



Powered by the Sharekhan 3R Research Philosophy

3R MATRIX			
	+	=	-
Right Sector (RS)	✓	■	✗
Right Quality (RQ)	✓	■	✗
Right Valuation (RV)	✓	■	✗
+ Positive	= Neutral	- Negative	

What has changed in 3R MATRIX		
	Old	New
RS	■	↔
RQ	■	↔
RV	■	↑

ESG Disclosure Score		NEW
ESG RISK RATING		36.59
Updated Aug 08, 2023		
High Risk		
NEGL	LOW	MED
0-10	10-20	20-30
10-20	20-30	30-40
20-30	30-40	40+

Source: Morningstar

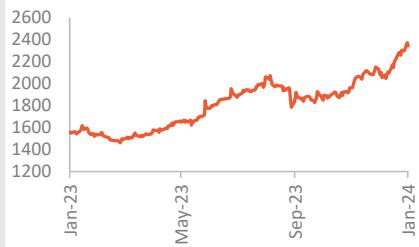
Company details

Market cap:	Rs. 79,632 cr
52-week high/low:	Rs. 2,393/1,446
NSE volume:	3.2 lakh
(No of shares)	
BSE code:	500420
NSE code:	TORNTPHARM
Free float:	9.7 cr
(No of shares)	

Shareholding (%)

Promoters	71.3
FII	12.8
DII	7.2
Others	8.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.2	24.8	23.0	50.6
Relative to Sensex	10.2	16.4	12.8	32.0

Sharekhan Research, Bloomberg

Torrent Pharmaceuticals Ltd

On an improved growth trajectory, upgrade to BUY

Pharmaceuticals	Sharekhan code: TORNTPHARM		
Reco/View: Buy	↑ Upgrade	CMP: Rs. 2,353	Price Target: Rs. 2,700 ↑
	↔ Maintain	↓ Downgrade	

Summary

- We upgrade Torrent Pharma to BUY with a PT of Rs. 2,700.
- Torrent Pharma's IPM data showed healthy growth of 19.7% and 8.20% for the month of Oct'23 October 2023 and November 2023. Torrent's Shelcal brand sales crossed Rs 600 crores and climbed to 40th position in the IPM.
- Dahej plant received EIR from the USFDA, so it will start receiving approvals for pending ANDAs and would be able to launch new products in the US market.
- Germany business is expected to recover in 2HFY2024E with double-digit growth rate, led by strong execution of the tender win.
- We factor in Dahej plant's clearance to increase US sales by FY2026E, continuous double-digit IPM growth in the base business, and Curatio Synergies to aid in retaining EBITDA margin above 30%.

Torrent Pharma's India business is expected to grow in double digits due to higher traction in key brands like Shelcal, Chymoral, and Nexptra which grew 12%, 12%, and 13%, respectively in November 2023. Torrent ranks number 1 among branded generic players in the Sitagliptin market and continues to gain market share where the company is expected to report Rs. 100 crore in Sitagliptin. Torrent's Curatio business is gaining traction, led by flagship brands like Tedibar. Tedibar continues its growth trajectory upwards of 25% on account of increased activation at paediatricians and more recently digital media and e-commerce platforms. Torrent's US quarter sales are expected to grow to USD50 million by FY2026E from USD35 million currently on account of new launches from Dahej plant, which received EIR. We believe Torrent's 75% of the branded business is expected to grow in double digits. US sales are expected to grow in single digits and Germany is expected to grow 8-10% on the execution of tenders, resulting in the sustenance of >30% EBITDA margins. Hence we upgrade our rating BUY from Hold with a target price (TP) of Rs. 2,700.

India's business growth to continue in double digits: Torrent's India business is expected to post a 14% CAGR from FY2024-FY2026E, led by both organic and inorganic growth. Organically, Torrent's Shelcal (both Shelcal and Shelcal XT) are growing well and have crossed Rs. 600 crore sales as on MAT November 2023. Due to rising demand for Shelcal, Torrent has introduced Shelcal in the OTC segment on pan India basis with 230 MRs dedicated to promotional activities. Torrent's recently acquired Curatio is also gaining traction with its flagship brand Tedibar. Post the success of Shelcal in the OTC segment, the company added other brands like Unienzyme, Tedibar, and Ahaglow. Curatio's EBITDA margin stands 14% higher than the pre-acquisition level due to enhanced focus on cost synergy execution. Torrent has 5,500 MRs, which resulted in Torrent's 20 drugs in the top 500 brands of the IPM with 15 brands reporting sales of more than Rs. 100 crore.

1- US quarterly sales to grow to USD50 million by FY2026E from present USD35 million: Torrent recently received EIR for Dahej plant, which will result in new product launches. As the Dahej plant has received an EIR, we expect the company to receive approvals for pending ANDAs and will start new product launches. Torrent has also invested ~Rs. 300 crore for its oncology plant and recently launched its first oncology product from a new oral oncology facility at Bileshwarpura, as well as a niche derma CGT product from a derma plant at Pithampur. Customer response has been positive for both these launches. The company is expected to diversify into newer products like ophthalmic, injectables, and creams, which will further expand growth prospects. The company continues to take efforts towards the clearance of the Indrad facility. Amid the regulatory problems, the company has filed around 55 products over the last five years.

EBITDA margin of above 30% to sustain: Torrent has been reporting 30% EBITDA margin from FY2020 due to a healthy product mix resulting from organic and inorganic growth. Torrent's EBITDA margin has increased to above 31% post the acquisition of Curatio business. Curatio business is growing at 25% due to healthy traction in its flagship brands like Tedibar, Atogla, Spoo, and Clinimskin. After the completion of one year of Curatio's acquisition, its EBITDA margin has increased by 14%, higher than its pre-acquisition margin due to enhanced focus on cost synergies. Management expects Curatio's margins to further increase over the next six-eight quarters in a row. We believe with further improvement in Curatio's margins, Torrent's EBITDA margin should sustain above 30% on a higher base. We believe Torrent's EBITDA margin to increase to 33.5% by FY2026E, led by 1) improvement in Curatio's margins, 2) higher traction in India's OTC segment, 3) new product launches in the US region, 4) double-digit growth in Brazil region led by specialty products, and 5) cost rationalisation.

Our Call

View – Upgrade BUY with revised PT of Rs. 2,700: The company's prospects are strong as its domestic business is expected to report double-digit growth, led by strong traction in Rx and OTC segments. Torrent's newly acquired Curatio sales are also growing by 25%, led by flagship brand Tedibar. Torrent's Germany sales are expected to pick up in H2FY2024E after many years of underperformance and Brazil is expected to continue to report strong double-digit growth. In the US, the company expects new product launches from the recently cleared Dahej plant and is awaiting clearance from its Indrad facility. Although, operationally, the performance is strong, management is scouting for an M&A opportunity in the branded region like India. All these drivers are likely to aid the company to enjoy a healthy margin of above 30% for the next couple of quarters. At the CMP of Rs. 2,345, the stock is currently trading at ~37.4x/31.8x its FY2025E and FY2026E EPS. Moreover, on account of visibility of sustenance of >30% margins, we upgrade the stock to BUY with a PT of Rs. 2,700 (ascribing 36x its FY2026E).

Key Risks

Delays in the resolution of USFDA issues at its Indrad plant and ongoing price erosion pressures in the US market.

Valuation (Consolidated)

Particulars	FY2022	FY2023	FY2024E	FY2025E	FY2026E
Net sales	8,508.0	9,620.0	11,227.6	12,607.5	14,006.7
OPM (%)	28.6	29.5	32.0	32.5	33.0
Adjusted net profit	1262.0	1245.0	1789.1	2158.2	2542.0
EPS (Rs)	37.1	36.6	52.6	63.5	74.8
PER (x)	64.0	64.9	45.1	37.4	31.8
EV/Ebitda (x)	34.7	30.1	22.8	19.6	16.9
P/BV (x)	13.4	13.0	10.9	9.0	7.4
ROCE (%)	18.4	19.5	25.0	28.6	30.8
RONW (%)	21.1	20.3	26.3	26.4	25.6

Source: Company; Sharekhan estimates

1- India business growth to continue in double digits:

Torrent's India business has always outgrown the IPM and is expected to continue to grow in double digits, led by strong growth in its base portfolio. The company's key product, Shelcal has crossed Rs. 600 crore sales in November 2023. Due to rising demand for the product, the company has included Shelcal in the OTC segment. In the base portfolio, Torrent's sales are driven from therapies like cardiac, gastro, CNS, vitamins, anti-diabetic, and pain management.

Table on Torrent's top 10 brands

Brands	Therapy	MAT Nov-23	MAT NOV YoY (%)	Oct-23	Nov-23	Oct-23 (%)	Nov-23 (%)
Shelcal	Vitamins/ Minerals	4310	6%	369	360	10%	0%
Chymoral	Pain Management	2946	18%	260	258	23%	12%
Shelcal XT	Vitamins/ Minerals	2059	26%	190	175	38%	14%
Nexpro - RD	Gastrointestinal	2011	16%	182	179	20%	13%
Nikoran	Cardiac	1865	13%	160	161	17%	8%
Unienzyme	Gastrointestinal	1495	8%	124	125	17%	6%
Nebicard	Cardiac	1371	9%	113	117	13%	7%
Losar	Cardiac	1267	8%	104	105	9%	3%
Veloz- D	Gastrointestinal	1227	10%	109	101	15%	-2%
Losar H	Cardiac	1182	1%	100	96	12%	-2%
Top 10		19733	12%	1711	1677	17%	6%
Top 11-25		12298	11%	1082	1064	15%	7%
Top 26-50		10589	8%	894	887	13%	3%

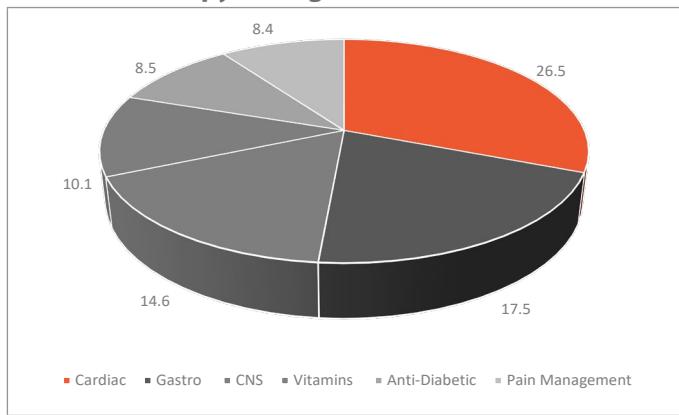
Torrent successfully increased Curatio's margin by 14% higher than pre-acquisition

Torrent's superior execution has increased Curatio's margins and increased its profitability. Through Curatio, Torrent has successfully entered the dermatology therapy segment. Curatio's flagship brand, Tedibar has reached annual sales of above Rs. 100 crore and is growing in double digits.

Table on Curatio's top 10 brands

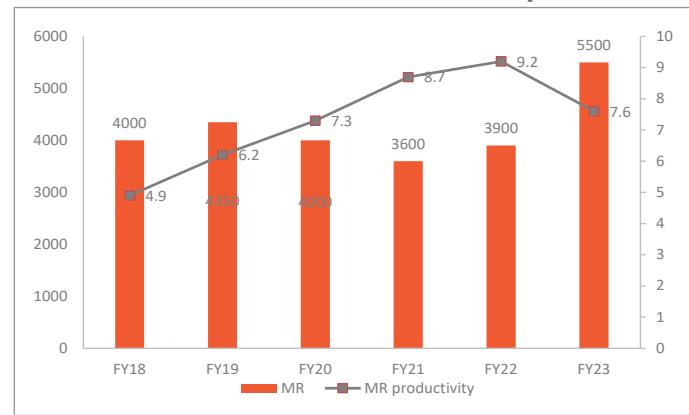
Brands	MAT Oct-23 sales
Tedibar	107.6
Atogla	28.7
Spoo	15
Clinmiskin	10.2
Permite	9.3
Perlice	8.9
Acnemoist	8.6
Tracnil	8.4
Proanagen	8.3
B4 Nappi	8.1

Torrent's therapy-wise growth contribution



Source: Company, Sharekhan Research

MR count increased due to Curatio's acquisition

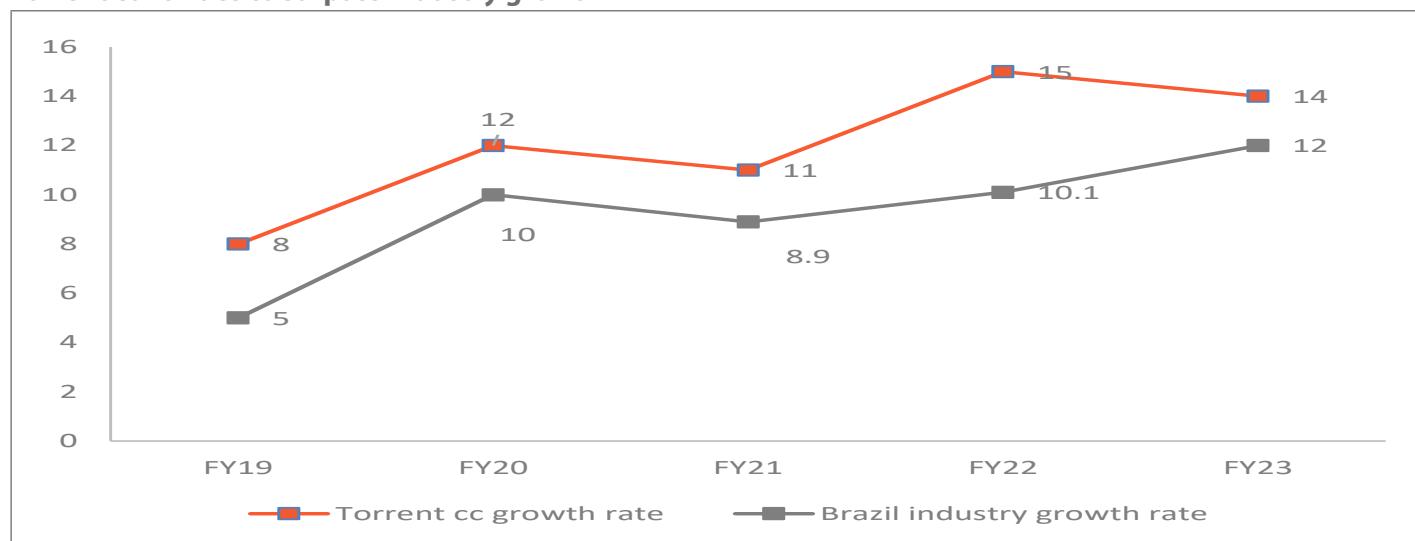


Source: Company, Sharekhan Research

2 - Brazil – Expected to outperform the industry's growth

Torrent continues to outgrow the market's growth for 6-8 quarters in a row and has reported double-digit growth. Torrent's Brazil region's growth is driven by higher contribution from branded generic, which is ~80%. The company has added 26 reps in the CNS segment and total MR stands at 206 in CNS. This will expand Torrent's reach in the Brazilian region. The company expects to launch new products where it will be launching four more products before the end of FY1024 – two in CNS and two in cardio diabetes. Torrent's generics business in Brazil continues to show strong momentum. We believe Torrent's Brazil region is expected to continue to grow in double digits, led by brands like Rosuvastatin, Donepezil, Desvenlafaxine, and Rivaroxaban, which continue to gain market share. We expect Torrent's Brazil business to report a CAGR of 15% from FY2024E-FY2026E from a 17% CAGR from FY2021-FY2023 amid a higher base.

Torrent continues to surpass industry growth

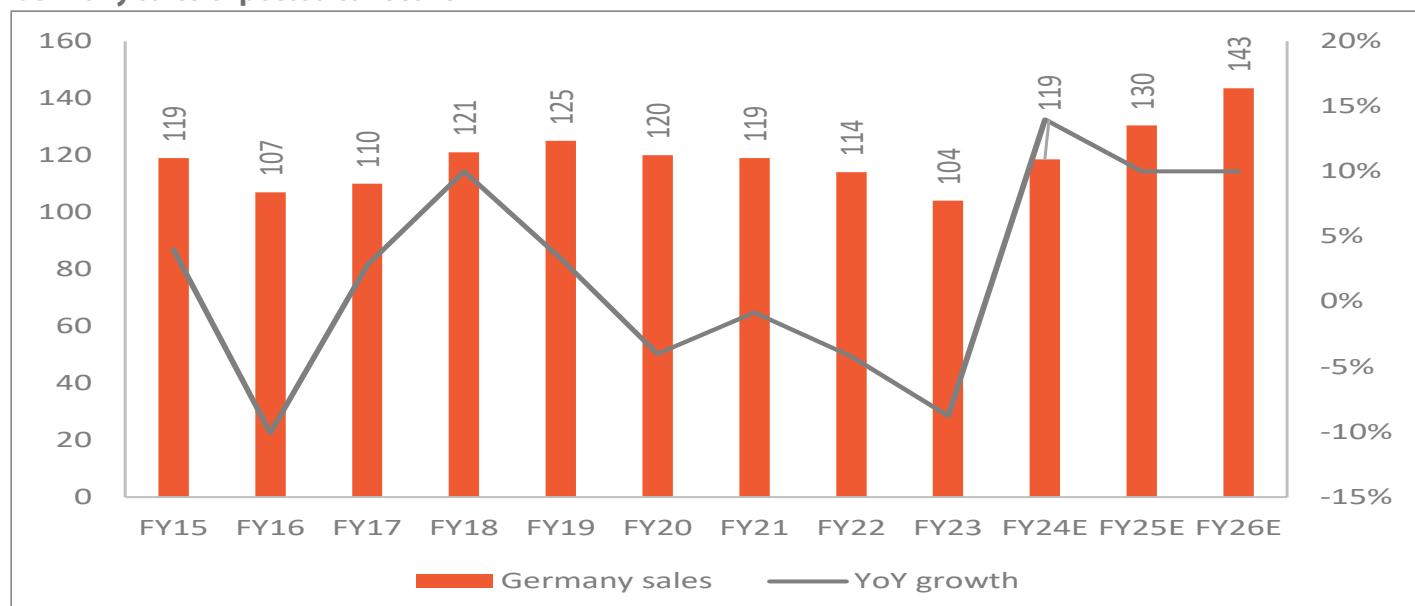


Source: Company, Sharekhan Research

3. Germany – Recovery expected in H2FY2024E

Torrent's Germany business witnessed a decline in growth in FY2023 due to loss of high-value tenders. However, in H1FY2024, the company won many tenders, which will be executed in H2FY24E. The company is also undergoing cost rationalisation to improve competitiveness in the tender business and new launches in the non-tender business. We expect Torrent's Germany business to report a CAGR of 10% from FY2024-FY2026 from a decline of 6% CAGR from FY2021-FY2023.

Germany sales expected to recover



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Poised for growth

The sector is witnessing easing input cost with companies focusing on complex product launches. 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. The sector is witnessing an easing of input costs like raw-material, freight, and power costs, which are likely to aid the sector in expanding margins. The sector is also witnessing an easing of price erosion, followed by rising contribution from new product launches. We believe the sector is in a sweet spot, where it is experiencing a healthy product mix and cost rationalisation, which increases the operational profit of companies. The sector is mainly a low-debt sector and increasing its operational profit followed by experiencing an advantage of low tax rate due to its operations in the SEZ sector. Hence, overall, we have a Positive view on the sector.

■ Company Outlook – Strong outlook on all counts

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 US, 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 US business has been under pressure as two of its plants, which cater to US markets – Dahej and Indrad – are under 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 – Upgrade BUY with revised PT of Rs. 2,700

The company's prospects are strong as its domestic business is expected to report double-digit growth, led by strong traction in Rx and OTC segments. Torrent's newly acquired Curatio sales are also growing by 25%, led by flagship brand Tedibar. Torrent's Germany sales are expected to pick up in H2FY2024E after many years of underperformance and Brazil is expected to continue to report strong double-digit growth. In the US, the company expects new product launches from the recently cleared Dahej plant and is awaiting clearance from its Indrad facility. Although, operationally, the performance is strong, management is scouting for an M&A opportunity in the branded region like India. All these drivers are likely to aid the company to enjoy a healthy margin of above 30% for the next couple of quarters. At the CMP of Rs. 2,345, the stock is currently trading at ~37.4x/31.8x its FY2025E and FY2026E EPS. Moreover, on account of visibility of sustenance of >30% margins, we upgrade the stock to BUY with a PT of Rs. 2,700 (ascribing 36x its FY2026E).

About the 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 US, 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 generic business mix from India and Brazil, which balances well for sustainable growth in a challenging global environment for the pharma sector. The US business is also stable. Out of two manufacturing plants of Torrent, which were reeling under regulatory issues, Dahej has received clearance from the USFDA. As the Dahej plant is cleared, we can expect new product launches from the plant for the US market in the next six months. Torrent's newly acquired Curatio business is also performing well and enjoying a leadership position in the dermatology segment. India's base business is also performing well and is currently expected to outperform the IPM.

Key Risks

- ◆ Slowdown in ANDA approvals and USFDA-related regulatory risks could hurt business prospects.
- ◆ Slowdown in the domestic branded business is expected to impact growth.
- ◆ Delay in product launches in Brazil, Germany, and the US could restrict growth in these key geographies.
- ◆ Currency fluctuation poses a risk to export businesses.

Additional Data

Key management personnel

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

Source: BSE; Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Candriam Investors	1.3
2	Kotak Mahindra AMC	1.2
3	Vanguard Group Inc.	1.2
4	UTI Asset Management	0.8
5	Norges Bank	0.8
6	FMR LLC	0.8
7	ICICI Prudential AMC	0.7
8	Franklin Resources	0.7
9	Candriam Investors	0.6
10	SBI Pension funds	0.6

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 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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