

October 25, 2010

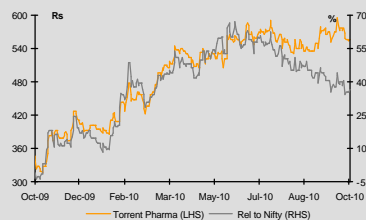
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs558	Rs650
EPS change FY11E/12E (%)	-
Target Price change (%)	-
Nifty	6,066
Sensex	20,166

Price Performance

(%)	1M	3M	6M	12M
Absolute	0	(1)	12	75
Rel. to Nifty	(1)	(12)	(2)	44

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Bloomberg	TRP@IN
Equity Capital (Rs mn)	423
Face Value(Rs)	5
No of shares o/s (mn)	85
52 Week H/L	606/293
Market Cap (Rs bn/USD mn)	48/1,077
Daily Avg Volume (No of sh)	119156
Daily Avg Turnover (US\$m)	1.5

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	71.5	71.5	71.5
FII/NRI	3.8	3.2	6.6
Institutions	11.6	10.0	7.2
Private Corp	3.7	7.0	6.5
Public	9.4	8.3	8.2

Source: Capitaline

Manoj Garg

manoj.garg@emkayglobal.com
+91 22 6612 1257

Ashish Thavkar

ashish.thavkar@emkayglobal.com
+91 22 6612 1254

Rashmi Sancheti

rashmi.sancheti@emkayglobal.com
+91 22 6612 1238

- **Revenue growth is above our estimates on account of 22% increase in domestic formulations and higher than expected growth in the international business**
- **EBITDA margins declined (as estimated) on account of 468bps contraction in gross margins, higher employee cost and other expenses**
- **Higher than expected rise in depreciation and interest impacted PAT (Rs762mn vs. est. of Rs817mn)**
- **Maintain earnings and Buy rating with a target price of Rs650**

Revenues at Rs5.8bn is above our estimate of Rs5.5bn

Torrent's Q2FY11 revenue grew by 21% to Rs5.8bn, above our expectations of Rs5.5bn (including other operating income). The higher than expected growth in the revenue was on account of a) 22% growth in the domestic formulation business (Rs2.2bn vs. est. of Rs2.1bn), b) 16% growth in the CRAMS segment (Rs565mn vs. est. of Rs527mn), and c) 21% growth in exports (Rs2.8bn vs. est. of Rs2.7bn). The higher growth in domestic formulation business was in spite of price reduction which the company took on some of its products. In fact volume growth for the quarter was 20% (higher than previous quarters); however, price cut has impacted 3% growth in value. The company is also witnessing good revenue traction from new therapies. Export formulation business did better than expected and grew by 21% to Rs2.84bn vs. est. of Rs2.72bn driven by a) 17% growth in Brazil market to Rs924mn, b) 51% growth in US to Rs328mn, c) 69% growth in RoE to Rs388mn, d) 27% growth in Europe to Rs393mn, and e) 14% growth in Russia/CIS to Rs129mn. Heumann revenue during the quarter grew by 17% to Rs735mn driven by new supplies of tender products.

Revenue break-up

(Rs mn)	Q2FY11	Q2FY10	Y-o-Y Gr. (%)	Q1FY11	Q-o-Q Gr. (%)
Sales in India	2,782	2,309	21	2,700	3
Branded business	2,211	1,813	22	2,246	-2
Contract Mfg	565	488	16	441	28
Others	7	7	-12	13	-51
Sales outside India	2,839	2,341	21	2,649	7
Total	5,622	4,649	21	5,349	5

Financials

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
Mar										
FY09	16,302	2,999	18.4	2,344	27.7	66.3	31.8	20.1	16.6	7.3
FY10	18,890	3,938	20.8	2,666	31.5	13.8	31.2	17.7	12.3	5.7
FY11E	21,812	4,576	21.0	3,127	37.0	17.3	34.8	15.1	10.5	4.9
FY12E	25,846	5,557	21.5	3,903	46.1	24.8	37.2	12.1	8.6	4.2

EBIDTA margins at 20.2% is below than expectations of 21.3%

Despite 21% growth in top line, EBITDA margins for the quarter declined by 444bps on account of a) 468bps contraction in gross margins, b) 29% increase in employee cost, mainly because of field force expansion in India (added 500 people in second half FY10) and Mexico (35 people), and c) 23% increase in other expenses, largely driven by rise in SGA cost. Going forward, 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.

Higher than expected rise in depreciation and interest cost impacted PAT

Net profit for the quarter was up 3% to Rs762mn (against our expectation of Rs817mn) on account of a) 22% increase in depreciation cost (Rs155mn vs. est. of Rs145mn), b) higher than expected rise in interest cost (Rs34mn vs. est. of Rs25mn) and, c) higher tax provision (24.7% of PBT vs. est. of 20%), due to consolidation at the subsidiary levels. Management has indicated for a tax rate of 20-22% on PBT for the whole year. EPS for the quarter works out to Rs9.0 (est. of Rs9.7) and Rs18.2 for H1FY11 against our full year estimation of Rs37. Company has total debt of Rs5.1bn and a cash of Rs3.82bn as on 30th Sept 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 Rs46-46.5 to a dollar.

Maintain earning estimates; re-iterate buy

Despite below than expected performance on the bottom line, we maintain our earning estimates of Rs37 and Rs46 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 and superior return profile (in excess of 30%), we continue to remain positive on the stock. Maintain our target price of Rs650 (14x FY12E).

Key Financials – Quarterly

Rs mn

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Revenue	4,796	4,800	4,753	5,410	5,815	21.2	7.5
Expenditure	3,614	3,707	3,784	4,254	4,640	28.4	9.1
<i>as % of sales</i>	75.3	77.2	79.6	78.6	79.8		
Consumption of RM	1,368	1,417	1,423	1,640	1,832	34.0	11.7
<i>as % of sales</i>	28.5	29.5	29.9	30.3	31.5		
Employee Cost	766	766	889	923	991	29.3	7.4
<i>as % of sales</i>	16.0	16.0	18.7	17.1	17.0		
Other expenditure	1,480	1,524	1,473	1,691	1,817	22.7	7.4
<i>as % of sales</i>	30.9	31.7	31.0	31.3	31.2		
EBITDA	1,182	1,093	969	1,156	1,175	(0.6)	1.7
Depreciation	127	122	300	142	155	22.4	8.9
EBIT	1,056	971	669	1,014	1,021	(3.3)	0.6
Other Income	7	24	39	22	25	264.7	11.2
Interest	59	30	47	24	34	(42.4)	38.5
PBT	1,004	965	661	1,012	1,012	0.8	(0.0)
Total Tax	264	136	69	235	250	(5.4)	6.3
Adjusted PAT	740	829	591	777	762	3.0	(2.0)
Extra ordinary items				-35			-
Reported PAT	740	829	591	742	762	3.0	2.7
FD EPS	8.7	9.8	7.0	9.2	9.0	3.0	(2.0)

Margins (%)

(bps)

(bps)

EBIDTA	24.7	22.8	20.4	21.4	20.2	(444)	-116
EBIT	22.0	20.2	14.1	18.7	17.6	(446)	-119
EBT	20.9	20.1	13.9	18.7	17.4	(354)	-131
PAT	15.4	17.3	12.4	14.4	13.1	(232)	-126
Effective Tax rate	26.3	14.1	10.5	23.2	24.7	(161)	148

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	16,302	18,890	21,812	25,846
<i>Growth (%)</i>	20.3	15.9	15.5	18.5
Expenditure	13,303	14,953	17,237	20,290
Raw Materials	5,353	5,710	6,544	7,702
SGA	4,810	5,406	6,226	7,338
Employee Cost	2,565	3,162	3,708	4,368
Other Exp	575	675	759	881
EBITDA	2,999	3,938	4,576	5,557
<i>Growth (%)</i>	43.5	31.3	16.2	21.4
EBITDA margin (%)	18.4	20.8	21.0	21.5
Depreciation	423	606	579	642
EBIT	2,576	3,331	3,997	4,915
EBIT margin (%)	15.8	17.6	18.3	19.0
Other Income	238	216	272	241
Interest expenses	393	291	361	278
PBT	1,922	2,943	3,909	4,878
Tax	78	632	782	976
<i>Effective tax rate (%)</i>	4.1	21.5	20.0	20.0
Adjusted PAT	2,344	2,666	3,127	3,903
(Profit)/loss from JV's/Ass/MI	0	0	0	0
Adjusted PAT after MI	2,344	2,666	3,127	3,903
<i>Growth (%)</i>	66.3	13.8	17.3	24.8
Net Margin (%)	14.4	14.1	14.3	15.1
E/O items	-500	-314	0	0
Reported PAT	1,844	2,311	3,127	3,903
<i>Growth (%)</i>	36.9	25.3	35.3	24.8

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	1,684	2,727	3,636	4,637
Depreciation	423	606	579	642
Interest Provided	393	291	361	278
Other Non-Cash items	0	0	0	0
Chg in working cap	-510	348	-116	-538
Tax paid	-120	-705	-782	-976
Operating Cashflow	1,870	3,267	3,678	4,043
Capital expenditure	-550	-1,469	-1,076	-1,605
Free Cash Flow	1,320	1,798	2,602	2,438
Other income	238	216	272	241
Investments	-849	-17	0	0
Investing Cashflow	-1,160	-1,270	-804	-1,364
Equity Capital Raised	-37	81	-1,190	-1,595
Loans Taken / (Repaid)	1,228	398	-1,100	-1,100
Interest Paid	-393	-291	-361	-278
Dividend paid (incl tax)	-396	-592	-594	-644
Income from investments	0	0	0	0
Others	5	-10	0	0
Financing Cashflow	406	-414	-3,245	-3,616
Net chg in cash	1,117	1,583	-370	-937
Opening cash position	1,183	2,300	3,883	3,513
Closing cash position	2,300	3,883	3,513	2,576

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	423	423	423	423
Reserves & surplus	6,086	7,887	9,228	10,893
Net worth	6,509	8,310	9,651	11,316
Minority Interest	0	0	0	0
Secured Loans	3,183	3,646	3,046	2,446
Unsecured Loans	1,643	1,578	1,078	578
Loan Funds	4,826	5,224	4,124	3,024
Net deferred tax liability	584	499	499	499
Total Liabilities	11,919	14,033	14,274	14,839
Gross Block	7,206	8,129	9,629	11,129
Less: Depreciation	2,093	2,717	3,296	3,937
Net block	5,113	5,412	6,334	7,192
Capital work in progress	534	1,098	672	777
Investment	1,395	1,412	1,412	1,412
Current Assets	9,533	11,607	11,944	12,444
Inventories	2,645	3,236	3,512	4,135
Sundry debtors	2,666	2,982	3,708	4,394
Cash & bank balance	2,300	3,883	3,513	2,576
Loans & advances	1,922	1,506	1,211	1,338
Other current assets	0	0	0	0
Current lia & Prov	4,656	5,496	6,087	6,986
Current liabilities	3,743	4,216	4,078	4,734
Provisions	913	1,280	2,009	2,252
Net current assets	4,876	6,111	5,857	5,458
Total Assets	11,919	14,033	14,274	14,839

Key ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	18.4	20.8	21.0	21.5
Net Margin	14.4	14.1	14.3	15.1
ROCE	28.1	28.5	31.3	36.7
ROE	31.8	31.2	34.8	37.2
RoIC	38.9	46.8	52.2	55.4
Per Share Data (Rs)				
EPS	27.7	31.5	37.0	46.1
CEPS	26.8	34.5	43.8	53.7
BVPS	76.9	98.2	114.0	133.7
DPS	4.0	6.0	6.0	6.5
Valuations (x)				
PER	20.1	17.7	15.1	12.1
P/CEPS	21.3	16.5	13.0	10.6
P/BV	7.3	5.7	4.9	4.2
EV / Sales	3.1	2.6	2.2	1.8
EV / EBITDA	16.6	12.3	10.5	8.6
Dividend Yield (%)	0.7	1.1	1.1	1.2
Gearing Ratio (x)				
Net Debt/ Equity	38.8	16.1	6.3	4.0
Net Debt/EBIDTA	0.8	0.3	0.1	0.1
Working Cap Cycle (days)	78	68	73	72

Recommendation History: Torrent Pharma – TRP IN

Date	Reports	Reco	CMP	Target
02.08.2010	Torrent Pharma Q1FY11 Result Update	Buy	565	650
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	Buy	328	390

Recent Research Reports

Date	Reports	Reco	CMP	Target
25/10/2010	Dr Reddy's Lab Q2FY11 Result Update	Accumulate	1,616	1,763
25/10/2010	Pirmal Healthcare Q2FY11 Result Update	Hold	515	531
22/10/2010	Ipca Lab Q2FY11 Result Update	Buy	298	336
20/10/2010	Cadila Healthcare Q2FY11 Result Update	Accumulate	680	720

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.