

Q4FY21 result review and earnings revision

Pharmaceuticals

Target price: Rs2,940

Earnings revision

(%)	FY22E	FY23E
Sales	(0.9)	(0.5)
EBITDA	0.8	1.1

Target price revision

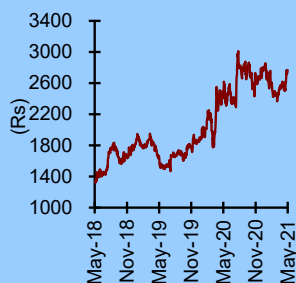
Rs2,940 from Rs2,757

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	71.3	71.3	71.3
Institutional investors	20.6	20.1	19.7
MFs and others	7.2	6.9	6.5
FIs/Banks	0.0	0.0	0.0
FII	13.4	13.2	13.2
Others	8.1	8.6	10.0

Source: BSE India

Price chart



Torrent Pharmaceuticals

ADD

Maintained

Rs2,724

Steady quarter; margins remain strong

Torrent Pharma's (Torrent) Q4FY21 performance was better than estimates on EBITDA and PAT led by better gross margin and higher other income. Revenue declined 0.5% YoY to Rs19.4bn with international markets declining 7.7% offset by 9.8% growth in domestic market. US sales declined 5.9% QoQ to US\$37mn vs estimated US\$40mn. Better revenue mix led to gross/EBITDA margin improvement of 150/180bps YoY. Adj. PAT grew 24.1% to Rs3.2bn, driven by better margin and higher other income. We are positive on the long-term outlook considering growth improvement in India business with chronic segment dominance, potential resolution of OAI/WL status at two facilities in FY22E, EPS CAGR of 17.0% over FY21-FY23E and strengthening balance sheet with improving FCF generation. Retain **ADD** with a revised target price of Rs2,940/share.

- ▶ **India growth strong, US underperforms:** India business grew 9.8% vis-a-vis 5.0% growth in the industry. Company should continue to outpace industry in terms of growth considering its significant exposure to the chronic segment and established product portfolio. US revenues declined 5.9% QoQ to US\$37mn due to price erosion and absence of new launches given USFDA issues. We expect US sales to improve hereon led by new launches from third party manufacturing and restart of Levittown facility. Brazil revenues declined 3.6% YoY due to currency depreciation despite constant currency growth of 19.0%. Germany revenues grew strong 23.6% YoY (14.0% in constant currency). ROW and CRAMS businesses were weak in Q4FY21 and reported decline in revenue.
- ▶ **Better revenue mix helped in margin beat:** Gross margin improved 150bps to 74.4% led by higher sales of branded generics business. Management expect gross margin may remain ~73%. This resulted in 180bps increase in EBITDA margin as expenses also remained low. We believe expense base would increase from current levels and would revert closer to FY20 levels in FY22E. Overall, we expect EBITDA margin to sustain at ~30-31% over next two years on back of higher growth in India and operating leverage.
- ▶ **Outlook:** We estimate revenue, EBITDA and earnings to CAGRs at 10.6%, 10.6% and 17.0% respectively, over FY21-FY23E led by higher India growth (12.0% CAGR). Return ratios dropped in FY19 post Unichem acquisition, but we expect RoE and RoCE to reach 24.0% and 19.9%, respectively, by FY23E. We also expect the company to bring down net debt by Rs24bn over FY22E-FY23E which would bring down net debt/EBITDA to a comfortable level below 1x by FY23E.
- ▶ **Valuations and risks:** We marginally decline our revenue estimates to factor in weak US sales but raise EBITDA estimates by 0-1% FY22-FY23E to factor in higher gross margin. Maintain **ADD** rating with a revised target price of Rs2,940/share based on 17.5x FY23E EV/EBITDA (earlier: Rs2,757/share). Key downside risks: Delay in resolution of FDA issues and forex volatility.

Market Cap	Rs461bn/US\$6.3bn
Reuters/Bloomberg	TORP.BO/TRP IN
Shares Outstanding (mn)	169.2
52-week Range (Rs)	3011/2291
Free Float (%)	28.7
FII (%)	13.2
Daily Volume (USD/'000)	14,525
Absolute Return 3m (%)	8.0
Absolute Return 12m (%)	9.9
Sensex Return 3m (%)	(2.1)
Sensex Return 12m (%)	69.0

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	79,393	80,050	88,599	98,005
Net Income (Rs mn)	10,247	12,520	14,037	17,153
EPS (Rs)	57.4	74.0	82.9	101.4
% Chg YoY	37.3	28.8	12.1	22.2
P/E (x)	47.4	36.8	32.8	26.9
CEPS (Rs)	96.1	112.9	123.5	143.3
EV/E (x)	23.6	20.3	18.3	15.9
Dividend Yield (%)	0.8	1.0	1.1	1.3
RoCE (%)	13.7	15.8	16.8	19.9
RoE (%)	20.4	23.5	22.5	24.0

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Q4FY21 result and concall highlights

- Overall sales remained flattish YoY at Rs19.4bn.
- **Domestic formulation business** grew 9.8% YoY to Rs9.2bn. Growth in the market was fuelled by recovery in footfalls, traction in the top brands in chronic segments and new launches. Company has launched ~20 products in FY21. Standard price increase taken is ~6-7% which should sustain for the next few years. Company has partnered to launch *Baricitinib* for COVID-19 and is in talks to partner and launch more COVID-19 portfolio products. Company expects IPM to grow an average of ~15% for H1FY22.

Company has completed the planned restructuring in the MR field force. It has been reduced to 3,600 in Q4 from 4,000. Objective was to realign the focus and promotional exercise for low growth products. Current, PCPM stands at 8.5lakh.

- **Brazil** sales declined 3.6% YoY to Rs1.9bn. In constant currency terms, it grew 18.0%. This is largely driven by market share gain in top products, new launches and uptake in the generics market. Company is confident of outpacing the industry growth in both segments and expect currency to remain stable resulting in growth in the coming quarters. Tender business will be completely stopped Oct'21 onwards.
- **Other branded market sales (RoW)** declined 2.5% YoY to Rs2.0bn.
- **US business** declined 28.8% YoY and 5.9% QoQ to US\$37mn. Decline is attributed to discontinuation of the *sartans*, price erosion for its products and absence of new launches.

Torrent filed eight ANDAs in Q4FY21, 11 in FY21. Currently, it has 54 ANDAs pending for approval and six that have tentative approval. Company has started product transfer to few CMOs but it is a time consuming process. Expecting judgement for *Taxol* injection in FY22 which may be launched basis the legal outcome. Additional partnered products are pending approval as well.

Levittown has started manufacturing and would commercialise from Jun'21. It will gradually reach the annual run rate of \$10-15mn.

- **Germany** business grew 23.6% YoY to Rs2.7bn. In constant currency, the growth stood at 14%. Company has regained market share of 7.1% which was the case before the quality issue began. Company expects to outpace the market growth in the coming fiscal with high single digit growth.
- **Contract manufacturing and other operating** revenues declined 12.8% YoY to Rs950mn on account of low order from the client. It is expected to normalise in the coming quarter.
- **Gross margin** improved 150bps YoY and 260bps QoQ to 74.4% led by higher sales of branded generics business. This resulted in 180bps increase in **EBITDA margin** as expenses also remained low.
- **R&D** expenditure stood at 7.6% of sales as compared to 6.1% in Q4FY21.
- Company has paid Rs9.0bn of debt in FY21 and plans to retire a similar amount next fiscal.

Table 1: Q4FY21 performance*(Rs mn, year ending March 31)*

	Q4FY21	Q4FY20	YoY % Chg	Q3FY21	QoQ % Chg
Net Sales	19,370	19,460	(0.5)	19,950	(2.9)
EBITDA	5,820	5,480	6.2	6,070	(4.1)
Other income	390	150	160.0	80	387.5
PBIDT	6,210	5,630	10.3	6,150	1.0
Depreciation	1,650	1,680	(1.8)	1,670	(1.2)
Interest	730	1,020	(28.4)	910	(19.8)
Extra ordinary income/ (exp.)	-	(530)	-	-	-
PBT	3,830	2,930	30.7	3,570	7.3
Tax	590	320	84.4	600	(1.7)
Minority Interest	-	-	-	-	-
Reported PAT	3,240	3,140	3.2	2,970	9.1
Adjusted PAT	3,240	2,610	24.1	2,970	9.1
EBITDA margins (%)	30.0	28.2	180bps	30.4	(40)bps

Source: Company data, I-Sec research

Table 2: Sales breakup*(Rs mn, year ending March 31)*

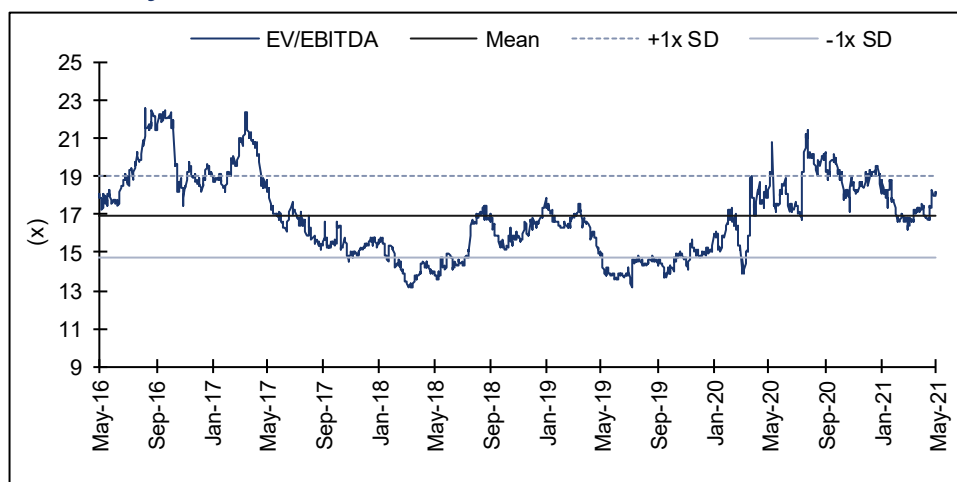
	Q4FY21	Q4FY20	YoY % Chg	Q3FY21	QoQ % Chg
India	9,220	8,400	9.8	9,300	(0.9)
Brazil	1,890	1,960	(3.6)	1,730	9.2
Germany	2,670	2,160	23.6	2,650	0.8
US	2,690	3,850	(30.1)	2,920	(7.9)
RoW	1,950	2,000	(2.5)	1,910	2.1
Contract Mfg & Others	950	1,090	(12.8)	1,440	(34.0)
Net sales	19,370	19,460	(0.5)	19,950	(2.9)

Source: Company data, I-Sec research

Valuations

The stock currently trades at valuations of 32.8x FY22E and 26.9x FY23E earnings and EV/EBITDA multiples of 18.3x FY22E and 15.9x FY23E. The P/E multiple looks high due to significant amortisation charge. We remain positive on the long-term outlook considering: 1) Strong growth in India business with chronic segment dominance, 2) recovery in US revenues led by new launches from third party manufacturing and restart of Levittown facility, 3) adjusted EBITDA CAGR of 10.6% over FY21-FY23E and 4) potential resolution of OAI status at Dahej facility and warning letter on Indrad in FY21. Hence, we maintain **ADD** with a revised target price of Rs2,940/share based on 17.5x FY23E EV/EBITDA (earlier: Rs2,757/share). We value the stock on EV/EBITDA(x) basis considering a significant amortisation cost, which is a non-cash charge.

Chart 1: 1-year forward EV/EBITDA



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 3: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
India	35,170	37,390	42,222	46,869
Brazil	7,150	6,300	6,930	7,484
EU	9,470	10,380	11,626	12,788
US	15,230	12,610	13,209	14,878
ROW	7,660	8,200	9,184	10,286
Contract Mfg & Others	3,120	3,980	4,179	4,388
Other Operating Income	1,590	1,190	1,250	1,312
Total Gross Sales	79,393	80,050	88,599	98,005
Excise duty	-	-	-	-
Total Net Revenue	79,393	80,050	88,599	98,005
YoY Growth%	4.3	0.8	10.7	10.6
Total Op. Exp.	57,690	55,200	61,576	67,623
EBITDA	21,704	24,850	27,023	30,382
Margins %	27.3	31.0	30.5	31.0
YoY Growth%	10.0	14.5	8.7	12.4
Depreciation	6,544	6,580	6,869	7,099
EBIT	15,160	18,270	20,153	23,283
Other Income	1,213	570	785	863
Interest	4,507	3,580	2,941	2,155
EO Items	-	-	-	-
PBT	11,866	15,260	17,996	21,991
Tax	2,147	2,740	3,959	4,838
Tax Rate (%)	18.1	18.0	22.0	22.0
Minority Interest	(528)	0	0	0
Reported PAT	10,247	12,520	14,037	17,153
Adj PAT	10,247	12,520	14,037	17,153
Net Margins (%)	12.9	15.6	15.8	17.5

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Paid-up Capital	846	846	846	846
Reserves & Surplus	47,386	57,530	65,651	75,574
Total Equity	48,232	58,376	66,497	76,420
Minority Interest	0	0	0	0
Total Debt	58,400	50,903	38,903	26,903
Deferred Liabilities	(4,332)	(4,210)	(4,210)	(4,210)
Capital Employed	102,300	105,070	101,190	99,113
Current Liabilities	33,745	31,471	34,686	38,072
Total Liabilities	136,046	136,540	135,877	137,186
Net Fixed Assets	82,451	79,540	76,171	73,072
Investments	1,307	960	1,018	1,081
Inventory	21,482	26,810	29,907	32,844
Debtors	16,493	15,230	16,857	18,646
Other Current Assets	7,646	6,570	7,184	7,860
Cash and Equivalents	6,667	7,430	4,741	3,683
Total Cur. Assets	52,289	56,040	58,688	63,033
Total Assets	136,046	136,540	135,877	137,186

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
PBT (Adj. for Extraordinary)	11,866	15,260	17,996	21,991
Depreciation	6,544	6,580	6,869	7,099
Net Chg in WC	(3,858)	(3,370)	(2,363)	(2,282)
Taxes	(2,840)	(1,760)	(3,959)	(4,838)
Others	(2,300)	(180)	184	202
CFO	9,411	16,530	18,727	22,172
Capex	(4,028)	(3,340)	(3,500)	(4,000)
Net Investments made	2,344	(1,200)	-	-
Others	169	50	-	-
CFI	(1,516)	(4,490)	(3,500)	(4,000)
Change in Share capital	-	-	-	-
Change in Debts	(3,452)	(9,570)	(12,000)	(12,000)
Div. & Div Tax	(7,185)	(3,380)	(5,916)	(7,229)
Others	1,248	284	-	-
CFF	(9,389)	(12,667)	(17,916)	(19,229)
Total Cash Generated	(1,494)	(627)	(2,689)	(1,058)
Cash Opening Balance	8,160	6,667	6,040	3,351
Cash Closing Balance	6,667	6,040	3,351	2,293

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Adj. EPS	57.4	74.0	82.9	101.4
YoY Growth%	37.3	28.8	12.1	22.2
Cash EPS	96.1	112.9	123.5	143.3
EBITDA - Core (%)	27.3	31.0	30.5	31.0
NPM (%)	12.9	15.6	15.8	17.5
Net Debt to Equity (x)	1.1	0.7	0.5	0.3
P/E (x)	47.4	36.8	32.8	26.9
EV/EBITDA Core (x)	23.6	20.3	18.3	15.9
P/BV (x)	9.6	7.9	6.9	6.0
EV/Sales (x)	6.5	6.3	5.6	4.9
RoCE (%)	13.7	15.8	16.8	19.9
RoE (%)	20.4	23.5	22.5	24.0
RoIC (%)	14.9	16.9	17.8	20.7
Book Value (Rs)	285	345	393	452
DPS (Rs)	21.2	25.9	29.0	35.5
Dividend Payout (%)	35.0	35.0	35.0	35.0
Div Yield (%)	0.8	1.0	1.1	1.3
Asset Turnover Ratio	0.6	0.6	0.7	0.7
Avg Collection days	71	72	66	66
Avg Inventory days	94	110	117	117

Source: Company data, I-Sec research

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