



# THINK DIFFERENT PROFIT MORE

Company Name : **TORRENT PHARMACEUTICALS**

BSE Code : **500420**

Time Duration : **2 years**

CMP : **₹1717.50 (as on 05 Sept., 2019)**

Target Price : **₹2420**

Our Upstream Pick for the month of September is Torrent Pharmaceuticals Limited. The company is engaged in the research, development, manufacturing and marketing of generic pharmaceutical formulations in India, US, Germany, Brazil and other countries. The company operates in the therapeutic areas of cardiovascular (CV), central nervous system (CNS), gastrointestinal, diabetology, anti-infective, anti-diabetics and pain management segments. The company's geographical mix comprises of India- 42%, USA- 21%, Germany- 13%, Brazil- 9%, other countries- 9% and CRAMS/others- 6%.

We have chosen Torrent Pharma as our Upstream Pick for the month of September 2019 owing to the revival in international business (Germany and Brazil), which is expected to aid the topline. Also, the integration of Unichem Lab acquired in 2017 is likely to benefit the company as synergies are accelerating.

## Indian markets to further grow

India business contributes 42% to the company's overall revenues and the company is ranked seventh in India with 3.35% market share. The company's Indian business comprises of cardiac- 32%, gastrointestinal- 15%, CNS (central nervous system)- 15%, VMN (vitamin minerals nutrients)- 12%, antidiabetic- 8%, pain- 7%, anti-infective- 5%, gynaecology- 2% and the rest- 4%.

In the recent quarter Q1FY20, its domestic business grew by 9% yoy. This had been affected due to preponement of business in the preceding quarter and termination of low value and low margin products. The company is hoping to achieve double digit growth from Q2FY20 onwards.

The company's IPM business has witnessed decline since last three consequent quarters. However, the management is hoping growth in IPM business from Q2FY20 onwards. Also, with rising focus on speciality prescription business, its export business is expected to grow further in the coming years.

Also, the company has completed the acquisition of branded business of Unichem Laboratories for India and Nepal in December 2017. With synergy benefits coming in, the margins are likely to improve further.

## US business a strong play, however OAI a cause for concern

Torrent is ranked 10<sup>th</sup> among the US generic Indian companies with a market share of around 16% in its covered market. The company received 14 ANDA approvals in FY19. The company has 100 ANDA approvals (including 10 tentative approvals) and its pipeline consists of 32 pending approvals and 39 products under development. For FY20, the company is planning to file 16 ANDAs.

The US business is expected to contribute to the growth of international business in a significant way. Given the future market moving towards complex products, Torrent is ramping up its pipeline with products like oral liquids, ophthalmic, ointments & creams and oncology. In the recent quarter Q1FY20, the company has registered revenue growth of 13% on a yoy basis. The management expects the US business to remain flat in FY20. Also, the Official Action Indication (OAI) received for its Dahej facility may be a cause for concern.

## Germany and Brazil business

Among the generic players, Torrent holds fourth position with a market share of around 6.5% and is ranked no. 1 among Indian players in the German market. The revenue from German markets witnessed 4% yoy revenue growth in Q1FY20, led by serialisation and tamper-proof packaging. The management expects the German business to grow by 9-12% in FY20.

In the Brazilian markets, the company posted 3% yoy revenue growth, led by higher volumes and new product launches. The management has projected double digit growth in this market for FY20, which would be driven by new launches and ramp-up in existing portfolio.

## Management commentary

For FY20, the management has guided gross margins of 71-72%. Also, on the debt front, the company has reduced its debt by around Rs. 330 crore in Q1FY20 and aims to further bring it down by Rs. 800-900 crore in the current fiscal. This is expected to improve the company's balance sheet position and lower the leverage ratio.

## Financial performance

The company's consolidated net sales for the quarter (Q1FY20) grew by nearly 8 per cent yoy to Rs. 1976 crore. The US business during the quarter registered healthy 12.6 per cent yoy growth to Rs. 376 crore and the domestic formulation business registered 9.3 per cent growth to Rs. 907 crore, while Germany, Brazil and rest of the world reported single digit growth of 4.4 per cent, 3 per cent and 6.6 per cent, respectively. EBITDA during the period grew 13.4 per cent yoy to Rs. 541 crore, with corresponding margin expansion of 128 bps. EBITDA margin for the quarter stood at 26.76 per cent. Profit after tax surged nearly 32.52 per cent yoy to Rs. 216 crore. PAT margin for the quarter also improved to 10.68 per cent.

## Valuation & outlook

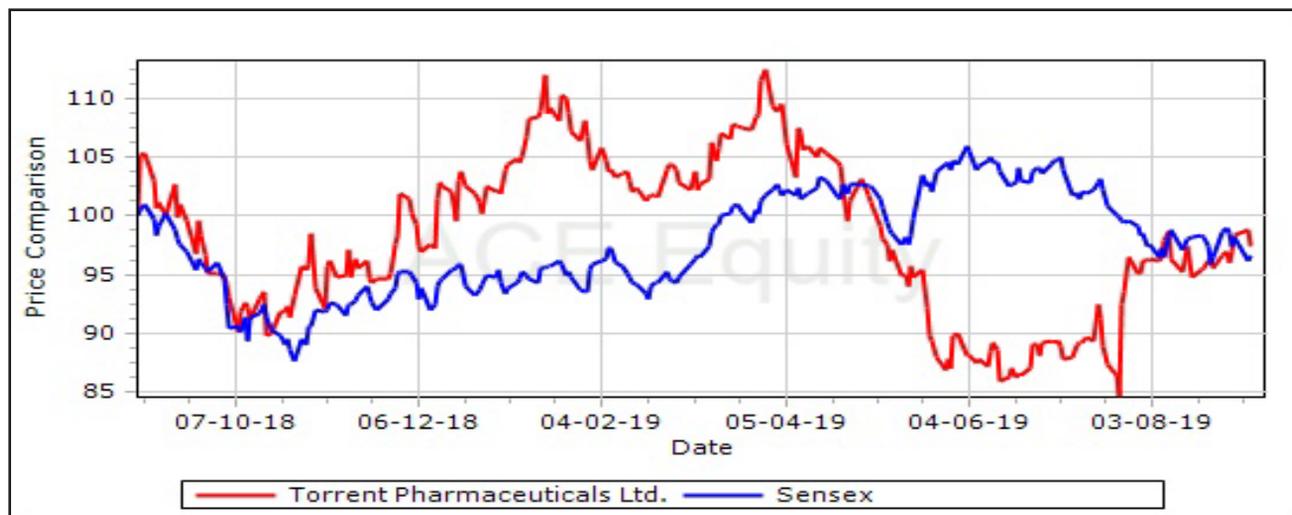
The new launches in the US market are expected to aid revenue growth, while Germany and Brazil are expected to touch double digit growth. Besides, the company is focusing on deleveraging of balance sheet and has reduced debt recently. The company has maintained its gross margin and it is expected to continue this margin for the next couple of years. In term of return ratios, ROE and ROCE stand at healthy at 15.6 per cent and 13.5 per cent, respectively. Over the years, the company has been generating strong cash flow. At present, the stock of Torrent Pharma is trading at 58.50 P/E on TTM earnings. Considering the above factors, we see a potential upside of 41% with a target price of Rs. 2420 over a period of two years.

### Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	7672.80	5949.83	5815.69	6686.93	4653.45
Total Income	7729.85	6248.67	6038.99	6915.73	4939.00
Total Expenditure	5689.74	4600.58	4438.42	3957.13	3633.29
PBIDT	2040.11	1648.09	1600.57	2958.60	1305.71
PAT	436.31	678.14	933.58	1733.27	750.97
Dividend %	340.00	280.00	280.00	700.00	225.00
Adj. EPS(Rs)	25.78	40.07	55.16	102.41	44.37

### Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201906	201903	Q on Q Var%	201806	Y on Y Var%
Net Sales	1976.00	1822.00	8.45	1834.00	7.74
Total Expenditure	1481.00	1383.00	7.09	1395.00	6.16
PBIDT (Excl OI)	541.00	473.00	14.38	477.00	13.42
PAT	216.00	-152.00	242.11	163.00	32.52
PBIDTM% (Excl OI)	26.76	25.48	5.02	25.48	5.02
PBIDTM%	27.74	26.40	5.08	26.92	3.05
PATM%	10.68	-8.19	230.40	8.71	22.62
Adj. EPS(Rs)	12.76	0.00	0.00	9.63	32.50



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