

October 19, 2011

Reco Hold	Previous Reco Hold
CMP Rs 577	Target Price Rs 618
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	5,139
Sensex	17,085

Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	(14)	(2)	3
Rel. to Nifty	(4)	(5)	12	24

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	687/497
Market Cap (Rs bn/USD mn)	49/974
Daily Avg Volume (No of sh)	41913
Daily Avg Turnover (US\$m)	0.5

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	71.5	71.5	71.5
FII/NRI	4.9	4.3	3.7
Institutions	12.3	12.7	12.8
Private Corp	3.8	3.8	4.1
Public	7.5	7.7	7.9

Source: Capitaline

Deepak Malik

deepak.malik@emkayglobal.com
+91 22 6612 1257

Ashish Thavkar

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

Bhavita Nagrani

bhavita.nagrani@emkayglobal.com
+91 22 6624 2486

- **Q2'12 results were subdued - with Revenues at Rs6.6bn (up 19% YoY), EBITDA at Rs1.1bn (up 31%) & APAT at Rs793mn (up 15% YoY)**
- **Growth in revenues were led by 32% growth in exports – 57% growth in US, 28% growth in Heumann (German subsidiary) and 34% growth in Brazil**
- **Domestic business growth remained subdued at 7% on back of increased competition in gastro and anti-biotic segment**
- **We maintain our earnings estimates and target price of Rs618 (14x FY13 earnings of Rs44). Maintain Hold**

Result Highlights

- Export formulations (contributed 56%) grew at 32% YoY (27% in constant currency terms) in Q2FY12 on account of
 - 34% growth in Brazil led by good growth in losartan and metformin and resolution of issues with one of the distributors which led to channel filling this quarter. However, such high growth is unlikely to sustain in the coming quarters
 - 57% growth in the US market led by 2 new launches – one of them being a para-IV Uroxatral
- Domestic formulations (contributed 44%) growth was subdued at 7% led by –
 - The acute portfolio (contributes 40%) continues to face competition in the anti-biotic and the gastro segment
 - Among the companies top 10 brands – Top brands in chronic categories like Alprax, domstal and dilzem are facing intense competition which is also slowing down the growth in the chronic category

Future growth drivers

- Management has guided for domestic growth rates to improve to 15% in H2FY12 led by aggressive campaigns and higher promotional expenses in some categories of acute segment
- In the US, the company has filed 2 ANDAs this quarter taking the cumulative filings to 32. Management has guided for 3-4 ANDA launches in H2FY12
- Increased capacity for Insulin manufacturing for Novo-Nordisk and commencement of commercial supplies under the AstraZeneca & other MNCs deal are key long term triggers to watch out for during FY12-14E

Valuation

We expect Torrent to report 14% revenue CAGR over FY11-13E. EBITDA margins are expected to increase from 16.7% in FY11 (adjusted margins 18.5%) to 18.5% in FY12E and 19% in FY13E. Earnings will grow by 21% CAGR over FY11-13E. We maintain our earnings and target price on the stock at Rs618 (14x FY13E EPS of Rs44.2) with a Hold rating. At CMP, Torrent trades at 16x FY12E and 13x FY13E EPS.

Financials

Rs mn

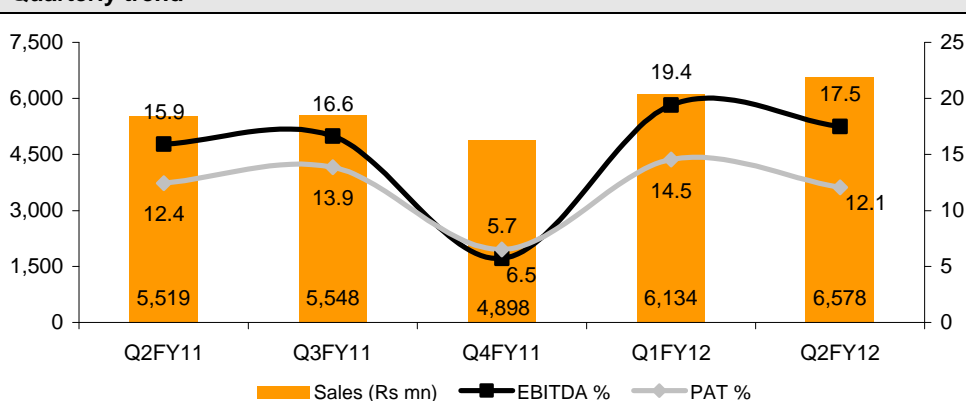
YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	18,890	3,937	20.8	2,665	31.5	13.7	31.2	18.3	12.7	5.9
FY11	21,825	3,652	16.7	2,536	30.0	(4.9)	29.2	19.3	13.6	4.8
FY12E	24,201	4,470	18.5	3,051	36.1	20.3	30.2	16.0	11.8	4.3
FY13E	28,242	5,352	19.0	3,738	44.2	22.5	31.1	13.1	10.0	3.8

Key Financials - Quarterly

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Net Sales	5,519	5,548	4,898	6,134	6,578	19.2	7.2	12,712	10,773	18.0
Other operating income	296	227	256	341	256	(13.6)	(25.0)	597	452	32.1
Total Revenues	5,815	5,775	5,154	6,475	6,833	17.5	5.5	13,308	11,225	18.6
Expenditure	4,640	4,625	4,619	4,944	5,427	17.0	9.8	10,370	8,894	16.6
as % of sales	84.1	83.4	94.3	80.6	82.5	(156.4)	190.6	81.6	82.6	(96.9)
Consumption of RM	1,832	1,771	1,722	1,959	2,221	21.2	13.4	4,180	3,473	20.4
as % of sales	33.2	31.9	35.2	31.9	33.8	56.9	183.0	32.9	32.2	65.0
Employee Cost	991	979	1,003	1,115	1,161	17.1	4.1	2,276	1,913	18.9
as % of sales	18.0	17.6	20.5	18.2	17.6	(30.6)	(52.8)	17.9	17.8	14.2
Other expenditure	1,817	1,875	1,894	1,870	2,045	12.6	9.4	3,915	3,508	11.6
as % of sales	32.9	33.8	38.7	30.5	31.1	(182.7)	60.4	30.8	32.6	(176.1)
EBITDA	880	923	279	1,190	1,151	30.9	(3.3)	2,341	1,880	24.5
Depreciation	155	161	167	202	201	29.7	(0.6)	403	297	35.6
EBIT	725	762	112	988	950	31.1	(3.9)	1,939	1,583	22.5
Other Income	25	18	16	24	43	71.4	74.2	67	203	(67.0)
Interest	34	35	28	41	29	(13.3)	(27.7)	70	58	19.9
PBT	1,012	972	356	1,313	1,219	20.5	(7.2)	2,533	2,179	16.2
Total Tax	250	203	37	287	212	(15.3)	(26.4)	499	485	3.0
Extra ordinary items	0	0	110	1	8	-	-	9	(35)	
Reported PAT	762	769	428	1,025	1,000	31.3	(2.5)	2,025	1,660	22.0
EPS	9.0	9.1	5.1	12.1	11.8	31.3	(2.5)	23.9	19.6	22.0
Forex gains, net	-	-	-	-	124	-	-	-	-	-
One-time R&D income	75.3	-	-	133	83	-	-	-	-	-
Adjusted PAT	687	769	318	892	793	15.5	(11.1)	1,686	1,620	4.1
Adj. EPS	8.1	9.1	3.8	10.5	9.4	15.5	(11.1)	19.9	19.1	4.1

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	15.9	16.6	5.7	19.4	17.5	156	(191)	18.4	17.4	97	
EBIT	13.1	13.7	2.3	16.1	14.4	132	(167)	15.3	14.7	56	
EBT	18.3	17.5	7.3	21.4	18.5	21	(287)	19.9	20.2	(31)	
PAT	12.4	13.9	6.5	14.5	12.1	(38)	(249)	15.9	15.4	53	
Effective Tax rate	24.7	20.9	10.5	21.9	17.3	(734)	(454)	19.7	22.2	(253)	

Quarterly trend



- **EBITDA margins** at 17.5% improved by 156bps YoY on account of lower R&D spend and lower staff cost in Q2FY12
 - **Staff cost** (18% of sales) increased by 17% YoY due to MR addition in earlier quarters. Management has guided for total MR strength to remain at 3600
 - **Other expenses** (31% of sales) increased by 13% YoY due to higher spend on promotional activities and higher manufacturing overheads. Management has guided R&D spend to remain at FY11 levels i.e. 6% of sales.
- **PAT margin** for the quarter declined by 38bps to 12.1% post adjusting for forex gain of Rs150mn and licensing income of Rs100mn this quarter
 - Lower tax rate at 17.3% compared to 24.7% in Q2FY11 prevented further margin erosion. Management has guided for tax rates to remain at MAT level for FY12

CRAMS business to pick-up by FY13

CRAMS contributes around 10-11% to the top-line. Currently, it has a supply agreement for human insulin with Novo Nordisk. Torrent is one of Novo Nordisk's preferred suppliers and has recently commissioned a new human insulin manufacturing facility. It also has supply agreements with 3 MNCs, one of them being AstraZeneca (deal for 35 products). Most of the deals will start panning out favorably for Torrent by H2 FY13. Torrent has already received licensing income of Rs200mn in FY11, Rs170mn in Q1FY12 and R100mn in Q2FY12.

Valuations

We expect Torrent to report 11% revenue growth in FY12E and 17% growth in FY13E. EBITDA margins are expected to increase from 16.7% in FY11 (adjusted margins 18.5%) to 18.5% in FY12E and 19% in FY13E. Earnings will grow by 21% CAGR over FY11-13E. We maintain our earnings and target price on the stock at Rs618 (14x FY13E EPS of Rs44.2) with a Hold rating. At CMP, Torrent trades at 16x FY12E and 13x FY13E EPS.

Shifting from AS 11 to AS 30

The company has adopted AS 30 accounting standard effective 1st Apr, 2011 as against AS 11 adopted earlier. AS 30 is not mandatory for the companies to be used. Consequent to this, the net foreign exchange gain is higher by Rs189mn and net profit for the quarter is higher by Rs152mn. We have treated these gains as one-time exceptional item for the calculation of adjusted PAT.

Torrent Pharma – Domestic Metrics

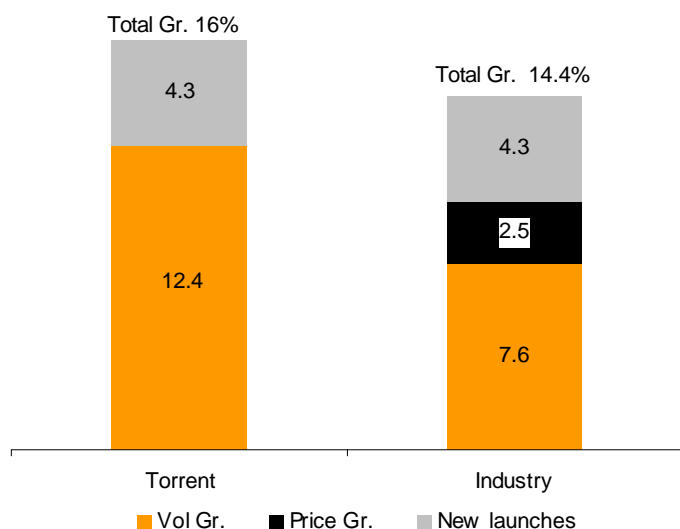
Torrent's therapeutic growth

Therapies	FY11 % Contribution	MAT Sep'11	MAT Sep'10	YoY Gr. %
Cardiac	32.4%	289.2	256.0	13.0%
Gastro	18.2%	163.0	146.3	11.4%
CNS	21.2%	189.6	162.4	16.8%
Anti-Infective	13.9%	123.8	100.1	23.7%
Anti-Diabetic	5.7%	51.4	45.5	12.9%
Pain	3.0%	26.6	22.6	17.8%
Vit/ Minerals	1.6%	14.7	12.0	22.8%
Respiratory	0.6%	4.9	4.7	5.5%
Derma	1.1%	9.5	7.6	26.0%
Others	2.4%	21.0	13.1	60.7%
Acute	40.4%	361.0	301.7	19.7%
Chronic	59.6%	532.8	468.4	13.7%
Total Sales	100.0%	893.8	770.1	16.1%

Sept'11 MAT growth for Torrent has been strong at 16%

- Acute segment which contributes 40% grew by 20%
- Chronic segment which contributes 60% grew by 14%

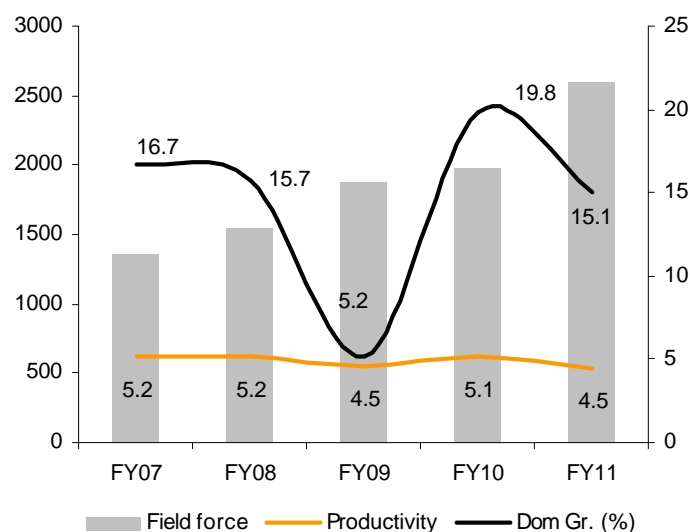
Growth drivers - Volume/ Price/ New launches



- Torrent's growth during MAT Sep'11 was led by strong volume uptake and new product launches. The company witnessed intense pricing pressure from local peers during the period

Source: AIOCD, Emkay Research

Field force productivity



- The company has hired ~900 people during the last 2 years
- MR productivity declined due to higher attrition rate in FY11

Top 10 brand performance

Rs Cr	Therapies	MAT Sep'11	MAT Sep'10	YoY Gr.
Alprax	CNS	37.6	33.6	11.9%
Nikoran	Gynaec	33.2	30.0	10.6%
Topcef	Anti-Infective	31.2	25.9	20.3%
Dilzem	CVS	30.9	30.7	0.7%
Domstal	CVS	28.0	27.5	1.8%
Nebicard	Gastro	22.5	18.6	21.2%
Droxyl	Anti-Infective	19.7	19.4	2.0%
Azulix-Mf	Anti-Diabetics	19.4	15.3	26.8%
Nexpro Rd	Gastro	18.6	13.2	40.4%
Deplatt-A	CVS	17.0	15.0	13.2%
Total		258.1	229.2	12.6%

- Top 10 brands contribute 29% to the domestic formulation sales

Financial Snapshot

Rs mn	FY11	FY12E	YoY %	FY13E	YoY %
Formulations	19371	21485	10.9	24561	14.3
Domestic	8416	9425	12.0	10745	14.0
Exports	10955	12060	10.1	13816	14.6
Brazil	3551	3977	12.0	4574	15.0
Heumann	2812	2812	0.0	2952	5.0
Europe (W/o Heumann)	1476	1697	15.0	1952	15.0
US	1143	1651	44.4	2171	31.5
Russia CIS	620	434	-30.0	456	5.0
ROW	1353	1488	10.0	1712	15.0
Contract Manufacturing	2199	2499	13.6	3524	41.0
Total Sales	21571	23984	11.2	28084	17.1
Others	1081	850	-21.4	650	-23.5
Gross Sales	22651	24833	9.6	28734	15.7
Licensing Income	230	200	-	0	-
Other income	210	0	-	0	-
Core Revenues	22211	24633	10.9	28734	16.6
EBITDA	3,652	4,470	22.4	5,352	19.7
EBITDA %	16.7	18.5		19.0	
Adjusted EBITDA %	18.3	17.3%		18.6	
PAT	2,536	3,051	20.3	3,738	22.5
PAT %	11.6	12.6		13.2	
EPS	30.0	36.1	20.3	44.2	22.5
PE @ CMP	19.3	16.0		13.1	

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	18,890	21,825	24,201	28,242
<i>Growth (%)</i>	15.9	15.5	10.9	16.7
Expenditure	14,953	18,173	19,732	22,890
Raw Materials	5,710	6,965	7,914	9,235
SGA	5,406	6,553	6,861	7,871
Employee Cost	3,162	3,895	4,114	4,801
Other Exp	675	760	842	983
EBITDA	3,937	3,652	4,470	5,352
<i>Growth (%)</i>	31.3	-7.2	22.4	19.7
EBITDA margin (%)	20.8	16.7	18.5	19.0
Depreciation	606	626	670	730
EBIT	3,331	3,026	3,799	4,622
EBIT margin (%)	17.6	13.9	15.7	16.4
Other Income	216	81	104	104
Interest expenses	291	121	139	167
PBT	2,942	3,427	3,964	4,559
Tax	632	725	714	821
<i>Effective tax rate (%)</i>	21.5	21.2	18.0	18.0
Adjusted PAT	2,665	2,536	3,051	3,738
(Profit)/loss from JV's/Ass/MI	0	0	0	0
Adjusted PAT after MI	2,665	2,536	3,051	3,738
<i>Growth (%)</i>	13.7	-4.9	20.3	22.5
Net Margin (%)	14.1	11.6	12.6	13.2
E/O items	-314	440	200	0
Reported PAT	2,311	2,702	3,251	3,738
<i>Growth (%)</i>	25.3	16.9	20.3	15.0

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	2,726	3,346	3,861	4,455
Depreciation	606	626	670	730
Interest Provided	291	121	139	167
Other Non-Cash items	0	0	0	0
Chg in working cap	348	577	-1,005	-656
Tax paid	-705	-725	-714	-821
Operating Cashflow	3,266	3,944	2,951	3,876
Capital expenditure	-1,469	-2,656	-3,507	-2,500
Free Cash Flow	1,797	1,287	-556	1,376
Other income	216	81	104	104
Investments	-17	-48	0	0
Investing Cashflow	-1,270	-2,624	-3,403	-2,396
Equity Capital Raised	81	-1,190	-1,575	-1,682
Loans Taken / (Repaid)	398	497	375	450
Interest Paid	-291	-121	-139	-167
Dividend paid (incl tax)	-592	-787	-594	-594
Income from investments	0	0	0	0
Others	-10	1,186	0	0
Financing Cashflow	-414	-415	-1,933	-1,992
Net chg in cash	1,583	905	-2,385	-513
Opening cash position	2,300	3,883	4,789	2,404
Closing cash position	3,883	4,789	2,404	1,891

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	423	423	423	423
Reserves & surplus	7,887	9,801	10,883	12,345
Net worth	8,310	10,224	11,306	12,768
Minority Interest	0	16	16	16
Secured Loans	3,646	3,946	4,196	4,496
Unsecured Loans	1,578	1,774	1,899	2,049
Loan Funds	5,224	5,721	6,096	6,546
Net deferred tax liability	500	480	480	480
Total Liabilities	14,033	16,440	17,897	19,809
Gross Block	8,129	9,643	13,217	15,717
Less: Depreciation	2,717	3,287	4,026	4,756
Net block	5,412	6,355	9,192	10,962
Capital work in progress	1,098	2,186	2,184	2,186
Investment	1,412	1,460	1,460	1,460
Current Assets	11,608	15,346	13,460	13,711
Inventories	3,236	5,048	4,913	4,886
Sundry debtors	2,982	3,404	4,114	4,801
Cash & bank balance	3,883	4,789	2,404	1,891
Loans & advances	1,507	2,105	2,029	2,133
Other current assets	0	0	0	0
Current lia & Prov	5,496	8,907	8,398	8,508
Current liabilities	4,216	7,479	7,040	7,093
Provisions	1,280	1,427	1,358	1,415
Net current assets	6,112	6,439	5,061	5,202
Misc. exp & Def. Assets	0	0	0	0
Total Assets	14,033	16,440	17,897	19,809

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	20.8	16.7	18.5	19.0
Net Margin	14.1	11.6	12.6	13.2
ROCE	28.5	21.1	23.4	25.7
ROE	31.2	29.2	30.2	31.1
RoIC	46.8	41.3	40.2	36.7
Per Share Data (Rs)				
EPS	31.5	30.0	36.1	44.2
CEPS	34.5	32.2	41.6	52.8
BVPS	98.2	120.8	133.6	150.9
DPS	6.0	8.0	6.0	0.0
Valuations (x)				
PER	18.3	19.3	16.0	13.1
P/CEPS	16.5	14.5	12.3	0.0
P/BV	5.9	4.8	4.3	3.8
EV / Sales	2.7	2.3	2.2	1.9
EV / EBITDA	12.7	13.6	11.8	10.0
Dividend Yield (%)	1.0	1.4	1.0	0.0
Gearing Ratio (x)				
Net Debt/ Equity	16.1	9.1	32.7	36.5
Net Debt/EBITDA	0.3	0.2	0.8	0.9
Working Cap Cycle (days)	68	51	61	61

Recommendation History: Torrent Pharma – TRP IN

Date	Reports	Reco	CMP	Target
04/08/2011	Torrent Pharma Q1FY12 Result Update	Hold	641	663
01/06/2011	Torrent Pharma Q4FY11 Result Update	Hold	619	598
20/01/2011	Torrent Pharma Q3FY11 Result Update	Buy	583	650
25/10/2010	Torrent Pharma Q2FY11 Result Update	Buy	558	650

Recent Research Reports

Date	Reports	Reco	CMP	Target
26/09/2011	Pharma Sector Report Domestic			
16/09/2011	Jubilant Life Sciences Company Update	Buy	216	359
19/08/2011	Unichem Labs Q1FY12 Result Update	Hold	141	167
11/08/2011	Panacea Biotec Q1FY12 Result Update	Hold	165	185

Emkay Global Financial Services Ltd.

Corporate Add: B – Ruby Mills Tower, 7th Floor, South East Wing, Senapati Bapat Marg, Dadar (W), Mumbai - 400028 India.

Tel.: +912266121212 Web: www.emkayglobal.com

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