

Torrent Pharma

BUY

CMP Rs2,650

Target Rs3,200

Upside 21%

Our View

- ✓ Increasing lack of visibility on US sales a blessing in disguise as branded share seen increasing ~200bps to 65% in FY22; similar rerating at IPCA (16x to 26x) was seen in the recent past
- ✓ Domestic market will increasingly reward players with larger brands- Torrent to maintain growth of big bands like Shelcal and Losar which will continue to gain share
- ✓ Margins can surprise on upside as MR productivity to touch Rs1mn per MR per month; current revenues per MR already one of the highest in industry
- ✓ Chronic share is amongst highest and relative to Alembic we reckon Torrent exudes better confidence on growth – hence should trade at a premium to Alembic.
- ✓ Raised our FY22 EPS by ~12% to Rs91 on improved margin assumption and now are ~5% ahead of consensus.
- ✓ Upgrade Torrent to BUY from SELL with revised TP of Rs3,200 (vs RS2,030 earlier) based on 35x FY22 PE; solid FCF yield of ~3.5% lends support

Highlights

- ✓ Q2 revenues up 1% yoy as India sole driver; Germany should revive by March 2021; Brazil cc growth better but eaten away by currency depreciation
- ✓ Gross margin declined on higher inventory provision; inventory days higher as API buying elevated in face of pandemic
- ✓ Net debt to decline further in FY21 after repayment of Rs4.4bn in FY21; net debt/EBIDTA seen comfortably below 0.5x in FY22

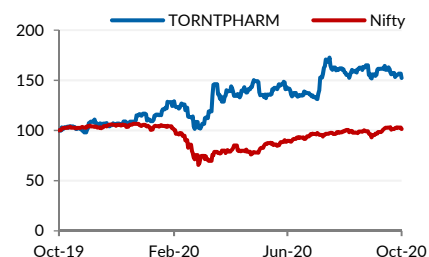
Risk to our call

- ✓ Any slippage in margin and/or relative tilt towards US market with associated investments would be a dampener in our view

Stock data (as on Oct 26, 2020)

Nifty	11,768
52 Week h/l (Rs)	3031 / 1583
Market cap (Rs/USD mn)	449563 / 6088
Outstanding Shares (mn)	169
6m Avg t/o (Rs mn):	2,068
Div yield (%):	0.6
Bloomberg code:	TRP IN
NSE code:	TORNTPHARM

Stock performance



	1M	3M	1Y
Absolute return	-2.3%	14.2%	55.0%

Shareholding pattern (As of Jun'20 end)

Promoter	71.3%
FII+DII	20.7%
Others	8.0%

Δ in earnings estimates

	FY21e	FY22e
EPS (New)	66.7	91.4
EPS (Old)	61.2	81.0
% change	8.0	12.8

Exhibit 1: Result table

(Rs mn)	Q2 FY22	Q1 FY21	% qoq	Q2 FY20	% yoy
Revenues	20,170	20,560	(1.9)	20,050	0.6
RM + inventory changes	(2,810)	(2,520)	11.5	(3,280)	(14.3)
Purchase of goods	(2,730)	(2,830)	(3.5)	(2,100)	30.0
Staff	(3,630)	(3,730)	(2.7)	(3,580)	1.4
Other expenses	(4,650)	(4,870)	(4.5)	(5,680)	(18.1)
OPM (%)	31.5	32.1	-67 bps	27.0	450 bps
Depreciation	(1,650)	(1,610)	2.5	(1,630)	1.2
Interest	(920)	(1,020)	(9.8)	(1,160)	(20.7)
Other income	60	40	50.0	340	(82.4)
PBT	3,840	4,020	(4.5)	2,960	29.7
Tax	(740)	(810)	(8.6)	(520)	42.3
Effective tax rate (%)	19.3	20.1	-88 bps	17.6	170 bps
PAT	3,100	3,210	(3.4)	2,440	27.0

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Q2 HIGHLIGHTS

- ✓ See continued momentum in large brands like Shelcal and Losar for next few quarters
- ✓ Sep data more accurate reflection of domestic therapy growth than July-Aug
- ✓ Q1 FY21 had very high freight costs which moderated in Q2 and will be the base from hereon
- ✓ Gross margin declined qoq due to higher inventory provision
- ✓ Net debt declined due to Rs4.4bn repayment in H1 and on track for deleveraging in FY21
- ✓ Total of 13-14 launches in India in FY21
- ✓ Pricing growth should sustain for the next few quarters in domestic market
- ✓ No immediate plans to add MRs and confident of PCPM touching Rs1mn per MR per month based on product growth and productivity improvement
- ✓ Mid to high single digit price erosion in US portfolio and impacted by lack of new launches
- ✓ Sartans reentry not in FY21 and is a medium-term target
- ✓ Inventory will remain high till Dec and if no second wave than might think of normalization in Q4; keeping 12 months of inventory in all critical APIs
- ✓ Margins not good enough in Brazil tender business to offset the risk of inventory write off and progressively cutting it down

Exhibit 2: Financial summary

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Revenues	60,021	76,730	79,390	83,716	93,211
yoy growth (%)	2.5	27.8	3.5	5.4	11.3
Operating profit	14,014	19,840	21,700	24,161	28,725
OPM (%)	23.3	25.9	27.3	28.9	30.8
PAT	7,302	4,360	10,250	11,196	15,467
yoy growth (%)	(21.8)	(40.3)	135.1	9.2	38.1
EPS (Rs)	43.1	25.8	60.6	66.2	91.4
P/E (x)	61.4	102.9	43.8	40.1	29.0
P/BV (x)	9.7	9.5	9.3	8.0	6.6
EV/EBITDA (x)	34.2	24.1	22.1	19.6	16.0
Debt/Equity (x)	1.0	0.9	0.8	0.5	0.3
ROE (%)	16.3	17.0	21.5	21.5	24.9
ROCE (%)	14.3	15.9	19.1	21.0	25.5

Source: Company, YES Sec - Research

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