

Current	Previous
CMP : Rs.1,400	
Rating : BUY	Rating : BUY
Target : Rs.1,673	Target : Rs.1,599

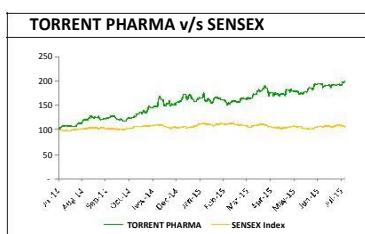
STOCK INFO	
BSE	500420
NSE	TORNTPHARM
Index	S&P BSE 200
Bloomberg	TRP IN
Reuters	TORP.BO
Sector	Pharmaceutical
Face Value (Rs)	5
Equity Capital (Rs mn)	846
Mkt Cap (Rs mn)	235,276
52w H/L(Rs)	1,410 / 697
Avg Daily Vol (BSE+NSE)	272,193

SHAREHOLDING PATTERN		%
(as on Jun. 2015)		
Promoters	71.2	
FII's	12.3	
DII's	6.8	
Public & Others	9.7	

Source: BSE

STOCK PER. (%)	1m	3m	12m
TORRENT PHARMA	3.8	18.8	100.2
SENSEX	(0.9)	1.4	5.5

Source: Capitaline, IndiaNivesh Research



Source: Capitaline, IndiaNivesh Research

Efforts continue to enhance product pipeline in key US market

We attended conference call to understand Q1FY16 results and future outlook in key markets of Torrent Pharmaceutical (TRP IN) in greater details. The financial performance for the quarter was driven by niche opportunity (g-Abilify) and low base of past year in Domestic formulation (DF) segment. We expect business opportunity from g-Abilify to continue in near term as approval for other companies is yet to kick in. TRP is in process of ramping its ANDA pipeline for US market through in-house R&D as well as through M&A route. We raise our EPS estimates for FY16E and FY17E by 5.2% ad 4.6% to Rs74.1 and Rs79.7 to factor increase in business from limited competition products and sustained outperformance in DF segment. Accordingly, we revise our price target to Rs1,673 (from Rs1,599 earlier), based on 21x FY17E earnings. At CMP of Rs1,400, the stock is trading at 18.9x FY16E EPS of Rs74.1 and 17.6x FY17E EPS of Rs79.7. We maintain BUY rating on the stock.

Key highlights of conference call:

Outperformance in Torrent portfolio, addition of Elder portfolio and improvement in productivity leads to 40% y-y growth in DF sales:

DF business grew by 40% y-y to Rs4.93bn. Such sharp y-y growth is mainly due to better-than-industry growth of Torrent portfolio and low base of past year on account of minimal sales from Elder portfolio in 1QFY15.

The brands from Elder portfolio, mainly Shelcal and Chymoral, continue to do well and formed 81% of Elder portfolio against 75% in Q1FY15.

TRP is in process of MR rationalization and has reduced number of MRs from 3300 at the end of 4QFY15 to 3100 at the end of 1QFY16. TRP has guided for further reduction to 3000 by end of FY16. 50% of reduction is from Elder sales force and 50% from Torrent sales force.

In addition to reduction of MRs, focus is also shifted more towards specialty doctors than General Physicians, enhancing productivity to Rs6L PCPM.

Near term gain to continue; efforts continues to augment ANDA pipeline for future growth:

US sales grew sharply by 231% y-y to Rs8.9bn (US\$143mn). Strong y-y growth is mainly driven by launch of g-Abilify (aripiprazole) in Q1FY16. Despite genericization, innovator market share for aripiprazole is at 33% due to lower inclination towards generic version by Doctors resulting in lesser off-take of generic version. Also, the branded version still gets reimbursed in few states even now. The market share of TRP for this product is about 10%. TRP expects market share to further increase in near term.

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TRP has 19 ANDAs pending for approval and 44 products are under development. TRP has guided for augmenting ANDA pipeline through in-house R&D along with increasing presence in new segments like Dermatology, Oncology & Ophthalmology.

Medium term opportunities for TRP are generic version of Nexium and Detrol.

TRP had successful USFDA audit at its Indrad as well as Dahej plant in April 2015.

Currency headwind adversely affects Europe and Brazil sales

Due to currency headwinds, TRP had muted y-y growth in Europe sales in INR terms. However, it had 15% constant currency y-y growth in Europe market for the quarter.

Though Brazil sales declined by 7.4% y-y to Rs1.38bn, TRP exhibited constant currency growth of 20% y-y in Brazil market for the quarter.

Other key highlights from the concall:

TRP has guided for increase in R&D spent from 4.8% in FY15 to 6% in FY16 and expected to inch up further for increased efforts towards complex generics.

TRP has guided for capex of Rs1.5bn-Rs2bn for FY16. The capex spent would be much higher in FY17 for expansion at Sikkim and building manufacturing plant for Oncology products.

TRP expects commercial manufacturing in Dahej to start from December 2015, which would reduce capacity constraint for US market.

Valuation:

We raise our EPS estimates for FY16E and FY17E by 5.2% ad 4.6% to Rs74.1 and Rs79.7 to factor increased business from limited competition products and sustained outperformance in DF segment. Accordingly, we revise our price target to Rs1,673 (from Rs1,599 earlier), based on 21x FY17E earnings. We remain positive on the stock on the back of increased R&D effort towards building robust ANDA pipeline for US market and sustained outperformance in DF market. At CMP of Rs1,400, the stock is trading at 18.9x FY16E EPS of Rs74.1 and 17.6x FY17E EPS of Rs79.7. We maintain BUY rating on the stock.

Key changes in estimates:

Rs mn	Old estimates		New estimates		Change (%)	
	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Sales	64,250	70,224	66,110	71,999	2.9	2.5
EBITDA	17,146	18,529	17,926	19,283	4.6	4.1
PAT	11,929	12,887	12,545	13,483	5.2	4.6
EPS (Rs)	70.5	76.1	74.1	79.7	5.2	4.6
PT (Rs)		1,599		1,673		

Quarterly result summary

Rs mn	Q1FY16	Q1FY15	Y-y (%)	Q4FY15	Q-q (%)	FY15	FY14	Y-y (%)
Net Sales	18,860	10,920	72.7	11,340	66.3	45,850	40,360	13.6
Other operating income	610	220	177.3	200	205.0	680	1,480	(54.1)
Consumption of raw material	4,180	3,010	38.9	3,610	15.8	14,150	12,430	13.8
Employee Cost	2,100	1,840	14.1	2,350	(10.6)	8,420	7,410	13.6
Manufacturing & Other Expenditure	4,100	2,840	44.4	3,960	3.5	13,760	12,480	10.3
Operating Expenses	10,380	7,690	35.0	9,920	4.6	36,330	32,320	12.4
EBITDA	8,480	3,230	162.5	1,420	497.2	9,520	8,040	18.4
Other income	670	490	36.7	1,000	(33.0)	2,860	740	286.5
Depreciation and Amortization	590	210	181.0	600	(1.7)	1,910	870	119.5
EBIT	9,170	3,730	145.8	2,020	354.0	11,150	9,390	18.7
Net Interest Expenses	580	240	141.7	470	23.4	1,750	590	196.6
Profit Before Tax	8,590	3,490	146.1	1,550	454.2	9,400	8,800	6.8
Tax	4,100	930	340.9	250	1,540.0	1,890	1,800	5.0
Net Profit After Tax	4,490	2,560	75.4	1,300	245.4	7,510	7,000	7.3
Minority Interest	-	-	NA	-	NA	-	-	NA
Adj. PAT	4,490	2,560	75.4	1,300	245.4	7,510	7,000	7.3
Adj. EPS (Rs)	26.5	15.1	75.4	7.7	245.4	44.4	41.4	7.3
EO items	-	-	-	-	-	(360.0)	-	-
Reported PAT	4,490	2,560	75.4	1,300	245.4	7,510	6,640	13.1
Rep. EPS (Rs)	26.5	15.1	75.4	7.7	245.4	44.4	39.2	13.1

Key ratios

Ratios								
Adj Gross Margins	77.8	72.4	540	68.2	967	69.1	69.2	(6)
Adj EBITDA margin	45.0	29.6	1,538	12.5	3,244	20.8	19.9	84
Net Margin	23.1	23.0	8	11.3	1,180	16.1	16.7	(59)
Material cost/Net Sales	22.2	27.6	(540)	31.8	(967)	30.9	30.8	6
Employee Cost/ Net Sales	11.1	16.8	(572)	20.7	(959)	18.4	18.4	0
Other Expenditure/ Net Sales	21.7	26.0	(427)	34.9	(1,318)	30.0	30.9	(91)
Tax Rate	47.7	26.6	2,108	16.1	3,160	20.1	20.5	(35)

Source: Company Filings; IndiaNivesh Research

Niche opportunity drive US sales for the quarter



Outperformance in TRP portfolio and addition of Elder business led robust y-y growth in DF segment



Source: Company Filings; IndiaNivesh Research

Source: Company Filings; IndiaNivesh Research

EBITDA margins up 1,538bps y-y and 3,244bps q-q



Source: Company Filings; IndiaNivesh Research

Financial Summary

Profit & Loss

Y E March (Rs m)	FY13	FY14	FY15	FY16E	FY17E
Net sales	30,540	40,360	45,850	66,110	71,999
<i>Growth %</i>	17.7%	32.2%	13.6%	44.2%	8.9%
Other Operating Income	1,580	1,480	680	1,090	1,137
Total sales	32,120	41,840	46,530	67,200	73,136
Expenditure					
Raw Material	9,260	12,430	14,150	20,990	21,600
Employee cost	6,230	7,410	8,420	10,716	12,014
Other expenses	9,700	12,480	13,760	17,568	20,239
EBITDA	6,930	9,520	10,200	17,926	19,283
<i>Growth %</i>	38.4%	37.4%	7.1%	75.7%	7.6%
EBITDA Margin %	17.5%	19.9%	20.8%	25.5%	25.2%
Depreciation	830	870	1,910	1,995	2,102
EBIT	6,100	8,650	8,290	15,930	17,182
EBIT Margin %	20.0%	21.4%	18.1%	24.1%	23.9%
Other Income	430	380	2,860	1,800	1,500
Interest	340	590	1,750	1,850	1,615
PBT	6,190	8,440	9,400	15,880	17,067
Tax	1,470	1,800	1,890	3,335	3,584
<i>Effective tax rate %</i>	23.7%	21.3%	20.1%	21.0%	21.0%
Extraordinary items	(370)	-	-	-	-
Minority Interest	(20)	-	-	-	-
Adjusted PAT	4,700	6,640	7,510	12,545	13,483
<i>Growth%</i>	34.5%	41.3%	13.1%	67.0%	7.5%
PAT margin %	15.4%	16.5%	16.4%	19.0%	18.7%
Reported PAT	4,330	6,640	7,510	12,545	13,483
<i>Growth%</i>	52.4%	53.3%	13.1%	67.0%	7.5%

Balance sheet

Y E March (Rs m)	FY13	FY14	FY15	FY16E	FY17E
Share Capital	423	846	846	846	846
Reserves & Surplus	13,796	18,178	24,060	34,102	44,792
Net Worth	14,219	19,024	24,906	34,948	45,639
Minority Interest	4	4	4	4	4
Secured Loans	5,474	8,890	30,376	28,376	26,376
Unsecured Loans	1,587	2,464	2,464	2,464	2,464
Total debt	7,061	11,354	32,840	30,840	28,840
Net defered tax liability	258	(182)	1,050	1,050	1,050
Total Liabilities	21,542	30,201	58,801	66,842	75,533
Gross Block	12,955	14,200	38,900	40,883	45,203
Less: Depreciation	4,757	5,447	7,357	9,352	11,454
Net Block	8,198	8,753	32,243	32,231	34,449
Capital Work in Progress	3,273	6,177	6,057	6,057	6,057
Investments	844	2,464	2,980	2,980	2,980
Current Assets					
Inventories	9,239	10,060	10,670	19,018	20,712
Sundry Debtors	6,878	10,994	15,950	14,852	16,175
Cash & Bank Balance	6,270	7,694	5,671	16,184	21,952
Other Current Assets	1,859	2,590	4,730	4,730	4,730
Loans & advances	968	1,209	3,160	1,630	1,775
Current Liabilities & provisions	25,213	32,547	40,181	56,414	65,345
Current Liabilities	12,266	16,202	18,280	26,460	28,918
Provisions	3,720	3,538	4,380	4,380	4,380
	15,986	19,740	22,660	30,840	33,298
Net Current Assets	9,227	12,807	17,521	25,574	32,047
Total assets	21,542	30,201	58,801	66,842	75,533

Cash Flow

Y E March (Rs m)	FY13	FY14	FY15	FY16E	FY17E
PBT	5,820	8,440	6,494	15,880	17,067
Depreciation	827	870	1,910	1,995	2,102
Interest	-	312	1,750	1,850	1,615
Other non cash charges	430	186	-	-	-
Changes in working capital	(4,218)	(1,197)	(6,738)	2,460	(704)
Tax	(1,325)	(2,617)	(1,249)	(3,335)	(3,584)
Cash flow from operations	1,535	5,994	2,167	18,851	16,495
Capital expenditure	(2,929)	(4,001)	(25,400)	(1,983)	(4,320)
Free Cash Flow	(1,394)	1,994	(23,232)	16,867	12,175
Other income	425	337	-	-	-
Investments	87	106	700	-	-
Cash flow from investments	(2,417)	(3,558)	(24,700)	(1,983)	(4,320)
Equity capital raised	-	-	-	-	-
Loans availed or (repaid)	1,343	4,149	21,486	(2,000)	(2,000)
Interest paid	(312)	(610)	(1,750)	(1,850)	(1,615)
Dividend paid (incl tax)	(834)	(2,674)	(1,083)	(2,504)	(2,792)
Cash flow from Financing	197	865	18,653	(6,354)	(6,407)
Net change in cash	(685)	3,301	(3,880)	10,513	5,768
Cash at the beginning of the year	7,608	6,270	9,550	5,671	16,184
Foreign currency exchange impact	(49)	(624)	-	-	-
Cash at the end of the year	6,270	7,694	5,671	16,184	21,952

Key ratios

Y E March	FY13	FY14	FY15	FY16E	FY17E
EPS (Rs)	25.6	39.2	44.4	74.1	79.7
Cash EPS (Rs)	30.5	44.4	55.7	85.9	92.1
DPS (Rs)	11.5	10.0	5.5	12.7	14.2
BVPS	84.0	112.4	147.2	206.5	269.7
ROCE	13.4%	16.9%	8.6%	16.3%	15.8%
ROE	30.5%	34.9%	30.2%	35.9%	29.5%
EBITDA Margin %	17.5%	19.9%	20.8%	25.5%	25.2%
Net Margin %	15.4%	16.5%	16.4%	19.0%	18.7%
PER (x)	54.7	35.7	31.5	18.9	17.6
P/BV (x)	16.7	12.5	9.5	6.8	5.2
P/CEPS (x)	45.9	31.5	25.2	16.3	15.2
EV/EBITDA (x)	34.30	25.27	25.89	14.04	1.03
Dividend Payout (%)	45.6	27.0	20.0	20.0	20.0
m cap/sales (x)	7.8	5.9	5.2	3.6	3.3
net debt/equity (x)	0.1	0.2	1.1	0.4	0.2
net debt/ebitda (x)	0.1	0.4	2.7	0.8	0.0

Source: Company Filings; IndiaNivesh Research

