

Retail Equity Research

Torrent Pharmaceuticals Limited

Pharmaceuticals

BSE CODE: 500420

NSE CODE: TORNTPHARM

Bloomberg CODE: TRP:IN

SENSEX: 39,922

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 2,546 TARGET Rs. 2,982 RETURN 18% ↑
(Closing: 28-10-20)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Mixed results; Outlook promising

Torrent Pharmaceuticals Limited engages in the research, development, manufacturing, and marketing of generic pharmaceutical formulations in India, the United States, Germany, Brazil, and internationally. The company offers products in various therapeutic areas.

- In Q2FY21, revenue remained flattish (+ 0.6% YoY), largely impacted by decline in the US (-13.9% YoY) and Brazil markets (-17.3% YoY), whereas India, Germany and RoW continued to perform well.
- R&D expenses fell 8.5% YoY to Rs. 119cr (vs. Rs. 130cr in Q2FY20).
- EBITDA rose 17.4% YoY to Rs. 635cr, with EBITDA margin expanding 450bps to 31.5%, owing to lower other operating expenses and change in products mix. Further, PAT increased 27.0% YoY, further aided by lower interest expenses.
- We have a positive view on the stock as the company is set to benefit from robust growth in the Indian and German markets. Hence, we upgrade our rating on the stock to BUY with a revised target price of Rs. 2,982 based on 34x FY22E adj. EPS.

Muted top-line impacted by US and Brazil

Torrent recorded muted top-line growth of 0.6% YoY to Rs. 2,017cr in Q2FY21, due to decline in US formulation business 13.9%YoY to Rs. 327cr, led by price erosion on base portfolio and delay in new launches. Brazil sales were down 17.3% YoY to Rs. 129cr, due to forex headwinds. India revenue grew 7.1%YoY to Rs. 963cr (~46% of total sales) benefitting from continued growth momentum in the Chronic segment, while Acute and Sub-chronic segments showed gradual recovery. Besides, Germany grew 4.4% YoY to Rs. 261cr, as the company completed upgradation of the quality management system.

Margin improves on cost reduction

Gross margin contracted by 63bps to 72.5%, owing to higher inventory provisioning. However, EBITA margin improved by 450bps to 31.5%, aided by lower other expenses (23.1% as percentage of sales vs. 28.3% in Q2FY20) amidst lower travel and promotional expenses owing to COVID-19. Resultantly, Net Profit rose 27.0% YoY to Rs. 310cr, further benefitting by lower interest expense.

Roadmap ahead

The Management expects to see steady growth in domestic market as field activities back to the pre-COVID level (~70-80%) and field force productivity was at Rs. 8lacs, with Medical Representative strength at 4,000. Additionally, with the gradual recovery in Sub-chronic and Acute segment should support domestic business. Separately, after upgradation of quality management, Germany business should ramp up (market share back to 6.9% as per IQVIA). However, the Management expects US business growth to be soft due to ongoing issues in Indrad, Dahej plants. Company submitted corrective and preventive action and awaiting response from USFDA. Separately, Torrent continues to improve its pipeline further, following this, company has 47 ANDAs pending approval as of Sep 2020, while 6 tentatively approved, and filed 1 ANDA for approval in Q2FY21. Notably, company net debt stood at Rs. 4200cr, with Net debt/EBITDA at 1.7x, management intend to reduce it further by FY2021.

Valuation

We expect earnings to grow at a healthy 20.4% CAGR over FY20-22E, with recovery in the domestic and German markets, with Brazil and RoW likely to support the company's outlook further. Hence, we upgrade our rating on the stock to a BUY with a revised target price of Rs. 2,982 based on 34x FY22E adj. EPS.

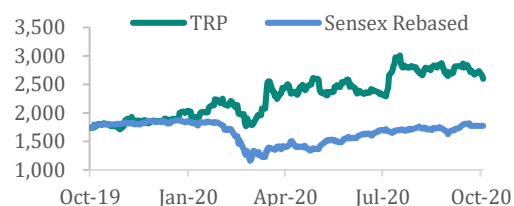
Company Data

Market Cap (cr)	Rs. 42,886
Enterprise Value (cr)	Rs. 45,748
Outstanding Shares (cr)	16.9
Free Float	29.0%
Dividend Yield	1.3%
52 week high	Rs. 3,040
52 week low	Rs. 1,619
6m average volume	22,383
Beta	0.4
Face value	Rs. 5

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	71.3	71.3	71.3
FII's	9.8	11.0	12.2
MFs/Insti	10.9	9.7	8.4
Public	6.4	7.0	7.1
Others	1.7	1.0	1.0
Total	100.0	100.0	100.0
Promoters' pledge	36.5	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	11.1%	2.7%	46.1%
Absolute Sensex	3.7%	24.3%	1.7%
Relative Return*	7.4%	-21.6%	44.4%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	7,939	8,492	9,291
Growth (%)	3.5	7.0	9.4
EBITDA	2,170	2,448	2,725
EBITDA Margin (%)	27.3	28.8	29.3
Adj. PAT	1,025	1,197	1,485
Growth (%)	29.3	16.8	24.0
Adj. EPS	60.6	70.7	87.7
Growth (%)	29.2	16.8	24.0
P/E	32.6	35.8	28.9
P/B	6.9	7.5	6.2
EV/EBITDA	17.1	18.8	16.4
ROE (%)	21.2	20.9	21.4
D/E	0.9	0.7	0.5

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	2,017	2,005	0.6	2,056	(1.9)	4,073	4,027	1.1
EBITDA	635	541	17.4	661	(3.9)	1,296	1,082	19.8
EBITDA margins	31.5	27.0	450bps	32.1	(60bps)	31.8	26.9	490bps
Depreciation	165	163	1.2	161	2.5	326	323	0.9
EBIT	470	378	24.3	500	(6.0)	970	759	27.8
Interest	92	116	(20.7)	102	(9.8)	194	238	(18.5)
Other Income	6	34	(82.4)	4	50.0	10	54	(81.5)
Exceptional Items	-	-	-	-	-	-	-	-
PBT	384	296	29.7	402	(4.5)	786	575	36.7
Tax	74	53	39.6	81	(8.6)	155	115	34.8
Share of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	310	244	27.0	321	(24.0)	631	460	37.1
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	310	244	27.0	321	(24.0)	631	460	37.1
No. of shares	16.9	16.9	-	16.9	-	16.9	16.9	-
Adj. EPS (Rs.)	18.3	14.4	27.0	19.0	(24.0)	37.3	27.2	37.1

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	8,569	9,334	8,492	9,291	(0.9)	(0.5)
EBITDA	2,393	2,691	2,448	2,725	2.3	1.3
Margins (%)	27.9	28.8	28.8	29.3	90bps	50bps
Adj. PAT	1,164	1,482	1,197	1,485	2.9	0.2
Adj. EPS	68.7	87.5	70.7	87.7	2.9	0.2

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	6,002	7,673	7,939	8,492	9,291
% change	2.5	27.8	3.5	7.0	9.4
EBITDA	1,349	1,984	2,170	2,448	2,725
% change	(2.1)	47.1	9.4	12.8	11.3
Depreciation	409	618	654	633	643
EBIT	940	1,366	1,516	1,815	2,082
Interest	308	504	451	410	308
Other Income	299	(300)	122	110	130
PBT	931	562	1,187	1,516	1,904
% change	(14.4)	(39.6)	111.2	27.7	25.6
Tax	253	126	162	318	419
Tax Rate (%)	27.2	22.4	13.6	21.0	22.0
Reported PAT	678	436	1,025	1,197	1,485
Adj*	-	357	-	-	-
Adj PAT	678	793	1,025	1,197	1,485
% change	(27.4)	17.0	29.3	16.8	24.0
No. of shares (cr)	16.9	16.9	16.9	16.9	16.9
Adj EPS (Rs.)	40.1	46.9	60.6	70.7	87.7
% change	(27.4)	17.0	29.2	16.8	24.0
DPS (Rs.)	14.0	17.0	32.0	17.0	17.0
CEPS (Rs.)	95.1	80.1	130.7	160.3	200.2

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	1,087	1,054	1,679	1,830	2,128
Non-cash adj.	168	645	99	410	308
Changes in W.C	(360)	99	(386)	(155)	(214)
C.F. Operation	894	1,798	1,392	2,085	2,222
Capital exp.	(789)	(661)	(402)	(434)	(475)
Change in inv.	38	411	234	30	30
Other invest.CF	(3,956)	8	17	(34)	(38)
C.F - Investment	(4,707)	(241)	(151)	(438)	(483)
Issue of equity	-	-	-	-	-
Issue/repay debt	3,958	(501)	(345)	(400)	(500)
Dividends paid	(265)	(310)	(719)	(288)	(288)
Other finance.CF	(276)	(503)	(485)	(410)	(308)
C.F - Finance	3,417	(1,314)	(1,549)	(1,097)	(1,095)
Chg. in cash	(395)	242	(308)	549	644
Closing cash	867	816	666	1,215	1,859

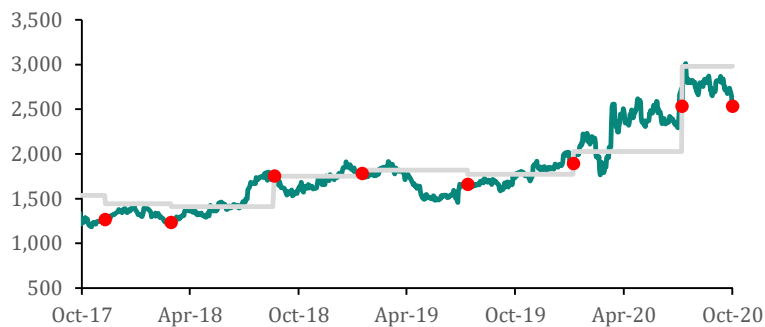
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	867	816	666	1,215	1,859
Accounts Receivable	1,254	1,436	1,649	1,772	1,948
Inventories	1,966	1,935	2,148	2,298	2,527
Other Cur. Assets	1,175	851	546	554	563
Investments	-	2	2	2	2
Gross Fixed Assets	3,148	3,690	4,353	4,759	5,193
Net Fixed Assets	2,417	2,801	2,818	2,614	2,440
CWIP	423	479	577	583	589
Intangible Assets	5,662	5,085	4,715	4,749	4,787
Def. Tax (Net)	276	370	433	476	524
Other Assets	203	346	484	454	424
Total Assets	14,243	14,121	14,038	14,718	15,663
Current Liabilities	3,576	4,232	4,391	4,528	4,738
Provisions	287	289	338	372	409
Debt Funds	5,755	4,862	4,477	4,077	3,577
Other Liabilities	2	14	8	8	8
Equity Capital	85	85	85	85	85
Reserves & Surplus	4,537	4,639	4,739	5,649	6,846
Shareholder's Fund	4,622	4,724	4,824	5,734	6,931
Minority Interest	1	-	-	-	-
Total Liabilities	14,243	14,121	14,038	14,718	15,663
BVPS (Rs.)	273	279	285	339	409

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	22.5	25.9	27.3	28.8	29.3
EBIT margin (%)	15.7	17.8	19.1	21.4	22.4
Net profit mgn.(%)	11.3	5.7	12.9	14.1	16.0
ROE (%)	14.7	9.2	21.2	20.9	21.4
ROCE (%)	9.1	14.2	16.3	18.5	19.8
W.C & Liquidity					
Receivables (days)	76.3	68.3	75.8	76.2	76.5
Inventory (days)	428.7	318.3	361.8	363.6	365.4
Payables (days)	446.5	345.1	349.7	350.0	350.4
Current ratio (x)	1.0	1.0	0.9	1.0	1.2
Quick ratio (x)	0.5	0.5	0.4	0.5	0.7
Turnover & Leverage					
Gross asset T.O (x)	2.1	2.2	2.0	1.9	1.9
Total asset T.O (x)	0.5	0.5	0.6	0.6	0.6
Int. coverage ratio (x)	3.1	2.7	3.4	4.4	6.8
Adj. debt/equity (x)	1.2	1.0	0.9	0.7	0.5
Valuation					
EV/Sales (x)	4.3	4.8	4.7	5.4	4.8
EV/EBITDA (x)	19.1	18.5	17.1	18.8	16.4
P/E (x)	30.7	41.2	32.6	35.8	28.9
P/BV (x)	4.5	6.9	6.9	7.5	6.2

Recommendation Summary



Dates	Rating	Target
6-Dec-17	BUY	1,445
27-Mar-18	BUY	1,412
17-Sep-18	HOLD	1,751
12-Feb-19	HOLD	1,820
9-Aug-19	HOLD	1,773
3-Feb-20	HOLD	2,026
4-Aug-20	HOLD	2,980
29-Oct-20	BUY	2,982

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

General Disclosures and Disclaimers

CERTIFICATION

I, Joe Samuel, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit, a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. GEOJIT is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. GEOJIT will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION: The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE: GEOJIT and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific



investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER: We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by GEOJIT without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

JURISDICTION: The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES: GEOJIT's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), GEOJIT affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities. In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

GEOJIT confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

He, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, GEOJIT or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company and is in receipt of compensation from the subject company." (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by GEOJIT regarding the compensation paid to its Research Analyst:

GEOJIT hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Joe Samuel, Research Analyst(s) of GEOJIT have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither GEOJIT/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226

