

Institutional Equity Research

Torrent Pharma

Pharmaceuticals | India

3QFY18 Result Update | February 19, 2018

CMP* (Rs)	1,395
Upside/ (Downside) (%)	12.5
Bloomberg Ticker	TRP IN
Market Cap. (Rs bn)	236
Free Float (%)	29
Shares O/S (mn)	169

BUY 

Target Price: Rs1,570

Subdued Quarter; Unichem Deal to Boost Domestic Volume

Led by substantial 14.2% YoY decline in US business, Torrent Pharmaceuticals (TRP) has delivered a subdued performance in 3QFY18. Its reported sales and EBITDA grew by 2.4% YoY and 13.6% YoY to Rs14.8bn and Rs3.6bn, respectively. PAT declined by 75% YoY to Rs580mn due to re-measurement of deferred tax (change in US tax law) and one-time impact of Unichem acquisition, adjusted for which PAT declined by 8% YoY due to higher depreciation and interest cost. Notably, TRP's Brazil and Germany sales grew by 22% & 18% YoY, respectively, while post adjusting for GST-led accounting change, its India business grew by 16.5% YoY (ex-Unichem by 13% YoY). Its gross margin rose by 561bps YoY, while EBITDA margin expanded by 241bps YoY to 24.3% owing to better product-mix. Looking ahead, we expect TRP's sales, EBITDA and PAT to clock 14%, 17% and 12.5% CAGR, respectively, while EBITDA margin is expected to improve by 197bps to 25.5% through FY17-20E. **Rolling over our estimates to FY20E, we maintain our BUY recommendation on the stock with a revised Target Price of Rs1,570 (from Rs1,450 earlier).**

Conference Call – Key Highlights

- **India Biz (40% of Sales):** TRP's domestic business grew by 16.5% YoY, which adjusted for Unichem acquisition and GST roll-out related changes, grew by 13% YoY. During 3QFY18, TRP booked Unichem sales from 14th to 31st Dec-17, as part of its domestic business. As per management, sales growth of the acquired business is still slow due to integration with TRP. Further, despite re-stocking post GST roll-out, inventory is yet to match pre-GST level (14 days vs. 21 days). Led by Unichem acquisition, product overlap stood at ~70% while doctor overlap at ~90%. TRP expects any cost synergies driven by the overlaps to be limited due to higher rural penetration of Unichem's products (70% vs. 30% of TRP). The Management expects margin pressure to continue due to lower productivity of Unichem's field force. Currently, combined entity have total of 28 divisions in India.
- **US Biz (13% of Sales):** US sales declined by 14.2% YoY on higher base led by launch of limited competition products in 3QFY17. TRP has launched 5 ANDAs in YTD FY18 and expects to launch 2 ANDAs in 4QFY18. It expects to launch 10 products in FY19E. It is targeting US sales of US\$200-300mn, going forward.
- **Brazil Biz (13% of sales):** Brazil sales grew by 22% YoY due to ramp-up in existing product portfolio and the Management expects this momentum to continue, going forward.

Outlook & Valuation

Looking ahead, we expect TRP's domestic formulations business to clock 25.7% CAGR led by Unichem acquisition, while Brazilian and RoW business (including Europe) are likely to witness 12.5% and 12.2% CAGR, respectively over FY17-20E. We trim down our earnings estimates by 35% and 12.9% for FY18E and FY19E, respectively to factor in the impact of acquisition, higher interest cost, depreciation and amortisation charges. **Rolling over our estimates to FY20E, we maintain our BUY recommendation on the stock with a revised Target Price of Rs1,570 (from Rs1,450 earlier), valuing the stock at 20x of FY20E EPS.**

Key Financials (Rs mn)	FY17	FY18E	FY19E	FY20E
Sales	58,570	60,736	75,423	86,830
EBITDA	13,780	14,212	18,501	22,142
Adj. PAT	9,340	6,096	10,093	13,287
EPS (Rs)	55.2	36.0	59.6	78.5
P/E (x)	25.3	38.7	23.4	17.8
EV/Sales (x)	4.3	4.6	3.5	3.0
EV/EBITDA (x)	18.3	19.5	14.4	11.6
ROE (%)	21.5	13.0	18.6	20.6
ROCE (%)	18.4	12.1	16.4	19.0

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(2.5)	10.7	10.9
Relative to Nifty	2.2	9.7	(6.8)

Shareholding Pattern (%)	Dec'17	Sept'17
Promoter	71.3	71.3
Public	28.8	28.8

1 Year Stock Price Performance



Note: * CMP as on February 19, 2018

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Risks to view

- Inordinate delay in getting fresh approvals from the US FDA.
- Delay in synergy benefits from Unichem acquisition.

Exhibit 1: Segment-wise sales performance

(Rs mn)	3QFY18	3QFY17	YoY, %	2QFY18	QoQ, %
India	5,860	5,030	16.5	6,070	(3.5)
US	2,660	3,100	(14.2)	2,550	4.3
Brazil	1,940	1,590	22.0	1,200	61.7
Germany	2,410	2,040	18.1	2,210	9.0
RoW - Russia & CIS, Mexico & Canada.	1,310	1,200	9.2	1,350	(3.0)
Others	590	1470	(59.9)	910	(35.2)
Total Sales	14,770	14,430	2.4	14,290	3.4

Source: Company, RSec Research

Exhibit 2: Quarterly Performance

(Rs mn)	3QFY18	3QFY17	YoY, %	2QFY18	QoQ, %
Net Sales	14,770	14,430	2.4	14,290	3.4
Cost of Revenues	3,920	4,640	(15.5)	4,180	(6.2)
Gross Profit	10,850	9,790	10.8	10,110	7.3
Gross profit margin	73.5	67.8	561bps	70.7	271bps
Employee expenses	2,720	2,330	16.7	2,830	(3.9)
Other Expenses	4,540	4,300	5.6	3,990	13.8
Total operating expenses	11,180	11,270	(0.8)	11,000	1.6
EBITDA	3,590	3,160	13.6	3,290	9.1
EBITDA margin (%)	24.3	21.9	241bps	23.0	128bps
Depreciation	940	730	28.8	840	11.9
EBIT	2,650	2,430	9.1	2,450	8.2
Other Income	740	500	48.0	780	(5.1)
Interest	800	480	66.7	510	56.9
PBT	2,590	2,450	5.7	2,720	(4.8)
Total tax	2,010	160	1,156.3	680	195.6
Tax Rate (%)	77.6	6.5		25.0	
Reported PAT	580	2,290	(74.7)	2,040	(71.6)
Reported EPS (Rs)	3.4	13.5	(74.7)	12.1	(71.6)

Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
Net sales	58,570	60,736	75,423	86,830
% yoy change	(12.4)	3.7	24.2	15.1
Adjusted RM cost	17,910	18,525	22,604	25,615
Employee expenses	9,930	10,872	12,445	14,327
Other expenses	12,630	12,269	15,839	17,800
Total operating expenditure	44,790	46,524	56,921	64,689
EBIDTA	13,780	14,212	18,501	22,142
EBIDTA margin (%)	23.5	23.4	24.5	25.5
Depreciation	3,070	4,589	4,771	4,953
EBIT	10,710	9,623	13,730	17,189
Other income	2,230	3,310	3,376	3,444
Interest costs	2,060	2,772	4,329	3,813
PBT	10,880	10,161	12,777	16,819
Taxes	1,540	4,065	2,683	3,532
Tax rate (%)	14.2	40.0	21.0	21.0
Adjusted PAT	9,340	6,096	10,093	13,287
% yoy change	(51.5)	(34.7)	65.6	31.6
Adjusted EPS (Rs)	55.2	36.0	59.6	78.5

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Balance Sheet

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS				
Equity Share Capital	846	846	846	846
Reserves& Surplus	42,655	46,102	53,342	63,775
Shareholders Funds	43,501	46,948	54,188	64,621
Minority Interest	5	5	6	6
Total Loans	25,101	58,101	48,101	42,101
Other long term liabilities	709	745	782	821
Deferred tax liability	1,014	1,014	1,014	1,014
Total Liabilities	70,331	106,813	104,091	108,564
APPLICATION OF FUNDS				
Gross Block	47,503	70,603	73,403	76,203
Less: Acc. Depreciation	12,214	16,803	21,574	26,528
Net Block	35,289	53,800	51,829	49,675
Capital Work-in-Progress	6,790	16,690	17,890	19,090
Investments	1	1	1	1
Current Assets	53,041	57,022	60,600	70,329
Current invetsment	8,036	8,196	8,360	8,527
Inventories	15,590	15,726	16,307	20,250
Sundry Debtors	13,440	13,937	17,307	19,925
Cash and Bank	8,937	11,774	10,858	13,464
Loans and Advances	43	45	56	64
Other Current Assets	6,995	7,345	7,712	8,098
Current liabilities	30,919	26,738	32,178	36,396
Net Current Assets	22,122	30,285	28,422	33,933
Net Deferred Tax	3,099	3,099	3,099	3,099
Other non-current assets	3,030	2,939	2,851	2,766
Total Assets	70,331	106,813	104,091	108,564

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Cash Flow Statement

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
Profit before tax	10,881	10,161	12,777	16,819
Depreciation	3,069	4,589	4,771	4,953
Interest provided	2,056	2,772	4,329	3,813
Change in Working Capital	(1,435)	(5,326)	947	(2,905)
Tax Paid	(3,843)	(4,065)	(2,683)	(3,532)
Others	(601)	(1,773)	-	-
Cash Flow from Operations	10,127	6,358	20,141	19,149
(Inc.) / Dec. in Fixed Assets	(4,868)	(33,000)	(4,000)	(4,000)
(Inc.) / Dec. in Investments	(1,764)	-	-	-
Others	(1,237)	91	88	86
Cash Flow from Investing	(7,869)	(32,909)	(3,912)	(3,914)
Inc. / (Dec.) in loans	2,020	33,035	(9,963)	(5,961)
Dividend Paid (Incl. Tax)	(2,037)	(2,650)	(2,853)	(2,853)
Interest provided	(2,056)	(2,772)	(4,329)	(3,813)
Others	154	-	-	-
Cash Flow from Financing	(1,918)	27,614	(17,145)	(12,627)
Inc. / (Dec.) in Cash & cash equivalents	340	1,064	(916)	2,607

Key Ratios

Y/E March	FY17	FY18E	FY19E	FY20E
Valuation Ratio (x)				
P/E	25.3	38.7	23.4	17.8
P/CEPS	19.0	22.1	15.9	12.9
P/BV	5.4	5.0	4.4	3.7
Dividend yield (%)	1.0	0.9	1.0	1.0
EV/Sales	4.3	4.6	3.5	3.0
EV/EBITDA	18.3	19.9	14.8	12.0
EV / Total Assets	3.6	2.6	2.6	2.4
Per Share Data (Rs)				
Adj EPS	55.2	36.0	59.6	78.5
Cash EPS	73.3	63.1	87.8	107.8
DPS	14.0	13.0	14.0	14.0
Book Value	257.0	277.4	320.2	381.8
Returns (%)				
RoCE	18.4	12.1	16.4	19.0
RoE	21.5	13.0	18.6	20.6
Turnover ratios (x)				
Asset Turnover (Gross Block)	1.2	0.9	1.0	1.1
Inventory / Sales (days)	97	98	98	98
Receivables (days)	84	84	84	84
Payables (days)	143	143	143	143

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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