

RETAIL EQUITY RESEARCH

Torrent Pharma Ltd.

Pharmaceuticals

BSE CODE: 500420

NSE CODE: TORNTPHARM

Bloomberg CODE: TRP:IN

SENSEX: 38,091

17th September, 2018**HOLD**

Rating as per Large cap

12months investment period

CMP Rs1738 TARGET Rs1751 RETURN 1% **Unichem integration and healthy US pipeline holds key**

Torrent Pharmaceuticals Ltd (Torrent) manufactures and markets branded & unbranded generic pharmaceutical products within and outside India. It is a dominant player in the therapeutic areas of cardiovascular (CV) and central nervous system (CNS)

- Torrent reported a strong 36% YoY growth in revenue in Q1FY19 led by robust India formulation sales (up 79% YoY) due to consolidation of Unichem business.
- US/Germany/RoW businesses delivered strong 23%/32%/33% YoY growth in sales while Brazil reported 7% YoY decline due to competitive pressure and discontinuation of a drug.
- EBITDA margin expanded by 386 bps YoY in Q1FY19 owing to improved product mix and cost rationalization.
- Though we have revised upwards our sales and EBITDA estimates by 4%/3% and 10%/13% for FY19/20E, we have lowered Adj.PAT estimates for FY19E by 9% while largely maintaining our FY20E estimates.
- We expect revenue/Adj. PAT to grow at a CAGR of 22%/32% over FY18-20E led by healthy growth in the domestic business, pickup in US sales and growth in Germany/RoW markets.
- However, considering recent sharp rally in the stock price (up by ~28% over the last four months), we change our rating to 'HOLD' from 'BUY' on the stock with revised target price of Rs.1,751 based on 25x FY20E EPS.

Strong domestic business performance boosts revenue

Torrent reported a strong 36% YoY growth in revenue in Q1FY19 aided by robust performance across geographies except Brazil. India business (accounts for ~40% of sales) registered a strong show with 79% YoY increase in revenue (although on a low base due to GST) on account of integration of Unichem Laboratories' domestic portfolio and growth in Torrent's core portfolio. Adjusting for Unichem, base business grew at a healthy pace of 33% YoY driven by its key brands Shelcal and Chymoral. Germany business (13% of sales) recorded 32% YoY growth in revenue driven by new product launches. Torrent launched two products- Ezetimibe and Ivabradine- during Q1FY19 and targets to launch about 12 products in the region this fiscal. However, its Brazil business witnessed 7% YoY decline in sales impacted by discontinuation of Risperidone drug and increased competition in another large brand- Azukon. The company launched three new drugs in the region- Lamotrigine Controlled Release, Olmesartan and Trazodone. Going ahead, the management expects 9-10% YoY growth driven by new launches in Brazil including the re-launch of the discontinued drug this fiscal. Further, we expect the company's domestic formulations revenue to grow at 29% CAGR over FY18-20E driven by integration of Unichem business and new launches.

Healthy US revenue growth; new launches to drive growth

US business rose by 23% YoY in Q1FY19 supported by new launches, acquisition of US based Bio-pharma and rupee depreciation. Torrent has acquired US-based generic pharmaceuticals and OTC company, Bio-Pharm, Inc. (BPI) in January 2018. During the quarter, the company filed two ANDAs and is targeting to file a total of 15 ANDAs during FY19. In terms of launches, the company launched two products in the quarter and is targeting 10 approvals and launches in FY19E. Further, it has received 5 tentative approvals in Q1FY19 while 36 ANDAs are pending for approval as on 30th June 18. The company currently has 41 ANDAs under review with the FDA, of which 30 are from Torrent and 11 from Biopharm. We remain optimistic on the US market growth going ahead on the back of new launches and expect sales CAGR of 24% over FY18-20E.

Cost rationalization boosts EBITDA margin expansion

EBITDA margin expanded by ~386bps YoY in Q1FY19 benefitting from cost cutting initiatives including field force rationalisation and synergies due to Unichem acquisition. Despite strong operating performance, Adj. PAT declined by 13% YoY due to lower other income (down 74% YoY), increased depreciation & amortisation expense (up 88%) and interest cost (up 118%). The decline in other income was on account of lower foreign exchange gain while amortisation increased due to consolidation of branded business of Unichem. Going ahead, we expect EBITDA margin to improve to 27.6% by FY20E driven by integration of Unichem & Bio-Pharm business and operational efficiency.

Outlook & Valuation.

Although, we increase our revenue estimates by 4%/3% for FY19/20E due to strong India business performance helped by Unichem acquisition, we lower Adj. PAT estimates by 9% for FY19E to factor in higher interest, amortization and tax charges in Q1FY19 while largely maintaining our FY20E estimates. We expect Torrent Pharma's revenue and Adj. PAT to grow at a CAGR of 22%/32% over FY18-20E driven by healthy growth in the domestic business owing integration of Unichem, pickup in US sales driven by healthy product pipeline and growth in Germany & RoW markets. However, considering recent sharp rally in the stock price (up by ~28% over the last four months), we change our rating to 'HOLD' from 'BUY' on the stock with revised target price of Rs.1,751 based on 25x FY20E EPS.

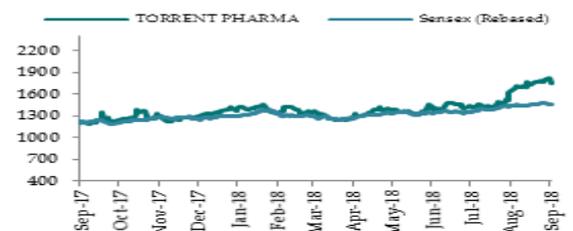
Company Data

Market Cap (cr)	Rs29,410
Enterprise Value (cr)	Rs34,512
Outstanding Shares (cr)	16.9
Free Float	29%
Dividend Yield	0.8%
52 week high	Rs1,872
52 week low	Rs1,195
6m average volume (cr)	3.3
Beta	0.7
Face value	Rs5

Shareholding %	Q3FY18	Q4FY18	Q1FY19
Promoters	71.2	71.2	71.2
FII's	9.8	8.4	7.5
MFs/Insti	9.5	10.3	11.9
Public	7.2	7.2	7.0
Others	2.3	2.9	2.4
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	20%	34%	43%
Absolute Sensex	7%	13%	18%
Relative Return*	13%	21%	25%

*over or under performance to benchmark index



Consolidated (Rs.cr)	FY18	FY19E	FY20E
Sales	5,982	7,869	8,960
Growth (%)	2.9%	31.5%	13.9%
EBITDA	1,349	2,061	2,469
Margin (%)	22.6	26.2	27.6
PAT Adj	678	868	1,185
Growth (%)	-27.3%	28.0%	36.6%
Adj.EPS	40.1	51.3	70.0
Growth (%)	-27.3%	28.0%	36.6%
P/E	43.4	33.9	24.8
P/B	6.4	5.6	4.9
EV/EBITDA	25.9	16.7	13.6
RoE (%)	15.1	17.7	21.1
D/E	1.4	1.1	0.9

Quarterly Financials (Consolidated) Profit & Loss Account

(Rs cr)	Q1FY19	Q1FY18	YoY Growth %	Q4FY18	QoQ Growth %
Revenue	1,872	1,374	36.2	1,708	9.6
EBITDA	477	297	60.6	364	31.0
EBITDA Margin (%)	25.5%	21.6%	387	21.3%	417
Depreciation	150	80	87.5	151.0	(0.7)
EBIT	327	217	50.7	213	53.5
Interest	122	56	117.9	121.0	0.8
Other Income	27	105	(74.3)	42.0	-
Exceptional Items	-	-	-	-	-
PBT	232	266	(12.8)	134	73.1
Tax	69	78	(11.5)	(94)	-
PAT	163	188	(13.3)	228	(28.5)
Minority Interest/P&L of associates	-	-	-	-	-
Reported PAT	163	188	(13.3)	228	(28.5)
Adjustment	-	-	-	-	-
Adj PAT	163.0	188	(13.3)	228	(28.5)
No. of shares (cr)	84.6	84.6	-	84.6	-
EPS (Rs)	9.6	11.1	(13.3)	13.5	(28.5)

Segment Revenue

(Rs cr)	Q1FY19	Q1FY18	YoY Growth %	Q4FY18	QoQ Growth %
India	830	467	78.9	693	19.8
US	334	281	22.8	307	8.8
Germany	251	235	32.1	248	1.2
Brazil	169	216	(6.6)	215	(21.4)
RoW including Russia and CIS	168	117	33.3	132	27.3
Contract Manufacturing/Others	120	118	(7.0)	127	(5.5)
Total	1,872	1,434	37.4	1,722	8.7

Source: Company, Geojit Research

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	7577	8668	7,869	8,960	4.0	3.4
EBITDA	1876	2181	2,061	2,469	10.0	13.2
Margins (%)	24.8	25.2	26.2	27.6	140	240
PAT	951	1195	868	1,185	(9.0)	(0.8)
EPS	56.2	70.6	51.3	70.0	(9.0)	(0.8)

Source: Company, Geojit Research

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	FY16	FY17	FY18	FY19E	FY20E
Sales	6,667	5,816	5,982	7,869	8,960
% change	43.3%	-12.8%	2.9%	31.5%	13.9%
EBITDA	2,733	1,377	1,349	2,061	2,469
% change	167.9%	-49.6%	-2.0%	52.7%	19.8%
Depreciation	238	307	409	576	600
EBIT	2,495	1,070	941	1,485	1,869
Interest	184	206	308	477	429
Other Income	226	223	299	214	229
PBT	2,537	1,088	931	1,222	1,669
% change	170.0%	-57.1%	-14.4%	31.3%	36.6%
Tax	610	155	253	355	484
Tax Rate (%)	24.1%	14.2%	27.2%	29.0%	29.0%
Reported PAT	2,120	934	678	868	1,185
Adj*	194	-	-	-	-
Adj PAT	1,927	934	678	868	1,185
% change	156.6%	-51.5%	-27.3%	28.0%	36.6%
No. of shares (mn)	16.9	16.9	16.9	16.9	16.9
Adj EPS (Rs)	113.9	55.2	40.1	51.3	70.0
% change	156.6%	-51.5%	-27.3%	28.0%	36.6%
DPS (Rs)	35.0	14.0	14.0	14.0	17.5

Balance Sheet

Y.E March (Rs cr)	FY16	FY17	FY18	FY19E	FY20E
Cash	647	894	867	891	1,196
Accounts Receivable	1,445	951	1,253	1,645	1,877
Inventories	1,358	1,559	1,966	2,394	2,608
Other Cur. Assets	459	674	776	855	898
Investments	780	804	492	492	492
Gross Fixed Assets	3,669	4,807	9,275	9,598	9,998
Net Fixed Assets	2,734	3,585	7,680	7,427	7,227
CWIP	1,042	463	423	500	500
Intangible Assets	125	160	399	399	399
Def. Tax (Net)	111	208	276	276	276
Other Assets	186	303	110	110	110
Total Assets	8,886	9,601	14,243	14,990	15,583
Current Liabilities	3,282	2,469	2,851	3,515	3,878
Provisions	-	-	-	-	-
Debt Funds	1,853	2,510	6,462	5,962	5,362
Other Liabilities	256	271	307	307	307
Equity Capital	85	85	85	85	85
Reserves and Surplus	3,409	4,266	4,538	5,121	5,951
Shareholder's Fund	3,494	4,350	4,622	5,206	6,036
Minority Interest	0	0	1	1	1
Total Liabilities	8,886	9,601	14,243	14,990	15,583
BVPS (Rs)	206.5	257.0	273.1	307.6	356.6

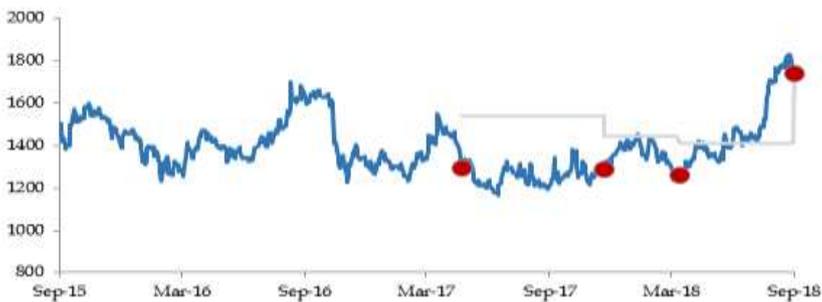
Cash flow

Y.E March (Rs cr)	FY16	FY17	FY18	FY19E	FY20E
Pre-tax profit	2,343	1,088	931	1,222	1,669
Depreciation	238	307	409	576	600
Changes in W.C	424	(125)	(360)	(235)	(126)
Others	315	123	197	263	200
Tax paid	(577)	(384)	(284)	(355)	(484)
C.F.O	2,742	1,009	893	1,471	1,859
Capital exp.	(830)	(617)	(4,753)	(400)	(400)
Change in inv.	103	73	65	-	-
Other invest.CF	(111)	(243)	(19)	214	229
C.F - investing	(838)	(787)	(4,707)	(186)	(171)
Issue of equity	-	-	-	-	-
Issue/repay debt	(384)	202	3,958	(500)	(600)
Dividends paid	(840)	(204)	(265)	(284)	(355)
Other finance.CF	(212)	(191)	(275)	(477)	(429)
C.F - Financing	(1,435)	(193)	3,418	(1,261)	(1,384)
Chg. in cash	469	29	(395)	24	304
Closing cash	647	894	867	891	1,196

Ratios

Y.E March	FY16	FY17	FY18	FY19E	FY20E
Profitab. & Return					
EBITDA margin (%)	41.0	23.7	22.6	26.2	27.6
EBIT margin (%)	37.4	18.4	15.7	18.9	20.9
Net profit mgn.(%)	28.9	16.1	11.3	11.0	13.2
ROE (%)	64.4	23.8	15.1	17.7	21.1
ROCE (%)	51.4	21.2	13.8	15.3	18.6
W.C & Liquidity					
Receivables (days)	81	61	78	78	78
Inventory (days)	185	178	224	213	209
Payables (days)	210	189	161	165	164
Current ratio (x)	1.2	1.7	1.7	1.6	1.7
Quick ratio (x)	0.8	1.0	1.0	1.0	1.0
Turnover & Levq.	55.8	50.1	140.8	125.0	122.7
Gross asset T.O (x)	1.8	1.3	0.8	0.8	0.9
Total asset T.O (x)	0.8	0.6	0.5	0.5	0.6
Adj. debt/equity (x)	0.5	0.6	1.4	1.1	0.9
Valuation ratios					
EV/Sales (x)	4.7	5.5	6.0	4.5	3.8
EV/EBITDA (x)	11.2	22.5	25.9	16.7	13.6
P/E (x)	15.3	31.5	43.4	33.9	24.8
P/BV (x)	8.4	6.8	6.4	5.6	4.9

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
06-May-2017	BUY	1,538
06-Dec-2017	BUY	1,445
27-March-2018	BUY	1,412
17-Sept-2018	HOLD	1,751

Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;	
Buy	-	Buy	-
Hold	-	Accumulate	-
Reduce	-	Reduce/Sell	-
Neutral	-	Neutral	-
	Upside is above 10%.		Upside is above 15%.
	Upside is between 0% - 10%.		Upside is between 10% - 15%.
	Downside is more than 0%.		Upside is between 0% - 10%.
	Not Applicable		Downside is more than 0%.
			Not Applicable

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.

Neutral - The analyst has no investment opinion on the stock under review.

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