

# Torrent Pharma

BUY

CMP Rs2,758

Target Rs3,400

Upside 22.6%

## Temporary margin hiccup: BUY stay

- ✓ Healthy revenue visibility in 3 out of 4 key markets driven by revival in India, continued strength in Brazil and reboot in Germany
- ✓ Benefit of optimization of low selling brands and field force in domestic market to be seen in Q4
- ✓ 29% margin guidance in FY22 is a dampener and leads to cut in our margin assumption by a similar quantum
- ✓ Believe margin hiccup is temporary due to costs revival which would reverse from FY23. Cut FY22/23 estimate by 12%/7% and accordingly lower TP to Rs3,400. BUY stays on a solid domestic franchise, growth in export markets ex-US and leaner balance sheet (net debt/EBIDTA back to pre-Unichem level in FY23)

### Q3 FY21 call highlights

- ✓ **Margin**- FY22 margin can be looked at 29%; negative operating leverage of 100bps likely next fiscal
- ✓ **India** - New launch contribution at 3% in domestic market and to be maintained. 4-5 new launches in Q4
- ✓ Price increase of 5-6% not an issue in the near term
- ✓ Vol decline still a concern for IPM and Torrent
- ✓ Sales restructuring with MR strength now at 3,600 from 4k earlier; to be reflected in Q4 MR productivity. focus on better selling brands
- ✓ **Other expenses** - lower freight costs in Q3 offset promotional spend increase
- ✓ **Brazil** - vol increase in large brands and new launches. To launch 3-5 products every year in branded generics and looking at sales force expansion in few years. Generics (9% of sales) growth to be faster as market itself growing 15%
- ✓ **Germany** - quality issue now resolved and market share of 7% now almost same as peak seen in Sep 19
- ✓ **US** - await FDA guidance after Indrad and Dahej closure report submitted.
- ✓ Sales of liquid products from next year with gradual ramp up. Second year sales at US\$10-15mn run rate as achieved prior to shut down of Levittown facility
- ✓ **US sales** - maintaining sales will be the focus as erosion takes toll.
- ✓ Losartan not growing as fast as Telmisartan. Would be relaunching 3-4 sartans which have inhouse API approved. At peak sartans contributed US\$30mn and difficult to reach that figure given 20 players in market
- ✓ YTD debt reduction at Rs8.5bn. reiterate Rs10bn in lower debt; net debt/ebidta should be down to level prior to Unichem acquisition. Debt repayment main use of cash generated
- ✓ **Export incentive** - major part of earlier scheme should be back after March
- ✓ Tax rate of 21-22% in FY21 and 23% in FY22.

### Q3 FY21 takeaway - Inline quarter with qoq margin moderation

- ✓ In line quarter with sales up about 2% yoy as US revenues declined 24% yoy as no new approvals, sartan discontinuation in base quarter and price erosion
- ✓ India sales up 7% yoy on momentum in chronic and recovery in sub chronic brands

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- ✓ Brazil cc sales up 16% yoy but INR sales down 8%. Germany cc sales up 10%
- ✓ Margin declined qoq as expected to 30% though yoy still up as other expenses still down. PAT up 18% yoy aided by lower tax rate.

## Exhibit 1: Result summary

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3FY20	% yoy
Revenues	19,950	20,170	(1.1)	19,660	1.5
RM + inventory changes	(3,360)	(2,810)	19.6	(3,180)	5.7
Purchase of goods	(2,260)	(2,730)	(17.2)	(2,240)	0.9
Staff	(3,630)	(3,630)	-	(3,540)	2.5
Other expenses	(4,630)	(4,650)	(0.4)	(5,300)	(12.6)
Operating profit	6,070	6,350	(4.4)	5,400	12.4
OPM (%)	30.4	31.5	-106 bps	27.5	296 bps
Depreciation	(1,670)	(1,650)	1.2	(1,630)	2.5
Interest	(910)	(920)	(1.1)	(1,110)	(18.0)
Other income	80	60	33.3	530	(84.9)
PBT	3,570	3,840	(7.0)	3,190	11.9
Tax	(600)	(740)	(18.9)	(680)	(11.8)
Effective tax rate (%)	16.8	19.3	-246 bps	21.3	-451 bps
PAT	2,970	3,100	(4.2)	2,510	18.3
PAT margin (%)	14.9	15.4	-48 bps	12.8	212 bps
PAT	2,970	3,100	(4.2)	2,510	18.3

## Exhibit 2: Cost analysis

As a % of net sales	Q3 FY21	Q2 FY21	bps qoq	Q3FY20	bps yoy
RM + inventory changes	16.8	13.9	291	16.2	67
Purchase of goods	11.3	13.5	(221)	11.4	(7)
Staff	18.2	18.0	20	18.0	19
Other expenses	23.2	23.1	15	27.0	(375)
Total costs	69.6	68.5	106	72.5	(296)
Gross profit Rs mn	14,330	14,630	(2.1)	14,240	0.6
GM (%)	71.8	72.5	(70)	72.4	(60)

## Exhibit 3: Financial summary

Y/e 31 Mar (Rs m)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	76,730	79,390	80,078	90,270	99,876
yoy growth (%)	27.8	3.5	0.9	12.7	10.6
Operating profit	19,840	21,700	24,833	26,075	29,105
OPM (%)	25.9	27.3	31.0	28.9	29.1
PAT	4,360	10,250	11,341	13,288	16,353
yoy growth (%)	(40.3)	135.1	10.6	17.2	23.1
EPS (Rs)	25.8	60.6	67.0	78.5	96.6
P/E (x)	107.1	45.5	41.2	35.1	28.5
P/BV (x)	9.9	9.7	8.3	7.1	5.9
EV/EBITDA (x)	25.1	22.9	19.8	18.4	16.0
Debt/Equity (x)	0.9	0.8	0.5	0.3	0.1
ROE (%)	17.0	21.5	21.7	21.7	22.5
ROCE (%)	15.9	19.1	21.9	23.1	25.5

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