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Q4FY20 result review and earnings revision

Pharmaceuticals

Target price: Rs2,574

Earnings revision

(%)	FY21E	FY22E
Sales	(1.7)	(0.9)
EPS	(3.1)	0.4

Target price revision

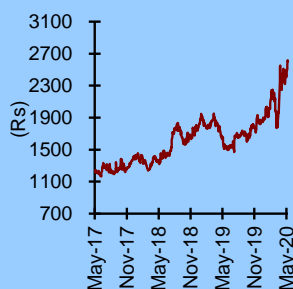
Rs2,574 from Rs2,481

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	71.2	71.2	71.2
Institutional investors	20.8	20.8	20.7
MFs and others	10.1	10.1	8.2
FIs/Banks	0.0	0.0	0.0
FII	10.7	10.7	12.5
Others	8.0	8.0	8.0

Source: BSE India

Price chart



Torrent Pharmaceuticals

HOLD

Maintained

Rs2,581

Strong performance maintained

Torrent Pharma's (Torrent) Q4FY20 performance was largely in-line with estimates aided by strong India growth and controlled costs. Consolidated revenue grew 4.8% YoY and EBITDA margin improved 270/70bps YoY/QoQ to 28.2% (I-Sec: 26.8%). Adjusted PAT more than doubled to Rs2.6bn (I-Sec: Rs2.2bn) driven by better margin and lower tax rate. US sales remained flat QoQ at US\$52mn vs estimated US\$51mn despite the company having OAI status on two important plants and no new approvals. The growth in India business was strong at 11.4%, recovered well after three quarters of single digit growth as high base normalised and volume growth improved from recent launches including *Ticagrelor*, *Vildagliptin*, *Remogliflozin* etc. Maintain HOLD.

- **India growth strong, US remains stable:** India business grew 11.4%, and adjusting for the COVID-19 related certain supply delays the growth stood at 15%. We expect the company to continue to deliver higher-than-industry growth in the domestic business given the company's significant exposure to the chronic segment and established product portfolio. US revenues remained stable at US\$52mn without new approvals. RoW business increased 14.6% YoY, and is likely to continue its strong growth trajectory with entry into new markets. Brazil revenues declined 4.4% YoY due to currency depreciation as the constant currency growth was healthy at 11%. Germany revenues declined 10.0% YoY due to supply issues as the company implemented new SOPs at its warehouse.
- **Margins continue to improve:** EBITDA margin improved 270bps YoY and 70bps QoQ to 28.2%, ahead of our estimates, led by strong India growth, controlled costs and lower R&D expenditure. We expect 170bps EBITDA margin improvement over FY20-FY22E to 29.0%, driven by strong growth in India and operating leverage. We don't foresee any material increase in operating expenses and there are no major capex plans in the near future. Gross margin improved 160bps YoY to 72.9% and we expect it to sustain at ~73%.
- **Outlook:** We expect revenue and earnings CAGRs of 8.8% and 22.9%, respectively, over FY20-FY22E led by higher growth in India business (11.3% CAGR). Return ratios dropped in FY19 post Unichem acquisition, but have gradually improved and we expect RoE and RoCE to reach 24.9% and 18.4%, respectively, by FY22 with healthy FCF generation. We also expect the company to repay Rs10bn debt per year over next two years which would bring down net debt to EBITDA to 0.4x by FY22E.
- **Valuations and risks:** We remain positive on the long term outlook considering the company's strong India business and high profitability vs peers. However, due to the limited upside to our target price, we maintain **HOLD**, with a revised target price of Rs2,574/share based on 17.0x FY22E EV/EBITDA (earlier: Rs2,481/share). Key downside risks: Delay in resolution of FDA issues and forex volatility.

Market Cap	Rs437bn/US\$5.8bn
Reuters/Bloomberg	TORP.BO/TRP IN
Shares Outstanding (mn)	169.2
52-week Range (Rs)	2619/1468
Free Float (%)	28.8
FII (%)	12.5
Daily Volume (USD/'000)	14,144
Absolute Return 3m (%)	16.7
Absolute Return 12m (%)	72.3
Sensex Return 3m (%)	(23.1)
Sensex Return 12m (%)	(21.5)

Year to Mar	FY19	FY20	FY21E	FY22E
Revenue (Rs mn)	76,098	79,390	84,805	93,906
Net Income (Rs mn)	4,363	10,250	11,414	14,693
EPS (Rs)	41.8	57.4	67.4	86.8
% Chg YoY	(9.3)	37.3	17.4	28.7
P/E (x)	61.7	44.9	38.3	29.7
CEPS (Rs)	78.3	96.1	107.4	127.6
EV/E (x)	24.7	22.4	20.0	17.0
Dividend Yield (%)	0.7	0.8	0.9	1.2
RoCE (%)	10.7	13.7	15.1	18.3
RoE (%)	15.2	20.4	22.1	24.9

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Q4FY20 result and concall highlights

- Overall sales remained grew 4.8 YoY to Rs19.5bn.
Domestic formulation business grew 11.4% YoY to Rs8.4bn. Adjusting for supply delays due to COVID-19, growth stood at 15.0% in Q4FY20. The company gained market share in the recently launched products *Ticagrelor*, *Vildagliptin* and *Remogliflozin* in India.
 Improvement in some OPD footfalls in the past few days but this improvement would be gradual. However, considering the higher chronic portfolio the growth would be relatively higher. For FY20 price growth contribution stood ~8.0% while volume growth was ~2.5%. The current PCPM for Torrent-Unichem is 7.3 with sales force of 4,000.
- **Brazil** sales declined 4.4% YoY to Rs2.0bn. In constant currency terms, it grew 11.0%. This growth was largely driven by market share gain in existing products and new launches. Company continues to reduce focus on tender business. Market is expected to grow 1-2% in FY21 reduced from 10% earlier expected and the company believes that it will outperform the market.
- **Other branded market sales (RoW)** grew 14.6% YoY to Rs2.0bn.
- **US business** remained flat YoY and QoQ at US\$52mn. Gain in market share for existing products have helped company maintain their quarterly run rate but without new launches it will be difficult to maintain it for FY21.
 Torrent filed 12 ANDAs in FY20. Currently, it has 48 ANDAs pending for approval and six that have tentative approval. It expects to launch less than five products in FY21.
 The company has submitted its CAPA to USFDA for Dahej and is in discussion with USFDA for a desktop audit. Company would be submitting the response for Indrad in Q2FY21. Expect upgradation at Levittown to complete by Q3FY21.
- **Germany** business declined 10.0% YoY to Rs2.2bn. This decline was due to supply constraints as the company implemented new SOPs as part of its software upgradation. Company expects some normalisation Q2FY21 onwards.
- **Contract manufacturing and other operating** revenues remained flat YoY at Rs1.1bn.
- **Gross margin** improved 160bps YoY to 72.9%, which is sustainable. Owing to lower R&D expenses and higher gross margins, **EBITDA margin** improved 270bps YoY to 27.5% (+70bps QoQ).
- **R&D** expenditure stood at 6.1% of sales. It was lower in the quarter due to some spill over which would be expensed over the next few quarters.
- **Capex** of Rs2-2.5bn in FY21 would largely be deployed towards maintenance.
- Company expects a **tax rate** of 20-23% for FY21.
- Company plans to retire debt of Rs10bn in FY21.

Table 1: Q4FY20 performance*(Rs mn, year ending March 31)*

	Q4FY20	Q4FY19	YoY % Chg	Q3FY20	QoQ % Chg
Net Sales	19,460	18,560	4.8	19,660	(1.0)
EBITDA	5,480	4,730	15.9	5,400	1.5
Other income	150	170	(11.8)	530	(71.7)
PBIDT	5,630	4,900	14.9	5,930	(5.1)
Depreciation	1,680	1,600	5.0	1,630	3.1
Interest	1,020	1,230	(17.1)	1,110	(8.1)
PBT	2,930	2,070	41.5	3,190	(8.2)
Tax	320	20	1,500.0	680	(52.9)
Minority Interest	-	-		-	
Adjusted PAT	2,610	1,158	125.5	2,510	4.0
Extra ordinary income/ (exp.)	(530)	(3,570)		-	
Reported PAT	3,140	(1,520)	(306.6)	2,510	25.1
EBITDA margins (%)	28.2	25.5	270bps	27.5	70bps

Source: Company data, I-Sec research

Table 2: Sales breakup*(Rs mn, year ending March 31)*

	Q4FY20	Q4FY19	YoY % Chg	Q3FY20	QoQ % Chg
India	8,400	7,540	11.4	8,710	(3.6)
Brazil	1,960	2,050	(4.4)	1,890	3.7
Germany	2,160	2,400	(10.0)	2,190	(1.4)
US	3,850	3,720	3.5	3,810	1.0
RoW	2,040	1,780	14.6	1,960	4.1
Contract Mfg & Others	1,060	1,070	(0.9)	1,100	(3.6)
Net sales	19,460	18,560	4.9	19,660	(1.0)

Source: Company data, I-Sec research

Revising sales and earnings estimates

We expect revenue and earnings CAGRs of 8.8% and 22.9%, respectively, over FY20-FY22E led by higher growth in India business (11.3% CAGR). We marginally cut our revenue estimates to account for the slowdown caused by logistical delays with the lockdown and cost control initiatives that the company would adopt.

Table 3: Earnings revision

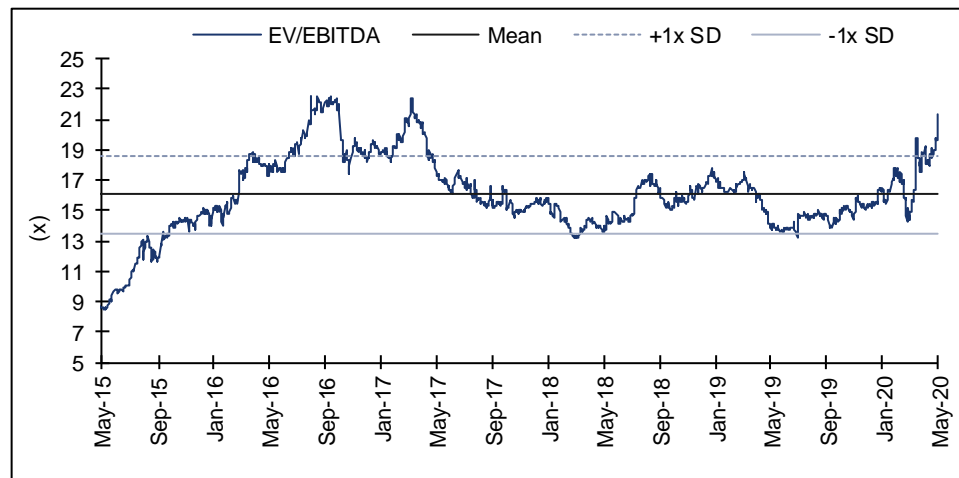
	FY21E	FY22E
Total sales (Rs mn)		
Sales – new	84,805	93,906
Sales – old	86,257	94,755
Change (%)	(1.7)	(0.9)
EPS (Rs)		
EPS – new	67.4	86.8
EPS – old	69.6	86.4
Change (%)	(3.1)	0.4

Source: I-Sec research

Valuations

The stock currently trades at valuations of 38.3x FY21E and 29.7x FY22E earnings and EV/EBITDA multiples of 20.0x FY21E and 17.0x FY22E. The P/E multiple looks high due to significant amortisation charge. We remain positive on the long-term outlook considering: 1) Strong growth in India business with chronic segment dominance, 2) sustaining US revenues despite regulatory hurdles, and 3) adjusted EBITDA CAGR of 12.0% over FY20-FY22E. Nevertheless, OAI status at Dahej facility and warning letter on Indrad would delay new approvals in the near term. However, due to the limited upside to our target price, we maintain **HOLD**, with a revised target price of Rs2,574/share based on 17.0x FY22E EV/EBITDA (earlier: Rs2,481/share). We value the stock on EV/EBITDA(x) basis considering a significant amortisation cost, which is a non-cash charge.

Chart 1: 1-year forward EV/EBITDA



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 4: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
India	32,340	35,170	39,022	43,573
Brazil	6,890	7,150	6,871	7,696
EU	10,090	9,470	10,417	11,459
US	15,260	15,230	14,962	16,362
ROW	6,800	7,760	8,691	9,734
Contract Mfg & Others	2,610	3,020	3,171	3,330
Other Operating Income	2,110	1,590	1,670	1,753
Total Gross Sales	76,098	79,390	84,805	93,906
Excise duty	-	-	-	-
Total Net Revenue	76,098	79,390	84,805	93,906
YoY Growth%	27.9	4.3	6.8	10.7
Total Op. Exp.	56,367	57,690	61,059	66,673
EBITDA	19,731	21,700	23,745	27,233
Margins %	25.9	27.3	28.0	29.0
YoY Growth%	41.0	10.0	9.4	14.7
Depreciation	6,177	6,540	6,766	6,910
EBIT	13,554	15,160	16,979	20,323
Other Income	571	1,220	1,342	1,476
Interest	5,038	4,510	3,687	2,962
EO Items	(3,470)	-	-	-
PBT	5,617	11,870	14,634	18,837
Tax	1,240	2,150	3,219	4,144
Tax Rate (%)	22.1	18.1	22.0	22.0
Minority Interest	13	(530)	0	0
Reported PAT	4,363	10,250	11,414	14,693
Adj PAT	7,080	10,250	11,414	14,693
Net Margins (%)	9.3	12.9	13.5	15.6

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Paid-up Capital	846	846	846	846
Reserves & Surplus	46,397	47,390	53,993	62,493
Total Equity	47,244	48,236	54,840	63,340
Minority Interest	0	0	0	0
Total Debt	60,381	55,861	45,861	35,861
Deferred Liabilities	(3,624)	(4,330)	(4,330)	(4,330)
Capital Employed	104,001	99,767	96,370	94,870
Current Liabilities	33,510	36,283	38,359	42,001
Total Liabilities	137,511	136,050	134,729	136,872
Net Fixed Assets	83,648	82,450	78,184	73,774
Investments	1,508	1,310	1,398	1,546
Inventory	19,352	21,480	22,734	24,825
Debtors	14,357	16,490	17,615	19,505
Other Current Assets	6,972	7,660	8,031	8,655
Cash and Equivalents	11,674	6,660	6,767	8,567
Total Cur. Assets	52,354	52,290	55,147	61,551
Total Assets	137,511	136,050	134,729	136,872

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
PBT (Adj. for Extraordinary)	5,617	11,870	14,634	18,837
Depreciation	6,177	6,540	6,766	6,910
Net Chg in WC	994	(3,860)	(1,203)	(1,851)
Taxes	(2,812)	(2,840)	(3,219)	(4,144)
Others	2,967	(2,300)	441	742
CFO	12,943	9,410	17,418	20,493
Capex	(6,605)	(4,020)	(2,500)	(2,500)
Net Investments made	4,112	2,340	-	-
Others	81	170	-	-
CFI	(2,413)	(1,510)	(2,500)	(2,500)
Change in Share capital	-	-	-	-
Change in Debts	(5,013)	(3,450)	(10,000)	(10,000)
Div. & Div Tax	(3,097)	(7,190)	(4,811)	(6,193)
Others	(2,932)	1,240	-	-
CFF	(11,042)	(9,400)	(14,811)	(16,193)
Total Cash Generated	(512)	(1,500)	107	1,800
Cash Opening Balance	8,672	8,160	6,660	6,767
Cash Closing Balance	8,160	6,660	6,767	8,567

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Adj. EPS	41.8	57.4	67.4	86.8
YoY Growth%	(9.3)	37.3	17.4	28.7
Cash EPS	78.3	96.1	107.4	127.6
EBITDA - Core (%)	25.9	27.3	28.0	29.0
NPM (%)	9.3	12.9	13.5	15.6
Net Debt to Equity (x)	1.0	1.0	0.7	0.4
P/E (x)	61.7	44.9	38.3	29.7
EV/EBITDA Core (x)	24.7	22.4	20.0	17.0
P/BV (x)	9.2	9.1	8.0	6.9
EV/Sales (x)	6.4	6.1	5.6	4.9
RoCE (%)	10.7	13.7	15.1	18.3
RoE (%)	15.2	20.4	22.1	24.9
RoIC (%)	11.5	14.8	16.0	19.8
Book Value (Rs)	279	285	324	374
DPS (Rs)	17.0	21.2	23.6	30.4
Dividend Payout (%)	65.9	35.0	35.0	35.0
Div Yield (%)	0.7	0.8	0.9	1.2
Asset Turnover Ratio	0.5	0.6	0.6	0.7
Avg Collection days	64	71	73	72
Avg Inventory days	94	94	95	92

Source: Company data, I-Sec research

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