

**Industrials**  
**Pharmaceuticals**  
 Equity – India

## Overweight

Target price (INR)	715.00
Share price* (INR)	616.55
Forecast dividend yield (%)	1.0
Potential return (%)	17

Note: Potential return equals the percentage difference between the current share price and the target price, plus the forecast dividend yield

Performance	1M	3M	12M
Absolute (%)	-1.4	10.1	1.7
Relative^ (%)	6.1	24.6	15.4

Index^ BOMBAY SE IDX

RIC TORP.BO  
 Bloomberg TRP IN

Market cap (USDm) 982  
 Market cap (INRm) 53,515

Enterprise value (INRm) 50,169  
 Free float (%) 28

\* Return calculated on 21 May 2012 closing price

21 May 2012

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 with the disclosures and  
 the analyst certifications in  
 the Disclosure appendix,  
 and with the Disclaimer,  
 which forms part of it

# Torrent Pharma (TRP IN)

OW: Weak quarter, staying Overweight

- ▶ **Reported net loss includes one-time provisional charge for future sales return; excluding that, EBITDA is in-line with estimate**
- ▶ **Indian sales continue to suffer from slow acute growth, Brazil, US, and Germany in-line; exports outlook strong on favorable INR and turnaround in markets**
- ▶ **Maintaining OW, dropping V-flag, rolling TP to Mar-13; revised TP to INR715 (13x Mar-14 EPS) from INR680**

**TRP reported 4QFY12 net loss of INR16.5m**, due to a one-time INR654m provision for estimated future sales returns. Sales growth was healthy at 32% yoy in the quarter aided by strong growth in exports courtesy of a weak INR. EBITDA at INR850m was in-line with our estimates. Q4 is a seasonally weak quarter on margins. EBITDA margins at 12.6% in Q4 against 21.6% average in first three quarters were largely in-line though partly impacted by higher costs related to user fees and higher staff costs.

**India remains stifled, exports shine on weak rupee:** India formulations grew 11% yoy in 4QFY12 to INR2bn, 3% lower than our estimate, suffering from continuing weakness in acute segment. The company has added another division in anti-infectives to increase focus and attention to key brands. Export formulations grew 47% yoy during the quarter. US contributed INR630m of sales (53% yoy) while Brazil sales contributed INR1.2bn (28% yoy, 52% in constant currency term). Constant currency growth in the exports was c18%. Heumann sales grew 4% yoy to INR848m while contract manufacturing revenues at INR799m grew at healthy 25% yoy.

**Turnaround in key markets and favorable currency are triggers:** We believe that while near-term upside is limited due to continued headwinds in India (which forms c40% of sales) and higher tax outflows owing to revision in tax guidance post recent budget, weak INR and new launches in US will benefit in next few quarters. We remain OW on the stock, while dropping the V-flag. We have revised our model and increased our tax assumption to 22% from 20% previously while at the same time, we built in a slower ramp up in India in FY13. Our EPS estimates changes by -3.5% and -0.8% in FY13 and FY14, respectively. At the current price, the stock is trading at 13.3x FY13e and 11.2x FY14e EPS. We expect the US to turn materially profitable in FY13 given couple of interesting opportunities including escitalopram oxalate, montelukast chewable tablets in later part of the year. Our target price of INR715 is based on 13x Mar-14 EPS of INR55. Key risks in our view remain sluggish growth of domestic formulation business and slowdown in Brazil growth.

## Financials & valuation

### Financial statements

Year to	03/2011a	03/2012e	03/2013e	03/2014e
<b>Profit &amp; loss summary (INRm)</b>				
Revenue	22,265	26,959	31,235	36,343
EBITDA	4,092	5,007	5,827	6,772
Depreciation & amortisation	-626	-817	-900	-1,000
Operating profit/EBIT	3,466	4,189	4,927	5,772
Net interest	-121	-395	-250	-250
PBT	3,427	3,564	5,027	5,972
HSBC PBT	3,427	3,564	5,027	5,972
Taxation	-725	-723	-1,106	-1,314
Net profit	2,702	2,840	3,921	4,658
HSBC net profit	2,702	2,840	3,921	4,658

### Cash flow summary (INRm)

Cash flow from operations	3,904	5,360	5,557	4,408
Capex	-2,657	-1,432	-2,500	-2,000
Cash flow from investment	-2,708	-1,159	-2,500	-2,000
Dividends	-486	-511	-509	-509
Change in net debt	-456	-2,854	-2,549	-1,900
FCF equity	1,166	4,158	2,707	1,958

### Balance sheet summary (INRm)

Intangible fixed assets	553	553	553	553
Tangible fixed assets	7,988	8,603	10,203	11,203
Current assets	16,806	21,323	23,318	28,274
Cash & others	6,248	7,983	10,032	11,433
Total assets	25,347	30,479	34,074	40,030
Operating liabilities	8,907	13,390	14,073	16,379
Gross debt	5,721	4,602	4,102	3,603
Net debt	-527	-3,381	-5,930	-7,830
Shareholders funds	10,224	11,938	15,351	19,500
Invested capital	10,193	9,106	9,969	12,219

### Ratio, growth and per share analysis

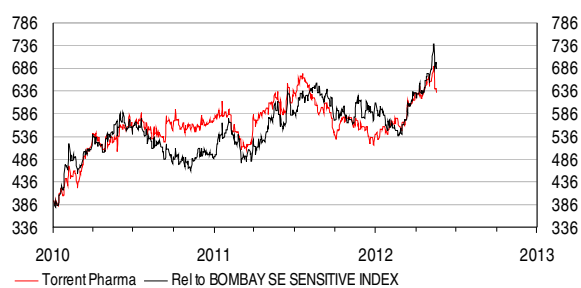
Year to	03/2011a	03/2012e	03/2013e	03/2014e
<b>Y-o-y % change</b>				
Revenue	16.2	21.1	15.9	16.4
EBITDA	-2.8	22.3	16.4	16.2
Operating profit	-2.3	20.9	17.6	17.1
PBT	-1.3	4.0	41.1	18.8
HSBC EPS	-1.6	5.1	38.0	18.8
<b>Ratios (%)</b>				
Revenue/IC (x)	2.4	2.8	3.3	3.3
ROIC	30.3	36.0	41.6	34.3
ROE	29.2	25.6	28.7	26.7
ROA	13.4	11.3	13.0	13.3
EBITDA margin	18.4	18.6	18.7	18.6
Operating profit margin	15.6	15.5	15.8	15.9
EBITDA/net interest (x)	33.9	12.7	23.3	27.1
Net debt/equity	-5.2	-28.2	-38.5	-40.1
Net debt/EBITDA (x)	-0.1	-0.7	-1.0	-1.2
CF from operations/net debt				
<b>Per share data (INR)</b>				
EPS reported (fully diluted)	31.93	33.57	46.34	55.05
HSBC EPS (fully diluted)	31.93	33.57	46.34	55.05
DPS	5.75	6.04	6.01	6.01
Book value	120.84	141.09	181.42	230.46

### Valuation data

Year to	03/2011a	03/2012e	03/2013e	03/2014e
EV/sales	2.4	1.9	1.5	1.3
EV/EBITDA	13.0	10.0	8.2	6.8
EV/IC	5.2	5.5	4.8	3.7
PE*	19.3	18.4	13.3	11.2
P/Book value*	5.1	4.4	3.4	2.7
FCF yield (%)	2.2	7.8	5.1	3.7
Dividend yield (%)	0.9	1.0	1.0	1.0

Note: \* = Based on HSBC EPS (fully diluted), based on May 21, 2012 closing price

### Price relative



Source: HSBC

Note: price at close of 18 May 2012

## Conference call highlights

- 1 **India formulations:** Domestic sales remain weak in 4QFY12 with 11% yoy growth due to continued weakness in acute therapy segment (Torrent grew 9% vs covered market growth of 14% in acute segment). Chronic therapies, which constitute c60% domestic formulation sales grew in-line with market. Sales force count stands at 3,700 at the end of Q4.
- 2 **US business:** TRP has seen higher regulatory filings expenses levied on pending ANDA, new ANDA filings and maintenance of facilities. The company filed one ANDA during the quarter taking cumulative ANDAs pending FDA approval to 27 in the US, so far it has 37 ANDA approvals of which 22 products have been commercialized. TRP expects to launch five to six new products in the US in FY13.
- 3 **Brazil:** 1) During Q4FY12, TRP grew 52% in constant currency term with volume growth of 32%, new products contribution of 17% and price de-growth of 2%. TRP expects growth in Brazilian sales to remain c15% level. 2) regulatory approvals timings in Brazil have gone up to 24-30 months from earlier 12 months periods. TRP has launched one new product during the quarter taking the cumulative number of products in the market to 30. In FY13, it expects to launch three to four new products.
- 4 **Heumann:** Sales grew 4% yoy (Euro sales growth of 8%) during the quarter and five new have been launched.
- 5 **Mexico:** Sales were INR45m during Q4FY12 vs. INR19m in same quarter previous year; Torrent has sales force of 35 who covers 70% of Mexican market. TRP has plans to enter the cardiovascular segment from next year. Plans to grow product portfolio from the current five products to 30 products in four years with field force of 200 people.
- 6 **RoW market:** TRP plans to enter semi-regulated market like Thailand and ramp up sales force in existing markets like Sri Lanka, Vietnam, Myanmar, Philippines etc. Also, it is scaling up its operations in markets like Australia and South Africa.
- 7 **Dossier income** in 4QFY12 was INR115m (INR480m in FY12). TRP doesn't expect dossier income to remain at these levels in coming period.
- 8 **GPC Cayman investment:** TRP has invested cINR400m in GPC Cayman investment, which sells medicines in the US, TRP has taken 6% stake in the company.
- 9 **R&D expenses for** Q4 and full year FY12 remain at c5% of net consolidated sales and similar level of expenses are expected in coming periods.
- 10 **TRP** has seen margin contraction of 1% due to increasing in marketing expenses and overheads at Sikkim facility, 1% contraction due to DPEB (Duty Entitlement Pass Book) roll back, 1% due to increase in FDA user fee for ANDA applications in the US and 0.7% margin drop due to revaluation of pension liabilities for its Heumann business pension liabilities (current pension liabilities of cEuro6mn) during Q4FY12.
- 11 **Hedging:** TRP has hedged c70% of FY13 sales (cUSD190m hedge position) at INR53.36 and c90% loans.

12 **Forex loss:** TRP has booked foreign loss of cINR30m in other expenses in 4QFY12.

13 **Capex** for FY12 was INR1.8bn and for FY13 the company expects it be in INR2.3-2.5bn range.

Gross debt on book was INR5bn.

**TRP: 4QFY12 Earnings summary**

( in INRm)	4QFY12	4QFY12e	Actual vs HSBC est.	4QFY11	y-o-y	3QFY12	q-o-q	Comments
Net Revenues	6,540	6,475	1.0%	4,898	33.5%	6,755	-3.2%	Mostly driven by US and Brazil, domestic sales remain muted
Raw materials	2,228	2,253	-1.1%	1,722	29.4%	2,223	0.2%	
Staff cost	1,442	1,200	20.2%	1,003	43.9%	1,199	20.3%	Higher due to overhead expenses at Sikkim facility
Other expenses	1,812	2,035	-11.0%	1,498	21.0%	1,800	0.7%	
R&D	410	420	-2.4%	397		349		
EBITDA inc. other op income	850	810	5.0%	646	31.7%	1,395	-39.0%	
PBT	668	795	-16.1%	466	43.3%	1,040	-35.8%	
Tax	24	126	-81.2%	37	-36.6%	201	-88.2%	
Adj. Net Profit	-16	670	-102.5%	428	-103.9%	832	-102.0%	
<b>As % of sales</b>								
Raw materials	34.1%	34.8%		35.2%		32.9%		
Staff cost	22.1%	18.5%		20.5%		17.8%		
Other expenses	27.7%	31.4%		30.6%		26.6%		
R&D	6.3%	6.5%		8.1%		5.2%		
EBITDA margin	13.0%	12.5%		13.2%		20.6%		
PBT margin	10.2%	12.3%		9.5%		15.4%		
Tax rate	3.6%	15.8%		8.0%		19.3%		
Net margin	-0.3%	10.3%		8.7%		12.3%		

Source: Company data, HSBC estimates

**TRP: 4QFY12 Revenue Mix**

(INRm)	4QFY12	4QFY12e	Actual vs HSBC est.	4QFY11	y-o-y	3QFY12	q-o-q	Comments
<b>Domestic Formulations</b>	<b>1,986</b>	<b>2,068</b>	<b>-3.9%</b>	<b>1,804</b>	<b>10.1%</b>	<b>2,302</b>	<b>-13.7%</b>	Remain weak due to continued weakness in acute segment
<b>Export</b>	<b>3,863</b>	<b>3,822</b>	<b>1.1%</b>	<b>2,535</b>	<b>52.4%</b>	<b>3,820</b>	<b>1.1%</b>	
- Brazil	1,251	1,272	-1.7%	771	62.3%	1,186	5.5%	in-line with estimates, 52% yoy growth in constant currency with majority growth driven by volume expansion
- Mexico	45	50	-10.0%	19	136.8%	46	-2.2%	Currently present in CNS market
- Russia	216	203	6.4%	166	30.1%	202	6.9%	
- Heumann	848	893	-5.1%	812	4.4%	867	-2.2%	8% yoy growth in Euro terms
- Europe	475	368	28.9%	279	70.3%	472	0.6%	
- Others	398	387	2.9%	345	15.4%	419	-5.0%	
- US	630	635	-0.8%	143	340.6%	628	0.3%	
<b>Contract Manufacture</b>	<b>653</b>	<b>570</b>	<b>14.5%</b>	<b>539</b>	<b>21.1%</b>	<b>609</b>	<b>7.2%</b>	
Others	38	15	153.3%	12	216.7%	24	58.3%	
<b>Total Sales</b>	<b>6,540</b>	<b>6,475</b>	<b>1.0%</b>	<b>4,890</b>	<b>33.7%</b>	<b>6,755</b>	<b>-3.2%</b>	

Source: Company data, HSBC estimates

TRP: Change in estimates

(INRm)	New estimates		Old estimates		Variance	
	FY13	FY14	FY13	FY14	FY13	FY14
Sales	31,235	36,343	31,074	36,021	0.5%	0.9%
EBITDA	5,827	6,772	5,921	6,811	-1.6%	-0.6%
Adj. PAT	3,921	4,658	4,064	4,696	-3.5%	-0.8%
EPS (INR)	46.3	55.0	48.0	55.5	-3.5%	-0.8%

Source: HSBC estimates

TRP: Key Balance Sheet Highlights (INRm)

Balance Sheet	FY09	FY10	FY11	FY12e
Gross Intangible Assets	403	436	553	553
Gross Fixed Assets	6,803	7,693	9,090	10,522
Accu. Depreciation & amortization	2,094	2,718	3,287	4,105
CWIP	534	1,098	2,186	2,186
Total Long-Term Assets	5,647	6,510	8,541	9,156
Investments	1,395	1,412	1,460	1,240
Inventories	2,645	3,236	5,048	5,316
Cash & Bank Balance	2,300	3,883	4,788	6,743
Debtors	2,666	2,982	3,404	5,228
Loans & Advances	1,578	1,091	1,428	1,178
Other Current Assets	344	415	678	1,618
Total Current Assets	9,534	11,607	15,346	20,083
Creditors	3,743	4,270	7,479	8,635
Others	913	1,226	1,427	4,756
Total Current Liabilities	4,656	5,496	8,907	13,390
Net Current Assets	4,877	6,111	6,440	6,692
<b>Total assets</b>	<b>16,575</b>	<b>19,529</b>	<b>25,347</b>	<b>30,479</b>
Share Capital	423	423	423	423
Reserves	6,086	7,887	9,801	11,515
<b>Shareholders' Funds</b>	<b>6,509</b>	<b>8,310</b>	<b>10,224</b>	<b>11,938</b>
Minorities			16	35
Long-Term Debts	4,826	5,224	5,721	4,602
Deferred Taxation	584	499	480	514
<b>Total liabilities+ shareholder's equity</b>	<b>16,575</b>	<b>19,529</b>	<b>25,347</b>	<b>30,480</b>

Source: Company data, HSBC estimates

## Valuation and risks

We value the stock at 13x (unchanged) FY-14 EPS of INR55 to derive our TP of INR715 (previously INR680). We believe the valuation multiple of 13x is justified in view of peers trading at similar multiple.

We believe that while near-term upside is limited due to continued headwinds in India (which forms c40% of sales) and higher tax outflow owing to revision in tax guidance post recent budget, weak INR and new launches in US will benefit in next few quarters. We maintain our OW rating on the stock, but now we remove the volatility indicator on this rating. Volatility ratings are defined as stocks having historical volatility (defined as the past month's average of the daily 365-day moving average volatilities) of over 40%. As at 21 May 2012, Torrent Pharma scored 22.53%, hence it is indicated as non-volatile.

Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppts above and below the hurdle rate for India stocks of 11%. Our TP of INR715 implies a potential return of 17% including dividend yield. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Key risks in our view remain sluggish growth of domestic formulation business and slow down in Brazil growth.

# Disclosure appendix

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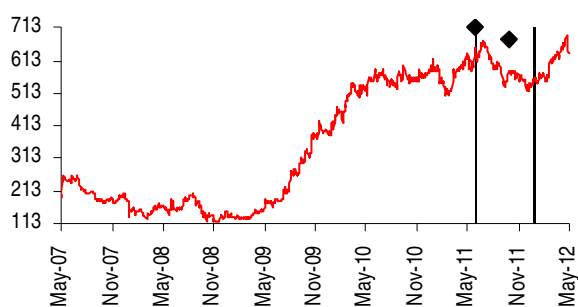
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**As of 21 May 2012, the distribution of all ratings published is as follows:**

<b>Overweight (Buy)</b>	48%	(26% of these provided with Investment Banking Services)
<b>Neutral (Hold)</b>	38%	(25% of these provided with Investment Banking Services)
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## Share price and rating changes for long-term investment opportunities

**Torrent Pharma (TORP.BO) Share Price performance INR Vs HSBC rating history**



Source: HSBC

### Recommendation & price target history

From	To	Date
N/A	Neutral (V)	16 June 2011
Neutral (V)	Overweight (V)	16 January 2012
Target Price	Value	Date
Price 1	715.00	16 June 2011
Price 2	680.00	19 October 2011

Source: HSBC

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## Additional disclosures

- 1 This report is dated as at 21 May 2012.
- 2 All market data included in this report are dated as at close 21 May 2012, unless otherwise indicated in the report.
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