

Retail Equity Research

Torrent Pharmaceuticals Limited

Pharmaceuticals

BSE CODE: 500420

NSE CODE: TORNTPHARM

Bloomberg CODE: TRP:IN

SENSEX: 64,081

BUY

12 Months Investment Period Rating as per Large Cap

CMP Rs. 1,926 TARGET Rs. 2,189 RETURN 14% ↑
(Closing: 02-11-23)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Branded generics boost performance

Torrent Pharmaceuticals Ltd (TPL) is engaged in research, development, manufacturing and marketing of generic pharmaceutical formulations in India, the US, Germany, Brazil and other countries. The company offers products in various therapeutic areas.

- In Q2FY24, revenue grew 16.1% YoY to Rs. 2,660cr, led by a double-digit growth in key regions despite a decline in the US market.
- EBITDA stood at Rs. 825cr, up 21.5% YoY. EBITDA margin expanded 140 bps YoY to 31.0%. Profit after tax rose 23.7% YoY to Rs. 386cr.
- TPL has witnessed a strong momentum in the branded generics market. The branded segment, comprising 73% of its revenue base, grew 18% YoY in the quarter. New launches, improving market share and productivity, cost optimisation and completion of USFDA inspection of the Dahej facility serve as key growth drivers in the near term. Hence, we upgrade our rating on the stock to BUY with a revised target price of Rs. 2,189 based on 36x FY25E adjusted EPS.

Solid growth in key regions drive revenue growth

TPL recorded a revenue growth of 16.1% YoY to Rs. 2,660cr in Q2FY24. The Indian segment outperformed the market, growing 18.0% YoY (12% YoY, excluding curation). Double-digit growth in chronic therapies, traction in consumer portfolio, rebound in gastro demand and new launches supported the growth in India. Going forward, the management expects the segment to continue outperforming the market growth. Brazil reported a revenue growth of 36.2% YoY (23% YoY in CC terms) driven by strong momentum in the generics segment and new launches. Revenue from Germany rose 20.9% YoY (8% YoY in CC terms). Moreover, conversion of new tender wins during Q2FY24 is anticipated in Q4FY24. However, the US segment's revenue declined 15.1% YoY (-18% YoY in CC terms) owing to supply challenges and loss of certain contracts.

Margin expands on product mix and efficiency

EBITDA grew 21.5% YoY to Rs. 825cr with EBITDA margin expanding 140 bps YoY to 31.0%. We believe improved product mix and operating efficiency supported the margin expansion. Profit after tax increased 23.7% YoY to Rs. 386cr.

Key concall highlights

- Inspection at the Dahej facility was completed by the USFDA (the US drug regulator) during the quarter. The management expects to receive new product approvals, which are expected to enhance the company's growth in the US market.
- TPL's anti-diabetic medicine, sitagliptin is expected to generate Rs. 100cr sales on moving annual turnover (MAT) basis in the coming quarter. This is the fastest Rs. 100cr launch for the company.

Valuation

TPL has seen significant growth in the branded generics market. In Q2FY24, the branded generics segment (accounts for 73%) of total revenue increased 18% YoY. We believe the company's strong presence in the branded generics segment, new product launches, increasing market share and productivity, cost optimisation, and approvals for new products made at the Dahej factory will boost its future performance. Therefore, based on 36x FY25E adjusted EPS, we have upgraded our rating on the stock to BUY and set a target price of Rs. 2,189.

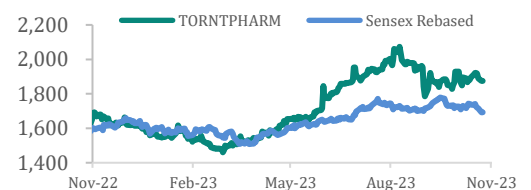
Company Data

Market Cap (cr)	Rs.65,044
Enterprise Value (cr)	Rs.69,589
Outstanding Shares (cr)	33.9
Free Float	27.0%
Dividend Yield	1.1%
52 week high	Rs.2,100
52 week low	Rs.1,446
6m average volume	9,025
Beta	0.4
Face value	Rs.5

Shareholding %	Q4FY23	Q1FY24	Q2FY24
Promoters	71.3	71.3	71.3
FII's	12.0	12.8	13.2
MFs/Insti	9.0	8.3	8.0
Public	6.4	6.3	6.3
Others	1.3	1.3	1.3
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-2.7%	16.9%	21.6%
Absolute Sensex	-3.5%	6.5%	7.6%
Relative Return*	0.8%	10.4%	14.0%

*over or under performance to benchmark index



Consolidated (cr)	FY23A	FY24E	FY25E
Sales	9,620	11,095	12,655
Growth (%)	13.1	15.3	14.1
EBITDA	2,842	3,467	4,005
EBITDA Margin (%)	29.5	31.3	31.7
Adj. PAT	1,245	1,669	2,058
Growth (%)	(1.3)	34.1	23.3
Adj. EPS	36.8	49.3	60.8
Growth (%)	(1.3)	34.1	23.3
P/E	43.0	38.9	31.6
P/B	8.6	9.4	8.2
EV/EBITDA	20.5	20.1	17.3
ROE (%)	20.1	24.2	26.1
D/E	0.9	0.8	0.7

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY24	Q2FY23	YoY Growth %	Q1FY24	QoQ Growth %	H1FY24	H1FY23	YoY Growth %
Revenue	2,660	2,291	16.1	2,591	2.7	5,251	4,638	13.2
EBITDA	825	679	21.5	791	4.3	1,616	1,391	16.2
EBITDA margins	31.0	29.6	140bps	30.5	50bps	30.8	30.0	80bps
Depreciation	201	163	23.3	191	5.2	392	318	23.3
EBIT	624	516	20.9	600	4.0	1,224	1,073	14.1
Interest	91	69	31.9	103	(11.7)	194	124	56.5
Other Income	26	16	62.5	34	(23.5)	60	46	30.4
Exceptional Items	-	-	-	-	-	-	-	-
Share of profit from Associate	-	-	-	-	-	-	-	-
PBT	559	463	20.7	531	5.3	1,090	995	9.5
Tax	173	151	14.6	153	13.1	326	329	(0.9)
Reported PAT	386	312	23.7	378	2.1	764	666	14.7
Minority Interest	-	-	-	-	-	-	-	-
PAT att. to shareholders	386	312	23.7	378	2.1	764	666	14.7
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	386	312	23.7	378	2.1	764	666	14.7
No. of shares	33.9	33.8	0.1	33.8	0.2	33.9	33.8	0.1
Adj. EPS (Rs.)	11.4	9.2	23.6	11.2	1.9	22.5	19.7	14.6

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	10,905	12,273	11,095	12,655	1.7	3.1
EBITDA	3,353	3,847	3,467	4,005	3.4	4.1
Margins (%)	30.8	31.4	31.3	31.7	50bps	30bps
Adj. PAT	1,603	1,982	1,669	2,058	4.1	3.8
Adj. EPS	47.4	58.6	49.3	60.8	4.1	3.8

PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue	8,005	8,508	9,620	11,095	12,655
% change	0.8	6.3	13.1	15.3	14.1
EBITDA	2,485	2,431	2,842	3,467	4,005
% change	14.5	(2.2)	16.9	22.0	15.5
Depreciation	658	662	707	829	827
EBIT	1,827	1,769	2,135	2,638	3,179
Interest	358	255	333	325	324
Other Income	57	(288)	45	85	111
PBT	1,526	1,226	1,847	2,398	2,967
% change	28.6	(19.7)	50.7	29.8	23.7
Tax	274	449	602	729	909
Tax Rate (%)	18.0	36.6	32.6	30.4	30.7
Reported PAT	1,252	777	1,245	1,669	2,058
PAT att. to common shareholders	1,252	777	1,245	1,669	2,058
Adj*	-	485	-	-	-
Adj PAT	1,252	1,262	1,245	1,669	2,058
% change	22.1	0.8	(1.3)	34.1	23.3
No. of shares (cr)	33.8	33.8	33.8	33.8	33.8
Adj EPS (Rs.)	37.0	37.3	36.8	49.3	60.8
% change	22.2	0.8	(1.3)	34.1	23.3
DPS (Rs.)	17.5	24.0	22.0	24.7	30.4

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Depn.	1,910	1,439	1,952	2,498	2,884
Non-cash adj.	438	717	434	123	168
Changes in W.C	(337)	(353)	(18)	(658)	(872)
C.F. Operation	2,011	1,803	2,368	1,963	2,181
Capital exp.	(334)	(197)	(415)	(444)	(443)
Change in inv.	(120)	(8)	(2,013)	(32)	(38)
Other invest.CF	5	7	13	0	0
C.F - Investment	(449)	(198)	(2,415)	(475)	(481)
Issue of equity	-	-	-	-	-
Issue/repay debt	(957)	(846)	1,243	(116)	(130)
Dividends paid	(338)	(677)	(863)	(938)	(1,080)
Other finance.CF	(361)	(258)	(303)	(325)	(323)
C.F - Finance	(1,656)	(1,781)	77	(1,401)	(1,533)
Chg. in cash	(94)	(176)	30	87	167
Closing cash	604	403	571	658	825

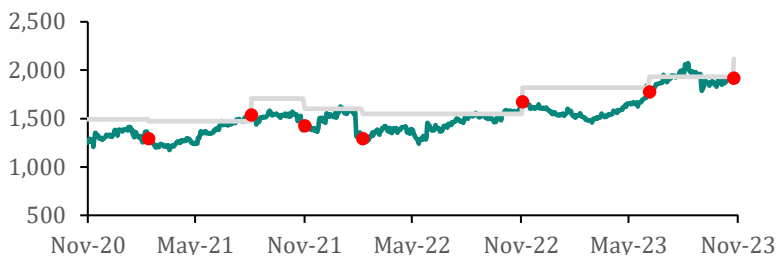
BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	604	403	571	658	825
Accounts Receivable	1,523	1,633	1,944	2,274	2,607
Inventories	2681	2462	2230	2621	3246
Other Cur. Assets	716	797	584	646	717
Investments	42	42	43	43	43
Gross Fixed Assets	4,759	5,094	5,297	5,871	6,315
Net Fixed Assets	2,884	2,703	2,772	2,490	2,165
CWIP	745	544	688	585	526
Intangible Assets	4,325	3,805	5,427	5,529	5,633
Def. Tax (Net)	421	494	544	571	600
Other Assets	134	217	209	209	209
Total Assets	14,075	13,100	15,012	15,626	16,571
Current Liabilities	4,187	2,505	2,628	2,729	2,858
Provisions	370	369	393	393	393
Debt Funds	3,675	4,075	5,389	5,273	5,143
Other Liabilities	5	198	404	324	291
Equity Capital	85	85	169	169	169
Reserves & Surplus	5,753	5,868	6,029	6,738	7,716
Shareholder's Fund	5,838	5,953	6,198	6,907	7,885
Minority Interest	-	-	-	-	-
Total Liabilities	14,075	13,100	15,012	15,626	16,571
BVPS (Rs.)	172	176	183	204	233

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab. & Return					
EBITDA margin (%)	31.0	28.6	29.5	31.3	31.7
EBIT margin (%)	22.8	20.8	22.2	23.8	25.1
Net profit mgn.(%)	15.6	9.1	12.9	15.0	16.3
ROE (%)	21.4	13.1	20.1	24.2	26.1
ROCE (%)	19.2	17.6	18.4	21.7	24.4
W.C & Liquidity					
Receivables (days)	69.4	70.1	73.8	74.8	75.2
Inventory (days)	455.8	367.8	297.6	328.5	365.0
Payables (days)	351.4	250.1	224.1	225.6	219.0
Current ratio (x)	1.1	1.2	1.0	1.1	1.2
Quick ratio (x)	0.5	0.5	0.5	0.5	0.6
Turnover & Leverage					
Gross asset T.O (x)	1.8	1.7	1.9	2.0	2.1
Total asset T.O (x)	0.6	0.6	0.7	0.7	0.8
Int. coverage ratio (x)	5.1	6.9	6.4	8.1	9.8
Adj. debt/equity (x)	0.6	0.7	0.9	0.8	0.7
Valuation					
EV/Sales (x)	5.7	6.0	6.1	6.3	5.5
EV/EBITDA (x)	18.2	21.0	20.5	20.1	17.3
P/E (x)	33.8	37.6	43.0	38.9	31.6
P/BV (x)	7.2	8.0	8.6	9.4	8.2

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
29-Oct-20	HOLD	1,491
11-Feb-21	HOLD	1,473
3-Aug-21	BUY	1,708
1-Nov-21	BUY	1,600
7-Feb-22	BUY	1,548
3-Nov-22	HOLD	1,819
5-Jun-23	HOLD	1,933
2-Nov-23	BUY	2,189

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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