



3R MATRIX

| | + | = | - |
|----------------------|---|---|---|
| Right Sector (RS) | ✓ | ■ | ■ |
| Right Quality (RQ) | ✓ | ■ | ■ |
| Right Valuation (RV) | ■ | ✓ | ■ |

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

| | Old | | New |
|----|-----|---|-----|
| RS | ■ | ↔ | ■ |
| RQ | ■ | ↔ | ■ |
| RV | ■ | ↔ | ■ |

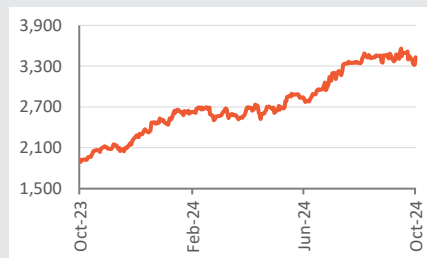
Company details

| | |
|-------------------------------|-------------------|
| Market cap: | Rs. 1,16,154 cr |
| 52-week high/low: | Rs. 3,589 / 1,860 |
| NSE volume: (No of shares) | 5.52 lakh |
| BSE code: | 500420 |
| NSE code: | TORNTPHARM |
| Free float: (No of shares) | 9.7 cr |

Shareholding (%)

| | |
|-----------|------|
| Promoters | 71.3 |
| FII | 14.5 |
| DII | 7.0 |
| Others | 7.3 |

Price chart



Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|------|------|------|------|
| Absolute | -8.8 | -2.3 | 16.0 | 62.8 |
| Relative to Sensex | -2.9 | -0.8 | 8.2 | 37.6 |

Sharekhan Research, Bloomberg

Torrent Pharmaceuticals Ltd

Good quarter led by growth across geographies

| Pharmaceuticals | Sharekhan code: TORNTPHARM | | |
|-----------------|----------------------------|----------------|-------------------------|
| Reco/View: Buy | ↔ | CMP: Rs. 3,432 | Price Target: Rs. 4,232 |
| ↑ Upgrade | ↔ Maintain | ↓ Downgrade | |

Summary

- Torrent's revenue reached Rs. 2,889 crore, reflecting a 9% y-o-y increase and a 1% q-o-q rise, driven by growth in key geographies.
- EBITDA stood at Rs. 939 crore, up 14% y-o-y and 4% q-o-q. Margins reached 33%, up 149 bps y-o-y and 88 bps q-o-q.
- Insulin revenue during the quarter was affected by a scheduled maintenance shutdown in August. The facility is expected to resume manufacturing in December. The shortfall is anticipated to be largely recovered in the fourth quarter of this year, ensuring that there will be no impact on an annual basis.
- A healthy product mix is expected to result in a 50-100 bps increase in margins annually. At the CMP, the stock trades at a valuation of 45x and 36x its FY2026E and FY2027E earnings, respectively, and due to its high-margin profile and healthy product mix, we arrive at a TP of Rs. 4,232.

Torrent Pharma recorded impressive revenue of Rs. 2,889 crore in Q2FY2025, indicating a strong y-o-y increase of 9% and a slight q-o-q growth of 1%. This upward revenue trend can be attributed primarily to the positive performance observed across key geographic regions. EBITDA for the period reached Rs. 939 crore, reflecting a substantial y-o-y growth of 14% and a 4% increase from the previous quarter. Margins also saw significant enhancement, standing at 33%. This represents an increase of 149 bps compared to the same period last year and an 88 bps improvement over the prior quarter. Margin growth can be largely attributed to a consistent rise in contributions from the branded business. PAT was reported at Rs. 453 crore, which marks a commendable 16% y-o-y increase. While PAT remained flat when compared to the previous quarter.

Key positives

- Gross margin reached an all-time high, driven by the continuous growth of the branded business segment.
- Growth momentum in Germany was driven by additional tender wins over the past five quarters.

Key negatives

- Insulin revenue this quarter was affected by a planned shutdown for maintenance activities that took place in August.
- Profitability of the U.S. business is at breakeven before accounting for R&D expenses.

Management Commentary

- The company anticipates an annual margin improvement of 50-100 bps.
- The company projects that volume growth will remain around 3%.
- The company anticipates its India business to continue to exceed market growth.
- The company has increased its regional market share in previously untapped areas as a result of expanding its divisions and headquarters.

Revision in estimates – Torrent reported strong earnings and has given stronger guidance of India surpassing IPM growth, Brazil bouncing back, and new product launches in the U.S. to drive growth. Hence, we have adjusted our FY2026E and FY2027E EPS.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 4,232: Torrent reported the highest-ever gross margin and EBITDA margin, driven by double-digit growth in the branded business and the generic market of Germany. Management expects growth momentum across geographies to increase, led by 1) Higher MR productivity in India and Brazil, 2) Higher execution rate of tenders in Germany, and 3) Resumption of new product launches in the U.S. A healthy product mix and expectations of the U.S. turning profitable in the next three years would lead to increased margins. Hence, we foresee the company's earnings to grow in FY2024-FY2027E. At the CMP, the stock trades at a premium valuation of 45x and 36x its FY2026E and FY2027E earnings, respectively. We believe this premium would be due to its high margin profile in the industry; hence, we have arrived at a TP of Rs. 4,232.

Key Risks

Delays in the resolution of USFDA issues at its Indrad plant and ongoing price erosion pressures in the U.S. market.

Valuation (Consolidated)

| Particulars | Rs cr | | | | | |
|---------------------|--------|--------|--------|---------|---------|---------|
| | FY2022 | FY2023 | FY2024 | FY2025E | FY2026E | FY2027E |
| Net sales | 8,508 | 9,620 | 10,728 | 12,123 | 13,820 | 15,893 |
| OPM (%) | 29% | 30% | 31% | 32% | 32% | 33% |
| Adjusted net profit | 1,262 | 1,245 | 1,656 | 1,974 | 2,564 | 3,183 |
| EPS (Rs.) | 37.28 | 36.79 | 48.93 | 58.31 | 75.77 | 94.06 |
| PER (x) | 92x | 93x | 70x | 59x | 45x | 36x |
| EV/EBITDA (x) | 49x | 43x | 35x | 31x | 26x | 22x |
| P/BV (x) | 20x | 19x | 17x | 15x | 13x | 10x |
| ROCE (%) | 23% | 23% | 27% | 29% | 32% | 33% |
| RONW (%) | 21% | 20% | 24% | 25% | 28% | 28% |

Source: Company; Sharekhan estimates