

Torrent Pharma

Estimate change



TP change



Rating change



CMP: INR2,525

TP: INR2,540 (+1%)

Neutral

India/LATAM drive earnings

Profitability remains on uptrend

- Torrent Pharma (TRP) delivered an in-line operating performance in 3QFY24. Healthy EBITDA growth of 18% YoY was driven by superior growth in domestic formulation (DF) and LatAm. The lack of approvals and marginal price erosion in base business in the US affected the overall performance to some extent.
- We marginally lower our FY24 estimate by 3% to factor in lower other income. We maintain our estimates for FY25/FY26. We value TRP at 30x 12M forward earnings to arrive at a TP of INR2,540.
- TRP continues to build levers for its branded generics segment in DF/LATAM through a focused approach on existing brands, selective/differentiated product launches, and the addition of MRs to expand reach. Further, it is also gearing up for launches in the US generics segment from its Dahej site. Tender wins are improving its growth prospects in Germany as well. Accordingly, we expect a 30% earnings CAGR over FY24-25. Having said this, the valuation largely factors in this upside in earnings. Retain Neutral on the stock.

Product mix benefits offset to some extent by higher opex

- Sales grew 10% YoY to INR27b (in line). DF revenue grew 12.4% YoY to INR14.2b (52% of sales). Germany sales grew by 12% YoY to INR2.7b (10% of sales). LATAM business grew by 26% YoY to INR3.1b (11% of sales). US generics business declined 6% YoY to INR2.7b (10% of sales). ROW+CDMO sales were largely stable YoY at INR4.6b (16% of sales).
- Gross margin expanded 320bp YoY to 74.5% due to a better product mix.
- However, EBITDA margin expanded at a lower rate of 220bp YoY due to higher employee costs (up 120bp as % of sales), offset by lower other expenses (down 10bp as % of sales)
- Accordingly, EBITDA grew 18% YoY to INR8.7b (in line).
- After adjusting a one-off expense of INR88m, adj. PAT grew 19% YoY to INR3.8b (our est. INR4.4b).
- In 9MFY24, revenue/EBITDA/PAT grew 13%/19%/19% YoY to INR79.8b/INR24.9b/INR11.5b.

Highlights from the management commentary

- TRP expects to clock EBITDA margin of 31.8% in the base business going forward. We believe that new approvals in the US and improved utilization of recently added MRs in DF/Brazil provide scope for further margin improvement.
- New launches in US generics would start in 1QFY25. About 7-8 launches can be expected in FY25.
- TRP indicated about two potential launches in the chronic space in the DF segment over the next 12-15 months.
- About 15 products are awaiting approval in Brazil. TRP intends to build field force for dermatology for the Brazil market.

Bloomberg	TRP IN
Equity Shares (m)	338
M.Cap.(INRb)/(USD\$b)	854.8 / 10.3
52-Week Range (INR)	2576 / 1446
1, 6, 12 Rel. Per (%)	8/17/40
12M Avg Val (INR M)	665

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
Sales	107.6	124.1	142.3
EBITDA	33.8	40.2	46.7
Adjusted PAT	16.4	22.1	27.6
EBIT Margin (%)	23.9	25.8	27.1
Cons. Adj EPS (INR)	48.4	65.4	81.6
EPS Gr. (%)	30.2	35.1	24.7
BV/Sh. (INR)	245.3	490.5	490.5

Ratios

Net D-E	0.5	0.4	0.3
RoE (%)	22.6	26.7	33.3
RoCE (%)	15.8	20.3	26.1
Payout (%)	34.8	36.1	36.1

Valuation

P/E (x)	52.1	38.6	30.9
EV/EBITDA (x)	25.8	21.6	18.5
Div. Yield (%)	0.6	0.8	1.0
FCF Yield (%)	3.1	3.1	3.9
EV/Sales (x)	8.1	7.0	6.1

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	71.3	71.3	71.3
DII	7.2	8.0	8.9
FII	14.1	13.2	12.1
Others	7.5	7.6	7.8

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	2Q	3Q	4QE			3QE	vs Est
Net Revenues	23.1	22.9	24.9	24.9	25.9	26.6	27.3	27.8	95.8	107.6	27.4	-0.3
YoY Change (%)	8.2	7.2	18.2	17.0	12.2	16.1	9.7	11.5	12.6	12.3	10.0	
EBITDA	6.7	6.8	7.4	7.4	7.9	8.3	8.7	8.9	28.3	33.8	8.7	-0.6
YoY Change (%)	-0.4	2.9	37.3	32.6	17.4	21.5	17.6	21.3	16.4	19.4	18.3	
Margins (%)	29.2	29.6	29.7	29.6	30.5	31.0	31.8	32.2	29.5	31.4	31.9	
Depreciation	1.6	1.6	1.9	2.0	1.9	2.0	2.1	2.0	7.1	8.1	2.1	
EBIT	5.2	5.2	5.5	5.4	6.0	6.2	6.6	6.9	21.2	25.7	6.7	-2.0
YoY Change (%)	1.4	4.9	47.1	37.3	15.6	20.9	20.2	27.5	19.9	21.1	22.6	
Margins (%)	22.5	22.5	21.9	21.7	23.2	23.5	24.0	24.8	22.1	23.9	24.4	
Interest	0.6	0.7	1.0	1.1	1.0	0.9	0.8	0.8	3.3	3.5	0.9	
Other Income	0.3	0.2	0.3	0.1	0.3	0.3	-0.3	0.3	0.9	0.6	0.4	
PBT before EO Expense	4.9	4.6	4.7	4.4	5.3	5.6	5.4	6.4	18.7	22.7	6.1	-11.3
One-off expenses	-0.4	0.0	0.5	0.1	0.0	0.0	-0.9	0.0	0.3	-0.9	0.0	
PBT after EO Expense	5.3	4.6	4.2	4.3	5.3	5.6	6.3	6.4	18.5	23.6	6.1	
Tax	1.8	1.5	1.4	1.5	1.5	1.7	1.9	1.4	6.1	6.6	1.7	
Rate (%)	36.0	32.6	28.7	33.0	28.8	30.9	34.6	22.7	32.6	29.0	28.0	
Reported PAT	3.5	3.1	2.8	2.9	3.8	3.9	4.4	4.9	12.4	17.0	4.4	
Adj PAT	3.3	3.1	3.2	3.0	3.8	3.9	3.8	4.9	12.6	16.4	4.4	-13.5
YoY Change (%)	-0.4	-1.3	28.5	11.5	15.0	23.7	19.1	65.8	8.3	30.2	37.7	
Margins (%)	14.2	13.6	12.8	11.9	14.6	14.5	14.0	17.7	13.1	15.2	16.1	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	FY23				FY24E				FY23	FY24E	Est.
INRm	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE
India formulations	12.5	12.2	12.6	12.6	14.3	14.4	14.2	14.0	49.8	56.8	14.6
YoY Change (%)	13.9	12.6	17.4	21.6	14.5	18.0	12.4	11.1	16.3	14.0	16.0
US generics	2.6	2.9	2.9	2.8	2.9	2.5	2.7	2.9	11.6	11.1	3.1
YoY Change (%)	-1.9	2.8	23.8	-0.7	12.3	-15.1	-5.8	4.0	8.9	-4.8	5.8
Latin America	1.8	1.9	2.5	3.2	1.9	2.5	3.1	3.6	9.4	11.1	3.1
YoY Change (%)	20.3	18.6	36.3	26.7	3.3	36.2	25.8	12.0	26.0	18.7	25.0
Europe	2.1	2.2	2.4	2.5	2.6	2.7	2.7	2.8	9.3	10.7	2.5
YoY Change (%)	-17.7	-12.4	1.7	16.1	20.6	20.9	12.0	10.1	-3.9	15.6	5.0
Others (ROW+CDMO)	3.6	3.7	4.5	3.8	4.2	4.5	4.6	4.5	15.6	17.9	4.1
YoY Change (%)	2.5	4.0	21.9	-14.9	10.4	6.1	2.4	-1.3	8.0	14.7	-9.0
Cost Break-up											
RM Cost (% of Sales)	28.6	28.0	28.7	27.9	25.1	24.8	25.5	25.4	28.3	25.2	25.0
Staff Cost (% of Sales)	18.2	17.2	17.0	17.7	19.3	18.9	18.2	18.1	17.5	18.6	18.2
R&D Expenses(% of Sales)	5.3	5.3	4.9	6.0	5.0	5.3	5.1	5.1	5.3	5.1	5.1
Other Cost (% of Sales)	24.0	25.2	24.6	24.8	25.1	25.3	24.5	24.3	24.7	24.8	24.9
Gross Margins(%)	71.4	72.0	71.3	72.1	74.9	75.2	74.5	74.6	71.7	74.8	75.0
EBITDA Margins(%)	29.2	29.6	29.7	29.6	30.5	31.0	31.8	32.2	29.5	31.4	31.9
EBIT Margins(%)	22.5	22.5	21.9	21.7	23.2	23.5	24.0	24.8	22.1	23.9	24.4

E: MOFSL Estimates

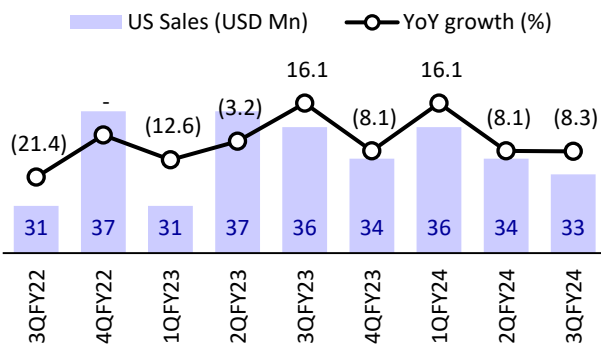


Key takeaways from the management interaction

- TRP continues to expand its distribution network for the consumer healthcare segment in DF.
- It intends to sign 1 in-licensing deal for the DF market on an annualized basis.
- The company witnessed low single-digit price erosion in the US generics market.
- TRP has launched seven products in Germany in YTD and recent tender wins would drive growth in 2QFY25.
- The net debt-to-EBITDA ratio stood at 0.88x at the end of 3QFY24.
- TRP has guided for R&D spending of 5.5% of sales in FY25.

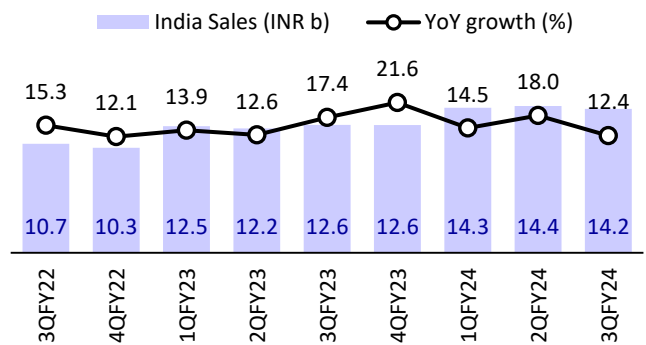
Key exhibits

Exhibit 1: US sales declined 8.3% YoY in 3QFY24 (CC terms)



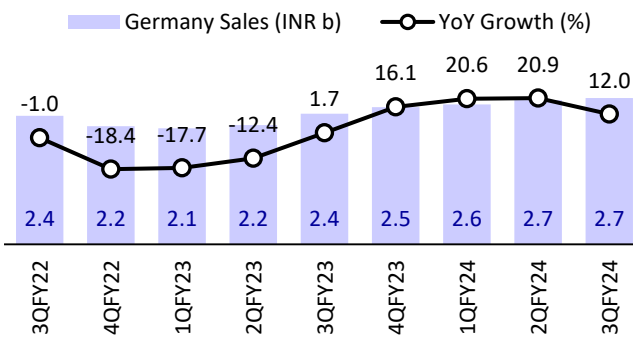
Source: MOFSL, Company

Exhibit 2: India sales grew ~12% YoY in 3QFY24



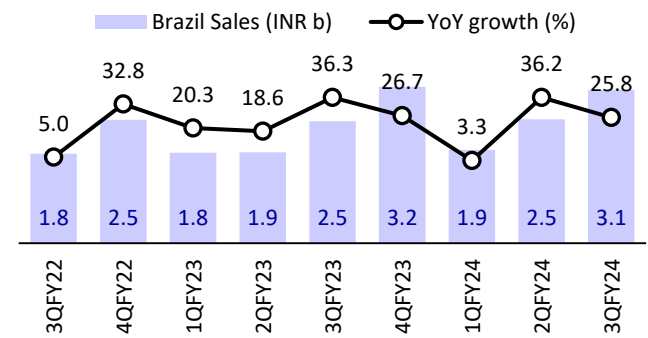
Source: MOFSL, Company

Exhibit 3: Germany sales rose ~12% YoY in 3QFY24



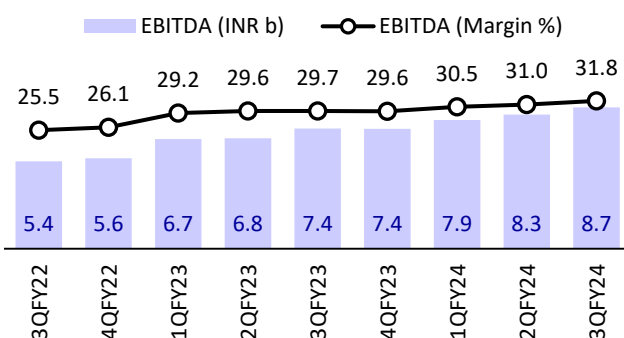
Source: Company, MOFSL

Exhibit 4: Brazil sales grew 26% YoY in 3QFY24



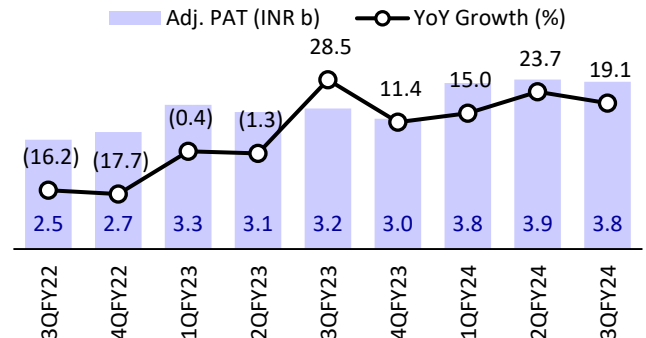
Source: Company, MOFSL

Exhibit 5: EBITDA margin expanded 220bp YoY in 3QFY24



Source: MOFSL, Company

Exhibit 6: Adjusted PAT up ~19% YoY in 3QFY24



Source: MOFSL, Company

Geography-specific levers in place to better prospects

DF – well placed to outperform the industry

- In 9MFY24, DF sales grew 15% YoY to INR37b, led by robust demand for all chronic therapies and new launches. Additionally, the Curatio business is also contributing meaningfully now with margins expanding.
- Moreover, the Tedibar franchise and all other products in the Curatio portfolio are expected to continue to deliver a strong performance through increased presence in the pediatrician segment, e-commerce, and the northern and eastern markets.
- To boost growth in the consumer health business, TRP has introduced more products in the OTC space. Further, it plans to expand the trade generics business with the launch of complex products.
- Additionally, the company plans to expand inorganically by in-licensing the contribution from innovative pharma companies, which would further boost growth.
- Accordingly, we expect a 15% sales CAGR in DF to INR75.8b over FY24-26.

Brazil – New launches/strong execution to boost growth

- In 9MFY24, the Brazil business witnessed robust growth of 22% YoY to INR7.5b. (CC: 17% YoY). It outperformed the Brazil market by 10.5% in 3QFY24.
- This outperformance was led by the strong performance of top brands, new launches, and growth in the generic segment.
- TRP plans to launch 3-5 products and 5-10 molecules per year in the Brazil market. Further the company expects strong growth in the market due to price hikes and innovative products going off patent.
- Accordingly, we expect a 15% sales CAGR in Brazil to INR14.7b over FY24-26.

US – new approvals to enable scale-up

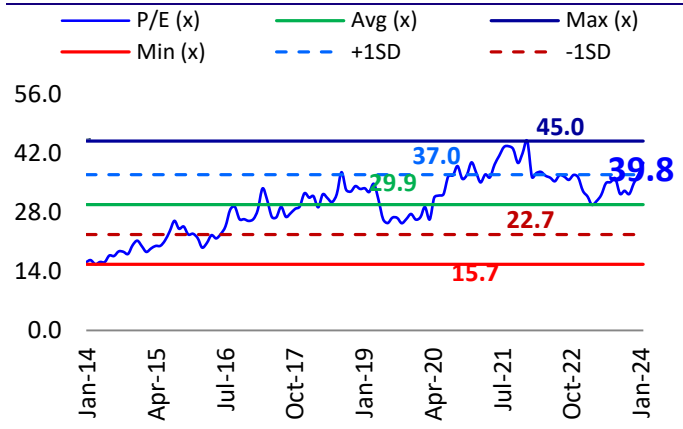
- US sales were flat in CC terms to USD103m in 9MFY24, due to the loss of low-margin business, a lack of new launches, slow ramp-up of the Dahej facility, and regulatory issues at its Indrad plant.
- TRP expects to launch new products in the near term through a new oncology facility and the Dahej plant, which would offset the price erosion. Further, to boost growth, the company expands its product offering in injectables, creams and ophthalmic.
- Accordingly, we expect a 15% sales CAGR over FY24-26 to INR14.6b.

Reiterate Neutral

- We marginally lower our FY24 estimate by 3% to factor in lower other income. We maintain our estimates for FY25/FY26. We value TRP at 30x 12M forward earnings to arrive at a TP of INR2,540.
- TRP continues to build levers for the branded generics segment in DF/LATAM through a focused approach on existing brands, selective/differentiated product launches, and the addition of MRs to expand reach. Further, it is also gearing up for launches in the US generics segment from its Dahej site. Tender wins are improving the growth prospects in Germany as well. Accordingly, we expect a

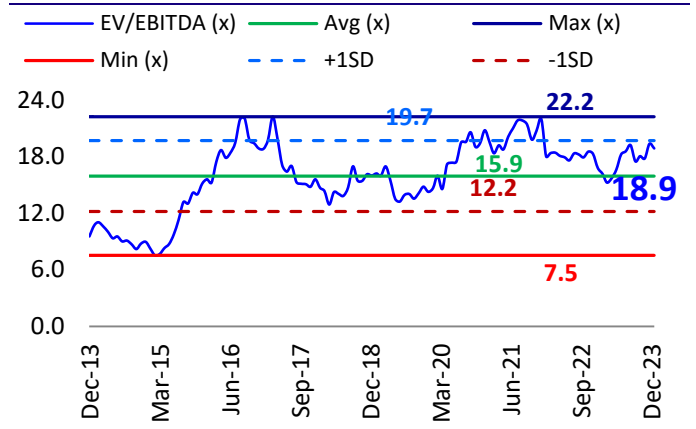
30% earnings CAGR over FY24-25. Having said this, the valuation largely factors in this upside in earnings. Maintain Neutral stance on the stock.

Exhibit 7: P/E chart



Source: MOFSL, Company, Bloomberg

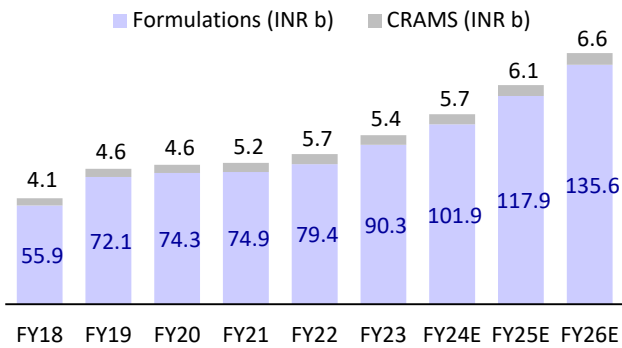
Exhibit 8: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

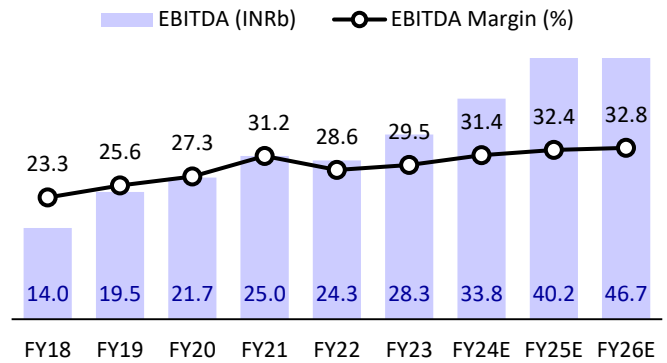
Story in charts

Exhibit 9: Expect Formulations CAGR of 15% over FY24-26



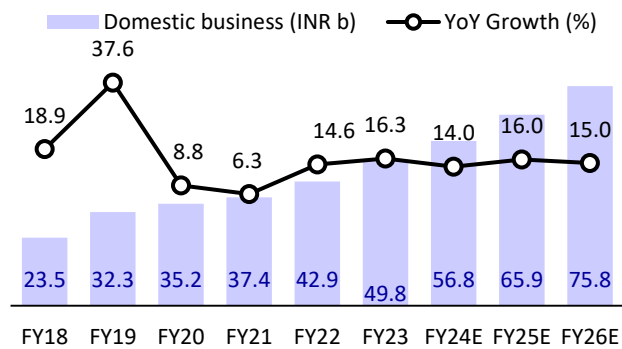
Source: Company, MOFSL

Exhibit 10: Expect EBITDA margin expansion of 140bp over FY24-26



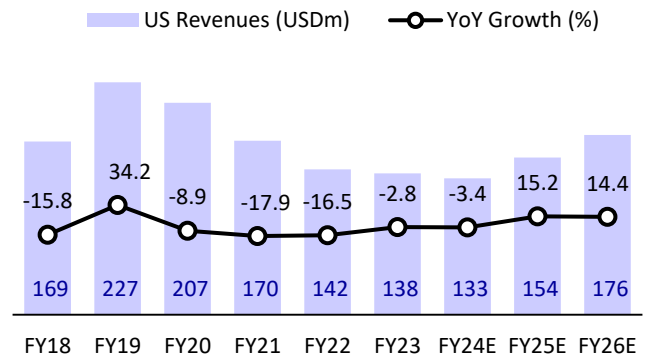
Source: Company, MOFSL

Exhibit 11: Expect 16% DF sales CAGR over FY24-26



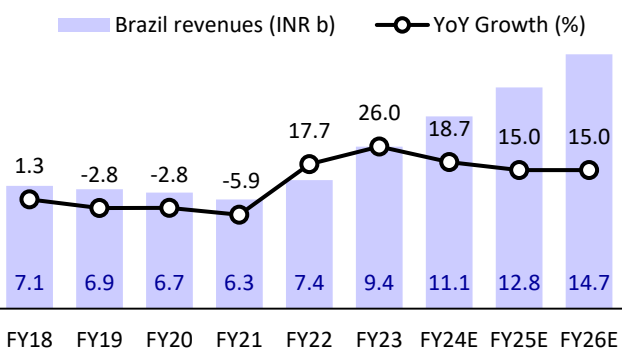
Source: Company, MOFSL

Exhibit 12: Expect US revenue to stay on upward growth trajectory



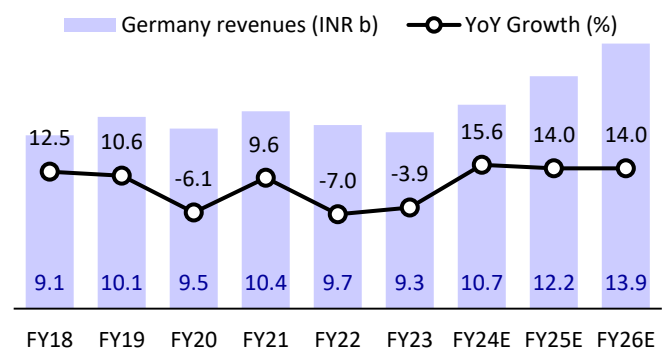
Source: Company, MOFSL

Exhibit 13: Expect ~15% sales CAGR in Brazil over FY24-26



Source: Company, MOFSL

Exhibit 14: Expect ~14% sales CAGR in Germany over FY24-26



Source: Company, MOFSL

Financials and valuations

Income Statement								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	76,100	79,390	80,050	85,080	95,820	1,07,602	1,24,070	1,42,269
Change (%)	26.8	4.3	0.8	6.3	12.6	12.3	15.3	14.7
EBITDA	19,490	21,700	25,010	24,310	28,288	33,787	40,199	46,664
Margin (%)	25.6	27.3	31.2	28.6	29.5	31.4	32.4	32.8
Depreciation	1,985	2,346	2,374	6,620	7,070	8,087	8,136	8,152
EBIT	17,506	19,354	22,636	17,690	21,218	25,700	32,063	38,512
Int. and Finance Charges	5,040	4,510	3,580	2,550	3,330	3,547	2,413	1,648
Other Income - Rec.	570	1,220	570	1,970	850	550	750	950
PBT before EO Expense	13,036	16,064	19,626	17,110	18,738	22,703	30,400	37,813
EO Expense/(Income)	3,220	0	160	4,850	267	-880	0	0
PBT after EO Expense	9,816	16,064	19,466	12,260	18,471	23,583	30,400	37,813
Current Tax	1,260	1,620	2,740	4,490	6,110	6,583	8,267	10,208
Deferred Tax	0	0	0	0	0	1	2	2
Tax	1,260	1,620	2,740	4,490	6,110	6,584	8,269	10,210
Tax Rate (%)	9.7	10.1	14.0	26.2	32.6	29.0	27.2	27.0
Reported PAT	8,556	14,444	16,726	7,770	12,361	16,999	22,131	27,604
Adj PAT	7,228	9,496	12,680	11,617	12,581	16,381	22,131	27,604

Balance Sheet								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	850	850	850	850	1,692	1,692	1,692	1,692
Total Reserves	46,390	47,390	57,530	58,680	60,288	81,312	81,312	81,312
Net Worth	47,240	48,240	58,380	59,530	61,980	83,005	83,005	83,005
Deferred liabilities	-3630	-4330	-4210	-4940	-5440	-5440	-5440	-5440
Total Loans	48,540	44,080	36,450	40,180	52,970	37,970	30,970	23,970
Capital Employed	92,150	87,990	90,620	94,770	1,09,510	1,15,535	1,08,535	1,01,535
Gross Block	99,848	1,02,918	1,02,848	1,04,548	1,27,128	1,29,628	1,32,631	1,35,634
Less: Accum. Deprn.	17,558	24,098	30,678	37,298	44,368	52,455	60,591	68,743
Net Fixed Assets	82,290	78,820	72,170	67,250	82,760	77,173	72,040	66,891
Capital WIP	4,790	7,120	8,710	6,720	8,330	8,330	8,330	8,330
Investments	50	40	440	440	450	450	450	450
Curr. Assets	50,380	50,070	55,220	51,650	53,140	70,382	74,626	84,427
Inventory	19,350	21,480	26,810	24,620	22,300	22,894	26,188	33,272
Account Receivables	14,360	16,490	15,230	16,330	19,440	22,596	27,295	31,299
Cash and Bank Balance	8,160	6,660	6,040	4,030	5,710	18,668	14,272	12,271
Loans & Advances	8,510	5,440	7,140	6,670	5,690	6,224	6,871	7,585
Curr. Liability & Prov.	45,360	48,060	45,920	31,290	35,170	40,800	46,912	58,563
Account Payables	38,330	40,490	37,910	23,490	27,300	31,350	35,217	44,698
Provisions	7,030	7,570	8,010	7,800	7,870	9,450	11,695	13,865
Net Current Assets	5,020	2,010	9,300	20,360	17,970	29,582	27,715	25,864
Appl. of Funds	92,150	87,990	90,620	94,770	1,09,510	1,15,535	1,08,535	1,01,535

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
EPS	21.4	28.1	37.5	34.3	37.2	48.4	65.4	81.6
Cash EPS	31.1	49.6	56.4	42.5	57.4	74.1	178.9	211.3
BV/Share	139.6	142.5	172.5	175.9	183.1	245.3	490.5	490.5
DPS	9.0	16.0	11.2	10.3	11.2	14.5	19.6	24.5
Payout (%)	43.0	45.1	27.4	54.0	36.8	34.8	36.1	36.1
Valuation (x)								
P/E	118.1	89.9	67.3	73.5	67.9	52.1	38.6	30.9
Cash P/E	81.0	50.8	44.7	59.3	43.9	34.0	14.1	11.9
P/BV	18.1	17.7	14.6	14.3	13.8	10.3	5.1	5.1
EV/Sales	11.7	11.2	11.0	10.5	9.4	8.1	7.0	6.1
EV/EBITDA	45.9	41.1	35.3	36.6	31.8	25.8	21.6	18.5
Return Ratios (%)								
RoE	15.5	19.9	23.8	19.7	20.7	22.6	26.7	33.3
RoCE	16.4	19.7	21.3	14.9	13.9	15.8	20.3	26.1
RoIC	18.9	22.7	26.0	16.4	16.0	19.9	26.9	33.9
Working Capital Ratios								
Asset Turnover (x)	0.8	0.9	0.9	0.9	0.9	0.9	1.1	1.4
Fixed Asset Turnover (x)	0.9	1.0	1.1	1.2	1.3	1.3	1.7	2.0
Debtor (Days)	65	71	72	68	68	71	73	75
Inventory (Days)	93	99	122	106	85	78	77	85
Working Capital Turnover (Days)	-15	-21	15	70	47	37	40	35
Leverage Ratio (x)								
Interest Cover Ratio	3.5	4.3	6.3	6.9	6.4	7.2	13.3	23.4
Debt/Equity	1.0	0.9	0.6	0.7	0.9	0.5	0.4	0.3

Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Oper. Profit/(Loss) before Tax	11,794	18,410	17,634	18,880	25,540	30,790	38,536	45,966
Interest/Dividends Recd.	8,005	2,207	3,400	6,890	2,300	3,877	1,663	698
Direct Taxes Paid	-2,812	-2,840	-1,760	-4,210	-3,980	-6,584	-8,269	-10,210
(Inc)/Dec in WC	994	-3,858	-3,370	-3,530	-180	1,179	-2,529	-151
CF from Operating incl EO Expense	17,981	13,918	15,904	18,030	23,680	29,262	29,401	36,304
(inc)/dec in FA	-6,605	-4,028	-3,340	-1,970	-4,150	-2,500	-3,003	-3,003
Free Cash Flow	11,376	9,890	12,564	16,060	19,530	26,762	26,398	33,301
(Pur)/Sale of Investments	4,192	2,513	-1,150	-10	-20,000	0	0	0
CF from Investments	-2,413	-1,516	-4,490	-1,980	-24,150	-2,500	-3,003	-3,003
Issue of shares	0	0	0	0	0	0	0	0
(Inc)/Dec in Debt	-5,013	-3,129	-9,220	-8,140	12,430	-5,060	-21,140	-24,637
Interest Paid	-5,034	-4,854	-3,610	-2,580	-3,030	-2,997	-1,663	-698
Dividend Paid	-3,097	-7,185	-3,380	-6,770	-8,630	-5,915	-7,991	-9,967
CF from Fin. Activity	-13,145	-15,490	-12,354	-13,616	770	-13,804	-30,794	-35,302
Inc/Dec of Cash	2,424	-3,088	-940	2,434	300	12,958	-4,396	-2,001
Opening Balance	7,020	9,401	6,618	6,040	4,030	5,710	18,668	14,272
Add/(less) Forex in Cash/Cash eq	-43	306	362	-4,444	1,380	0	0	0
Closing Cash and Cash Eq.	9,401	6,618	6,040	4,030	5,710	18,668	14,272	12,271
Bank balances*	-1,241	42						
Total Cash and Cash Eq.	8,160	6,660	6,040	4,030	5,710	18,668	14,272	12,271

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UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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