

Torrent Pharma

Estimate change



TP change



Rating change


CMP: INR2,052
TP: INR1,960 (-4%)
Neutral

Steady outperformance in branded generics market

Better outlook for US/Germany as well

- Torrent Pharma (TRP)'s 1QFY24 financial performance was in line with our estimates. The company is making steady progress in its branded generics segment in India (DF) and LATAM. The growth outlook for the US and Germany is getting better on the back of better scope of resolving regulatory issues/new tender wins.
- We raise our EPS estimates for FY24/FY25 by 4% each, factoring in a) reduced intensity of price erosion in US generics, b) product launches and market share gains in LATAM, and c) improving growth prospects in Germany. We value TRP at 28x 12M forward earnings to arrive at a TP of INR1,960.
- TRP remains on track to outperform in DF through price hikes, increasing reach and enhancing brand value through building a consumer healthcare franchise. A faster pace of launches in Brazil should help TRP sustain growth momentum. However, we maintain the Neutral stance as we believe the reach valuation factors in earnings upside over the next 2-3 years.

Product mix benefit was offset by higher opex YoY/QoQ

- Sales grew 12% YoY to INR26b (est. INR25.6b). DF revenue rose 15% YoY to INR14.3b (55% of sales). US generics business grew 12% YoY to INR2.9b (11% of sales). Germany sales increased by 21% YoY to INR2.6b (10% of sales). LATAM business grew 3% YoY to INR1.9b (7% of sales). ROW sales rose 12% YoY to INR2.9b (11% of sales).
- Gross margin expanded 350bp YoY to 74.9% due to a better product mix.
- EBITDA margin expanded at a lower rate of 130bp YoY due to higher opex (employee cost/other expenses up 110bp/110bp YoY as % of sales).
- EBITDA increased by 17% YoY to INR7.9b.
- Adj. PAT grew 15% YoY to INR3.8b, due to a lower tax rate at 29% (vs. 36% in 1QFY23), offset by higher depreciation/interest cost.

Highlights from the management commentary

- TRP witnessed price stability in the US generics segment compared to price erosion over the past quarters.
- With a good response to its pilot program for Shelcal 500 in the consumer healthcare segment, TRP is geared up to start a national campaign for it.
- In the DF segment, TRP reported 7% growth in prices and 4.5% growth in new launches YoY, while volume declined by 3% YoY for the quarter.
- The seasonality in gastro-intestinal therapy affected YoY growth in the DF segment to some extent for the quarter.
- TRP has been able to improve profitability of Curatio by 700bp since the acquisition. It has a strategy in place to further improve the profitability.
- TRP launched one product in Brazil and intends to launch five more in the remaining FY24.



Bloomberg	TRP IN
Equity Shares (m)	338
M.Cap.(INRb)/(USD\$)	694.3 / 8.4
52-Week Range (INR)	2081 / 1446
1, 6, 12 Rel. Per (%)	6/23/19
12M Avg Val (INR M)	500

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	95.8	107.9	123.0
EBITDA	28.3	33.7	39.6
Adjusted PAT	12.6	17.7	22.4
EBIT Margin (%)	22.1	24.1	25.7
Cons. Adj EPS (INR)	37.2	52.4	66.3
EPS Gr. (%)	8.3	40.9	26.5
BV/Sh. (INR)	183.1	247.8	495.6

Ratios

Net D-E	0.9	0.5	0.4
RoE (%)	20.7	24.3	26.8
RoCE (%)	13.9	16.4	20.1
Payout (%)	36.8	36.1	36.1

Valuation

P/E (x)	55.3	39.2	31.0
EV/EBITDA (x)	26.3	21.2	17.9
Div. Yield (%)	0.5	0.8	1.0
FCF Yield (%)	2.8	3.7	3.7
EV/Sales (x)	7.8	6.6	5.8

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	71.3	71.3	71.3
DII	8.3	9.0	10.0
FII	12.8	12.0	10.8
Others	7.6	7.7	8.0

FII Includes depository receipts

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly performance (Consolidated)

(INR b)

Y/E March	FY23				FY24E				FY23	FY24E	Est.	Var.
INRb	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	vs Est
Net Revenues	23.1	22.9	24.9	24.9	25.9	26.4	27.1	28.5	95.8	107.9	25.7	1.0
YoY Change (%)	8.2	7.2	18.2	17.0	12.2	15.1	8.9	14.6	12.6	12.6	11.1	
EBITDA	6.7	6.8	7.4	7.4	7.9	8.2	8.5	9.1	28.3	33.7	8.1	-2.1
YoY Change (%)	-0.4	2.9	37.3	32.6	17.4	20.4	15.2	23.2	16.4	19.0	19.9	
Margins (%)	29.2	29.6	29.7	29.6	30.5	31.0	31.4	31.8	29.5	31.2	31.5	
Depreciation	1.6	1.6	1.9	2.0	1.9	1.9	1.9	1.9	7.1	7.7	1.9	
EBIT	5.2	5.2	5.5	5.4	6.0	6.3	6.6	7.1	21.2	26.0	6.2	-2.6
YoY Change (%)	1.4	4.9	47.1	37.3	15.6	21.2	20.6	32.1	19.9	22.5	18.7	
Margins (%)	22.5	22.5	21.9	21.7	23.2	23.7	24.3	25.0	22.1	24.1	24.0	
Interest	0.6	0.7	1.0	1.1	1.0	0.7	0.5	0.2	3.3	2.4	0.9	
Other Income	0.3	0.2	0.3	0.1	0.3	0.4	0.4	0.3	0.9	1.4	0.2	
PBT before EO Expense	4.9	4.6	4.7	4.4	5.3	6.0	6.5	7.3	18.7	25.0	5.4	-1.9
One-off expenses	-0.4	0.0	0.5	0.1	0.0	0.0	0.0	0.0	0.3	0.0	0.0	
PBT after EO Expense	5.3	4.6	4.2	4.3	5.3	6.0	6.5	7.3	18.5	25.0	5.4	
Tax	1.8	1.5	1.4	1.5	1.5	1.7	1.9	2.1	6.1	7.2	1.7	
Rate (%)	36.0	32.6	28.7	33.0	28.8	29.0	29.2	29.0	32.6	29.0	31.8	
Reported PAT	3.5	3.1	2.8	2.9	3.8	4.2	4.6	5.2	12.4	17.7	3.7	
Adj PAT	3.3	3.1	3.2	3.0	3.8	4.2	4.6	5.2	12.6	17.7	3.7	2.4
YoY Change (%)	-0.4	-1.3	28.5	11.5	15.0	35.5	42.8	73.4	8.3	40.9	12.3	
Margins (%)	14.2	13.6	12.8	11.9	14.6	16.0	16.9	18.1	13.1	16.4	14.4	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	FY23				FY24E				FY23	FY24E	Est.
INRb	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE
India formulations	12.5	12.2	12.6	12.6	14.3	14.4	14.6	15.0	49.8	58.3	13.7
YoY Change (%)	13.9	12.6	17.4	21.6	14.5	18.0	16.0	19.4	16.3	17.0	10.0
US generics	2.6	2.9	2.9	2.8	2.9	2.8	3.1	3.2	11.6	11.9	2.8
YoY Change (%)	-1.9	2.8	23.8	-0.7	12.3	-5.7	5.8	13.3	8.9	2.7	8.6
Latin America	1.8	1.9	2.5	3.2	1.9	2.9	2.9	4.1	9.4	11.8	2.9
YoY Change (%)	20.3	18.6	36.3	26.7	3.3	57.0	18.0	29.2	26.0	26.6	57.0
Europe	2.1	2.2	2.4	2.5	2.6	2.5	2.5	2.6	9.3	10.2	2.5
YoY Change (%)	-17.7	-12.4	1.7	16.1	20.6	13.0	5.0	3.3	-3.9	10.0	19.0
ROW	2.1	2.4	2.9	2.8	2.9	2.6	2.6	2.4	10.2	10.6	2.6
YoY Change (%)	1.0	9.1	28.2	27.1	37.7	9.0	-9.0	-13.3	16.6	3.8	23.0
Contract manufacturing	1.4	1.3	1.6	1.1	1.3	1.2	1.3	1.2	5.4	5.1	1.1
YoY Change (%)	-2.0	-6.4	3.2	-17.1	-8.4	-10.0	-17.0	15.7	-5.1	-6.6	-25.0
Cost Break-up											
RM Cost (% of Sales)	28.6	28.0	28.7	27.9	25.1	26.0	26.0	26.8	28.3	26.0	27.7
Staff Cost (% of Sales)	18.2	17.2	17.0	17.7	19.3	18.0	17.9	17.0	17.5	18.0	17.1
R&D Expenses(% of Sales)	5.3	5.3	4.9	6.0	5.0	5.2	5.1	5.1	5.3	5.1	6.0
Other Cost (% of Sales)	24.0	25.2	24.6	24.8	25.1	25.0	24.7	24.4	24.7	24.8	23.7
Gross Margins(%)	71.4	72.0	71.3	72.1	74.9	74.0	74.0	73.2	71.7	74.0	72.3
EBITDA Margins(%)	29.2	29.6	29.7	29.6	30.5	31.0	31.4	31.8	29.5	31.2	31.5
EBIT Margins(%)	22.5	22.5	21.9	21.7	23.2	23.7	24.3	25.0	22.1	24.1	24.0

E: MOFSL Estimates

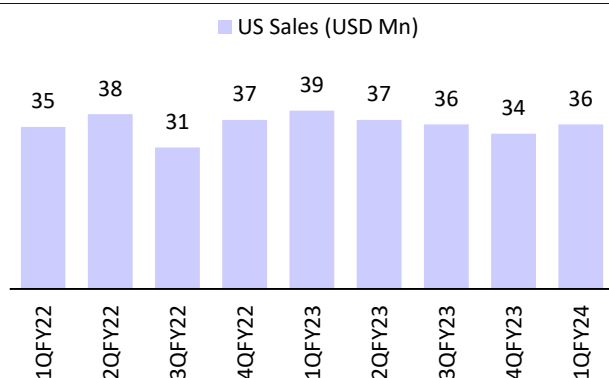


Key takeaways from the management interaction

- New tender wins would further drive YoY growth in Germany in 4QFY24.
- TRP expects a favourable response from the USFDA for its Dahej site and awaits re-inspection at the Indrad site.
- The company would repay net debt of INR6b in FY24.

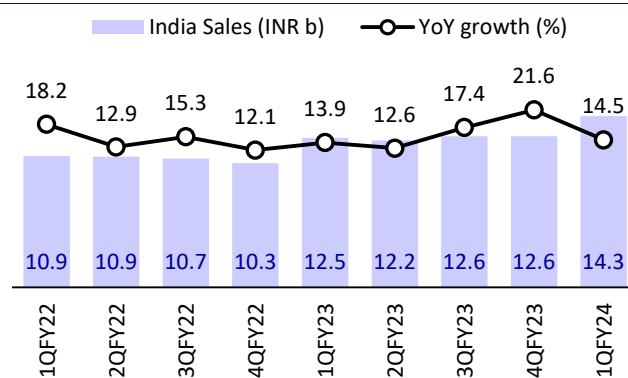
Key exhibits

Exhibit 1: US sales declined 8% YoY in 1QFY24 (CC terms)



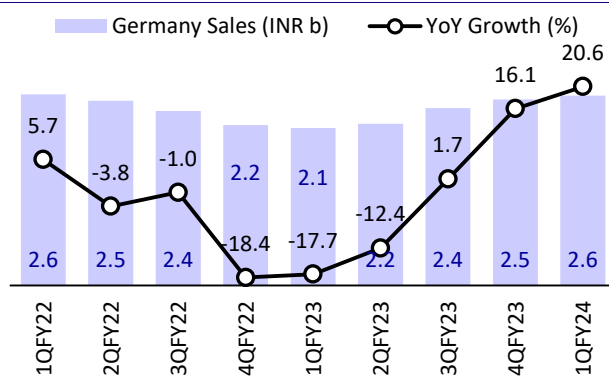
Source: MOFSL, Company

Exhibit 2: India sales grew ~15% YoY in 1QFY24



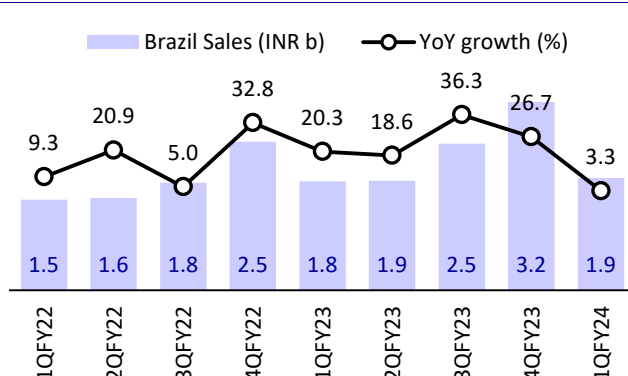
Source: MOFSL, Company

Exhibit 3: Germany sales rose ~21% YoY in 1QFY24

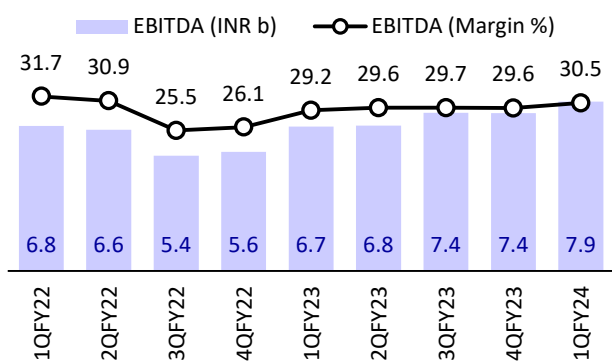


Source: Company, MOFSL

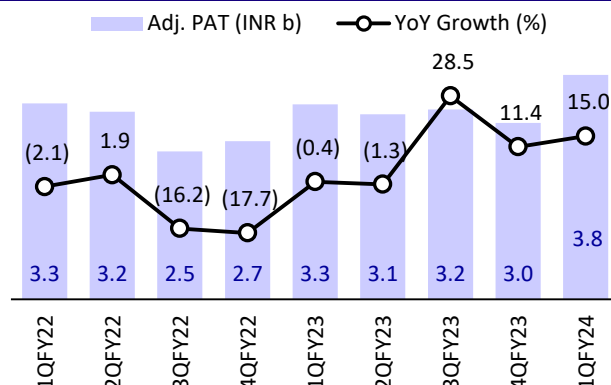
Exhibit 4: Brazil sales grew 3% YoY in 1QFY24



Source: Company, MOFSL

Exhibit 5: EBITDA margin expanded 130bp YoY

Source: MOFSL, Company

Exhibit 6: Adjusted PAT up ~15% YoY in 1QFY24

Source: MOFSL, Company

Robust performance across markets, except US

DF - on track to grow better than industry

- Adjusting for the 1.5% adverse impact of NLEM, DF sales grew 16% YoY to INR14.3b in 1QFY24. This growth was aided by Curatio business (5% contribution to DF sales growth) in addition to strong traction in Anti-diabetic/VMN/ CNS therapies.
- As per AIOCD, DF secondary sales outperformed IPM by 500bp, with 9% growth in the quarter.
- Additionally, TRP is implementing a strategy to drive consumer healthcare and trade generics businesses going forward. It intends to increase PCPM without increasing MR strength.
- Moreover, the Curatio portfolio continues to deliver high double-digit growth along with PCPM improvement.
- Accordingly, we expect a 15% sales CAGR in DF to INR66.5b over FY23-25.

Brazil - MR addition/new launches to drive robust growth

- In FY23, Brazil business saw modest 3% growth to INR1.9b. There was a delay in dispatch of products. Adjusting for this, sales grew 17% YoY (CC:12% YoY).
- Interestingly, TRP outperformed the Brazil market by 400bp in FY23.
- The company intends to increase MR force in Brazil as it intends to launch new products in CNS/Cardiac therapies in FY24.
- Accordingly, we expect a 21% sales CAGR in Brazil to INR13.6b over FY23-25.

Germany - Tender wins to improvise business outlook

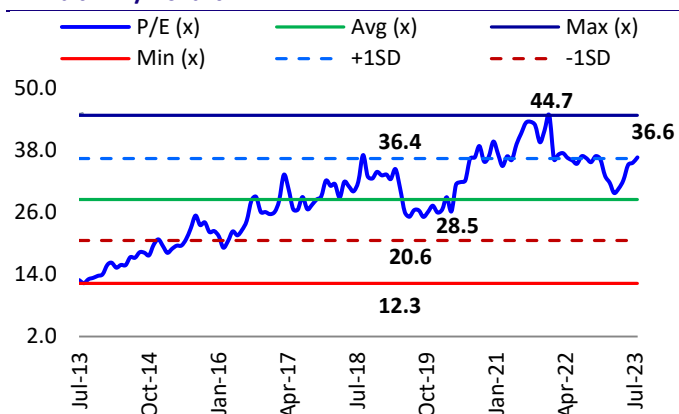
- For the last two years, Germany business has been facing headwinds due to muted demand and increased competition in the tender market.
- However, in 1QFY24, sales increased 21% YoY (CC:11% YoY) to INR2.6b, led by new tender wins and better conversion of existing tenders.
- The commercialization of new contracts in 4QFY24 would drive growth. The addition of field force in the OTC market would also support growth.
- We expect a 12% sales CAGR in Germany over FY23-25 to INR11.4b.

Favorable inspection of Dahej facility key for US segment

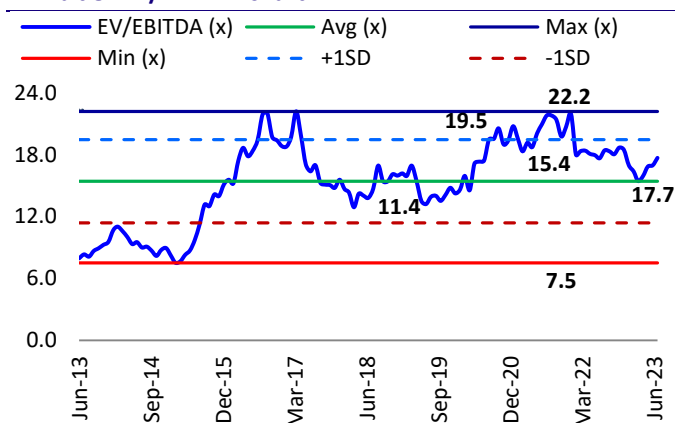
- US business remained flat YoY, adjusting for one-offs in 1QFY24/1QFY23. Having said this, lower price erosion has provided some respite to overall US generics segment.
- Additionally, TRP expects a favourable response from the USFDA for its Dahej site and awaits re-inspection at the Indrad site.
- We expect a 9% sales CAGR over FY23-25 to INR13.7b, led by market share gains in existing products/new launches from third-party manufacturing.

Maintain Neutral

- We raise our EPS estimates for FY24/FY25 by 4% each, factoring in a) reduced intensity of price erosion in US generics, b) product launches and market share gains in LATAM, and c) improving growth prospects in Germany. We value TRP at 28x 12M forward earnings to arrive at a TP of INR1,960.
- TRP remains on track to outperform in DF through price hikes, increasing reach and enhancing brand value through building a consumer healthcare franchise. A faster pace of launches in Brazil should help TRP sustain growth momentum. However, we maintain the Neutral stance as we believe the reach valuation factors in earnings upside over the next 2-3 years.

Exhibit 7: P/E chart

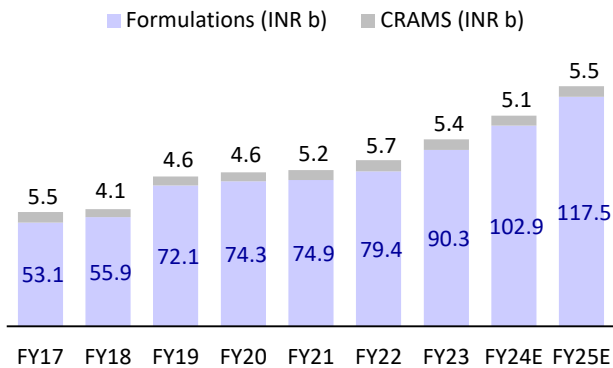
Source: MOFSL, Company, Bloomberg

Exhibit 8: EV/EBITDA chart

Source: MOFSL, Company, Bloomberg

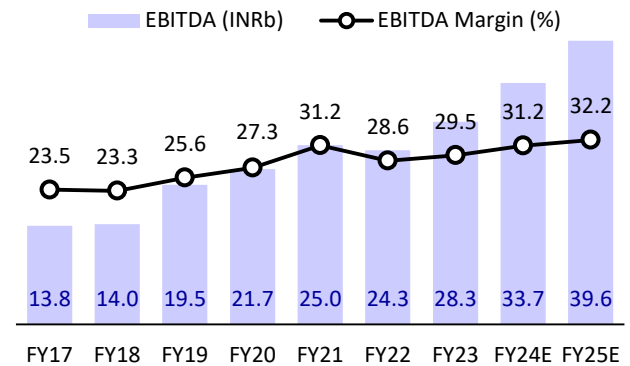
Story in charts

Exhibit 9: Expect Formulations CAGR of 13% over FY23-25



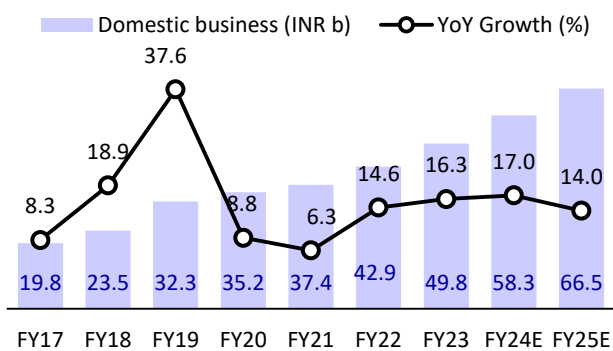
Source: Company, MOFSL

Exhibit 10: Expect EBITDA margin expansion of 270bp over FY23-25



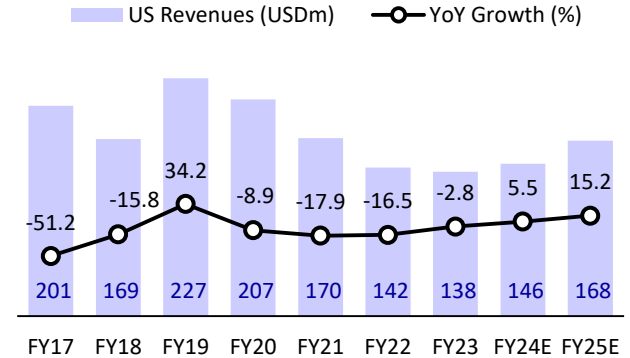
Source: Company, MOFSL

Exhibit 11: Expected 15.5% DF sales CAGR over FY23-25



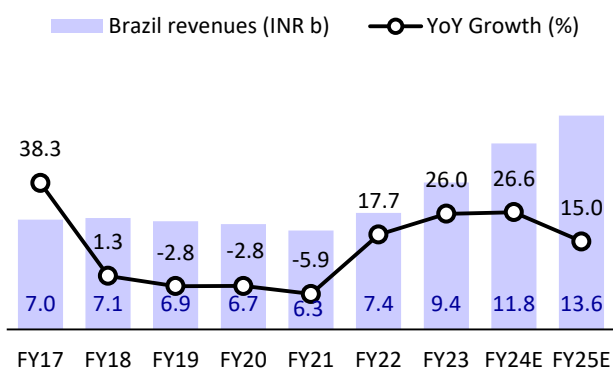
Source: Company, MOFSL

Exhibit 12: The US revenue to pick-up from 2HFY24 onwards



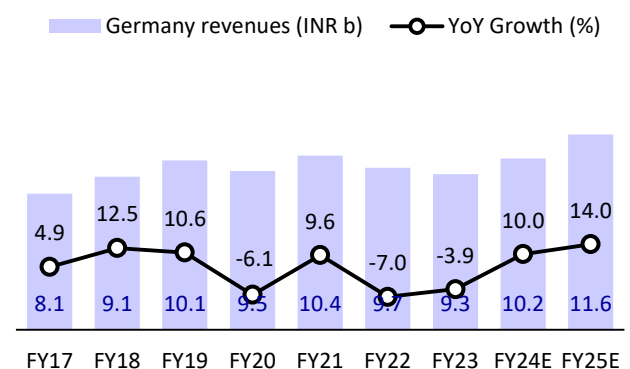
Source: Company, MOFSL

Exhibit 13: Expect ~21% Brazil sales CAGR over FY23-25



Source: Company, MOFSL

Exhibit 14: Expect ~12% Germany sales CAGR over FY23-25



Source: Company, MOFSL

Financials and valuations

Income Statement									(INR m)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	66,760	58,570	60,020	76,100	79,390	80,050	85,080	95,820	107,937	122,972
Change (%)	43.5	-12.3	2.5	26.8	4.3	0.8	6.3	12.6	12.6	13.9
EBITDA	27,201	13,774	13,990	19,490	21,700	25,010	24,310	28,288	33,676	39,597
Margin (%)	40.7	23.5	23.3	25.6	27.3	31.2	28.6	29.5	31.2	32.2
Depreciation	2,460	1,469	1,639	1,985	2,346	2,374	6,620	7,070	7,692	7,986
EBIT	24,741	12,305	12,351	17,506	19,354	22,636	17,690	21,218	25,984	31,610
Int. and Finance Charges	1,859	2,060	3,080	5,040	4,510	3,580	2,550	3,330	2,410	1,827
Other Income - Rec.	2,156	2,230	2,990	570	1,220	570	1,970	850	1,400	1,550
PBT before EO Expense	25,039	12,475	12,261	13,036	16,064	19,626	17,110	18,738	24,975	31,334
EO Expense/(Income)	1,400	0	500	3,220	0	160	4,850	267	0	0
PBT after EO Expense	23,639	12,475	11,761	9,816	16,064	19,466	12,260	18,471	24,975	31,334
Current Tax	6,414	1,540	2,530	1,260	1,620	2,740	4,490	6,110	7,242	8,897
Deferred Tax	-813	0	0	0	0	0	0	0	1	2
Tax	5,601	1,540	2,530	1,260	1,620	2,740	4,490	6,110	7,243	8,899
Tax Rate (%)	22.4	12.3	20.6	9.7	10.1	14.0	26.2	32.6	29.0	28.4
Reported PAT	18,038	10,935	9,231	8,556	14,444	16,726	7,770	12,361	17,732	22,435
Adj PAT	10,109	10,935	7,782	7,228	9,496	12,680	11,617	12,581	17,732	22,435

Balance Sheet									(INR m)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	846	846	850	850	850	850	850	1,692	1,692	1,692
Total Reserves	34,095	42,655	45,370	46,390	47,390	57,530	58,680	60,288	82,175	82,175
Net Worth	34,941	43,501	46,220	47,240	48,240	58,380	59,530	61,980	83,868	83,868
Deferred liabilities	-1114	-2085	-2760	-3630	-4330	-4210	-4940	-5440	-5440	-5440
Total Loans	18,534	22,408	57,370	48,540	44,080	36,450	40,180	52,970	37,970	30,970
Capital Employed	52,365	63,830	1,00,840	92,150	87,990	90,620	94,770	1,09,510	116,398	109,398
Gross Block	34,661	44,172	92,168	99,848	1,02,918	1,02,848	1,04,548	1,27,128	129,628	132,631
Less: Accum. Deprn.	6,070	7,288	11,378	17,558	24,098	30,678	37,298	44,368	52,060	60,046
Net Fixed Assets	28,591	36,884	80,790	82,290	78,820	72,170	67,250	82,760	77,568	72,585
Capital WIP	10,416	5,195	4,230	4,790	7,120	8,710	6,720	8,330	8,330	8,330
Investments	1	1	0	50	40	440	440	450	450	450
Curr. Assets	48,739	56,071	54,650	50,380	50,070	55,220	51,650	53,140	72,493	78,976
Inventory	13,580	15,592	19,660	19,350	21,480	26,810	24,620	22,300	23,694	29,071
Account Receivables	14,451	13,442	12,540	14,360	16,490	15,230	16,330	19,440	22,667	27,054
Cash and Bank Balance	6,470	8,937	8,670	8,160	6,660	6,040	4,030	5,710	19,909	15,980
Loans & Advances	14,238	18,100	13,780	8,510	5,440	7,140	6,670	5,690	6,224	6,871
Curr. Liability & Prov.	35,382	34,321	38,830	45,360	48,060	45,920	31,290	35,170	42,444	50,943
Account Payables	31,644	30,384	32,690	38,330	40,490	37,910	23,490	27,300	32,440	39,075
Provisions	3,738	3,937	6,140	7,030	7,570	8,010	7,800	7,870	10,004	11,867
Net Current Assets	13,358	21,750	15,820	5,020	2,010	9,300	20,360	17,970	30,050	28,033
Appl. of Funds	52,365	63,830	1,00,840	92,150	87,990	90,620	94,770	1,09,510	116,398	109,398

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS	29.9	32.3	23.0	21.4	28.1	37.5	34.3	37.2	52.4	66.3
Cash EPS	60.6	36.6	32.1	31.1	49.6	56.4	42.5	57.4	75.1	179.8
BV/Share	103.2	128.5	136.6	139.6	142.5	172.5	175.9	183.1	247.8	495.6
DPS	20.6	5.0	6.5	9.0	16.0	11.2	10.3	11.2	15.7	19.9
Payout (%)	46.6	18.7	28.7	43.0	45.1	27.4	54.0	36.8	36.1	36.1
Valuation (x)										
P/E	68.8	63.6	89.4	96.2	73.2	54.9	59.9	55.3	39.2	31.0
Cash P/E	33.9	56.1	64.0	66.0	41.4	36.4	48.3	35.8	27.4	11.4
P/BV	19.9	16.0	15.0	14.7	14.4	11.9	11.7	11.2	8.3	4.1
EV/Sales	10.6	12.1	12.4	9.7	9.2	9.1	8.6	7.8	6.6	5.8
EV/EBITDA	26.0	51.5	53.2	37.8	33.8	29.0	30.1	26.3	21.2	17.9
Dividend Yield (%)	1.0	0.2	0.3	0.4	0.8	0.5	0.5	0.5	0.8	1.0
Return Ratios (%)										
RoE	33.8	27.9	17.3	15.5	19.9	23.8	19.7	20.7	24.3	26.8
RoCE	40.4	21.3	14.4	16.4	19.7	21.3	14.9	13.9	16.4	20.1
RoIC	54.1	25.3	14.2	18.9	22.7	26.0	16.4	16.0	20.2	26.3
Working Capital Ratios										
Fixed Asset Turnover (x)	2.3	1.8	1.0	0.9	1.0	1.1	1.2	1.3	1.3	1.6
Debtor (Days)	83	87	79	65	71	72	68	68	71	74
Inventory (Days)	74	97	120	93	99	122	106	85	80	86
Working Capital Turnover (Days)	38	80	43	-15	-21	15	70	47	34	36
Leverage Ratio (x)										
Interest Cover Ratio	13.3	6.0	4.0	3.5	4.3	6.3	6.9	6.4	10.8	17.3
Debt/Equity	0.5	0.5	1.2	1.0	0.9	0.6	0.7	0.9	0.5	0.4

Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Oper. Profit/(Loss) before Tax	25,810	13,950	13,396	11,794	18,410	17,634	18,880	25,540	32,666	39,320
Interest/Dividends Recd.	3,149	1,234	1,983	8,005	2,207	3,400	6,890	2,300	1,010	277
Direct Taxes Paid	-5,773	-3,843	-2,836	-2,812	-2,840	-1,760	-4,210	-3,980	-7,243	-8,899
(Inc)/Dec in WC	4,236	-1,252	-3,602	994	-3,858	-3,370	-3,530	-180	1,952	-1,912
CF from Operating incl EO Expense	27,421	10,088	8,942	17,981	13,918	15,904	18,030	23,680	28,386	28,786
(inc)/dec in FA	-5,925	-4,859	-7,892	-6,605	-4,028	-3,340	-1,970	-4,150	-2,500	-3,003
Free Cash Flow	21,496	5,230	1,050	11,376	9,890	12,564	16,060	19,530	25,886	25,783
(Pur)/Sale of Investments	-2,454	-3,010	-39,178	4,192	2,513	-1,150	-10	-20,000	0	0
CF from Investments	-8,379	-7,869	-47,070	-2,413	-1,516	-4,490	-1,980	-24,150	-2,500	-3,003
Issue of shares	0	0	0	0	0	0	0	0	0	0
(Inc)/Dec in Debt	-3,837	2,020	39,578	-5,013	-3,129	-9,220	-8,140	12,430	-4,442	-21,334
Interest Paid	-2,117	-1,913	-2,757	-5,034	-4,854	-3,610	-2,580	-3,030	-1,010	-277
Dividend Paid	-10,922	-2,037	-2,648	-3,097	-7,185	-3,380	-6,770	-8,630	-6,403	-8,101
CF from Fin. Activity	-16,877	-1,929	34,174	-13,145	-15,490	-12,354	-13,616	770	-11,687	-29,712
Inc/Dec of Cash	2,166	290	-3,954	2,424	-3,088	-940	2,434	300	14,199	-3,928
Opening Balance	8,650	10,499	10,676	7,020	9,401	6,618	6,040	4,030	5,710	19,909
Add/(less) Forex in Cash/Cash eq	-316	-113	246	-43	306	362	-4,444	1,380	0	0
Closing Cash and Cash Eq.	10,499	10,676	7,020	9,401	6,618	6,040	4,030	5,710	19,909	15,980
Bank balances*	-4,029	-1,739	1,650	-1,241	42					
Total Cash and Cash Eq.	6,470	8,937	8,670	8,160	6,660	6,040	4,030	5,710	19,909	15,980

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