

Retail Equity Research (South India Focus) Torrent Pharmaceuticals Ltd.

Pharmaceuticals

BSE CODE: 500420

NSE CODE: TORNTPHARM

Bloomberg CODE: TRP:IN

SENSEX: 37,327

HOLD

12M Investment period

Rating as per Large Cap

CMP Rs. 1,712 TARGET Rs. 1,773 RETURN 4% ↑
(Closing: 08-08-19)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

Strong margin driven by synergies

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

- Q1FY20 revenue rose 8.0% YoY to Rs. 2,022cr (largely in-line with consensus), supported by strong growth in its key markets.
- EBITDA margin expanded 130bps YoY to 26.8% primarily driven by improved profitability through Unichem.
- Research and development expenses stood at Rs. 136cr (vs. Rs. 128cr last year), while R&D to sales ratio was 6.7% in 1QFY20.
- Net profit surged by 32.5% to Rs. 216cr.
- We reiterate our HOLD rating on the stock, with a revised target price of Rs. 1,773, based on 25x FY21E adj. EPS.

Revenue growth affected by one-offs

Revenue grew 8.0% YoY to Rs. 2,022cr in Q1FY20, driven by broad-based growth across its key markets. Topline growth was driven by US with 6% YoY growth in USD terms (+12.6% YoY to Rs. 376cr). Accounting for ~45% of sales, India grew 9.2% YoY to Rs. 907cr, (12.6% YoY excluding the effects of change in sales cycle and discontinuation of low margin products). Brazil grew 7% YoY in constant currency (cc) terms (3.0% YoY reported) while Germany registered a mere 6% cc growth (+4.4% YoY reported) as it faced difficulties with serialization and tamper proof packaging. EBITDA rose 13.4% YoY to Rs. 541cr, primarily due to operational efficiency led by integration benefit from Unichem. Net profit surged 32.5% YoY to Rs. 216cr, complemented by robust sales, improved margins as well as lower taxes. Going forward, management expects to see growth momentum in the Brazilian and Germany market on account of new product launches.

Key concall highlights

- Three abbreviated new drug applications (ANDAs) were filed in Q1FY20, and ~15 ANDAs are expected to be filed during this year. TRP has ~11 tentative approvals and 34 ANDAs pending approvals from the FDA.
- The company continues to withdraw low margin products to improve profitability further although it is facing pricing pressure in the US
- TRP has received OAI classification from the US FDA in its Dahej facility, while they are awaiting communication on the Indrad facility.

Synergy benefit from Unichem continues

After the acquisition of Unichem, sales and marketing expenses as a percentage of domestic sales fell by 261bps, and medical representative productivity rose to Rs. 75 lakh/year from Rs. 40 lakh/year prior. Additionally, TRP has discontinued its discounted sales (~11% of Unichem's portfolio). TRP continues to focus on the profitability of its portfolio by adding new products and discontinuing products with low margin.

Valuation

TRP is currently trading at 31x FY20E adj. EPS. We expect strong growth in key markets to boost the top line (~10% CAGR over FY19-21E) complemented by ~130bps margin improvements over FY19-21E. However, the US FDA classifications pose a likely threat considering there have been no FDA approvals in Q1FY20 as a result. We reiterate our HOLD rating on the stock, with a revised target price of Rs. 1,773, based on 25x FY21E adj. EPS,

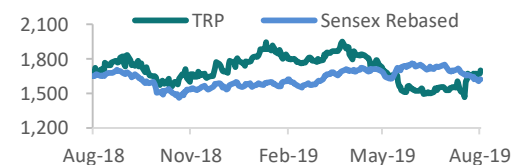
Company Data

Market Cap (cr)	Rs. 28,781
Enterprise Value (cr)	Rs. 32,399
Outstanding Shares (cr)	16.9
Free Float	29.0%
Dividend Yield	1.0%
52 week high	Rs. 1,964
52 week low	Rs. 1,453
6m average volume (cr)	0.03
Beta	0.5
Face value	Rs. 5

Shareholding %	Q3FY19	Q4FY19	Q1FY20
Promoters	71.3	71.3	71.3
FII's	8.1	8.6	7.5
MFs/Insti	10.9	10.5	11.3
Public	6.8	6.8	6.7
Others	3.0	2.8	3.3
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-4.9%	-8.2%	2.6%
Absolute Sensex	-4.8%	1.8%	-0.1%
Relative Return*	-0.1%	-10.0%	2.7%

*over or under performance to benchmark index



Consolidated (Rs. cr)	FY19A	FY20E	FY21E
Sales	7,673	8,349	9,254
Growth (%)	27.8	8.8	10.8
EBITDA	1,984	2,194	2,517
EBITDA Margin (%)	25.9	26.3	27.2
Adj. PAT	793	940	1,200
Growth (%)	17.0	18.5	27.8
Adj. EPS	46.9	55.5	70.9
Growth (%)	46.9	18.5	27.8
P/E	41.5	30.6	24.0
P/B	7.0	5.4	4.6
EV/EBITDA	18.6	14.8	12.6
ROE (%)	9.2	17.5	19.1
D/E	1.0	0.9	0.8

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	QoQ Growth %
Revenue	2,022	1,872	8.0	1,856	8.9
EBITDA	541	477	13.4	473	14.4
EBITDA margins	26.8	25.5	130bps	25.5	130bps
Depreciation	160	150	6.7	160	-
EBIT	381	327	16.5	313	21.7
Interest	122	122	-	123	(0.8)
Other Income	20	27	(25.9)	17	17.6
Exceptional Items	-	-	-	(357)	-
PBT	279	232	20.3	(150)	n.m.
Tax	63	69	(8.7)	2	n.m.
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
Reported PAT	216	163	32.5	(152)	n.m.
Adjustments	-	-	-	357	-
Adjusted PAT	216	163	32.5	205	5.4
No. of shares	16.9	16.9	-	16.9	-
EPS (Rs.)	12.7	9.7	32.5	12.1	5.4

Segment Revenue

	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	QoQ Growth %
India	907	830	9.2	754	20.3
US	376	334	12.6	372	1.2
Germany	262	251	4.4	240	9.2
Brazil	174	169	3.0	205	(15.1)
RoW including Russia and CIS	179	168	6.5	178	0.6
Contract Manufacturing/Others	124	120	3.3	107	3.3
Total	2,022	1,872	8.0	1,856	8.9

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	8,893	10,195	8,349	9,254	(6.1)	(9.2)
EBITDA	2,381	2,788	2,194	2,517	(7.9)	(9.7)
Margins (%)	26.8	27.4	26.3	27.2	(50bps)	(20bps)
Adj. PAT	1,077	1,467	940	1,200	(12.7)	(18.2)
EPS	63.6	86.7	55.5	70.9	(12.7)	(18.2)

PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	5,857	6,002	7,673	8,349	9,254
% change	(12.3)	2.5	27.8	8.8	10.8
EBITDA	1,378	1,349	1,984	2,194	2,517
% change	(49.3)	(2.1)	47.1	10.6	14.7
Depreciation	307	409	618	612	620
EBIT	1,071	940	1,366	1,582	1,897
Interest	206	308	504	417	373
Other Income	223	299	(300)	57	57
PBT	1,088	931	562	1,221	1,581
% change	(54.0)	(14.4)	(39.6)	117.3	29.4
Tax	154	253	126	282	380
Tax Rate (%)	14.2	27.2	22.4	23.1	24.1
Reported PAT	934	678	436	940	1,200
Adj*	140	-	357	-	-
Adj PAT	1,862	678	793	940	1,200
% change	(45.8)	(27.4)	17.0	18.5	27.8
No. of shares (cr)	16.9	16.9	16.9	16.9	16.9
Adj EPS (Rs)	55.2	40.1	46.9	55.5	70.9
% change	(49.8)	(27.4)	17.0	18.5	27.8
DPS (Rs)	14.0	14.0	17.0	17.0	17.0
CEPS (Rs)	223.6	250.3	248.3	276.4	293.4

CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	1,241	1,087	1,054	1,552	1,821
Non-cash adj.	(36)	114	713	417	373
Changes in W.C	(192)	(306)	31	(115)	(150)
C.F. Operation	1,013	894	1,798	1,854	2,043
Capital exp.	(486)	(789)	(661)	(721)	(799)
Change in inv.	(176)	38	411	-	-
Other invest.CF	(125)	(3,956)	8	-	-
C.F - Investment	(787)	(4,707)	(241)	(721)	(799)
Issue of equity	-	-	-	-	-
Issue/repay debt	202	3,958	(501)	-	-
Dividends paid	(204)	(265)	(310)	(288)	(288)
Other finance.CF	(190)	(276)	(503)	(417)	(373)
C.F - Finance	(192)	3,417	(1,314)	(705)	(661)
Chg. in cash	34	(395)	242	428	583
Closing cash	894	867	816	1,244	1,827

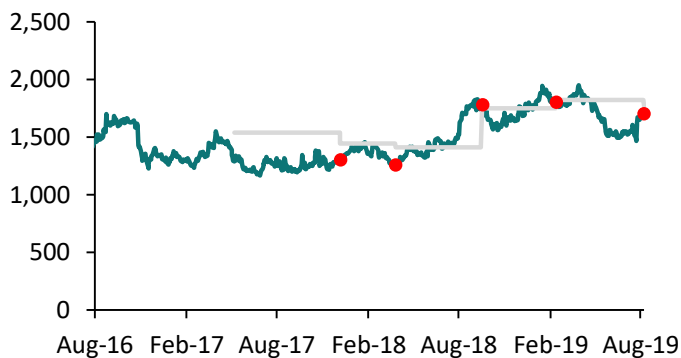
BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	894	867	816	1,244	1,827
Accounts Receivable	1,344	1,254	1,436	1,562	1,732
Inventories	1,559	1,966	1,935	2,075	2,300
Other Cur. Assets	1,587	1,175	851	849	845
Investments	-	-	2	2	2
Gross Fixed Assets	2,543	3,148	3,690	4,411	5,211
Net Fixed Assets	1,871	2,417	2,801	2,944	3,152
CWIP	519	423	479	503	528
Intangible Assets	1,818	5,662	5,085	5,027	4,973
Def. Tax (Net)	310	276	370	389	408
Other Assets	223	203	346	330	314
Total Assets	10,125	14,243	14,121	14,925	16,081
Current Liabilities	3,161	3,576	4,232	4,384	4,628
Provisions	263	287	289	289	289
Debt Funds	2,249	5,755	4,862	4,862	4,862
Other Liabilities	101	2	14	14	14
Equity Capital	85	85	85	85	85
Reserves & Surplus	4,266	4,537	4,639	5,291	6,204
Shareholder's Fund	4,351	4,622	4,724	5,376	6,289
Minority Interest	-	1	-	-	-
Total Liabilities	10,125	14,243	14,121	14,925	16,081
BVPS (Rs)	257.1	273.1	279.2	317.7	371.6

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	23.5	22.5	25.9	26.3	27.2
EBIT margin (%)	18.3	15.7	17.8	18.9	20.5
Net profit margin (%)	15.9	11.3	5.7	11.3	13.0
ROE (%)	21.5	14.7	9.2	17.5	19.1
ROCE (%)	16.2	9.1	14.2	15.4	17.0
W.C & Liquidity					
Receivables (days)	83.8	76.3	68.3	68.3	68.3
Inventory (days)	317.7	428.7	318.3	318.3	318.3
Payables (days)	468.3	446.5	345.1	345.1	345.1
Current ratio (x)	1.7	1.0	1.0	1.1	1.2
Quick ratio (x)	1.0	0.5	0.5	0.6	0.7
Turnover & Leverage					
Gross asset T.O (x)	2.9	2.1	2.2	2.1	1.9
Total asset T.O (x)	0.6	0.5	0.5	0.6	0.6
Int. covge. ratio (x)	5.2	3.1	2.7	3.8	5.1
Adj. debt/equity (x)	0.5	1.2	1.0	0.9	0.8
Valuation					
EV/Sales (x)	4.6	4.3	4.8	3.8	3.4
EV/EBITDA (x)	19.6	19.1	18.6	14.8	12.6
P/E (x)	27.5	30.8	41.5	30.6	24.0
P/BV (x)	5.9	4.5	7.0	5.4	4.6

Recommendation Summary



Source: Bloomberg, Geojit research

Dates	Rating	Target
6-May-17	BUY	1,538
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

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

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

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

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