

Torrent Pharma

Refer to important disclosures at the end of this report

Decent beat, but outlook remains weak; Retain Sell

CMP: Rs 2,580
as of (May 26, 2020)

TP: Rs 2,038 (▲)
12 months

Rating: SELL (■)

Upside: (21.0) %

- TRP's EBITDA came 4% ahead of our estimates, led by strong India sales (+11.4%yoy), which was propped by pre-emptive buying of chronic drugs in March end. Margins stood at 28.2%, 200bps higher than estimates.
- Unlike peers, TRP guided for a relatively moderate outlook across geographies, owing to lack of new approvals in the US, supply issues in Germany (to sort by H1 end) and weak FY21 economic outlook in Brazil.
- While India growth should outpace the industry in the near term as demand for chronic drugs recovers from Q2 onwards, our concerns remain on the dwindling volumes in key products even before Covid-19 struck. TRP's premium valuation multiples are highly sensitive to India growth, and we see a scope for disappointment here.
- No major change in earnings. We retain Sell, with a revised TP of Rs2,038 (earlier Rs1,932), valuing the stock at 25x (unchanged) Jun'FY22EPS (adjusting for Rs8/share amortization costs. We have extended the amortization period for Unichem/Elder from 15 years to 30 years). TRP remains an UW in EAP.

What we liked in the results: The 4% beat in EBITDA was led by strong growth in India (+11.4%yoy, +15%yoy adjusting for supply issues) over pre-emptive buying of chronic drugs in March end. US was flat qoq, while Brazil/Germany declined yoy. Gross margins improved 50bpsqoq (higher India sales), while staff costs were lower by 5% qoq as TRP is now capitalizing staff costs related to the Levittown facility – driving margin beat of ~200bps vs. our estimates, at around 28.2%.

Commentary suggests weak outlook: TRP outlined a moderate growth outlook across geographies led by the US (lack of new launches as Indrad/Dahej plants under OAI/WL), Brazil (Sharp currency depreciation/weak economic outlook; industry expected to grow by 1-2%) and Germany (logistic issues continue; expected to sort by Q2FY21 end). India growth should outpace industry, but will still be around 7%yoy, in our view. Weak revenue growth will drive negative operating leverage and negate any upsides from lower marketing spends. We expect margins to decline by 120bps yoy in FY21.

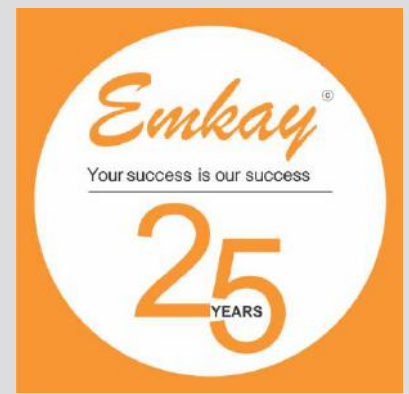
Outlook: Even before Covid-19, our concern on TRP has been the quality of domestic growth, driven by price hikes and weak volume growth. We believe that pricing-led growth is unlikely to sustain on the longer run and believe any slowdown in India sales would have a cascading impact on TRP's premium multiples. We largely retain earnings and maintain Sell, with a TP of Rs2,038 (adjusting for Rs8/share amortization costs; we have extended amortization period for Unichem/Elder from 15 years to 30 years). We retain Sell. TRP is an UW in EAP

Please see our sector model portfolio (Emkay Alpha Portfolio): [Pharmaceuticals \(page 9\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	74,620	77,800	82,833	90,221	99,384
EBITDA	19,946	21,700	22,171	25,050	27,819
EBITDA Margin (%)	26.2	27.3	26.1	27.1	27.3
APAT	8,036	10,250	9,584	11,874	14,162
EPS (Rs)	47.5	60.6	56.6	70.2	83.7
EPS (% chg)	(11.1)	27.6	(6.5)	23.9	19.3
ROE (%)	17.2	20.3	16.8	18.6	19.5
P/E (x)	54.3	42.6	45.6	36.8	30.8
EV/EBITDA (x)	23.9	21.6	20.7	17.7	15.5
P/BV (x)	9.2	8.1	7.3	6.4	5.7

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	(3)/1
Target Price change (%)	5
Target Period (Months)	12
Previous Reco	SELL

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	56.6	70.2
Consensus	-	-
Mean Consensus TP (12M)	Rs 2,228	

Stock Details

Bloomberg Code	TRP IN
Face Value (Rs)	5
Shares outstanding (mn)	169
52 Week H/L	2,699 / 1,441
M Cap (Rs bn/USD bn)	437 / 5.77
Daily Avg Volume (nos.)	6,75,193
Daily Avg Turnover (US\$ mn)	20.6

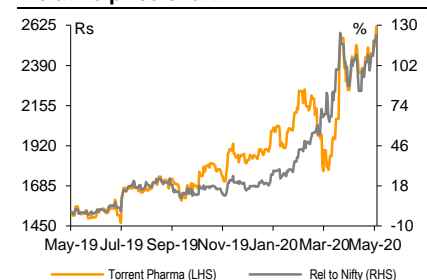
Shareholding Pattern Apr '20

Promoters	71.3%
FIIIs	9.6%
DIIIs	11.2%
Public and Others	8.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	6	15	45	70
Rel. to Nifty	8	51	94	123

Relative price chart



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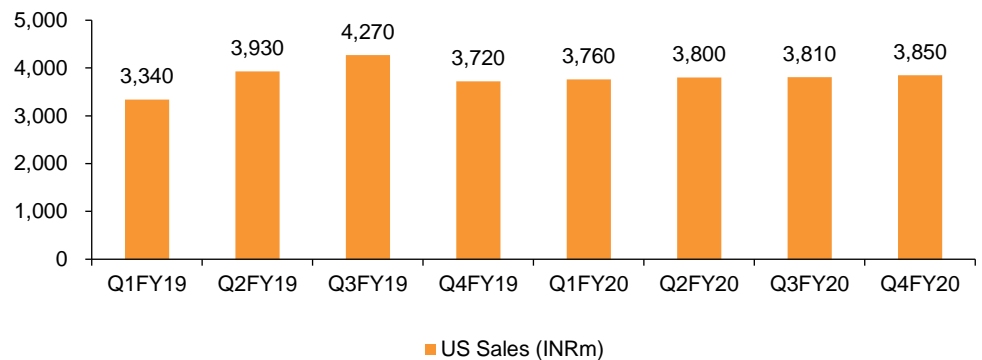
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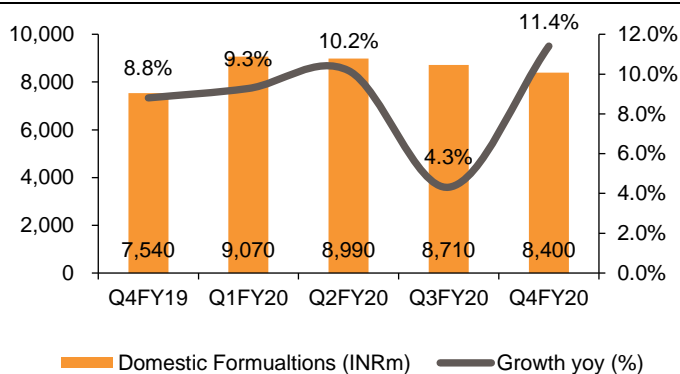
Story in Charts

Exhibit 1: US sales have been flattish since the last 7-8 quarters



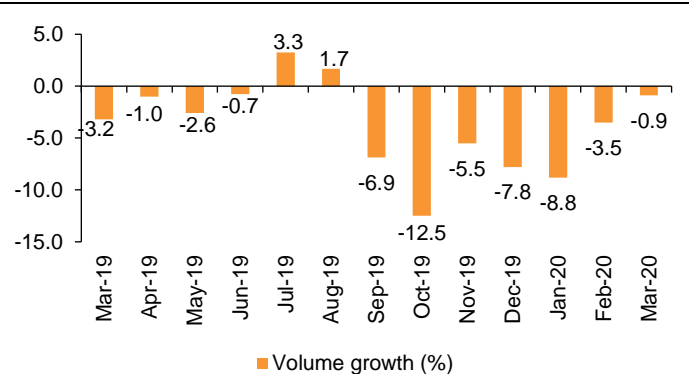
Source: Company

Exhibit 2: India growth has been relatively weaker in FY20 barring Q4 which benefited from a weak base and pre-buying



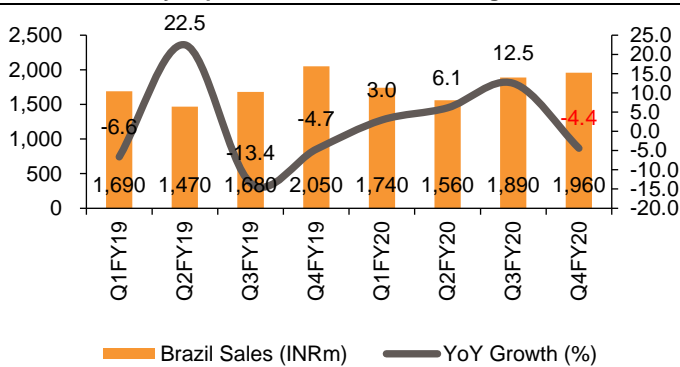
Source: Company

Exhibit 3: Volume growth has been consistently negative in last 12M



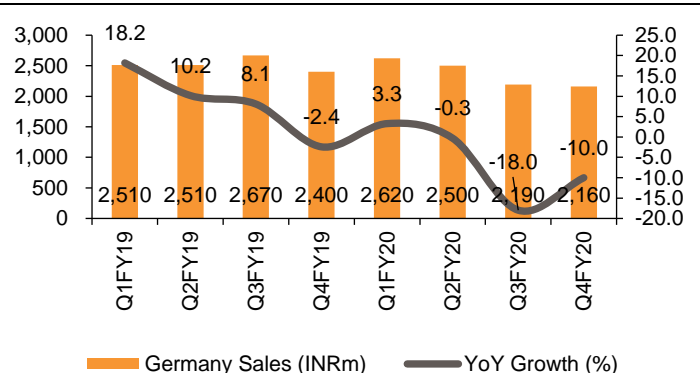
Source: Company

Exhibit 4: Brazil continues to underperform; Weak economic outlook+currency depreciation will ensure weak growth continues



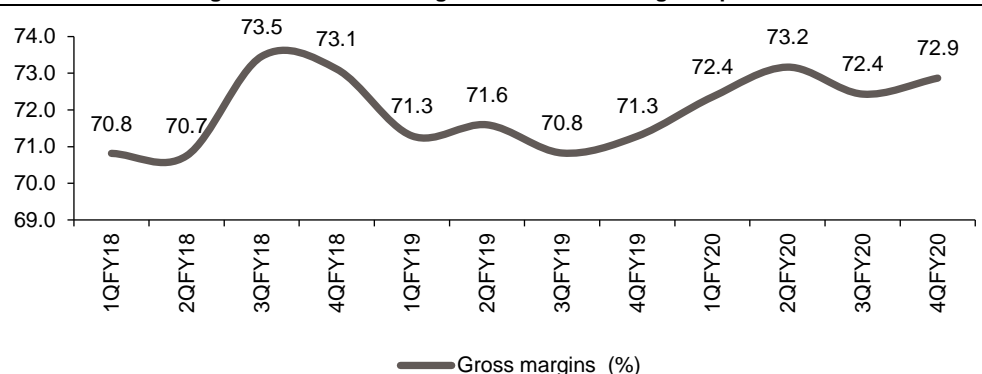
Source: Company

Exhibit 5: Germany logistic issues continue to haunt



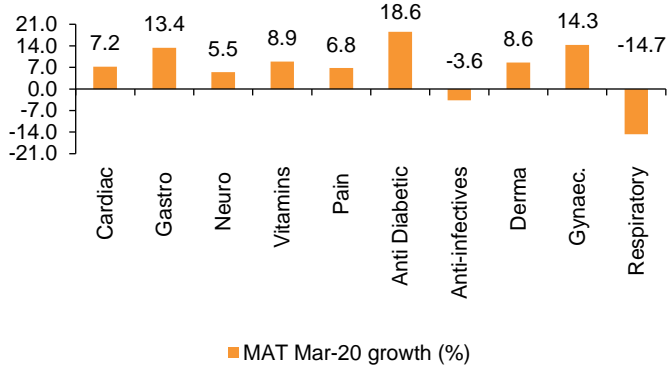
Source: Company

Exhibit 6: Gross margins benefitted with higher India sales during the quarter



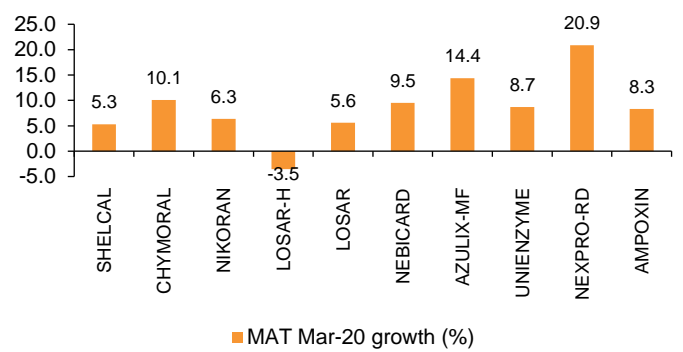
Source: Company

Exhibit 7: Top therapies performance for MAT Mar-20



Source: IQVIA

Exhibit 8: Top brands performance for MAT Mar-20



Source: IQVIA

Concall highlights

- Brazil sales were down 5% yoy to Rs1.9bn. Market growth has come down to sub 2% levels, with a sharp reduction in footfall post the Covid-19 disruption. However, 100% chronic portfolio for TRP in Brazil will help beat industry growth by 100bps-200bps.
- Germany sales stood at Rs2.2bn, down 10%, as serialization efforts continue to impact sales. TRP has guided for sales from Germany to normalize by the end of Q2FY21 post which they should see growth in high single digits or low teens.
- Domestic sales at Rs8.4bn grew 11.4% yoy. Higher exposure to chronic portfolio (~75% of portfolio) helped the company avert any short-term impact from the Covid-19-led disruption. MR productivity in India stood at Rs0.73mn p.m (flat qoq).
- TRP has completed all the CAPA (Corrective and preventive actions) w.r.t to the Dahej plant and will submit CAPA w.r.t Indrad by the end of Q2FY21. Upgradation of Levittown facility (under WL) should complete by end of Q2.
- Expect single-digit launches in the US in FY21. TRP has 48 ANDAs pending for approval and 6 tentative approvals in the US. TRP believes that sustaining the FY20 run-rate in absence of material product launches will be tough in the US in FY21. Currently, it has 93 approvals in all, of which 70 are commercialized.
- The tax rate will be around 22% in FY21, while capex around Rs2.5bn. It expects debt to reduce by Rs10bn in FY21.
- There was an increase in working capital across geographies by around Rs3-3.5bn. Specifically, in Germany, the working capital was higher due to late claim settlement from insurance companies.
- Supply issues in India have normalized, but shipments to export markets are delayed. Currently, 70% of exports are happening through air, whereas the remaining 30% is through the sea. This ratio was reverse earlier. Cost of air freights is 3-4x higher.

Exhibit 9: Quarterly Snapshot

(Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ (%)
Revenue	18,560	20,220	20,050	19,660	19,460	4.8	-1.0
Consumption of RM	5,330	5,590	5,380	5,420	5,280	-0.9	-2.6
as % of sales	28.7	27.6	26.8	27.6	27.1		
Employee costs	3,470	3,810	3,580	3,540	3,360	-3.2	-5.1
as % of sales	18.7	18.8	17.9	18.0	17.3		
Other expenditure	5,030	5,410	5,680	5,300	5,340	6.2	0.8
as % of sales	27.1	26.8	28.3	27.0	27.4		
EBITDA	4,730	5,410	5,410	5,400	5,480	15.9	1.5
Margins (%)	25.5	26.8	27.0	27.5	28.2		
Depreciation	1,600	1,600	1,630	1,630	1,680		
Other Income	170	200	340	530	150		
Interest	1,230	1,220	1,160	1,110	1,020		
PBT	2,070	2,790	2,960	3,190	2,930	41.5	-8.2
Total Tax	20	630	520	680	-210		
Tax rate (%)	1.0	22.6	17.6	21.3	-7.2		
PAT before MI	2,050	2,160	2,440	2,510	3,140	53.2	25.1
Minority interest (MI)	0	0	0	0	0		
Adj. PAT before extraordinary	2,050	2,160	2,440	2,510	3,140		
Extraordinary expenses	3,570	-	-	-	-		
Reported PAT	-1,520	2,160	2,440	2,510	3,140	-306.6	25.1
No. of shrs	169	169	169	169	169		
EPS	12.1	12.8	14.4	14.8	18.6		
Core EPS	12.1	12.8	14.4	14.8	18.6		
Margins (%)							
						bps	bps
Gross	71.3	72.4	73.2	72.4	72.9	159	44
EBIDTA	25.5	26.8	27.0	27.5	28.2	268	69
EBIT	17.8	19.8	20.5	21.9	20.3	252	-157
PBT	11.2	13.8	14.8	16.2	15.1	390	-117
Adj. PAT	11.0	10.7	12.2	12.8	16.1	509	337
Effective Tax rate	1.0	22.6	17.6	21.3	-7.2	-813	-2,848
Segmental breakup (Rs Mn)							
	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ (%)
Domestic formulation	7,540	9,070	8,990	8,710	8,400	11.4	-3.6
Brazil	2,050	1,740	1,560	1,890	1,960	-4.4	3.7
US	3,720	3,760	3,800	3,810	3,850	3.5	1.0
Europe	2,400	2,620	2,500	2,190	2,160	-10.0	-1.4
RoW	1,780	1,790	1,970	1,950	3,090	73.6	58.5
Total	18,560	20,220	20,050	19,660	19,460	4.8	-1.0

Source: Company

Exhibit 10: Actual vs Estimate

Figures in Rs mn	Actual	(Emkay Est)	(Bloom Est)	% Variation		Comments
				Emkay	Bloomberg	
Revenue	19,460	20,362	19,790	-4%	-2%	Good growth seen in domestic
EBITDA	5,480	5,286	5,315	4%	3%	
EBITDA margin (%)	28.2%	26.0%	26.9%	220	130	Better than expected margins
APAT	3,140	2,321	2,302	35%	36%	

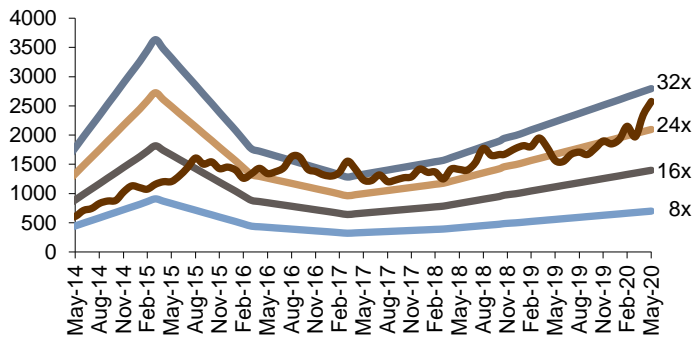
Source: Company, Bloomberg, Emkay Research

Exhibit 11: Change in estimates

Change in earnings estimates	FY21			FY22			FY23
	Old	New	Chng (%)	Old	New	Chng (%)	Introduce
Revenue	85,199	82,833	-2.8%	92,242	90,221	-2.2%	99,384
EBITDA	22,399	22,171	-1.0%	24,949	25,050	0.4%	27,819
Margin (%)	26.3	26.8		27.0	27.8		28.0
PAT	9,857	9,584	-2.8%	11,723	11,874	1.3%	14,162
EPS	58.2	56.6	-2.8%	69.3	70.2	1.3%	83.7

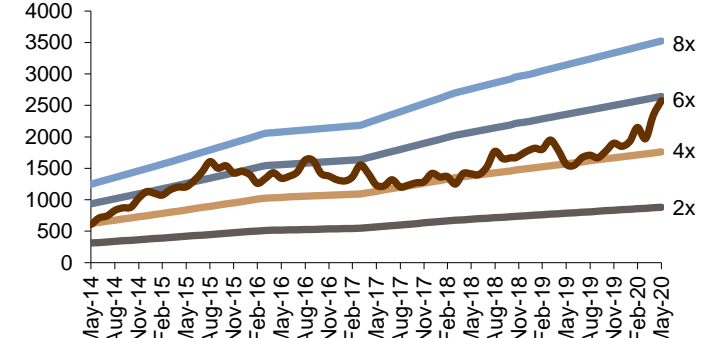
Source: Emkay Research

Exhibit 12: P/E chart



Source: Bloomberg

Exhibit 13: P/B chart



Source: Bloomberg

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	74,620	77,800	82,833	90,221	99,384
Expenditure	56,154	57,690	62,736	67,535	74,152
EBITDA	19,946	21,700	22,171	25,050	27,819
Depreciation	6,180	6,540	7,029	7,512	7,786
EBIT	13,766	15,160	15,142	17,538	20,033
Other Income	570	1,220	1,375	1,405	1,435
Interest expenses	5,040	4,510	4,230	3,720	3,312
PBT	9,296	11,870	12,287	15,223	18,156
Tax	1,260	1,620	2,703	3,349	3,994
Extraordinary Items	(3,676)	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	4,360	10,250	9,584	11,874	14,162
Adjusted PAT	8,036	10,250	9,584	11,874	14,162

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	850	850	850	850	850
Reserves & surplus	46,390	53,053	59,282	67,000	76,205
Net worth	47,240	53,903	60,132	67,850	77,055
Minority Interest	0	0	0	0	0
Loan Funds	48,690	44,690	38,690	34,690	30,690
Net deferred tax liability	(4,040)	(4,040)	(4,040)	(4,040)	(4,040)
Total Liabilities	91,890	94,553	94,782	98,500	1,03,705
Net block	77,480	73,840	69,311	64,299	61,513
Investment	2,250	2,250	2,250	2,250	2,250
Current Assets	50,410	58,359	66,607	79,144	91,430
Cash & bank balance	9,400	13,098	17,382	28,495	36,824
Other Current Assets	7,230	7,230	7,230	7,230	7,230
Current liabilities & Provision	44,420	45,666	49,157	52,963	57,258
Net current assets	5,990	12,693	17,451	26,181	34,172
Misc. exp	0	0	0	0	0
Total Assets	91,890	94,553	94,782	98,500	1,03,705

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	8,726	10,650	10,912	13,818	16,721
Other Non-Cash items	0	0	0	0	0
Chg in working cap	3,883	(3,005)	(474)	2,383	337
Operating Cashflow	17,981	17,075	18,994	24,085	24,162
Capital expenditure	(4,814)	(2,500)	(2,500)	(2,500)	(5,000)
Free Cash Flow	13,167	14,575	16,494	21,585	19,162
Investments	(1,144)	0	0	0	0
Other Investing Cash Flow	2,975	0	0	0	0
Investing Cashflow	(2,413)	(1,280)	(1,125)	(1,095)	(3,565)
Equity Capital Raised	4	0	0	0	0
Loans Taken / (Repaid)	(8,882)	(4,000)	(6,000)	(4,000)	(4,000)
Dividend paid (incl tax)	(3,097)	(3,588)	(3,354)	(4,156)	(4,957)
Other Financing Cash Flow	3,826	0	0	0	0
Financing Cashflow	(13,190)	(12,098)	(13,584)	(11,876)	(12,268)
Net chg in cash	2,378	3,698	4,284	11,113	8,328
Opening cash position	7,022	9,400	13,098	17,382	28,495
Closing cash position	9,400	13,098	17,382	28,495	36,824

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	26.2	27.3	26.1	27.1	27.3
EBIT Margin	18.1	19.1	17.8	18.9	19.6
Effective Tax Rate	13.6	13.6	22.0	22.0	22.0
Net Margin	10.6	12.9	11.3	12.8	13.9
ROCE	14.9	17.6	17.4	19.6	21.2
ROE	17.2	20.3	16.8	18.6	19.5
RoIC	17.2	20.6	21.2	26.7	33.2

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	47.5	60.6	56.6	70.2	83.7
CEPS	84.0	99.2	98.2	114.5	129.7
BVPS	279.1	318.5	355.3	400.9	455.3
DPS	18.3	21.2	19.8	24.6	29.3

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	54.3	42.6	45.6	36.8	30.8
P/CEPS	30.5	25.8	26.1	22.3	19.7
P/BV	9.2	8.1	7.3	6.4	5.7
EV / Sales	6.4	6.0	5.5	4.9	4.3
EV / EBITDA	23.9	21.6	20.7	17.7	15.5
Dividend Yield (%)	0.7	0.8	0.8	1.0	1.1

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.8	0.6	0.4	0.1	(0.1)
Net Debt/EBIDTA	2.0	1.5	1.0	0.2	(0.2)
Working Cap Cycle (days)	(16.4)	(1.9)	0.3	(9.1)	(9.5)

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	27.0	4.3	6.5	8.9	10.2
EBITDA	42.6	8.8	2.2	13.0	11.1
EBIT	39.1	10.1	(0.1)	15.8	14.2
PAT	(35.7)	135.1	(6.5)	23.9	19.3

Quarterly (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Revenue	18,560	20,220	20,050	19,660	19,460
EBITDA	4,730	5,410	5,410	5,400	5,480
EBITDA Margin (%)	25.5	26.8	27.0	27.5	28.2
PAT	(1,520)	2,160	2,440	2,510	3,140
EPS (Rs)	(9.0)	12.8	14.4	14.8	18.6

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Apr-20
Promoters	71.3	71.3	71.3	71.3	71.3
FIs	7.5	7.7	8.5	9.8	9.6
DIs	11.3	13.1	12.3	10.9	11.2
Public and Others	9.9	8.0	7.9	8.1	8.0

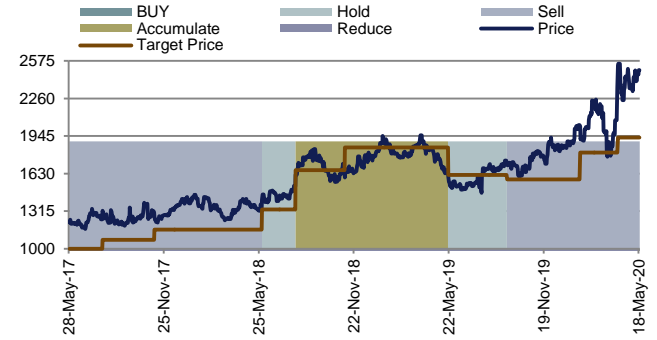
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
08-Apr-20	2,537	1,932	12m	Sell	Praful Bohra
27-Jan-20	2,027	1,806	12m	Sell	Praful Bohra
16-Dec-19	1,872	1,582	12m	Sell	Praful Bohra
14-Nov-19	1,772	1,582	12m	Sell	Praful Bohra
23-Oct-19	1,680	1,582	12m	Sell	Praful Bohra
10-Sep-19	1,717	1,582	12m	Sell	Praful Bohra
19-Aug-19	1,655	1,620	12m	Hold	Praful Bohra
24-Jul-19	1,607	1,620	12m	Hold	Praful Bohra
21-May-19	1,602	1,620	12m	Hold	Praful Bohra
05-Nov-18	1,597	1,850	12m	Accumulate	Jatin Kotian
03-Sep-18	1,825	1,660	12m	Accumulate	Jatin Kotian
03-Aug-18	1,623	1,660	12m	Accumulate	Jatin Kotian
11-Jul-18	1,461	1,330	12m	Hold	Jatin Kotian
10-Jul-18	1,457	1,330	12m	Hold	Jatin Kotian
29-Jun-18	1,401	1,330	12m	Hold	Jatin Kotian
31-May-18	1,412	1,330	12m	Hold	Jatin Kotian
10-May-18	1,348	1,160	12m	Sell	Jatin Kotian
07-Nov-17	1,269	1,160	12m	Sell	Jatin Kotian
11-Sep-17	1,192	1,075	12m	Sell	Jatin Kotian
29-Aug-17	1,217	1,075	12m	Sell	Jatin Kotian
31-Jul-17	1,318	1,075	12m	Sell	Jatin Kotian
15-Jun-17	1,234	1,000	12m	Sell	Jatin Kotian
05-Jun-17	1,214	1,000	12m	Sell	Jatin Kotian
29-May-17	1,220	1,000	12m	Sell	Jatin Kotian

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Pharmaceuticals



Analyst: Praful Bohra

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Sector

Pharmaceuticals

Analyst bio

Praful Bohra holds an MBA in Finance and has more than 11 years of experience in equity research. His team currently covers 12 stocks in the Pharmaceuticals space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Pharmaceuticals	4.95	4.95	0%	0	100.00
Aurobindo Pharma	0.42	0.62	45%	19	12.44
Cadila Healthcare	0.18	0.18	0%	0	3.69
Cipla	0.67	0.77	15%	10	15.54
Divi's Lab	0.61	0.61	0%	0	12.33
Dr. Reddy's Lab	0.97	0.97	-1%	-1	19.57
Glenmark Pharma	0.11	0.11	0%	0	2.19
Granules India	0.00	0.33	NA	33	6.70
Ipca Lab	0.22	0.31	37%	8	6.23
Lupin	0.44	0.60	36%	16	12.13
Sun Pharma	1.05	0.45	-57%	-59	9.17
Suven Life Sciences*	0.00	0.00	NA	0	0.00
Torrent Pharma	0.26	0.00	-100%	-26	0.00
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

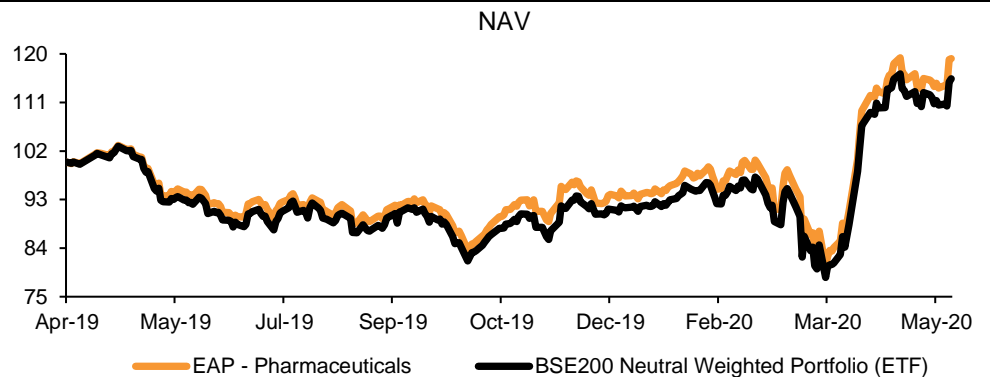
Sector portfolio NAV

	Base					Latest
	1-Apr-19	21-Aug-19	22-Nov-19	20-Feb-20	22-Apr-20	22-May-20
EAP - Pharmaceuticals	100.0	89.0	94.9	99.7	116.0	120.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	87.3	91.4	96.8	113.5	116.3

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 27 May 2020 03:22:45 (SGT)

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