

October 25, 2023

RESULT REPORT Q2 FY24 | Sector: Pharmaceuticals & Healthcare

Torrent Pharma

In-line quarter; healthy outlook

Result Synopsis

Torrent reported an in-line quarter with domestic growth better than expected which was set on monthly data; indeed, management indicated market growth of 7-8% vs 4% estimate. Curatio continues to progress on margin as it catches up to overall Torrent profitability, India business growth outlook remains strong in H2 even as delayed pick up in gastro may have beneficial impact in Q3. Brazil sales recouped most of the lost sales in Q1 and company continues to guide for sustained performance on back of MR addition (completed) and new product introduction over next one year. US outlook can improve after clearance of Dahej as Torrent awaits fresh approvals while Indrad would need reinspection. Overall, reckon Torrent is better placed as growth and margin prognosis much more sanguine than acute players who may have to endure a weak season. We raise domestic growth assumption by 150bps to 15% for the year and also increase interest expenses on back of H1 reported numbers; albeit, this results in a marginal ~1% change to FY25 EPS. Retain ADD with revised TP Rs2,070 (earlier Rs2,100) and believe Torrent offers modest upside with high degree of earnings certainty.

Result Highlights

- In-line quarter with sales up 16% YoY driven by strong branded growth of 18% YoY
- India sales up 18% along with 17% rise in Curatio brands; ex-Curatio, growth up 12% YoY
- Brazil revenues improved QoQ as there was delayed sales impact in Q1 which was recouped during the quarter
- Adjusted US business declined 13% YoY impacted by loss of low margin business and lack of new launches
- Margin in line at 31% as branded mix improves QoQ
- PAT up 24% YoY driven by operating leverage on back of healthy topline growth

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	26,600	26,390	26,701	0.8	-0.4	9% growth in domestic in-line given the weakness in acute; margin disappoint due to remedial measures
EBITDA	8,250	8,142	8,196	1.3	0.7	
EBITDA Margin (%)	31.0	30.9	30.7	16 bps	32 bps	
Adjusted PAT	3,860	3,759	3,977	2.7	-2.9	

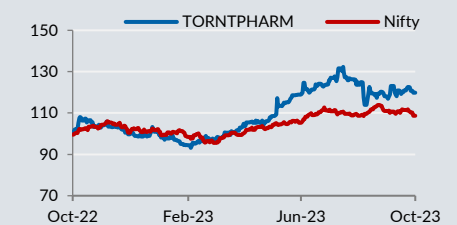
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 1,874
Target Price	: Rs 2,070
Potential Return	: +11%

Stock data (as on October 23, 2023)

Nifty	19,282
52 Week h/l (Rs)	2095 / 1446
Market cap (Rs/USD mn)	635364 / 7654
Outstanding Shares (mn)	338
6m Avg t/o (Rs mn):	642
Div yield (%):	1.2
Bloomberg code:	TRP IN
NSE code:	TORNTPHARM

Stock performance



	1M	3M	1Y
Absolute return	1.6%	-4.8%	19.0%

Shareholding pattern (As of Sep'23 end)

Promoter	71.3%
FII+DII	21.2%
Others	7.6%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	2,070	2,100

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	49.5	59.0
EPS (Old)	52.3	59.7
% change	-5.4%	-1.3%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	96,200	106,504	117,927
YoY Growth	13.1	10.7	10.7
EBIDTA	28,420	34,277	38,830
YoY Growth	16.9	20.6	13.3
PAT	12,454	16,752	19,951
YoY Growth	60.3	34.5	19.1
ROE	20.5	25.1	25.7
EPS	36.8	49.5	59.0
P/E	50.9	37.9	31.8
BV	366.2	421.2	495.1
EV/EBITDA	22.9	18.8	16.2

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Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	y/y (%)	q/q (%)
Revenue	22,910	24,910	24,910	25,910	26,600	16.1	2.7
Expenditure	16,120	17,670	17,640	18,000	18,350	13.8	1.9
- RM	4,160	3,800	4,360	4,000	3,680	(11.5)	(8.0)
- Purchase of goods	2,250	3,500	2,680	2,500	2,920		
- Staff Cost	3,940	4,230	4,410	4,990	5,030	27.7	0.8
- Other exp	5,770	6,140	6,190	6,510	6,720	16.5	3.2
Operating Profit	6,790	7,240	7,270	7,910	8,250	21.5	4.3
OPM(%)	29.6	29.1	29.2	30.5	31.0	138 bps	49 bps
Other Income	160	(100)	90	340	260	63	(24)
Depreciation	1,630	1,930	1,960	1,910	2,010	23	5
Interest	690	1,020	1,070	1,030	910	32	(12)
PBT	4,630	4,190	4,330	5,310	5,590	20.7	5.3
Tax	1,510	1,270	1,460	1,530	1,730	14.6	13.1
PAT	3,120	2,920	2,870	3,780	3,860	23.7	2.1

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Curatio margin 6% higher than Q1 and 14% since acquisition
- Consumer Health gaining traction driven by Shelcal
- AIOCD low market growth is not reflected in Torrent growth; ex-Curatio growth break up – price - 7%, 2-3% as new launches and 1% in volume growth
- Trade generics has grown 20-25% on lower base and should grow faster on a small base for couple of quarters followed by high teens afterwards
- Believe real market growth would be 7-8% and not 4% as indicated by data; gastro has revived. Should continue at this run rate for rest of the year and may be next year
- Captured double digit market share in Sorafenib
- Broadly done with Brazil sales force addition and now would support new launches
- US should be in the US\$30-35mn range for quarters ahead
- Waiting for approvals from Dahej and inspection at Indrad
- Acquisition – 3x net debt/EBIDTA at the beginning of acquisition would be a benchmark to be followed

FINANCIALS

Exhibit 3: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	846	846	1,692	1,692	1,692
Reserves	57,530	58,680	60,290	69,596	82,102
Net worth	58,376	59,526	61,982	71,289	83,794
Debt	33,460	25,380	29,650	19,650	14,650
Deferred tax liab (net)	0	1,940	4,020	4,020	4,020
Total liabilities	91,836	86,846	95,652	94,959	102,464
Goodwill	3,410	2,590	3,380	3,380	3,380
Fixed Asset	76,124	67,922	85,490	80,556	74,878
Investments	1,760	2,590	2,520	2,520	2,520
Net Working Capital	6,332	8,804	(1,177)	3,062	16,246
Inventories	26,810	24,620	22,300	24,689	27,336
Sundry debtors	15,230	16,330	19,440	21,522	23,830
Cash	7,432	5,874	7,273	5,403	15,814
Other current assets	5,770	6,130	4,280	7,455	8,255
ST borrowings	(7,040)	(19,100)	(28,190)	(28,190)	(28,190)
Sundry creditors	(20,670)	(16,740)	(16,790)	(18,588)	(20,582)
Other CL	(21,200)	(8,310)	(9,490)	(9,229)	(10,219)
Def tax assets	4,210	4,940	5,440	5,440	5,440
Total Assets	91,836	86,846	95,652	94,959	102,464

Source: Company, YES Sec

Exhibit 4: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	80,050	85,080	96,200	106,504	117,927
Operating profit	24,850	24,310	28,420	34,277	38,830
Depreciation	(6,580)	(6,620)	(7,066)	(7,933)	(8,678)
Interest expense	(3,580)	(2,550)	(3,330)	(3,613)	(3,050)
Other income	570	1,970	450	1,200	1,400
Profit before tax	15,260	17,110	18,474	23,931	28,502
Taxes	(2,740)	(4,490)	(6,020)	(7,179)	(8,551)
Adj. profit	12,520	12,620	12,454	16,752	19,951
Exceptional items	0	(4,850)	0	0	0
Net profit	12,520	7,770	12,454	16,752	19,951

Source: Company, YES Sec

Exhibit 5: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	15,260	17,110	18,474	23,931	28,502
Depreciation	6,580	6,620	7,066	7,933	8,678
Def tax assets (net)	120	1,210	1,580	-	-
Tax paid	(2,740)	(4,490)	(6,020)	(7,179)	(8,551)
Working capital Δ	(10,290)	(4,030)	11,380	(6,109)	(2,772)
Other operating items	-	(4,850)	-	-	-
Operating cashflow	8,930	11,570	32,480	18,576	25,857
Capital expenditure	(3,664)	2,402	(25,424)	(3,000)	(3,000)
Free cash flow	5,266	13,972	7,056	15,576	22,857
Equity raised	3,543	1,504	(2,552)	-	-
Investments	1,750	(830)	70	-	-
Debt financing/disposal	(3,860)	(8,080)	4,270	(10,000)	(5,000)
Dividends paid	(5,923)	(8,124)	(7,446)	(7,446)	(7,446)
Net Δ in cash	776	(1,558)	1,398	(1,869)	10,411

Source: Company, YES Sec

Exhibit 6: Du-pont analysis

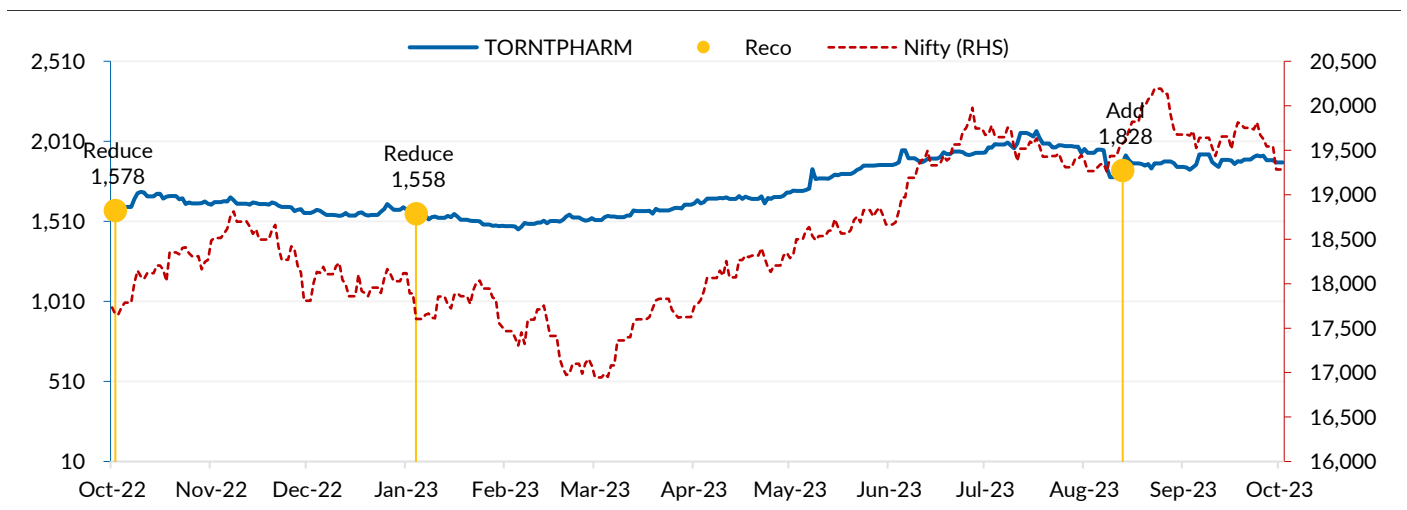
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	0.82	0.74	0.67	0.70	0.70
Interest burden (x)	0.81	0.87	0.85	0.87	0.90
EBIT margin (x)	0.24	0.23	0.23	0.26	0.27
Asset turnover (x)	0.60	0.66	0.73	0.75	0.80
Financial leverage (x)	2.49	2.18	2.18	2.13	1.90
RoE (%)	23.5	21.4	20.5	25.1	25.7

Exhibit 7: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Revenue growth	0.8	6.3	13.1	10.7	10.7
Op profit growth	14.5	(2.2)	16.9	20.6	13.3
EBIT growth	15.0	4.4	10.9	26.3	14.6
Net profit growth	22.1	(37.9)	60.3	34.5	19.1
Profitability ratios (%)					
OPM	31.0	28.6	29.5	32.2	32.9
EBIT margin	23.5	23.1	22.7	25.9	26.8
Net profit margin	15.6	14.8	12.9	15.7	16.9
RoCE	21.2	22.0	23.9	28.9	32.0

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
RoNW	23.5	21.4	20.5	25.1	25.7
RoA	9.4	9.8	9.4	11.8	13.5
Per share ratios					
EPS	74.0	74.6	36.8	49.5	59.0
Dividend per share	35.0	48.0	22.0	22.0	22.0
Cash EPS	112.9	113.7	57.7	72.9	84.6
Book value per share	344.9	351.7	183.1	210.6	247.6
Valuation ratios					
P/E	50.7	81.6	50.9	37.9	31.8
P/CEPS	10.9	10.7	10.2	8.9	7.6
P/B	7.9	7.5	6.6	6.0	5.4
EV/EBIDTA	26.6	26.7	22.9	18.8	16.2
Payout (%)					
Dividend payout	18.0	26.2	32.6	30.0	30.0
Tax payout	47.3	104.5	59.8	44.4	37.3
Liquidity ratios					
Debtor days	69	70	74	74	74
Inventory days	122	106	85	85	85
Creditor days	94	72	64	64	64

Recommendation Tracker



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