

# Torrent Pharmaceuticals | HOLD

## Torrent to merge with JB Chemicals & Pharmaceuticals



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Torrent Pharma announced acquisition of KKR stake in JB chemical as well as potential merger with the company. We believe the proposed merger between Torrent Pharma and JB Chemicals is positive from a business standpoint, as it will elevate Torrent Pharma to the position of the 5th largest pharmaceutical company in India, up from its current 7th position. The merger will also strengthen Torrent's presence in key international markets such as Russia, South Africa, and RoW branded generics, as well as enhance its capabilities in the CDMO segment. Although JB Chemicals has been operating efficiently under KKR's ownership, the merger is expected to unlock further value through the reduction of corporate costs and potential synergies in the field force, particularly as both companies have a strong presence in cardiology and gastroenterology therapies.

From a financial perspective, we estimate that with synergies, the merger would become PAT neutral by the end of FY28, assuming the open offer does not go through. The company is likely to achieve a net debt-free position by FY29. However, under this scenario, existing Torrent shareholders would face approximately 10% dilution, given the higher number of shares required to complete the merger. If maximum number of shareholder opt for open offer then the dilution could be 6% for Torrent Pharma shareholders, however, PAT could be impacted by 10% for FY28. Assuming a 23x EV/EBITDA multiple on the combined entity's FY27 EBITDA which is Torrent' multiple at standalone level, we estimate the share price of the merged entity to be in the range of INR 3,625 to INR 3,635, suggesting 7% upside for Torrent Pharma shareholders in the near term.

We expect further clarity to emerge following Torrent Pharma's investor call scheduled for today. We will revise our view if there are any material changes to our assumptions.

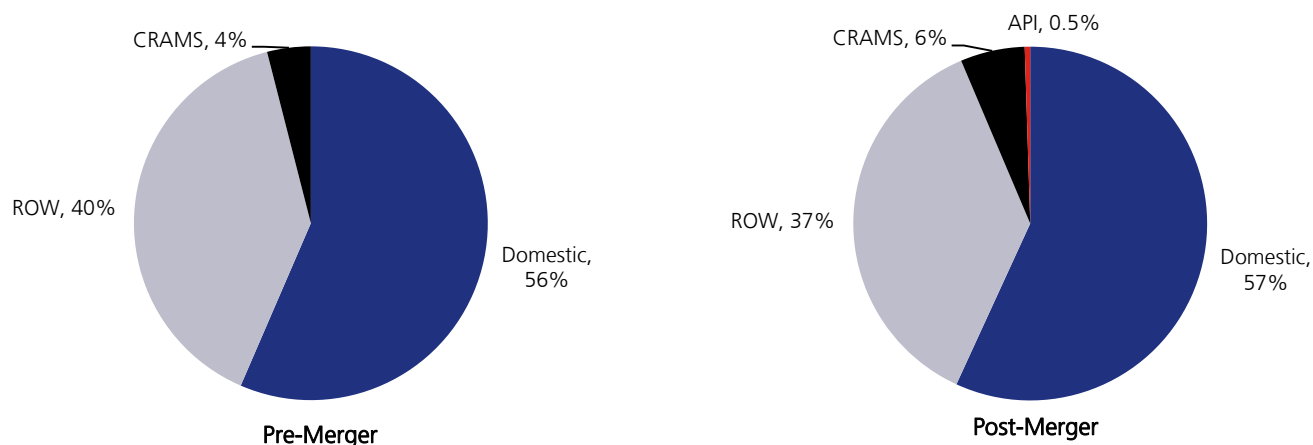
- **Contours of the deal:** Torrent has announced the acquisition of 74.5mn (46.4%) shares of JB Chemicals & Pharmaceuticals from the promoter seller for a consideration of INR 119.2bn. This is followed by further plans to acquire 4.5mn (2.8%) employee shares at value not exceeding INR 1,600/sh. The deal also includes an open offer for 41.7mn (26%) shares for the price of INR 1639.18/sh. Upon the merger, the company shall issue shares to shareholders of JB in the ratio 51:100
- **Rationale for merger:** JB Pharma has business segments in the same markets where Torrent operates, thus (via the merger) enabling incremental growth prospects for Torrent via combined and enhanced synergistic product portfolio. The deal provides access to a fast growing India franchise, with leading brands in the chronic segment, and entry into untapped therapeutic areas like ophthalmic and strengthening existing portfolios like Cardiac and Gastro. On a long term view, the deal also opens possibilities of platform diversification with entry into the CDMO segment. The merger also entails the cessation of multiple entities thus unlocking cost efficiencies along with new operational leverages from asset integration.
- **Debt backed funding:** For the first two tranches of the transaction, Torrent Pharma requires INR 122bn in cash. For the third tranche, which involves an open offer at INR 1,639 per share, the company would require an additional INR 66.35bn, assuming full acceptance of the open offer for a 26% stake in JB Chemicals. In total, Torrent Pharma would require up to INR 188.9bn to complete all three tranches of the acquisition.

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- **Dilution for Torrent's shareholders:** Assuming Torrent Pharma holds a 75% stake in JB Chemicals post the open offer, the company will need to issue approximately 20mn additional shares to the minority shareholders of JB Chemicals as part of the merger process. This will dilute the shareholding of existing Torrent Pharma shareholders by approximately 5.57% in the combined entity. If open offer doesn't go through then Torrent will need to issue higher number of shares and resulting in maximum 10% dilution for Torrent Pharma shareholders
- **Company's financial position to fund the acquisition:** As per FY25 estimates, Torrent Pharma has INR 23.35bn of net debt on its books. The acquisition will be primarily funded through debt. Depending on the level of open offer acceptance, the company may need to raise between INR 120bn to 180bn in additional debt to finance the transaction.
- **Impact on financials:** On a consolidated basis, and excluding synergies, the combined entity is projected to generate INR 219.5bn in revenue and INR 71bn in EBITDA by FY28. Assuming 5% cost synergies from JB Chemicals, EBITDA could increase to INR 74bn by FY28. Over FY26 to FY28, the combined entity is expected to generate INR 131bn in free cash flow (FCF). After accounting for INR 36bn dividend payout and approx INR 28bn for Interest payment, combined entity could retain only INR 50bn net debt by FY28 and become debt free by FY29 (assuming open offer doesn't go through)

#### Exhibit 1. Changes in segmental contribution to revenues



Source: Company, JM Financial

#### Exhibit 2. Torrent (Merged entity) to shift to Top #5 in IPM sales

RANK	COMPANY	MAR'25 (INR bn)
1	SUN	185.0
2	ABBOTT	146.1
3	CIPLA	127.6
4	MANKIND	112.3
5	TORRENT PHARMA (Post Merger)	107.3
6	ALKEM	91.1
7	INTAS PHARMA	85.3
8	TORRENT PHARMA	79.8
9	LUPIN LIMITED	79.8
10	MACLEODS PHARMA	76.4
11	DR.REDDYS LABS	72.4

Source: Company

## Exhibit 3. Contribution from top 10 therapies

COMPANY	SUPERGROUP	MAR'23 (INR bn)	MAR'24 (INR bn)	MAR'25 (INR bn)	3Y CAGR
TORRENT PHARMA	CARDIAC	1,827	1,958	2,185	9%
	GASTRO	1,195	1,280	1,419	11%
	NEURO / CNS	985	1,077	1,177	12%
	VITAMINS	689	750	772	10%
	ANTI DIABETIC	562	637	740	15%
	PAIN / ANALGESICS	573	618	642	9%
	DERMA	446	499	511	11%
	ANTI-INFECTIVES	183	188	192	-1%
	GYNAEC.	168	166	190	14%
	ANTINEOPLAST	54	63	43	13%
JB PHARMA	CARDIAC	898	1,022	1,214	19%
	GASTRO INTESTINAL	597	655	686	12%
	OPHTHAL	206	200	221	7%
	ANTI-PARASITIC	184	199	215	15%
	GYNAEC.	88	105	114	20%
	DERMA	56	60	70	14%
	ANTI-INFECTIVES	43	42	43	-3%
	RESPIRATORY	34	40	40	26%
	VITAMINS	32	33	38	7%
	PAIN / ANALGESICS	30	27	27	-5%

Source: Company

## Exhibit 4. Contribution from top 10 brands

COMPANY	BRANDS	SUPERGROUP	MAR'23 (INR bn)	MAR'24 (INR bn)	MAR'25 (INR bn)	3Y CAGR
TORRENT PHARMA	SHELCAL	VITAMINS	337.5	346.9	336.3	3%
	CHYMORAL	PAIN / ANALGESICS	264.4	305.1	323.5	14%
	NEXPRO-RD	GASTRO	186.4	206.3	240.7	16%
	SHELCAL XT	VITAMINS	175.6	219.7	233.7	22%
	NIKORAN	CARDIAC	171.8	196.1	216.0	13%
	UNIENZYME	GASTRO	144.7	155.3	164.1	9%
	NEBICARD	CARDIAC	131.7	139.4	141.2	5%
	LOSAR	CARDIAC	121.5	128.4	138.4	6%
	VELOZ-D	GASTRO	116.6	121.4	127.1	7%
	NEXPRO	GASTRO	95.6	104.5	125.3	13%
JB PHARMA	CILACAR	CARDIAC	323.8	388.2	462.7	19%
	RANTAC	GASTRO	352.8	367.2	355.0	7%
	CILACAR-T	CARDIAC	138.4	173.0	225.0	26%
	METROGYL	ANTI-PARASITIC	191.4	207.1	224.0	15%
	NICARDIA	CARDIAC	146.5	172.3	205.0	21%
	SPORLAC	GASTRO	92.4	97.9	115.5	21%
	AZMARDIA	CARDIAC	114.2	74.7	70.5	-3%
	VIGAMOX	OPHTHAL	58.1	60.5	68.5	14%
	CILACAR-M	CARDIAC	31.8	37.2	43.4	17%
	TRAVATAN	OPHTHAL	32.8	32.0	37.5	5%

Source: Company

## Exhibit 5. Deal contours, synergies and impact on financials

INR Mn	FY25	FY26E	FY27E	FY28E
Torrent Standalone				
Revenue	1,13,170	1,26,720	1,44,871	1,63,487
% YoY		12%	14%	13%
EBITDA	37,210	41,637	48,602	55,323
M %		33%	34%	34%
% YoY		12%	17%	14%
PAT	19,110	24,578	29,817	36,088
% YoY		29%	21%	21%
No of Shares			338	338
JB Pharm Standalone				
Revenue	39,180	44,052	49,733	56,087
Growth		12%	13%	13%
EBITDA	10,318	11,767	13,433	15,991
EBITDA M %		27%	27%	29%
Growth		14%	14%	19%
PAT	6,597	7,815	9,070	10,554
No of Shares			156	156
Cost Synergies - upto 5% of JB sales			2,487	2,804

INR Mn	FY25	FY26E	FY27E	FY28E
Without Open Offer				
Debt Required	1,22,542			
Amortization assumption		7,000	7,000	7,000
Interest Cost		9,803	9,803	9,803
Torrent + JB Pharm				
Revenue	1,13,170	1,26,720	1,94,604	2,19,574
% YoY		12%	54%	13%
EBITDA	37,210	41,637	62,035	71,314
M %	33%	33%	32%	32%
% YoY		12%	49%	15%
PAT		24,578	26,284	34,039
EBITDA with synergies			64,522	74,118
EBITDA M %			33%	34%
PAT with Synergies			28,149	36,142
Impact on Torrent PAT			-6%	0%
No of shares			377	377
Dilution			-10%	-10%
INR Mn		FY26E	FY27E	FY28E
With Open Offer				
Debt Required	1,88,892			
Amortization assumption		7,000	7,000	7,000
Interest Cost		15,111	15,111	15,111
Torrent + JB Pharm				
Revenue	1,13,170	1,26,720	1,94,604	2,19,574
Growth				
EBITDA	37,210	41,637	62,035	71,314
EBITDA M %	33%	33%	32%	32%
Growth				
PAT		24,578	22,303	30,058
EBITDA with synergies			64,522	74,118
EBITDA M %			33%	34%
PAT with Synergies			24,168	32,161
Impact on Torrent PAT			-19%	-11%
No of shares			358	358
Dilution			-6%	-6%

Source: Company

**Exhibit 6. Valuations**

INR Mn	FY25	FY26E	FY27E	FY28E
<b>FCF generation</b>				
Torrent Standalone		31,768	36,278	42,178
JB chemical Standalone		4,075	7,566	9,594
Combined entity		35,842	43,845	51,771
<b>Without Open Offer</b>				
Net Debt	1,17,732			
Incremental Interest payment		9,419	9,419	9,419
Dividend		12,000	12,000	12,000
Cumulative Cash generation	67,203			
Net Debt by FY28 end	50,529			
Debt Free by	FY29			
<b>With Open Offer</b>				
Net Debt	1,84,082			
Incremental Interest payment		14,727	14,727	14,727
Dividend		12,000	12,000	12,000
Cumulative Cash generation	51,279			
Net Debt by FY28 end	1,32,803			
Debt Free by	FY30			
<b>Assuming 23x Torrent' FY27 EV/EB for combined entity</b>				
Without Open offer				
EV of combined entity				14,84,009
Net Debt				1,17,732
Market Cap				13,66,277
No of shares				377
Share Price				3,624
With Open Offer				
Share Price				
EV of combined entity				14,84,009
Net Debt				1,84,082
Market Cap				12,99,927
No of shares				358
Share Price				3,632
<b>CMP of Torrent Pharma</b>				<b>3,375</b>
<b>Upside on 23x EV/EB for combined entity</b>				<b>7%</b>

Source: Company

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