

CMP: ₹ 3087

Target: ₹ 3250 (5%)

Target Period: 12 months

July 28, 2021

HOLD



## India growth drives steady numbers...

**About the stock:** Incorporated in 1959, Torrent has a strong presence in domestic and semi-regulated markets and a growing presence in regulated markets.

- Revenues – India including CRAMs (53%), Brazil (8%), US (16%) and Germany (13%).
- Torrent is the eighth largest domestic player and is ranked in top 10 for CVS, CNS, V&M, GI and anti-diabetes therapies in India

**Q1FY22 Results:** Torrent reported steady Q1FY22 results.

- Sales were up 3.8% YoY to ₹ 2134 crore
- EBITDA in Q1FY22 was at ₹ 677 crore, up 2% YoY with margins at 31.7%
- Consequent PAT was at ₹ 330 crore (up 2.8% YoY)

**What should investors do?** Torrent's share price has grown by ~2.1x over the past five years (from ~₹ 1372 in June 2016 to ~₹ 2901 levels in June 2021).

- We change our rating from BUY to HOLD on the stock given recent run up

**Target Price and Valuation:** We value Torrent at ₹ 3250 i.e. 32x P/E on FY23E EPS

### Key triggers for future price performance:

- In India, Torrent is expected to increase specialty focus & new introductions to leverage patent expiry. Also, it forayed into fast growing trade generic segment for acute therapies
- Expects double digit growth in branded markets and high single digit in Germany
- Awaiting clearance for Dahej and Indrad facility from USFDA

**Alternate Stock Idea:** Apart from Torrent, in healthcare coverage we like Sanofi

- A strong growth track in top brands, measured new launches (including innovative launches) besides strong balance sheet and comfort on corporate governance front are some key attributes of Sanofi
- BUY with a target price of ₹ 9750

### Key Financial Summary

Key Financials (₹ crore)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Revenues	7776.0	7939.0	8005.0	3.7	8876.3	9892.7	11.2
EBITDA	2087.0	2170.0	2485.0	-1.9	2715.0	2967.8	9.3
EBITDA margins (%)	26.8	27.3	31.0		30.6	30.0	
Net Profit	828.4	1025.0	1252.0	-6.3	1329.1	1718.5	17.2
EPS (₹)	48.9	60.6	74.0		78.5	101.5	
PE (x)	96.9	51.0	41.7		39.3	30.4	
RoNW (%)	17.5	21.2	21.4		19.4	21.1	
RoCE (%)	14.2	15.4	17.7		20.8	22.2	
Debt / Equity	1.3	1.2	0.8		0.6	0.3	

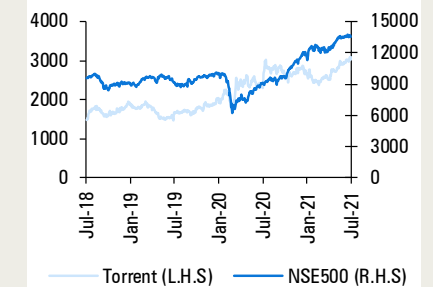
### Particulars

Particular	Amount
Market Capitalisation	₹ 52239 crore
Debt (FY21)	₹ 4825 crore
Cash (FY21)	₹ 604 crore
EV	₹ 56460 crore
52 week H/L (₹)	3121/2282
Equity capital	₹ 84.6 crore
Face value	₹ 5

### Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	71.3	71.3	71.3	71.3	71.3
Others	28.8	28.8	28.8	28.8	28.8

### Price Chart



### Recent Event & Key risks

- Launched trade generics in India for acute & sub chronic segments
- Key Risk:** (i) Regulatory Delays (ii) Better traction for new launches

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## Key takeaways of recent quarter & conference call highlights

### Q1FY22 Results: Steady performance continues

- Torrent Pharma's Q1FY22 revenues grew 3.8% YoY to ₹ 2134 crore. An 18% YoY growth in domestic formulations to ₹ 1093 crore mainly led to Covid opportunities, largely offset by 28.7% decline in US formulations to ₹ 266 crore amid continuous price erosion in the base business. Brazil business grew 9% YoY to ₹ 153 crore. Germany business grew 5.7% YoY to ₹ 260 crore (I-direct estimate: ₹ 270 crore). EBITDA margins remained healthy at ~32%, bit higher than I-direct estimates 31%. EBITDA grew 2.4% YoY to ₹ 677 crore (I-direct estimate: ₹ 686 crore). Subsequently, net profit grew 2.8% YoY to ₹ 330 crore
- Torrent Pharma's Q1FY22 results were lower than I-direct estimates mainly due to lower than expected growth in developed markets but margins remained healthy at ~32%. The company continues to impress thanks to thoughtful capital allocation and robust margin profile, which can be attributed to a global portfolio that comprises ~60% branded generics. The company's portfolio is finely balanced between India, Brazil, Germany and the US with India being the leader. With consistent FCF generation and moderation in core capex, we expect the leverage situation to improve substantially.

### Q1FY22 Earnings Conference Call highlights

- **India** growth led by high contribution from Covid treatment and low base last year
  - Torrent grew 24% in Q1FY22 as per AIOCD vs. market growth of 37%
  - Gross margin affected by absence of export benefits, skewness towards acute portfolio in Q1FY22
  - Torrent launched trade generics division with focus on acute & sub chronic products
    - Initially start with 50-60 SKUs, and expects 3-4% revenue contribution to India business in near term
    - The company has assigned only 25 MRs and uses external distributors to sell its products
  - MR restructuring: PCPM ~ ₹ 10 lakh. MRs ~ 3600
  - Four new products launched in Q1FY22, including baricitinib and extensions in nutritional products.
  - Torrent is currently conducting clinical trials for molnupiravir and looking to widen Covid portfolio
  - AIOCD growth bifurcation- New Product: 14%, Price: 6%, Volume: 4%
  - The management expects the double digit growth to continue
- **US sales** (constant currency US\$36 million)
  - Facing high single digit price erosion in its base portfolio due to mature portfolio and new competition
  - Lack of new launches impacting sales and management awaits USFDA response on Indrad and Dahej plants
  - The management plans to file 10-12 ANDAs per year with focus on complex generics and 505(b)(2) NDAs
  - As of Q1FY22 - 54 ANDAs pending approval, seven tentative approvals were received

- **Brazil** constant currency sales at Brazilian Real 108 million up by 14%
  - New product launches contributed 3% to growth
  - Growth led by both branded and generic segments
  - Increased field staff to promote products
  - The government allowed 10% price increase in products
  - Five products to be launched this year
- **Germany** - Revenue at €29 million (flat growth)
  - Market impacted by second wave of Covid and lockdown
  - OTC business was impacted but the management expects revival with easing of lockdown
  - Torrent to be able to grow in high single digit once Covid situation normalises
  - The management guided for high single digit growth, going forward, against 3-5% of industry growth
- Guided for 17% of cash tax and 30-31% of effective tax rate. Torrent has MAT credit of ₹ 975 crore, which they will utilise in the next four to five years
- Q1FY22 debt repayment was ~₹ 315 crore
- Post Covid, the management expects 1% yearly margins improvement

**Exhibit 1: Variance Analysis**

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	2,134.0	2,214.3	2,056.0	3.8	1,937.0	10.2	Growth in India and Germany nullified by decline in US, Brazil and CRAMs business
Raw Material Expenses	588.0	597.9	535.0	9.9	496.0	18.5	
Gross margins (%)	72.4	73.0	74.0	-153 bps	74.4	-195 bps	Improved mainly due to better product mix led by branded portfolio
Employee Expenses	385.0	376.4	373.0	3.2	341.0	12.9	
Other Expenditure	484.0	553.6	487.0	-0.6	518.0	-6.6	
EBITDA	677.0	686.4	661.0	2.4	582.0	16.3	
EBITDA (%)	31.7	31.0	32.1	-43 bps	30.0	168 bps	YoY improvement led by better gross margin performance
Interest	68.0	66.9	102.0	-33.3	73.0	-6.8	
Depreciation	165.0	168.5	161.0	2.5	165.0	0.0	
Other Income	40.0	10.9	4.0	900.0	39.0	2.6	
PBT before EO & Forex	484.0	461.9	402.0	20.4	383.0	26.4	
EO	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	484.0	461.9	402.0	20.4	383.0	26.4	
Tax	154.0	106.2	81.0	90.1	59.0	161.0	
PAT before MI	330.0	355.7	321.0	2.8	324.0	1.9	
MI	0.0	0.0	0.0	0.0	0.0	0.0	
Adjusted PAT	330.0	355.7	321.0	2.8	324.0	1.9	Delta vis-à-vis EBITDA was due to higher other income and lower interest cost being offset by negative tax (one-off) in base year. Adjusted for a one-time tax benefit, net profit grew 24%
<b>Key Metrics</b>							
India	1,093.0	1,110.0	925.0	18.2	922.0	18.5	YoY growth driven by continued recovery in chronic, sub-chronic and acute therapies, and aided by market share gains in high potential new launches
Brazil	153.0	151.2	140.0	9.3	189.0	-19.0	YoY growth in constant currency term was 19% driven by market share gained in key brands
US	266.0	277.4	373.0	-28.7	269.0	-1.1	Sales impacted by price erosion on base business & base impact of Sartan portfolio discontinuation
Germany	260.0	270.6	246.0	5.7	267.0	-2.6	The company has reported 14% YoY growth in constant currency term

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

₹ Crore	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	9,067.0	8,876.3	-2.1	10,087.5	9,892.7	-1.9	
EBITDA	2,742.9	2,715.0	-1.0	3,026.3	2,967.8	-1.9	
EBITDA Margin (%)	30.3	30.6	29 bps	30.0	30.0	0 bps	
PAT	1,461.9	1,329.1	-9.1	1,739.2	1,718.5	-1.2	Changed mainly due to change in margins expectation as per management guidance
EPS (₹)	86.4	78.5	-9.1	102.8	101.5	-1.2	

Source: ICICI Direct Research

**Exhibit 3: Assumptions**

₹ crore	Current				Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
India	3,517.0	3,740.0	4,330.3	4,849.9	4,347.3	4,868.9	
Brazil	715.0	631.0	692.3	747.7	690.5	745.8	
US	1,522.0	1,261.0	1,230.9	1,415.6	1,246.2	1,433.1	Decline mainly due to lower-than-expected growth in FY21 and continuous price erosion in base business
Germany	947.0	1,039.0	1,148.2	1,240.0	1,163.7	1,256.8	

Source: ICICI Direct Research

**Exhibit 4: Revenue Breakup**

₹ crore	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	CAGR FY16-21 (%)	CAGR FY21-23E (%)
India	1829	1976	2351	3235	3517	3740	4330	4850	15.4	13.9
CRAMs (Incl Others)	600	545	408	467	472	517	570	627	-2.9	10.1
US	2672	1347	1100	1590	1522	1261	1231	1416	-13.9	6.0
Others	425	488	522	684	765	820	862	948	14.0	7.5
Germany	648	811	912	1008	947	1039	1148	1240	9.9	9.2
Brazil	506	699	709	689	715	631	692	748	4.5	8.9

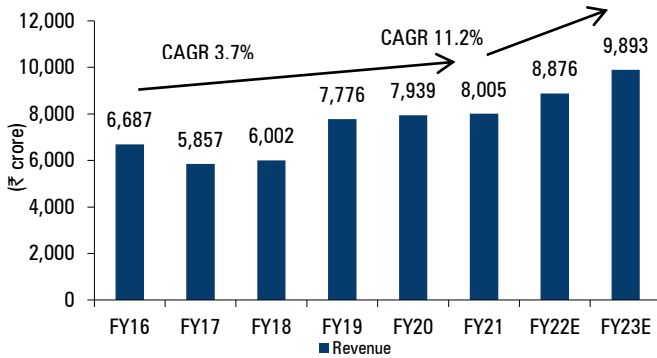
Source: ICICI Direct Research

Exhibit 5: Financial Summary

	Revenues (₹ crore)	Growth (%)	Adj. EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoE (%)	RoCE (%)
FY20	7939	2.1	60.6	23.7	51.0	26.5	21.2	15.4
FY21	8005	0.8	74.0	22.1	41.7	22.7	21.4	17.7
FY22E	8876	10.9	78.5	6.2	39.3	20.0	19.4	20.8
FY23E	9893	11.4	101.5	29.3	30.4	17.7	21.1	22.2

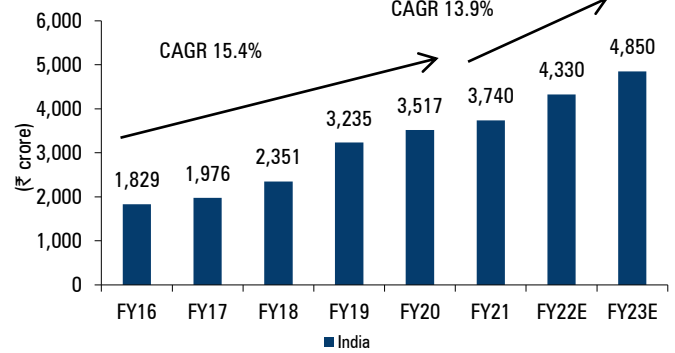
Source: ICICI Direct Research

Exhibit 6: Revenues to grow at 11.2% CAGR over FY21-23E



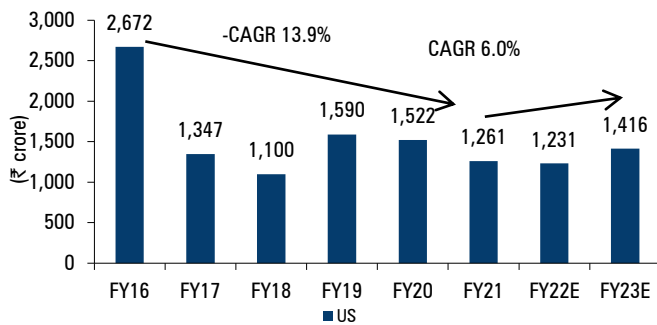
Source: ICICI Direct Research, Company

Exhibit 7: India to grow at CAGR of 13.9% over FY21-23E



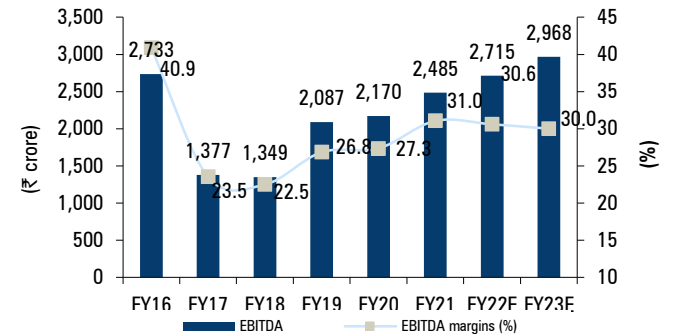
Source: ICICI Direct Research, Company

Exhibit 8: US to grow at a CAGR of 6% over FY21-23E



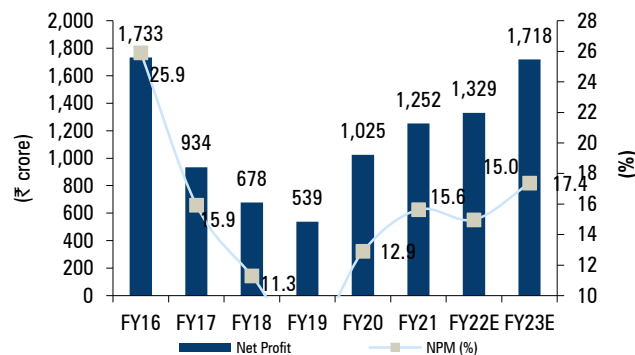
Source: ICICI Direct Research, Company

Exhibit 9: EBITDA & EBITDA margins trend



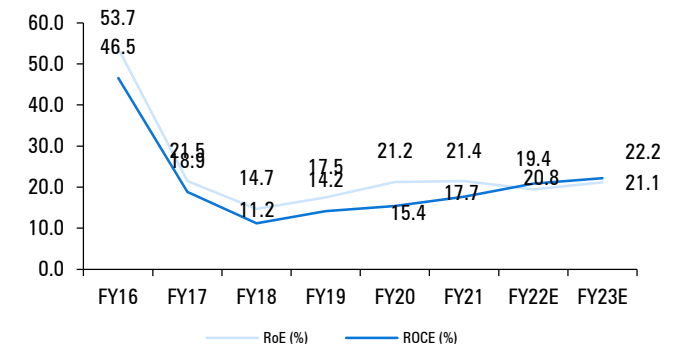
Source: ICICI Direct Research, Company

Exhibit 10: PAT & PAT margins trend



Source: ICICI Direct Research, Company

Exhibit 11: RoE & RoCE trend



Source: ICICI Direct Research, Company

**Exhibit 12: Trends in Quarterly Performance**

₹ <b>Cr</b>	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Revenues	1872.0	1894.0	2051.0	1856.0	2022.0	2005.0	1966.0	1946.0	2056.0	2017.0	1995.0	1937.0	2134.0	3.8	10.2
Total RM cost	558.0	548.0	580.0	533.0	559.0	538.0	542.0	528.0	535.0	554.0	562.0	496.0	588.0	9.9	18.5
% sales	29.8	28.9	28.3	28.7	27.6	26.8	27.6	27.1	26.0	27.5	28.2	25.6	27.6	153 bps	195 bps
Gross Profit	1314.0	1346.0	1471.0	1323.0	1463.0	1467.0	1424.0	1418.0	1521.0	1463.0	1433.0	1441.0	1546.0	1.6	7.3
GPM (%)	70.2	71.1	71.7	71.3	72.4	73.2	72.4	72.9	74.0	72.5	71.8	74.4	72.4	-153 bps	-195 bps
Employee cost	346.0	343.0	368.0	347.0	381.0	358.0	354.0	336.0	373.0	363.0	363.0	341.0	385.0	3.2	12.9
% sales	18.5	18.1	17.9	18.7	18.8	17.9	18.0	17.3	18.1	18.0	18.2	17.6	18.0	-10 bps	44 bps
Other expenditure	491.0	530.0	542.0	503.0	541.0	568.0	530.0	534.0	487.0	465.0	463.0	518.0	484.0	-0.6	-6.6
% of sales	26.2	28.0	26.4	27.1	26.8	28.3	27.0	27.4	23.7	23.1	23.2	26.7	22.7	-101 bps	-406 bps
Total Expenditure	1395.0	1421.0	1490.0	1383.0	1481.0	1464.0	1426.0	1398.0	1395.0	1382.0	1388.0	1355.0	1457.0	4.4	7.5
% of Revenues	74.5	75.0	72.6	74.5	73.2	73.0	72.5	71.8	67.9	68.5	69.6	70.0	68.3	43 bps	-168 bps
EBITDA	477.0	473.0	561.0	473.0	541.0	541.0	540.0	548.0	661.0	635.0	607.0	582.0	677.0	2.4	16.3
EBITDA Margins (%)	25.5	25.0	27.4	25.5	26.8	27.0	27.5	28.2	32.1	31.5	30.4	30.0	31.7	-43 bps	168 bps
Depreciation	150.0	152.0	156.0	160.0	160.0	163.0	163.0	168.0	161.0	165.0	167.0	165.0	165.0	2.5	0.0
Interest cost	122.0	126.0	133.0	123.0	122.0	116.0	111.0	102.0	102.0	92.0	91.0	73.0	68.0	-33.3	-6.8
Other Income	27.0	10.0	3.0	17.0	20.0	34.0	53.0	15.0	4.0	6.0	8.0	39.0	40.0	900.0	2.6
PBT before forex & EI	232.0	205.0	275.0	207.0	279.0	296.0	319.0	293.0	402.0	384.0	357.0	383.0	484.0	20.4	26.4
Forex & EO	0.0	0.0	0.0	-357.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
PBT	232.0	205.0	275.0	-150.0	279.0	296.0	319.0	293.0	402.0	384.0	357.0	383.0	484.0	20.4	26.4
Tax	69.0	26.0	29.0	2.0	63.0	52.0	68.0	-21.0	81.0	74.0	60.0	59.0	154.0	90.1	161.0
Tax rate (%)	29.7	12.7	10.5	-1.3	22.6	17.6	21.3	-7.2	20.1	19.3	16.8	15.4	31.8		
PAT	163.0	179.0	246.0	-152.0	216.0	244.0	251.0	314.0	321.0	310.0	297.0	324.0	330.0	2.8	1.9
PAT after MI	163.0	179.0	246.0	-152.0	216.0	244.0	251.0	314.0	321.0	310.0	297.0	324.0	330.0	2.8	1.9
EPS (₹)	9.6	10.6	14.5	-9.0	12.8	14.4	14.8	18.6	19.0	18.3	17.5	19.1	19.5		

Source: ICICI Direct Research

## Financial Summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Revenues</b>	<b>7,939.0</b>	<b>8,005.0</b>	<b>8,876.3</b>	<b>9,892.7</b>
Growth (%)	2.1	0.8	10.9	11.4
Raw Material Expenses	2167.0	2147.0	2445.8	2671.0
Employee Expenses	1429.0	1440.0	1531.2	1632.3
Other Expenses	2173.0	1933.0	2184.4	2621.6
Total Operating Expenditure	5769.0	5520.0	6161.4	6924.9
<b>EBITDA</b>	<b>2,170.0</b>	<b>2,485.0</b>	<b>2,715.0</b>	<b>2,967.8</b>
Growth (%)	4.0	14.5	9.3	9.3
Depreciation	654.0	658.0	660.0	675.8
Interest	451.0	358.0	272.0	197.7
Other Income	122.0	57.0	166.4	137.6
PBT	1187.0	1526.0	1949.3	2231.8
Total Tax	162.0	274.0	620.2	513.3
PAT before MI	1025.0	1252.0	1329.1	1718.5
<b>Adjusted PAT</b>	<b>1,025.0</b>	<b>1,252.0</b>	<b>1,329.1</b>	<b>1,718.5</b>
Growth (%)	23.7	22.1	6.2	29.3
<b>EPS (Adjusted)</b>	<b>60.6</b>	<b>74.0</b>	<b>78.5</b>	<b>101.5</b>

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	903.0	1350.0	1329.1	1718.5
Depreciation	654.0	658.0	660.0	675.8
Add: Interest Paid	451.0	358.0	272.0	197.7
Other operational Activities	-616.0	-355.0	718.3	-119.6
<b>CF from operation</b>	<b>1,392.0</b>	<b>2,011.0</b>	<b>2,979.4</b>	<b>2,472.4</b>
Purchase/sales of Fixed Assets	-402.0	-334.0	-250.0	-250.0
(Inc)/Dec in Investments	30.0	-120.0	-361.0	-500.0
Long Term Provision	0.0	0.0	37.0	40.7
Other Investing Activities	379.0	37.0	-52.0	-57.2
<b>CF from Investing Activities</b>	<b>7.0</b>	<b>-417.0</b>	<b>-626.0</b>	<b>-766.5</b>
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	-345.0	-957.0	-1000.0	-1000.0
Dividend and dividend tax	-719.0	-338.0	-328.1	-424.2
Other Financing Activities	-485.0	-361.0	-272.0	-197.7
<b>CF from Financing Activities</b>	<b>-1,549.0</b>	<b>-1,656.0</b>	<b>-1,600.1</b>	<b>-1,621.9</b>
Cash generation during the year	-150.0	-62.0	753.3	84.0
Op bal Cash & Cash equivalents	816.0	666.0	604.0	1357.3
Adjustments	0.0	0.0	0.0	0.0
<b>Closing Cash/ Cash Equivalen</b>	<b>666.0</b>	<b>604.0</b>	<b>1,357.3</b>	<b>1,441.3</b>
<b>Free Cash Flow</b>	<b>990</b>	<b>1,677.0</b>	<b>2,729.4</b>	<b>2,222.4</b>

Source: Company, ICICI Direct Research

Exhibit 15: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	85.0	85.0	85.0	85.0
Reserve and Surplus	4,739.0	5,753.0	6,754.0	8,048.3
Total Shareholders funds	4,824.0	5,838.0	6,839.0	8,133.3
Total Debt	5,840.3	4,825.0	3,825.0	2,825.0
Other LT Liabilities & LT Provision	428.0	405.0	445.5	490.1
<b>Total Liabilities</b>	<b>11,092.3</b>	<b>11,068.0</b>	<b>11,109.5</b>	<b>11,448.3</b>
Gross Block - Fixed Assets	9,992.0	10,170.9	10,420.9	10,670.9
Accumulated Depreciation	2,801.0	3,446.9	4,106.9	4,782.7
Net Block	7,191.0	6,724.0	6,314.0	5,888.2
Capital WIP	712.0	889.0	889.0	889.0
Total Fixed Assets	7,903.0	7,613.0	7,203.0	6,777.2
Goodwill on Consolidation	342.0	341.0	341.0	341.0
Investments	2.0	181.0	542.0	1,042.0
Deferred tax assets	433.0	421.0	463.1	509.4
Other non-current assets	349.0	134.0	147.4	162.1
Cash	666.0	604.0	1,357.3	1,441.3
Debtors	1,649.0	1,523.0	1,703.0	1,898.0
Loans and Advances	4.0	3.0	4.1	5.2
Inventory	2,148.0	2,681.0	2,255.7	2,514.0
Other current assets	542.0	574.0	575.1	576.2
Total Current Assets	5,009.0	5,385.0	5,895.2	6,434.7
Creditors	2,076.0	2,067.0	2,444.1	2,723.9
Provisions & other current liabilit	869.7	940.0	1,038.1	1,094.1
Total Current Liabilities	2,945.7	3,007.0	3,482.2	3,818.0
Net Current Assets	2,063.3	2,378.0	2,413.0	2,616.6
<b>Application of Funds</b>	<b>11,092.3</b>	<b>11,068.0</b>	<b>11,109.5</b>	<b>11,448.3</b>

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
Reported EPS	60.6	74.0	78.5	101.5
BV per share	285.0	345.0	404.1	480.6
Dividend per share	32	35	19	25
Cash Per Share	39.4	35.7	80.2	85.2
<b>Operating Ratios (%)</b>				
Gross Profit Margins	72.7	73.2	72.4	73.0
EBITDA Margins	27.3	31.0	30.6	30.0
PAT Margins	12.9	15.6	15.0	17.4
Inventory days	98.8	122.2	92.8	92.8
Debtor days	75.8	69.4	70.0	70.0
Creditor days	95.4	94.2	100.5	100.5
Asset Turnover	0.8	0.8	0.9	0.9
EBITDA conversion Rate	64.1	80.9	109.7	83.3
<b>Return Ratios (%)</b>				
RoE	21.2	21.4	19.4	21.1
RoCE	15.4	17.7	20.8	22.2
RoIC	16.3	20.2	26.0	30.0
<b>Valuation Ratios (x)</b>				
P/E	51.0	41.7	39.3	30.4
EV / EBITDA	26.5	22.7	20.0	17.7
EV / Net Sales	7.2	7.0	6.1	5.3
Market Cap / Sales	6.6	6.5	5.9	5.3
Price to Book Value	10.8	8.9	7.6	6.4
<b>Solvency Ratios</b>				
Debt / EBITDA	2.7	1.9	1.4	1.0
Debt / Equity	1.2	0.8	0.6	0.3
Current Ratio	1.5	1.6	1.3	1.3

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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