

## Curatio acquisition to strengthen branded portfolio...

**About the stock:** Incorporated in 1959, Torrent remains a key play in branded generics (~60% of sales) with a strong India franchise and growing exports traction.

- Revenues: India & CRAMs (57%), Brazil (9%), US (13%) and Germany (11%)
- Torrent is the eighth largest domestic player and is ranked in top 10 for CVS, CNS, V&M, GI and anti-diabetes therapies in India

### Event: Acquisition of Curatio Healthcare

- The company is set to acquire 100% of Curatio Healthcare for ₹ 2000 crore. The consideration includes ₹ 115 crore of cash and cash equivalents in the acquired business indicating an enterprise value of ₹ 1,885 crore
- Curatio has a strong presence in the cosmetic dermatology segment with a portfolio of over 50 brands, marketed in India. Top 10 brands of Curatio account for ~75% of total revenue. With this deal, Torrent Pharma will enter the league of top 10 players in the dermatology segment and will be the leader in the cosmetic dermatology space
- Curatio reported revenues of ₹ 224 crore in FY22 and is expected to post ₹ 275 crore revenue in FY23, thus valuing the deal at 8.4x and 6.9x FY22 and FY23E EV/sales, respectively

**What should investors do?** Torrent's share price grew 1.8x over past three years.

- We maintain **BUY** rating on the stock despite the steep valuation of this deal due to 1) gap filling in dermatology with differentiated and growing portfolio and 2) track record of the company for faster integration and turnaround of acquired assets in the domestic space. Additionally, we expect near term margin dilution in H2FY23 due to this deal to be largely offset by back-ended synergy and integration benefits

**Target Price and Valuation:** Valued at ₹ 1730 i.e. 37x P/E on FY24E EPS of ₹ 46.7

### Key triggers for future price performance:

- Integration of Curatio's brands along with 600 MRs and 900 stockists for focused approach in cosmetic and paediatric dermatology
- In India, Torrent has expanded field strength by 300 to 4,200 MRs. Also, it forayed into the fast growing trade generic segment for acute therapies
- Torrent has a good presence in Brazil and expects traction for new launches in branded space while Germany tender wins will be key in H2FY23
- Awaiting clearance for Dahej and Indrad facility from the USFDA. New launches are key to offsetting persisting price erosion in business

**Alternate Stock Idea:** Apart from Torrent, in healthcare coverage we like Cipla

- Cipla has long-drawn strategy of targeting four verticals viz. One-India, South Africa & EMs, US generics & specialty and lung leadership
- BUY with a target price of ₹ 1135

### Key Financial Summary

Key Financials (₹ crore)	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenues	7939.0	8005.0	8508.0	7.8	9590.7	10819.2	12.8
EBITDA	2170.0	2480.0	2431.0	12.0	2880.8	3232.3	15.3
EBITDA margins (%)	27.3	31.0	28.6		30.0	29.9	
Net Profit	1025.0	1252.0	1084.4	-3.6	1354.4	1580.4	20.7
EPS (₹)	30.3	37.0	32.0		40.0	46.7	
PE (x)	48.7	39.9	64.2		40.6	31.6	
RoNW (%)	21.2	21.4	18.2		19.8	19.7	
RoCE (%)	15.4	17.6	19.7		19.1	21.4	



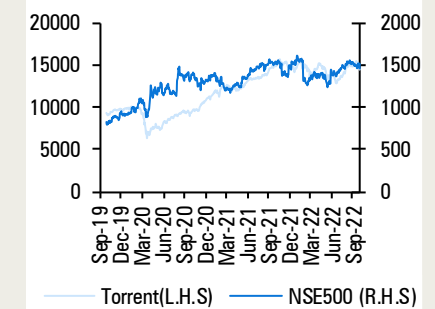
### Particulars

Particular	Amount
Market Capitalisation	₹ 49921 crore
Debt (FY22)	₹ 4018 crore
Cash (FY22)	₹ 403 crore
EV	₹ 53536 crore
52 week H/L (₹)	1652/1243
Equity capital	₹ 169.2 crore
Face value	₹ 5

### Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	71.3	71.3	71.3	71.3
Others	28.8	28.8	28.8	28.8

### Price Chart



### Recent Event & Key risks

- Acquisition of Curatio Healthcare
- Key Risk:** (i) Regulatory delays (ii) Lower than expected take-off in tender market in Germany

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## Key takeaways

### Curatio Acquisition: Opportunity to enhance presence in dermatology

- Curatio has a strong presence in the cosmetic/paediatric dermatology segment with a portfolio of over 50 brands (79% chronic/sub-chronic), marketed in India. Curatio’s portfolio consists of leading brands such as Tedibar, Atogla, Spoo, B4 Nappi, and Permite, which are ranked among top five brands in their covered market
- Curatio’s revenues has grown at a CAGR of 13% over FY20-22 and is expected to grow 23% in FY23 to ₹ 275 crore. Top three and 10 brands contribute ~50% and 75% of the total sales, respectively
- Dermatology accounts for 95% of Curatio’s revenues. Within dermatology, cosmetic dermatology is a leading contributor with 84% share while other 16% is from medical derma. Over the last decade, cosmetic dermatology as a therapy has delivered an 18% CAGR, which is 1.6x of the IPM CAGR. Cosmetic dermatology is more a specialist focus business with 62% dermatologist contribution in total Rx, matching Torrent’s current DNA
- Torrent’s existing rank in Derma is 21 with ~₹ 120 crore business. Curatio offers specialised cosmetics and paediatrician dermatology, led by Tedibar with ₹ 76 crore sales in FY22 and growing at 25%. Torrent and Curatio’s overlap is limited to ~10%. The company has also ensured supply extension of current manufacturing arrangements for three years
- Curatio deal has opened the opportunity for Torrent to access OTx market through India’s leading baby product brand Tedibar; Spoo and Atogla
- EBITDA margins of Curatio are slightly lower than Torrent’s domestic margin but in line with Torrent’s consolidated margins. However, the management is confident of bringing the margins to Torrent’s domestic business. Curatio’s FY22 EBITDA was ₹ 60 crore, (EBITDA margins ~27%). EBITDA margins are likely to inch up due to better operating leverage
- The deal is likely to be funded with about 15% from internal accruals while about 85% will be raised through debt

Exhibit 1: Curatio Healthcare portfolio

Portfolio	Revenue Cont.% FY 22	Key Products	3 YR CAGR
Pedia Products	~60%	Tedibar : Low Ph bathing bar for Atopic Dermatitis Atogla Lotion & Cream : Emollients for Atopic Dermatitis Spoo : Rx Driven shampoo for cradle cap	17%
Acne/Face care	~20%	Tracnil : Therapy resistant acne, excessive hair due to PCOS Acnemoist : Dryness of skin caused by acne medications Clinmiskin : Antibiotics used for treatment of acne Fash : Purifying face wash for sensitive skin	15%
Hair/Scalp care	~12%	Perlice : Lice infestation treatment Proanagen : Hair thinning /Shedding face by women Noskurf : Anti dandruff long contact lotion	9%

Source: Company, ICICI Direct Research

Exhibit 2: ICICI Direct Coverage Universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
<b>Hospitals</b>																					
Apollo Hospitals	APOHOS	4263	5,080	Buy	61293	7.9	59.1	79.0	101.0	542.3	72.1	54.0	42.2	6.3	15.1	15.3	18.8	2.5	15.1	17.4	18.9
Narayana Hrudalaya	NARHRU	723	800	Buy	14778	-0.7	16.7	20.6	22.7	NA	43.2	35.2	31.9	1.2	20.5	19.6	19.7	-1.3	23.0	22.3	19.9
Shalby	SHALIM	130	150	Buy	1403	3.9	5.4	7.5	9.9	33.1	23.9	17.4	13.2	6.5	8.4	11.7	14.3	5.1	6.7	8.6	10.4
Aster DM	ASTDM	254	250	Buy	12688	3.0	10.5	10.8	16.7	85.9	24.1	23.6	15.3	5.4	9.0	9.4	12.5	4.4	13.3	12.0	15.6
Healthcare Global	HEAGLO	279	345	Buy	3876	-13.9	3.9	4.5	8.8	-13.9	72.1	61.3	31.6	-0.9	5.0	9.4	12.1	-0.9	5.0	6.8	11.6
<b>MNC Pharma</b>																					
Abbott India	ABBIND	18252	21,140	Hold	38784	325.0	375.9	427.7	528.6	56.2	48.6	42.7	34.5	33.8	36.6	37.1	37.3	26.5	28.3	28.9	28.8
P&G Health	MERLIM	3926	4,500	Hold	6517	106.5	116.0	124.8	140.6	36.9	33.9	31.5	27.9	32.2	39.8	36.0	33.8	25.1	31.2	28.1	26.2
Sanofi India	SANOFI	5838	6,885	Hold	13445	207.4	410.1	270.5	264.8	28.2	14.2	21.6	22.0	32.3	33.3	41.1	50.7	24.5	25.9	31.2	38.7
Pfizer	PFIZER	4127	4,480	Hold	18881	108.8	133.9	140.4	149.3	37.9	30.8	29.4	27.6	27.6	26.1	22.4	21.8	20.8	21.4	17.9	17.7
<b>Pharma</b>																					
Ajanta Pharma	AJAPHA	1256	1,495	Buy	16093	51.0	55.6	60.1	71.1	24.6	22.6	20.9	17.7	29.0	27.0	24.4	24.5	21.8	21.8	19.9	19.9
Alembic Pharma	ALEMPHA	606	590	Reduce	11915	62.8	27.8	15.3	26.9	9.7	21.8	39.6	22.5	25.1	10.6	6.5	10.5	24.1	10.4	5.6	9.1
Aurobindo Pharma	AURPHA	504	615	Hold	29552	55.0	47.4	41.1	51.3	9.2	10.6	12.3	9.8	16.9	12.9	11.5	13.3	14.7	11.3	9.0	10.1
Biocon	BIOCON	284	320	Hold	34091	6.3	5.7	5.5	11.3	45.4	49.9	52.1	25.0	7.7	7.5	4.1	6.5	9.9	8.1	2.8	5.5
Zydus Lifesciences	CADHEA	366	405	Hold	37016	23.3	21.0	21.0	23.8	15.7	17.4	17.4	15.4	13.8	12.0	11.8	11.7	18.4	12.6	11.4	11.6
Cipla	CIPLA	1099	1,135	Buy	88647	29.9	32.9	38.6	45.8	36.8	33.4	28.5	24.0	16.3	16.7	17.9	19.0	13.1	12.7	13.3	14.1
Dr Reddy's Labs	DRREDD	4227	4,750	Buy	70358	117.3	126.9	203.4	191.0	36.1	33.3	20.8	22.1	13.1	13.0	19.1	18.1	11.1	11.0	15.4	13.0
Glenmark Pharma	GLEPHA	375	440	Hold	10593	32.9	42.7	39.5	44.9	11.4	8.8	9.5	8.4	13.9	14.8	14.7	14.4	13.1	13.2	11.0	11.2
Ipca Laboratories	IPCLAB	911	985	Hold	23112	44.9	34.8	27.5	35.1	20.3	26.1	33.2	25.9	27.1	17.4	14.3	16.3	24.2	16.1	11.4	13.0
Jubilant Pharmova	JUBLIF	327	340	Reduce	5201	37.4	26.0	15.9	26.1	8.7	12.6	20.6	12.5	13.7	9.0	6.1	8.6	12.6	7.8	4.6	7.0
Lupin	LUPIN	663	610	Reduce	30160	26.9	11.9	11.8	27.7	24.7	55.9	56.4	23.9	9.6	3.4	5.8	10.9	8.8	4.4	4.2	9.2
Natco Pharma	NATPHA	600	735	Hold	10953	24.2	9.3	41.6	42.3	24.8	64.4	14.4	14.2	13.1	4.6	18.1	16.9	10.7	4.0	15.5	13.9
Sun Pharma	SUNPHA	914	1,125	Buy	219191	30.0	32.0	34.8	40.1	30.4	28.6	26.2	22.8	14.2	18.2	18.0	18.7	15.5	16.0	15.2	15.2
Torrent Pharma	TORPHA	1488	1,730	Buy	50367	37.0	32.0	40.0	46.7	40.2	46.4	37.2	31.9	17.6	19.7	19.1	21.4	21.4	18.2	19.8	19.7
Indoco Remedies	INDREM	333	525	Buy	3066	10.1	16.8	21.6	29.2	32.9	19.8	15.4	11.4	11.7	17.5	17.6	23.9	12.1	17.1	18.6	20.6
Caplin Point	CAPPOI	736	1,000	Buy	5575	81.7	85.3	70.4	73.0	9.0	8.6	10.5	10.1	25.3	23.7	22.6	0.0	20.4	20.2	18.7	17.5
Advanced Enzymes	ADVENZ	280	265	Reduce	3131	13.1	10.7	8.5	12.1	21.4	26.2	33.1	23.2	19.4	14.3	10.2	13.2	15.1	11.0	8.1	10.4
Hester Biosciences	HESPHA	2033	2,015	Reduce	1729	44.4	45.7	35.9	51.8	45.8	44.5	56.7	39.3	16.2	10.9	9.3	11.8	16.5	15.0	10.8	14.0
<b>API/GRAMS</b>																					
Divi's Lab	DIVLAB	3674	4,315	Buy	97536	74.7	111.5	93.0	113.5	49.2	32.9	39.5	32.4	27.6	30.2	22.8	24.4	21.3	25.2	18.4	19.2
Hikal	HIKCHE	335	290	Hold	4134	10.8	13.0	3.8	14.4	31.0	25.8	87.5	23.2	15.1	13.6	5.6	13.8	14.3	15.0	4.3	14.2
Syngene Int.	SYNINT	553	710	Buy	22183	10.1	9.9	11.5	14.6	54.6	56.0	47.9	37.9	11.5	11.7	12.8	15.2	13.5	12.9	12.4	13.7
Granules India	GRANUL	319	375	Buy	7909	22.2	16.6	21.9	26.8	14.4	19.2	14.6	11.9	24.0	15.6	18.6	20.5	25.3	16.0	17.6	17.9
Laurus Labs	LAULAB	508	675	Buy	27295	18.3	15.4	20.7	27.0	27.8	33.0	24.5	18.8	31.7	21.3	23.6	26.0	37.9	24.7	25.6	25.6
Suven Pharmaceutical	SUVPH	426	530	Hold	10852	14.2	17.8	17.0	17.6	29.9	23.9	25.1	24.2	31.2	37.5	28.7	25.0	30.7	29.7	23.0	20.0

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Revenues</b>	<b>8,005.0</b>	<b>8,508.0</b>	<b>9,590.7</b>	<b>10,819.2</b>
Growth (%)	0.8	6.3	12.7	12.8
Raw Material Expenses	2147.0	2443.0	2703.3	3042.9
Employee Expenses	1440.0	1526.0	1721.4	1947.5
Other Expenses	1938.0	2108.0	2285.2	2596.6
Total Operating Expenditure	5525.0	6077.0	6709.8	7586.9
<b>EBITDA</b>	<b>2,480.0</b>	<b>2,431.0</b>	<b>2,880.8</b>	<b>3,232.3</b>
Growth (%)	14.3	-2.0	18.5	12.2
Depreciation	658.0	662.0	746.9	826.3
Interest	353.0	255.0	302.9	295.3
Other Income	57.0	197.0	173.4	213.4
PBT	1526.0	1711.0	2004.4	2324.2
Total Tax	274.0	449.0	590.0	743.7
PAT before MI	1252.0	777.0	1229.4	1580.4
<b>Adjusted PAT</b>	<b>1,252.0</b>	<b>1,084.4</b>	<b>1,354.4</b>	<b>1,580.4</b>
Growth (%)	22.1	-13.4	24.9	16.7
<b>EPS (Adjusted)</b>	<b>37.0</b>	<b>32.0</b>	<b>40.0</b>	<b>46.7</b>

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	1350.0	805.0	1229.4	1580.4
Depreciation	658.0	662.0	746.9	826.3
Add: Interest Paid	358.0	255.0	302.9	295.3
Other operational Activities	-355.0	81.0	-140.9	-266.7
<b>CF from operation</b>	<b>2,011.0</b>	<b>1,803.0</b>	<b>2,138.3</b>	<b>2,435.3</b>
Purchase/sales of Fixed Assets	-334.0	-197.0	-2250.0	-250.0
(Inc)/Dec in Investments	-120.0	-8.0	0.0	0.0
Long Term Provision	0.0	0.0	36.9	40.6
Other Investing Activities	37.0	-18.0	-47.1	-51.8
<b>CF from Investing Activities</b>	<b>-417.0</b>	<b>-223.0</b>	<b>-2,260.2</b>	<b>-261.2</b>
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	-957.0	-846.0	1200.0	-1000.0
Dividend and dividend tax	-338.0	-677.0	-334.3	-390.1
Other Financing Activities	-361.0	-258.0	-302.9	-295.3
<b>CF from Financing Activities</b>	<b>-1,656.0</b>	<b>-1,781.0</b>	<b>562.8</b>	<b>-1,685.4</b>
Cash generation during the year	-62.0	-201.0	440.9	488.7
Op bal Cash & Cash equivalents	666.0	604.0	403.0	843.9
Adjustments	0.0	0.0	0.0	0.0
<b>Closing Cash/ Cash Equivalent</b>	<b>604.0</b>	<b>403.0</b>	<b>843.9</b>	<b>1,332.6</b>
<b>Free Cash Flow</b>	<b>1,677</b>	<b>1,606.0</b>	<b>-111.7</b>	<b>2,185.3</b>

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	85.0	85.0	169.2	169.2
Reserve and Surplus	5,753.0	5,868.0	6,678.9	7,869.2
Total Shareholders funds	5,838.0	5,953.0	6,848.1	8,038.4
Total Debt	4,825.0	4,018.0	5,218.0	4,218.0
Deferred Tax Liability	0.0	194.0	213.4	234.7
Other LT Liabilities & LT Provision	405.0	415.0	456.5	502.2
<b>Total Liabilities</b>	<b>11,068.0</b>	<b>10,580.0</b>	<b>12,736.0</b>	<b>12,993.3</b>
Gross Block - Fixed Assets	10,170.9	10,470.0	12,462.0	12,712.0
Accumulated Depreciation	3,446.9	4,306.0	5,052.9	5,879.2
Net Block	6,724.0	6,164.0	7,409.1	6,832.8
Capital WIP	889.0	629.0	679.0	679.0
Total Fixed Assets	7,613.0	6,793.0	8,088.1	7,511.8
Goodwill on Consolidation	341.0	259.0	467.0	467.0
Investments	181.0	226.0	226.0	226.0
Deferred tax assets	421.0	494.0	543.4	597.7
Other non-current assets	134.0	217.0	238.7	262.6
Cash	604.0	403.0	843.9	1,332.6
Debtors	1,523.0	1,633.0	1,751.8	1,976.2
Loans and Advances	3.0	3.0	4.1	5.2
Inventory	2,681.0	2,462.0	2,724.3	3,066.5
Other current assets	574.0	610.0	611.1	612.2
Total Current Assets	5,385.0	5,111.0	5,935.2	6,992.7
Creditors	2,067.0	1,674.0	1,852.4	2,085.0
Provisions & other current liability	940.0	846.0	910.1	979.5
Total Current Liabilities	3,007.0	2,520.0	2,762.4	3,064.5
Net Current Assets	2,378.0	2,591.0	3,172.8	3,928.2
<b>Application of Funds</b>	<b>11,068.0</b>	<b>10,580.0</b>	<b>12,736.0</b>	<b>12,993.3</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Reported EPS	37.0	23.0	36.3	46.7
BV per share	172.5	175.9	202.3	237.5
Dividend per share	35	48	10	12
Cash Per Share	17.8	11.9	24.9	39.4
<b>Operating Ratios (%)</b>				
Gross Profit Margins	73.2	71.3	71.8	71.9
EBITDA Margins	31.0	28.6	30.0	29.9
PAT Margins	15.6	12.7	14.1	14.6
Inventory days	455.8	367.8	367.8	367.8
Debtor days	69.4	70.1	66.7	66.7
Creditor days	351.4	250.1	250.1	250.1
Asset Turnover	0.8	0.8	0.8	0.9
EBITDA conversion Rate	81.1	74.2	74.2	75.3
<b>Return Ratios (%)</b>				
RoE	21.4	18.2	19.8	19.7
RoCE	17.6	19.7	19.1	21.4
RoIC	20.2	20.2	20.6	23.9
<b>Valuation Ratios (x)</b>				
P/E	39.9	64.2	40.6	31.6
EV / EBITDA	21.8	21.9	18.8	16.3
EV / Net Sales	6.7	6.3	5.6	4.9
Market Cap / Sales	6.2	5.9	5.2	4.6
Price to Book Value	8.6	8.4	7.3	6.2
<b>Solvency Ratios</b>				
Debt / EBITDA	1.9	1.7	1.8	1.3
Debt / Equity	0.8	0.7	0.8	0.5
Current Ratio	1.6	1.9	1.8	1.8

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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