

Pharmaceuticals | Q2FY24 Result Update

Positive growth across segments

- Torrent's Q2FY24 earnings were largely inline with our estimates.
- Revenue stood at Rs26.6bn (inline), grew by 16.1%/2.7% YoY/QoQ. EBITDA stood at Rs8.3bn (in line), grew by 21.5%/4.3% YoY/QoQ. EBITDA margin at 31.0% (+138bps/+49bps YoY/QoQ). Branded markets showed strong growth while US growth declined impacted by loss of low margin business.
- We downgrade our EBITDA estimates by 1.2%/1% in FY24E/FY25E assuming lower US sales. Rolling over to FY26, maintain Accumulate with the revised TP of Rs2,226 at 17x FY26 EV/EBITDA.

Strong India growth

India revenue grew by 18.0%/1.3% YoY/QoQ in Q2FY24 aided by continued double digit growth in chronic therapies, revival in gastro demand, traction in consumer division, and new launches. India base business growth was 12% of which, 7% was from price, 1.5% from volume and 3.5% from new launches. In the consumer health platform, Shelcal 500 has seen meaningful uptake since the platform was launched three quarters ago. We are penning in 14% India revenue CAGR over FY23-26E led by new launches, price hikes and MR productivity.

Germany growth on track and steady show by Brazil

Brazil revenues grew 23% YoY in cc terms in Q2FY24 reflecting the impact of sales spillover from Q1. In Brazil, the company expects to launch another four new products in FY24, two in cardiac and two in CNS. Germany revenues grew 8% YoY in cc terms due to new tender wins coupled with better conversion of existing tenders. Torrent launched six products in H1FY24, three from partners and three in-house. We expect revenue CAGR of 11%/15% in Germany/Brazil over FY23-26E led by new launches.

Valuation

We introduce FY26 earnings and expect EBITDA CAGR of 16% over FY23-26E led by a) Faster than anticipated turnaround on Curatio in domestic franchise, b) steady branded business on track with product launch momentum and c) improved US outlook with launches to commence from H2FY24. We roll forward our valuation to FY26E and maintain our Accumulate rating with a revised target price of Rs2,226 at 17x FY26E EV/EBITDA.

Q2FY24 Result (Rs Mn)

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Revenue	26,600	22,910	16.1	25,910	2.7
Total Expense	18,350	16,120	13.8	18,000	1.9
EBITDA	8,250	6,790	21.5	7,910	4.3
Depreciation	2,010	1,630	23.3	1,910	5.2
EBIT	6,240	5,160	20.9	6,000	4.0
Other Income	260	160	62.5	340	(23.5)
Interest	910	690	31.9	1,030	(11.7)
EBT	5,590	4,630	20.7	5,310	5.3
Tax	1,730	1,510	14.6	1,530	13.1
RPAT	3,860	3,120	23.7	3,780	2.1
APAT	3,860	3,120	23.7	3,780	2.1
			(bps)		(bps)
Gross Margin (%)	75.2	72.0	317	74.9	27
EBITDA Margin (%)	31.0	29.6	138	30.5	49
NPM (%)	14.5	13.6	89	14.6	(8)
Tax Rate (%)	30.9	32.6	(167)	28.8	213
EBIT Margin (%)	23.5	22.5	94	23.2	30

CMP	Rs 1,877
Target / Upside	Rs 2,226 / 19%
NIFTY	19,282

Scrip Details

Equity / FV	Rs 1,692mn / Rs 5
Market Cap	Rs 635bn
	USD 7.7bn
52-week High/Low	Rs 2,095/ 1,446
Avg. Volume (no)	4,36,525
Bloom Code	TRP IN
Price Performance	1M 3M 12M
Absolute (%)	1 (3) 19
Rel to NIFTY (%)	1 (3) 8

Shareholding Pattern

	Mar'23	Jun'23	Sep'23
Promoters	71.3	71.3	71.3
MF/Banks/FIs	9.0	8.3	8.0
FIs	12.0	12.9	13.2
Public / Others	7.7	7.6	7.6

Valuation (x)

	FY24E	FY25E	FY26E
P/E	38.3	29.4	24.4
EV/EBITDA	19.9	16.6	14.4
ROE (%)	25.4	29.6	31.5
RoACE (%)	17.2	20.8	23.9

Estimates (Rs bn)

	FY24E	FY25E	FY26E
Revenue	108.5	123.3	139.6
EBITDA	33.6	39.4	44.7
PAT	16.6	21.6	26.0
EPS (Rs.)	49.0	63.9	76.8

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Exhibit 1: Quarterly revenue mix

Particulars (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
India	14,440	12,240	18.0	14,260	1.3	28,700	24,690	16.2
Brazil	2,520	1,850	36.2	1,900	32.6	4,420	3,690	19.8
Germany	2,660	2,200	20.9	2,580	3.1	5,240	4,340	20.7
US	2,480	2,920	(15.1)	2,930	(15.4)	5,410	5,910	(8.5)
ROW	2,800	2,390	17.2	2,930	(4.4)	5,730	4,910	16.7
Others (Incl CRAMS)	1,700	1,310	29.8	1,310	29.8	3,010	2,850	5.6
Total	26,600	22,910	16.1	25,910	2.7	52,510	46,390	13.2

Source: Company, DART

Exhibit 2: Actual vs DART estimate

Particulars (Rs mn)	Q2FY24	Q2FY24E	Variance (%)	Comment
Revenue	26,600	26,096	1.9	In Line
EBITDA	8,250	7,959	3.7	In Line
EBITDA margin (%)	31.0	30.5	52bps	
PAT	3,860	3,798	1.6	In Line
EPS (Rs)	11.4	11.2	1.6	

Source: Company, DART

Exhibit 3: Change in estimates

Particulars (Rs mn)	FY24E			FY25E		
	Old	New	Chg. (%)	Old	New	Chg. (%)
Revenue	1,09,806	1,08,499	(1.2)	1,24,487	1,23,258	(1.0)
EBITDA	34,040	33,635	(1.2)	39,836	39,442	(1.0)
EBITDA Margin (%)	31.0	31.0	0bps	32.0	32.0	0bps
PAT	16,309	16,590	1.7	20,968	21,623	3.1
EPS (Rs)	48.2	49.0	1.7	61.9	63.9	3.1

Source: Company, DART

We downgrade our EBITDA estimates by 1.2%/1% in FY24E/FY25E assuming lower US sales. However, on assuming higher income and lower depreciation, we upgrade our earnings estimates by 1.7%/3.1% in FY24E/FY25E.

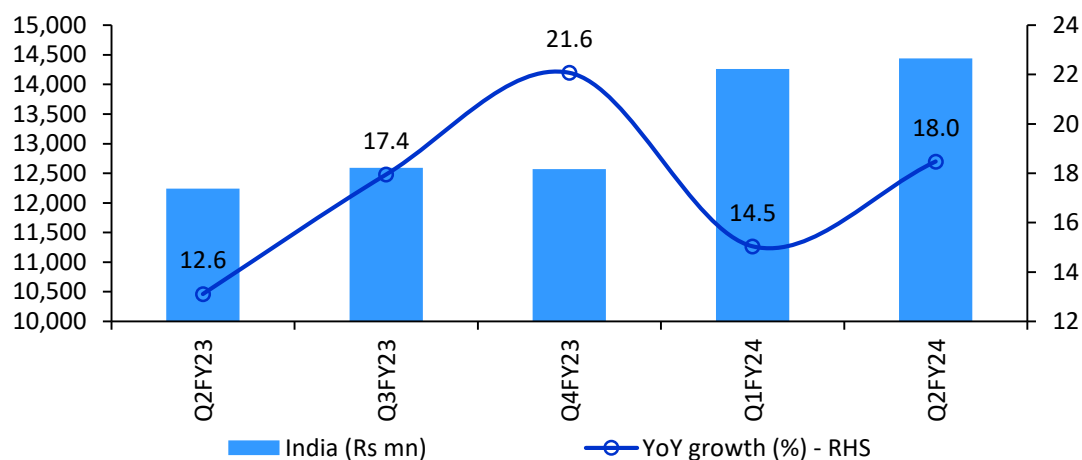
Exhibit 4: Annual revenue assumption table

Particulars (Rsm)	FY22	FY23	FY24E	FY25E	FY26E
India	42,860	49,840	58,132	65,689	74,229
% sales	50.4	51.8	53.6	53.3	53.2
% yoy	14.6	16.3	16.6	13.0	13.0
US	10,670	11,620	11,062	13,022	14,865
% sales	12.5	12.1	10.2	10.6	10.6
% yoy	(15.4)	8.9	(4.8)	17.7	14.2
Brazil	7,420	9,350	10,753	12,365	14,220
% sales	8.7	9.7	9.9	10.0	10.2
% yoy	17.8	26.0	15.0	15.0	15.0
RoW	8,810	10,600	12,190	14,019	16,121
% sales	10.4	11.0	11.2	11.4	11.5
% yoy	7.4	20.3	15.0	15.0	15.0
Germany	9,660	9,280	10,301	11,434	12,692
% sales	11.4	9.6	9.5	9.3	9.1
% yoy	(6.9)	(3.9)	11.0	11.0	11.0
Others (Incl CRAMS)	5,670	5,510	6,061	6,729	7,470
% sales	6.7	5.7	5.6	5.5	5.4
% yoy	9.9	(2.8)	10.0	11.0	11.0
Total	85,090	96,200	1,08,499	1,23,258	1,39,596

Source: Company, DART

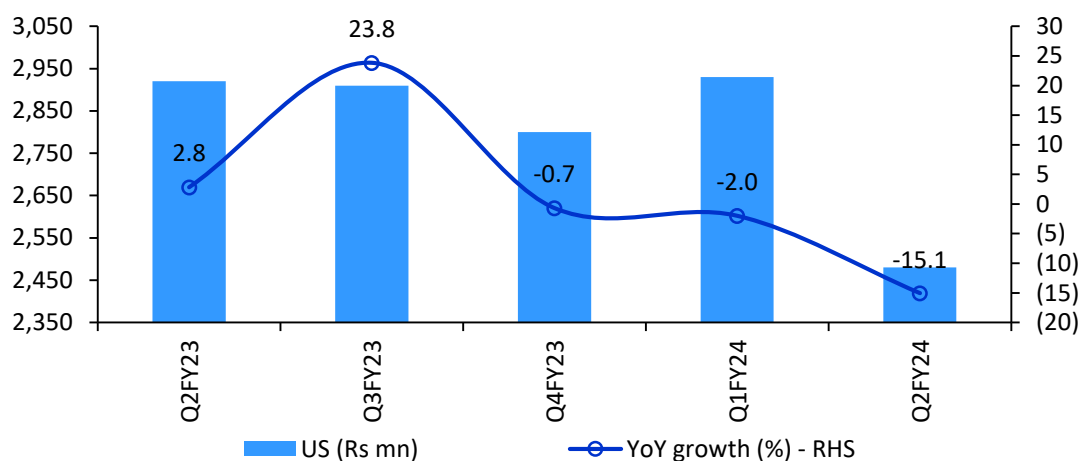
Story in Charts

Exhibit 5: India growth aided by new launches and performance of top brands



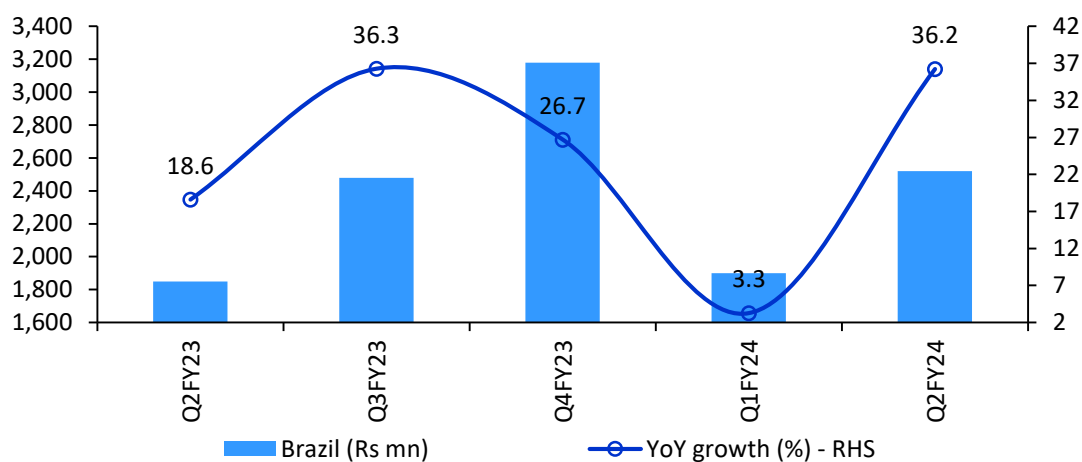
Source: Company, DART

Exhibit 6: Absence of new launches & loss of low margin business impacted US growth



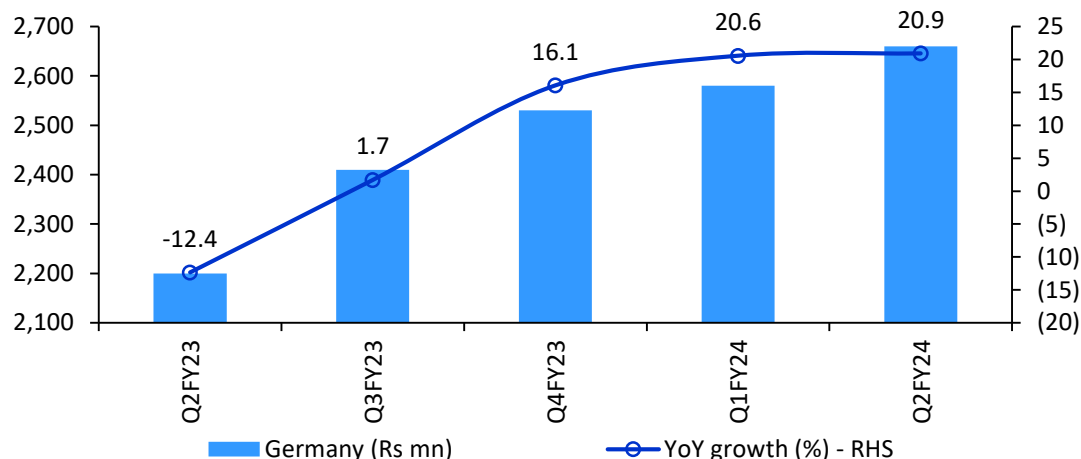
Source: Company, DART

Exhibit 7: Brazil growth back on track with launch momentum and sales spillover



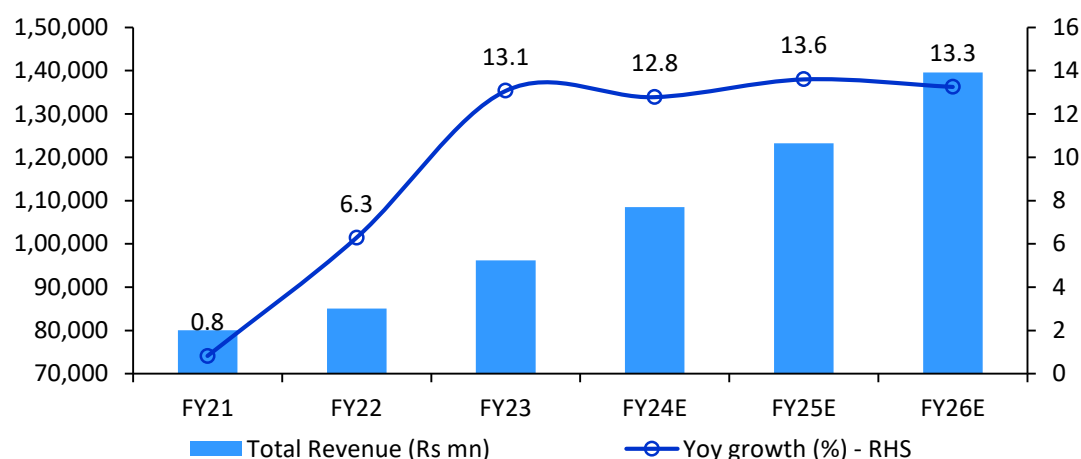
Source: Company, DART

Exhibit 8: Germany sees steady growth due to better conversion of tenders



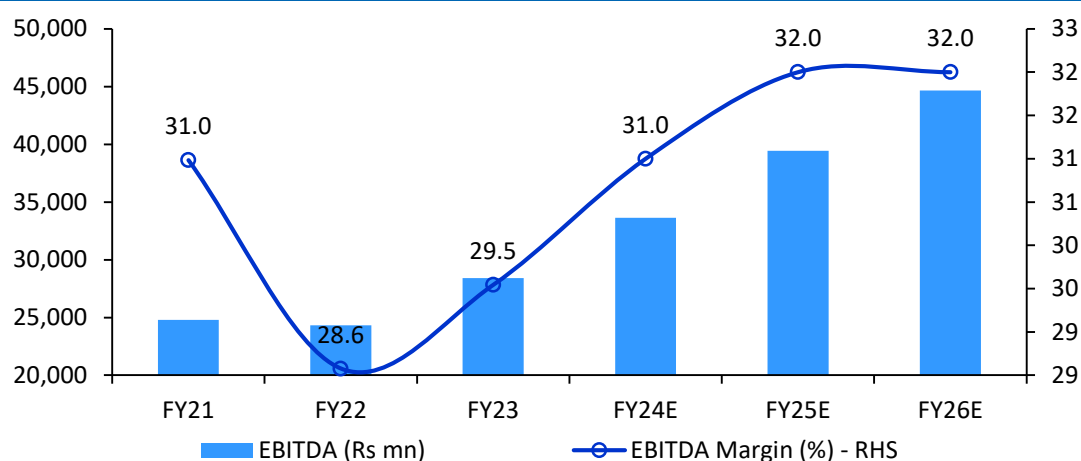
Source: Company, DART

Exhibit 9: Expect revenue CAGR of 13% over FY23-26E



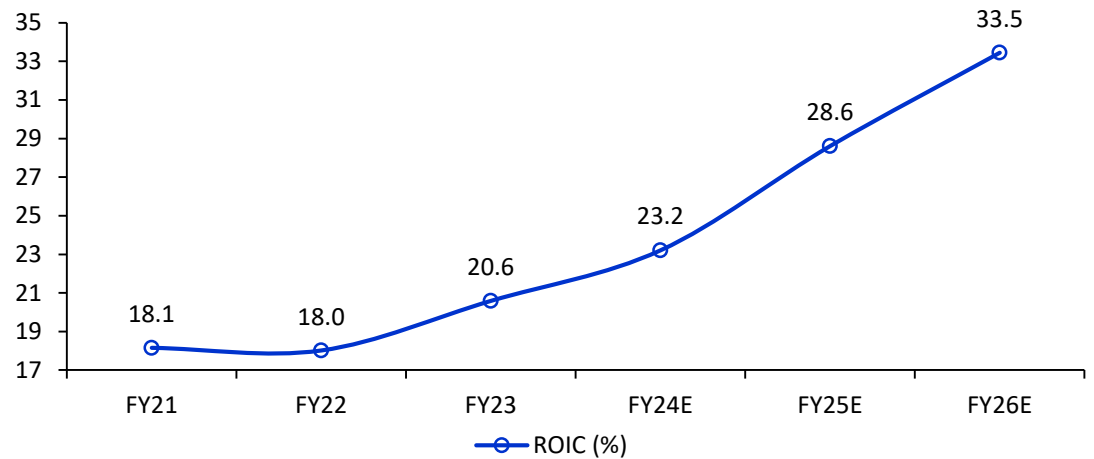
Source: Company, DART

Exhibit 10: Expect EBITDA margin to improve with synergy benefits from Curatio



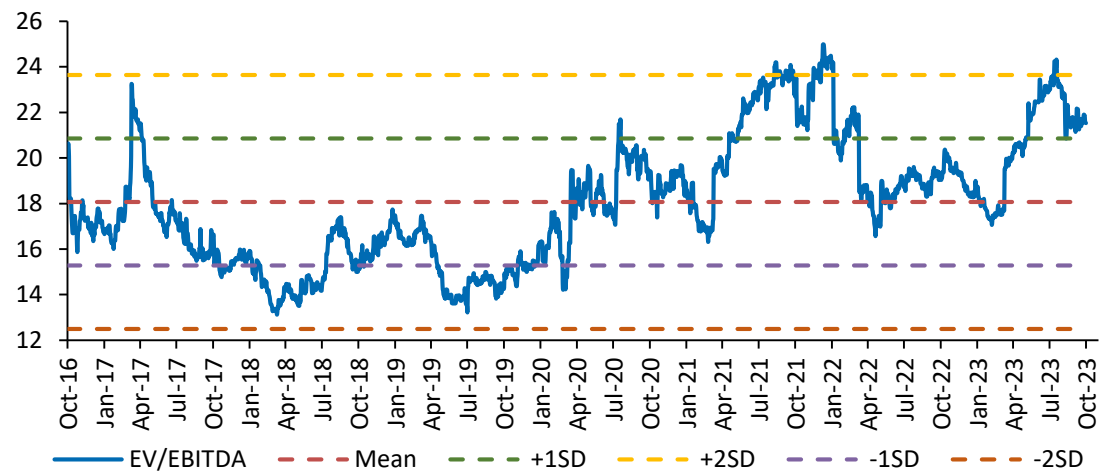
Source: Company, DART

Exhibit 11: Improving ROIC trend with increasing profitability



Source: Company, DART

Exhibit 12: One year forward EV/EBITDA band



Source: Company, DART

Earnings call KTAs

Guidance

- India business to outperform IPM growth.
- Management maintains its high single digit filing rate in the US.
- Management maintained its guidance of Brazil business achieving double digit growth in FY24.
- Going forward management expects US business sales to be in the range of US\$30-35mn per quarter.

US business

- US revenue at Rs2.5bn, declined by 15% YoY. Constant currency revenue at US\$30mn declined by 18% YoY.
- Adjusted for one off income in Q2FY23, constant currency declined by 16% YoY.
- US growth was impacted by loss of low margin business and lack of new launches.
- Dahej facility has received EIR which paves way for the new product approvals.
- As on 30th Sep'23, 41 ANDAs were pending approval with USFDA and 3 tentative approvals were received. During the quarter, 1 ANDA was approved.
- For H1 FY24, revenues were Rs 5.4bn, down by 8% YoY. Adjusted for one off income, constant currency de-growth was at 7%.
- The company has discontinued lower margin products during the quarter.
- Price erosion for the quarter is in mid-single to high single digit. Price erosion usually varies from product to product.
- The company has commercialized oral oncology facility and launched one oral oncology product from the facility and have already achieved double digit market share.
- The company lost some volume during the quarter due to loss of contracts led by supply related issues.
- The company is awaiting two approvals from Dahej while it has completed all formalities for its Indrad facility and is awaiting inspection.

Brazil

- Brazil revenue at Rs2.5bn, grew by 36% YoY.
- Constant currency revenue at R\$149mn was up by 23% YoY.
- Q2FY24 revenues reflect the impact of sales spillover from Q1FY24.
- As per secondary data set, Torrent's Q2FY24 BGx growth is 13% versus BGx market growth of 8%. Growth was aided by performance of top brands, new launches and growth in generic segment.
- During the quarter, all of the products grew faster than the market.
- The company expects to launch four more product, two products in cardiac and two products in CNS.
- As on H1FY24, the company has around 206 MRs in CNS and 113 MRs in Cardio/diabetes.
- The management expects Torrent pharma to out-perform Brazilian market by the delta of 7-8%.
- In FY22, Torrent grew by 22.7% vs industry growth of 14.5%. In Q1FY24, Torrent grew by 19.1% vs 12.9% of Brazil market growth. In Q2FY24 Torrent's growth was 17.8% vs market growth of 10%.

Germany

- Germany revenue at Rs2.7bn grew by 21% YoY.
- Constant currency revenue was Euro 30mn, grew by 8% YoY.
- Growth momentum continues with new tender wins coupled with better conversion of existing tenders.
- In H1FY24, the company launched six products, three products from partner and three products in-house.

India

- India revenue at Rs1.4bn, grew by 18% YoY.
- Market outperformance was led by continued double digit growth in chronic therapies, revival in gastro demand, traction in consumer division, and new launches.
- Curatio portfolio grew by 17% led by strong growth in top focus brands.
- For H1FY24, revenue at Rs2.9bn, grew by 16% YoY.
- In Sitagliptin, the company ranks number one among generics players and on an annualized basis, have clocked sales of Rs1bn.
- Robust performance of Curatio was mainly due to 25% growth in Tedibar.
- Post integration of Curatio in Torrent pharma, Curatio's EBITDA margin grew by 14% YoY vs pre-acquisition and 6% QoQ. The company believes significant headroom is still available for margin improvement, mainly through operating leverage.
- Product Shelcal 500 performed well during the quarter.
- As on Sep'23, around 20 brands of the company are in the top 500 in Indian Pharma Market.
- Improving margins of existing products are the focus area for the company.
- Out of total domestic growth of 18%, base business growth is 12%. Out of which 7% is price growth, volume growth is 1-1.5% and new product growth is 3.5-4%.
- Volume growth of 1-1.5% excludes trade generics.
- IPM is expected to grow around 7-8% in H2FY24, due to bounce back of acute therapies contribution and revival in gastro demand.
- Trade generic growth is around 20-25% for Q2FY24 and the company added total 75-80 SKUs and plans to add more SKUs over the year. Management expects to achieve high-teens growth after reaching stable base.
- Risk of trade generic industry cannibalizing branded generic industry is over estimated.
- Marketing of Shelcal 500 is focused through traditional media and less through digital media, digital media is used more for products like Tedibar and Unienzyme.

Other highlights

- As on Sep'23, the company has operating leverage of 1.16x and by Mar'24 expects it be below 1x.
- Due to effective cost efficiency measure, gross margin is sustainable and expects to maintain it in H2FY24.
- Following are the M&A priorities for the company –
 - More focused towards India business.
 - Comfortable type of debt or leverage.
 - Comfortable cash flow generation to meet financial obligation,
 - 3x of net debt to EBITDA is comfortable for any acquisition, provided it go down substantially to 1-1.5x in 2 years. (During Unichem acquisition, leverage was of 3x of net debt to EBITDA which came down substantially in 2 years)
- In H1FY24 SG&A has spiked, especially in marketing and promotional expenses, vs FY23. Management expects these cost to stabilize from FY25 onwards.

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Revenue	96,202	1,08,499	1,23,258	1,39,596
Total Expense	67,781	74,864	83,815	94,925
COGS	27,352	27,233	30,814	34,899
Employees Cost	16,777	19,747	22,310	25,267
Other expenses	23,652	27,884	30,691	34,759
EBIDTA	28,421	33,635	39,442	44,671
Depreciation	7,066	7,922	8,052	8,182
EBIT	21,355	25,712	31,390	36,489
Interest	3,334	3,438	2,238	1,358
Other Income	451	1,129	1,241	1,316
Exc. / E.O. items	0	0	0	0
EBT	18,472	23,403	30,394	36,447
Tax	6,019	6,813	8,771	10,450
RPAT	12,452	16,590	21,623	25,996
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	12,452	16,590	21,623	25,996

Balance Sheet

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Sources of Funds				
Equity Capital	1,692	1,692	1,692	1,692
Minority Interest	0	0	0	0
Reserves & Surplus	60,288	66,924	75,574	85,972
Net Worth	61,981	68,617	77,266	87,664
Total Debt	52,973	42,973	27,973	16,973
Net Deferred Tax Liability	2,221	4,685	7,836	11,562
Total Capital Employed	1,17,175	1,16,275	1,13,075	1,16,199

Applications of Funds

Net Block	81,215	74,592	67,840	60,958
CWIP	7,654	7,693	7,733	7,776
Investments	1,139	1,210	1,288	1,374
Current Assets, Loans & Advances	53,317	60,763	66,493	79,205
Inventories	22,296	25,146	28,567	32,354
Receivables	19,438	21,923	24,905	28,206
Cash and Bank Balances	5,715	6,138	3,778	7,331
Loans and Advances	42	42	42	42
Other Current Assets	4,265	5,172	6,274	7,613
Less: Current Liabilities & Provisions	26,149	27,982	30,280	33,113
Payables	16,788	18,542	20,759	23,511
Other Current Liabilities	9,361	9,440	9,520	9,602
<i>sub total</i>				
Net Current Assets	27,168	32,780	36,214	46,091
Total Assets	1,17,175	1,16,275	1,13,075	1,16,199

E – Estimates

Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	71.6	74.9	75.0	75.0
EBIDTA Margin	29.5	31.0	32.0	32.0
EBIT Margin	22.2	23.7	25.5	26.1
Tax rate	32.6	29.1	28.9	28.7
Net Profit Margin	12.9	15.3	17.5	18.6
(B) As Percentage of Net Sales (%)				
COGS	28.4	25.1	25.0	25.0
Employee	17.4	18.2	18.1	18.1
Other	24.6	25.7	24.9	24.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.9	0.6	0.4	0.2
Interest Coverage	6.4	7.5	14.0	26.9
Inventory days	85	85	85	85
Debtors days	74	74	74	74
Average Cost of Debt	7.2	7.2	6.3	6.0
Payable days	64	62	61	61
Working Capital days	103	110	107	121
FA T/O	1.2	1.5	1.8	2.3
(D) Measures of Investment				
AEPS (Rs)	36.8	49.0	63.9	76.8
CEPS (Rs)	57.7	72.4	87.7	101.0
DPS (Rs)	25.5	29.4	38.3	46.1
Dividend Payout (%)	69.3	60.0	60.0	60.0
BVPS (Rs)	183.1	202.7	228.3	259.0
RoANW (%)	20.5	25.4	29.6	31.5
RoACE (%)	14.5	17.2	20.8	23.9
RoAIC (%)	20.6	23.2	28.6	33.5
(E) Valuation Ratios				
CMP (Rs)	1877	1877	1877	1877
P/E	51.0	38.3	29.4	24.4
Mcap (Rs Mn)	6,35,391	6,35,391	6,35,391	6,35,391
MCap/ Sales	6.6	5.9	5.2	4.6
EV	6,81,088	6,69,885	6,56,659	6,41,375
EV/Sales	7.1	6.2	5.3	4.6
EV/EBITDA	24.0	19.9	16.6	14.4
P/BV	10.3	9.3	8.2	7.2
Dividend Yield (%)	1.4	1.6	2.0	2.5
(F) Growth Rate (%)				
Revenue	13.1	12.8	13.6	13.3
EBITDA	16.9	18.3	17.3	13.3
EBIT	20.7	20.4	22.1	16.2
PBT	50.7	26.7	29.9	19.9
APAT	(1.3)	33.2	30.3	20.2
EPS	(1.3)	33.2	30.3	20.2

E – Estimates

Cash Flow

Particulars	FY23A	FY24E	FY25E	FY26E
Profit before tax	18,020	22,274	29,152	35,131
Depreciation & w.o.	7,066	7,922	8,052	8,182
Net Interest Exp	3,334	3,438	2,238	1,358
Direct taxes paid	(3,743)	(4,213)	(5,471)	(6,560)
Change in Working Capital	2,947	4,411	(5,435)	(5,844)
Non Cash	0	0	0	0
(A) CF from Operating Activities	27,625	33,833	28,536	32,266
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(5,410)	(1,339)	(1,341)	(1,343)
Free Cash Flow	22,215	32,494	27,196	30,924
(Inc.)/ Dec. in Investments	0	0	0	0
Other	(19,549)	1,129	1,241	1,316
(B) CF from Investing Activities	(24,958)	(210)	(99)	(27)
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	12,767	(19,027)	(15,000)	(11,000)
Interest exp net	(3,334)	(3,438)	(2,238)	(1,358)
Dividend Paid (Incl. Tax)	(8,630)	(9,954)	(12,974)	(15,598)
Other	(1,788)	(780)	(585)	(732)
(C) CF from Financing	(986)	(33,199)	(30,797)	(28,687)
Net Change in Cash	1,681	424	(2,360)	3,552
Opening Cash balances	4,034	5,715	6,138	3,778
Closing Cash balances	5,715	6,138	3,778	7,331

E – Estimates

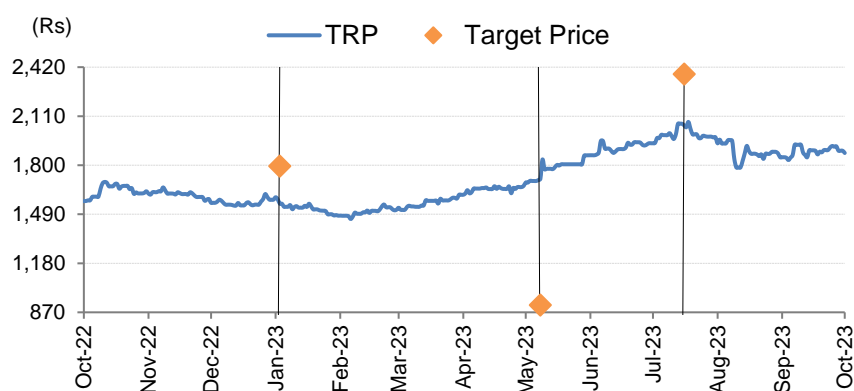
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-23	Accumulate	1,794	1,557
May-23	Accumulate	916	1,714
Aug-23	Accumulate	2,376	2,051

*Price as on recommendation date

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