

Sector: Pharmaceuticals  
Result Update

	Change
Reco: <b>Hold</b>	↔
CMP: <b>Rs. 2,437</b>	
Price Target: <b>Rs. 2,780</b>	↔
<span style="color: green;">↑</span> Upgrade <span style="color: gray;">↔</span> No change <span style="color: red;">↓</span> Downgrade	

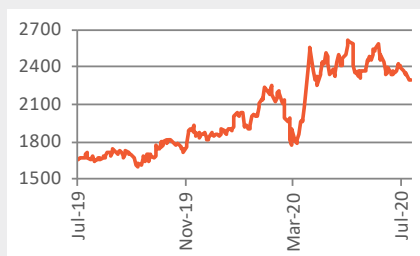
## Company details

Market cap:	Rs. 41,237 cr
52-week high/low:	Rs. 2,679/1,555
NSE volume: (No of shares)	6.6 lakh
BSE code:	500420
NSE code:	TORNTPHARM
Sharekhan code:	TORNTPHARM
Free float: (No of shares)	4.9 cr

## Shareholding (%)

Promoters	71.3
FII	8.7
DII	12.3
Others	7.8

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	2.8	3.9	25.9	47.5
Relative to Sensex	-5.3	-8.0	33.7	46.6

Sharekhan Research, Bloomberg

Torrent Pharmaceuticals Limited (Torrent) reported strong performance for Q1FY2021. Revenues at Rs. 2,056 crore increased by 1.7% y-o-y on account of 2% growth in India business, while other geographies reported a decline. The chronic heavy portfolio in the Indian markets led to revenue growth. Operating profit at Rs. 661 crore increased by 22% y-o-y and was better than estimates. Operating profit margin (OPM) at 32% expanded by 540 bps y-o-y, backed by expansion in gross margins and lower other expenses. Strong operating performance percolated to the bottom line as well. Consequently, PAT for the quarter stood at Rs. 321 crore, up impressively by 49% y-o-y and was ahead of estimates. Torrent has higher dependence on chronic therapies, which bodes well. The company derives 55-60% of its sales collectively from India and Brazil markets. Torrent has outperformed the industry growth in both these markets and looks to sustain traction backed by new launches, albeit over the medium to long term. In its commentary, management mentioned of uncertainties due to COVID-19, albeit in the near term only and expects normalisation post this. Torrent has guided for a gradual pick-up in sub-chronic and acute therapies as doctors commence OPDs. During the quarter, performance across the US, Brazil, and Germany regions was weak. In the US, growth is expected to be constrained due to price erosion and absence of new launches. Torrent has submitted responses to the USFDA for all its three plants and is awaiting a revert from the regulator. Timely and successful resolution of USFDA issues is critical from growth perspective as new product approvals could be expected once the plants get clearances.

## Key positives

- The India formulations business grew by 2% for the quarter as compared to a 6% decline in the industry.
- OPM improved by 540 bps y-o-y to 32%, aided by savings in other expenses and gross margin expansion.
- Torrent has repaid Rs. 440 crore of debt in the quarter and has guided for Rs. 1,000 crore repayment in FY2021.

## Key negatives

- European (Germany) revenue declined by 6% y-o-y, respectively, for the quarter due to up gradation of quality management systems.
- US revenue declined marginally by 1% due to continued price erosion and absence of new launches.

## Our Call

**Valuation - Maintain Hold with an unchanged PT of Rs. 2,780:** Torrent has reported a strong set of results for Q1FY2021, largely due to higher share of chronic therapies, which grew the most during the quarter. Amidst the COVID-19 pandemic, pharmaceutical companies have emerged strongly as they offer visibility for earnings growth and, hence, have been in flavour. Consequently, multiples have been re-rated. Torrent's stock price has also run up substantially and has risen by ~38% in the past four months. Torrent reported an impressive set of results for Q1FY2021; and we have fine-tuned our estimates for FY2021/FY2022 on this basis. Management expects COVID-19 related uncertainties to stay, albeit in the near term only. Torrent's three plants – Dahej, Indrad, and Levittown are under USFDA scanner. The company has successfully submitted its response to the regulator and is awaiting a revert. A timely and successful resolution is critical from the growth perspective. At the CMP, the stock trades at 32.5x/25.2x its FY2021/FY2022E EPS. However, due to persisting uncertainties, we see limited upside in the stock price and have retain our Hold recommendation on the stock with an unchanged PT of Rs. 2,780.

## Key Risks

Delays in resolution of USFDA issues at its plants.

## Valuation (Consolidated)

Particulars	Rs cr				
	FY2018	FY2019	FY2020	FY2021E	FY2022E
Net sales	5825.0	7461.0	7780.0	8517.7	9858.7
Operating Profit	1222.0	1772.0	2011.0	2299.8	2721.0
OPM (%)	21.0	23.8	25.8	27.0	27.6
Adjusted net profit	676.0	792.0	1025.0	1273.6	1645.6
EPS (Rs.)	39.8	46.6	60.3	74.9	96.8
PER (x)	61.3	52.3	40.4	32.5	25.2
EV/EBIDTA (x)	38.8	26.5	23.4	19.3	15.6
P/BV (x)	9.0	8.8	8.6	6.9	5.5
ROCE (%)	13.2	12.6	14.8	17.5	20.6
RONW (%)	15.1	16.9	21.5	23.5	24.3

Source: Company; Sharekhan estimates

**Strong performance; Results ahead of estimates:** Torrent reported a strong set of results for the quarter. Revenue at Rs. 2,056 crore was up 1.7% because of 2% growth in India business, while other geographies reported a decline. The chronic heavy portfolio in the Indian markets led to revenue growth and resulted in industry outperformance. Operating profit at Rs. 661 crore increased by 22% y-o-y and was better than estimates. OPM at 32% expanded by 540 bps y-o-y. A 160 bps y-o-y increase in gross margins and lower expenses due to COVID-19 related lockdown resulted in margin expansion. Other income for the quarter stood at Rs. 4 crore as compared to Rs. 20 crore in the corresponding quarter of the previous year. Moreover, interest cost at Rs. 102 crore was down 16% y-o-y. Strong operating performance has percolated to the bottom line as well. Consequently, PAT for the quarter stood at Rs. 321 crore, up impressively by 49% y-o-y and is ahead of estimates.

**CAPA at Indrad and Dahej plants done; USFDA response awaited:** Torrent's Dahej plant, inspected by the USFDA (between March 11-19, 2019) was classified as OAI, indicating an unsatisfactory response submitted by the company (for Form 483). Indrad facility (inspected between April 8-16, 2019) has received a warning letter and is red flagged by the USFDA. Management has mentioned that it has completed its corrective and preventive actions (CAPA) around the areas highlighted by the USFDA and has submitted its responses. A reply from the USFDA is awaited on this. Moreover, the US manufacturing plant located at Levittown (Pennsylvania) was inspected by the USFDA between March 11, 2019, and April 9, 2019, and has issued a warning letter for cGMP violations relating to finished pharmaceutical products. Currently, production at Levittown plant is completely stalled and management expects to start production of existing approved products by Q3FY2021, while upon successful resolution of the USFDA audits, the approvals for new products could be looked up on. Torrent's sizeable fillings for the US markets are linked to Dahej and Indrad plants. Moreover, as these are yet to be cleared by the USFDA, new product approvals are on hold. The company has submitted its responses to the regulator and is awaiting a revert. We believe timely and successful resolution of USFDA issues is critical from the company's growth perspective and, hence, would be an overhang until completely resolved.

**Higher share of chronics in India and Brazil markets bodes well:** The India business of Torrent comprises branded formulations and CRAMS with chronics constituting a major portion of the formulations revenue. During the quarter, the company has outpaced growth in the Indian Pharmaceutical Markets (IPM) backed by strong performance in chronics. Chronics therapy has reported 4% growth at the industry level, while Torrent's chronic portfolio has reported robust 8% growth. Being one of the leaders in select segments, the company has been able to take a price hike as well, so as to pass on the price hike in the API space. Going ahead, management seems confident of outperforming IPM growth. Similar to Indian markets, Torrent's portfolio in Brazil's markets comprises chronics and, hence, has outperformed the markets in Q1FY2021. The company's Brazil portfolio (chronics) has recorded growth of ~6.7% as compared to 1% growth in the industry. Torrent is looking to launch three new products in FY2021 in the Brazil markets and has guided for around 2 to 5 new product launches every year going ahead. Collectively, India and Brazil geographies constitute 55-60% of total sales. On the basis of higher share of chronics, these geographies offer ample visibility for growth going ahead.

### Q1FY2021 Conference call highlights

#### Geographical revenue mix:

- ◆ Torrent's domestic revenue grew by 2% y-o-y for the quarter. The company has outperformed the industry's growth because of its chronic heavy portfolio. As per AIOCD, Q1FY2021 growth was 1% versus India Pharmaceutical Market (IPM) growth of 16%. As of Q1FY2021, the company had an MR strength of 4,000 and productivity stood at Rs. 7.7 lakhs.
- ◆ Revenue from the US declined marginally by 1% y-o-y, impacted by price erosion in the base business and absence of new product launches.
- ◆ Revenue from Brazil at Rs. 140 crore declined in double digits by 20% y-o-y for the quarter. However, constant currency sales increased by 1% y-o-y. As per Close – up data, the company has outperformed the Brazilian market's growth, reporting 10% growth as compared to a market-wide drop of 1%. Growth can be attributed to higher share of chronics and market share gains by the company.
- ◆ Europe (Germany) sales declined for the quarter by 6%, impacted by certain temporary delays in releasing products due to upgradation of its quality management system.

**ANDA approvals (US markets):** As of Q1FY2021, the company has 47 ANDAs pending for approvals and the company received six tentative approvals. Torrent filed for 1 ANDA during the quarter.

**Debt repayment:** In Q1FY2021, the company has repaid around Rs. 440 crore debt and management has guided to repay Rs. 1,000 crore in FY2021. As of March 2020, total debt on books stood at ~Rs. 6,200 crore.

**Regulatory Updates:** Torrent has completed its resolution of the issues raised by USFDA at its Indrad and Dahej plants. This points at closure of CAPA. The company has submitted its responses to the regulator and is awaiting a reply. Moreover, the plant at Levittown (US) is under the warning letter. However, management expects the production of existing products to commence in Q3FY2021, while post clearance from the regulator, new approvals are expected.

Results					Rs cr
Particulars	Q1FY2021	Q1FY2020	YoY %	Q4FY2020	QoQ %
Total Sales	2,056.0	2,022.0	1.7	1,946.0	5.7
Expenditure	1,395.0	1,481.0	-5.8	1,398.0	-0.2
<b>Operating profit</b>	<b>661.0</b>	<b>541.0</b>	<b>22.2</b>	<b>548.0</b>	<b>20.6</b>
Other income	4.0	20.0	-80.0	15.0	-73.3
EBITDA	665.0	561.0	18.5	563.0	18.1
Interest	102.0	122.0	-16.4	102.0	0.0
Depreciation	161.0	160.0	0.6	168.0	-4.2
PBT	402.0	279.0	44.1	293.0	37.2
Taxes	81.0	63.0	28.6	-21.0	-485.7
Adjusted PAT	321.0	216.0	48.6	314.0	2.2
<b>Margins</b>			<b>BPS</b>		<b>BPS</b>
OPM %	32.1	26.8	539	28.2	399

Source: Company; Sharekhan Research

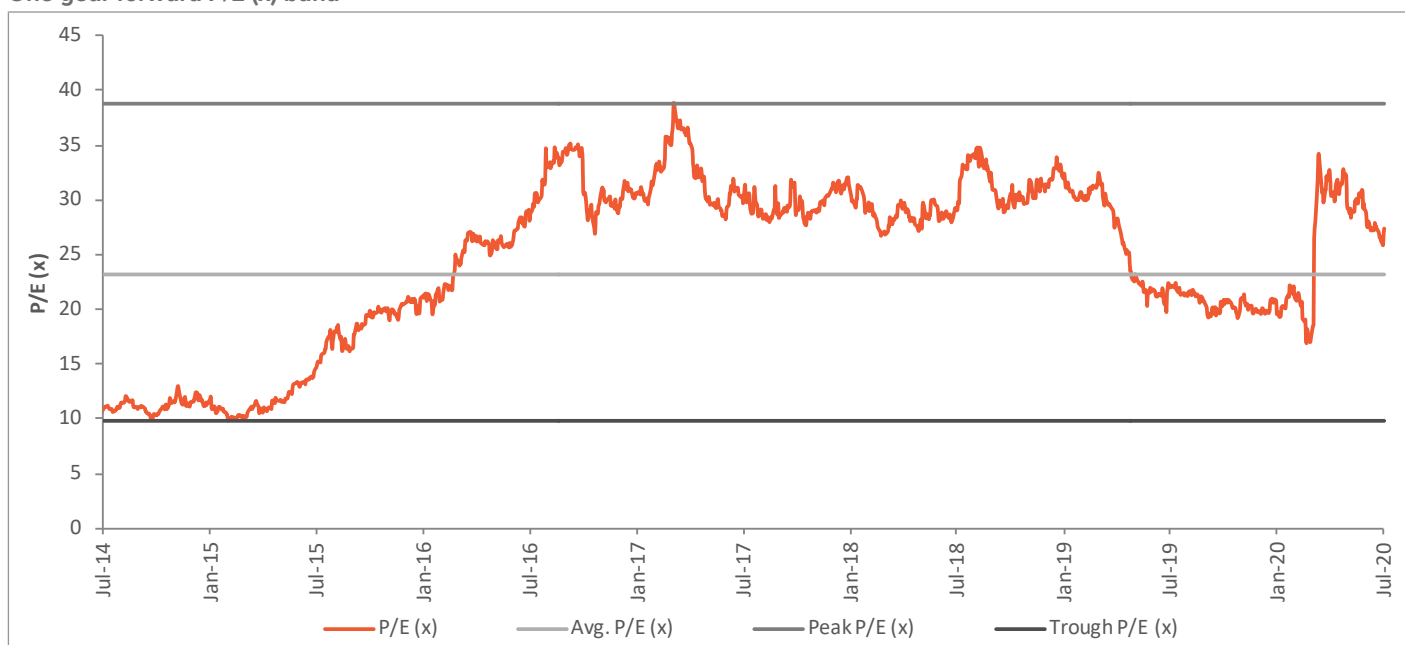
## Outlook

Torrent is a leading pharma company present in emerging as well as developed markets. The company has a higher exposure to chronic therapies. Moreover, the company derives a substantial portion of its sales from India followed by US, Germany, and Brazil. The company has been outperforming in the Indian as well as Brazilian markets and management expects to sustain the strong traction going ahead as well. This would be supported by new launches and traction in the existing business. The US business of the company has been under pressure as three of its plants, which cater to US markets – Dahej, Indrad, and Levit town (US) are under the USFDA scanner with OAI/WL classification. Torrent has submitted its responses to the regulator and is awaiting a response from USFDA on this. A timely and successful resolution of these issues is critical from the company's growth perspective as new product approvals are held up. Moreover, issues in Europe are expected to be resolved by the end of Q2FY2021 and Torrent sees double-digit topline growth traction to resume by next year – FY2022.

## Valuation

**Maintain Hold with an unchanged PT of Rs. 2,780:** Torrent has reported a strong set of results for Q1FY2021, largely due to higher share of chronic therapies, which grew the most during the quarter. Amidst the COVID-19 pandemic, pharmaceutical companies have emerged strongly as they offer visibility for earnings growth and, hence, have been in favour. Consequently, multiples have been re-rated. Torrent's stock price has also run up substantially and has risen by ~38% in the past four months. Torrent reported an impressive set of results for Q1FY2021; and we have fine-tuned our estimates for FY2021/FY2022 on this basis. Management expects COVID-19 related uncertainties to stay, albeit in the near term only. Torrent's three plants – Dahej, Indrad, and Levittown are under USFDA scanner. The company has successfully submitted its response to the regulator and is awaiting a revert. A timely and successful resolution is critical from the growth perspective. At the CMP, the stock trades at 32.5x/25.2x its FY2021/FY2022E EPS. However, due to persisting uncertainties, we see limited upside in the stock price and have retain our Hold recommendation on the stock with an unchanged PT of Rs. 2,780.

### One-year forward P/E (x) band



Source: Sharekhan Research

### Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBIDTA (x)			RoE (%)		
				FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Torrent Pharma	2437	16.99	41237	40.4	32.5	25.2	23.4	19.3	15.6	21.5	23.5	24.3
Lupin	890	45.3	40327	114.3	30.5	24.3	19.4	13.1	10.3	2.8	9.5	10.7

Source: Company, Sharekhan estimates

## About company

Torrent, the flagship company of Torrent Group, was incorporated in 1972. Torrent has a strong international presence across 40 countries with operations in regulated and emerging markets such as the US, Europe, Brazil, and the Rest of the World. The company operates through its wholly owned subsidiaries spread across 12 nations with major setups in Brazil, Germany, and US. The company is also one of the leading pharmaceutical companies present in India as a dominant player in the therapeutic areas of cardiovascular (CV) and central nervous system (CNS). The company also has a significant presence in gastro-intestinal, diabetology, anti-infective, and pain management segments.

## Investment theme

Torrent continues to focus on a branded business mix from India and Brazil, which balances well for sustainable growth in a challenging global environment for the pharma sector. US business is also stable. Operating leverage from the acquired domestic business is likely to be visible from FY2020. Three manufacturing plants of Torrent are reeling under regulatory issues with a warning letter being issued by the USFDA. Management expects at least 12-15 months for the issues to be resolved; and till such time, approvals from these plants would be withheld. Torrent has submitted its responses to the regulator and is awaiting a revert on this. Timely and successful resolution of the USFDA issues is critical from the growth perspective.

## Key Risks

- ◆ Slowdown in ANDA approvals and USFDA-related regulatory risks could hurt business prospects.
- ◆ Delay in product launches in Brazil, Germany, and US could restrict growth in these key geographies.
- ◆ Currency fluctuation poses a risk to the export businesses.

## Additional Data

### Key management personnel

Mr. Sudhir Mehta	Chairman (Emeritus)
Mr. Samir Mehta	Chairman
Mr. Sudhir Menon	CFO
Dr. Chaitanya Dutt	Director (R&D)
Mr. Mahesh Agrawal	VP (Legal) & Company Secretary

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	2.47
2	MIRAE ASSET FOCUSED	1.51
3	UTI Asset Management Co Ltd	1.26
4	HDFC Life Insurance Co Ltd	1.00
5	FMR LLC	0.99
6	Vangaurd PLC	0.89
7	Axis Asset Management Co Ltd/India	0.88
8	T Rowe Price Group Inc	0.8
9	L&T Mutual Fund Trustee Ltd/India	0.7
10	Pictet Funds SA	0.63

Source: Bloomberg

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# Sharekhan

by BNP PARIBAS

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