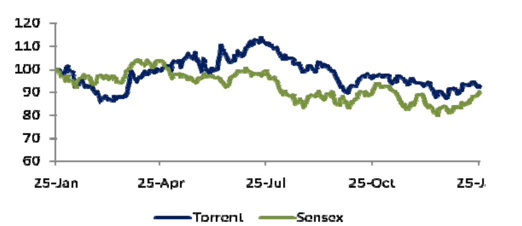
Torrent Pharmaceuticals Ltd

Recommendation	BUY
CMP	Rs. 550
Target Price	Rs. 725
Sector	Pharmaceuticals

Stock Details

BSE Code	500420
NSE Code	TORNTPHARM
Bloomberg Code	TPR IN
Market Cap (Rs cr)	4,654
Free Float (%)	28.5
52- wk HI/Lo (Rs)	687/499
Avg. volume BSE (Quarterly)	1,401
Face Value (Rs)	5.0
Dividend (FY 11)	160%
Shares o/s (Crs)	8.5

Relative Performance	1Mth	3Mth	1Yr
Torrent	3.2%	-3.5%	-7.2%
Sensex	8.6%	-1.0%	-9.9%



Shareholding Pattern	31st Dec 11
Promoters Holding	71.5
Institutional (Incl. FII)	17.2
Corporate Bodies	3.9
Public & others	7.4

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Results below expectations

Torrent Pharmaceuticals results were below expectations as the company reported Adjusted PAT of Rs 60.2 cr (net notional loss) as against the consensus expectation of Rs 86.0 cr. Sales grew by 21% yoy at Rs 696.6 cr. Domestic business is still sluggish which slowed down the overall growth of the company.

Key Highlights

- Q3FY12 includes Rs 9.4 cr of licensing income in other operating income as compared to Rs 0.6 cr in Q3FY11 and Rs 9.6 cr in Q2FY12
- The company reported notable growth of 35.8% yoy in international business mainly driven by US business (67% yoy growth) and Brazil (27% yoy growth). India business grew by mere 7.7% yoy because of weak acute therapy sales. We expect domestic business to lag for one quarter before start picking up in Q1FY13.
- EBITDA margin has declined to 17.4% in Q3FY12 (19% in Q2FY12 & 19.9% in Q3FY11) due to sluggish domestic revenue, forex loss (in other expenses), and high employee cost. We expect EBITDA margins to improve from Q1FY13, as Q4 is a seasonally weak quarter for the company.
- During the quarter, the company recorded Rs 18 cr of forex loss (in other expenses). This is the realized forex loss as the company routes the MTM adjustment to balance sheet after adopting the AS30 from 1st April'11. Net notional loss during the quarter was Rs 22.9 cr.
- The company filed three ANDAs during the quarter taking the cumulative filings to 65 out of which 31 are pending approvals. Torrent launched one product (Olanzapine) in US and three new products in Brazil. It is expected to launch another four products in Brazil in next six months.

Valuation & Recommendation

We are not making any changes in our model. We believe the company is still in investment mode and haven't started gaining the real benefits of its past investments yet.

We believe there is limited downside risk from here. We continue to remain bullish on the company.

At CMP, the stock is trading at a PE of 13.3x FY12E and 11.4.x FY13E EPS that looks attractive. We recommend BUY on the stock with price target of Rs 725, potential upside of 32% from current levels.

Year	Sales (Rs cr)	Growth (%)	EBITDA (Rs cr)	Margin (%)	PAT (Rs cr)	Margin (%)	Adj EPS (Rs)	P/E (x)	EV/Sales (x)
FY 10A	1832.9	15.5	420.8	22.0	231.2	12.1	27.3	20.1	2.5
FY 11A	2121.9	15.8	409.2	18.4	270.1	12.1	31.9	17.2	2.1
FY 12E	2485.3	17.1	516.9	20.0	349.0	13.5	41.2	13.3	1.9
FY 13E	2880.6	15.9	599.7	20.0	408.8	13.6	48.3	11.4	1.6

Quarterly Result

Particulars (Rs Cr)	Q3FY12	Q2FY12	*qoq*	Q3FY11	*yoy*	Remarks
Net Sales	675.5	644.0	*4.9%*	554.8	*21.8%*	Impacted because of lackluster domestic business
Other Op. income	21.1	25.6	*-17.7%*	22.7	*-7.3%*	Includes Rs 9.4 cr of Licensing income v/s Rs 0.6 cr in Q3FY11
Total Income	**696.6**	**669.6**	***4.0%***	**577.5**	***20.6%***	
Cost of Materials	222.3	222.1	*0.1%*	177.1	*25.5%*	
Personnel Exps	119.9	116.1	*3.3%*	97.9	*22.5%*	
R&D Cost	34.9	31.7	*10.1%*	34.8	*0.4%*	
Other exps	198.0	172.8	*14.6%*	152.8	*29.6%*	
Total Expenses	**575.1**	**542.7**	***6.0%***	**462.5**	***24.3%***	
EBITDA	**121.5**	**126.9**	***-4.3%***	**115.0**	***5.6%***	Includes net forex loss of Rs 18 cr
margins (%)	*17.4%*	*19.0%*	*-8.0%*	*19.9%*	*-12.4%*	
Depreciation	19.7	20.1	*-1.8%*	16.1	*22.1%*	
PBIT	**101.8**	**106.8**	***-4.7%***	**98.9**	***3.0%***	
Interest	0.2	2.9	*-94.9%*	3.5	*-95.7%*	
Other Income	2.3	4.3	*-44.9%*	1.8	*28.6%*	Overall yields have gone up and some rupee debt has been repaid which reduced the interest cost
PBT	**104.0**	**108.2**	***-3.9%***	**97.2**	***6.9%***	
Tax	20.1	21.2	*-5.2%*	20.3	*-1.3%*	Tax rate has declined because of commissioning of Sikkim facility
Tax rate (%)	*19.3%*	*19.6%*		*20.9%*		
PAT	**83.9**	**87.0**	***-3.6%***	**76.9**	***9.1%***	
Minority Interest	0.7	0.8		0.0		
EO items	22.9	11.5		0.0		Forex loss shifted to AS 30 from AS 11
PAT reported	**60.2**	**74.7**	***-19.4%***	**76.9**	***-21.7%***	
margins (%)	*8.6%*	*11.2%*		*13.3%*		
No of Shares	8.5	8.5		8.5		
EPS	**7.1**	**8.8**	***-19.4%***	**9.1**	***-21.7%***	

Financials

P&L (Rs. Cr)	FY10A	FY11A	FY12E	FY13E
Net Sales	**1832.9**	**2121.9**	**2485.3**	**2880.6**
% change	*15.5%*	*15.8%*	*17.1%*	*15.9%*
Other Op Income	83.1	104.5	99.1	118.0
EBITDA	**420.8**	**409.2**	**516.9**	**599.7**
EBITDA margin	*22.0%*	*18.4%*	*20.0%*	*20.0%*
Depn & Amort	66.1	62.6	73.8	86.6
Operating income	**354.7**	**346.6**	**443.1**	**513.1**
Interest	16.5	12.1	27.2	24.5
Other Income	9.0	8.1	15.0	16.0
PBT	**347.2**	**342.6**	**430.9**	**504.7**
Tax	116.0	72.5	81.9	95.9
EO	0.0	0.0	0.0	0.0
PAT	**231.2**	**270.1**	**349.0**	**408.8**
Sh o/s - Diluted	8.5	8.5	8.5	8.5
Adj EPS	27.3	31.9	41.2	48.3
Cash EPS	35.1	39.3	50.0	58.5

Quarterly (Rs. Cr)	Dec.10	Mar.11	June.11	Sept.11
Revenue	**577.5**	**526.4**	**647.5**	**669.6**
EBITDA	**115.0**	**64.5**	**153.1**	**126.9**
Dep & Amorz	16.1	16.7	20.2	20.1
Op Income	**98.9**	**47.8**	**132.9**	**106.8**
Interest	3.5	2.8	4.1	2.9
Other Inc.	1.8	1.6	2.4	4.3
PBT	**97.2**	**46.6**	**131.3**	**108.2**
Tax	20.3	3.7	28.7	21.2
MI & EO	0.0	0.0	1.5	12.3
PAT	**76.9**	**42.8**	**101.1**	**74.7**
EPS (Rs.)	9.1	5.1	11.9	8.8

Performance Ratio	FY10A	FY11A	FY12E	FY13E
EBITDA margin (%)	22.0%	18.4%	20.0%	20.0%
EBIT margin (%)	18.5%	15.6%	17.1%	17.1%
PAT margin (%)	12.1%	12.1%	13.5%	13.6%
ROE (%)	27.8%	26.4%	27.2%	25.8%
ROCE (%)	18.5%	18.2%	21.1%	21.6%

Valuation Ratio	FY10A	FY11A	FY12E	FY13E
Price Earnings (x)	20.1	17.2	13.3	11.4
Price/BV (x)	0.7	0.5	0.4	0.3
EV / Sales	2.5	2.1	1.9	1.6
EV / EBITDA	11.4	11.6	9.4	7.9

Balance Sheet (Rs Cr)	FY10A	FY11A	FY12E	FY13E
Share Capital	42.3	42.3	42.3	42.3
Reserves & Surplus	788.7	980.1	1239.2	1542.8
Minority	0.0	1.6	1.6	1.6
Net Worth	831.0	1024.0	1283.1	1586.7
Net Deferred Tax Liab	**49.9**	**48.0**	**48.0**	**48.0**
Total Loans	**522.4**	**572.1**	**517.1**	**462.1**
Total Liabilities	**1403.3**	**1644.0**	**1848.2**	**2096.8**
Net Fixed Assets	**541.1**	**635.5**	**827.2**	**953.7**
Capital WIP	**74.6**	**181.8**	**116.4**	**103.3**
Adv for Capex	**35.2**	**36.8**	**36.8**	**36.8**
Investments	**141.2**	**146.0**	**146.0**	**146.0**
Cash & Bank	388.3	478.8	306.1	360.1
Debtors & Other CA	772.4	1055.8	1032.3	1189.4
CL & P	549.6	890.7	616.5	692.5
Net CA	**611.1**	**643.9**	**721.9**	**857.0**
Total Assets	**1403.3**	**1644.0**	**1848.2**	**2096.8**

Cash Flow (Rs. Cr)	FY10A	FY11A	FY12E	FY13E
Operating Cash Flow				
Net Profit before tax	420.8	409.2	516.9	599.7
Change in WC	-1.7	42.9	-250.6	-81.2
Tax	-70.5	-75.4	-81.9	-95.9
CF from Operation	**348.5**	**376.7**	**184.4**	**422.7**
Investing Activities				
Capex	-148.7	-260.1	-200.0	-200.0
Oth Inc & Investments	7.3	3.3	15.0	16.0
CF from Investing	**-141.4**	**-256.8**	**-185.0**	**-184.0**
Financing				
Diviend Paid	-59.2	-78.7	-89.8	-105.2
Share Capital	0.0	0.0	0.0	0.0
Loans & Others	10.4	49.3	-82.2	-79.5
CF from Financing	**-48.8**	**-29.4**	**-172.1**	**-184.7**
Net Chg. in Cash	158.3	90.5	-172.7	54.0
Cash at beginning	230.0	388.3	478.8	306.1
Cash at end	388.3	478.8	306.1	360.1

Per Share Data	FY10A	FY11A	FY12E	FY13E
Adj EPS	27.3	31.9	41.2	48.3
BV per share	98.2	120.8	151.4	187.3
Cash per share	27.2	45.9	56.6	36.2
Dividend per share	6.0	8.0	9.1	10.6

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