

# Torrent Pharma

**BUY**
**INDUSTRY PHARMA**
**CMP (as on 03 Feb 2017) Rs 1,314**
**Target Price Rs 1,730**

Nifty 8,741

Sensex 28,241

**KEY STOCK DATA**

Bloomberg TRP IN

No. of Shares (mn) 169

MCap (Rs bn) / (\$ mn) 222/3,303

6m avg traded value (Rs mn) 288

**STOCK PERFORMANCE (%)**
**52 Week high / low Rs 1,770/1,175**

3M 6M 12M

Absolute (%) (0.2) (10.2) (3.5)

Relative (%) (3.2) (12.2) (20.1)

**SHAREHOLDING PATTERN (%)**

Promoters 71.3

FIs &amp; Local MFs 7.5

FIIs 10.3

Public &amp; Others 10.9

Source : BSE

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## Pipeline build up continues

With 4 more filings in 3QFY17, TRP has now filed 10 ANDAs in the US on YTD basis and is on track to meet its earlier guidance of 15 filings in FY17. Notably, these filings include 2 derma and 2 FTFs. TRP's pipeline build up program is likely to gain more momentum in FY18/FY19 with 40-45 filings over two years. Focus remains on filing more products in derma, oncology and ophthalmology in the US. With 12-15 launches every year from FY18, the US business is likely to expand faster from then on, and we foresee at least ~26% rev. CAGR over FY17-19E, driving 17% CAGR on overall top line. At CMP, TRP is trading at 18.5x FY18E/14.3x FY19E, ~15-20% discount to peers. With 30% core earnings CAGR, 25%+ RoE and improving profitability across segments, we strongly believe TRP merits premium multiples compared to its mid-cap peers. **Maintain BUY with a revised TP of Rs 1,730 (20x Dec-18E).**

- TRP's top-line was down 6% YoY to Rs 14.4bn, EBITDA Rs 3.2bn (down 49% YoY) and PAT stood at Rs 2.2bn (down 34%YoY) in 3QFY17. However, adjusted for one-off sales and the steep increase in R&D costs at 7% of sales, the base business margins were steady at 25%.

### Financial Summary

(Rsmn)	3QFY17	3QFY16	YoY (%)	2QFY17	QoQ (%)	FY16	FY17E	FY18E	FY19E
Net Sales	14,430	15,390	(6.2)	14,290	1.0	66,760	59,113	69,266	81,397
EBIDTA	3,160	6,130	(48.5)	3,300	(4.2)	27,200	13,951	17,247	21,326
APAT	2,290	3,480	(34.2)	2,070	10.6	7,033	8,390	11,992	15,498
Diluted adj. EPS (Rs)	13.5	20.6	(34.2)	12.2	10.6	41.6	49.6	70.9	91.6
P/E (x)						31.6	26.5	18.5	14.3
RoE (%)						23.9	22.6	26.7	28.0

Source: Company, HDFC sec Inst Research # Consolidated

The base business is likely to have grown at 18%YoY on both top line and EBITDA. With improving profitability in India and Brazil segments, margin expansion is likely to continue over FY18-19E.

### Highlights of the quarter

- The US:** 1) Overall, TRP has 21 ANDAs pending with the US FDA along with 4 tentative approvals. 2) Dahej has received 8 product approvals post clearance. 4 more are expected in 4Q. This will lead to more utilization, positive operating leverage and also improved market share in some of the products. 3) In gDetrol LA, TRP is still facing capacity issues with share being stable at 19%. 4) Renagel launch may take longer than expected. 5) Seroquel XR launch will be in 2HFY18 due to pending FDA queries. 6) Aims to launch 3 more products in 4QFY17, ~12-15 in FY18E and more than 15 in FY19E.
- India:** Despite demonetization, TRP reported 3QFY17 growth of 12% YoY, ahead of mid-cap peers. The specialty biz grew 16%YoY v/s industry growth of 13%. TRP aims to grow India biz at 14-15% going forward.
- Near term outlook:** A few more ANDA approvals in the US market will be the key near term trigger. Recent correction provides a good entry point to accumulate.

**Impact of normalization after bumper revenues from gAbilify is still being felt, with revenues declining ~6% YoY. However, on a positive note, sequential growth was witnessed**

**Margins were impacted by price erosion in gAbilify and higher than expected R&D**

**Tax rate is lower on account of higher depreciation and higher R&D deduction available**

**Employee costs have declined due to discontinuance of certain hygiene activities from FY17**

**TRP's focus on increasing its ANDA pipeline means that R&D costs are on the rise, which will play a role in suppressing EBITDA margin**

### Quarterly Financials Snapshot (Consolidated)

Particulars	3QFY17	3QFY16	YoY (%)	2QFY17	QoQ (%)	3QFY17E	Var (%)
<b>Net Sales</b>	<b>14,430</b>	<b>15,390</b>	<b>(6.2)</b>	<b>14,290</b>	<b>1.0</b>	<b>14,712</b>	<b>(1.9)</b>
Material Expenses	4,640	3,720	24.7	4,010	15.7	4,266	8.8
Employee Expenses	2,330	2,060	13.1	2,590	(10.0)	2,457	(5.2)
Other Expenses	4,300	3,480	23.6	4,390	(2.1)	4,472	(3.9)
<b>EBITDA</b>	<b>3,160</b>	<b>6,130</b>	<b>(48.5)</b>	<b>3,300</b>	<b>(4.2)</b>	<b>3,516</b>	<b>(10.1)</b>
Depreciation	730	610		690		720	
<b>EBIT</b>	<b>2,430</b>	<b>5,520</b>	<b>(56.0)</b>	<b>2,610</b>	<b>(6.9)</b>	<b>2,796</b>	<b>(13.1)</b>
Other Income	500	510		430		520	
Interest Cost	480	420		510		450	
<b>PBT</b>	<b>2,450</b>	<b>5,610</b>	<b>(56.3)</b>	<b>2,530</b>	<b>(3.2)</b>	<b>2,866</b>	<b>(14.5)</b>
Tax	160	200		460		650	
<b>RPAT</b>	<b>2,290</b>	<b>5,410</b>	<b>(57.7)</b>	<b>2,070</b>	<b>10.6</b>	<b>2,216</b>	<b>3.3</b>
EO Items (Adj For Tax)		1,930					
<b>APAT</b>	<b>2,290</b>	<b>3,480</b>	<b>(34.2)</b>	<b>2,070</b>	<b>10.6</b>	<b>2,216</b>	<b>3.3</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis

	3QFY17	3QFY16	YoY (bps)	2QFY17	QoQ (bps)	3QFY17E	Var (bps)
Material Expenses % Net Sales	32.2	24.2	798	28.1	409	29.0	316
Employee Expenses % Net Sales	16.1	13.4	276	18.1	(198)	16.7	(55)
Other Expenses % Net Sales	29.8	22.6	719	30.7	(92)	30.4	(60)
<b>EBITDA Margin (%)</b>	<b>21.9</b>	<b>39.8</b>	<b>(1,793)</b>	<b>23.1</b>	<b>(119)</b>	<b>23.9</b>	<b>(200)</b>
Tax Rate (%)	6.5	3.6	297	18.2	(1,165)	22.7	(1,615)
<b>APAT Margin (%)</b>	<b>15.9</b>	<b>22.6</b>	<b>(674)</b>	<b>14.5</b>	<b>138</b>	<b>15.1</b>	<b>81</b>

Source: Company, HDFC sec Inst Research

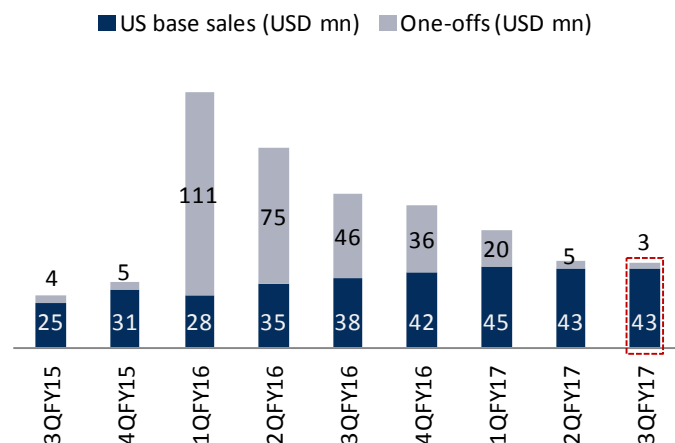
*Ex-Abilify, the US business declined sequentially. One-off sales have significantly tapered off*

*TRP believes with steep price correction in large products at its peak, this is the new base for quarterly sales in the US*

*India sales grew ~12% sequentially and YoY, despite discontinuance of certain promotional activities*

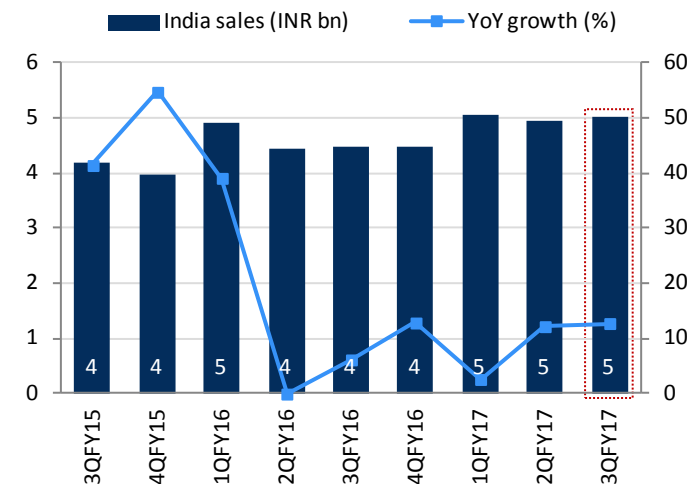
*We foresee ~24% CAGR in EBITDA over FY17-19E*

## US Formulations Growth Trajectory



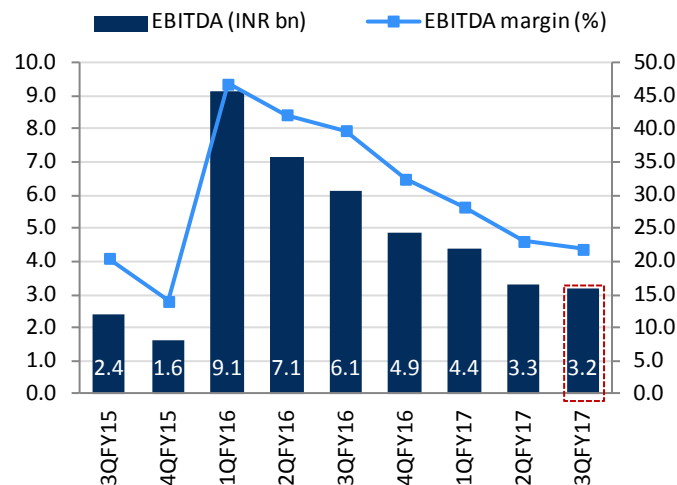
Source: Company, HDFC sec Inst Research

## India-branded Formulation Growth Trajectory



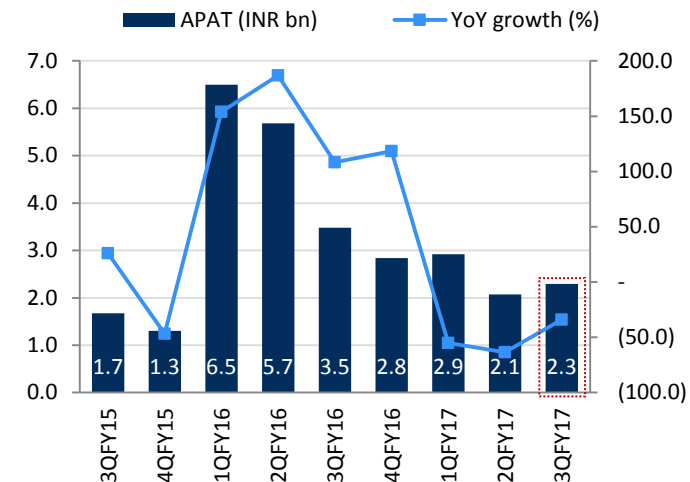
Source: Company, HDFC sec Inst Research

## EBITDA Margin Trajectory



Source: Company, HDFC sec Inst Research

## APAT Growth Trajectory



Source: Company, HDFC sec Inst Research

**The Brazil business recorded impressive growth YoY and sequentially. TRP launched 2 new products in the region after a significant gap**

**Germany is the important geography in the Europe region, where TRP is now targeting margin expansion by pushing further into the OTC segment (currently 10% of Germany revenues, ~75% flowing from Govt. tenders)**

**Russia + CIS region remain important and improved both YoY and QoQ.**

**The US and India businesses are likely to drive top-line over FY17-19E.**

### Segmental Quarterly Performance

(Rs mn)	3QFY17	3QFY16	YoY (%)	2QFY17	QoQ (%)	3QFY17E	Var (%)
Domestic Formulations	5,030	4,480	12.3	4,470	12.5	5,174	(2.8)
US Generics	3,100	5,580	(44.4)	5,140	(39.7)	3,417	(9.3)
Russia +CIS	1,200	1,080	11.1	770	55.8	1,273	(5.7)
Europe	2,040	1,640	24.4	1,900	7.4	1,881	8.5
LATAM	1,590	1,180	34.7	1,190	33.6	1,485	7.0
Contract Manf.	1,470	1,460	0.7	1,520	(3.3)	1,482	(0.8)
<b>Total</b>	<b>14,430</b>	<b>15,420</b>	<b>(6.4)</b>	<b>14,990</b>	<b>(3.7)</b>	<b>14,712</b>	<b>(1.9)</b>

Source: HDFC sec Inst Research

### Assumptions

	FY16	FY17E	FY18E	FY19E
Domestic formulations	18,250	20,258	23,296	26,791
Growth (%)	13.4	11.0	15.0	15.0
US Formulations	26,720	14,024	17,375	22,145
Growth (%)	221.2	(47.5)	23.9	27.5
Russia/CIS	3,020	4,835	5,726	6,680
Growth (%)	(22.0)	60.1	18.4	16.7
Europe	7,730	7,824	8,863	9,891
Growth (%)	(16.3)	1.2	13.3	11.6
LATAM	5,060	6,480	7,675	8,954
Growth (%)	(16.5)	28.1	18.4	16.7
Contract Manf.	5,990	5,692	6,331	6,936
Growth (%)	166.2	(5.0)	11.2	9.6
<b>Total</b>	<b>66,770</b>	<b>59,113</b>	<b>69,266</b>	<b>81,397</b>
<b>Growth (%)</b>	<b>43.5</b>	<b>(11.5)</b>	<b>17.2</b>	<b>17.5</b>

Source: HDFC sec Inst Research

## Income Statement (Consolidated)

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
<b>Net Revenues</b>	<b>46,530</b>	<b>66,760</b>	<b>59,113</b>	<b>69,266</b>	<b>81,397</b>
<b>Growth (%)</b>	<b>11.2</b>	<b>43.5</b>	<b>(11.5)</b>	<b>17.2</b>	<b>17.5</b>
Material Expenses	14,150	15,770	17,911	20,434	23,605
Employee Expenses	8,418	8,560	9,931	10,736	12,291
SG&A Expenses	5,568	7,477	7,685	8,658	9,768
Other Operating Expenses	8,192	7,753	9,635	12,191	14,407
<b>EBITDA</b>	<b>10,202</b>	<b>27,200</b>	<b>13,951</b>	<b>17,247</b>	<b>21,326</b>
<b>EBITDA Margin (%)</b>	<b>21.9</b>	<b>40.7</b>	<b>23.6</b>	<b>24.9</b>	<b>26.2</b>
<b>EBITDA Growth (%)</b>	<b>7.2</b>	<b>166.6</b>	<b>(48.7)</b>	<b>23.6</b>	<b>23.6</b>
Depreciation	1,907	2,460	2,825	3,160	3,401
<b>EBIT</b>	<b>8,295</b>	<b>24,740</b>	<b>11,126</b>	<b>14,087</b>	<b>17,925</b>
Other Income (Including EO Items)	2,856	2,160	1,850	2,500	3,200
Interest	1,752	1,860	1,923	1,213	867
<b>PBT</b>	<b>9,398</b>	<b>25,040</b>	<b>11,053</b>	<b>15,374</b>	<b>20,259</b>
Tax (Incl Deferred)	1,888	6,420	1,990	3,382	4,761
<b>RPAT</b>	<b>7,510</b>	<b>18,620</b>	<b>9,063</b>	<b>11,992</b>	<b>15,498</b>
EO (Loss) / Profit (Net Of Tax)	1,860	11,587	673	-	-
<b>APAT</b>	<b>5,650</b>	<b>7,033</b>	<b>8,390</b>	<b>11,992</b>	<b>15,498</b>
<b>APAT Growth (%)</b>	<b>4.9</b>	<b>24.5</b>	<b>19.3</b>	<b>42.9</b>	<b>29.2</b>
<b>Adjusted EPS (Rs)</b>	<b>33.4</b>	<b>41.6</b>	<b>49.6</b>	<b>70.9</b>	<b>91.6</b>

Source: Company, HDFC sec Inst Research

## Balance Sheet (Consolidated)

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	846	850	850	850	850
Reserves	24,059	33,040	39,467	48,653	60,524
<b>Total Shareholders Funds</b>	<b>24,906</b>	<b>33,890</b>	<b>40,317</b>	<b>49,503</b>	<b>61,374</b>
Minority Interest	4	5	5	5	5
Long Term Debt	21,850	18,640	13,350	10,850	8,350
Short Term Debt	3,190	30	30	30	30
<b>Total Debt</b>	<b>25,040</b>	<b>18,670</b>	<b>13,380</b>	<b>10,880</b>	<b>8,380</b>
Net Deferred Taxes	1,047	220	220	220	220
Long Term Provisions & Others	2,877	3,738	2,700	3,250	3,250
<b>TOTAL SOURCES OF FUNDS</b>	<b>53,874</b>	<b>56,522</b>	<b>56,622</b>	<b>63,858</b>	<b>73,229</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	9,216	10,009	16,784	20,724	23,924
CWIP	7,025	11,303	8,000	7,150	7,150
Intangibles	19,111	18,763	17,004	15,404	13,804
LT Loans & Advances	1,827	869	1,250	1,350	1,350
<b>Total Non-current Assets</b>	<b>37,179</b>	<b>40,944</b>	<b>43,038</b>	<b>44,629</b>	<b>46,228</b>
Inventories	10,672	13,580	15,424	17,596	20,327
Debtors	15,945	14,451	13,596	15,931	18,721
Other Current Assets	5,823	5,105	5,798	6,303	7,134
Cash & Equivalents	8,650	14,074	8,202	13,634	20,813
<b>Total Current Assets</b>	<b>41,090</b>	<b>47,210</b>	<b>43,020</b>	<b>53,464</b>	<b>66,995</b>
Creditors	18,280	22,602	21,493	24,520	28,326
Other Current Liabilities & Provns	6,116	9,030	7,944	9,715	11,668
<b>Total Current Liabilities</b>	<b>24,396</b>	<b>31,632</b>	<b>29,437</b>	<b>34,236</b>	<b>39,995</b>
<b>Net Current Assets</b>	<b>16,694</b>	<b>15,578</b>	<b>13,583</b>	<b>19,229</b>	<b>27,001</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>53,873</b>	<b>56,522</b>	<b>56,621</b>	<b>63,857</b>	<b>73,228</b>

Source: Company, HDFC sec Inst Research

## Cash Flow

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Reported PBT	9,398	23,640	11,053	15,374	20,259
Non-operating & EO items	(2,856)	(2,160)	(1,850)	(2,500)	(3,200)
Interest expenses	1,752	1,860	1,923	1,213	867
Depreciation	1,907	2,460	2,825	3,160	3,401
Working Capital Change	(617)	7,713	(4,908)	86	(593)
Tax Paid	(660)	(7,247)	(1,990)	(3,382)	(4,761)
<b>OPERATING CASH FLOW ( a )</b>	<b>8,925</b>	<b>26,266</b>	<b>7,053</b>	<b>13,951</b>	<b>15,973</b>
Capex	(22,923)	(6,379)	(5,085)	(4,500)	(5,000)
Free cash flow (FCF)	(13,998)	19,888	1,969	9,451	10,973
Investments	(1,120)	(4,627)	-	-	-
Non-operating Income	2,856	2,160	1,850	2,500	3,200
<b>INVESTING CASH FLOW ( b )</b>	<b>(21,187)</b>	<b>(8,846)</b>	<b>(3,235)</b>	<b>(2,000)</b>	<b>(1,800)</b>
Debt Issuance/(Repaid)	13,622	(6,370)	(5,290)	(2,500)	(2,500)
Interest Expenses	(1,752)	(1,860)	(1,923)	(1,213)	(867)
FCFE	(392)	9,190	(3,394)	8,238	10,806
Share Capital Issuance	598	-	-	-	-
Dividend	(2,227)	(4,950)	(1,963)	(2,806)	(3,626)
<b>FINANCING CASH FLOW ( c )</b>	<b>10,241</b>	<b>(13,180)</b>	<b>(9,176)</b>	<b>(6,519)</b>	<b>(6,993)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(2,021)</b>	<b>4,241</b>	<b>(5,357)</b>	<b>5,432</b>	<b>7,179</b>
EO Items, Others	(1)	3,444	557	-	-
<b>Closing Cash &amp; Equivalents</b>	<b>(2,020)</b>	<b>797</b>	<b>(5,914)</b>	<b>5,432</b>	<b>7,179</b>

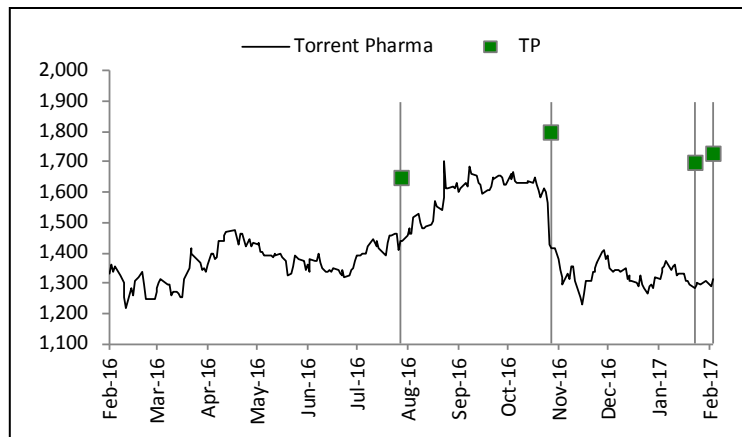
Source: Company, HDFC sec Inst Research

## Key Ratios

	FY15	FY16	FY17E	FY18E	FY19E
<b>PROFITABILITY (%)</b>					
GPM	69.6	76.4	69.7	70.5	71.0
EBITDA Margin	21.9	40.7	23.6	24.9	26.2
APAT Margin	12.1	10.5	14.2	17.3	19.0
RoE	25.7	23.9	22.6	26.7	28.0
RoIC (or Core RoCE)	20.0	43.3	20.6	22.9	27.4
RoCE	20.6	19.2	21.9	26.2	31.5
<b>EFFICIENCY</b>					
Tax Rate (%)	20.1	25.6	18.0	22.0	23.5
Fixed Asset Turnover (x)	3.2	4.1	2.5	2.3	2.4
Inventory (days)	83.7	74.2	95.2	92.7	91.1
Debtors (days)	125.1	79.0	84.0	84.0	84.0
Other Current Assets (days)	45.7	27.9	35.8	33.2	32.0
Payables (days)	143.4	123.6	132.7	129.2	127.0
Other Current Liab & Provns (days)	48.0	49.4	49.0	51.2	52.3
Cash Conversion Cycle (days)	63.1	8.2	33.2	29.5	27.7
Debt/EBITDA (x)	2.5	0.7	1.0	0.6	0.4
Net D/E (x)	0.7	0.1	0.1	(0.1)	(0.2)
Interest Coverage (x)	4.7	13.3	5.8	11.6	20.7
<b>PER SHARE DATA (Rs)</b>					
EPS	33.4	41.6	49.6	70.9	91.6
Dividend	11.3	25.0	9.9	14.2	18.3
Book Value	147.2	200.3	238.2	292.5	362.7
<b>VALUATION</b>					
P/E (x)	39.4	31.6	26.5	18.5	14.3
P/BV (x)	8.9	6.6	5.5	4.5	3.6
EV/EBITDA (x)	23.4	8.3	16.3	12.7	9.8
EV/Revenues (x)	5.1	3.4	3.8	3.2	2.6
OCF/EV (%)	3.7	11.6	3.1	6.4	7.6
FCF/EV (%)	(5.9)	8.8	0.9	4.3	5.2
FCFE/Mkt Cap (%)	(0.2)	4.1	(1.5)	3.7	4.9
Dividend Yield (%)	0.9	1.9	0.8	1.1	1.4

Source: Company, HDFC sec Inst Research

## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
29-Jul-16	1,437	BUY	1,650
27-Oct-16	1,426	BUY	1,800
23-Jan-17	1,307	BUY	1,700
06-Feb-17	1,314	BUY	1,730

### Rating Definitions

**BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period  
**NEUTRAL** : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period  
**SELL** : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period



#### Disclosure:

We, Amey Chalke, MBA and Siddhant Mansukhani, CA authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Any holding in stock –No

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