

Torrent Pharma

BUY

CMP Rs2,724

Target Rs3,120

Upside 15%

Result Highlights

- ✓ Q4 revenue came in at flat YoY vs. estimate of +1% YoY. India business grew by 9.8% YoY, Germany +23% YoY; US reported a decline of 30% YoY (impacted by price erosion on base business & base impact of Sartan portfolio discontinuation). Brazil sales also fell 3.6% YoY
- ✓ Domestic business PCPM at Rs0.85mn/MR/month
- ✓ Gross margin expanded by 153bps YoY, which was further aided by lower other expenses which led to EBITDA margin expansion of 189bps YoY to 30%.
- ✓ PAT grew by 3.2% to Rs3.2bn vs. our estimate of -13% YoY, beat largely driven by higher other income

Our view: Our view: Domestic business to rebound in FY22 after a tepid 6% growth in previous fiscal along with improved growth in Germany. Although we have cut US sales estimates for FY22/23 on a sharp 8% decline in Q4, start of sartans supplies and commercialization of liquid products from Levittown imply US revenues to mark a bottom in FY22 at US\$155mn. On the other hand, costs to rebound from low base of FY21 especially other expenses excluding R&D which would lead to a decline in margin. In many ways, expect FY22 to be a bottom year in key parameters like US sales, margin before rebound in FY23. Based on FY21 actual, we have cut our FY22/23 estimate by 10%/8%, driven by lower US sales and higher ETR assumptions. Albeit, looking beyond the negative operating leverage created due to US (margin offset due to higher branded sales to an extent), Torrent owns a well-oiled domestic chronic business with best in class margin and MR productivity. We refrain from cutting target PE on robust FCF generation and rebound in FY23 margin. BUY stays on 35x FY23 EPS with revised TP Rs3,120 (earlier Rs3,400).

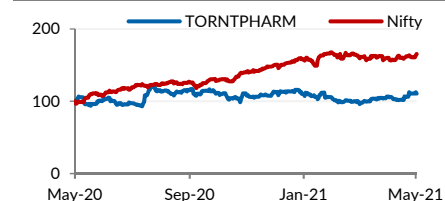
Exhibit 1: Result table

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Revenues	19,370	19,950	(2.9)	19,460	(0.5)
RM + inventory changes	(2,730)	(3,360)	(18.8)	(2,490)	9.6
Purchase of goods	(2,230)	(2,260)	(1.3)	(2,790)	(20.1)
Staff	(3,410)	(3,630)	(6.1)	(3,360)	1.5
Other expenses	(5,180)	(4,630)	11.9	(5,340)	(3.0)
Operating profit	5,820	6,070	(4.1)	5,480	6.2
OPM (%)	30.0	30.4	-38 bps	28.2	189 bps
Depreciation	(1,650)	(1,670)	(1.2)	(1,680)	(1.8)
Interest	(730)	(910)	(19.8)	(1,020)	(28.4)
Other income	390	80	387.5	150	160.0
PBT	3,830	3,570	7.3	2,930	30.7
Tax	(590)	(600)	(1.7)	210	(381.0)
Effective tax rate (%)	15.4	16.8	-140 bps	(7.2)	2257 bps
PAT	3,240	2,970	9.1	3,140	3.2

Stock data (as on May 18, 2021)

Nifty:	15,108
52 Week h/l (Rs)	3031 /2232
Market cap (Rs/USD mn)	460912/6310
Outstanding Shares	169
6m Avg t/o (Rs mn):	1022
Div yield (%):	0.7
Bloomberg code:	TRP IN
NSE code:	TORNTPHARM

Stock performance



	1M	3M	1Y
Absolute return	4.0%	8.0%	9.9%

Shareholding pattern (As of Mar'21 end)

Promoter	71.3%
FII+DII	20.6%
Others	8.1%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	3,120	3,400

Δ in earnings estimates

	FY22E	FY23E
EPS (New)	70.8	89.2
EPS (Old)	78.5	96.6
% change	10%	8%

Financial Summary

(Rs mn)	FY21	FY22E	FY23E
Net Revenue	80,050	87,842	96,696
YoY Growth	0.8	9.7	10.1
EBIDTA	24,850	25,142	28,942
YoY Growth	14.5	1.2	15.1
PAT	12,520	11,987	15,095
YoY Growth	22.1	(4.3)	25.9
ROE	23.5	19.7	22.4
EPS	74.0	70.8	89.2
P/E	36.8	38.4	30.5
BV	345.0	374.7	422.7
P/BV	7.9	7.3	6.5

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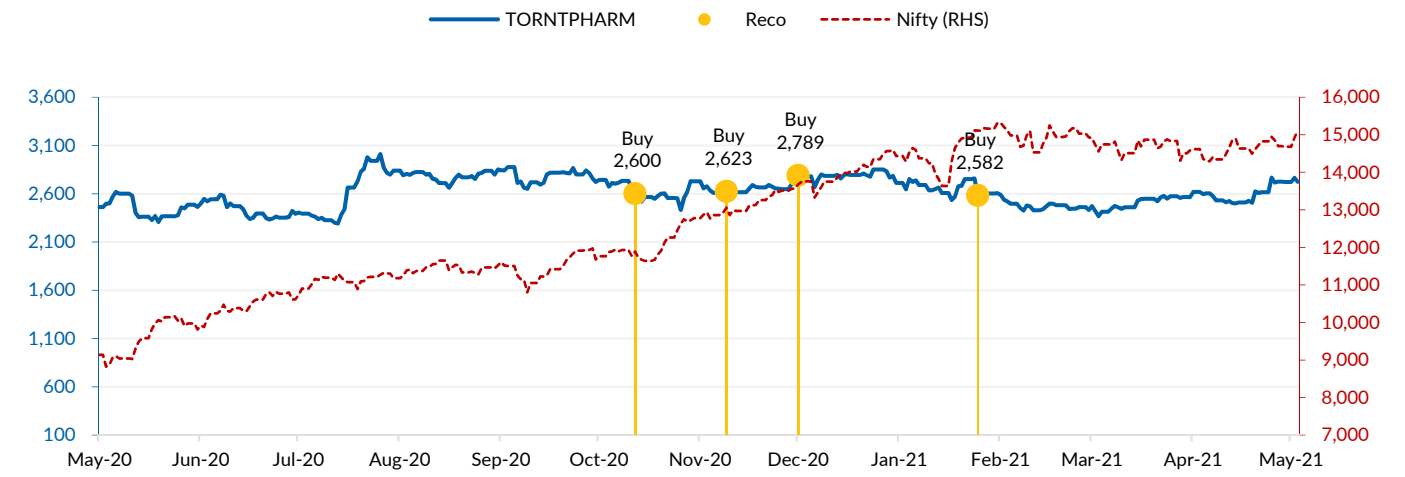
CON-CALL HIGHLIGHTS

- ✓ **US:** Levittown facility has started manufacturing and expect commercialization of products in June. The company also has some approvals in derma and expect to launch the product in near term. Torrent also expects to launch certain sartans products going forward. There has been no guidance from USFDA regarding audit to the company.
- ✓ **India:** Growth was driven by continued recovery in chronic, sub-chronic and acute therapies, and aided by market share gains in from new launches. Price increase component of growth is around 6-7% and should be sustainable for next few years. The company is within the competitive price range with other companies.
- ✓ **Germany:** Growth in Germany has been on account of gain of market share and has reached pre-covid level of market share (7.3%). Expect sales to reach high single digit growth rate in FY22E, this is on the back of market coming back to normal. The company has hired some manpower on temporary basis due to which SG&A expenses are higher and this is expected to carry forward for next few quarters.
- ✓ **Brazil:** There has been price increase has been 4-5% in the company's products.
- ✓ **Debt repayment:** The company repaid debt of around Rs9bn in FY21 and expects to repay around same amount in FY22E.
- ✓ **Gross Margin:** Share of branded business has gone up QoQ by 5% due to which there is gross margin expansion (200 bps). The company has guided for the gross margin to be around 73% going forward.
- ✓ There is one time tax benefit of Rs530mn in Q4 FY20 which was given by the US government in response to COVID. If we adjust for the tax, then the PAT grew by 24%.
- ✓ The company will be discontinuing the tender business by October 2021. So, after this 90% will be branded generic business and balance will be trade generic.
- ✓ **COVID Portfolio:** The company has been in talks with companies for partnership in COVID products and recently the company signed an agreement with Lilly for baricitinib.
- ✓ The company expect 3-4 launches in the branded generics business every year which will drive the growth for the branded business.
- ✓ R&D guidance for FY22E is around 6-6.5%. Tax Rate should be around 22-25% for FY22E.
- ✓ Capex guidance: FY22E- Rs 2-2.5 bn (maintenance capex), FY23E- Rs 3 bn.
- ✓ Expect Working capital cycle to normalize by Dec 2021 and expect inventory days to be around 90-100 days.

Exhibit 2: Financial summary

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenues	76,730	79,390	80,050	87,842	96,696
yoy growth (%)	27.8	3.5	0.8	9.7	10.1
Operating profit	19,840	21,700	24,850	25,142	28,942
OPM (%)	25.9	27.3	31.0	28.6	29.9
PAT	8,589	10,250	12,520	11,987	15,095
yoy growth (%)	17.6	19.3	22.1	(4.3)	25.9
EPS (Rs)	50.7	60.6	74.0	70.8	89.2
P/E (x)	53.7	45.0	36.8	38.4	30.5
P/BV (x)	9.8	9.6	7.9	7.3	6.5
EV/EBITDA (x)	24.8	22.6	19.7	18.9	16.0
Debt/Equity (x)	0.9	0.8	0.6	0.4	0.4
ROE (%)	26.0	21.5	23.5	19.7	22.4
ROCE (%)	20.6	24.1	25.1	25.7	27.3

Recommendation Tracker



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