

20 January 2011

MF Global Quarterly Report

Torrent Pharma

| In-line quarter, sequential improvement in core margins encouraging

PHARMACEUTICALS
TRP IN: **BUY**
RS 588

Torrent Pharma's (TPL) Q3FY11 results were in line with estimates. Export formulations witnessed a growth of 19%, led by US (32% growth to Rs 355mn), Germany (15% growth, Rs 760mn) and Latin America (14% growth to Rs 1bn). Domestic formulations reported a growth of 17%, marginally below estimates, impacted by weak October '10 sales for the industry. Other operating income has a forex gain of Rs 70mn as against Rs 35mn in Q3FY10.

Gross margins declined 100bps to 69.3%, mainly impacted by weak margins from Germany (tender-based competitive market) and currency fluctuations. Core EBITDA margins have been under some pressure in the last few quarters, impacted by investments in the domestic market (addition of over 1,000 medical reps to 3650 and increasing SG & A costs) and exports—US (filed 4 ANDAs this quarter, approved 25 till date, likely to break even in FY12), Mexico (recently entered) and it plans to enter Romania and UK shortly. Core EBITDA margins declined 350bps YoY to 16.6%, but have improved 70bps sequentially, which is an encouraging sign.

We believe that margin pressure could last for another one or two more quarters before we start seeing the benefits of the investments coming through some time in H2FY12. The company is also incurring a capex of Rs 3-Rs 3.5bn annually for setting up a formulation facility at Dahej and increasing its API capacity. We introduce FY13E numbers and marginally cut our FY12E numbers. We estimate a robust earnings growth of 20% over FY11-FY13, driven by India, US, Brazil and emerging markets. Contribution from the supply agreement with Astra Zeneca (18 products for 9 branded generic markets) is likely to start in FY13. We maintain our price target of Rs 667, valuing the stock at 14x 1-year forward earnings. We maintain our BUY rating on the stock.

VALUATION SUMMARY

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
NET SALES	15,865	18,329	20,904	24,568	28,721
GROWTH, %	20.9	15.5	14.0	17.5	16.9
EBIDTA	2,999	4,087	4,570	5,504	6,651
EBIDTA MARGINS, %	18.9	22.3	21.9	22.4	23.2
NET PROFIT	2,193	2,228	2,958	3,553	4,322
NET PROFIT MARGIN, %	13.8	12.2	14.2	14.5	15.0
EPS, RS	25.9	26.3	35.0	42.0	51.1
EPS GROWTH, %	57.8	1.6	32.8	20.1	21.6
PER, X	22.7	22.3	16.8	14.0	11.5
EV/EBIDTA, X	17.4	12.5	11.0	8.9	7.0
EV/NET SALES, X	3.3	2.8	2.4	2.0	1.6
PRICE/BOOK VALUE, X	7.6	6.0	4.7	3.8	3.0
ROIC, %	26.2	24.1	28.4	29.7	32.4
ROE, %	37.8	30.1	31.4	29.9	29.0
DIVIDEND YIELD, %	0.7	1.0	1.3	1.4	1.7

Source: Company, MF Global India Research Estimates

TARGET RS 667 (+13%)

SECTOR RATING

OW	N	UW

STOCK RATING

BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	85MN
MARKET CAP (RS) :	52BN
MARKET CAP (USD) :	1.1BN
52 - WK HI/LO (RS) :	624 / 385
LIQUIDITY 3M (USD) :	1.4MN
FACE VALUE (RS) :	5

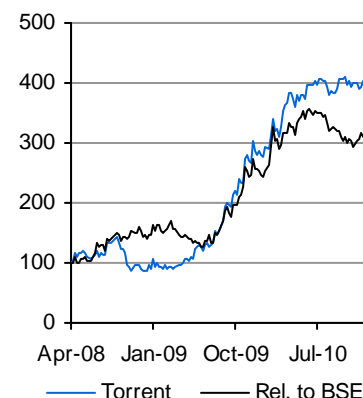
SHARE HOLDING PATTERN, %

PROMOTERS :	71.5
FII / NRI :	3.8
FI / MF :	11.6
NON-PROMOTER CORP. HOLDINGS :	3.7
PUBLIC & OTHERS :	9.4

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	9.2	10.9	46.0
REL TO BSE	13.7	16.0	37.5

PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

REVENUE MIX

RS MN	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
NET SALES	4,642	4484	5,254	5,519	5,548
INCOME FROM OPERATIONS	159	269	156	296	227
NET SALES & INCOME FROM OPERATIONS	4,801	4,753	5,410	5,815	5,775
CHANGE, %	11.0	17.4	12.5	21.2	20.3
TOTAL EXPENDITURE					
A) RAW MATERIAL COST	1417	1429	1640	1832	1771
GROSS PROFIT	3,384	3,330	3,770	3,983	4,005
GROSS MARGIN	70.5	70.1	69.7	68.5	69.3
B) STAFF COST	766.4	888.8	922.5	990.8	979.2
C) OTHER EXPENDITURE	1,524	1,473	1,726	1,817	1875
TOTAL EXPENDITURE	3,707	3,784	4,289	4,640	4,625
EBITDA	1,094	969	1,121	1,175	1,150
EBITDA MARGIN	22.8	20.4	20.7	20.2	19.9
CHANGE, %	49.1	84.0	16.4	-0.6	5.2
CORE EBITDA	935	700	965	880	923
CORE EBITDA MARGINS, %	20.1	15.6	18.4	15.9	16.6
% CHANGE	51.7	68.2	19.1	-5.5	-1.3
DEPRECIATION	122	300	142	155	161.3
OTHER INCOME	23.7	38.6	22.3	24.8	18.2
INTEREST	29.8	46.8	24.4	33.8	34.5
PBT	966	661	977	1,012	972
TAX	136	69	235	250	203
TAX RATE, %	14.1	10.5	24.0	24.7	20.9
PAT	830	591	742	762	769
CHANGE, %	63.6	63.8	390.9	3.0	-7.3
EPS, RS	9.8	7.0	8.8	9.0	9.1

Source: Company

QUARTERLY RESULTS

RS MN	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
BRANDED BUSINESS	1830	1662	2246	2211	2138
CONTRACT MANUFACTURING	432	477	441	565	594
OTHERS	5	3	13	7	4
TOTAL SALES IN INDIA (A)	2266	2142	2700	2782	2736
SALES OUTSIDE INDIA (B)	2460	2419	2649	2839	2916
LATIN AMERICA	890	768	885	1000	1020
GERMANY (HEUMANN)	664	596	692	720	760
USA	268	244	270	310	356
EUROPE (EXCL HEUMANN), ROW, RUSSIA	643	742	718	809	780
TOTAL SALES (A+B)	4726	4561	5349	5622	5651
LESS: EXCISE DUTY	84	77	95	102	103
NET SALES	4642	4484	5254	5519	5548

Source: Company

FINANCIALS

INCOME STATEMENT

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
NET SALES	15,865	18,329	20,904	24,568	28,721
GROWTH, %	21	16	14	18	17
OTHER INCOME	441	711	450	450	450
TOTAL INCOME	16,307	19,040	21,354	25,018	29,171
OPERATING EXPENSES	-13,307	-14,953	-16,784	-19,514	-22,520
EBITDA (CORE)	2,999	4,087	4,570	5,504	6,651
GROWTH, %	43.5	36.3	11.8	20.4	20.8
MARGIN, %	18.9	22.3	21.9	22.4	23.2
DEPRECIATION	-423	-661	-728	-905	-1,088
EBIT	2,577	3,426	3,841	4,599	5,562
GROWTH, %	51.4	33.0	12.1	19.7	21.0
MARGIN, %	16.2	18.7	18.4	18.7	19.4
INTEREST PAID	-190	-291	-335	-373	-406
OTHER NON-OPERATING INCOME	35	216	191	216	246
NON-RECURRING ITEMS	-350	84	0	0	0
PRE-TAX PROFIT	2,072	3,436	3,697	4,442	5,403
TAX PROVIDED	-228	-1,124	-739	-888	-1,081
PROFIT AFTER TAX	1,844	2,312	2,958	3,553	4,322
NET PROFIT	1,844	2,312	2,958	3,553	4,322
MF NET PROFIT	2,193	2,228	2,958	3,553	4,322
GROWTH, %	57.8	1.6	32.8	20.1	21.6
NET PROFIT (ADJUSTED)	2,193	2,228	2,958	3,553	4,322
EXTRAORDINARY ITEMS: GAINS/(LOSSES)	0	0	0	0	0
UNADJ. SHARES (M)	85	85	85	85	85
WTD AVG SHARES (M)	85	85	85	85	85

CASH FLOW

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
PRE-TAX PROFIT	2,072	3,436	3,697	4,442	5,403
DEPRECIATION	423	661	728	905	1,088
CHG IN WORKING CAPITAL	-552	100	-878	-1,090	-925
TOTAL TAX PAID	-276	-1,156	-696	-909	-1,092
CASH FLOW FROM OPERATING ACTIVITIES	1,667	3,041	2,852	3,348	4,474
CAPITAL EXPENDITURE	-549	-1,524	-1,425	-1,288	-1,331
CHG IN INVESTMENTS	-849	-17	0	0	0
CASH FLOW FROM INVESTING ACTIVITIES	-1,398	-1,541	-1,425	-1,288	-1,331
FREE CASH FLOW	269	1,500	1,427	2,061	3,143
EQUITY RAISED/(REPAID)	-34	81	0	0	0
DEBT RAISED/(REPAID)	1,228	398	271	500	500
DIVIDEND (INCL. TAX)	-346	-396	-592	-742	-841
CASH FLOW FROM FINANCING ACTIVITIES	847	83	-321	-242	-341
NET CHG IN CASH	1,116	1,583	1,106	1,818	2,801

BALANCE SHEET

AS AT 31ST MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
CASH & BANK	2,300	3,883	4,989	6,808	9,609
MARKETABLE SECURITIES AT COST	0	0	0	0	0
DEBTORS	2,666	2,982	3,502	4,378	5,105
INVENTORY	2,645	3,236	3,647	4,245	4,698
LOANS & ADVANCES	1,578	1,138	1,422	1,778	2,222
OTHER CURRENT ASSETS	344	368	405	445	490
TOTAL CURRENT ASSETS	9,534	11,607	13,966	17,655	22,124
INVESTMENTS	1,395	1,412	1,412	1,412	1,412
GROSS FIXED ASSETS	7,206	8,129	9,804	11,266	12,685
LESS: DEPRECIATION	-2,094	-2,718	-3,446	-4,351	-5,440
ADD: CAPITAL WIP	534	1,098	849	675	587
NET FIXED ASSETS	5,647	6,510	7,207	7,589	7,832
NON-CURRENT ASSETS	0	0	0	0	0
TOTAL ASSETS	15,991	19,030	22,135	26,256	31,018
CURRENT LIABILITIES	3,743	4,216	4,559	5,306	6,015
PROVISIONS	913	1,280	1,555	1,717	1,939
TOTAL CURRENT LIABILITIES	4,656	5,496	6,114	7,024	7,954
NON-CURRENT LIABILITIES	4,826	5,224	5,495	5,995	6,495
TOTAL LIABILITIES	9,482	10,720	11,609	13,019	14,449
PAID-UP CAPITAL	423	423	423	423	423
RESERVES & SURPLUS	6,086	7,887	10,102	12,814	16,146
SHAREHOLDERS' EQUITY	6,509	8,310	10,525	13,237	16,569
TOTAL EQUITY & LIABILITIES	15,991	19,030	22,134	26,256	31,018

PER-SHARE DATA

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
MF EPS (INR)	25.9	26.3	35.0	42.0	51.1
GROWTH, %	57.8	1.6	32.8	20.1	21.6
BOOK NAV/SHARE (INR)	76.9	98.2	124.4	156.4	195.8
FDEPS (INR)	25.9	26.3	35.0	42.0	51.1
CEPS (INR)	35.1	33.1	43.6	52.7	63.9
CFPS (INR)	19.3	33.4	31.5	37.0	50.0
DPS (INR)	4.0	6.0	7.5	8.5	10.0

FINANCIAL STRUCTURE

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
TOTAL DEBT/EQUITY (%)	74.1	62.9	52.2	45.3	39.2
NET DEBT/EQUITY (%)	38.8	16.1	4.8	(6.1)	(18.8)

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
RETURN ON ASSETS (%)	14.0	14.3	15.4	15.7	16.0
RETURN ON EQUITY (%)	37.8	30.1	31.4	29.9	29.0
RETURN ON INVESTED CAPITAL (%)	26.2	24.1	28.4	29.7	32.4
ROIC/COST OF CAPITAL (X)	2.9	2.7	3.2	3.4	3.8
ROIC - COST OF CAPITAL (%)	17.2	15.2	19.6	21.0	23.8
RETURN ON CAPITAL EMPLOYED (%)	18.7	19.2	20.6	20.7	21.0
COST OF CAPITAL (%)	9.0	8.9	8.8	8.7	8.6
ROCE - COST OF CAPITAL (%)	9.7	10.3	11.8	12.0	12.3
ASSET TURNOVER (X)	1.8	1.9	1.9	2.0	2.1
SALES/TOTAL ASSETS (X)	1.1	1.0	1.0	1.0	1.0
SALES/NET FA (X)	2.8	3.0	3.0	3.3	3.7
WORKING CAPITAL/SALES (X)	0.2	0.2	0.2	0.2	0.2
FIXED CAPITAL/SALES (X)	-	-	-	-	-
RECEIVABLE DAYS	61.3	59.4	61.1	65.0	64.9
INVENTORY DAYS	60.9	64.4	63.7	63.1	59.7
PAYABLE DAYS	86.0	92.3	92.1	92.2	91.1
CURRENT RATIO (X)	2.3	2.4	2.6	2.8	3.1
QUICK RATIO (X)	1.7	1.7	1.9	2.1	2.4
INTEREST COVER (X)	13.6	11.8	11.5	12.3	13.7
DIVIDEND COVER (X)	6.5	4.4	4.7	4.9	5.1
PER (X)	22.7	22.3	16.8	14.0	11.5
PEG (X) - Y-O-Y GROWTH	0.4	14.3	0.5	0.7	0.5
PRICE/BOOK (X)	7.6	6.0	4.7	3.8	3.0
YIELD (%)	0.7	1.0	1.3	1.4	1.7
EV/NET SALES (X)	3.3	2.8	2.4	2.0	1.6
EV/EBITDA (X)	17.4	12.5	11.0	8.9	7.0
EV/EBIT (X)	20.3	14.9	13.1	10.6	8.4
EV/NOPLAT (X)	18.9	17.2	13.1	10.6	8.4
EV/CE	4.4	3.6	3.0	2.5	2.0
EV/IC (X)	6.0	5.3	4.6	4.0	3.4

Source: Company, MF Global India Research Estimates

RECOMMENDATION HISTORY

RECOMMENDATION	TARGET, RS	CMP, RS	DATE
BUY	667	565	4 OCTOBER 2010

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Rating Rationale

BUY and SELL recommendations are used to draw attention to stocks, which we believe are under-priced or over-priced by circa 15%, that is, price differential of +/- 15% between our price target and the market price. Stocks which do not achieve this price differential are NEUTRAL. Price targets are established in the context of a flat market.

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