Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Torrent Pharmaceuticals (TRP IN)

Rating: BUY | CMP: Rs2,055 | TP: Rs2,250

August 8, 2023

Q1FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	**BUY**		**BUY**	
Target Price	**2,250**		**1,900**	
Sales (Rs. m)	1,09,233	1,24,376	1,10,121	1,25,819
% Chng.	*(0.8)*	*(1.1)*		
EBITDA (Rs. m)	33,558	39,229	32,907	39,190
% Chng.	*2.0*	*0.1*		
EPS (Rs.)	49.1	62.8	46.3	60.0
% Chng.	*5.9*	*4.7*		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	85,080	96,197	1,09,233	1,24,376
EBITDA (Rs. m)	24,312	28,417	33,558	39,229
Margin (%)	*28.6*	*29.5*	*30.7*	*31.5*
PAT (Rs. m)	7,778	12,447	16,591	21,218
EPS (Rs.)	37.3	36.8	49.1	62.8
Gr. (%)	*1.3*	*(1.2)*	*33.3*	*27.9*
DPS (Rs.)	48.0	22.0	24.0	26.0
Yield (%)	*2.3*	*1.1*	*1.2*	*1.3*
RoE (%)	*21.4*	*20.5*	*25.3*	*28.5*
RoCE (%)	*17.1*	*19.9*	*22.9*	*28.5*
EV/Sales (x)	8.6	7.7	6.7	5.8
EV/EBITDA (x)	30.0	26.1	21.8	18.4
PE (x)	55.1	55.8	41.9	32.7
P/BV (x)	11.7	11.2	10.1	8.7

Key Data	TORP.BO | TRP IN
52-W High / Low	Rs.2,081 / Rs.1,446
Sensex / Nifty	65,953 / 19,597
Market Cap	Rs.695bn/ $ 8,405m
Shares Outstanding	338m
3M Avg. Daily Value	Rs.714.74m

Shareholding Pattern (%)

Promoter's	71.25
Foreign	12.85
Domestic Institution	8.22
Public & Others	7.69
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.0	33.8	32.0
Relative	6.9	22.3	16.9

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Margins to sustain

Quick Pointers:

- High double digit growth from Curatio portfolio with scale up in margins
- Growth momentum to continue in India, Brazil and Row markets

Torrent Pharma's (TRP) Q1FY24 EBITDA was largely in line, however PAT was above our estimate led by lower tax and higher other income. Our FY24 and FY25E EPS stands increased by ~5% as we factor in higher GMs and lower tax. TRP has Rs 70bn (75% of total sales) worth of highly profitable branded formulation sales spread across India, Brazil and RoW markets. Curatio acquisition has been scaling up well with 700 bps margin improvement since acquisition. Historically TRP has successfully managed to integrate Unichem and Elder acquisition which gives us comfort. We expect 18% EBITDA CAGR and 31% PAT CAGR over FY23-25E. Maintain 'BUY' rating with revised TP of Rs 2,250/share, 20x EV/EBITDA to FY25E.

- **Strong revenue growth across RoW and Germany:** Revenues grew by 10.4% YoY to Rs 26bn, mainly driven by double-digit growth in RoW (+17%) and Germany (+21%) markets. Domestic formulation business grew by 15% YoY while Brazil growth was mere 3% below our estimate. US sales were flat QoQ to $34mn. Contract manufacturing was down 15% YoY.

- **In-line EBIDTA; lower tax boosted profitability:** TRP reported EBITDA of Rs7.9bn; up 11% YoY; in line with our estimate. GMs sharply improved by 320bps QoQ to 74.5% aided by better product mix and softening of API prices. However other expenses came in higher at Rs6.5bn; up 17% YoY and 5% QoQ. Staff cost also came in higher. Resultant EBITDA Margins stood at 30.5%; up 130 bps QoQ. Other income came in higher as it had Rs200mn one offs. Further tax came in lower. Resultant reported PAT stood at Rs3.8bn; up 7% YoY vs our estimate of Rs3.4bn.

- **Key concall takeaways: Domestic branded:** Torrent sales adjusted for NLEM impact was 16%, with Curatio portfolio contributing 5% to growth led by Tedibar. During Q1FY24, acute therapy sales remained sluggish, but the chronic therapy portfolio grew by double digits. TRP base business growth was led by price hike of 8%, 4% from new launches while volume growth was negative 3%. Curatio growth was 18% aided by key brands like Tedipar. Margins in Curatio was 7% higher that it was at pre acquisition level and should aid further in coming quarters. TRP have launched consumer healthcare platform in India with 200-250 field force. On pilot basis started with Shelcal brand and recently also initiated with Unienzyme brand. **Germany market**: In CC growth was 11% YoY, steady sequential recovery led by new won tenders with better conversion of existing tenders. **Brazil:** The growth was impacted by delay in dispatch to one large client and should recover in coming quarters. **US Growth** was impacted by price erosion on base portfolio and lack of new launches pending inspection of facilities. Guided for gRevlimid launch after FY25.

Exhibit 1: Q1FY24 Result Overview (Rs mn). EBITDA in-line; Curatio portfolio delivered double digit growth

Y/e March	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
Net Sales	**25,910**	**23,470**	***10.4***	**24,910**	***4.0***	**1,09,233**	**96,197**	***13.6***
Raw Material	6,500	6,600	*(1.5)*	7,040	*(7.7)*	34,869	32,715	*6.6*
% of Net Sales	*25.1*	*28.1*		*28.3*		*31.9*	*34.0*	
Personnel Cost	4,990	4,200	*18.8*	4,410	*13.2*	19,625	16,780	*17.0*
% of Net Sales	*19.3*	*17.9*		*17.7*		*18.0*	*17.4*	
Others	6,510	5,550	*17.3*	6,190	*5.2*	21,181	18,285	*15.8*
% of Net Sales	*25.1*	*23.6*		*24.8*		*19.4*	*19.0*	
Total Expenditure	18,000	16,350	*10.1*	17,640	*2.0*	75,675	67,780	*11.6*
EBITDA	**7,910**	**7,120**	***11.1***	**7,270**	***8.8***	**33,558**	**28,417**	***18.1***
Margin (%)	*30.5*	*30.3*		*29.2*		*30.7*	*29.5*	
Depreciation	1,910	1,550	*23.2*	1,960	*(2.6)*	7,691	7,070	*8.8*
EBIT	**6,000**	**5,570**	***7.7***	**5,310**	***13.0***	**25,868**	**21,347**	***21.2***
Other Income	340	300	*13.3*	90	*277.8*	600	450	*33.3*
Interest	1,030	550	*87.3*	1,070	*(3.7)*	3,100	3,330	*(6.9)*
PBT	**5,310**	**5,320**	***(0.2)***	**4,330**	***22.6***	**23,368**	**18,467**	***26.5***
Total Taxes	1,530	1,780	*(14.0)*	1,460	*4.8*	6,777	6,020	*12.6*
ETR (%)	*28.8*	*33.5*		*33.7*		*29.0*	*32.6*	
Minority Interest	-	-		-		-	-	
Reported PAT	**3,780**	**3,540**	***6.8***	**2,870**	***31.7***	**16,591**	**12,447**	***33.3***

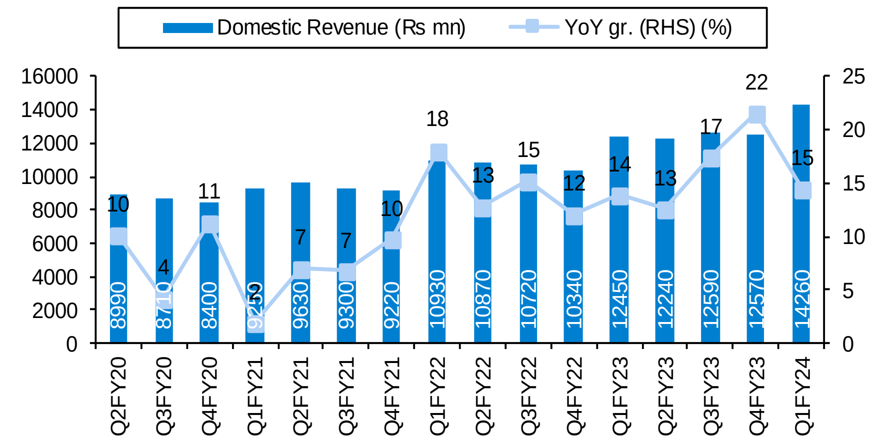
Source: Company, PL

Exhibit 2: Sources of Revenue – RoW and Germany drive revenue growth

Geographical breakup (Rs mn)	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
Domestic Sales	15,570	13,990	*11.3*	13,640	*14.1*	63,797	55,370	*15.2*
Branded Businesss	14,260	12,450	*14.5*	12,570	*13.4*	58,001	49,850	*16.4*
% of sales	*55.0*	*53.0*		*50.5*		*53.1*	*45.6*	
Contract Manufacturing	1,310	1,540	*(14.9)*	1,070	*22.4*	5,796	5,520	*5.0*
% of sales	*5.1*	*6.6*		*4.1*		*5.3*	*5.1*	
Exports	10,340	9,480	*9.1*	11,280	*(8.3)*	45,436	40,827	*11.3*
% of sales	*39.9*	*40.4*		*43.5*		*41.6*	*37.4*	
Brazil	1,900	1,840	*3.3*	3,180	*(40.3)*	10,472	9,350	*12.0*
% Growth	*7.3*	*7.8*		*12.3*		*9.6*	*8.6*	
USA	2,930	2,990	*(2.0)*	2,800	*4.6*	12,129	11,620	*4.4*
% Growth	*11.3*	*12.7*		*10.8*		*11.1*	*10.6*	
Germany	2,580	2,140	*20.6*	2,530	*2.0*	10,672	9,280	*15.0*
% Growth	*10.0*	*9.1*		*9.8*		*9.8*	*8.5*	
RoW	2,930	2,510	*16.7*	2,770	*5.8*	12,164	10,577	*15.0*

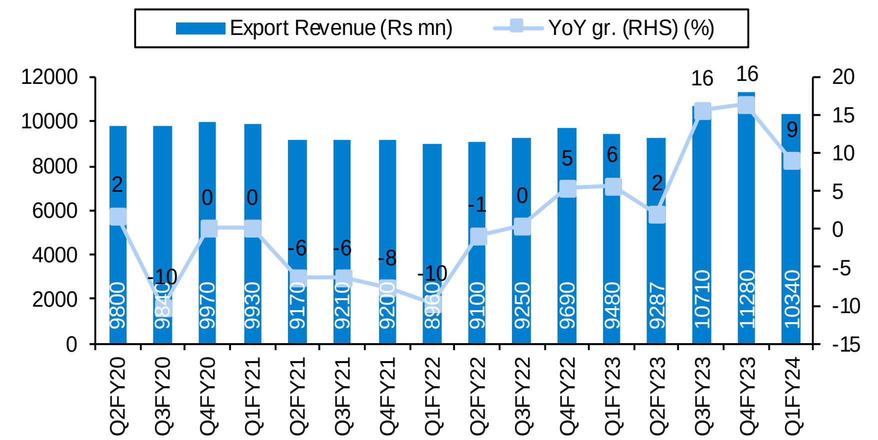
Source: Company, PL

Exhibit 3: Domestic Sales (Rs in mn): Growth adjusted for NLEM was at 16%



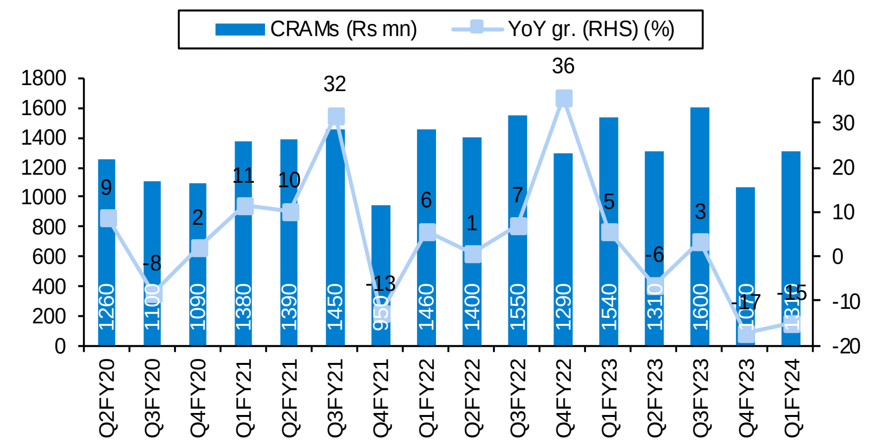
Source: Company, PL

Exhibit 4: US was stable QoQ



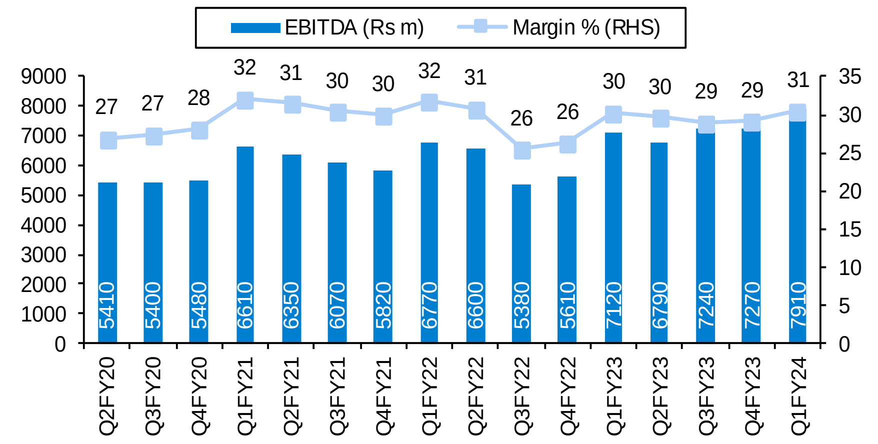
Source: Company, PL

Exhibit 5: Muted growth



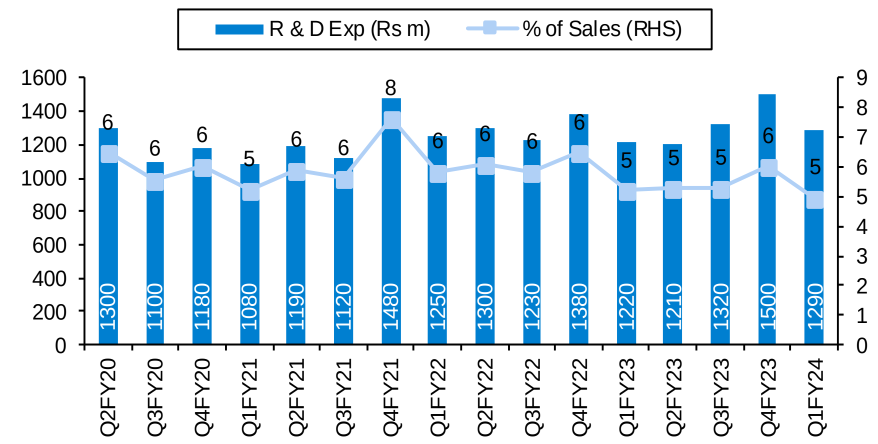
Source: Company, PL

Exhibit 6: Branded mix and price increases pushes margins



Source: Company, PL

Exhibit 7: R&D was stable at 5% of sales



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	**85,080**	**96,197**	**1,09,233**	**1,24,376**
YoY gr. (%)	*6.3*	*13.1*	*13.6*	*13.9*
Cost of Goods Sold	29,168	32,715	34,869	40,080
Gross Profit	55,912	63,482	74,364	84,297
Margin (%)	*65.7*	*66.0*	*68.1*	*67.8*
Employee Cost	15,265	16,780	19,625	21,819
Other Expenses	5,160	5,250	5,775	6,353
EBITDA	**24,312**	**28,417**	**33,558**	**39,229**
YoY gr. (%)	*(2.1)*	*16.9*	*18.1*	*16.9*
Margin (%)	*28.6*	*29.5*	*30.7*	*31.5*
Depreciation and Amortization	6,622	7,070	7,691	7,845
EBIT	**17,691**	**21,347**	**25,868**	**31,384**
Margin (%)	*20.8*	*22.2*	*23.7*	*25.2*
Net Interest	2,551	3,330	3,100	2,400
Other Income	1,966	450	600	900
Profit Before Tax	**17,106**	**18,467**	**23,368**	**29,884**
Margin (%)	*20.1*	*19.2*	*21.4*	*24.0*
Total Tax	4,488	6,020	6,777	8,666
Effective tax rate (%)	*26.2*	*32.6*	*29.0*	*29.0*
Profit after tax	**12,618**	**12,447**	**16,591**	**21,218**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**7,778**	**12,447**	**16,591**	**21,218**
YoY gr. (%)	*(37.8)*	*60.0*	*33.3*	*27.9*
Margin (%)	*9.1*	*12.9*	*15.2*	*17.1*
Extra Ord. Income / (Exp)	4,840	-	-	-
Reported PAT	**12,618**	**12,447**	**16,591**	**21,218**
YoY gr. (%)	*0.9*	*(1.4)*	*33.3*	*27.9*
Margin (%)	*14.8*	*12.9*	*15.2*	*17.1*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,618	12,447	16,591	21,218
Equity Shares O/s (m)	**338**	**338**	**338**	**338**
EPS (Rs)	**37.3**	**36.8**	**49.1**	**62.8**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	**1,02,731**	**1,26,001**	**1,29,001**	**1,32,001**
Tangibles	44,540	47,880	50,310	51,480
Intangibles	58,191	78,120	78,690	80,520
Acc: Dep / Amortization	**41,091**	**48,161**	**55,851**	**63,696**
Tangibles	17,510	20,522	23,799	27,142
Intangibles	23,581	27,638	32,052	36,554
Net fixed assets	**61,640**	**77,840**	**73,149**	**68,305**
Tangibles	27,030	27,358	26,511	24,338
Intangibles	34,610	50,482	46,639	43,967
Capital Work In Progress	8,880	11,030	11,030	11,030
Goodwill	-	-	-	-
Non-Current Investments	420	430	430	430
Net Deferred tax assets	3,000	1,420	1,420	1,420
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	1,840	1,560	1,560	1,560
Inventories	24,620	22,300	27,583	31,453
Trade receivables	16,330	19,440	20,987	23,931
Cash & Bank Balance	4,030	5,710	2,652	1,104
Other Current Assets	8,250	6,330	6,647	6,979
Total Assets	**1,26,060**	**1,44,680**	**1,44,078**	**1,44,832**
Equity				
Equity Share Capital	846	1,690	1,690	1,690
Other Equity	58,684	60,290	67,390	78,326
Total Networth	**59,530**	**61,980**	**69,080**	**80,016**
Non-Current Liabilities				
Long Term borrowings	21,230	24,960	13,960	960
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	18,950	28,010	28,010	28,010
Trade payables	16,740	16,790	20,088	22,906
Other current liabilities	12,610	14,360	14,360	14,360
Total Equity & Liabilities	**1,26,060**	**1,44,680**	**1,44,078**	**1,44,832**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	15,140	18,017	22,768	28,984
Add. Depreciation	6,622	7,070	7,691	7,845
Add. Interest	2,551	3,330	3,100	2,400
Less Financial Other Income	1,966	450	600	900
Add. Other	-	-	-	-
Op. profit before WC changes	24,312	28,417	33,558	39,229
Net Changes-WC	(3,519)	(760)	(3,849)	(4,328)
Direct tax	(4,210)	(3,980)	(6,777)	(8,666)
Net cash from Op. activities	**16,583**	**23,677**	**22,933**	**26,234**
Capital expenditures	(2,026)	(25,740)	(3,000)	(3,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	**(2,026)**	**(25,740)**	**(3,000)**	**(3,000)**
Issue of share cap. / premium	-	-	-	-
Debt changes	(8,070)	12,650	(11,000)	(13,000)
Dividend paid	(6,769)	(8,630)	(9,491)	(10,282)
Interest paid	(2,551)	(3,330)	(3,100)	(2,400)
Others	822	3,053	600	900
Net cash from Fin. activities	**(16,567)**	**3,743**	**(22,991)**	**(24,782)**
Net change in cash	**(2,010)**	**1,680**	**(3,058)**	**(1,548)**
Free Cash Flow	14,557	17,937	19,933	23,234

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	**22,910**	**24,910**	**24,910**	**25,910**
YoY gr. (%)	*7.2*	*18.2*	*16.9*	*10.4*
Raw Material Expenses	6,410	7,300	7,040	6,500
Gross Profit	16,500	17,610	17,870	19,410
Margin (%)	*72.0*	*70.7*	*71.7*	*74.9*
EBITDA	**6,790**	**7,240**	**7,270**	**7,910**
YoY gr. (%)	*2.9*	*34.6*	*29.6*	*11.1*
Margin (%)	*29.6*	*29.1*	*29.2*	*30.5*
Depreciation / Depletion	1,630	1,930	1,960	1,910
EBIT	**5,160**	**5,310**	**5,310**	**6,000**
Margin (%)	*22.5*	*21.3*	*21.3*	*23.2*
Net Interest	690	1,020	1,070	1,030
Other Income	160	(100)	90	340
Profit before Tax	**4,630**	**4,190**	**4,330**	**5,310**
Margin (%)	*20.2*	*16.8*	*17.4*	*20.5*
Total Tax	1,510	1,270	1,460	1,530
Effective tax rate (%)	*32.6*	*30.3*	*33.7*	*28.8*
Profit after Tax	**3,120**	**2,920**	**2,870**	**3,780**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**3,120**	**2,920**	**2,870**	**3,780**
YoY gr. (%)	*(1.3)*	*17.3*	*(343.2)*	*6.8*
Margin (%)	*13.6*	*11.7*	*11.5*	*14.6*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**3,120**	**2,920**	**2,870**	**3,780**
YoY gr. (%)	*(1.3)*	*17.3*	*(343.2)*	*6.8*
Margin (%)	*13.6*	*11.7*	*11.5*	*14.6*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**3,120**	**2,920**	**2,870**	**3,780**
Avg. Shares O/s (m)	338	338	338	338
EPS (Rs)	**9.2**	**8.6**	**8.5**	**11.2**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	37.3	36.8	49.1	62.8
CEPS	42.5	57.7	71.8	86.0
BVPS	175.9	183.4	204.4	236.7
FCF	43.0	53.1	59.0	68.7
DPS	48.0	22.0	24.0	26.0
Return Ratio(%)				
RoCE	17.1	19.9	22.9	28.5
ROIC	14.7	15.5	18.5	22.1
RoE	21.4	20.5	25.3	28.5
Balance Sheet				
Net Debt : Equity (x)	0.6	0.7	0.5	0.3
Net Working Capital (Days)	104	95	95	95
Valuation(x)				
PER	55.1	55.8	41.9	32.7
P/B	11.7	11.2	10.1	8.7
P/CEPS	48.3	35.6	28.6	23.9
EV/EBITDA	30.0	26.1	21.8	18.4
EV/Sales	8.6	7.7	6.7	5.8
Dividend Yield (%)	2.3	1.1	1.2	1.3

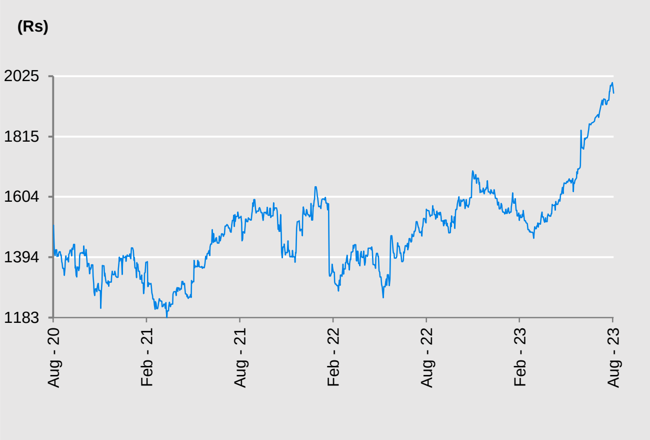
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Domestic	42,860	49,850	58,001	64,968
Export	36,520	40,827	45,436	53,207
Contract Manufacturing	5,700	5,520	5,796	6,202

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	BUY	1,900	1,899
2	31-May-23	BUY	1,900	1,714
3	06-Apr-23	BUY	1,820	1,578
4	26-Jan-23	BUY	1,820	1,557
5	06-Jan-23	BUY	1,850	1,561
6	25-Oct-22	BUY	1,850	1,567
7	06-Oct-22	BUY	1,850	1,579
8	28-Sep-22	BUY	1,850	1,535

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,300	5,283
2	Aster DM Healthcare	BUY	335	311
3	Aurobindo Pharma	BUY	660	761
4	Cipla	BUY	1,220	1,069
5	Divi's Laboratories	Hold	2,700	3,737
6	Dr. Reddy's Laboratories	Reduce	5,150	5,476
7	Eris Lifesciences	BUY	780	706
8	Fortis Healthcare	BUY	365	322
9	Glenmark Pharmaceuticals	Reduce	570	668
10	HealthCare Global Enterprises	BUY	375	326
11	Indoco Remedies	BUY	380	324
12	Ipca Laboratories	Hold	750	760
13	J.B. Chemicals & Pharmaceuticals	BUY	2,450	2,314
14	Krishna Institute of Medical Sciences	BUY	1,660	1,782
15	Lupin	Hold	730	905
16	Max Healthcare Institute	BUY	565	614
17	Narayana Hrudayalaya	BUY	1,100	1,013
18	Sun Pharmaceutical Industries	BUY	1,265	1,141
19	Torrent Pharmaceuticals	BUY	1,900	1,899
20	Zydus Lifesciences	Accumulate	520	588

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

(Indian Clients)

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