

- Torrent reported better than expected operational performance led by lower R&D spend and capitalization of employee expense at Bio-Pharma facility in 4Q while the deferred tax aided PAT growth at 3x YoY (on a lower base).
- While India continue to lead growth (pre-buying in March aided growth, in-line), exports were a drag. Gross margin at 72.4% was a function of strong growth in India, leading to impressive EBITDA margin of 28.2% (our estimate: 25.4%).
- Though company remains confident of outperforming IPM growth, we remain wary of the exports (US – 2 key facilities under WL and OAI, Brazil – adverse currency and batch traceability regulations in Germany) given the weaker outlook.
- Further, per the management, growth sustenance without any newer approvals would be challenging in the US. We believe growth levers from India business has been captured largely and margins have peaked for Torrent. Focus will now shift to growth and balance sheet de-leveraging amidst challenging environment. Recommend SELL.

### Q4FY20 result snapshot

Torrent's Q4FY19 revenues grew 5% YoY, led by domestic revenues (including Unichem), which grew 11% YoY, adjusted for COVID, underlying growth was 15%. Other divisions, including the US (de-grew 4% YoY at \$52mn), Brazil (down 4% YoY), and other Gx market (up 13% YoY), were marginally lower than our estimates. Gross margin at 72% was led by a strong product mix, while EBITDA margin at 28% benefitted from capitalization of employee expenses, lower R&D spend and higher sales from India. Despite lower other income (lower hedging gains), deferred tax aided PAT, which stood at Rs3.1bn, way above our estimate of Rs1.9bn.

### Valuation

Lack of launches in the US, muted growth in Brazil, expectations are huge from India business to grow in high teens. Though the company has grown at 27% CAGR over FY17-19 in India, FY20 have been impacted led by rationalization in the tail end brands and shift of focus towards high end chronic brands. We take this into cognizance and build in 11% CAGR over FY20-22E for India. We build in 8% revenue CAGR and 10% PAT CAGR for FY20-22E. Torrent trades at 17.9x FY22E EV/EBITDA and 30.5x FY22E EPS, a significant premium to its peers. We believe the risk reward is unfavourable given the moderating growth in India and challenges in the export markets. Recommend SELL with a target price of Rs2,170.

### Q4FY20 Result (₹ Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	19,460	18,560	4.8	19,660	(1.0)
Total Expense	13,980	13,830	1.1	14,260	(2.0)
EBITDA	5,480	4,730	15.9	5,400	1.5
Depreciation	1,680	1,600	5.0	1,630	3.1
EBIT	3,800	3,130	21.4	3,770	0.8
Other Income	150	170	(11.8)	530	(71.7)
Interest	1,020	1,230	(17.1)	1,110	(8.1)
EBT	2,930	(1,500)	(295.3)	3,190	(8.2)
Tax	(210)	20	(1150.0)	680	(130.9)
RPAT	3,140	(1,520)	(306.6)	2,510	25.1
APAT	3,140	2,050	53.2	2,510	25.1
			(bps)		(bps)
Gross Margin (%)	72.9	71.3	159	72.4	44
EBITDA Margin (%)	28.2	25.5	268	27.5	69
NPM (%)	16.1	(8.2)	2433	12.8	337
Tax Rate (%)	(7.2)	(1.3)	(583)	21.3	(2848)
EBIT Margin (%)	19.5	16.9	266	19.2	35

CMP	Rs 2,582
Target / Downside	Rs 2,170 / 16%
BSE Sensex	30,672
NSE Nifty	9,029

### Scrip Details

Equity / FV	Rs 846mn / Rs 5
Market Cap	Rs 437bn
	US\$ 6bn
52-week High/Low	Rs 2,699/Rs
Avg. Volume (no)	680,700
NSE Symbol	TORNTPHARM
Bloomberg Code	TRP IN

### Shareholding Pattern Mar'20(%)

Promoters	71.3
MF/Banks/FIs	10.9
FIIIs	9.8
Public / Others	8.1

### Valuation (x)

	FY20A	FY21E	FY22E
P/E	36.9	40.7	30.5
EV/EBITDA	20.4	21.1	17.2
ROE (%)	24.8	20.5	23.0
RoACE (%)	16.2	13.0	15.8

### Estimates (₹ mn)

	FY20A	FY21E	FY22E
Revenue	80,980	84,597	93,608
EBITDA	23,290	22,116	26,311
PAT	11,840	10,732	14,325
EPS (Rs.)	70.0	63.4	84.6

VP Research: Sapna Jhawar  
Tel: +9122 40969724

E-mail: sapnaj@dolatcapital.com

## Exhibit 1: Revenue Mix

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
India	8,400	7,540	11.4	8,710	(3.6)	35,170	32,340	8.8
Brazil	1,960	2,050	(4.4)	1,890	3.7	7,150	6,890	3.8
US	3,850	3,720	3.5	3,810	1.0	15,230	15,890	(4.2)
Germany	2,160	2,390	(9.6)	2,190	(1.4)	7,724	8,433	(8.4)
RoW	2,040	1,800	13.3	1,950	4.6	9,506	8,447	12.5
Others	1,060	1,050	1.0	1,100	(3.6)	4,610	4,720	(2.3)
Total Income	19,470	18,550	(4.7)	19,650	(5.6)	79,390	76,720	(3.4)

Source: Company, DART

## Concall highlights

- Domestic formulations:** The quarter witnessed strong growth in key brands such as Shelcal (Rs4.5bn), Chymoral (Rs2bn) while Ampoxin (27% YoY) and Losar (-1% YoY). The current field-force strength stands at 4,000 MRs, with no further hiring for FY20. Management guided for the chronic and sub-chronic portfolio to grow ahead of the market. PCPM improved to Rs7.3mn PCPM. With 10 brands above Rs1bn sales, Torrent's fairly strong chronic product profile is likely to be less impacted.
- US business:** The US business continues to show resilience led by market share gains in existing products. As per IMS, 30 of Torrent's molecules are ranked among the top 3 in their respective therapies, leaving little scope for further gains. As per management, generic brands have gained market share in the US and the company is receiving enquiries for older products but they have been cautious in terms of demand sustainability. As of FY20, company has 73 products commercialized in the US. With no new approvals until facility clearances, growth in FY21E remains challenging.
- USFDA compliance:** Company has submitted CAPA for Dahej facility and will submit the CAPA for Indrad in Q2. However, no clarity on the inspections as of yet.
- Germany:** Tenders contribute 60% to Torrent's Germany revenue, followed by out-of-tender (30%) and OTC businesses (10%). Lower primary sales (due to system upgradation) led to cash depletion in Germany. Management expects the situation to rebound in Q2.
- Brazil:** Though on a constant currency basis, Torrent grew 11% in 4Q and FY20, local currency depreciation and sharp impact of COVID to lead to poor FY21E. Management remains confident of growing ahead of the market growth (IMS has cut Brazil's market growth forecast from 10% to 2%), with the focus on specialty areas, augmenting distribution channels, and enhancing MR productivity with new product additions.
- Operational performance:** While COVID led to disruption in supply chain, management highlighted higher costs in exports will be partially compensated by lower S&D related costs in India. Besides, the receivables issue followed by Lockdown in India has been easing gradually. Debt repayment remains major focus from hereon with no M&A in sight. Capitalization of employee expenses (to the tune of Rs100-110mn) w.r.t US facility under upgradation will continue for another 2 quarters.

## Financial

**Debt:** Torrent guided to reduce debt by Rs1bn in FY21E.

**Tax rate:** guided at 22-23% for FY21E

**Capex:** Rs2.5bn each for FY21E and FY22E.

### Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>76,728</b>	<b>80,980</b>	<b>84,597</b>	<b>93,608</b>
<b>Total Expense</b>	<b>56,897</b>	<b>57,690</b>	<b>62,482</b>	<b>67,297</b>
COGS	22,197	21,670	23,173	24,575
Employees Cost	14,038	14,290	15,348	16,545
Other expenses	20,663	21,730	23,960	26,177
<b>EBIDTA</b>	<b>19,831</b>	<b>23,290</b>	<b>22,116</b>	<b>26,311</b>
Depreciation	6,177	6,540	6,812	6,958
<b>EBIT</b>	<b>13,654</b>	<b>16,750</b>	<b>15,303</b>	<b>19,353</b>
Interest	5,038	4,510	2,037	1,448
Other Income	571	1,220	493	460
Exc. / E.O. items	(3,570)	0	0	0
<b>EBT</b>	<b>5,617</b>	<b>13,460</b>	<b>13,759</b>	<b>18,366</b>
Tax	1,254	1,620	3,027	4,040
RPAT	4,363	11,840	10,732	14,325
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>7,933</b>	<b>11,840</b>	<b>10,732</b>	<b>14,325</b>

### Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	846	846	846	846
Minority Interest	0	0	0	0
Reserves & Surplus	46,397	47,390	55,475	67,149
<b>Net Worth</b>	<b>47,244</b>	<b>48,236</b>	<b>56,321</b>	<b>67,996</b>
Total Debt	48,470	43,950	33,950	28,950
Net Deferred Tax Liability	5,125	8,470	5,673	6,188
<b>Total Capital Employed</b>	<b>100,838</b>	<b>100,656</b>	<b>95,944</b>	<b>103,134</b>

### Applications of Funds

Net Block	74,129	71,910	66,245	61,461
CWIP	9,519	10,540	10,671	10,747
Investments	2,000	2,220	2,440	2,682
<b>Current Assets, Loans &amp; Advances</b>	<b>55,561</b>	<b>55,710</b>	<b>54,956</b>	<b>68,809</b>
Inventories	19,352	21,480	22,174	23,842
Receivables	14,357	16,490	15,456	17,125
Cash and Bank Balances	8,160	6,660	4,457	13,725
Loans and Advances	5,870	6,480	8,062	8,793
Other Current Assets	4,308	4,600	4,807	5,326
<b>Less: Current Liabilities &amp; Provisions</b>	<b>40,371</b>	<b>39,724</b>	<b>38,368</b>	<b>40,565</b>
Payables	20,967	20,760	19,290	21,282
Other Current Liabilities	19,403	18,964	19,078	19,283
<i>sub total</i>				
Net Current Assets	15,190	15,986	16,588	28,245
<b>Total Assets</b>	<b>100,838</b>	<b>100,656</b>	<b>95,944</b>	<b>103,134</b>

E – Estimates

### Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	71.1	73.2	72.6	73.7
EBIDTA Margin	25.8	28.8	26.1	28.1
EBIT Margin	17.8	20.7	18.1	20.7
Tax rate	22.3	12.0	22.0	22.0
Net Profit Margin	5.7	14.6	12.7	15.3
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	28.9	26.8	27.4	26.3
Employee	18.3	17.6	18.1	17.7
Other	26.9	26.8	28.3	28.0
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	1.0	0.9	0.6	0.4
Interest Coverage	2.7	3.7	7.5	13.4
Inventory days	92	97	96	93
Debtors days	68	74	67	67
Average Cost of Debt	9.5	9.8	5.2	4.6
Payable days	100	94	83	83
Working Capital days	72	72	72	110
FA T/O	1.0	1.1	1.3	1.5
<b>(D) Measures of Investment</b>				
AEPS (Rs)	46.9	70.0	63.4	84.6
CEPS (Rs)	83.4	108.6	103.7	125.8
DPS (Rs)	29.2	28.6	15.6	15.6
Dividend Payout (%)	62.3	41.0	24.7	18.5
BVPS (Rs)	279.2	285.0	332.8	401.8
RoANW (%)	9.3	24.8	20.5	23.0
RoACE (%)	12.4	16.2	13.0	15.8
RoAIC (%)	14.2	17.9	16.5	21.4
<b>(E) Valuation Ratios</b>				
CMP (Rs)	2582	2582	2582	2582
P/E	55.1	36.9	40.7	30.5
Mcap (Rs Mn)	436,902	436,902	436,902	436,902
MCap/ Sales	5.7	5.4	5.2	4.7
EV	473,698	474,192	466,394	452,127
EV/Sales	6.2	5.9	5.5	4.8
EV/EBITDA	23.9	20.4	21.1	17.2
P/BV	9.2	9.1	7.8	6.4
Dividend Yield (%)	1.1	1.1	0.6	0.6
<b>(F) Growth Rate (%)</b>				
Revenue	29.0	5.5	4.5	10.7
EBITDA	47.0	17.4	(5.0)	19.0
EBIT	45.2	22.7	(8.6)	26.5
PBT	(39.7)	139.6	2.2	33.5
APAT	17.0	49.2	(9.4)	33.5
EPS	17.0	49.2	(9.4)	33.5

### Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	15,508	16,788	15,359	21,327
CFI	(4,779)	(2,444)	(2,746)	(2,886)
CFF	(11,242)	(15,844)	(14,815)	(9,174)
FCFF	10,730	14,344	12,613	18,441
Opening Cash	8,672	8,160	6,660	4,457
Closing Cash	8,160	6,660	4,457	13,725

E – Estimates

**DART RATING MATRIX**

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

**DART Team**

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
-------------	-------------------	-------------------------	-----------------

Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
-------------------	------------------	-----------------------	-----------------

**CONTACT DETAILS**

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

**Dolat** Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

---

**Analyst(s) Certification**

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

---

**I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**

---

**II. Disclaimer:**

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

**For U.S. Entity/ persons only:** This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

---

**Dolat Capital Market Private Limited.**

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: [research@dolatcapital.com](mailto:research@dolatcapital.com) | [www.dolatresearch.com](http://www.dolatresearch.com)

---