergies bolstered by the integration of Curatio portfolio. The company expects its India business to continue its current growth momentum, backed by new launches, Curatio synergies, performance of top brands, and gradual scale-up of Consumer Healthcare platform.
- ♦ **IPM rank:** Consistent with the acquisition of Curatio and consistent market share gain in base business, the company has gained two ranks and now is the sixth largest player in the Indian pharmaceutical market (IPM). The rank in FY22 was 8th, and this is now currently 6th. Torrent has 18 brands in top 500 brands of IPM with 13 brands of over ~Rs. 100 crores.
- ♦ **Launch of Consumer Health segment:** During the quarter, the company has launched the Consumer Healthcare platform with a dedicated trade field force to augment its distribution. Field force strength was ~5,500. The company has done pilot for one brand called Shelcal by investing in advertising for the product in 4 states and expects to take it pan India in FY24. The company has identified few more products around 5 of them and will continue to work on them in FY24. The field force is expected to be around ~250-300 on the ground for it. The discounts in the channel which is around ~30.0% for Rx could be much lower for OTC products and the company can comment around it over the next 1-2 quarters to confirm if the upside is higher for OTC products in the channel. The spend will remain constant on the segment over the next 2 quarters in line with Q4FY23.
- ♦ **Brazil:** Brazil is the largest revenue territory outside of India with revenue of Rs. 318 crores in the quarter. This represents a growth of ~27%. Constant currency revenue is at BRL 201 million, up ~17% y-o-y. As per IQVIA, for the quarter ending March '23, Torrent's growth is ~24% versus a market growth of ~12%. For FY23, IQVIA indicates that Torrent's growth was at ~22% as compared to market growth of ~15%. The

company has launched 7 brands in the last 24 months. As of day, it has double-digit market shares in four of them. In FY24, the company plans to launch six more brands: three in CNS and three in cardio. Brazil has witnessed an all-round performance with market share gain in the base portfolio. In CNS the company has 12 brands that grew faster than the market out of which 9 grew at more than ~10.0%. In Cardio diabetes, 7 of the company's brands grew faster than the market out of which 5 grew at double digits. In FY23, the company added 36 reps to its CNS field force, bringing the total number of sales reps in Brazil to 295. The company continues to strengthen its product pipeline with 14 filings and 12 approvals sought in FY23. The generic business is also growing at a strong pace and is now stands at ~12.0% of its sales. The company plans to enhance its market coverage in CNS and C&D therapy areas from ~28.0% to ~40.0% in FY26.

- ♦ **Germany:** Germany has been witnessing steady growth sequentially driven by new tender wins and growth in OTC products segment. Incrementally, the company has won certain tenders and is expected to drive the recovery trend further from H2-FY24. In FY23, the company launched over 10 new products in Germany and is expected to be a similar launch number for FY24. The company has increased the size of its OTC field force as well in Germany. Torrent is to focus on cost optimization to enhance its competitiveness in the tender business. The company also plans to launch new products and develop the OTC segment. New base for Germany business would be EUR 28-29 million per quarter.
- ♦ **U.S.:** The US revenue was down by ~1.0% y-o-y to Rs. 280.0 Cr in Q4FY23, which was impacted by the price erosion of the base portfolio and lack of new launches pending the plant inspections. The USFDA has recently inspected the Dahej facility and issued Form 483 with 2 observations. Nevertheless, the company has received approval for its first oncology product from the new dedicated facility for it. The company plans to file 2-3 oncology products from it p.a. The focus for the US market will be to get clearance for the facilities from the USFDA, strengthen its products pipeline and build a niche portfolio with focus on profitability. The focus for the US business will be stop the bleeding through cost cutting, outsourcing and discontinuation of the products. The new launches from the US dedicated plants is still 6-9 months away but the company has in-licensed products and will be launching 3-4 in – licensed products. The company will also be launching Oncology products. The company does not need any capex for the US market as the plants have the capacity. Also, the R&D spend has been scaled down.
- ♦ **R&D Spend:** The company's top 3 focus areas are branded generics with innovation led products in India, launching 10-15 products in Brazil p.a. and oncology on a global basis. Then there are projects with which the company will work for the US, Europe, and Germany and for the out-licensing business in Europe. As a result, the R&D spend is likely to increase. The first Oncology product called Sorafenib has received approval from the Bileshwarpura facility and will be launched in June/July in CY23. It will be launched in the US, and then in other markets.
- ♦ **Dahej facility:** To get the EIR in 3-4 months from now and new approvals are likely to come after the EIR has been sought. In all, it will be 6-7 months timeline from today. There are three buckets of products likely from the facility, high value, commoditized and the ones which were slated to be released from the facility for CY24 and CY25. The company expects to launch at least ~7-9 products as long as the economic value sustains on it.
- ♦ **gRevlimid:** Not constrained by the USFDA concerns around the plant as it is outsourced for production. It will be launched much after the 4th wave of launches.

Results (Consolidated)

					Rs cr
Particulars	Q4FY2023	Q4FY2022	YoY %	Q3FY2023	QoQ %
Total Sales	2,491.0	2,131.0	16.9	2,491.0	0.0
Expenditure	1,764.0	1,570.0	12.4	1,767.0	-0.2
EBITDA	727.0	561.0	29.6	724.0	0.4
Depreciation	196.0	162.0	21.0	193.0	1.6
EBIT	531.0	399.0	33.1	531.0	0.0
Interest	107.0	57.0	87.7	102.0	4.9
Other income	9.0	56.0	-83.9	-10.0	NM
PBT	433.0	398.0	8.8	419.0	3.3
Taxes	146.0	31.0	371.0	127.0	15.0
Adjusted PAT	287.0	367.0	-21.8	292.0	-1.7
Exceptional Items	0.0	-485.0	NM	0.0	NM
Reported Profit	287.0	-118.0	NM	292.0	-1.7
Reported EPS	8.5	-3.5	NM	8.6	-1.7
Margins			BPS		BPS
EBITDA %	29.2	26.3	286	29.1	12
EBIT %	21.3	18.7	259	21.3	0
Adj NPM%	11.5	17.2	-570	11.7	-20
Tax %	33.7	7.8	2,593	30.3	341

Source: Company; Sharekhan Research

Region-wise revenue performance

Particulars	Q4FY2023	Q4FY2022	YoY %
India	1,257	1,034	21.6%
US	280	282	-0.7%
Germany	253	218	16.1%
Brazil	318	250	27.2%
Other countries (RoW)	277	218	27.1%
Others	106	129	-17.8%
Total	2,491	2,131	16.9%

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Regulatory concerns and pricing erosion prove a hurdle over the short-medium term:

Over the years, Indian pharmaceutical companies have established themselves as a dependable source for global pharma companies. The confluence of other factors, including a focus on specialty/complex products in addition to emerging opportunities in the API space, would be key growth drivers over the long term. However, ongoing USFDA plant inspections and a few companies being issued Form 483 with observations point at apparent regulatory concerns. We believe in the near term, based on the headwinds that may drag the performance, especially in the API and CDMO space and for large pharma players seeing USFDA OAI or WL status on their facilities, we have a Neutral view of the sector.

■ Company Outlook – Earnings prospects improve with strong outlook on India and Brazil:

Torrent is a leading pharmaceutical company present in emerging as well as developed markets. The company has a higher exposure to chronic therapies. Moreover, the company derives a substantial portion of its sales from India, followed by the U.S., Germany, and Brazil, which collectively form the core markets. The company has been outperforming in the Indian as well as Brazilian markets and management expects to sustain traction going ahead as well and sees these geographies as key growth drivers. Moreover, the German business is expected to gain traction and stage strong growth ahead, backed by growth in the base business and new product launches. The company's U.S. business has been under pressure as two of its plants, which cater to US markets – Dahej and Indrad – are under the USFDA's scanner with OAI/WL classification. A timely and successful resolution of these USFDA observations at its two plants is critical and could result in earnings upgrades upon resolution.

■ **Valuation – Downgrade it to HOLD with a revised PT of Rs. 1910:** The company's prospects are strong as it is expected to be driven by strong traction in India Rx business on the back of product launches and pricing power in the branded business side, the Germany's tender business recovering, and Brazil continuing to clock in strong growth. However, the company entering in the Consumer business with a product i.e., Shelcal from Q4FY23 may have offsetting impact on its margins over short term due to increased spending on marketing and distribution costs. Additionally, the company does not intend to launch gRevlimid immediately. Also, its own plants such as Dahej are not expected to be able to launch products over the next 6-9 months given the USFDA remedial measures being underway. Additionally, the existing base business in the US is witnessing decline due to huge price erosions without additional product launches. Hence, we downgrade the stock to HOLD as all the potential margin expansion and strong revenue growth prospects are already factored in in the prices. The stock is currently trading at ~34.0x/29.2x its FY24E and FY25E EPS, which is at a premium to the historical multiples it has traded at.

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E			EV/EBITDA			RoE (%)		
				FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Torrent Pharma	1,835.8	33.84	62,132	50.1	34.0	29.2	23.7	17.3	14.9	20.3	26.9	26.0
Cipla	953.1	80.69	76,902	25.7	22.6	19.4	15.1	13.8	12.2	12.6	12.8	13.2
Zydus Lifescience	502.3	101.20	50,833	20.5	18.7	16.8	13.3	11.8	11.5	14.1	13.9	13.7

Source: Company, Sharekhan estimates

About company

Torrent, the flagship company of Torrent Group, was incorporated in 1972. Torrent has a strong international presence across 40 countries with operations in regulated and emerging markets such as the U.S., Europe, Brazil, and RoW. The company operates through its wholly owned subsidiaries spread across 12 nations with major setups in Brazil, Germany, and the US. The company is also one of the leading pharmaceutical companies present in India as a dominant player in the therapeutic areas of cardiovascular (CV) and central nervous system (CNS). The company also has a significant presence in gastro-intestinal, diabetology, anti-infectives, and pain management segments.

Investment theme

Torrent continues to focus on a branded business mix from India and Brazil, which balances well for sustainable growth in a challenging global environment for the pharma sector. U.S. business is also stable. Two manufacturing plants of Torrent are reeling under regulatory issues with a warning letter being issued by the USFDA. Management expects the issues to be resolved; and till such time, approvals from these plants would be withheld. Torrent has submitted its responses to the regulator and is awaiting a revert on this. Timely and successful resolution of USFDA issues is critical from a growth perspective.

Key Risks

- ♦ Slowdown in ANDA approvals and USFDA-related regulatory risks could hurt business prospects.
- ♦ Delay in product launches in Brazil, Germany, and the U.S. could restrict growth in these key geographies.
- ♦ Currency fluctuation poses a risk to export businesses.

Additional Data

Key management personnel

Mr. Sudhir Mehta	Chairman (Emeritus)
Mr. Samir Mehta	Executive Chairman
Mr. Sudhir Menon	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Mirae Asset Global Investments	1.59
2	ICICI Prudential Life Insurance	1.24
3	Kotak Mahindra AMC	1.21
4	Vanguard Group Inc.	1.11
5	BlackRock Inc.	0.95
6	FMR LLC	0.91
7	Nippon Life India AMC	0.85
8	UTI Asset Management	0.84
9	Norges Bank	0.71
10	ICICI Prudential AMC	0.63

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

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For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022- 33054600