

Torrent reported its best ever quarter operationally led by huge cost savings as lockdown in India led to slowdown of marketing and promotional activities. With 85% of MRs back on the field we expect this to normalize in next 2 quarters. While Sales growth was in-line, gross margin at 73.4% (240 bps YoY) was a function of growth in branded markets. Further aided by lower fixed costs, EBITDA margin came in at 32% (our estimate: 26%). Though management refrained from giving guidance, the commentary was upbeat on outperforming market growth in India. Two of its key businesses, Germany and US, impacted due to SOPs and compliance issues are expected to be resolved by 2HFY21/FY22E. Nonetheless, we believe the focus should remain primarily on the domestic market, which is likely to account for 65% of its FY22E EBITDA, with US contribution expected to come down to 8% of FY22 EBITDA. While Torrent has delivered impressive growth in India led by synergistic acquisitions, we believe growth levers from India business has been captured largely and margins have peaked for Torrent as current valuation leaves limited room for an upside. Focus will now shift to growth and balance sheet de-leveraging (guided for debt reduction of Rs10bn in FY21).

Though we maintain our estimates, we now value the company on an SOTP basis valuing the India business at 23x EV/EBITDA (Torrent's ability to take continuous price hikes indicates its strong brand positioning), Brazil at 15x EV/EBITDA and RoW at 7x EV/EBITDA arriving at a target price of Rs2,500 (vs Rs2,195 earlier). We upgrade our rating one notch to REDUCE.

Q1FY21 result snapshot: Top-line grew 2% YoY in-line with our estimates. India reported 2% YoY growth in Q1 vs 1% decline in IPM led by price hikes (9% vs 5% average of IPM) in the portfolio. Besides, US continue to held on to its quarterly run-rate of US\$45-47mn, while RoW markets continue to do well. Brazil declined 20% YoY due to adverse currency. Lower promotion and marketing on field, savings on MR incentives led to sharp jump in EBITDA margins at 32% (up 500 bps YoY). However, the same is expected to taper as situation normalizes. Led by strong operational performance, PAT came in at Rs3.2bn (vs our estimate of 2bn).

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	20,560	20,220	1.7	19,460	5.7
Total Expense	13,950	14,810	(5.8)	13,980	(0.2)
EBITDA	6,610	5,410	22.2	5,480	20.6
Depreciation	1,610	1,600	0.6	1,680	(4.2)
EBIT	5,000	3,810	31.2	3,800	31.6
Other Income	40	200	(80.0)	150	(73.3)
Interest	1,020	1,220	(16.4)	1,020	0.0
EBT	4,020	2,790	44.1	2,930	37.2
Tax	810	630	28.6	(210)	(485.7)
RPAT	3,210	2,160	48.6	3,140	2.2
APAT	3,210	2,160	48.6	3,140	2.2
			(bps)		(bps)
Gross Margin (%)	74.0	72.4	162	72.9	111
EBITDA Margin (%)	32.1	26.8	539	28.2	399
NPM (%)	15.6	10.7	493	16.1	(52)
Tax Rate (%)	20.1	22.6	(243)	(7.2)	2732
EBIT Margin (%)	24.3	18.8	548	19.5	479

CMP	Rs 2,438
Target / Upside	Rs 2,500 / 3%
BSE Sensex	37,719
NSE Nifty	11,102

Scrip Details

Equity / FV	Rs 846mn / Rs 5
Market Cap	Rs 413bn
	US\$ 6bn
52-week High/Low	Rs 2,699/Rs 1,555
Avg. Volume (no)	756,113
NSE Symbol	TORNTPHARM
Bloomberg Code	TRP IN

Shareholding Pattern Jun'20(%)

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

Valuation (x)

	FY20A	FY21E	FY22E
P/E	40.3	38.3	29.0
EV/EBITDA	20.7	21.0	17.4
ROE (%)	21.5	20.9	24.0
RoACE (%)	14.8	13.1	15.5

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	79,393	84,554	93,538
EBITDA	21,704	20,957	24,516
PAT	10,247	10,782	14,232
EPS (Rs.)	60.5	63.7	84.1

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Exhibit 1: Revenue Mix

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20	FY19	YoY (%)
India	9,250	9,070	2.0	8,400	10.1	35,170	32,340	8.8
Brazil	1,400	1,740	(19.5)	1,960	(28.6)	7,150	6,890	3.8
US	3,730	3,760	(0.8)	3,850	(3.1)	15,230	15,890	(4.2)
Germany	2,460	2,620	(6.1)	2,160	13.9	7,724	8,433	(8.4)
RoW	2,340	1,760	33.0	2,040	14.7	9,406	8,447	11.4
Others	1,380	1,270	8.7	1,060	30.2	4,720	4,720	-
Total Income	20,560	20,220	1.7	19,470	5.6	79,400	76,720	3.5

Source: Company, DART

Concall highlights

- Domestic formulations:** Torrent recorded 8% growth in its chronic segment vs 4% growth in IPM, while its sub-chronic business was flattish vs 8% decline in IPM. Overall the company recorded 2% growth vs a decline in IPM. The quarter witnessed double digit growth in key brands such as Shelcal, Chymoral and Ampoxin. However large part of the growth has been led by price hikes 7.4% and 1.7% by new launches as volumes continue to remain negative in Q1. 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 with quarterly run-rate maintained at US\$47-48mn. Management expects ~12 launches in FY21E (2 launched in Q1). However, it indicated that US continues to remain competitive as panic buying is over. Torrent is currently backward integrated for ~34% of its products in the US and has no intention of increasing its API capacity over the next 2-3 years.
- USFDA compliance:** Company has submitted CAPA for Dahej facility in 4Q and will submit the CAPA for Indrad and Levittown 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 from 2H onwards.
- Brazil:** Though on a constant currency basis, Torrent grew 1% in 1Q, local currency depreciation led to 20% decline YoY. 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. It guided for 3 launches and 3 filings in FY21E.
- Operational performance:** With 85% of MRs back on the field we expect operational performance to normalize in subsequent quarters. We have built in EBITDA margins of 25.3% and 26.7% in FY21 and FY22 respectively. Debt repayment remains major focus as company paid off Rs4.4bn in Q1 and is on track to repay Rs10bn for FY21. Capitalization of employee expenses (to the tune of Rs100-110mn) w.r.t US facility under upgradation will continue for another 1-2 quarters.

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	76,728	79,393	84,554	93,538
Total Expense	56,897	57,690	63,598	69,022
COGS	22,197	21,669	24,478	26,607
Employees Cost	14,038	14,290	15,349	16,544
Other expenses	20,663	21,730	23,771	25,870
EBIDTA	19,831	21,704	20,957	24,516
Depreciation	6,177	6,544	6,017	6,148
EBIT	13,654	15,160	14,939	18,369
Interest	5,038	4,507	2,037	1,158
Other Income	571	1,213	1,100	1,035
Exc. / E.O. items	(3,570)	0	0	0
EBT	5,617	11,866	14,002	18,246
Tax	1,254	1,619	3,220	4,014
RPAT	4,363	10,247	10,782	14,232
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	7,933	10,247	10,782	14,232

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	846	846	846	846
Minority Interest	0	0	0	0
Reserves & Surplus	46,397	47,386	54,001	63,024
Net Worth	47,244	48,232	54,847	63,870
Total Debt	48,470	43,947	33,947	28,947
Net Deferred Tax Liability	5,125	6,262	8,226	8,569
Total Capital Employed	100,838	98,441	97,020	101,386

Applications of Funds

Net Block	74,129	70,556	66,504	62,530
CWIP	9,519	11,894	11,121	11,197
Investments	2,000	2,220	2,330	2,445
Current Assets, Loans & Advances	55,561	55,708	57,187	65,993
Inventories	19,352	21,482	22,331	22,044
Receivables	14,357	16,493	16,821	16,368
Cash and Bank Balances	8,160	6,667	6,896	15,996
Loans and Advances	5,866	6,471	6,593	6,800
Other Current Assets	4,312	4,594	4,546	4,785
Less: Current Liabilities & Provisions	40,371	41,937	40,121	40,779
Payables	20,967	20,769	20,816	20,912
Other Current Liabilities	19,403	21,168	19,305	19,867
<i>sub total</i>				
Net Current Assets	15,190	13,771	17,065	25,214
Total Assets	100,838	98,441	97,020	101,386

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	71.1	72.7	71.1	71.6
EBIDTA Margin	25.8	27.3	24.8	26.2
EBIT Margin	17.8	19.1	17.7	19.6
Tax rate	22.3	13.6	23.0	22.0
Net Profit Margin	5.7	12.9	12.8	15.2
(B) As Percentage of Net Sales (%)				
COGS	28.9	27.3	28.9	28.4
Employee	18.3	18.0	18.2	17.7
Other	26.9	27.4	28.1	27.7
(C) Measure of Financial Status				
Gross Debt / Equity	1.0	0.9	0.6	0.5
Interest Coverage	2.7	3.4	7.3	15.9
Inventory days	92	99	96	86
Debtors days	68	76	73	64
Average Cost of Debt	9.5	9.8	5.2	3.7
Payable days	100	95	90	82
Working Capital days	72	63	74	98
FA T/O	1.0	1.1	1.3	1.5
(D) Measures of Investment				
AEPS (Rs)	46.9	60.5	63.7	84.1
CEPS (Rs)	83.4	99.2	99.3	120.4
DPS (Rs)	16.4	39.4	37.7	30.8
Dividend Payout (%)	35.0	65.0	59.1	36.6
BVPS (Rs)	279.2	285.0	324.1	377.4
RoANW (%)	9.3	21.5	20.9	24.0
RoACE (%)	12.4	14.8	13.1	15.5
RoAIC (%)	14.2	16.4	16.4	20.9
(E) Valuation Ratios				
CMP (Rs)	2438	2438	2438	2438
P/E	52.0	40.3	38.3	29.0
Mcap (Rs Mn)	412,539	412,539	412,539	412,539
MCap/ Sales	5.4	5.2	4.9	4.4
EV	449,336	449,820	439,591	425,490
EV/Sales	5.9	5.7	5.2	4.5
EV/EBITDA	22.7	20.7	21.0	17.4
P/BV	8.7	8.6	7.5	6.5
Dividend Yield (%)	0.7	1.6	1.5	1.3
(F) Growth Rate (%)				
Revenue	29.0	3.5	6.5	10.6
EBITDA	49.9	9.4	(3.4)	17.0
EBIT	49.3	11.0	(1.5)	23.0
PBT	(37.9)	111.3	18.0	30.3
APAT	21.7	29.2	5.2	32.0
EPS	21.7	29.2	5.2	32.0
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	15,508	16,172	21,215	22,862
CFI	(4,779)	(2,534)	(2,499)	(2,319)
CFF	(11,241)	(15,132)	(18,487)	(11,442)
FCFF	10,729	13,638	18,716	20,543
Opening Cash	8,672	8,160	6,667	6,896
Closing Cash	8,160	6,667	6,896	15,996

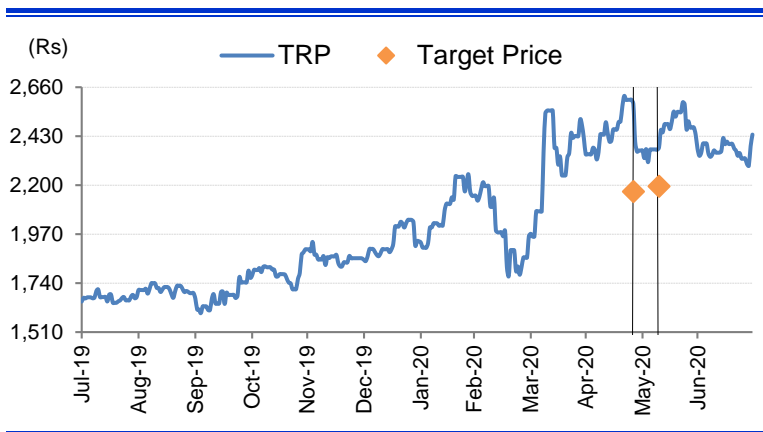
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

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

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-20	Sell	2,170	2,582
Jun-20	Sell	2,195	2,377

*Price as on recommendation date

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