TORRENT PHARMA

nuvama institutional equities

COMPANY UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	3,408
12 month price target (INR)	3,920
52 Week High/Low	3,591/2,758
Market cap (INR bn/USD bn)	1,153/13.5
Free float (%)	31.7
Avg. daily value traded (INR mn)	1,252.2

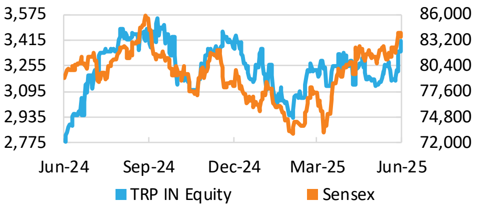
SHAREHOLDING PATTERN

	Mar-25	Dec-24	Sep-24
Promoter	68.31%	68.31%	71.25%
FII	16.31%	16.17%	14.46%
DII	8.35%	8.35%	7.08%
Pledge	0%	0%	0%

FINANCIALS (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Revenue	1,07,278	1,15,160	1,30,809	1,48,033
EBITDA	33,677	37,210	43,502	49,821
Adjusted profit	15,941	19,282	26,194	31,789
Diluted EPS (INR)	47.1	57.0	77.4	93.9
EPS growth (%)	28.0	21.0	35.8	21.4
RoAE (%)	25.4	26.5	30.4	29.0
P/E (x)	72.4	59.8	44.0	36.3
EV/EBITDA (x)	35.2	31.7	26.2	22.2
Dividend yield (%)	0.9	0.9	0.5	0.5

PRICE PERFORMANCE



JB improves revenue mix; long-term positive

Torrent Pharma (TRP) is acquiring a controlling stake in JB Chemicals and Pharma (JBCP) at an equity valuation of ~INR257bn. TRP, after completing regulatory processes, also plans to merge JBCP with TRP.

We think the deal is promising due to JB's superior RoCE (32%), strong brand recall, chronic portfolio and addition of profitable CDMO piece. TRP would also jump to fifth rank in IPM and become the largest cardiac therapy company in India immediately after the deal. The deal shall be largely funded by leverage and the company expects debt/EBITDA to be < 0.5x in two years. We think the deal shall be margin/EPS dilutive until FY28 contrary to TRP's expectations, but like TRP's continued India allocation. Retain 'BUY' with a TP of INR3,920.

TRP to acquire JBCP in two-step process, including merger

Torrent Pharma is acquiring a controlling stake in JB Chemicals from private equity firm KKR, at an equity valuation of INR257bn. This transaction would unfold in two phases: i) TRP shall acquire a 46.39% stake from KKR. Later, TRP also plans to acquire a 2.8% stake from JBCP employees for INR1,600/share. This shall be followed by a mandatory open offer to acquire a further 26% stake at a consideration of INR68bn. ii) TRP shall merge JBCP's business with itself, giving away 51 TRP shares for every 100 shares of JBCP. This would lead to ~23% increase in total number of shares.

Quality asset acquired at decent valuation

With this deal, TRP gains access to strong brands such as Cilacar, Rantac, Merogyl, Nicardia and Sporlac while also potentially increasing its domestic business contribution by ~50bp. TRP shall move up the ranks in IPM too, from number 7 to number 5 and gain a presence in new segments such as IVF and ophthalmic, with the consummation of this deal. At INR257bn equity value, TRP is acquiring JBCP at 27x FY27 P/E (~10% discount to pre-acquisition multiple) and ~19x FY27 EV/EBITDA (~5% discount), which we believe is reasonable given the size and quality of JBCP. The entire process is likely to be completed in 15–18 months, subject to requisite approvals from regulators as well as JBCP's minority shareholders.

Near-term margin/EPS dilution likely due to debt funding

TRP would be raising debt, which shall be the primary source of funding for this deal, with the cost of debt likely to be ~8%. The deal would be margin dilutive for TRP as JBCP's margins are lower than TRP's. Management is confident of replicating its M&A track record and believes the deal would be EPS accretive from FY28. We however think the deal would be EPS accretive only post-FY28. We note that TRP is acquiring a well-built and profitable business with strong RoCE of 32%. At an ~11% discount in pre-acquisition equity value, potential scale-up in key therapies in India, addition of high-margin CDMO business and history of garnering solid free cash flows, we think this deal is strategically positive for TRP. Retain '**BUY**' with a TP of INR3,920 (earlier INR3,760) as we rollover to Q1FY28E numbers. Note that we have not changed our numbers due to this transaction.

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Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Total operating income	1,07,278	1,15,160	1,30,809	1,48,033
Gross profit	80,416	87,400	1,00,459	1,13,986
Employee costs	19,844	22,030	24,586	27,386
R&D cost	5,270	5,810	6,540	7,402
Other expenses	21,626	22,350	25,831	29,377
EBITDA	33,677	37,210	43,502	49,821
Depreciation	8,083	7,950	8,280	8,378
Less: Interest expense	3,536	2,520	1,498	458
Add: Other income	579	230	1,200	1,400
Profit before tax	22,637	26,970	34,925	42,386
Prov for tax	6,957	7,620	8,731	10,596
Less: Exceptional item	884	(240)	0	0
Reported profit	16,564	19,110	26,194	31,789
Adjusted profit	15,941	19,282	26,194	31,789
Diluted shares o/s	338	338	338	338
Adjusted diluted EPS	47.1	57.0	77.4	93.9
DPS (INR)	30.0	32.0	16.9	16.9
Tax rate (%)	30.7	28.3	25.0	25.0

Balance Sheet (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Share capital	1,692	1,690	1,690	1,690
Reserves	66,869	74,220	94,711	1,20,797
Shareholders funds	68,562	75,910	96,401	1,22,487
Minority interest	0	0	0	0
Borrowings	40,028	31,720	18,720	5,720
Trade payables	20,893	18,200	25,087	28,390
Other liabs & prov	16,583	18,920	44,001	48,703
Total liabilities	1,50,606	1,49,900	1,89,581	2,11,362
Net block	31,394	32,090	29,568	27,031
Intangible assets	49,209	46,020	40,592	35,082
Capital WIP	2,808	3,670	3,670	3,670
Total fixed assets	83,411	81,780	73,830	65,783
Non current inv	318	440	440	440
Cash/cash equivalent	8,390	5,790	33,093	53,757
Sundry debtors	18,443	18,670	25,087	28,390
Loans & advances	31	50	50	50
Other assets	29,251	31,720	45,631	51,492
Total assets	1,50,606	1,49,900	1,89,581	2,11,362

Important Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Gross margin	75.0	75.9	76.8	77.0
R&D as a % of sales	4.9	5.0	5.0	5.0
Net Debt/EBITDA	0.9	0.7	(0.3)	(1.0)
EBITDA margin (%)	31.4	32.3	33.3	33.7
Net profit margin (%)	14.9	16.7	20.0	21.5
Revenue growth (% YoY)	11.5	7.3	13.6	13.2
EBITDA growth (% YoY)	18.5	10.5	16.9	14.5
Adj. profit growth (%)	28.0	21.0	35.8	21.4

Free Cash Flow (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Reported profit	16,564	19,110	26,194	31,789
Add: Depreciation	8,083	7,950	8,280	8,378
Interest (net of tax)	3,650	2,720	1,498	458
Others	9,696	10,380	29,806	12,848
Less: Changes in WC	4,424	(5,230)	(8,166)	(4,483)
Operating cash flow	32,661	25,850	47,833	40,155
Less: Capex	(4,328)	(6,110)	(330)	(330)
Free cash flow	28,333	19,740	47,503	39,825

Assumptions (%)

Year to March	FY24A	FY25A	FY26E	FY27E
GDP (YoY %)	6.7	6.0	6.2	6.2
Repo rate (%)	6.5	6.0	5.0	5.0
USD/INR (average)	82.2	84.6	86.0	86.0
India growth (%)	13.6	12.9	13.5	13.5
US sales (USD mn)	131.0	130.0	158.0	194.0
Brazil growth (%)	12.0	9.6	12.0	15.6
Germany growth (%)	8.1	4.2	5.0	5.0
RoW growth (%)	10.9	5.3	9.0	9.0

Key Ratios

Year to March	FY24A	FY25A	FY26E	FY27E
RoE (%)	25.4	26.5	30.4	29.0
RoCE (%)	23.3	27.3	32.7	35.2
Inventory days	306	317	358	389
Receivable days	64	59	61	66
Payable days	256	257	260	287
Working cap (% sales)	15.7	18.8	7.6	7.5
Gross debt/equity (x)	0.6	0.4	0.2	0
Net debt/equity (x)	0.5	0.3	(0.1)	(0.4)
Interest coverage (x)	7.2	11.6	23.5	90.6

Valuation Metrics

Year to March	FY24A	FY25A	FY26E	FY27E
Diluted P/E (x)	72.4	59.8	44.0	36.3
Price/BV (x)	16.8	15.2	12.0	9.4
EV/EBITDA (x)	35.2	31.7	26.2	22.2
Dividend yield (%)	0.9	0.9	0.5	0.5

Valuation Drivers

Year to March	FY24A	FY25A	FY26E	FY27E
EPS growth (%)	28.0	21.0	35.8	21.4
RoE (%)	25.4	26.5	30.4	29.0
EBITDA growth (%)	18.5	10.5	16.9	14.5
Payout ratio (%)	61.3	56.7	21.8	17.9

Source: Company and Nuvama estimates

Exhibit 1: *Pro forma* P&L of Torrent Pharma post-JB acquisition

	FY26E	FY27E	FY28E
Revenue from operations	1,74,615	1,97,045	2,19,159
COGs	45,046	50,226	55,038
Gross profit	1,29,570	1,46,820	1,64,121
GM	74.2%	74.5%	74.9%
EBITDA	55,464	63,707	72,066
EBITDA margins	31.8%	32.3%	32.9%
Depreciation and amortisation expense	15,106	18,676	18,425
EBIT	40,358	45,031	53,641
Other income	1,889	2,173	1,940
Finance costs	7,736	8,923	5,838
PBT	34,511	38,281	49,742
Total tax expense	8,628	9,570	12,436
PAT	25,883	28,710	37,307

Source: Nuvama Research

Assumptions

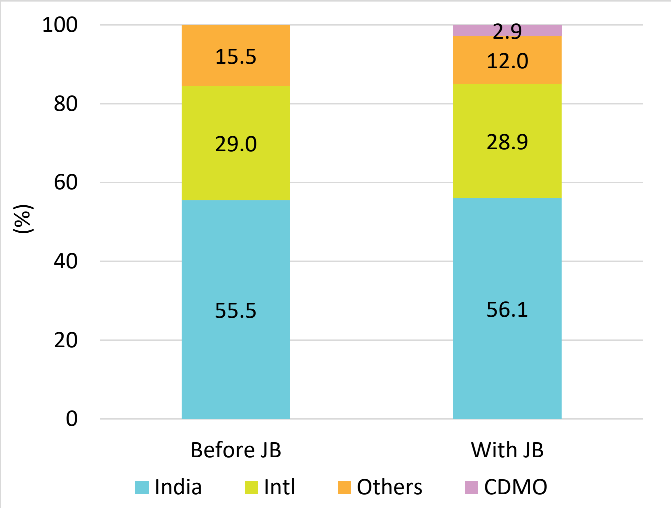
- Goodwill of INR8bn on Torrent's balance sheet
- Debt of INR100bn/INR105bn/INR71bn by FY26E/27E/28E, which includes debt repayment in FY27 and FY28.
- Interest cost at 8% and intangibles amortised over a 15-year period.
- JBCP's forecasts are based on consensus numbers from Bloomberg, which assume an 11% CAGR in revenue over FY27–28 and margins of 27%/28%/30% in FY26/27/28.
- We are assuming 40% of the open offer shall be tendered.
- FY27 is assumed to be a full year of consolidation.

Exhibit 2: TRP + JBCP: accretion/dilution scenario

	TRP (existing)		TRP + JBCP		Accretion/(dilution)	
	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E
Revenue from operations	1,48,033	1,64,802	1,97,045	2,19,159	33%	33%
EBITDA	49,821	55,695	63,707	72,066	28%	29%
PAT	31,789	36,654	28,710	37,307	-10%	2%

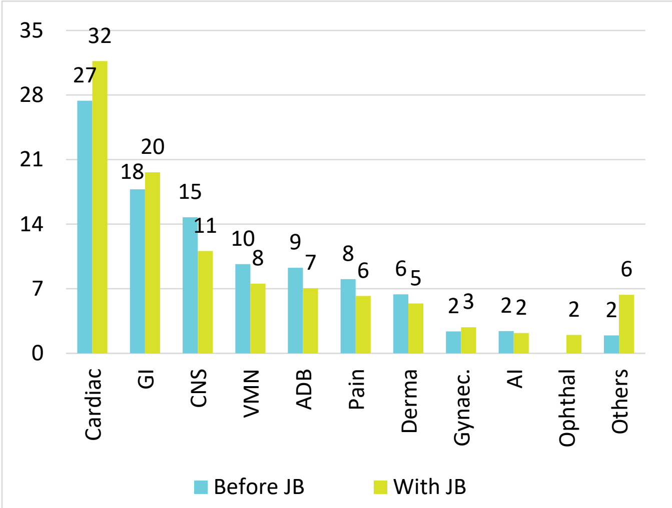
Source: Nuvama Research

Exhibit 3: Torrent's business mix based on FY25 numbers



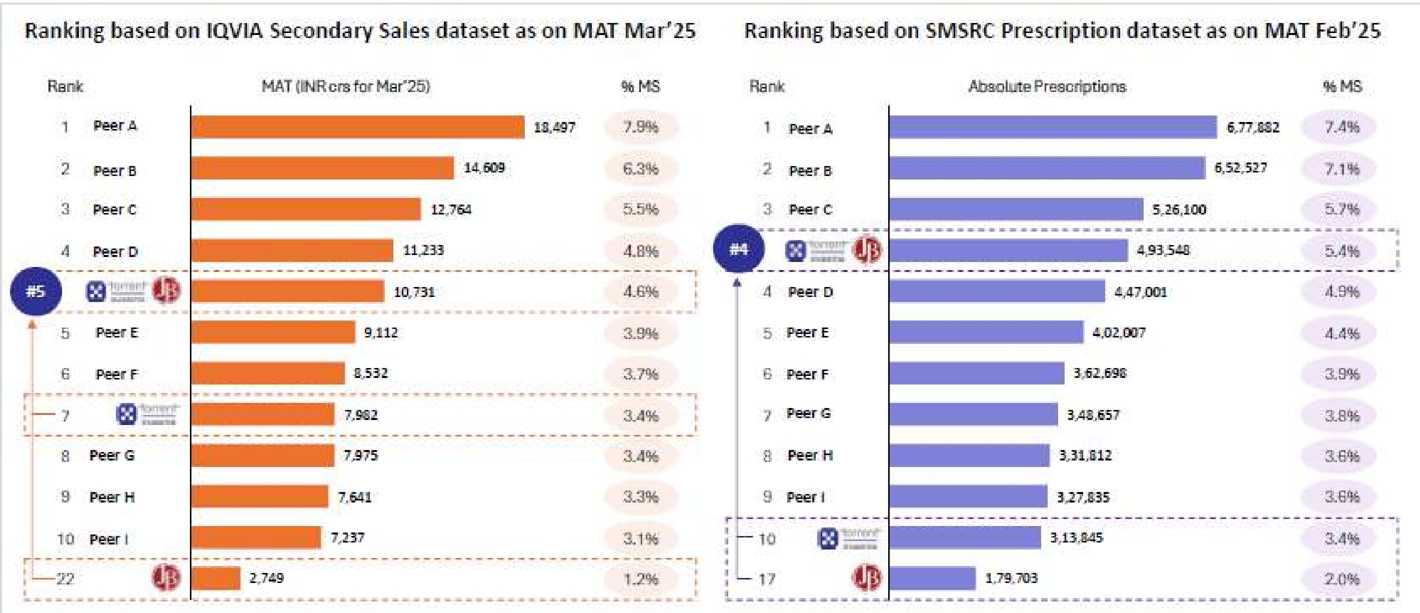
Source: Nuvama Research

Exhibit 4: India therapy mix of combined entity for FY25



Source: Nuvama Research

Exhibit 5: Improvement in rank for Torrent Pharma with this acquisition



Source: Company, Nuvama Research

Exhibit 6: Performance of JB's top 25 brands according to recent IQVIA data

Brand	MAT May-22	MAT May-23	MAT May-24	MAT May-25	CAGR (%)
Cilacar	2,762	3,360	4,060	4,699	19.4
Rantac	2,921	3,578	3,659	3,537	6.6
Cilacar-T	1,127	1,440	1,838	2,339	27.6
Metrogyl	1,575	1,942	2,119	2,289	13.3
Nicardia	1,165	1,532	1,788	2,092	21.6
Sporlac	674	925	993	1,215	21.7
Azmarda	805	1,158	701	738	-2.8
Vigamox	493	590	602	693	12.1
Cilacar-M	276	323	388	448	17.5
Lobun	196	177	318	389	25.6
Travatan	325	334	308	385	5.8
Razel	244	275	304	372	15.1
Metrogyl-P	251	304	313	357	12.5
Nevanac	348	361	323	343	-0.5
Rantac-Dom	231	263	300	342	14.0
Gynogen Hp	90	164	183	311	51.1
Z & D	189	213	218	276	13.4
Bizfer-Xt	161	187	237	272	19.1
Cilacar Tc	152	181	223	261	19.8
Metrogyl Dg	166	195	200	234	12.2
Razel-F	140	136	201	224	17.0
Laxolite	75	107	164	207	40.6
Ranraft	0	35	169	206	N.A.
Simbrinza	178	192	182	200	4.0
Pubergen-Hp	130	164	251	199	15.4

Source: IQVIA, Nuvama Research

Exhibit 7: Performance of JB's top ten therapies according to recent IQVIA data

Therapy	MAT May-22	MAT May-23	MAT May-24	MAT May-25	CAGR (%)
Cardiac	739.2	927.7	1061.9	1243.9	18.9
Gastro Intestinal	502.0	604.4	662.1	695.1	11.5
Ophthal / Otologicals	188.6	208.2	195.2	227.0	6.4
Anti-Parasitic	151.6	186.9	204.2	220.1	13.2
Gynaec.	70.2	90.2	108.6	115.9	18.2
Derma	48.2	56.5	61.2	70.8	13.7
Anti-Infectives	47.2	41.2	42.7	43.2	-2.9
Respiratory	21.6	35.4	41.5	40.6	23.4
Vitamins/Minerals/Nutrients	31.5	31.8	33.5	39.8	8.1
Pain / Analgesics	29.7	28.7	26.9	26.8	-3.4

Source: IQVIA, Nuvama Research

Conference call: Key takeaways

Deal details and rationale

- JBCP shall be able to open up new segments such as IVF and ophthalmic for Torrent. Switch to perpetual license agreement would aid gross margin.
- Trade visibility shall improve.
- Nephrology shall be an important growth driver in future where Torrent does not have a meaningful presence as of now.
- **Timeline:** i) CCI approval (four–five months/mid-Dec'25); after this, one month process for open offer; thereafter merger shall take 12 months.
- Nine–12 months ago, markets were difficult with respect to valuation, but now, it is looking attractive. Recent block deal at INR1,625/share also helped.
- As of now, no plans exist to change anything with respect to management/manpower and it should be business as usual.
- Torrent has no presence in CDMO as of now and believes JBCP has a good set of customers with high stickiness, stable volumes and in key EMs.
- US, Russia and South Africa are the most interesting regions. JBCP's brands are doing very well in Russia. JBCP has a strong platform in South Africa.
- Requires ~26% approval from JBCP shareholders.
- The company does not expect attrition to be an issue.
- TRP is confident that the CCB portfolio has a long runway (at least five years). Silacar is a preferred molecule due to a scientific reason.

Deal synergies

- Procurement-related savings and better bargaining power.
- SG&A optimisation by eliminating duplicate roles over time.
- Optimum capacity utilisation.
- Some tax benefit advantages are also present.
- The moment Torrent gets control, synergies shall start flowing and Torrent will give guidance accordingly.
- Potential to increase margins exists compared with current levels. For the first two years, it would be from the cost side while three–five years down the line, it would be more from the revenue side.
- Torrent shall try to move to the front end over time, from the current cost-plus model in the US.
- No synergies exist between existing insulin CDMO and the CDMO that will come now (lozenges).
- A high overlap exists in prescribers in the chronic and cardiac segment. Some niche prescribers may be added from JBCP's coverage.

Financials

- **Funding:** The deal would be funded by borrowing and the company is comfortable with debt from a servicing point of view. No QIP is planned.
- FY27 would be a year when consolidation will take place.
- Torrent expects to be below 0.5x (debt-to-EBITDA) in two years.
- Likely to be cash accretive in year-1. FY28 should be EPS accretive (40% minimum tender offer getting triggered is the assumption; at 100%, it will be a year after that).
- The incentive structure at various levels is slightly different at both companies, but most levels are similar.
- Tax benefit from amortisation of goodwill can be received by Torrent. A 75–80% is intangibles and amortisation will be over 15 years.
- INR11bn is pre-ESOP EBITDA for FY25.
- Torrent has got an indication that employees would be interested in accelerated ESOP vesting and sale; hence the offer has been planned.
- Torrent’s RoCE is likely to be back to current levels by FY28.
- Torrent does not envisage any major divestments.
- Cost of debt should be little lower than 8% with quite a few options for the debt instrument.

Company Description

Torrent Pharmaceuticals (TRP) is one of the few companies in the pharma space with a focus on cash flows and thus the domestic market remains its first choice. In pursuit of growth in domestic market, company has performed two bold acquisitions over the past five years — Elder (acquired at 5x sales) and leveraged buyout of Unichem (acquired at 4x sales). TRP was very successful in accelerating growth in Elder's portfolio post acquisition and it is yet to see a similar ramp-up in Unichem's portfolio. Other focus markets include Brazil, Germany and the US, where it has recently started focusing on complex generics.

Investment Theme

TRP continues to focus on branded business mix from India and Brazil, which bodes well for sustainable growth. Domestic business' fieldf-orce expansion and trade generics uptick should provide a fillip. The launches in US coupled with incremental tender wins in Germany bode well. The GLP-1 opportunity is a key monitorable.

Key Risks

- Failure to acquire the desired stake in JB Chemicals through open offer
- Challenges to accrue the synergies arising from the JB acquisition
- Lack of recovery in volume growth in IPM
- USFDA related regulatory risks
- Delay in product launches in Brazil, Germany and US could restrict growth in these key geographies
- Currency risk due to the exposure to Brazil market

Additional Data

Management

Chairman	Sudhir Mehta
Executive Chairman	Samir Mehta
CFO	Sudhir Menon
Auditor	B S R & Co. LLP

Holdings – Top 10*

	% Holding		% Holding
Blackrock	1.46	FundRock	0.90
SBI PF	1.45	HDFC AMC	0.69
Vanguard	1.33	UTI AMC	0.57
Goldman Sachs	1.11	Nippon Life AMC	0.56
Franklin Resour	0.97	ICICI Pru Life	0.53

**Latest public data*

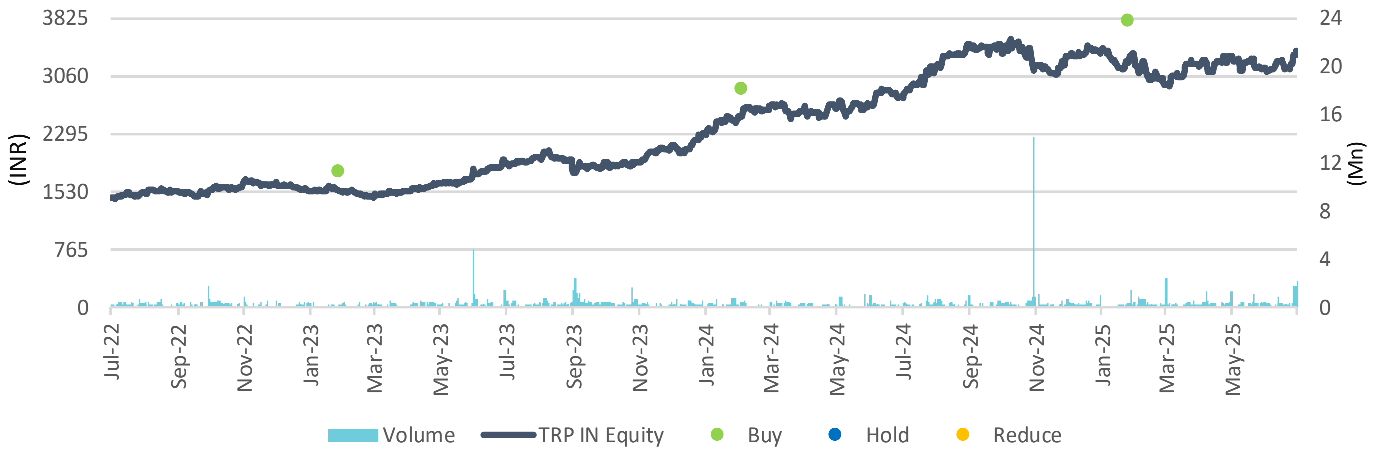
Recent Company Research

Date	Title	Price	Reco
21-May-25	India field force expansion to continue ; *Result Update*	3,233	Buy
24-Jan-25	Brazil plays spoilsport; strong margins ; *Result Update*	3,227	Buy
25-Oct-24	Optimism of branded business; *Result Update*	3,433	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
26-Jun-25	Pharmaceuticals	Differentiated ideas take front seat; *Sector Update*
19-Jun-25	Aurobindo Pharma	New assets: A pill for healthy future ; *Visit Note*
18-Jun-25	Pharmaceuticals	May-25: Modest growth; GLP-1 striking; *Sector Update*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	203
Hold	<15% and >-5%	63
Reduce	<-5%	36

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