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India | Equity research | Q1FY24 result review

Torrent Pharma

Pharma

Organic growth tepid; mix drives margins

Torrent's Q1FY24 performance was boosted by the acquisition of Curatio in India, while delay in shipments derailed growth in Brazil (sales of ~INR 250mn in Q1). Organic growth in domestic branded biz is estimated at ~8-9% led by price rise and new launches. Lower share of CDMO sales (5.1% in Q1 vs 6.6% last year) and soaring India contribution (55% in Q1 vs 53%) drove 300bps YoY (320 bps QoQ) expansion in gross margin to 74.9%. It aims to file 7-9 products in the US every year and launch 10-12 products (incl. oncology), which will likely increase US quarterly sales run-rate to USD 50mn-60mn in a few years. While we like Torrent's niche focus on branded generics, the stock trades at a pricey 22x / 19x FY24E / FY25E EV/EBITDA. Maintain **HOLD** with a revised TP of INR 2,130 on 20x FY25E EV/EBITDA.

Muted Brazil sales pulls back growth

Revenue was up 10.4% YoY (+4% QoQ) to INR 25.9bn, lower than our estimate of INR 27.4bn on account of subdued sales in Brazil. Gross margin expanded by 300bps YoY (+320bps QoQ) to 74.9% led by improved product mix and price hikes. EBITDA margin was in line with our expectations (up 20bps YoY, 134bps QoQ) at 30.5% (I-Sec: 30.6%). Adjusted PAT rose 6.8% YoY (+31.7% QoQ) to INR 3.8bn (I-Sec: INR 3.9bn).

Acquisition drives growth in India; generics traction healthy

India business was up 14.5% YoY (+13.4% QoQ) to INR 14.3bn. Adjusted for the NLEM impact, growth stood at 16% YoY aided by price hikes and Curatio acquisition (~5%). Curatio recorded high double-digit growth supported by PCPM improvements. We expect India business CAGR of 13.8% over FY23-FY25E. US revenue rose 5.9% QoQ to USD 36mn. Torrent did not witness price erosion in Q1FY24. Regulatory clearance for Dahej facility remains critical for new product launches in the US. Brazil business grew 3.3% YoY, but declined 40.3% QoQ to INR 1.9bn. The sequential decline was on account of a delay in dispatches to a major customer, which will be recorded in Q2FY24. Company intends to launch 6 new products in Brazil in FY24 (already launched one). We expect the Brazil business to register a CAGR of 8% over FY23-FY25E. Germany revenue was up 20.6% YoY (2% QoQ) to INR 2.6bn driven by a new tender contract. RoW revenue grew 16.3% YoY (5.8% QoQ) to INR 2.9bn. Contract manufacturing revenue declined 14.9% YoY (+22.4% QoQ) to INR 1.3bn, impacted by inventory rationalisation.

Financial summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	84,188	94,640	1,07,814	1,18,875
EBITDA	24,313	28,420	33,498	37,754
EBITDA Margin (%)	28.6	29.5	30.7	31.4
Net Profit	11,165	12,450	16,777	20,119
EPS (INR)	33.0	36.8	49.6	59.5
EPS % Chg YoY	(10.8)	11.5	34.9	19.9
P/E (x)	89.5	55.9	41.4	34.5
EV/EBITDA (x)	29.6	26.1	21.9	19.1
RoCE (%)	14.6	13.4	15.3	17.5
RoE (%)	18.9	20.5	25.0	25.7

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Market Data

Market Cap (INR)	695bn
Market Cap (USD)	8,403mn
Bloomberg Code	TRP IN
Reuters Code	TORP.BO
52-week Range (INR)	2,081 / 1,446
Free Float (%)	27.0
ADTV-3M (mn) (USD)	8.6

Price Performance (%)	3m	6m	12m
Absolute	25.1	34.4	33.8
Relative to Sensex	8.8	10.4	14.4

ESG Disclosure	2021	2022	Change
ESG score	50.3	53.3	2.9
Environment	28.2	38.4	10.2
Social	44.1	42.6	(1.5)
Governance	78.6	78.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(0.8)	(0.7)
EBITDA	0.8	1.9
EPS	7.0	8.4

Previous Reports

31-05-2023: [Q4FY23 results review](#)

15-05-2023: [Re-initiating coverage](#)

Valuations and risks

We estimate revenue / EBITDA / PAT CAGRs of 11.8% / 15.3% / 27.1% respectively over FY23-FY25E with margin improvement of 190bps to ~31% in FY25E. RoCE may improve to 17.5% in FY25E from 13.4% in FY23. While we like the strong domestic franchise support driven by the dominant chronic segment and branded business in Brazil, lack of volume growth in India may derail the company's India growth once the base for Curatio acquisition is fully adjusted.

We cut our revenue estimates by ~1% to factor-in the quarterly variances. However, we raise our EBITDA estimates by 1-2% to account for the improvement in product mix. The stock currently trades at valuations of 41.4x FY24E and 34.5x FY25E earnings and EV/EBITDA multiples of 21.9x FY24E and 19.1x FY25E, respectively. The P/E multiple looks high due to significant amortisation charge. We maintain **HOLD** with a target price of INR 2,130/share based on 20x FY25E EV/EBITDA (prior: INR 1,645 based on 16x FY25E EV/EBITDA). We value the stock on EV/EBITDA(x) basis considering the significant amortisation cost, which is a non-cash charge.

Q1FY24 concall highlights

India

- Adjusting for NLEM-led price cut, India growth stood at 16%. 0.5% growth was driven by the trade generics biz.
- Base portfolio (including trade generics) growth stood in double digits.
- As per AIOCD, Torrent's Q1 growth stood at 9% vs market growth of 4%. Volume growth was -3%, 7% price-led growth and 4.5% came from new products.
- Curatio portfolio fetched 5% growth at consolidated levels (Curatio growth at 18%). MAT sales of Tedibar rose to INR 10bn. The portfolio margins have expanded 700bps from the time of acquisition. Operating leverage will improve margins further from current levels. PCPM of Curatio is under 0.5mn vs 0.36mn.
- Torrent launched 4 products in Q1 and no further launches are planned in FY24. Volume growth will be fetched from brands launched in the last 2 years.
- Torrent's Sitagliptin brand now has sales of INR 100mn and is ranked no.1 brand in the molecule category.
- Torrent added 230 medical representatives in Q1 for consumer distribution biz. Total MR count now stands at 5,500.
- It has increased marketing efforts to promote Shelcal on consumer OTC platforms. Marketing of Unizyme and Tedibar are also planned in quarters ahead.
- Chronic segment grew in double digits. Acute therapy sales were weaker during the quarter. Gastro therapy brands have sales of over INR 10bn and growth in this portfolio was impacted by seasonality.
- FY24 market growth is estimated to be in single digit and Torrent will likely grow faster than it. Torrent's focus ahead is on to improve its market share and MR productivity.
- Company entered into trade generics to improve acute therapy share in India revenue. There is no brand cannibalisation as portfolios in branded and trade generics are different. Management is confident of growing both trade generics and branded generics biz in India.
- Torrent sales from metro cities in India is higher than industry average while market share in tier 2-6 cities is lower than industry average.

Brazil

- Delay in despatch of a shipment to a key customer led to a 2% dip in constant currency sales. Adjusting for this delay, growth was 12% in constant currency and 17% in reported terms.
- In generic market, Torrent volume share in its covered market stood at 8.8%.
- It launched 3 new products in Q1 and 5 more will be launched in rest of FY24.
- In Q1, it added 77 medical representatives in CNS division and 120 more will be added for the rest of FY24

Germany

- In constant currency terms, sales grew at 11%, mainly driven by new tender win. Management expects to maintain a similar run-rate in the quarters ahead. In Q1, it won an additional contract, revenue of which will be booked from Q4.

US

- Constant currency sales stood at USD 36mn.
- New oncology facility was recently cleared by USFDA. Torrent has pipeline of 10 products from this facility, which will be launched over the next 4 years.
- Management is expecting a revert from FDA in Sep'23 for Dahej site.
- Torrent is targeting to file 7-9 products in the US every year. From Sep-Oct'23, the pace of new launches will increase. Company is targeting double-digit launches in US in the near term.
- Torrent did not witness a material price erosion in US in Q1.
- In the next couple of years, new product approvals will improve quarterly the run-rate in US to USD 50mn-60mn.

Financials & guidance

- Other expenses run-rate will remain at Q1 levels in quarters ahead.
- Other income in Q1 included a one-off income of INR 200mn.
- Q1 margins are likely to sustain in FY24. Operating leverage will drive 70bps improvement in margins thereon.
- FY24 tax rate guidance is at ~29% due to benefits from Curatio integration.
- Net debt to EBITDA was at 1.3x at end of Q1. Management is targeting to repay further debt of INR 6bn in FY24.

Exhibit 1: Quarterly review

Y/E Mar (INR mn)	Q1FY24	Q1FY23	YoY(%)	Q4FY23	QoQ (%)	FY23	FY22	YoY(%)
Net Sales	25,910	23,470	10.4	24,910	4.0	96,200	85,080	13.1
Gross Profit	19,410	16,870	15.1	17,870	8.6	68,850	60,660	13.5
Gross Margins (%)	74.9	71.9	303%	71.7	317%	71.6	71.3	27%
EBITDA	7,910	7,120	11.1	7,270	8.8	28,420	24,313	16.9
EBITDA Margins (%)	30.5	30.3	19%	29.2	134%	29.5	28.6	
Other Income	340	300	13.3	90	277.8	450	1,966	(77.1)
Interest	1,030	550	87.3	1,070	(3.7)	3,330	2,551	
Depreciation	1,910	1,550	23.2	1,960	(2.6)	7,070	6,622	6.8
PBT	5,310	5,320	(0.2)	4,330	22.6	18,470	17,106	8.0
Tax	1,530	1,780	(14.0)	1,460	4.8	6,020	4,487	34.2
Tax Rate (%)	28.8	33.5		33.7		32.6	26.2	
PAT	3,780	3,540	6.8	2,870	31.7	12,450	7,772	60.2
Minority Int	-	-		-		-	-	
Net Income	3,780	3,540	6.8	2,870	31.7	12,450	7,772	60.2
NPM (%)	14.6	15.1		11.5		12.9	9.1	

Source: Company data, I-Sec research

Exhibit 2: Business mix

(INR mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	% YoY	% QoQ
India	10,930	10,870	10,720	10,340	12,450	12,240	12,590	12,570	14,260	14.5	13.4
Brazil	1,530	1,560	1,830	2,510	1,840	1,850	2,480	3,180	1,900	3.3	(40.3)
Germany	2,600	2,510	2,370	2,180	2,140	2,200	2,410	2,530	2,580	20.6	2.0
US	2,660	2,840	2,350	2,820	2,990	2,920	2,910	2,800	2,930	(2.0)	4.6
USD mn	36	35	31	37	39	37	35	34	36	(7.7)	5.9
RoW	2,170	2,190	2,270	2,180	2,520	2,390	2,910	2,770	2,930	16.3	5.8
Others	1,460	1,400	1,550	1,290	1,540	1,310	1,600	1,070	1,310	(14.9)	22.4
Total	21,350	21,370	21,090	21,320	23,480	22,910	24,900	24,920	25,910	10.3	4.0

Source: Company data, I-Sec research

Exhibit 3: Brand-wise breakdown

Brands	Therapy	Q1FY23	Q1FY24	YoY (%)	Q4FY23	QoQ (%)	FY22	FY23	YoY (%)
Shelcal	Vitamins / Minerals / Nutrients	1,061	1,109	4.5	994	11.6	3,667	4,188	14.2
Chymoral	Pain / Analgesics	659	767	16.4	661	16.1	2,168	2,677	23.5
Nexpro-RD	Gastro Intestinal	432	475	9.9	465	2.0	1,534	1,808	17.9
Shelcal XT	Vitamins / Minerals / Nutrients	408	504	23.6	405	24.3	1,248	1,659	32.9
Nikoran	Cardiac	399	453	13.5	422	7.4	1,452	1,638	12.8
Unienzyme	Gastro Intestinal	431	439	1.7	401	9.5	1,351	1,579	16.8
Nebicard	Cardiac	333	347	4.2	349	-0.5	1,262	1,345	6.5
Losar	Cardiac	314	352	12.1	325	8.4	1,187	1,285	8.3
Losar-H	Cardiac	320	320	-0.1	304	5.3	1,201	1,229	2.3
Azulix-MF	Anti Diabetic	309	301	-2.6	292	3.0	1,169	1,208	3.3

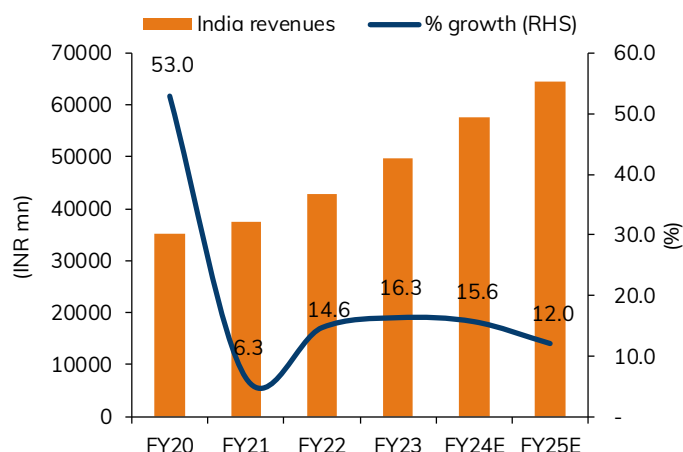
Source: IQVIA, I-Sec research

Exhibit 4: Therapy-wise breakdown

SUPERGROUP	Q1FY23	Q1FY24	YoY (%)	Q4FY23	QoQ (%)	FY22	FY23	YoY (%)
Cardiac	4,575	4,876	6.6	4,742	2.8	16,933	18,528	9.4
Gastro Intestinal	3,014	3,164	5.0	2,992	5.8	10,387	11,978	15.3
Neuro / CNS	2,411	2,607	8.1	2,487	4.8	8,398	9,770	16.3
Vitamins/Minerals/Nutrients	1,689	1,827	8.2	1,595	14.5	5,784	6,703	15.9
Pain / Analgesics	1,452	1,561	7.5	1,394	11.9	4,912	5,743	16.9
Anti Diabetic	1,328	1,540	16.0	1,458	5.7	4,868	5,573	14.5
Derma	988	1,157	17.1	1,127	2.6	3,704	4,342	17.2
Anti-Infectives	429	450	4.9	481	-6.4	2,070	1,957	-5.5
Gynaec.	413	380	-8.1	399	-4.9	1,261	1,626	29.0
Antineoplast/Immunomodulator	98	113	14.6	86	30.6	243	391	60.5

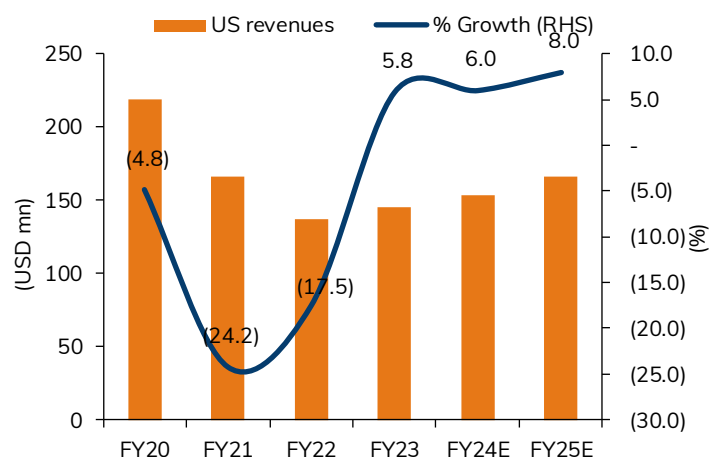
Source: IQVIA, I-Sec research

Exhibit 5: Potential price hikes and incremental Curatio sales to elevate India sales



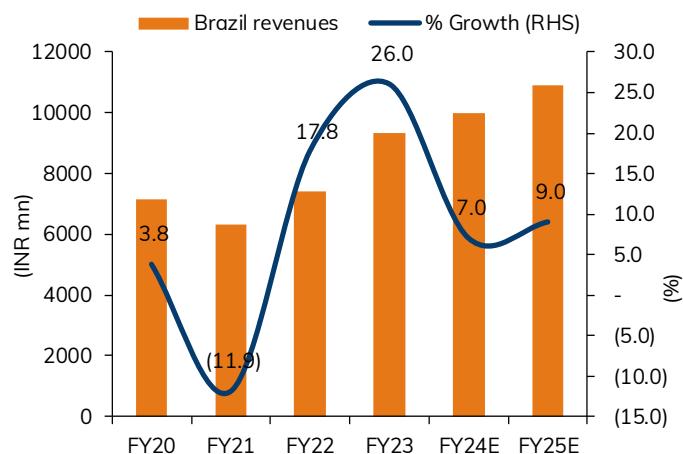
Source: Company data, I-Sec research

Exhibit 6: US revenue to decline due to lack of new product launches



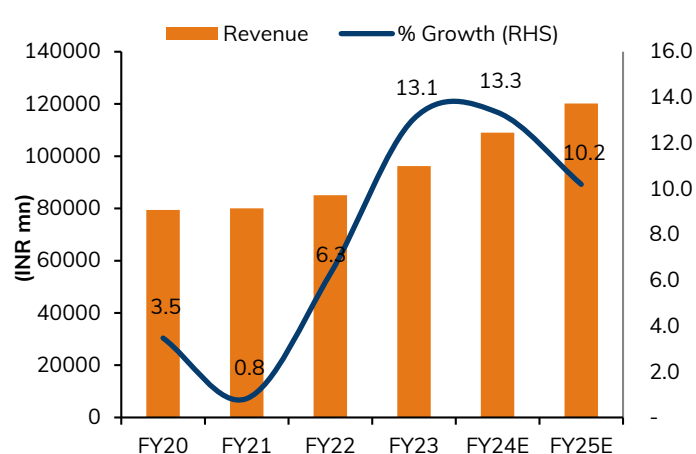
Source: Company data, I-Sec research

Exhibit 7: Branded generics to continue healthy performance in Brazil



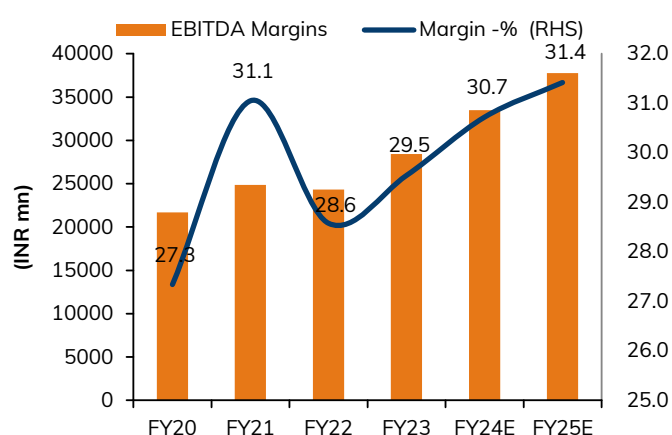
Source: Company data, I-Sec research

Exhibit 8: Revenue to grow at 11.8% over FY23-FY25E



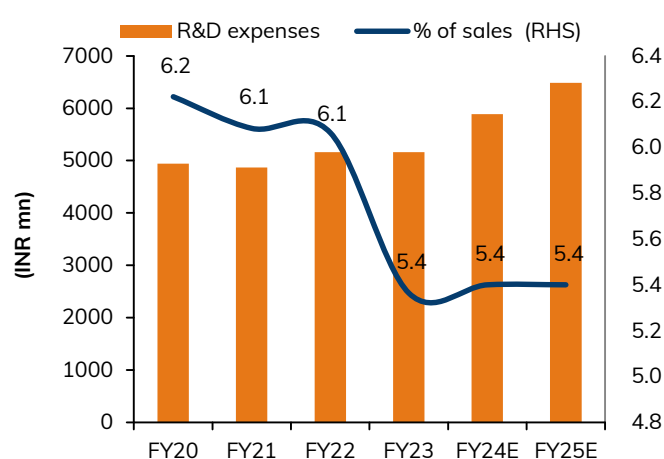
Source: Company data, I-Sec research

Exhibit 9: Expect EBITDA margin to improve with higher contribution from India business



Source: Company data, I-Sec research

Exhibit 10: R&D as % of sales inching downwards with reduced spend in US business



Source: Company data, I-Sec research

Exhibit 11: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	71.3	71.3	71.3
Institutional investors	21.0	21.0	21.2
MFs and others	6.2	6.4	5.6
FIs/Banks	-	-	-
Insurance	2.0	1.9	2.0
FIIIs	12.9	12.7	13.6
Others	7.7	7.7	7.5

Source: Bloomberg

Exhibit 12: Price chart



Source: Bloomberg

Financial Summary

Exhibit 13: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	84,188	94,640	1,07,814	1,18,875
Operating Expenses	60,768	67,780	75,539	82,399
EBITDA	24,313	28,420	33,498	37,754
EBITDA Margin (%)	28.6	29.5	30.7	31.4
Depreciation & Amortisation	6,622	7,070	7,556	7,684
EBIT	17,691	21,350	25,942	30,071
Interest expenditure	2,551	3,330	2,898	2,348
Other Non-operating Income	1,966	450	585	614
Recurring PBT	17,106	18,470	23,629	28,337
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	4,487	6,020	6,853	8,218
PAT	7,772	12,450	16,777	20,119
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	7,772	12,450	16,777	20,119
Net Income (Adjusted)	11,165	12,450	16,777	20,119

Source Company data, I-Sec research

Exhibit 14: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	51,107	51,730	57,345	66,823
of which cash & cash eqv.	4,034	5,710	2,509	6,766
Total Current Liabilities & Provisions	34,921	26,460	26,278	27,787
Net Current Assets	16,186	25,270	31,067	39,036
Investments	2,263	1,990	1,990	1,990
Net Fixed Assets	25,751	26,270	24,564	22,821
ROU Assets	1,275	1,450	1,450	1,450
Capital Work-in-Progress	6,298	7,650	7,650	7,650
Total Intangible Assets	37,201	53,500	49,651	45,710
Other assets	2,150	2,070	2,095	2,120
Deferred Tax assets	4,937	5,440	5,440	5,440
Total Assets	96,078	1,23,660	1,23,926	1,26,238
Liabilities				
Borrowings	30,463	52,970	42,970	32,970
Deferred Tax Liability	1,936	4,020	4,020	4,020
provisions	3,687	3,930	3,930	3,930
other Liabilities	463	760	760	760
Equity Share Capital	846	1,690	1,690	1,690
Reserves & Surplus	58,683	60,290	70,556	82,867
Total Net Worth	59,530	61,980	72,246	84,557
Minority Interest	-	-	-	-
Total Liabilities	96,078	1,23,660	1,23,926	1,26,238

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	11,139	18,079	17,622	25,799
Working Capital Changes	4,865	6,791	9,023	3,737
Capital Commitments	(2,394)	25,415	2,000	2,000
Free Cashflow	13,533	(7,336)	15,622	23,799
Other investing cashflow	452	(273)	-	-
Cashflow from Investing Activities	1,942	(25,142)	(2,000)	(2,000)
Issue of Share Capital	-	844	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(8,074)	22,507	(10,000)	(10,000)
Dividend paid	(18,015)	(4,832)	(6,511)	(7,808)
Others	11,006	(8,937)	(2,313)	(1,734)
Cashflow from Financing Activities	(15,082)	9,583	(18,824)	(19,542)
Chg. in Cash & Bank balance	(2,001)	2,520	(3,202)	4,258
Closing cash & balance	4,034	6,554	2,508	6,766

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	23.0	36.8	49.6	59.5
Adjusted EPS (Diluted)	33.0	36.8	49.6	59.5
Cash EPS	52.5	57.7	72.0	82.3
Dividend per share (DPS)	53.2	14.3	19.3	23.1
Book Value per share (BV)	175.9	183.1	213.7	250.2
Dividend Payout (%)	231.8	38.8	38.8	38.8
Growth (%)				
Net Sales	6.8	12.4	13.9	10.3
EBITDA	(2.2)	16.9	17.9	12.7
EPS (INR)	(10.8)	11.5	34.9	19.9
Valuation Ratios (x)				
P/E	89.5	55.9	41.4	34.5
P/CEPS	39.1	35.6	28.5	25.0
P/BV	11.7	11.2	9.6	8.2
EV / EBITDA	29.6	26.1	21.9	19.1
P / Sales	8.3	7.3	6.5	5.9
Operating Ratios				
Gross Profit Margins (%)	71.3	71.6	73.0	73.2
EBITDA Margins (%)	28.6	29.5	30.7	31.4
Effective Tax Rate (%)	36.6	32.6	29.0	29.0
Net Profit Margins (%)	13.1	12.9	15.4	16.7
Net Debt / Equity (x)	0.4	0.7	0.5	0.3
Net Debt / EBITDA (x)	1.0	1.6	1.1	0.6
Profitability Ratios				
RoCE (%)	14.6	13.4	15.3	17.5
RoE (%)	18.9	20.5	25.0	25.7
RoIC (%)	16.0	12.7	15.8	18.6
Fixed Asset Turnover (x)	3.2	3.7	4.3	5.1
Inventory Turnover Days	109	90	101	100
Receivables Days	72	78	79	78
Payables Days	74	68	59	58

Source Company data, I-Sec research

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