

Torrent Pharma

Visualizing a deal with Cipla

We assess the contours of recently speculated deal in the media about Torrent's acquisition of Cipla's promoter stake. While the deal is hypothetical at this juncture, we attempt to flag off the key positives/negatives and what it means for Torrent. Upfront, deal would require large capital outlay to buy out promoter stake followed by an open offer. In order to keep debt/EBIDTA of combined entity manageable to say around ~3-4x, Torrent may have to resort to large equity dilution which may be to extent of 40-50%. Scale of the deal would overshadow Sun acquisition of Ranbaxy (even as Ranbaxy was ~60% of Sun's sales) and would upend the domestic pharma pecking order with combined entity owning ~35 brands each >Rs1bn. Operationally, Cipla and Torrent have complementary presence with not much overlap; albeit it would also bring a larger US business into Torrent's fold, a not so keen geography for its management. Notwithstanding domestic synergies, sheer size of integration and need to rationalize would compound on top of our debt and ROCE dilution concerns. While we take this opportunity to roll over to FY25 and raise rating to ADD as we bump up estimates after Q1 FY24 results, clearly our stance is hinged on Torrent as a standalone entity; any deal with Cipla would bring lot of uncertainty around execution, debt and ROCE dilution.

Financially, funding a Rs600bn Cipla deal may be daunting for Torrent

At the outset, deal would be the largest in domestic pharma at total outlay of ~Rs600bn or US\$7.3bn (Rs334bn paid to promoters and additional Rs260bn for 26% open offer). Funding a deal of this magnitude may require a combination of debt and dilution; reckon Torrent may issue fresh equity to make debt burden more palatable – recall Sun had smartly funded Ranbaxy purchase through share swap though that may not be possible here as Cipla promoters may want an exit and not Torrent stock. In order to ensure debt/EBIDTA at ~3-4x of combined entity, our calculation suggests fresh equity issuance leading up to ~50% dilution.

Funding aside, domestic fit is good with not much overlap

Cipla has 38% respiratory, 15% anti-infective share and top 4 therapies account for ~87% of domestic business of which gastro is the only common factor (though Torrent's GI business contributes nearly 3x in terms of share of revenues compared to Cipla). Albeit we highlight that Torrent GI portfolio is more on enzyme and Rabepazole while Cipla is present in Esomeprazole + Magnesium Trihydrate which is again complimentary in nature.

Torrent domestic business scores on mix but Cipla has better PCPM

Torrent has a higher chronic share (75%) though Cipla has well-oiled large brands in categories which are themselves vast and growing. At the same time, reckon Torrent has a lot of brands in the Rs750mn-Rs1bn range which are fast growing and represent a launching pad for growth over next few years. Cipla on the other hand, has ~10% higher PCPM despite a lower chronic share, indicating the entrenched nature of branded business. Needless to say, Torrent has a better margin profile as branded revenue share (India + Brazil) is higher at 62% vs 43% for Cipla

Other issues can cloud but for now roll over to FY25 and raise to ADD; Cipla deal would be clearly negative from a debt/ROCE perspective which is not factored

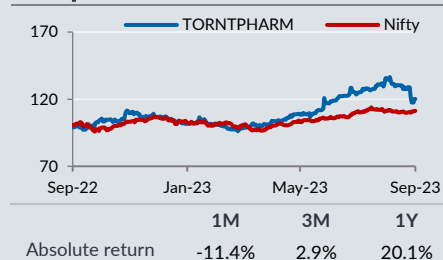
Other vexing issues like direction of R&D spend given that Torrent has traditionally focused on branded business, cost rationalization and management churn would be large stumbling blocks that may need deft handling. While we have taken this opportunity to roll over 35x target multiple (unchanged) to FY25 and raised rating to ADD (from REDUCE), clearly Cipla deal would be upfront negative for ROCE/ROE coupled with debt burden which would have a bearing on our view if at all it becomes a reality.

Reco	: ADD
CMP	: Rs 1,828
Target Price	: Rs 2,100
Potential Return	: +14%

Stock data (as on September 04, 2023)

Nifty	19,529
52 Week h/l (Rs)	2095 / 1446
Market cap (Rs/USD mn)	604396 / 7307
Outstanding Shares (mn)	338
6m Avg t/o (Rs mn)	562
Div yield (%)	1.1
Bloomberg code:	TRP IN
NSE code:	TORNTPHARM

Stock performance



Shareholding pattern (As of Jun'23 end)

Promoter	71.3%
FII+DII	21.2%
Others	7.6%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	REDUCE
Target Price	2,100	1,600

Δ i

n earnings estimates

	FY24e	FY25e
EPS (New)	52.3	59.7
EPS (Old)	45.8	56.2
% change	-	-

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	96,200	106,131	116,529
YoY Growth	13.1	10.3	9.8
EBIDTA	28,420	33,999	37,781
YoY Growth	16.9	19.6	11.1
PAT	12,454	17,705	20,198
YoY Growth	60.3	42.2	14.1
ROE	20.5	26.4	25.7
EPS	36.8	52.3	59.7
P/E	49.7	34.9	30.6
P/B	366.2	426.9	502.2
EV/EBITDA	22.4	18.4	16.2

BHAVESH GANDHI

Lead Analyst

bhavesh.gandhi@ysil.in

+91 22 6885 0521



Exhibit 1: Total capital outlay for Torrent

Parameter	Number
Cipla CMP Rs	1,239
Cipla shares o/s mn	807
Cipla Mcap Rs bn	1,000
Promoter stake %	33
Value of promoters' stake Rs bn	335
Open offer shares to be bought mn(assuming entire 26% is tendered)	210
Open offer value Rs bn	260
Total capital outlay for Torrent Rs bn	595

Source: Company, YES Sec

Exhibit 2: Potential deal mechanics – working on debt and dilution

Parameter	Number
Torrent shares o/s mn	338
Total funding required, Rs bn	595
Interest cost @10%, Rs bn	59
Torrent + Cipla EBIDTA, Rs bn	79
Debt/EBIDTA post Torrent promoter stake sale (x)	7.6
Presume manageable debt/EBIDTA (x)	4.0
Max debt to be taken, Rs bn	315
Balance from equity, Rs bn	280
Additional Torrent shares to be issued, mn	153
Post deal Torrent shares o/s, mn	491
% dilution	45

Source: Company, YES Sec

Exhibit 3: Torrent v Cipla – financials & operating snapshot

FY23 key financials/metrics (Rs mn)	Torrent	Cipla
NW	61,982	234,080
LT debt + provisions	29,650	12,750
Def tax lia	4,020	
Capital employed	95,652	246,830
Fixed assets	88,870	102,540
Net WC	(1,177)	126,780
Investments + def tax assets	7,960	17,510
Total assets	95,652	246,830
Revenues Rs mn	96,200	227,530
EBIDTA Rs mn	28,420	50,270
Margin %	29.5	22.1
PAT Rs mn	12,450	29,840
R&D %	5.4	6.0
Revenue break up Rs mn	96,200	227,530
Branded markets	59,190	98,740

of which India	49,840	98,740
US	11,620	60,106
Others	25,390	68,684
Branded share %	61.5	43.4

MR strength, nos	5,500	10,000
PCPM (Rs lakhs/MR/month)	7.6	8.2
Chronic share %	75	60
No of brands > Rs1bn	13	21

Key therapies	Cardiac (27%)	Respiratory (39%)
	Gastro (17%)	Anti-Infectives (15%)
	CNS (15%)	Cardiac (12%)
	Vitamins (12%)	Gastro (6%)
	Anti-diabetic (9%)	Urology (5%)

Source: Company, YES Sec

Exhibit 4: Indicative FCF of combined entity

Summary Cash flow	Rs bn
Operating CF @75% of EBIDTA	59.0
Less combined capex	10.0
FCF of combined entity	49.0

Source: Company, YES Sec

FINANCIALS

Exhibit 5: Balance sheet

Y/e 31 Mar (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	846	846	1,692	1,692	1,692
Reserves	57,530	58,680	60,290	70,549	83,302
Net worth	58,376	59,526	61,982	72,241	84,994
Debt	33,460	25,380	29,650	14,650	14,650
Def.tax lia	0	1,940	4,020	4,020	4,020
Total liabilities	91,836	86,846	95,652	90,911	103,664
Goodwill	3,410	2,590	3,380	3,380	3,380
Fixed assets	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)	(985)	17,445
Inventories	26,810	24,620	22,300	24,602	27,012
Sundry debtors	15,230	16,330	19,440	21,447	23,548
Cash	7,432	5,874	7,273	1,446	17,353
Other current assets	5,770	6,130	4,280	7,429	8,157
Sundry creditors	(7,040)	(19,100)	(28,190)	(28,190)	(28,190)
ST borrowings	(20,670)	(16,740)	(16,790)	(18,523)	(20,338)
Other current liabilities	(21,200)	(8,310)	(9,490)	(9,196)	(10,097)
Def tax assets	4,210	4,940	5,440	5,440	5,440
Total assets	91,836	86,846	95,652	90,911	103,664

Exhibit 6: Income statement

Y/e 31 Mar (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Revenue	80,050	85,080	96,200	106,131	116,529
Operating profit	24,850	24,310	28,420	33,999	37,781
Depreciation	(6,580)	(6,620)	(7,066)	(7,933)	(8,678)
Interest expense	(3,580)	(2,550)	(3,330)	(1,224)	(699)
Other income	570	1,970	450	450	450
Profit before tax	15,260	17,110	18,474	25,292	28,855
Taxes	(2,740)	(4,490)	(6,020)	(7,588)	(8,656)
Adj Profit	12,520	12,620	12,454	17,705	20,198
Exceptional	0	(4,850)	0	0	0
Net profit	12,520	7,770	12,454	17,705	20,198

Exhibit 7: Cash flow statement

Y/e 31 Mar (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	15,260	17,110	18,474	25,292	28,855
Depreciation	6,580	6,620	7,066	7,933	8,678
Def.taxes (net)	120	1,210	1,580	-	-
Tax paid	(2,740)	(4,490)	(6,020)	(7,588)	(8,656)
Working capital Δ	(10,290)	(4,030)	11,380	(6,018)	(2,524)
Other operating items	-	(4,850)	-	-	-
Operating cashflow	8,930	11,570	32,480	19,619	26,353
Capital expenditure	(3,664)	2,402	(25,424)	(3,000)	(3,000)
Free cash flow	5,266	13,972	7,056	16,619	23,353
Equity raised	3,543	1,504	(2,552)	-	-
Investments	1,750	(830)	70	-	-
Debt financing/disposal	(3,860)	(8,080)	4,270	(15,000)	-
Dividends	(5,923)	(8,124)	(7,446)	(7,446)	(7,446)
Net Δ in cash	776	(1,558)	1,398	(5,826)	15,907

Exhibit 8: Du Pont Analysis

Y/e 31 Mar (Rs m)	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	0.95	0.98
EBIT margin (x)	0.24	0.23	0.23	0.25	0.25
Asset turnover (x)	0.60	0.66	0.73	0.76	0.80
Financial leverage (x)	2.49	2.18	2.18	2.08	1.85
RoE (%)	23.5	21.4	20.5	26.4	25.7

Exhibit 9: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Revenue growth	0.8	6.3	13.1	10.3	9.8
Op profit growth	14.5	(2.2)	16.9	19.6	11.1
EBIT growth	15.0	4.4	10.9	21.6	11.5
Net profit growth	22.1	(37.9)	60.3	42.2	14.1
Profitability ratios (%)					
OPM	31.0	28.6	29.5	32.0	32.4
EBIT margin	23.5	23.1	22.7	25.0	25.4
Net profit margin	15.6	14.8	12.9	16.7	17.3
RoCE	21.2	22.0	23.9	28.4	30.4
RoNW	23.5	21.4	20.5	26.4	25.7
RoA	9.4	9.8	9.4	12.7	13.9
Per share ratios					
EPS	74.0	74.6	36.8	52.3	59.7
Dividend per share	35.0	48.0	22.0	22.0	22.0

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Cash EPS	112.9	113.7	57.7	75.8	85.3
Book value per share	344.9	351.7	183.1	213.5	251.1
Valuation ratios (x)					
P/E	49.4	79.6	49.7	34.9	30.6
P/BV	10.6	10.4	10.0	8.6	7.3
M Cap/Sales	7.7	7.3	6.4	5.8	5.3
EV/EBIDTA	25.9	26.1	22.4	18.4	16.2
Payout (%)					
Tax payout	18.0	26.2	32.6	30.0	30.0
Dividend payout	47.3	104.5	59.8	42.1	36.9
Liquidity ratios					
Debtor days	69	70	74	74	74
Inventory days	122	106	85	85	85
Creditor days	94	72	64	64	64
Leverage ratios					
Interest coverage	5.3	7.7	6.5	21.7	42.3
Net debt / equity	0.4	0.3	0.4	0.2	(0.0)
Net debt / op. profit	1.0	0.8	0.8	0.4	(0.1)

DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all

jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

YES Securities (India) Limited distributes research and engages in other approved or allowable activities with respect to U.S. Institutional Investors through SEC 15a-6 rules and regulations under an exclusive chaperone arrangement with Brasil Plural Securities LLC. The views and sentiments expressed in this research report and any findings thereof accurately reflect YES Securities (India) Limited analyst's truthful views about the subject securities and or issuers discussed herein. YES Securities (India) Limited is not registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is not a member of the Securities Investor Protection Corporation ("SIPC"). Brasil Plural Securities LLC is registered as a broker-dealer under the Exchange Act and is a member of SIPC. For questions or additional information, please contact Gil Aikins (gil.aikins@brasilplural.com) or call +1 212 388 5600.

This Research Report is the product of YES Securities (India) Limited. YES Securities (India) Limited is the employer of the research analyst(s) who has prepared the research report. YES Securities (India) Limited is the employer of the YES Securities (India) Limited Representative who is responsible for the report, are responsible for the content of the YES Securities (India) Limited Research Report; any material conflicts of interest of YES Securities (India) Limited in relation to the issuer(s) or securities discussed in the YES Securities (India) Limited Research Report. This YES Securities (India) Limited Research Report is distributed in the United States through Brasil Plural Securities LLC (BPS). The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and is/ are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account. This report is intended for distribution by YES Securities (India) Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity. Transactions in securities discussed in this research report should be effected through Brasil Plural Securities LLC (BPS) or another U.S. registered broker dealer/Entity as informed by YES Securities (India) Limited from time to time.

YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House,
Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House,
Lok Bharti Complex, Marol Maroshi Road, Andheri East,
Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@ysil.in
Website: www.yesinvest.in

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single
Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member
Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | CDSL &
NSDL: IN-DP-653-2021 | MERCHANT BANKER: INM000012227 |
RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER:
INA000007331 | Sponsor and Investment Manager to YSL Alternates
Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 |
AMFI ARN Code - 94338.

Details of Compliance Officer: Name: Aditya Goenka,
Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

Grievances Redressal Cell: customer.service@ysil.in/igc@ysil.in

DISCLOSURE OF INTEREST

Name of the Research Analyst : Bhavesh Gandhi

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.