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### Q2FY22 result review and earnings revision

## Pharmaceuticals

Target price: Rs3,172

### Earnings revision

(%)	FY22E	FY23E
Sales	(2.3)	(2.0)
EPS	(3.8)	(3.6)

### Target price revision

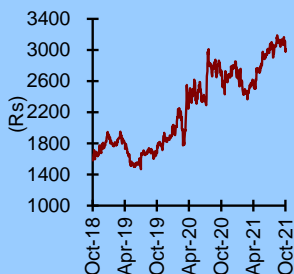
Rs3,172 from Rs3,295

### Shareholding pattern

	Mar '21	Jun '21	Sep '21
Promoters	71.3	71.3	71.3
Institutional investors	19.7	20.1	20.3
MFs and others	6.5	6.7	6.7
FIs/Banks	0.1	0.1	0.1
FII	13.1	13.3	13.5
Others	10.0	8.6	8.4

Source: BSE India

### Price chart



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## Torrent Pharmaceuticals

**ADD**

**Maintained**

**Rs2,944**

### India and Brazil support the growth

Torrent Pharma's (Torrent) Q2FY22 performance was largely in line with our estimates. Revenue grew 5.9% YoY to Rs21.4bn led by 12.9% growth in India partially offset by decline in the US and Germany. US sales declined 2.8% QoQ to US\$35mn vs estimated US\$40mn. EBITDA margin declined marginally by 60bps YoY to 30.9% due to change in product mix and higher employee cost. Adj. PAT grew mere 1.9% to Rs3.2bn. We remain positive on the long-term outlook considering growth improvement in India business supported by its dominant chronic segment, potential resolution of OAI/WL status at two facilities in FY22E, EPS CAGR of 10.6% over FY21-FY23E and strengthening balance sheet with improving FCF generation. Retain **ADD** with a revised target price of Rs3,172/share.

- **Business review:** India business grew 12.9% led by strong recovery in acute and sub-chronic segments and ~8% price growth. Trade generic business contributed 1-1.5% in domestic sales. US revenues declined 2.8% QoQ to US\$35mn due to price erosion and absence of new launches given USFDA issues. We expect US sales to remain steady in near term and growth would start with new launches from third party manufacturing and restart of Levittown facility. Brazil revenues grew 20.9% YoY led by key products and two new launches. Germany revenues declined 3.8% YoY due to COVID-19 impact and inventory adjustment at client level post consolidation. EBITDA margins declined marginally by 60bps YoY to 30.9% with rising employee and R&D costs. While company expects EBITDA margin to gradually improve we estimate it to remain stable around 31-32% for the next two years.
- **Concall Highlights:** 1) Expect double digit growth in India which would outpace industry considering its significant exposure to the chronic segment and established product portfolio. 2) two products are expected to launch in Brazil before end of FY22E 3) Rs2.5-3bn of maintenance capex and Rs2-3bn is expected to be spent towards the end of FY22 for domestic expansion 4) Net debt is expected to come down to Rs35bn by end of FY22E.
- **Outlook:** We estimate revenue, EBITDA and earnings to CAGRs at 8.9%, 9.7% and 10.6% respectively, over FY21-FY23E led by higher India growth (12.3% CAGR). RoCE would improve to 17.9% in FY23E from 15.8% in FY21. 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 much below 1x by FY23E.
- **Valuations and risks:** We lower revenue and EPS estimates by 2-3% and ~4% respectively to factor in lower growth in Germany and US. Maintain **ADD** with a revised target of Rs3,172/share based on 18.5x FY23E EV/EBITDA (earlier: Rs3,295/share). Key downside risks: Delay in resolution of FDA issues, slowdown of domestic growth and forex volatility.

Market Cap	Rs498bn/US\$6.6bn
Reuters/Bloomberg	TORP.BO/TRP IN
Shares Outstanding (mn)	169.2
52-week Range (Rs)	3190/2367
Free Float (%)	28.7
FII (%)	13.4
Daily Volume (USD/'000)	8,929
Absolute Return 3m (%)	(4.4)
Absolute Return 12m (%)	12.2
Sensex Return 3m (%)	16.4
Sensex Return 12m (%)	54.4

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	79,393	80,050	85,679	94,942
Net Income (Rs mn)	10,247	12,520	12,679	15,308
EPS (Rs)	57.4	74.0	74.9	90.5
% Chg YoY	37.3	28.8	1.3	20.7
P/E (x)	51.3	39.8	39.3	32.5
CEPS (Rs)	96.1	112.9	114.5	131.4
EV/E (x)	25.3	21.7	19.7	17.2
Dividend Yield (%)	0.7	0.9	0.9	1.1
RoCE (%)	13.7	15.8	15.1	17.9
RoE (%)	20.4	23.5	20.4	21.8

**Table 1: Q2FY22 performance**

(Rs mn, year ending March 31)

	Q2FY22	Q2FY21	YoY % Chg	Q1FY22	QoQ % Chg
<b>Net Sales</b>	<b>21,370</b>	<b>20,170</b>	<b>5.9</b>	<b>21,340</b>	<b>0.1</b>
EBITDA	6,600	6,350	3.9	6,770	(2.5)
Other income	510	60	750.0	400	27.5
<b>PBIDT</b>	<b>7,110</b>	<b>6,410</b>	<b>10.9</b>	<b>7,170</b>	<b>(0.8)</b>
Depreciation	1,680	1,650	1.8	1,650	1.8
Interest	710	920	(22.8)	680	4.4
Extra ordinary income/ (exp.)	-	-		-	
<b>PBT</b>	<b>4,720</b>	<b>3,840</b>	<b>22.9</b>	<b>4,840</b>	<b>(2.5)</b>
Tax	1,560	740	110.8	1,540	1.3
Minority Interest	-	-		-	
<b>Reported PAT</b>	<b>3,160</b>	<b>3,100</b>	<b>1.9</b>	<b>3,300</b>	<b>(4.2)</b>
<b>Adjusted PAT</b>	<b>3,160</b>	<b>3,100</b>	<b>1.9</b>	<b>3,300</b>	<b>(4.2)</b>
EBITDA margins (%)	30.9	31.5	(60)bps	31.7	(80)bps

Source: Company data, I-Sec research

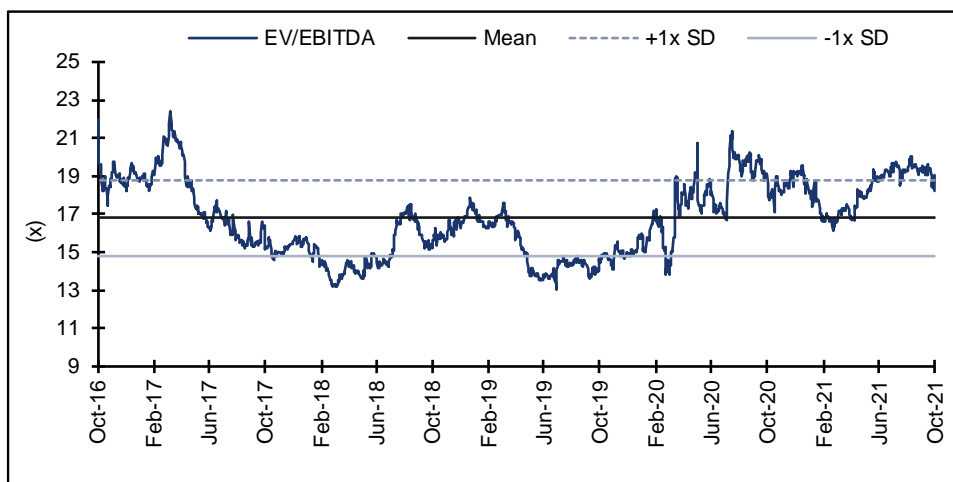
**Table 2: Sales breakup**

(Rs mn, year ending March 31)

	Q2FY22	Q2FY21	YoY % Chg	Q1FY22	QoQ % Chg
India	10,870	9,630	12.9	10,930	(0.5)
Brazil	1,560	1,290	20.9	1,530	2.0
Germany	2,510	2,610	(3.8)	2,600	(3.5)
US	2,840	3,270	(13.1)	2,660	6.8
RoW	2,190	2,000	9.5	2,170	0.9
Contract Mfg & Others	1,400	1,370	2.2	1,460	(4.1)
<b>Net sales</b>	<b>21,370</b>	<b>20,170</b>	<b>5.9</b>	<b>21,350</b>	<b>0.1</b>

Source: Company data, I-Sec research

**Chart 1: 1-year forward EV/EBITDA**



Source: Company data, I-Sec research

## Financial summary (consolidated)

Table 3: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
India	35,170	37,390	42,455	47,127
Brazil	7,150	6,300	6,930	7,484
EU	9,470	10,380	10,899	11,989
US	15,230	12,610	11,111	12,723
ROW	7,660	8,200	8,856	9,919
Contract Mfg & Others	3,120	3,980	4,179	4,388
Other Operating Income	1,590	1,190	1,250	1,312
<b>Total Gross Sales</b>	<b>79,393</b>	<b>80,050</b>	<b>85,679</b>	<b>94,942</b>
Excise duty	-	-	-	-
<b>Total Net Revenue</b>	<b>79,393</b>	<b>80,050</b>	<b>85,679</b>	<b>94,942</b>
YoY Growth%	4.3	0.8	7.0	10.8
<b>Total Op. Exp.</b>	<b>57,690</b>	<b>55,200</b>	<b>58,904</b>	<b>65,035</b>
<b>EBITDA</b>	<b>21,704</b>	<b>24,850</b>	<b>26,775</b>	<b>29,907</b>
Margins %	27.3	31.0	31.3	31.5
YoY Growth%	10.0	14.5	7.7	11.7
Depreciation	6,544	6,580	6,701	6,934
<b>EBIT</b>	<b>15,160</b>	<b>18,270</b>	<b>20,074</b>	<b>22,972</b>
Other Income	1,213	570	785	863
Interest	4,507	3,580	2,746	1,966
EO Items	-	-	-	-
<b>PBT</b>	<b>11,866</b>	<b>15,260</b>	<b>18,112</b>	<b>21,869</b>
Tax	2,147	2,740	5,434	6,561
Tax Rate (%)	18.1	18.0	30.0	30.0
Minority Interest	(528)	0	0	0
<b>Reported PAT</b>	<b>10,247</b>	<b>12,520</b>	<b>12,679</b>	<b>15,308</b>
<b>Adj PAT</b>	<b>10,247</b>	<b>12,520</b>	<b>12,679</b>	<b>15,308</b>
Net Margins (%)	12.9	15.6	14.8	16.1

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	64,865	73,721
<b>Total Equity</b>	<b>48,232</b>	<b>58,376</b>	<b>65,711</b>	<b>74,567</b>
Minority Interest	0	0	0	0
<b>Total Debt</b>	<b>58,130</b>	<b>48,250</b>	<b>36,250</b>	<b>24,250</b>
Deferred Liabilities	(4,332)	(4,210)	(2,037)	588
<b>Capital Employed</b>	<b>102,030</b>	<b>102,416</b>	<b>99,924</b>	<b>99,405</b>
Current Liabilities	34,016	34,124	36,701	40,080
<b>Total Liabilities</b>	<b>136,046</b>	<b>136,540</b>	<b>136,625</b>	<b>139,485</b>
<b>Net Fixed Assets</b>	<b>82,451</b>	<b>79,540</b>	<b>76,339</b>	<b>73,405</b>
Investments	1,307	960	998	1,060
Inventory	21,482	26,810	28,609	31,587
Debtors	16,493	15,230	16,301	18,063
Other Current Assets	7,646	6,570	6,974	7,640
Cash and Equivalents	6,667	7,430	7,404	7,730
<b>Total Cur. Assets</b>	<b>52,289</b>	<b>56,040</b>	<b>59,288</b>	<b>65,020</b>
<b>Total Assets</b>	<b>136,046</b>	<b>136,540</b>	<b>136,625</b>	<b>139,485</b>

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	18,112	21,869
Depreciation	6,544	6,580	6,701	6,934
Net Chg in WC	(3,858)	(3,370)	(856)	(2,288)
Taxes	(2,840)	(1,760)	(3,260)	(3,936)
Others	(2,300)	(180)	121	199
<b>CFO</b>	<b>9,411</b>	<b>16,530</b>	<b>20,817</b>	<b>22,778</b>
Capex	(4,028)	(3,340)	(3,500)	(4,000)
Net Investments made	2,344	(1,200)	-	-
Others	169	50	-	-
<b>CFI</b>	<b>(1,516)</b>	<b>(4,490)</b>	<b>(3,500)</b>	<b>(4,000)</b>
Change in Share capital	-	-	-	-
Change in Debts	(3,452)	(9,570)	(12,000)	(12,000)
Div. & Div Tax	(7,185)	(3,380)	(5,344)	(6,452)
Others	1,248	284	-	-
<b>CFF</b>	<b>(9,389)</b>	<b>(12,667)</b>	<b>(17,344)</b>	<b>(18,452)</b>
<b>Total Cash Generated</b>	<b>(1,494)</b>	<b>(627)</b>	<b>(26)</b>	<b>326</b>
<b>Cash Opening Balance</b>	<b>8,160</b>	<b>6,667</b>	<b>6,040</b>	<b>6,014</b>
<b>Cash Closing Balance</b>	<b>6,667</b>	<b>6,040</b>	<b>6,014</b>	<b>6,340</b>

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Adj. EPS	57.4	74.0	74.9	90.5
YoY Growth%	37.3	28.8	1.3	20.7
Cash EPS	96.1	112.9	114.5	131.4
EBITDA - Core (%)	27.3	31.0	31.3	31.5
NPM (%)	12.9	15.6	14.8	16.1
Net Debt to Equity (x)	1.1	0.7	0.4	0.2
P/E (x)	51.3	39.8	39.3	32.5
EV/EBITDA Core (x)	25.3	21.7	19.7	17.2
P/BV (x)	10.3	8.5	7.6	6.7
EV/Sales (x)	6.9	6.7	6.2	5.4
RoCE (%)	13.7	15.8	15.1	17.9
RoE (%)	20.4	23.5	20.4	21.8
RoIC (%)	14.9	17.0	16.3	19.4
Book Value (Rs)	285	345	388	441
DPS (Rs)	21.2	25.9	26.2	31.7
Dividend Payout (%)	35.0	35.0	35.0	35.0
Div Yield (%)	0.7	0.9	0.9	1.1
Asset Turnover Ratio	0.6	0.6	0.6	0.7
Avg Collection days	71	72	67	66
Avg Inventory days	94	110	118	116

Source: Company data, I-Sec research

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