

Torrent Pharmaceuticals Ltd.

SHINING STAR SERIES



Investment Thesis

- ⇒ Strong chronic focused portfolio to lead India's business growth
- ⇒ Curatio acquisition provides an entry into the lucrative dermatology segment
- ⇒ Brazil, Germany and US markets provide ample opportunities for sustainable growth
- ⇒ Strong operational performance and debt reduction to drive financial performance

Company Background

Torrent Pharmaceuticals is a leading pharmaceutical company known for its strong presence in emerging and developed markets. The company has a higher exposure to chronic therapies. Moreover, the company derives a substantial portion of its sales from India, followed by the US, Germany, and Brazil, collectively forming the core markets. The company is also one of the leading pharmaceutical companies in India and is a dominant player in the therapeutic areas of cardiovascular (CV) and central nervous system (CNS). The company also has a significant presence in gastro-intestinal, diabetology, anti-infectives, and pain management segments. The newly acquired Curatio business is also performing well and enjoying a leadership position in the dermatology segment. It is a specialty-focused company with ~75% of its revenues in India from chronic and sub-chronic therapies. It has a presence in 50+ countries and is ranked No. 1 amongst the Indian pharmaceutical companies in Brazil and Germany. Torrent has eight manufacturing facilities, of which five are USFDA-approved. With R&D as the backbone for its growth in domestic and overseas markets, it has invested significantly in R&D capabilities with state-of-the-art R&D infrastructure employing approximately 750+ scientists.

Business segment as on 31st December, 2023

Torrent Pharmaceuticals Ltd.

Business Areas	India Business	US Business	Brazil Business	Germany Business	International Business
	↓	↓	↓	↓	↓
% of sales (9MFY24)	53.7%	10.2%	9.6%	9.8%	16.7%

Market share	~3.4% in IPM	10.5% in Gx	-	5.4% in Gx	-
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Rank	Ranked 5th in the IPM	Ranked 12th among Indian player in US generic market	Ranked 1st in covered market	Ranked 4th in the market & No.1 amongst Indian player	-
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Approval & Distribution	5,500+ stockists & 59,000 retailers serviced through 23 distribution centres	88 ANDAs approval with 40 approvals in pipeline	48 products approved at Anvisa	Depends on tender wins	MENA 40 registrations, Africa 128 registrations and Asia 160 registrations in markets
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Source: Company Reports, BP Equities Research

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (Rs.)	2,595
Target Price (Rs.)	3,063
BSE code	500420
NSE Symbol	TORNTPHARM
Bloomberg	TRP IN
Reuters	TORP.BO

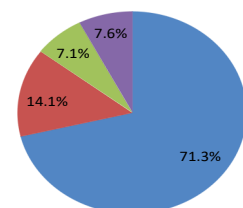
Key Data

Nifty	22023
52 Week H/L (Rs.)	2,744 / 1,501
O/s Shares (Mn)	338
Market Cap (Bn)	875
Face Value (Rs.)	5

Average volume

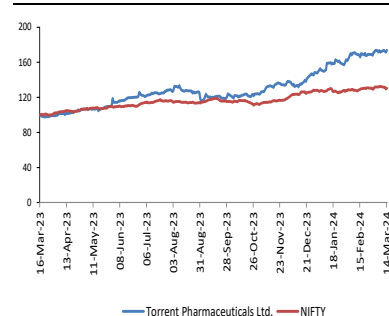
3 months	259,080
6 months	302,360
1 year	353,100

Share Holding Pattern (%)



■ Promoters ■ FII ■ DII ■ Others

Relative Price Chart



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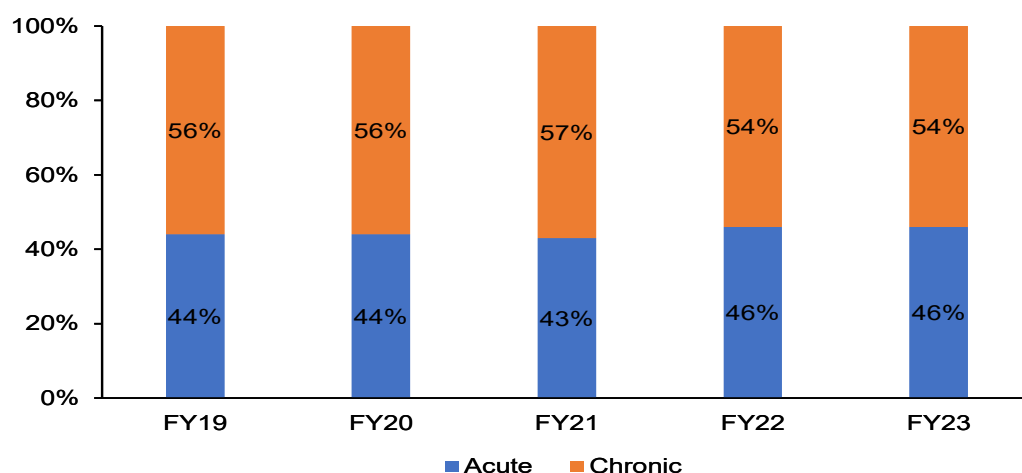
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Manufacturing units as on FY23

Plants	Torrent Pharma Annual Capacity	Manufactures (Formulations & API)
Indrad	45 MTPA	5,500 Mn tablets & capsules, 30 Mn vials
Dahej	25 MTPA	7,500 Mn tablets & capsules
Baddi	4,400 Mn	4,400 Mn tablets & capsules, 16 Mn sachets
Sikkim Unit I & II	6,000 Mn	6,000 Mn tablets
Sikkim Unit III	800 Mn	800 Mn tablets
Vizag	20-25 MTPA	API Capacity
Pithampur	153 Mn	115.2 Mn tubes, 5.8 Mn bottles, 25 Mn sachets and 7.2 Mn jars

Source: Company Reports, BP Equities Research

Chronic - Acute portfolio split - India



Source: Company Reports, BP Equities Research

Revenue contribution of key therapy areas

% of Sales from India	FY19	FY20	FY21	FY22	FY23
Cardiac	32%	30%	32%	29%	27%
Gastrointestinal	15%	16%	16%	18%	17%
CNS/Neuro	15%	15%	15%	15%	15%
Vitamin Mineral Nutrient	12%	13%	13%	13%	12%
Anti Diabetic	8%	8%	9%	9%	9%
Pain	7%	7%	6%	6%	6%
Anti-infectives	5%	5%	4%	4%	3%
Gynecology	2%	3%	0%	0%	2%
Dermatology	0%	2%	0%	0%	7%
Respiratory	0%	1%	0%	0%	0%
Others	4%	0%	5%	6%	2%

Source: Company Reports, BP Equities Research

Torrent Pharmaceuticals Ltd.

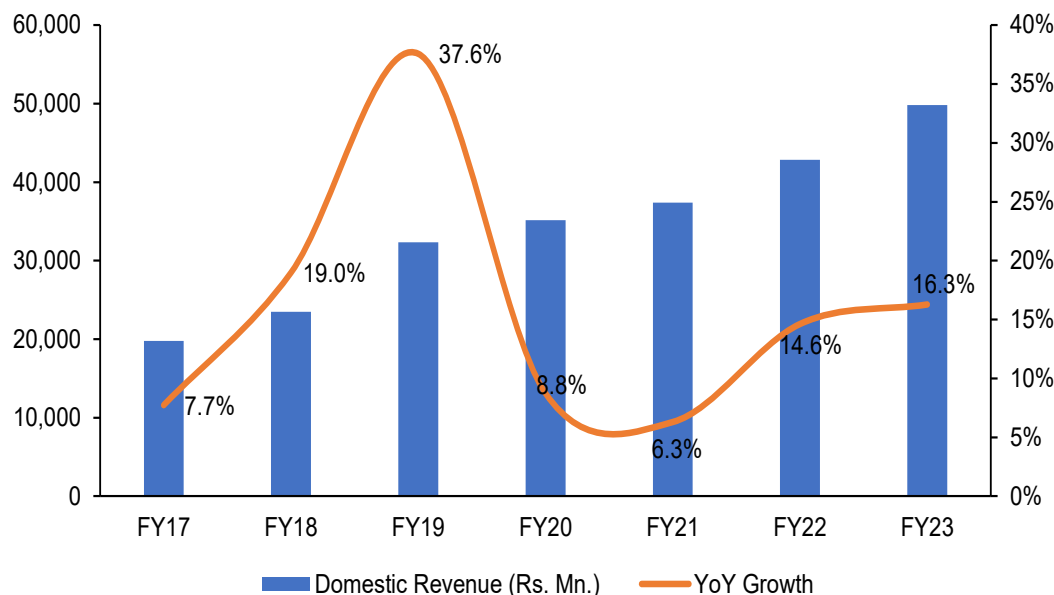
Investment Rationale

Strong chronic focused portfolio to lead India's business growth

Torrent's India business has always outgrown the India Pharmaceutical Market (IPM) and is expected to continue growing in double digits, led by strong growth in its base portfolio. The company remains focused on enhancing its chronic portfolio, with ~75% of sales originating from this category, indicating a robust growth trajectory. This focus aligns with evolving healthcare needs, suggesting sustained growth opportunities in the long term. Over FY2017-23 period, the company's Domestic Formulation business posted a 17% CAGR with strong growth in key therapies, including Anti-Diabetic, Neuro, Cardiac, etc. With its products tilted towards chronic treatment, changing lifestyle patterns and improved medical infrastructure should aid faster growth for the chronic segment. Torrent commands a pole position in the highly competitive chronic therapy, and its focus has been to improve the PCPM consistently (currently ~Rs 9.9 lakh) through incentivization and new product launches. The company expects to deepen its branded generic market presence and launch new products. The company also expects higher growth for the branded generic business in India, focusing on expanding coverage in six cities of Tier-2 category. This strategy will unlock new growth avenues and capture more market share. With a pipeline of ten Oncology assets planned for launch over the next four years, Torrent Pharma is committed to innovation and addressing unmet medical needs. The robust pipeline augurs well for future revenue growth and market differentiation. Torrent Pharma's commitment to delivering high-quality drugs in complex therapeutic areas has helped it to establish a competitive position in the pharmaceutical industry. Through a focused approach to branded generics, chronic care, strategic acquisitions, new product launches, high field force productivity, and investment in R&D, it has emerged as a leader in multiple therapeutic segments. Thus, we expect the company to deliver strong growth in its Domestic formulation business through its chronic portfolio.

"The company expects to deepen its presence in the branded generic market and continue launching new products."

Domestic business grew at a healthy pace



Source: Company Reports, BP Equities Research

Torrent Pharmaceuticals Ltd.

Curatio acquisition provides an entry into the lucrative dermatology segment

The acquisition of Curatio Healthcare strategically aligns with Torrent Pharmaceuticals' goal of diversifying its portfolio and tapping into high-growth segments. With Curatio's strong presence in the cosmetic dermatology market, Torrent Pharma gains immediate access to a worthwhile segment with promising growth prospects. As integrated Curatio's portfolio of over 50 well-established brands, including top performers like Tedibar, Atogla, Spoo, B4 Nappi, and Permit, ranked amongst the top five brands in their covered market. The top ten brands of Curatio account for ~75% of total revenue. With this acquisition, Torrent Pharma will add a field force of 600 MRs and a distribution network of 900 stockists. With this acquisition, Torrent Pharma solidifies its position as a significant player in the dermatology segment and will be the leader in the cosmetic dermatology space. Torrent's superior execution has increased Curatio's margins and profitability. Through Curatio, Torrent has successfully entered the dermatology therapy segment. Curatio's flagship brand, Tedibar, has reached annual sales of above Rs. 100 crore and is growing in double digits. Tedibar is prescribed for the treatment of atopic dermatitis by major paediatricians and dermatologists and is increasing in prevalence across the country. Curatio's reported revenue for FY21-22 was Rs 224 crores, whereas operating margins of the Curatio portfolio are now 7% higher than pre-acquisition, due to operational efficiency. Further, incremental margin expansion will appear in the coming quarters, while the longer-term margin profile will continue to improve due to operating leverage. Dermatology accounts for 82% of Curatio's revenue, while cosmetic dermatology is a leading contributor to dermatology. Over the last decade, cosmetic dermatology as a therapy has delivered an impressive 18% CAGR, which is 1.6x the IPM CAGR. Curatio has capitalized on this rapid growth, establishing a strong portfolio in the thriving dermatology segment. The acquisition enables Torrent Pharma to improve its ranking in the dermatology therapeutic space from 21st rank to 7th rank, with strong positioning within the cosmo-dermatology space. The acquisition offers Torrent the opportunity to enhance its presence in dermatology with a differentiated portfolio, expand into a high-growth segment, strengthen market position, and be a strong strategic fit.

“Torrent Pharma continues to extract synergies from Curatio.”

Torrent enters into league of Dermatology

Rank	Companies
1	GSK
2	Glenmark Pharmaceuticals
3	Sun Pharma Industries
4	Hegde & Hegde
5	Abbott India
6	Dr. Reddy's
7	Mankind
8	Zydus Lifesciences
9	Win-Medicare
10	Torrent + Curatio
11	Macleods
12	Intas
13	Cipla
14	USV
15	Galderma
18	Curatio
21	Torrent

source: AIOCD MAT Aug'22

Torrent will strengthen its position in top 5 amongst Dermatologist

Therapy	Torrent	Torrent + Curatio	Torrent Strength
IPM	6	5	√ √ √
Cardiac	2	2	√ √ √ √
Gastrointestinal	4	4	√ √ √ √
CNS/Neuro	3	3	√ √ √ √
Vitamin Mineral Nutrient	4	4	√ √ √ √
Anti Diabetic	9	9	√ √ √
Pain	7	7	√ √ √
Dermatology	21	10	√ √ √
Gynecology	17	17	√ √
Anti-infectives	21	21	√

Source: Company Reports, BP Equities Research

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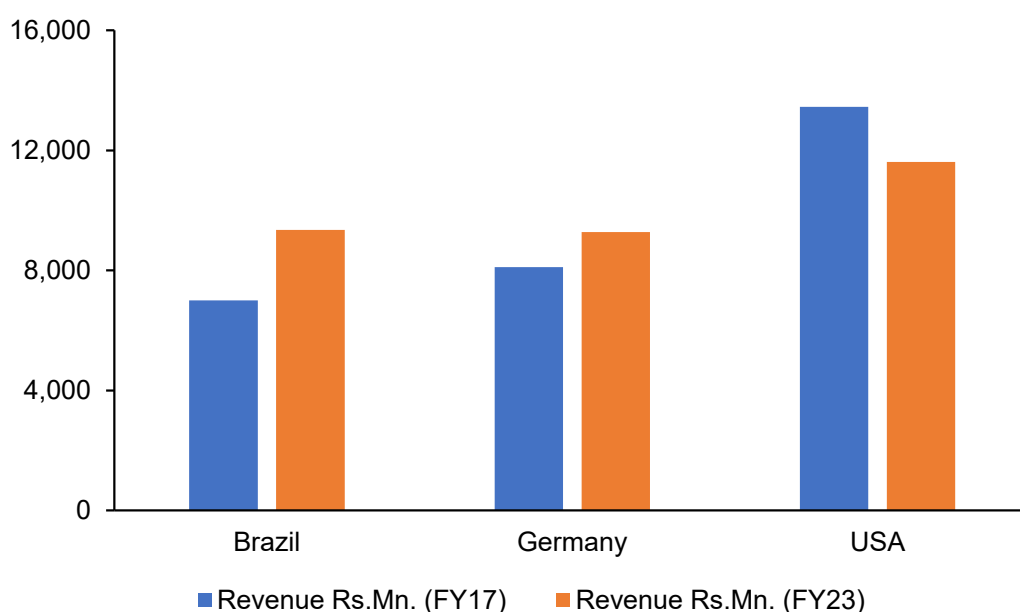
Brazil, Germany and US markets provide ample opportunities for sustainable growth

Torrent Pharmaceuticals has a diversified geographical presence, with significant operations in Brazil, Germany, and the US. The company is experiencing steady growth in Brazil and Germany, led by the performance of top brands, new launches, new tender wins, and an increase in field force coverage expansion, while facing challenges in the US market due to price erosion, lack of new product launches and USFDA pending approval. This geographical diversification reduces the dependency on any single market and provides avenue for future growth. In Brazil, Torrent Pharma is ranked no. 1 among Indian pharma companies, with a substantial market share and a range of approved products across key therapeutic segments like CNS, CVS, and Oral Anti-Diabetic/Obesity. Torrent Pharma's generic business (14% of Brazil's sales) aims to launch six products annually. It currently has 24 generic drugs in its portfolio, aiming to expand the portfolio and increase its share in existing molecules. Meanwhile, in branded generics, Torrent Pharma aims to launch 5-6 products per year across CNS, cardiac, and diabetes. As we advance, it will enter new therapies such as derma and oncology. Overall, the company expects double-digit growth in Brazil, led by a stronger second half, with Q3 and Q4 being the peak sales periods. Torrent forayed into Germany in 2005 with the acquisition of Heumann Pharma Generics, a Pfizer Group Company. The company is Germany's fifth largest Gx pharma company, with a 5.4% market share led by a growing portfolio and a successful track record of new product launches. The company's focus areas include working on cost-efficiency efforts to improve its market share in the tender segment, expanding the non-tender segment and developing a new segment. Over the medium term, the market is expected to grow at a CAGR of 4-7%, but the challenge of new entrants and increased competition could result in pricing pressure. However, Torrent Pharma's German business shall continue to witness a continued recovery trend aided by incremental tender wins, cost improvement strategies and OTC expansion. However, Torrent Pharma is ranked 12th among Indian companies operating in the US generics market, with a 10.5% market share. The US business delivered stable revenues for 9MFY24, while the legacy portfolio was impacted by mid to high single-digit price erosion. The company expects price stability in the US market but can change based on market dynamics. With the clearance of its Bileshwarpura Onco facility and plans to commercialize new products, Torrent aims to maintain a profitable presence in the US market. We believe that the growing incidence of chronic diseases, faster approval of generic drugs, and loss of exclusivity provides an opportunity to scale up business in the US market.

“Torrent Pharma expects Brazil to outperform market growth, led by market share gains through specialty focus, enhanced existing field force productivity and new product launches.”

“Torrent Pharma US business to see growth recovery from Q1FY25 onwards.”

Steady business growth in Brazil & Germany, with US expected to recover in FY25



Source: Company Reports, BP Equities Research

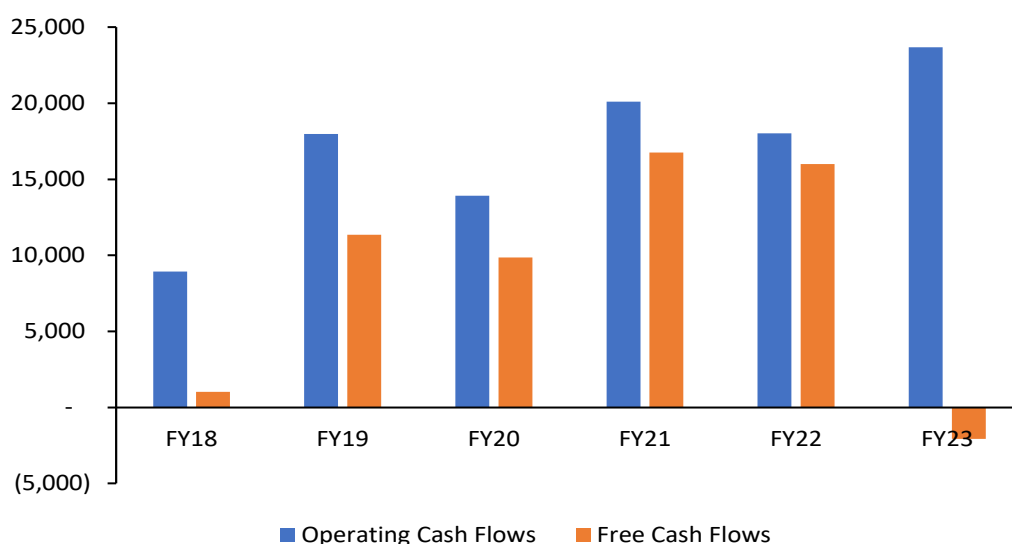
Torrent Pharmaceuticals Ltd.

Strong operational performance and debt reduction to drive financial performance

Torrent Pharma has registered a revenue CAGR of 10.1% between FY2018-23, driven by strong branded franchisee, new product launches, MR addition, consumer wellness foray, traction in Brazil with new launches and field force expansion in chronic business. Additionally, the turnaround in its generics business in key markets like the US, new launches from Dahej slated for FY25, USFDA clearance in August 2023, oncology filings, and tender wins in Germany further strengthen its prospects. The company's operating margin profile has moved upwards, attributable to lower input costs, improved MR productivity, change in product mix, and cost optimization measures. On the ratio side, Torrent Pharma RoCE improved from 14.1% in FY18 to 19.6% in FY23, owing to a sharp margin improvement. However, the RoE ratio remains robust due to Curatio integration and profitability turnaround. The company expects to deliver strong FCF generation over the years, led by robust OCF, minimal capex aided by net debt reduction over the last few years (was higher due to acquisitions) to ~0.8x of EBITDA as of December 2023. We, thus, believe that Torrent Pharma should strengthen its financial position and focus on debt reduction, laying a solid foundation for potential mergers and acquisitions, particularly within the Indian pharmaceutical landscape. This strategic quickness highlights the company's commitment to unlocking value and driving sustained growth.

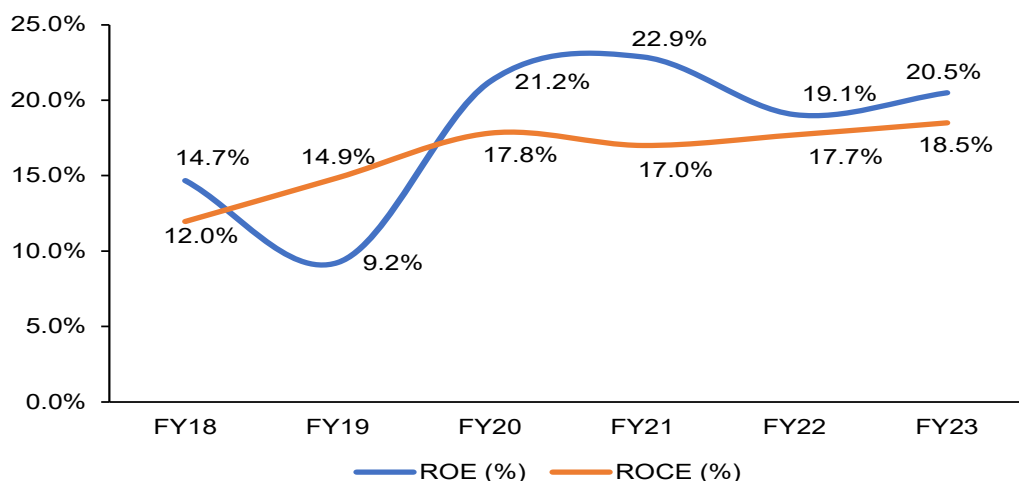
“Torrent Pharma’s strong branded franchisee, traction in Brazil and turnaround in the generics business in the US & Germany which will led to healthy growth over the next few years.”

Strong OCF ; Heavy Capex weighing on FCF (Rs. Mn.)



Source: Company Reports, BP Equities Research

Return ratios to remain robust going ahead



Source: Company Reports, BP Equities Research

Torrent Pharmaceuticals Ltd.

Q3FY24 Concall Highlights

(1) In Q3FY24, Torrent Pharma witnessed a sustained performance in branded generic markets, led by new product launches and a foray into new therapies. Torrent is ranked number one amongst the branded generic players in the sitagliptin market and continues to gain market share. (2) The branded generic market now contributes ~72% of sales and continues to deepen its presence. The company intends to maintain three to five branded launches annually as it advances. (3) Domestic revenue grew due to the strong performance of new launches. As per AIOCD secondary data for Q3FY24, Torrent's growth was 12% vs the IPM growth of 9%, aided by 4.1% from new product launches, 3.5% from volume and the rest from price increases. (4) With Curatio portfolio integration, Torrent accelerated growth with strong performance of top focus brands (Tedibar). The company expects India's business to outperform the IPM in the upcoming quarters. The rest of the year will focus on improving market share in focused therapies, new launch performance, and enhancing field force productivity in the expanded divisions. (5) Brazil witnessed strong market growth, and sales grew 26% YoY in Q3FY24, led by new launch momentum and a robust pricing environment. The company plans to launch three to five new branded products in Brazil in FY25. Further, in Brazil, the company now has three sales teams, two in CNS and one in cardio diabetes. The total number of representatives stood at 318. This will expand the company's reach, support new product launches, and help sustain strong outperformance against the market in Brazil. (6) Since the last few quarters, Germany witnessed a stable sequential recovery, driven by new tender wins and better conversion of existing tenders. The company expects benefits from incremental tender wins in Q3FY24, which will positively start delivering incremental sales in Q2FY25. Since the last three quarters, the company had an overall increase in the value of wins led by cost optimization efforts and experiencing better conversion of existing tenders. Torrent will focus on cost optimization to improve its competitiveness in the tender segment, launch new products, and develop its OTC business. (7) A lack of new launches impacted growth in the US business. Now, Torrent's capacities at Dahej are good enough to take care of new launches, and the products are shifting from Indrad, Gujarat, to Dahej. The company expects the company to launch seven to eight new products in the US starting from Q1FY25, which will further help enhance the overall company performance from FY25.

Companies	Revenue (Rs. Mn.)		EBITDA Margin		PAT Margin	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Torrent Pharmaceuticals Ltd.	107,975	121,617	31.3%	32.2%	15.0%	16.9%
Peers						
Cipla	258,208	280,015	24.4%	24.6%	16.0%	16.2%
Sun Pharmaceuticals Industries Ltd.	485,727	538,812	27.0%	28.0%	19.6%	20.8%
Eris Lifesciences	19,934	25,225	35.6%	36.4%	21.0%	18.2%
Gland Pharma	56,603	63,978	24.0%	25.3%	15.1%	17.0%

Source: BP Equities Research, Bloomberg estimate

Companies	Market Cap (Rs. Mn.)	P/E (x)		EV/EBITDA (x)		ROE	
		FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Torrent Pharmaceuticals Ltd.	910,510	55.8	44.1	28.4	24.5	24.3	26.6
Peers							
Cipla	1,193,250	29.3	26.7	18.6	17.0	16.2	15.6
Sun Pharmaceuticals Industries Ltd.	3,712,970	39.8	34.0	28.0	24.2	15.7	16.5
Eris Lifesciences	114,400	27.8	25.4	17.4	13.5	17.6	17.0
Gland Pharma	293,160	33.6	26.8	19.9	16.7	10.3	11.4

Source: BP Equities Research, Bloomberg estimate

Torrent Pharmaceuticals Ltd.

Valuation & Outlook

Torrent Pharma recorded strong revenue growth over the years, aided by growth in the domestic business led by traction in the chronic segment, new launches in focused therapies (anti-diabetic, CVS, gastro, VMN and pain), MR addition, and scale-up in Curatio business. Growth will also be supported by increasing traction in its consumer wellness foray (four brands, Shelcal, Tedibar, Unienzyme, and Ahaglow, added in this segment to expand in the near term). The Brazilian business is likely to sustain growth momentum on the back of new launches and field force expansion in CNS. Meanwhile, Germany's business witnessed a steady increase in revenue led by incremental tender wins, which will start delivering incremental sales in Q2FY25 and better conversion of existing tenders. Further, the company is currently poised for a turnaround, with plans to bolster its presence in the US market, driven by the scale-up of operations through new product launches from its Dahej plant. It expects to introduce 3-4 products annually from FY25 onwards. As we advance, Torrent Pharma's focus will include cost optimization to improve the tender segment's competitiveness, new products launch, and development of its OTC business. Torrent Pharma looks better placed to capitalize on the opportunities due to its robust chronic presence in the domestic market. Given these factors, we expect Torrent Pharma's revenue and operating performance to improve in future led by (1) Strong presence in highly profitable branded business in domestic, Brazil, and ROW markets; (2) Completion of the Curatio acquisition to provide strong growth visibility; (3) MR addition; (4) Foray into the consumer wellness business; (5) Focus on deepening its presence in the branded generic market while growing in Germany and returning to profitable growth in the US business. **Thus, we expect Torrent Pharma to generate stable revenues over the long term and is trading at a EV/EBITDA of 28.4x/24.5x/21.1x on FY24e/25e/26e estimates. We ascribe a BUY rating for a TP of Rs 3,063 implying an upside of 18.0%.**

Torrent Pharmaceuticals Ltd.

Key Financials

YE March (Rs. mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	80,050	85,080	96,200	107,975	121,617	137,183
Growth %	0.8%	6.3%	13.1%	12.2%	12.6%	12.8%
EBIDTA	24,800	24,310	28,420	33,782	39,190	45,502
Growth%	14.3%	-2.0%	16.9%	18.9%	16.0%	16.1%
Net Profit	12,520	7,770	12,450	16,208	20,516	25,504
Growth %	22.1%	-37.9%	60.2%	30.2%	26.6%	24.3%
Diluted EPS	37.0	23.0	36.8	47.9	60.6	75.4

Key Ratios

EBIDTA (%)	31.0%	28.6%	29.5%	31.3%	32.2%	33.2%
NPM (%)	15.6%	9.1%	12.9%	15.0%	16.9%	18.6%
ROE (%)	22.9%	19.1%	20.5%	24.3%	26.6%	27.9%
ROCE (%)	17.0%	17.7%	18.5%	22.0%	25.6%	28.3%
P/E (x)	70.2	113.0	70.5	54.2	42.8	34.4
EV/EBITDA (x)	19.0	20.9	22.6	28.4	24.5	21.1
Net Debt/ EBITDA (x)	1.7	1.5	1.6	1.0	0.6	0.2

Source: Company Reports, BP Equities Research

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