



#### 3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✓	✗

+ Positive = Neutral - Negative

#### What has changed in 3R MATRIX

	Old		New
RS	Green	↔	Green
RQ	Green	↔	Green
RV	Grey	↔	Grey

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 3,010	
Price Target: Rs. 3,400	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

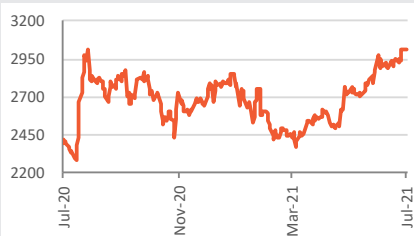
#### Company details

Market cap:	Rs. 46,086 cr
52-week high/low:	Rs. 3,040 / 2,232
NSE volume: (No of shares)	3.4 lakh
BSE code:	500420
NSE code:	TORNTPHARM
Free float: (No of shares)	4.9 cr

#### Shareholding (%)

Promoters	71.3
FII	11.6
DII	8.4
Others	8.8

#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	1.0	17.3	7.9	12.4
Relative to Sensex	0.3	8.3	1.2	-34.4

Sharekhan Research, Bloomberg

#### Summary

- Torrent Pharmaceuticals Limited (Torrent) has emphasised on achieving sustainable and profitable growth in its annual report for FY2021 through a strategic framework and theme.
- Expected market share gains, therapy consolidation, therapy expansion, and sustained investment in new products would be the key driving factors.
- The geographies of India, Brazil and Europe have a strong growth outlook while US revenues are likely to bottom out and stage a gradual improvement going ahead.
- Based on encouraging outlook for US business and strategy for sustainable growth, we maintain our Buy recommendation with a revised PT of Rs. 3,400.

In its annual report for FY2021, Torrent Pharmaceuticals Limited (Torrent) has emphasised on achieving sustainable and profitable growth going ahead. The annual report mentions a strategic framework and theme, which are expected to drive growth ahead for the company. Therefore, the company plans to focus on its key markets with strong presence in the branded generics space. Market share gains (by growing at a higher pace as compared to the industry), therapy consolidation, therapy expansion, and sustained investment in new products would be the key driving factors. Moreover, the company looks to expand its geographic presence to markets with a similar policy framework as compared to its existing markets. Torrent's core geographies constitute four key markets – India, US, Germany, and Brazil, collectively accounting for more than 85% of the overall FY2021 revenue. Torrent's India business, which constitutes 53% of FY2021 sales, is expected to grow strongly, backed by expected double-digit growth in IPM, sanguine 15% growth in the hospitals and diagnostics segment, coupled with Torrent's focus on increasing prescriptions share and building bigger brands. A higher share from the chronics and sub-chronic segments bodes well for growth of the domestic business. In other core markets such as Brazil, Torrent looks to expand its portfolio in its core therapeutic areas of cardio vascular, diabetes, and CNS, enter new therapy areas, and grow the generics business. While in German market, the company aims to increase its coverage to 65% over the near to medium term (from 55% currently) backed by new product launches, continued focus on tender markets, expansion of the OTC portfolio, and plans to tap specialty channels and hospitals. US performance has been under pressure due to lack of new launches and erosion of the base business, as two of its plants have been under USFDA scrutiny. However, with Levittown plant commencing operations, Torrent has lined few new product launches from the plant in FY2022 and it had a few approved products in the US, which are likely to be launched in FY2022. Collectively, management sees US sales to be bottoming out and expects the quarterly revenue run rate to improve going ahead.

#### Our Call

**Valuation – Maintain Buy with a revised PT of Rs. 3,400:** Torrent's FY2021 annual report has laid a strategic framework and theme for sustainable and profitable growth. In core markets, expected market share gains, therapy expansion and investment in new geographies would be key growth levers. Along with this, focus on productivity improvement and cost competitiveness could drive operational improvement. Going ahead, management expects a robust outlook for India business, backed by expected outperformance to IPM, expanding reach, and expected improvement in the field force productivity. Other geographies are also expected to stage double-digit growth, backed by efforts to expand therapy and product portfolio and plans to increase coverage in key markets such as Germany. Torrent sees US sales bottoming out and expects a gradual improvement, driven by planned launches from Levittown plant and already approved products. USFDA Resolution of the Indrad and Dahej plants is awaited and its clearance could lead to earnings upgrades. At the CMP, the stock is trading at 36.4x/28.9x its FY2022E/FY2023E EPS. We have also introduced FY2024 estimates in this note. Based on encouraging outlook for US business and strategy for sustainable growth, we maintain our Buy recommendation with a revised price target (PT) of Rs. 3,400.

#### Key Risks

1. Delay in resolution of USFDA issues at its plants; and 2. Any adverse change in the regulatory landscape can impact earnings prospects.

#### Valuation (Consolidated)

Particulars	Rs cr				
	FY2020	FY2021	FY2022E	FY2023E	FY2024E
Net sales	7781.0	8005.0	8944.8	10183.9	10994.3
Operating Profit	2012.0	2485.0	2763.9	3258.8	3573.2
OPM (%)	25.9	31.0	30.9	32.0	32.5
Adjusted net profit	1026.0	1252.0	1406.5	1769.3	1995.4
EPS (Rs)	60.4	73.6	82.7	104.1	117.4
PER (x)	49.9	40.9	36.4	28.9	25.6
EV/Ebitda (x)	28.2	22.4	19.5	16.1	14.1
P/BV (x)	10.6	8.8	7.4	6.1	5.1
ROCE (%)	14.8	17.1	18.8	21.0	20.7
RONW (%)	21.5	23.5	22.0	23.0	21.5

Source: Company; Sharekhan estimates

**Key Highlights from Annual Report FY2021:**

Torrent has released its annual report for FY2021. The report emphasises on achieving sustainable and profitable growth going ahead. The annual report mentions about a strategic framework and theme, which are expected to drive the company’s growth going ahead. Torrent is guided by five overarching strategic themes, each with their individual focus areas and intended outcomes. Management has formulated these themes after meticulous assessment of the external environment and stakeholders’ priorities and are operated under a robust governance mechanism.

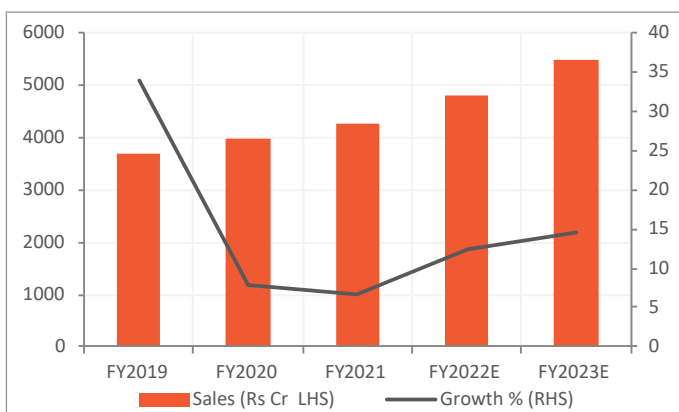
**Strategic Themes: Snapshot**

Improve market share in core markets	Invest in tomorrow’s growth engines	Operational excellence	Engaged and empowered workforce	Deploy digital technologies
<b>TERRITORIES</b>	<b>EXISTING</b>	<b>SUPPLY CONTINUITY</b>	<b>LEADERSHIP</b>	<b>ENTERPRISE ARCHITECTURE</b>
India	Philippines	<b>PRODUCTIVITY ENHANCEMENT</b>	<b>TALENT DEVELOPMENT</b>	<b>BIG DATA ANALYTICS</b>
US	UK	<b>COST COMPETITIVENESS</b>	<b>PRODUCTIVITY</b>	<b>EMERGING TECHNOLOGIES</b>
Germany	Mexico	<b>QUALITY</b>	<b>INNOVATION</b>	<b>INFORMATION SECURITY</b>
Brazil	<b>NEW</b>	<b>R&amp;D EFFICIENCY</b>	<b>SAFETY AND WELL-BEING</b>	
	EU			
	LATAM			
	South East Asia			

Source: Company; Sharekhan Research

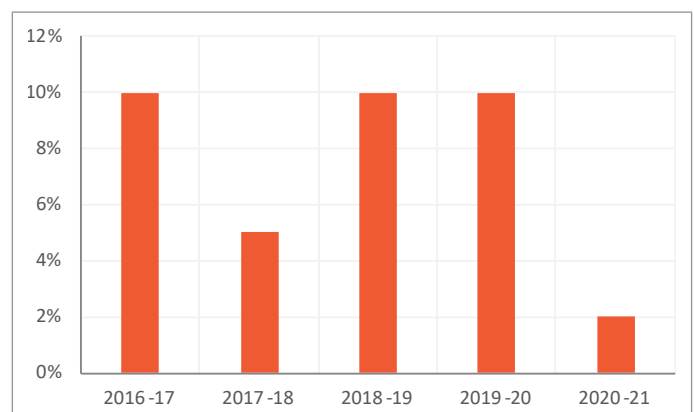
**Market share gains and therapy expansion to aid growth in core geographies:** Torrent’s core geographies constitute four key markets – India, US, Germany, and Brazil. Collectively, these geographies account for more than 85% of the overall FY2021 revenue. Of these, India business constitutes a large chunk of around 53.2% of overall sales and comprises domestic formulations as well as CDMO operations. Moreover, of the total India business, around 62% of revenue is from branded generics, while the balance 38% is from the generics business. Torrent has an established presence in the Indian market and is one of the leading players in the domestic formulations space with an overall 8th rank in (Indian pharmaceutical markets (IPM)). With respect to therapies, the company has a higher presence in the chronic and the sub-chronic segments, which together constitute around 75% of India sales. Torrent ranks at the 2nd spot in the cardiac markets in India and 16 of its brands are amongst the top 500 brands of IPM.

**India Business: Sales - Sales Growth**



Source: Company, Sharekhan Research

**IPM Growth Trends**

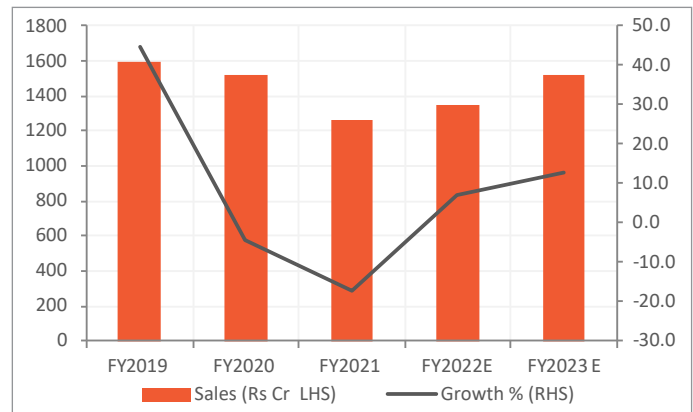


Source: Company, Sharekhan Research

For FY2021, IPM growth was subdued at around 2%, largely attributable to disruptions on account of COVID-19, which impacted performance of acute therapies largely. However, as Torrent has a higher presence in the chronic segment, it was able to comfortably outpace IPM growth. Going ahead, a slew of growth triggers is expected to drive performance of India business. Reports suggests double-digit growth in IPM going ahead, backed by increased healthcare spends by the government, sanguine 15% growth in the hospitals and diagnostics segment and accelerated penetration of health insurance. In addition to this, Torrent would be focusing on increasing prescription share and building bigger brands, introduce new products, and sustain its competitive position in anchor therapies and build a presence in therapies that offer head room for growth. Further, the company has concluded its products as well as field force rationalisation exercise in Indian markets. Management aims to take the productivity number to Rs. 10 lakh (from a level of Rs. 8.5 lakhs) going ahead and looks to achieve this by increasing the breadth of its product portfolio by expanding its reach, especially in the sub-chronic and acute therapies. Moreover, the company's its key brand, Shelcal, in the vitamins space is experiencing increased sales on account COVID-induced demand; and management expects this strong demand to sustain.

US Business to stage gradual improvement going ahead: Torrent's revenue from the US business has been on a declining trend and has dropped by 17% for FY2021. US business has been under severe stress, as two of its key plants catering to US markets – Dahej and Indrad – have been under USFDA scrutiny. This had an impact on the company's base business as well as on new product launches, with new launch momentum hitting severely. However, in the US, Torrent has a commendable position with 13% share of covered markets. In its space of 25 molecules, the company is ranked amongst the three top players in US markets.

US Business: Sales - Sales Growth



Source: Company, Sharekhan Research

Going ahead, management sees the US business to stage an improvement. Brand loss of exclusivity, gradual diversification of product portfolio moving up the value chain in favour of complex generics specialty products biosimilars, and immune therapy would aid growth. The US market is expected to grow by 3-6% per year, backed by growing incidence of chronics, faster approvals of generics drugs, and loss of exclusivity, which offer an opportunity to scale up US revenue. In the recent concall for the quarter ending March 2021, management has mentioned about US sales bottoming out and it sees a gradual improvement in the same.

Germany and Brazil markets to grow backed by product/therapy expansion: German markets constitute around 13% of overall FY2021 sales of Torrent. The German business reported topline of Rs. 1,038 crore for FY2021, up 9.6%, and this comes after a decline of 6% in FY2020. The company has largely completed the upgradation of its quality management systems in the region. Going ahead, the company expects sales to pick up. Torrent aims to increase its coverage in German markets to 65% over the near to medium term from the current level of 55%. These could be achieved through new product launches and continued focus on tender markets. Further, the company looks to expand its offerings in the OTC market. The company is also looking to tap specialty channels and hospitals, which could aid growth.

Torrent has a sizeable presence in Brazil markets and is one of the largest Indian companies operating in Brazil. The company is present in the branded generics as well as generics segments in Brazil. After reporting flat growth in Brazil markets in FY2021, Torrent expects the momentum to pick up in Brazil. Torrent would be looking to expand its portfolio in the current core therapeutic areas of cardio vascular, diabetes, and CNS, enter new therapy areas, and expand the generics business. On the other side, a depreciating currency is a challenge, but based on growth drivers, the Brazilian pharmaceutical markets is expected to grow by 6-9% per annum, which could have a positive rub-off effect on Torrent's business as well. Overall, Torrent's core markets are expected to grow, backed by market share gains, expansion of its product portfolio, and entry into new therapy areas.

**Focus on new markets to develop them as future growth engines:** In addition to the existing core markets, the company is focusing on/investing in newer growth markets. These would wither be done by expanding the company's presence in existing markets or by tapping in new markets. Torrent looks to leverage its existing product pipeline to scale up and strengthen its presence in other existing growth markets, venture into new markets by pivoting already-proven business model, and go-to-market strategies from existing markets. Management also plans to incrementally invest in other existing as well as new markets to develop them as growth engines over the medium to long term. In addition, new product launches and collaborations would enable the company to achieve its goals. Overall, these measures would enable the company to develop these markets as growth engines of the future, though these seem to be a medium to long-term strategies.

**Efforts to improve quality, productivity, and cost competitiveness to drive operational excellence:** As part of the strategic initiative to improve cost competitiveness and drive operational excellence through focus on quality and productivity improvement, the company is focusing on the following parameters:

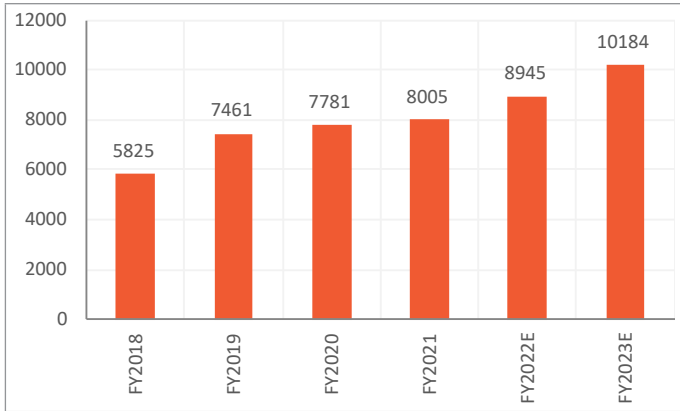
- ◆ Drive productivity enhancements and cost competitiveness across procurement and manufacturing operations
- ◆ Ensure supply continuity through alternate sourcing and manufacturing strategies
- ◆ Strong quality systems and process, connected technologies, and reduced manual interventions and strict adherence to regulatory standards to enable enhanced quality standards
- ◆ Optimise R&D efficiency by building a market-centric portfolio that targets unmet medical needs

The above parameters would enable the company to keep a tab on product/customer complaints, monitor quality matrix, and per unit cost. Collectively, these factors would drive operational excellence, which in turn bodes well.

**Digital technologies to drive business model improvement:** Technology is one of the key aspects of the company's strategy for sustainable and profitable growth going ahead. The technology stack hovers around the areas of Information Security, Enterprise Architecture, and Compliance, which provides a conducive environment for sustainability and transformation to achieve the strategic objectives of enhanced business performance, improved productivity, higher quality, optimised costs, and superior customer experience. Torrent's key focus areas for the same include – 1. Leverage emerging technologies to gain competitive advantage across various business verticals; 2. Invest in technology to create a robust, scalable, and open framework to support transformation and accelerated adoption of emerging technologies; and 3. Execution of technology projects under the governance framework of information security, infrastructure management, and compliances. Recognising the dynamic impact of emerging technologies and its benefits, Torrent has initiated a project for designing a new IT roadmap, which would address the demands of sustainability, growth, and transformation, keeping in mind the needs for an enhanced information system programme, additional controls, and automation, and changing compliance and regulatory needs. A new greenfield-enhanced ERP implementation has also been initiated, with clearly defined business benefits.

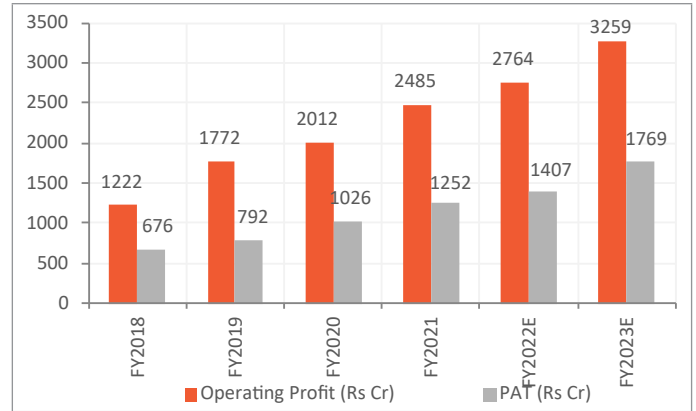
**Financials in charts**

**Sales Trends (Rs Cr)**



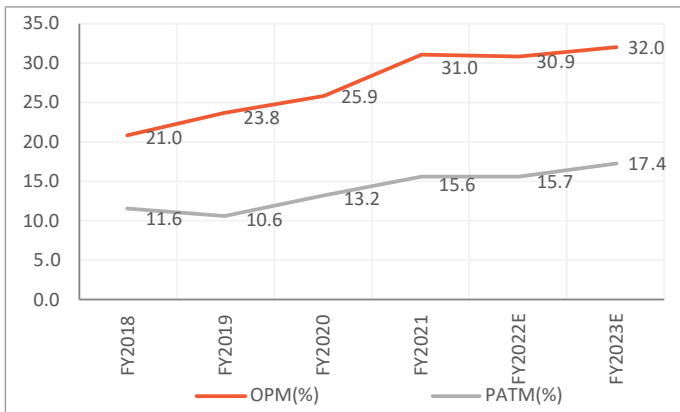
Source: Company, Sharekhan Research

**Operating Profit - PAT Trends**



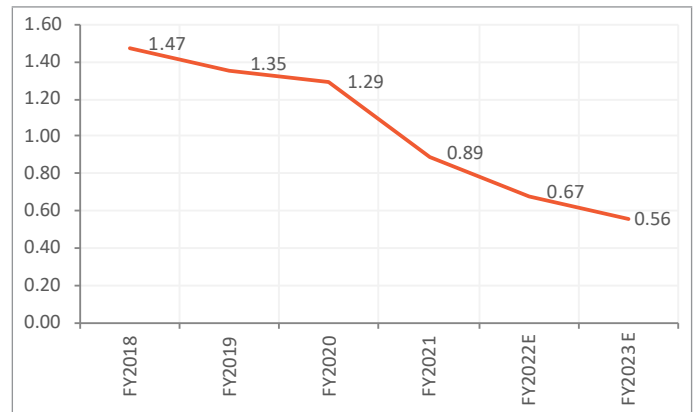
Source: Company, Sharekhan Research

**Margin Trends**



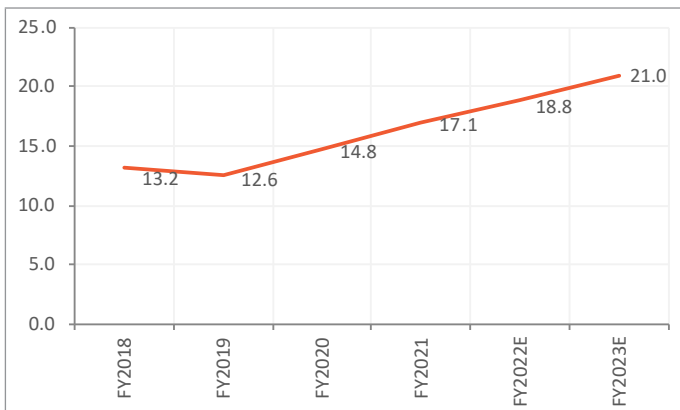
Source: Company, Sharekhan Research

**Improving Leverage**



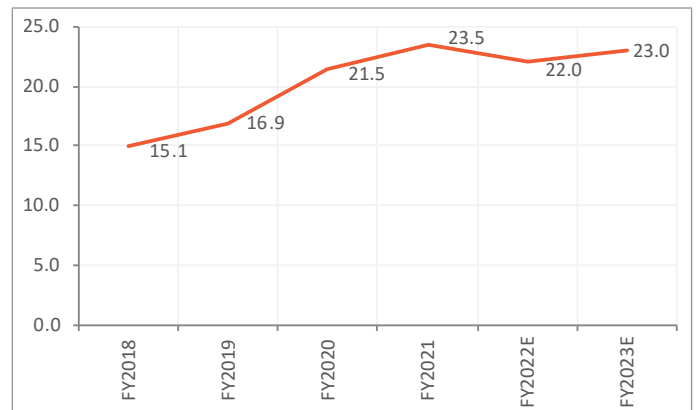
Source: Company, Sharekhan Research

**RoCE Trend (%)**



Source: Company, Sharekhan Research

**Return ratios to improve (RoE %)**



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Growth momentum to improve:

Indian pharmaceutical companies are better placed to harness opportunities and report healthy growth going ahead. Indian companies are among the most competitive ones globally and hold a sizeable market share in most developed as well as other markets. Moreover, other factors such as easing of pricing pressures (especially in the US generics market), rise in product approvals, and plant resolutions by the USFDA coupled with strong growth prospects in domestic markets and emerging opportunities in the API space would be key growth drivers. This would be complemented by strong capabilities developed by Indian companies (leading to a shift towards complex molecules and biosimilars) and commissioning of expanded capacities by select players over the medium term. Collectively, this indicates a strong growth potential going ahead for pharma companies.

### ■ Company outlook – India business to stage strong growth; US to improve gradually:

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, which collectively form the core markets. The company has been outperforming in the Indian as well as Brazilian markets and management expects to sustain the traction going ahead as well. Moreover, the German business is expected to gain traction and stage strong growth ahead, backed by growth in the base business and new product launches. Performance in Europe is also getting on the improvement path and a meaningful revival is likely in FY2022 and ahead. The US business of the company has been under pressure as two of its plants, which cater to US markets – Dahej and Indrad – are under the USFDA scanner with OAI/WL classification. However, the Levittown plant has commenced operations and the company expects to launch a new product in the US market from the plant. Moreover, a slew of product launches in the US is planned, including relaunching of Sartans. Torrent also has few approved products from partnered sites, which could be launched in FY2022. With these triggers in place, the quarterly run rate for the US business is likely to bottom out and stage a gradual improvement. Further, a timely and successful resolution of these USFDA observations at its two plants is critical and upon resolution could result in earnings upgrades.

### ■ Valuation – Maintain Buy with a revised PT of Rs 3400:

Torrent's FY2021 annual report has laid a strategic framework and theme for sustainable and profitable growth. In core markets, expected market share gains, therapy expansion and investment in new geographies would be key growth levers. Along with this, focus on productivity improvement and cost competitiveness could drive operational improvement. Going ahead, management expects a robust outlook for India business, backed by expected outperformance to IPM, expanding reach, and expected improvement in the field force productivity. Other geographies are also expected to stage double-digit growth, backed by efforts to expand therapy and product portfolio and plans to increase coverage in key markets such as Germany. Torrent sees US sales bottoming out and expects a gradual improvement, driven by planned launches from Levittown plant and already approved products. USFDA Resolution of the Indrad and Dahej plants is awaited and its clearance could lead to earnings upgrades. At the CMP, the stock is trading at 36.4x/28.9x its FY2022E/ FY2023E EPS. We have also introduced FY2024 estimates in this note. Based on encouraging outlook for US business and strategy for sustainable growth, we maintain our Buy recommendation with a revised price target (PT) of Rs. 3,400.



### 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 (%)		
				FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Torrent Pharma	3010	16.99	50940	40.9	36.4	28.9	22.4	19.5	16.1	23.5	22.0	23.0
Lupin	1172	45.3	53,199	43.7	29.7	22.3	22.3	13.1	9.9	8.8	11.7	13.8
Cipla	977	80.6	78805	32.8	25.9	21.5	18.8	15.6	13.3	13.9	14.6	16.0

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 US, Europe, Brazil, and 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 has been outperforming in the Indian as well as Brazilian markets and management expects to sustain the traction going ahead as well. Moreover, the German business is expected to gain traction and stage strong growth ahead, backed by growth in the base business and new product launches. Performance in Europe is also getting on the improvement path and a meaningful revival is likely in FY2022 and ahead. The US business is under pressure as two of its plants – Indrad and Dahej are under USFDA scrutiny, However the operations at Levit town plant have commenced and hence the company is planning for a few product launches from the same. With these triggers in place, the quarterly run rate for the US business is likely to bottom out and stage a gradual improvement. Further, a timely and successful resolution of these USFDA observations at its two plants is critical and upon resolution could result in earnings upgrades.

## 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 export businesses.

## Additional Data

### Key management personnel

Mr. Sudhir Mehta	Chairman (Emeritus)
Mr. Samir Mehta	Executive Chairman
Mr. Sudhir Menon	CFO

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Mirae Asset Global investment Company	2.14
2	UTI Asset Management Co Ltd	1.37
3	FMR LLC	1.31
4	Blackrock Inc	0.88
5	Vanguard Group Inc	0.87
6	Pictet Funds SA	0.76
7	T Rowe Price Group Inc	0.72
8	Kotak Mahindra Asset Management Co	0.62
9	Norges Bank	0.5
10	ICICI Prudential Life Insurance Co	0.48

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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