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		↔	

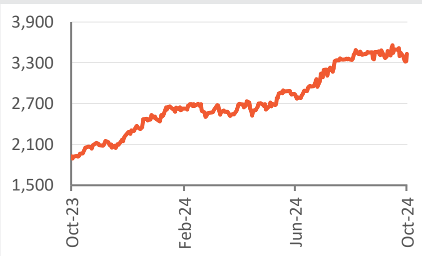
Company details

Market cap:	Rs. 1,16,154 cr
52-week high/low:	Rs. 3,589 / 1,860
NSE volume: (No of shares)	5.52 lakh
BSE code:	500420
NSE code:	TORNTPHARM
Free float: (No of shares)	9.7 cr

Shareholding (%)

Promoters	71.3
FII	14.5
DII	7.0
Others	7.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.8	-2.3	16.0	62.8
Relative to Sensex	-2.9	-0.8	8.2	37.6

Sharekhan Research, Bloomberg

Torrent Pharmaceuticals Ltd

Good quarter led by growth across geographies

Pharmaceuticals	Sharekhan code: TORNTPHARM
Reco/View: Buy ↔	CMP: Rs. 3,432 — Price Target: Rs. 4,232 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Torrent's revenue reached Rs. 2,889 crore, reflecting a 9% y-o-y increase and a 1% q-o-q rise, driven by growth in key geographies.
- EBITDA stood at Rs. 939 crore, up 14% y-o-y and 4% q-o-q. Margins reached 33%, up 149 bps y-o-y and 88 bps q-o-q.
- Insulin revenue during the quarter was affected by a scheduled maintenance shutdown in August. The facility is expected to resume manufacturing in December. The shortfall is anticipated to be largely recovered in the fourth quarter of this year, ensuring that there will be no impact on an annual basis.
- A healthy product mix is expected to result in a 50-100 bps increase in margins annually. At the CMP, the stock trades at a valuation of 45x and 36x its FY2026E and FY2027E earnings, respectively, and due to its high-margin profile and healthy product mix, we arrive at a TP of Rs. 4,232.

Torrent Pharma recorded impressive revenue of Rs. 2,889 crore in Q2FY2025, indicating a strong y-o-y increase of 9% and a slight q-o-q growth of 1%. This upward revenue trend can be attributed primarily to the positive performance observed across key geographic regions. EBITDA for the period reached Rs. 939 crore, reflecting a substantial y-o-y growth of 14% and a 4% increase from the previous quarter. Margins also saw significant enhancement, standing at 33%. This represents an increase of 149 bps compared to the same period last year and an 88 bps improvement over the prior quarter. Margin growth can be largely attributed to a consistent rise in contributions from the branded business. PAT was reported at Rs. 453 crore, which marks a commendable 16% y-o-y increase. While PAT remained flat when compared to the previous quarter.

Key positives

- Gross margin reached an all-time high, driven by the continuous growth of the branded business segment.
- Growth momentum in Germany was driven by additional tender wins over the past five quarters.

Key negatives

- Insulin revenue this quarter was affected by a planned shutdown for maintenance activities that took place in August.
- Profitability of the U.S. business is at breakeven before accounting for R&D expenses.

Management Commentary

- The company anticipates an annual margin improvement of 50-100 bps.
- The company projects that volume growth will remain around 3%.
- The company anticipates its India business to continue to exceed market growth.
- The company has increased its regional market share in previously untapped areas as a result of expanding its divisions and headquarters.

Revision in estimates – Torrent reported strong earnings and has given stronger guidance of India surpassing IPM growth, Brazil bouncing back, and new product launches in the U.S. to drive growth. Hence, we have adjusted our FY2026E and FY2027E EPS.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 4,232: Torrent reported the highest-ever gross margin and EBITDA margin, driven by double-digit growth in the branded business and the generic market of Germany. Management expects growth momentum across geographies to increase, led by 1) Higher MR productivity in India and Brazil, 2) Higher execution rate of tenders in Germany, and 3) Resumption of new product launches in the U.S. A healthy product mix and expectations of the U.S. turning profitable in the next three years would lead to increased margins. Hence, we foresee the company's earnings to grow in FY2024-FY2027E. At the CMP, the stock trades at a premium valuation of 45x and 36x its FY2026E and FY2027E earnings, respectively. We believe this premium would be due to its high margin profile in the industry; hence, we have arrived at a TP of Rs. 4,232.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY2022	FY2023	FY2024	FY2025E	FY2026E	FY2027E
Net sales	8,508	9,620	10,728	12,123	13,820	15,893
OPM (%)	29%	30%	31%	32%	32%	33%
Adjusted net profit	1,262	1,245	1,656	1,974	2,564	3,183
EPS (Rs.)	37.28	36.79	48.93	58.31	75.77	94.06
PER (x)	92x	93x	70x	59x	45x	36x
EV/EBITDA (x)	49x	43x	35x	31x	26x	22x
P/BV (x)	20x	19x	17x	15x	13x	10x
ROCE (%)	23%	23%	27%	29%	32%	33%
RONW (%)	21%	20%	24%	25%	28%	28%

Source: Company; Sharekhan estimates

Q2FY2025 Concall Highlights

- Most of the company's targeted brands in the chronic and sub-chronic divisions have captured a larger market share compared with the relative market.
- There is no anticipated significant increase in R&D expenditures over the next year; however, this could change if the U.S. market shows improvement.
- The company has added 300 medical beds this year, and the associated costs have already been accounted for in the second quarter's profit and loss statement.
- The company expects to offset price changes and other factors through a low single-digit approval rate of new ANAs in the U.S.
- The company plans to launch at least one to two products annually for each division, including the CNS and CMT teams in Brazil, as well as a minimum of five products per year for the generics division.
- The company indicated that growth from new products will eventually stabilise and transition into volume growth.

Results (Consolidated) Rs cr

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Revenue	**2,889**	**2,660**	**9%**	**2,859**	**1%**
Total Expenditure	1,950	1,835	6%	1,955	0%
Operating profit	**939**	**825**	**14%**	**904**	**4%**
Other Income	-16	26	-162%	24	-167%
Interest	64	91	-30%	75	-15%
Depreciation	198	197	1%	201	-1%
PBT	**661**	**563**	**17%**	**652**	**1%**
Tax	208	173	20%	199	5%
Adjusted PAT	**453**	**390**	**16%**	**453**	**0%**
EPS (Rs.)	13.37	11.39		13.51	
Margins (%)			**BPS**		**BPS**
OPM	33%	31%	149	32%	88
NPM	16%	15%	102	16%	-16
Tax rate	31%	31%	74	31%	95

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 in increased margins. The sector is also witnessing an easing of price erosion, followed by increasing contributions 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 has low debt, increasing operational profits, and benefits from low tax rates due to its SEZ operations. Overall, we have a positive outlook on the sector.

■ **Company Outlook – Stable operational performance with no further rise in margins, comfortable with higher leverage to expand in India's 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 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 the U.S. 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 a revised PT of Rs. 4,232**

Torrent reported the highest-ever gross margin and EBITDA margin, driven by double-digit growth in the branded business and the generic market of Germany. Management expects growth momentum across geographies to increase, led by 1) Higher MR productivity in India and Brazil, 2) Higher execution rate of tenders in Germany, and 3) Resumption of new product launches in the U.S. A healthy product mix and expectations of the U.S. turning profitable in the next three years would lead to increased margins. Hence, we foresee the company's earnings to grow in FY2024-FY2027E. At the CMP, the stock trades at a premium valuation of 45x and 36x its FY2026E and FY2027E earnings, respectively. We believe this premium would be due to its high margin profile in the industry; hence, we have arrived at a TP of Rs. 4,232.

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 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 Torrent's two manufacturing plants, 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.
- A slowdown in the domestic branded business is expected to impact growth.
- Delays 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

Aman Mehta	Whole time director
Samir Mehta	Chairman
Sudhir Menon	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Blackrock Inc.	1.36
2	NPS Trust A/c Uti Retirement Solutions	1.32
3	SBI Pension Funds Pvt. Ltd.	1.22
4	The Vanguard Group Inc.	1.16
5	Kotak Mahindra Asset Management Co.	0.74
6	FMR LLC	0.70
7	Norges Bank	0.69
8	Franklin Resources Inc.	0.61
9	The Goldman Sachs Group Inc.	0.57
10	UTI Asset Management Co. Ltd.	0.50

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

Sharekhan

by BNP PARIBAS

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