

August 2, 2010

BUY

Price	Target Price
Rs565	Rs650
Sensex	17,868

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	12	28	157
Rel. to Sensex	2	9	17	121

Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Reuters	TORP.BO
Bloomberg	TRP@IN
Equity Capital (Rs mn)	423
Face Value (Rs)	5
No of shares o/s (mn)	85
52 Week H/L (Rs)	600/197
Market Cap (Rs bn /USD mn)	48/1,032
Daily Avg Vol (No of shares)	105305
Daily Avg Turnover (US\$ mn)	1.3

Shareholding Pattern (%)

	M'10	D'09	S'09
Promoters	71.5	71.5	71.5
FII/NRI	6.6	6.7	7.1
Institutions	7.2	7.0	6.7
Private Corp	6.5	6.2	5.7
Public	8.2	8.7	9.1

Source: Capitaline

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- Revenue growth is marginally below our estimates on account of 12% decline in CMO business and lower than expected growth in domestic formulation business
- Despite higher employee cost, company's OPM was better than expected (21.4% vs. est. of Rs20.4%)
- PBT in line with estimates. Higher tax provision impacted PAT (Rs777mn vs. est. of Rs802mn)
- Maintain earnings; role-over valuation on FY12; raise target price to Rs650; re-iterate Buy

Revenue at Rs5.3bn is marginally below our estimates of Rs5.4bn

Torrent's Q1FY11 revenue grew by 13% to Rs5.3bn, marginally below our expectations of Rs5.4bn (ex other op. income). The lower than expected growth in the revenue was on account of 12% decline in contract manufacturing business (revenue of Rs441mn vs. est. of Rs561mn) and lower than expected growth in domestic formulation business (13% vs. est. of 18%). Ex- CMO, the business grew by 15%. The lower growth in domestic formulation business is because of price reduction which company took on some of its products. In fact volume growth for the quarter was 16% (in-line with the previous quarters), however, price cut has impacted 3% growth in value. As per ORG, represented market growth of Torrent Pharma is 21% for the quarter which is in-line with the industry growth of 23%. Export formulation business did better than expected and grew by 18% to Rs2.65bn vs. est. of Rs2.48bn driven by a) 37% growth in Lat Am markets to Rs906mn (21% in CER), b) 50% growth in US to Rs281mn (54% in CER), c) 29% growth in RoE to Rs442mn and d) 27% growth in Russia to Rs167mn. Heumann revenue during the quarter grew by 3% to Rs697mn (17% in CER) driven by new supplies of tender products.

Revenue break-up

	Q1FY11	Q1FY10	Y-o-Y Gr.(%)	Q4FY10	Q-o-Q Gr.(%)
Sales in India	2,700	2489.7	8	2141.6	26
Branded business	2245.9	1,987	13	1662.2	35
Contract Mfg	440.7	500	-12	476.8	-8
Others	13.2	3	340	2.6	408
Sales outside India	2,649	2,247	18	2419.1	10
Total	5,349	4,737	13	4560.7	17

Financials

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	16,302	2,999	18.4	1,844	21.8	36.9	31.7	25.9	16.8	7.3
FY10	19,160	4,208	22.0	2,582	30.5	40.0	34.8	20.7	11.7	5.7
FY11E	21,693	4,551	21.0	3,131	37.0	21.2	32.6	15.3	10.6	4.4
FY12E	25,700	5,500	21.4	3,922	46.3	25.3	31.6	12.2	8.5	3.4

EBIDTA Margins at 21.4% is better than expectations of 20.4%

Despite 170bps increase in the employee cost, operating margins for the quarter was up by 140bps to 21.4% (est. of 20.4%) driven by a) 90bps reduction in RM cost because of higher contribution of branded formulation business and b) 210bps reduction in other expenditures due to operational leverage and lower R&D cost (postponement of clinical trials in NCE). 25% increase in employee cost is mainly because of field force expansion in India (added 500 people in second half FY10) and Mexico (35 people). Going forwards, we expect its operating margins to remain subdued in FY11E because of new recruitment in India, Brazil and Mexico, the benefit of which will start reflecting from FY12E onwards.

PBT at Rs1012mn is in-line, higher tax provision impacted APAT

Despite 26% increase in depreciation cost to Rs142mn (est. of Rs130mn), PBT for the quarter of Rs1012mn (up 16% YoY) was in-line with our expectations of Rs1002mn. However, higher tax provision (24.2% of PBT vs. est. of 20%) has impacted the PAT expectations of Rs802mn. Management has indicated for a tax rate of 20% on PBT for the whole year. The APAT for the quarter grew by 15% to Rs777mn. EPS for the quarter works out to be Rs9.2 (est. of Rs9.5). Company has incurred MTM loss of Rs35mn on outstanding ECBs (short term borrowings- 100% hedged, long term borrowings- 80% covered, 20% open). Company has total debt of Rs3.4bn and a cash of Rs6.7bn as on 30th June 2010. Company has guided for a capex of Rs6bn over the next three years largely funded through internal accruals. Company has hedged 90% of its receivable for next 12 months at an average rate of Rs47 to a dollar and Rs61 to a Euro. The un-realized gain on forward contracts is Rs170mn which has not been accounted.

Maintain earning estimates; re-iterate buy

Despite below expectation performance, we maintain our earning estimates of Rs37 and Rs46.3 for FY11E/FY12E. Going forward, we expect TPL to continue to report high revenue and earnings growth driven by a) 18% CAGR growth in India, b) 19% CAGR growth in Brazil, c) Ramp-up in the US and c) upside from alliances. Though in the short term, we expect margins to remain subdued because of various initiatives which company has taken in India, Brazil and Mexico. However, in FY12E, we expect most of these initiatives to start contributing meaningfully and with upside from alliances in the emerging markets, we expect significant growth in FY12E, FY13E and FY14E. With 21% earnings CAGR over FY10-12E, superior return profile (in excess of 30%) and strong balance sheet, we continue to remain positive on the stock. Role-over target price on FY12E and raise it to Rs650 (14x FY12E) from our earlier price of Rs630. Torrent pharma is one of our preferred bet in mid-cap pharma space. We re-iterate our Buy rating.

Key Financials – Quarterly

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Revenue	4,811	4,796	4,800	4,753	5,410	12.5	13.8
Expenditure	3,848	3,614	3,707	3,784	4,254	10.6	12.4
<i>as % of sales</i>	<i>80.0</i>	<i>75.3</i>	<i>77.2</i>	<i>79.6</i>	<i>78.6</i>		
Consumption of RM	1,502	1,368	1,417	1,423	1,640	9.2	15.3
<i>as % of sales</i>	<i>31.2</i>	<i>28.5</i>	<i>29.5</i>	<i>29.9</i>	<i>30.3</i>		
Employee Cost	740	766	766	889	923	24.6	3.8
<i>as % of sales</i>	<i>15.4</i>	<i>16.0</i>	<i>16.0</i>	<i>18.7</i>	<i>17.1</i>		
Other expenditure	1,605	1,480	1,524	1,473	1,691	5.4	14.8
<i>as % of sales</i>	<i>33.4</i>	<i>30.9</i>	<i>31.7</i>	<i>31.0</i>	<i>31.3</i>		
EBITDA	963	1,182	1,093	969	1,156	20.1	19.3
Depreciation	113	127	122	300	142	26.1	(52.6)
EBIT	850	1,056	971	669	1,014	19.3	51.6
Other Income	21	7	24	39	22	4.7	(42.2)
Interest	30	59	30	47	24	(18.1)	(47.9)
PBT	842	1,004	965	661	1,012	20.2	53.1
Total Tax	162	264	136	69	235	44.6	238.3
Adjusted PAT	679	740	829	591	777	14.4	31.4
APAT after MI	679	740	829	591	777	14.4	31.4
Extra ordinary items	529				35		
Reported PAT	151	740	829	591	742	392.2	25.5
FD EPS	8.0	8.7	9.8	7.0	9.2	14.4	31.4
Margins (%)						(bps)	(bps)
EBIDTA	20.0	24.7	22.8	20.4	21.4	135	99
EBIT	17.7	22.0	20.2	14.1	18.7	107	467
EBT	17.5	20.9	20.1	13.9	18.7	121	480
PAT	14.1	15.4	17.3	12.4	14.4	24	192
Effective Tax rate	19.3	26.3	14.1	10.5	23.2	391	1270

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	16,302	19,160	21,693	25,700
<i>Growth (%)</i>	20.3	17.5	13.2	18.5
Expenditure	13,303	14,952	17,143	20,200
Raw Materials	5,353	5,710	6,508	7,684
SGA	4,810	5,434	6,192	7,296
Employee Cost	2,565	3,162	3,688	4,343
Other Exp	575	648	755	876
EBITDA	2,999	4,208	4,551	5,500
<i>Growth (%)</i>	43.5	40.3	8.1	20.9
EBITDA margin (%)	18.4	22.0	21.0	21.4
Depreciation	423	661	570	652
EBIT	2,576	3,547	3,980	4,848
EBIT margin (%)	15.8	18.5	18.3	18.9
Other Income	238	90	198	233
Interest expenses	393	165	265	178
PBT	1,922	3,742	3,913	4,902
Tax	78	1,160	783	980
<i>Effective tax rate (%)</i>	4.1	31.0	20.0	20.0
Adjusted PAT	1,844	2,582	3,131	3,922
(Profit)/loss from JV's/Ass/MI	0	0	0	0
Adjusted PAT after MI	1,844	2,582	3,131	3,922
<i>Growth (%)</i>	36.9	40.0	21.2	25.3
Net Margin (%)	11.3	13.5	14.4	15.3
E/O items	-500	270	0	0
Reported PAT	1,844	2,582	3,131	3,922
<i>Growth (%)</i>	36.9	40.0	21.2	25.3

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	1,684	3,652	3,715	4,670
Depreciation	423	661	570	652
Interest Provided	393	165	265	178
Other Non-Cash items	0	0	0	0
Chg in working cap	-510	128	-737	-518
Tax paid	-120	-1,160	-783	-980
Operating Cashflow	1,870	3,446	3,031	4,001
Capital expenditure	-550	-1,422	-1,500	-1,500
Free Cash Flow	1,320	2,024	1,531	2,501
Other income	238	90	198	233
Investments	-849	0	0	0
Investing Cashflow	-1,160	-1,332	-1,302	-1,267
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	1,228	-1,100	-1,100	-1,100
Interest Paid	-393	-165	-265	-178
Dividend paid (incl tax)	-396	-446	-495	-545
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	439	-1,711	-1,861	-1,823
Net chg in cash	1,117	102	-263	623
Opening cash position	1,183	2,300	2,402	2,139
Closing cash position	2,300	2,402	2,139	2,762

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	423	423	423	423
Reserves & surplus	6,086	7,921	10,424	13,514
Net worth	6,509	8,344	10,847	13,937
Minority Interest	0	0	0	0
Secured Loans	3,183	2,583	1,983	1,383
Unsecured Loans	1,643	1,143	643	143
Loan Funds	4,826	3,726	2,626	1,526
Net deferred tax liability	584	584	584	584
Total Liabilities	11,919	12,654	14,057	16,047
Gross Block	7,206	8,456	9,956	11,456
Less: Depreciation	2,093	2,582	3,152	3,804
Net block	5,113	5,874	6,804	7,653
Capital work in progress	534	534	534	534
Investment	1,395	1,395	1,395	1,395
Current Assets	9,533	10,492	11,087	13,137
Inventories	2,645	3,123	3,493	4,112
Sundry debtors	2,666	3,257	3,688	4,369
Cash & bank balance	2,300	2,402	2,139	2,762
Loans & advances	1,922	1,709	1,767	1,894
Other current assets	0	0	0	0
Current lia & Prov	4,656	5,641	5,763	6,672
Current liabilities	3,743	3,520	3,969	4,631
Provisions	913	2,121	1,793	2,041
Net current assets	4,876	4,851	5,324	6,465
Misc. exp & Def. Assets	0	0	0	0
Total Assets	11,919	12,654	14,057	16,047

Key ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	18.4	22.0	21.0	21.4
Net Margin	11.3	13.5	14.4	15.3
ROCE	28.1	31.1	32.7	35.1
ROE	31.7	34.8	32.6	31.6
RoIC	29.9	26.2	30.3	32.3
Per Share Data (Rs)				
EPS	21.8	30.5	37.0	46.3
CEPS	26.8	38.3	43.7	54.0
BVPS	76.9	98.6	128.2	164.7
DPS	4.0	4.5	5.0	5.5
Valuations (x)				
PER	25.9	20.7	15.3	12.2
P/CEPS	21.1	14.7	12.9	10.5
P/BV	7.3	5.7	4.4	3.4
EV / Sales	3.1	2.6	2.2	1.8
EV / EBITDA	16.8	11.7	10.6	8.5
Dividend Yield (%)	0.7	0.8	0.9	1.0
Gearing Ratio (x)				
Net Debt/ Equity	0.4	0.2	0.0	-0.1
Net Debt/EBIDTA	0.8	0.3	0.1	-0.2
Working Cap Cycle (days)	78	87	84	82

Recommendation History: Torrent Pharma – TRP IN

Date	Reports	Reco	CMP	Target
10.05.2010	Torrent Pharma Q4FY10 Result Update	Buy	520	630
28.01.2010	Torrent Pharma Q3FY10 Result Update	Buy	420	538
03.11.2009	Torrent Pharma Q2FY10 Result Update.pdf	Buy	328	390

Recent Research Reports

Date	Reports	Reco	CMP	Target
29.07.2010	Sun Pharma Q1FY11 Result Update	Hold	1,775	1,866
29.07.2010	Lupin Pharma Q1FY11 Result Update	Accumulate	1,920	2,111
28.07.2010	Jubilant Organosys Q1FY11 Result Update	Buy	352	455
28.07.2010	Glenmark Pharma Q1FY11 Result Update	Hold	285	308

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