

24 July 2024

India | Equity Research | Q1FY25 results review

Torrent Pharma

Pharma

India growth picking-up pace

Torrent Pharma's Q1FY25 result was driven by robust 14.7% YoY growth in India business. Price increases (6-8% annually) continue to be the driving factor for growth in India while efforts for boosting volume growth are underway as Torrent plans to add 300-400 MRs in India every year. Floods in Rio Grande do Sul restricted growth in Brazil to 3% YoY else the performance would have been better; management expects 12-13% YoY constant currency growth in FY25. In Germany, new tender wins are driving growth momentum while new launches may improve traction in US ahead. We raise our FY25/26E EBITDA by ~2% each to factor in better margins. As the stock has given a return of ~19% over the past three months, we lower our rating to **ADD**; raise TP to INR 3,360 on 25x FY26E EV/EBITDA.

Better product mix drives improvement in margins

Revenue grew 10.3% YoY (4.2% QoQ) to INR 28.6bn (l-Sec: INR 29.1bn). Gross margin surged 81bps YoY (46bps QoQ) to 75.7% led by better contribution from India. It recorded a one-off acquisition related charge of INR 200mn; adjusting for it, EBITDA jumped 16.8% YoY (4.6% QoQ) to INR 9.2bn (l-Sec: INR 9.1bn). EBITDA margin rose 179bps YoY (15bps QoQ) to 32.3% (l-Sec: 31.4%). Adj. PAT rose 24.6% to INR 4.7bn (l-Sec: INR 4.7bn).

India traction driven by launches and revival in cardiac therapy

India business grew a robust 14.7% YoY (18.5% QoQ) to INR 16.4bn in Q1FY25. Growth was driven by new launches in cardiac and diabetes segments. Torrent is trying to reduce its reliance on slow growing cardiac brand Losar by increasing efforts to promote other key brands. It has a field force strength of 5,700 MRs and the company will add 300-400 MRs in next couple of quarters to boost volume growth. We expect its India business to grow at a CAGR of 12% over FY24-26E. Brazil grew 3.2% YoY to INR 2bn, growth was hampered due to floods in Rio Grande do Sul in Apr May'24. Management expects a revival in sales from Q2FY25 onwards and targets 12-13% cc growth in FY25. The lack of material launches impacted US growth, declining 3.1% QoQ to USD 31mn. Management aims to launch 5-10 new products in US in FY25. Germany revenue was up 10.1% YoY (1.4% QoQ) to INR 2.8bn driven by the newly-tendered contracts. Others segment (RoW and CMO) grew 14.4% YoY to INR 4.9bn.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	96,200	1,07,280	1,21,365	1,34,092
EBITDA	28,420	33,680	39,949	45,198
EBITDA Margin (%)	29.5	31.4	32.9	33.7
Net Profit	12,450	15,940	20,671	26,082
EPS (INR)	36.8	47.2	61.2	77.2
EPS % Chg YoY	11.5	28.2	29.7	26.2
P/E (x)	85.3	64.1	51.7	40.7
EV/EBITDA (x)	39.3	32.7	27.3	23.7
RoCE (%)	13.4	15.2	18.8	22.2
RoE (%)	20.5	24.4	27.5	28.8

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Market Data

Market Cap (INR)	1,062bn
Market Cap (USD)	12,689mn
Bloomberg Code	TRP IN
Reuters Code	TORP.BO
52-week Range (INR)	3,177 /1,771
Free Float (%)	27.0
ADTV-3M (mn) (USD)	8.6

Price Performance (%)	3m	6m	12m
Absolute	19.0	25.9	61.9
Relative to Sensex	10.1	12.7	40.7

Earnings Revisions (%)	FY25E	FY26E
Revenue	(0.4)	(0.8)
EBITDA	1.4	0.7
EPS	2.2	1.8

Previous Reports

26-05-2024: [Q4FY24 results review](#)
04-02-2024: [Q3FY24 results review](#)

Valuation and risks

Torrent is taking multiple measures to boost volume growth in India. The company is increasing efforts to promote its newly-launched brands and its existing mid-sized brands to de-risk the dependency on large brands that are growing at a relatively slower pace. The company will also increase its MR strength by 5-7% in FY25 to improve its prescriber reach. In Brazil, the business faced a temporary slowdown in Q1FY25 while unfavourable movement in currency may impact the reported growth in near term. New tender wins have lifted growth in Germany and the momentum is likely to continue in coming quarters. Management remains optimistic to gain clearance from the USFDA for its Indrad site by Oct'24 which along with 5-10 new launches will help in reviving growth in the US. Repayment of INR 13-15bn of debt every year (INR 39bn of gross debt as on FY24) and a shift towards the new tax regime may enable faster growth in profits in next couple of years.

We estimate revenue/EBITDA/PAT CAGR of 11.8%/15.8%/27.9% over FY24-26E with margin improvement of 231bps to ~34% in FY26E. RoCE may improve to 22.2% in FY26E from 15.2% in FY24. The stock currently trades at valuations of 51.3x FY25E and 40.7x FY26E earnings and EV/EBITDA multiples of 27.3x FY25E and 23.7x FY26E, respectively. We lower our recommendation to **ADD** (from Buy) with target price of INR 3,360/share based on 25x FY26E EV/EBITDA (prior: INR 3,035 based on 23x FY26E EV/EBITDA). We value the stock on EV/EBITDA(x) basis, considering a significant amortisation cost, which is a non-cash charge.

Key downside risk: More products under price control in India, regulatory issues at plants and currency fluctuations.

Q1FY25 conference call highlights

India

- Torrent's chronic business grew at 14% vs IPM growth of 8%, driven by strong revival in cardiac divisions and continued traction in new launches in diabetes therapy.
- Torrent has a field force of 5,700 MRs in India and may further add 300-400 MRs this year.
- Margin of acquired portfolio from Curatio has improved sequentially and may improve further in the near term.
- Torrent will continue to take price hikes of 6-8% in India business every year.
- Shelcal-500 grew 17% YoY in Q1FY25.
- Annual sales of consumer brands like Shelcal, Tedibar, Unizyme and Ahaglow stood at INR 3bn, INR 1.5bn, INR 1.4-1.5 and INR 800mn, respectively.
- Management is aiming for a high teen growth in consumer business.
- Expenses in consumer business inched up in Q1FY25; management expects them to remain stable at current levels ahead.
- Torrent has entered into a non-exclusive licensing agreement with Takeda and commercialised Vonoprazan in Q1FY25.

- The company is working to reduce its dependency on Losar brand (growing at a slower pace) in cardiac portfolio. Currently, Losar is the number 1 cardiac brand for Torrent and will slip to number 3 next year.

Brazil

- Primary sales were impacted by severe floods in the province of Rio Grande do Sul in Apr May'24.
- Torrent received approval for three new products including Lisdexanfetamine (market size of BRL 760mn) which will be launched in Q2FY25.
- Currently, Torrent has 19 products under review with ANVISA.
- Management aims to grow its revenue from Brazil at 12-13% in cc terms.
- Management does not expect any major impact on margins due to currency fluctuation.

Germany

- Growth momentum was driven by incremental tender wins. Recent tender wins are expected to drive growth from Q2FY25.
- Management is targeting a mid to high single digit growth in this business in FY25.

US

- Price erosion in base business stood in mid-single digit.
- Existing supplies from Dahej and Indrad were not impacted due to regulatory issue.
- Company had site transferred products from Indrad to Dahej which have not received approval from the USFDA.
- In FY25, management aims to secure approvals for 5-10 new products (excluding site transfer) including a few limited competition opportunities.
- Torrent's US business is breaking even pre-R&D and going ahead the focus is on improving profitability of this business.
- Management is expecting a regulatory resolution to Indrad site by Oct'24.

Q1FY25 financials

- India and other branded business have done well and driven margins.
- One-off charge of INR 200mn pertains to an acquisition-related charge which the management was pursuing in international markets, however, it did not materialise.

Guidance

- Gross margin should sustain at 75% in FY25.
- Torrent is likely to turn a net cash company in FY26. It may pursue acquisition in near term which will be value accretive.
- The company may evaluate an acquisition in branded generic space in existing or new markets.
- R&D will remain at 5% of sales.

- Tax rate will be 30% for FY25 and will move to 26-27% in FY26 as it shifts to new tax regime.

Exhibit 1: Q1FY25 result review

Y/E Mar (INR mn)	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ (%)	FY24	FY23	YoY(%)
Net Sales	28,590	25,910	10.3	27,450	4.2	1,07,280	96,200	11.5
Gross Profit	21,650	19,410	11.5	20,660	4.8	80,420	68,850	16.8
Gross Margins (%)	75.7	74.9	81%	75.3	46%	75.0	71.6	339%
EBITDA	9,240	7,910	16.8	8,830	4.6	33,680	28,420	18.5
EBITDA Margins (%)	32.3	30.5	179%	32.2	15%	31.4	29.5	
Other Income	240	340	(29.4)	310	(22.6)	580	450	28.9
Interest	750	1,030	(27.2)	800	(6.3)	3,540	3,330	
Depreciation	1,970	1,910	3.1	2,030	(3.0)	8,080	7,070	14.3
Exceptional expense (income)	200	-	#DIV/0!	-	#DIV/0!	(880)	-	-
PBT	6,560	5,310	23.5	6,310	4.0	22,640	18,470	22.6
Tax	1,990	1,530	30.1	1,820	9.3	6,960	6,020	15.6
Tax Rate (%)	30.3	28.8		28.8		30.7	32.6	
PAT	4,570	3,780	20.9	4,490	1.8	16,560	12,450	33.0
Adjusted PAT	4,709	3,780	24.6	4,490	4.9	15,940	12,450	28.0
NPM (%)	16.0	14.6		16.4		14.9	12.9	

Source: I-Sec research, Company data

Exhibit 2: Business mix

INR mn	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	% YoY	% QoQ
India	10,720	10,340	12,450	12,240	12,590	12,570	14,260	14,440	14,150	13,800	16,350	14.7	18.5
Brazil	1,830	2,510	1,840	1,850	2,480	3,180	1,900	2,520	3,120	3,720	1,960	3.2	(47.3)
Germany	2,370	2,180	2,140	2,200	2,410	2,530	2,580	2,660	2,700	2,800	2,840	10.1	1.4
US	2,350	2,820	2,990	2,920	2,910	2,800	2,930	2,480	2,740	2,620	2,590	(11.6)	(1.1)
USD mn	31	37	39	37	35	34	36	30	33	32	31	(13.9)	(3.1)
Others	3,820	3,470	4,060	3,700	4,510	3,840	4,240	4,500	4,610	4,510	4,850	14.4	7.5
Total	21,090	21,320	23,480	22,910	24,900	24,920	25,910	26,600	27,320	27,450	28,590	10.3	4.2

Source: I-Sec research, Company data

Exhibit 3: Key growth drivers of domestic business in Q1FY25

Brands (INR mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	MAT Mar'24	MAT Mar'23	YoY (%)
Shelcal	1,194	1,141	4.7	1,105	8.1	4,434	4,240	-4.4
Chymoral	834	771	8.2	734	13.6	3,051	2,644	-13.3
Shelcal Xt	590	542	8.7	530	11.3	2,197	1,756	-20.1
Nexpro-Rd	557	497	12.0	513	8.6	2,063	1,864	-9.7
Nikoran	533	483	10.2	516	3.2	1,961	1,718	-12.4
Unienzyme	468	395	18.3	393	19.0	1,553	1,447	-6.8
Nebicard	348	351	-0.8	351	-0.6	1,394	1,317	-5.5
Losar	361	339	6.5	321	12.4	1,284	1,215	-5.4
Veloz-D	320	305	5.1	276	16.2	1,214	1,166	-3.9
Losar-H	312	315	-1.1	295	5.9	1,181	1,187	0.5

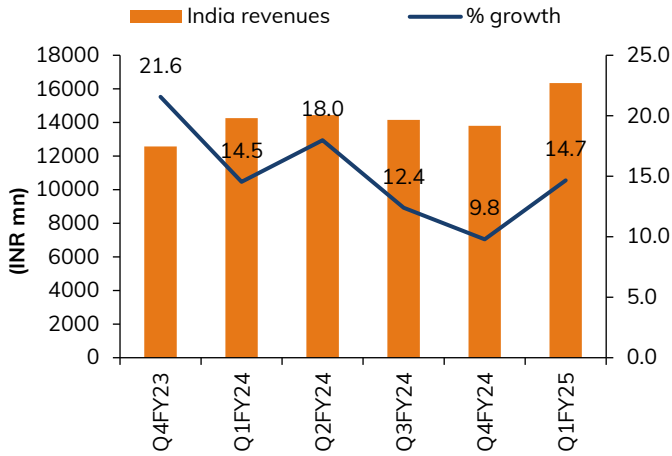
Source: IQVIA

Exhibit 4: Growth profile of key therapies India

Therapies (INR mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	MAT Mar'24	MAT Mar'23	YoY (%)
Cardiac	5,356	4,888	9.6	4,991	7.3	19,580	18,274	7.1
Gastro Intestinal	3,537	3,174	11.5	3,089	14.5	12,801	11,947	7.1
Neuro / CNS	2,890	2,684	7.7	2,677	8.0	10,775	9,847	9.4
Vitamins/Minerals/Nutrients	2,007	1,907	5.2	1,835	9.3	7,502	6,887	8.9
Anti Diabetic	1,777	1,575	12.8	1,597	11.3	6,372	5,617	13.4
Pain / Analgesics	1,655	1,574	5.2	1,462	13.3	6,180	5,727	7.9
Derma	1,274	1,195	6.6	1,249	2.0	4,975	4,454	11.7
Anti-Infectives	441	429	2.8	473	-6.8	1,883	1,828	3.0
Gynaec.	469	391	19.9	419	12.0	1,658	1,682	-1.4
Antineoplast/Immunomodulator	94	168	-44.2	110	-15.0	624	536	16.4

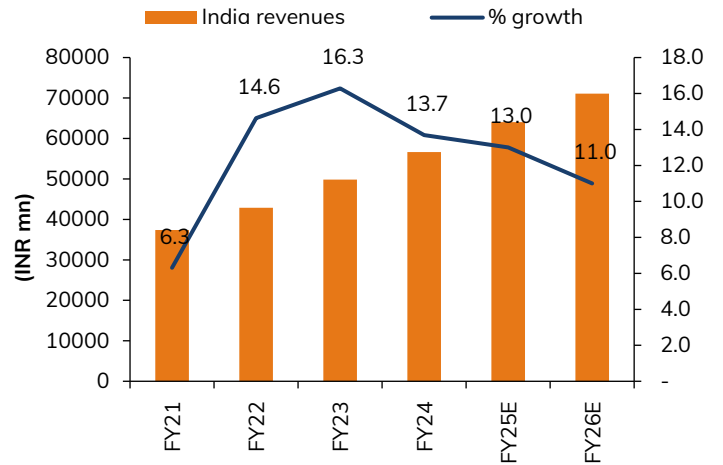
Source: IQVIA

Exhibit 5: India business grew 14.7% YoY



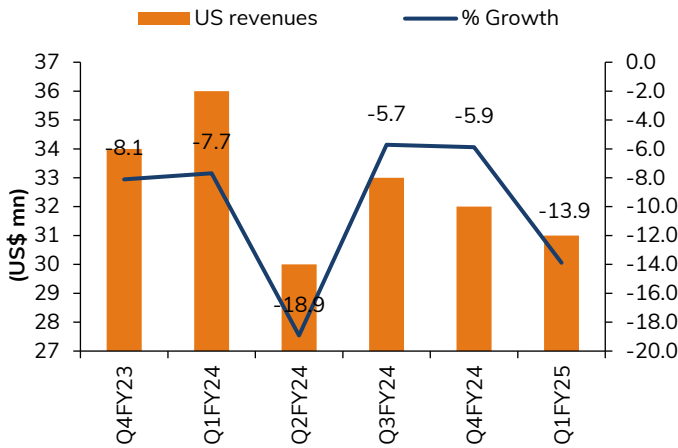
Source: I-Sec research, Company data

Exhibit 6: Price hikes/MR addition to elevate India sales



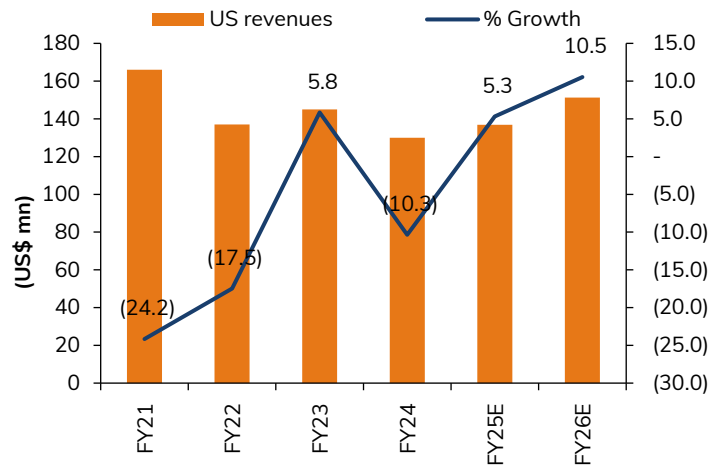
Source: I-Sec research, Company data

Exhibit 7: Lack of launches hurting US growth



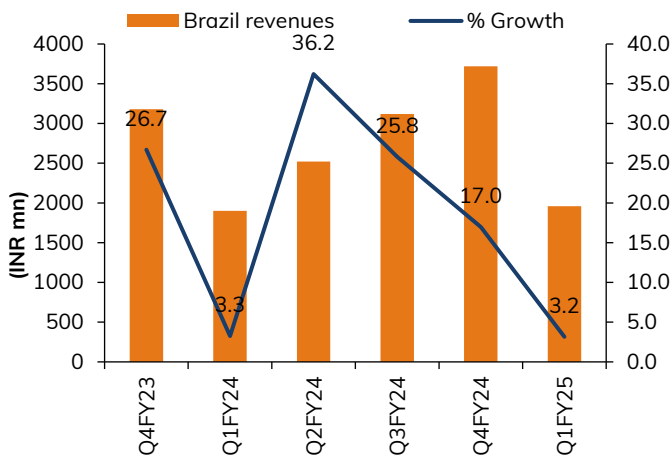
Source: I-Sec research, Company data

Exhibit 8: Revenue to ramp up to USD 151mn by FY26E



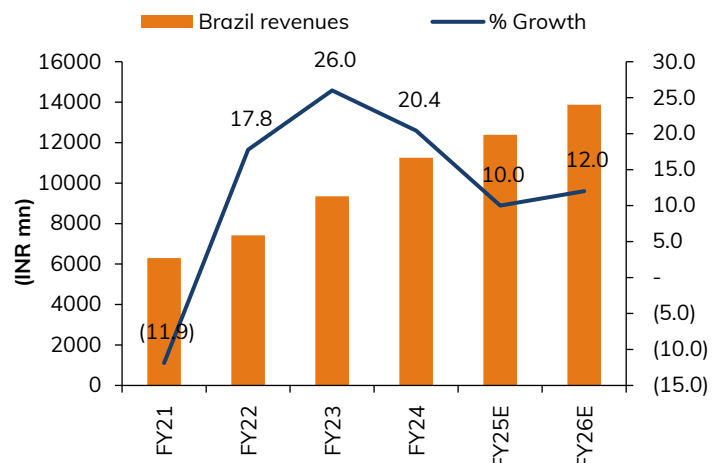
Source: I-Sec research, Company data

Exhibit 9: Brazil revenue impacted by severe floods



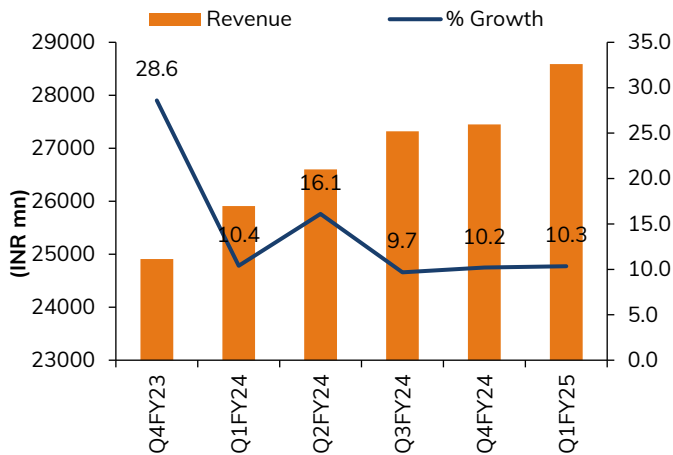
Source: I-Sec research, Company data

Exhibit 10: Branded generics to continue healthy performance in Brazil



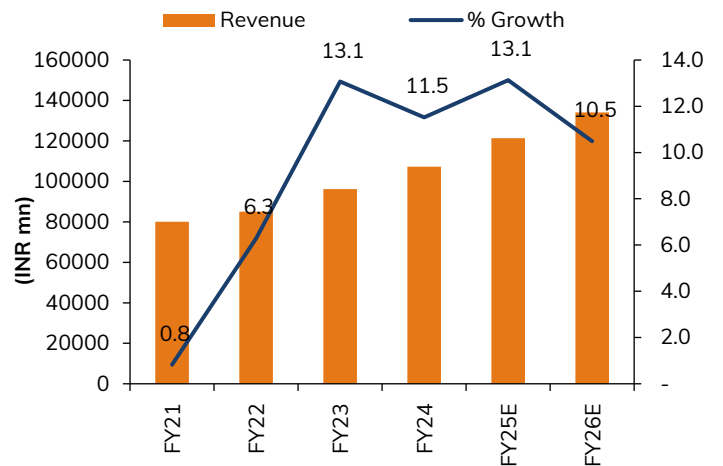
Source: I-Sec research, Company data

Exhibit 11: Growth driven by robust traction in India and RoW markets



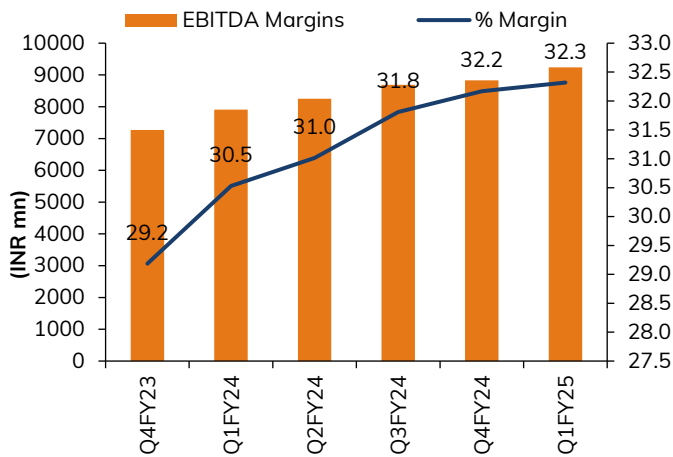
Source: I-Sec research, Company data

Exhibit 12: Revenue to grow at CAGR of 11.8% over FY24-26E



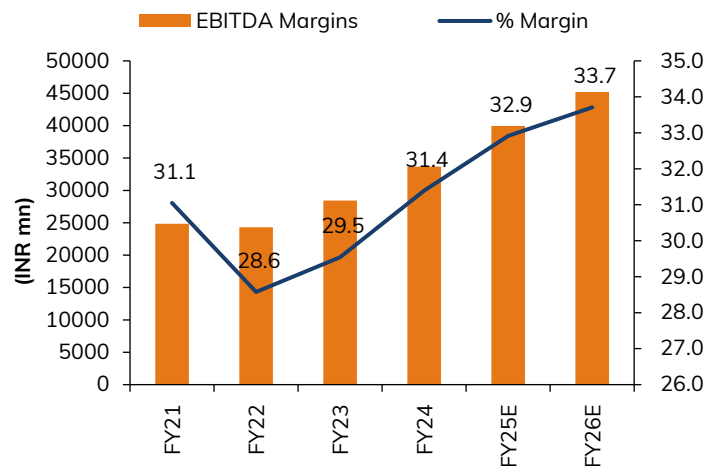
Source: I-Sec research, Company data

Exhibit 13: EBITDA margin rose 179bps YoY



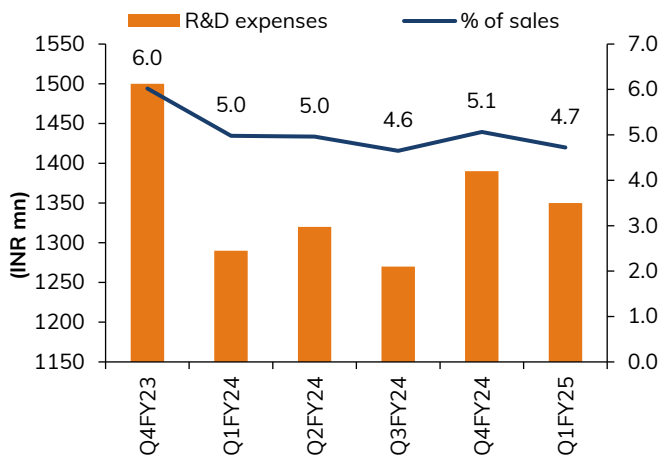
Source: I-Sec research, Company data

Exhibit 14: Traction in branded generics to spike margins



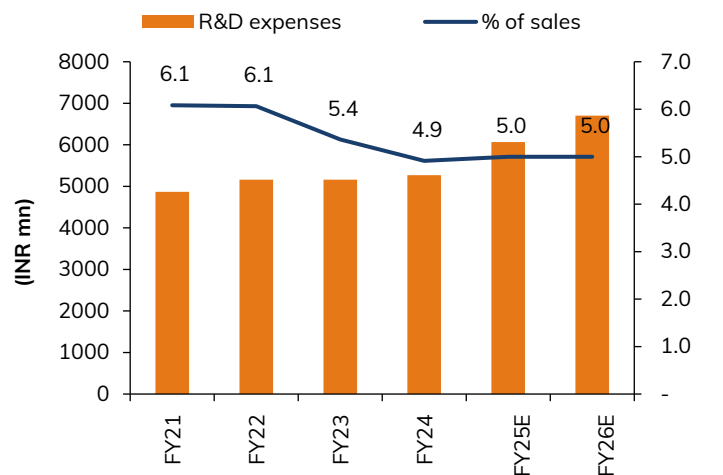
Source: I-Sec research, Company data

Exhibit 15: R&D stood at ~5% in last couple of quarters



Source: I-Sec research, Company data

Exhibit 16: R&D as % of sales to remain flat ahead



Source: I-Sec research, Company data

Exhibit 17: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	71.3	71.3	71.3
Institutional investors	21.3	21.3	20.7
MFs and others	4.5	4.3	4.4
FIs/Banks	-	-	-
Insurance	2.0	2.0	2.1
FIIIs	14.8	15.0	14.2
Others	7.4	7.4	8.0

Source: Bloomberg

Exhibit 18: Price chart



Source: Bloomberg

Financial Summary

Exhibit 19: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	96,200	1,07,280	1,21,365	1,34,092
Operating Expenses	67,780	73,600	81,416	88,895
EBITDA	28,420	33,680	39,949	45,198
EBITDA Margin (%)	29.5	31.4	32.9	33.7
Depreciation & Amortization	7,070	8,080	8,206	8,607
EBIT	21,350	25,600	31,743	36,591
Interest expenditure	3,330	3,540	2,822	1,745
Other Non-operating Income	450	580	609	639
Recurring PBT	18,470	22,640	29,530	35,485
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	6,020	6,960	8,799	9,404
PAT	12,450	16,560	20,531	26,082
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	12,450	16,560	20,531	26,082
Net Income (Adjusted)	12,450	15,940	20,671	26,082

Source Company data, I-Sec research

Exhibit 20: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	51,730	54,700	60,443	69,943
of which cash & cash eqv.	5,710	8,390	10,394	15,104
Total Current Liabilities & Provisions	26,280	30,720	28,790	31,749
Net Current Assets	25,450	23,980	31,653	38,194
Investments	1,990	1,730	1,730	1,730
Net Fixed Assets	26,270	31,390	29,873	28,122
ROU Assets	1,450	1,580	1,580	1,580
Capital Work-in-Progress	7,650	3,610	3,610	3,610
Total Intangible Assets	53,500	48,410	45,721	42,865
Other assets	2,070	3,610	3,629	3,648
Deferred Tax Assets	5,440	5,550	5,550	5,550
Total Assets	1,23,840	1,19,890	1,23,375	1,25,328
Liabilities				
Borrowings	53,150	39,580	29,580	14,580
Deferred Tax Liability	4,020	6,560	6,560	6,560
provisions	3,930	4,450	4,450	4,450
other Liabilities	760	740	740	740
Equity Share Capital	1,690	1,690	1,690	1,690
Reserves & Surplus	60,290	66,870	80,355	97,308
Total Net Worth	61,980	68,560	82,045	98,998
Minority Interest	-	-	-	-
Total Liabilities	1,23,840	1,19,890	1,23,375	1,25,328

Source Company data, I-Sec research

Exhibit 21: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	17,899	33,040	25,262	33,944
Working Capital Changes	6,971	(3,100)	5,688	1,850
Capital Commitments	25,415	4,200	4,000	4,000
Free Cashflow	(7,516)	28,840	21,262	29,944
Other investing cashflow	(273)	(260)	-	-
Cashflow from Investing Activities	(25,142)	(3,940)	(4,000)	(4,000)
Issue of Share Capital	844	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	22,687	(13,570)	(10,000)	(15,000)
Dividend paid	(7,447)	(9,464)	(7,186)	(9,129)
Others	(6,322)	(3,386)	(2,073)	(1,105)
Cash flow from Financing Activities	9,763	(26,420)	(19,259)	(25,234)
Chg. in Cash & Bank balance	2,520	2,680	2,003	4,711
Closing cash & balance	6,554	8,390	10,393	15,104

Source Company data, I-Sec research

Exhibit 22: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	36.8	49.0	60.7	77.2
Adjusted EPS (Diluted)	36.8	47.2	61.2	77.2
Cash EPS	57.7	71.1	85.4	102.6
Dividend per share (DPS)	22.0	28.0	21.3	27.0
Book Value per share (BV)	183.1	202.8	242.7	292.9
Dividend Payout (%)	59.9	57.1	35.0	35.0
Growth (%)				
Net Sales	13.1	11.5	13.1	10.5
EBITDA	16.9	18.5	18.6	13.1
EPS (INR)	11.5	28.2	29.7	26.2
Valuation Ratios (x)				
P/E	85.3	64.1	51.7	40.7
P/CEPS	54.4	44.2	36.7	30.6
P/BV	17.1	15.5	12.9	10.7
EV / EBITDA	39.3	32.7	27.3	23.7
P / Sales	11.0	9.9	8.8	7.9
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	71.6	75.0	75.6	75.9
EBITDA Margins (%)	29.5	31.4	32.9	33.7
Effective Tax Rate (%)	32.6	29.6	30.0	26.5
Net Profit Margins (%)	12.9	14.9	17.0	19.5
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.7	0.4	0.2	0.0
Net Debt / EBITDA (x)	1.6	0.9	0.4	0.0
Profitability Ratios				
RoCE (%)	13.4	15.2	18.8	22.2
RoE (%)	20.5	24.4	27.5	28.8
RoC (%)	12.7	17.0	20.5	25.5
Fixed Asset Turnover (x)	3.7	3.7	4.0	4.6
Inventory Turnover Days	90	82	80	79
Receivables Days	78	66	64	63
Payables Days	68	75	61	63

Source Company data, I-Sec research

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