Stock Update

Result Update

Sharekhan by BNP PARIBAS

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		⇔	

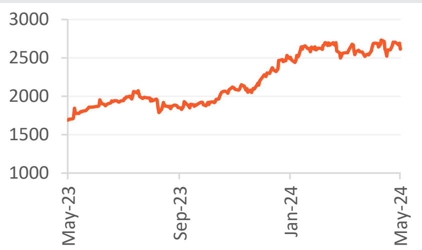
Company details

Market cap:	Rs. 88,402 cr
52-week high/low:	Rs. 2781/1684
NSE volume: (No of shares)	3.2 lakh
BSE code:	500420
NSE code:	TORNTPHARM
Free float: (No of shares)	9.7 cr

Shareholding (%)

Promoters	71.3
FII	12.8
DII	7.2
Others	8.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.0	0.1	23.3	53.4
Relative to Sensex	-4.0	-3.0	8.9	32.8

Sharekhan Research, Bloomberg

Torrent Pharmaceuticals Ltd

Good Quarter, Outlook stays healthy

Pharmaceuticals	Sharekhan code: TORNTPHARM		
Reco/View: Buy ⇔	CMP: Rs. 2,612	Price Target: Rs. 2,954 ⇔	

↑ Upgrade ⇔ Maintain ↓ Downgrade

Summary

- Q4FY24 results were good where sales grew by 10% y-o-y (2% below our estimates), EBITDA grew by 21% y-o-y (0.8% above our estimates) and PAT grew by 56% y-o-y (10% above our estimates).
- Gross margins were healthy at 74.8% (150 bps above our estimates), while EBITDA margin of 32.8% (90 bps above our estimates) led by Curatio synergies and higher sales in branded generic market.
- The company is not scouting for any M&A deals in any regions and is looking for repayment of Rs 1300-1400 crore debt pa out of higher cash flows.
- Stock trades at 48x/40x its FY2025E and FY26E EPS and due to its 1) Superior margin profile, 2) double digit growth in branded market and 3) repayment of debt through increased cash flows, hence, we believe the premium valuation to sustain and retain our PT to Rs. 2954 (ascribing a P/E of 44x on FY26E).

Torrent Pharmaceuticals reported better-than-estimated numbers as all geographies ex-US reported healthy growth, led price hikes and product launches. Healthy product mix and synergies from Curatio acquisition propelled margins to the highest-ever for the quarter. Going forward, the company expects US to report positive growth primarily driven by new product launches as all the plants except for Indrad has been cleared. The company expects to launch 8 news products in the US market in FY25E, enabling company to clock $250-300 million in sales. Germany too is expected to continue double digit growth on execution of new tender wins. India sales is expected grow led by new product launches, uptick in Chronic portfolio ad increased MR productivity and increased traction in OTC segments like Shelcal 500, Tediber, Unienzyme and Ahaglow. Brazil sales too is expected to outperform the market be launching 4-6 new products. Healthy growth across geographies is expected to increase cash flows which would be in turn used to repay at-least Rs 1300-1400 crore debt pa. Due to healthy growth trajectory across regions and a higher margin profile, we maintain a Buy on the stock.

Key positives

- Gross margin soared to highest-ever level of 74.8%, while EBITDA margin stood at 32.8% due to a healthy product mix.
- India business grew by 10%, surpassing IPM growth of 9% led by outperformance across all focused therapies and by new launches.
- Brazil market grew by 17% y-o-y surpassing industry growth of 6.5% aided by new launches in 2024.
- Germany grew by 11% led by incremental order wins followed by better conversion of existing orders.

Key negatives

- US sales fell by 6% which impacted overall growth in the sales resulting in 10% growth.

Management Commentary

- Company guided EBITDA margin to improve by 50-100 bps each year from FY24's EBITDA Margin of 31.9%.
- India sales is expected to outperform IPM driven by higher contribution from the chronic therapies.
- Brazil is expected to grow at 14-15% driven by new product launches. The company expects to launch 4-6 products.
- Germany market is expected to grow by 12% driven by execution of high tender wins in FY24.

Revision in estimates – The management continues to guide for robust performance in India, Brazil Germany and US which we have factored in our estimates, hence, there are no changes in our estimates.

Our Call

View: Maintain Buy with similar PT of Rs. 2954 – The company has reported highest-ever EBITDA margins of 32.8% driven by double-digit growth in the branded business and in the generic market of Germany. The management expects growth momentum across geographies to increase led by 1) Higher MR productivity in India & Brazil, higher execution rate of tenders in Germany, 3) Resumption of product launches in the US from Q1FY25 and 4) healthy traction in OTC brands like Shelcal 500 and Tedibar. Healthy product mix and expectations of the US turning profitable, to result in increase in margins by 50-100 bps annually. The company is not scouting for any further M&A and intends to grow organically hence we believe, proceeds of the cash flows to be utilised for further debt repayment resulting in the increase in the earnings. Hence we foresee company's earnings to grow at a CAGR of 16% over a period of FY24-26E. At CMP, the stock trades at a valuation of 48x on FY25E EPS of Rs 54 per share and 40x FY26E of Rs 65 per share and we believe the premium valuation to sustain due to 1) Double-digit growth in the branded market (73% of sales), 2) launch of new products in the US to increase profitability, 3) A 50-100 bps rise in EBITDA margins on a high base of 32% and 4)repayment of debt through increase cash flows, Hence, we maintain our PT to Rs. 2954 (ascribing a PE multiple of 44x on FY26E).

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY2022	FY2023	FY2024	FY2025E	FY2026E
Net sales	8,508.0	9,620.0	10,728.0	11,808.6	12,975.5
OPM (%)	28.6	29.5	31.4	32.0	33.0
Adjusted net profit	1262.0	1245.0	1568.0	1846.5	2217.0
EPS (Rs)	37.1	36.6	46.1	54.3	65.2
PER (x)	70.4	71.3	56.6	48.1	40.1
EV/Ebidta (x)	38.0	32.9	27.3	23.5	20.2
P/BV (x)	14.7	14.3	12.2	10.4	8.8
ROCE (%)	18.4	19.5	22.6	25.9	28.4
RONW (%)	21.1	20.3	23.3	23.4	23.8

Source: Company; Sharekhan estimates

Highest ever EBITDA Margin witnessed during the quarter

Torrent reported better-than-expected margins at 32.8% led by healthy product mix. Sales for the quarter grew by 9.9% y-o-y to Rs 2695 crore (2% below our estimates), led by 10% y-o-y growth in India sales to Rs 1380 crores, 17% y-o-y sales growth in Brazil to Rs 372 crore, 11% y-o-y growth in Germany to Rs 280 crores which was offset by decline of 6% y-o-y in US sales to Rs 262 crore. Healthy product mix ex of US resulted in EBITDA growth of 21.5% y-o-y to Rs 883 crore (in line with estimates) and PAT grew by 56% y-o-y to Rs 449 crore (10% above our estimates) resulting from lower depreciation and lower tax rate.

Q4FY2024 Concall Highlights

Guidance

- India business to continue to outperform IPM. Torrent expects the IPM to continue growing at 9%.
- Company guided for 50-100 bps increase in EBITDA Margin from reported 31.9% in FY24.
- US to witness eight product launches in FY25E.
- Brazil to grow by 14-15%, while Germany expected to grow by 12%.

US business

- US revenues stood at Rs. 262 crore, down 6% y-o-y. Constant currency revenue at $32 million declined by 7% y-o-y hit by lack of new product launches.
- As on March 31, 2024, 34 ANDAs were pending approval with USFDA and 4 tentative approvals were received. During the quarter, 6 ANDAs were approved and 1 ANDA was filed.
- Product launches to start from Q1FY25. One product has been launched and expects to launch 7 more products in FY25E.
- Indrad facility – USFDA inspection is still pending.

Brazil

- Revenues are at Rs. 372 crore, grew by 17% y-o-y.
- Constant currency revenues stood at R$ 222 million was up by 11% y-o-y.
- Growth was aided by new product launches as well as performance of top brands.
- As per IQVIA, market growth for the quarter was 10% while growth for Torrent was 14%.
- The company has three teams in this region for branded generics, two for CNS and one for Cardio/Diabetes. Total number of MRs were 318. The company expects to launch 2 new products per team in FY25E.

Germany

- Revenues stood at Rs. 280 crore, which grew by 11% y-o-y.
- Constant currency revenue was Euro 31 million, grew by 8% y-o-y.
- Growth momentum continues with incremental tender wins and better conversion of existing tenders.
- Company has 5000 coverage of Pharmacist which is expected to grow to 8000.
- The share of Torrent in Germany has increased by 2% to 6%.

India

- India revenues stood at Rs. 1380 crore, rising 10% y-o-y as against the IPM growth of 9%.
- As per AIOCD, Torrent's India region grew by 15%
- Torrent has seen good performance across its OTC brands like Shelcal 500, Tedibar, Unienzyme and Ahaglow. All these 4 OTC brands contributes 10% of domestic sales.
- Company has invested a lot in Shelcal and Tedibar and is expected to continue higher investments. The company has recently started investing in other brands like Unienzyme and Ahaglow for its OTC segment.

- During the quarter, growth was driven by 8% price hike and 4% new product launches.
- The company expects 7-8% price hike is sustainable.
- Company currently has a field force of 5700 and intends to add 300 MRs every year and expects 6000 MRs by FY25E.
- Trade generics account for 2-3% of domestic revenue and is growing at around 20%. The company is earnings profits higher than anticipated in this segment. The company expects trade generics to continue growing above 20% for next two years, post which will see moderation.
- As per AIOCD, Shelcal 500 grew by 8-10% during Q4FY24. However, internal numbers for Shelcal 500 is in higher teens which includes OTC sales.
- Company expects to target one licensing deal a year in the chronic space as there are lower opportunities for innovation in the Indian market. Torrent has signed two licensing deals in the last 15 months.

Results (Consolidated) Rs cr

Particulars	Q4FY24	Q4FY23	YoY %	Q3FY24	QoQ %
Total Sales	2,695.0	2,452.0	9.9	2,691.0	0.1
Expenditure	1,862.0	1,764.0	5.6	1,863.0	-0.1
EBITDA	883.0	727.0	21.5	869.0	1.6
Depreciation	203.0	196.0	3.6	213.0	-4.7
EBIT	680.0	531.0	28.1	656.0	3.7
Interest	80.0	107.0	-25.2	80.0	0.0
Other income	31.0	9.0	244.4	-33.0	-193.9
PBT	631.0	433.0	45.7	543.0	16.2
Taxes	182.0	146.0	24.7	188.0	-3.2
Adjusted PAT	449.0	287.0	56.4	355.0	26.5
Reported Profit	449.0	287.0	56.4	355.0	26.5
Reported EPS	13.3	8.5	56.4	10.5	26.5
Margins			**BPS**		**BPS**
EBITDA %	32.8	29.6	312	32.3	47
EBIT %	25.2	21.7	358	24.4	85
Adj NPM%	16.7	11.7	496	13.2	347
Tax %	28.8	33.7	-488	34.6	-578

Source: Company, Sharekhan Research

Region-wise revenue performance Rs cr

Particulars	Q4FY2024	Q4FY2023	y-o-y %
India	1,380	1,259	9.6%
US	262	292	-10.3%
Germany	280	241	16.2%
Brazil	372	248	50.0%
RoW	451	451	0.0%
Total	**2,745**	**2,491**	**10.2%**

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view

Easing of input costs 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 RM costs, freight, and power, which are likely to aid a rise in margins. The sector is also witnessing an easing of price erosion, followed by increasing 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 companies' operational profit. The sector is mainly a low-debt sector and increasing 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 - Stable operational performance with no further rise in margins, comfortable with higher leverage to expand in India branded market

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 U.S. business has been under pressure as two of its plants, which cater to the 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 - Maintain Buy with similar PT of Rs. 2954

The company has reported highest-ever EBITDA margins of 32.8% driven by double-digit growth in the branded business and in the generic market of Germany. The management expects growth momentum across geographies to increase led by 1) Higher MR productivity in India & Brazil, higher execution rate of tenders in Germany, 3) Resumption of product launches in the US from Q1FY25 and 4) healthy traction in OTC brands like Shelcal 500 and Tedibar. Healthy product mix and expectations of the US turning profitable, to result in increase in margins by 50-100 bps annually. The company is not scouting for any further M&A and intends to grow organically hence we believe, proceeds of the cash flows to be utilised for further debt repayment resulting in the increase in the earnings. Hence we foresee company's earnings to grow at a CAGR of 16% over a period of FY24-26E. At CMP, the stock trades at a valuation of 48x on FY25E EPS of Rs 54 per share and 40x FY26E of Rs 65 per share and we believe the premium valuation to sustain due to 1) Double-digit growth in the branded market (73% of sales), 2) launch of new products in the US to increase profitability, 3) A 50-100 bps rise in EBITDA margins on a high base of 32% and 4)repayment of debt through increase cash flows, Hence, we maintain our PT to Rs. 2954 (ascribing a PE multiple of 44x on FY26E).

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 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 U.S. 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. U.S. 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 U.S. 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 U.S. 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

BSE; Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	BlackRock Inc.	1.27
2	Kotak Mahindra AMC	1.21
3	Vanguard Group Inc.	1.16
4	UTI Asset Management	0.79
5	Norges Bank	0.79
6	FMR LLC	0.76
7	ICICI Prudential AMC	0.68
8	Franklin Resources	0.68
9	Candriam Investors	0.59
10	SBI Pension funds	0.55

Source: Bloomberg

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 detoriating 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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