

March 02, 2012

TORRENT PHARMACEUTICALS LTD.
(TORRENT)
Initiating Coverage - BUY

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Destimoney

Torrent - BUY, with a target upside of 17%

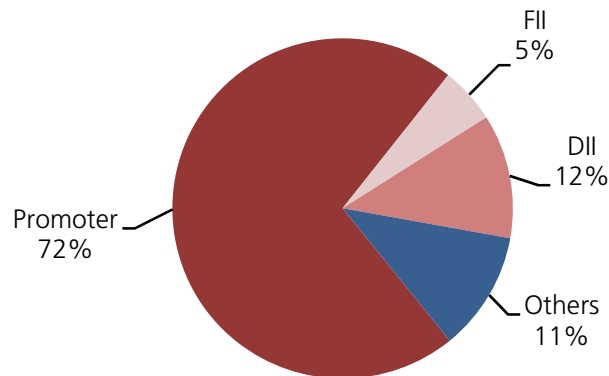
BUY
TARGET : ₹660
CMP : ₹565

Key Data	
Ticker (Bloomberg)	TRP IN
NSE Code	TORNTPHARM
BSE Code	500420
Sector	Pharmaceuticals
Industry	Pharmaceuticals
Face Value (₹)	5
BV per share (₹)	121
Dividend Yield (%)	2.5%
52 Week H/L(₹)	686/499
Market Cap. (₹ mn.)	47813

(In ₹ mn) Consolidated	FY10	FY11	FY12E	FY13E
Net Sales	18,329	21,220	25,114	29,109
EBITDA	3,377	3,047	3,968	4,861
EBITDA Margin	18.4%	14.4%	15.8%	16.7%
EPS (₹)	27	32	41	44
EV/Sales	2.6	2.2	1.9	1.6
EV/EBITDA	14.0	15.5	11.9	9.7
P/E (x)	20.7	17.7	13.9	12.9

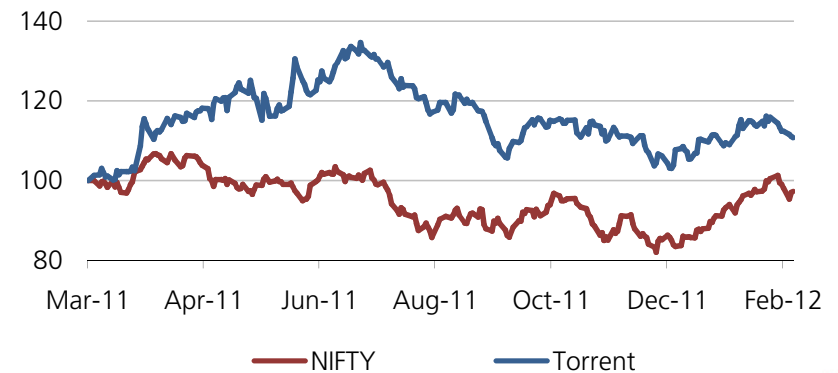
Price Performance	CY08	CY09	CY10	YTD
Absolute	194%	48%	-5%	6%
Relative	118%	30%	19%	-10%

Shareholding pattern as on Dec 31, 2011



Source: BSE, Bloomberg, Destimoney Research

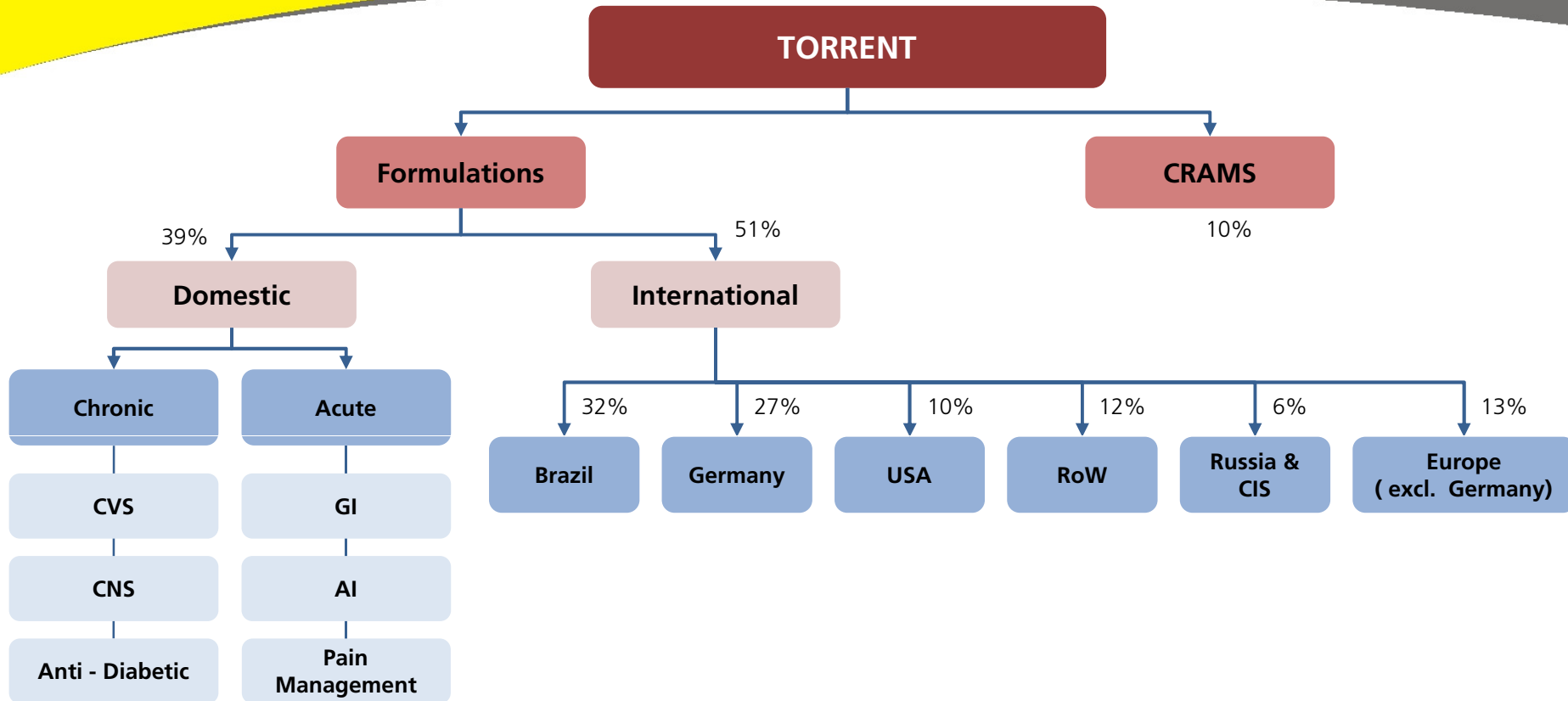
Relative stock performance (Mar'11 = 100)



Faster exports to drive growth for Torrent

- ❑ Established in 1994, Torrent Pharmaceuticals Ltd is a flagship company of Torrent group. While its 36 brands lead in their respective molecule segments, six brands of the company appear in India's top 300 pharma brands.
- ❑ Torrent has successfully maintained its dominant position in domestic Cardiovascular (CVS) and Central Nervous System (CNS) segment with new product launches. In line with industry trend, Torrent has maintained its tilt towards chronic profile over acute.
- ❑ By entering into regulated as well as emerging markets, Torrent has successfully increased its footprint in International markets, which contribute ~51% to the total revenue of the company in FY11. With 27 successful drug launches, Brazil contributes majorly (32%) to company's international division. Torrent has been the largest supplier of Citalopram and second largest supplier of Zolpidem for the US market.
- ❑ In 9MFY12, Torrent recorded sluggish performance mainly in the acute therapy segment, due to increasing competitive pressure. To get back the company on growth path, management has taken corrective action in terms of addition and improvement in efficiency of field force.
- ❑ Apart from regular 25-30 drug launches in domestic market every year, the company is planning to enter into new therapy segments like oncology and infertility to widen its offerings. Similarly in its existing international market, new launches in Brazil and U.S are expected to propel growth.
- ❑ Therefore, we initiate coverage on Torrent Pharmaceuticals Ltd. with a **BUY** rating and a target price of **₹660** per share.

With a diverse presence in domestic as well as international formulations market ...



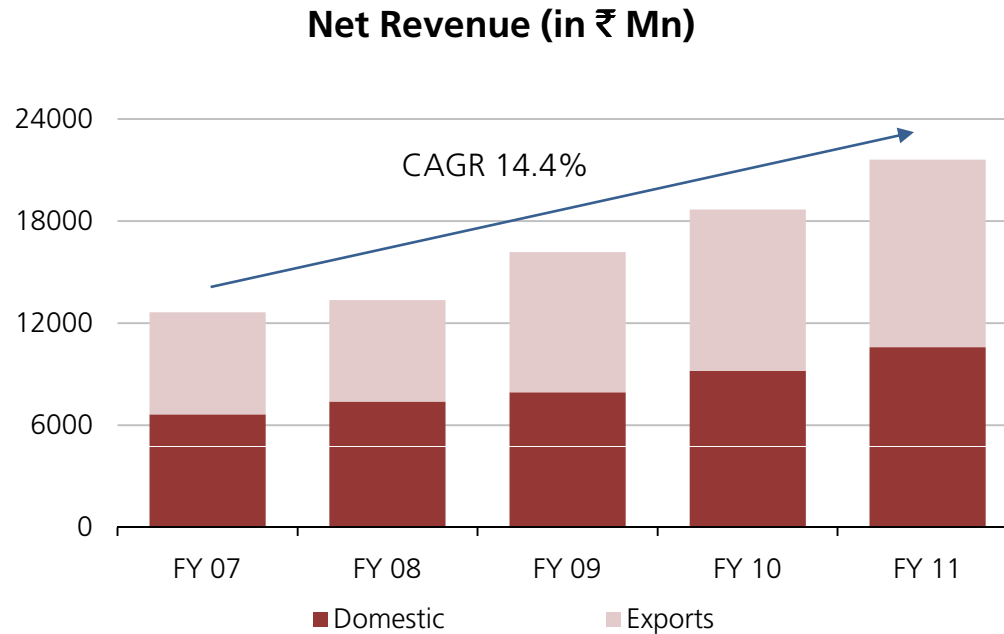
Top 10 Brands: Alprax, Topcef, Nikoran, Dilzem, Domstal, Nebicard, Droxyl, Azulix- MF, Nexpro RD, Deplatt – A

Contribution of top 10 brands to the Domestic Revenue: 41%

Current medical representative strength:2600

Source: Company

...Torrent has grown at 14.4% CAGR in last five years

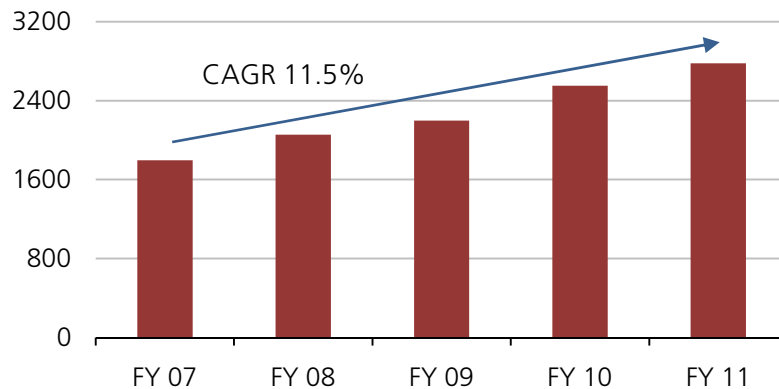


Source: Company, Destimoney Research

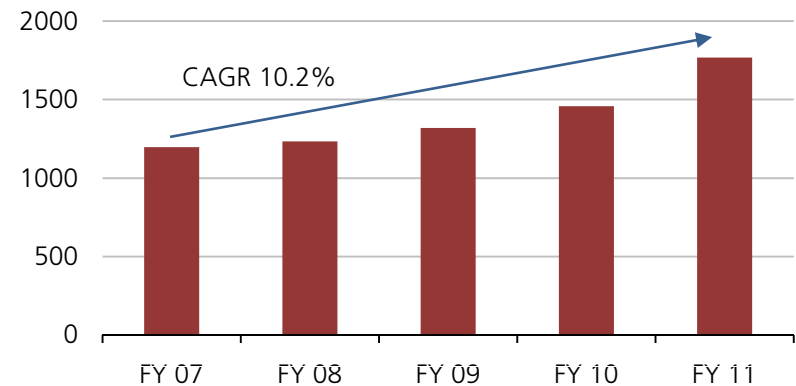
- Domestic revenue recorded 12.4% CAGR in last four years, while Exports grew faster at 16.5% CAGR during same period.

With dominant presence in domestic CVS and CNS segment...

CVS therapy performance (in ₹ Mn)



CNS therapy performance (in ₹ Mn)

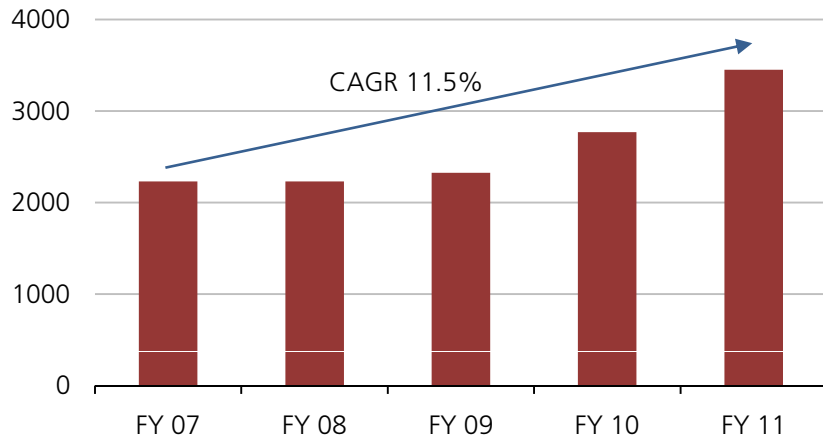


Source: Company, Destimoney Research

- ❑ Chronic segment contributes ~59% to the domestic revenues, with 33% and 21% from CVS and CNS therapies respectively.
- ❑ Torrent is ranked 2nd in the Cardio-vascular (CVS) and 3rd in Central Nervous System (CNS) therapies ,registering a CAGR of 11.5 % and 10.2 % in the respective segments over a period of 5 years.
- ❑ Continuing with its track record, the company plans to launch 25-30 products in FY13 in the domestic market mainly into CVS and CNS segments .Entry into the Oncology segment has broaden the chronic profile .

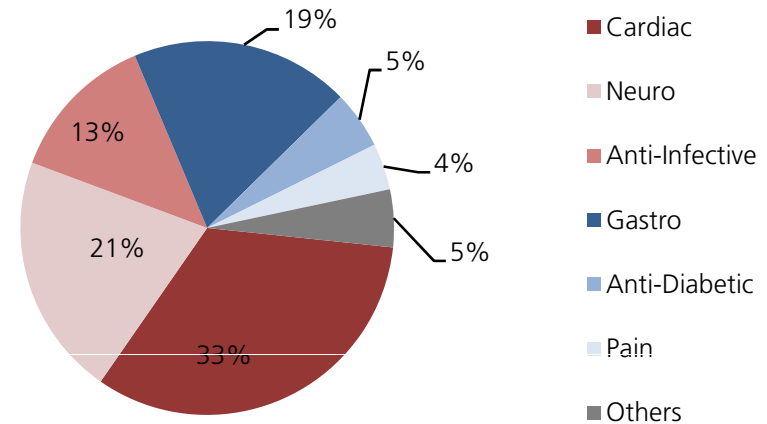
... Torrent has managed its tilt towards chronic over acute segment, in line with industry trend in India

Acute segment performance (in ₹ Mn)



Source: Company, Destimoney Research

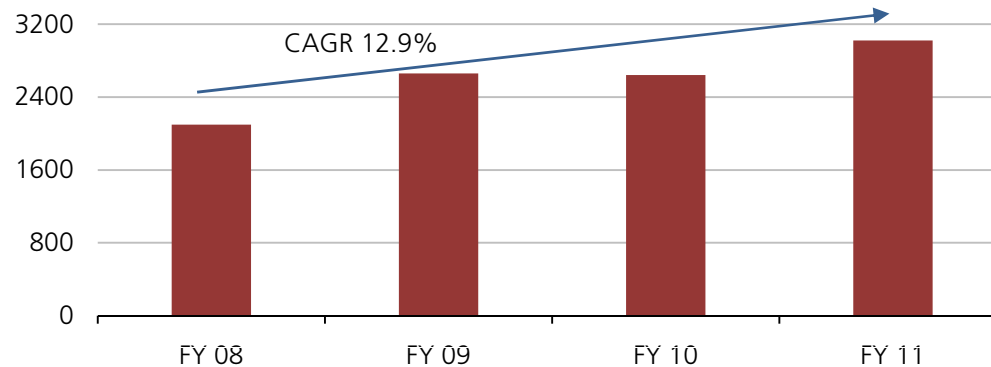
Domestic Business : Therapy-wise Break up



- ❑ Acute segment contribute 41% to the domestic revenues primarily through Gastrointestinal, Anti-Infective and Pain Management therapeutic segments. The company recorded a CAGR of 11.5 % over a period of 5 years.
- ❑ Torrent has expanded its acute profile by recently foraying into the Gynecology segment. It has already launched 19 products . 6 products are planned to be launched by FY12.The company also plans to enter the infertility market in FY13.

Aided by acquisition of Heumann Pharma in Germany...

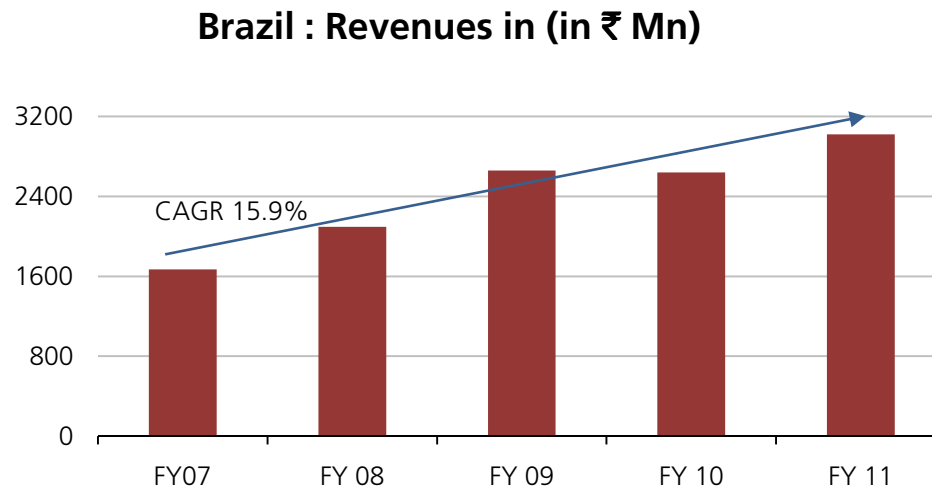
Germany : Revenues in (in ₹ Mn)



Source: Company

- ❑ Torrent entered in Germany through the acquisition of Heumann Pharma (marketing arm of Pfizer) in 2005 and got access to its 315 market authorizations and 34 product registration applications .
- ❑ The company recorded 29% and 14% YOY growth in Q2FY12 and Q3FY12 respectively, on account of successful tender servicing. During Q3FY12, Torrent launched one product and received a tender from AOK for 5 products.
- ❑ With 15 high margin products launches in FY13, the company expects to grow faster than historical rates in Germany.

...and continuous launches in Brazil...

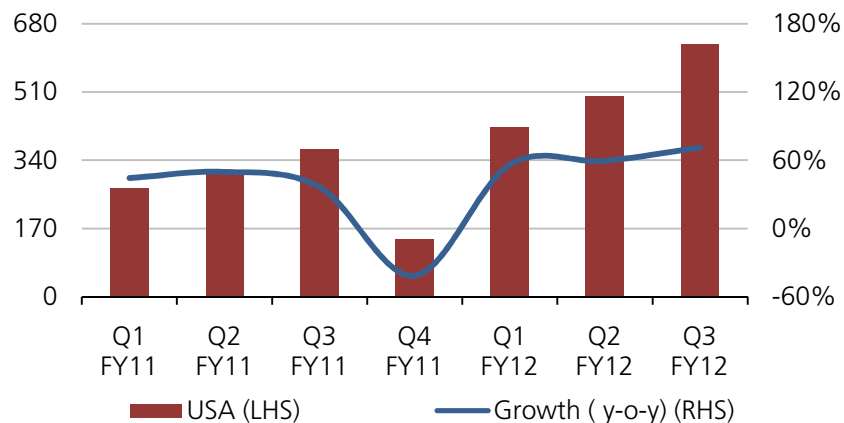


Source: Company

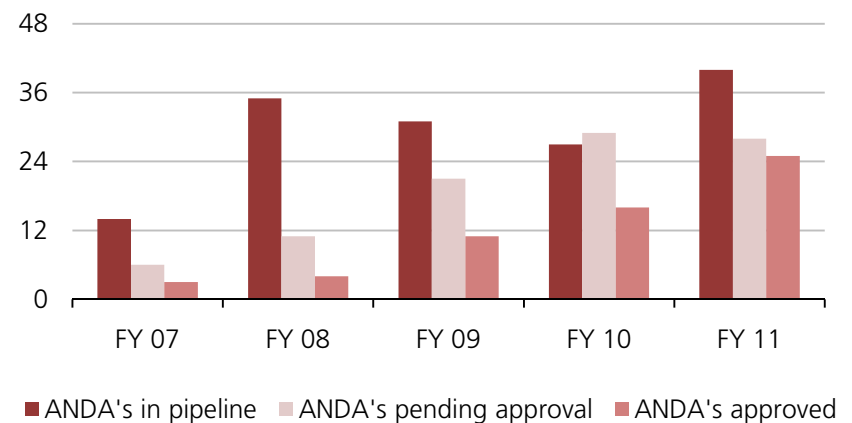
- ❑ Torrent is one of the leading players in the branded generic space of Brazil. Out of its basket of 27 drugs, 11 are from CVS and CNS segments each and 5 are from Oral Anti -Diabetic segment.
- ❑ During 9MFY12, the company introduced 2 drugs and 4 drugs are in pipeline to be launched in the coming 6 months.
- ❑ Out of total 31 products under approval, 6 are expected to be approved during the coming year.

...as well as in US...

USA : Revenues in (in ₹ Mn)



ANDA status

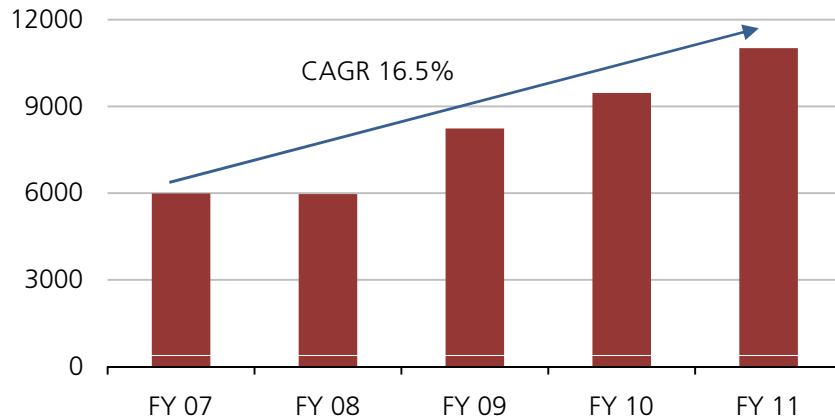


Source: Company

- ❑ The company is the largest supplier of Citalopram and second largest supplier of Zolpidem in the US market.
- ❑ During 9MFY12, the company launched 6 products (Donepezil , Venlafaxine ER, ISMN ER, Alfuzosin ER ,Olanzapine ODT and Aricept). Thus, Torrent recorded growth of 59% and 71% YOY in Q2FY12 and Q3FY12 respectively.
- ❑ Recent launches like Olanzapine ODT and Aricept (Q3FY12) would start adding to the revenues significantly after six months.

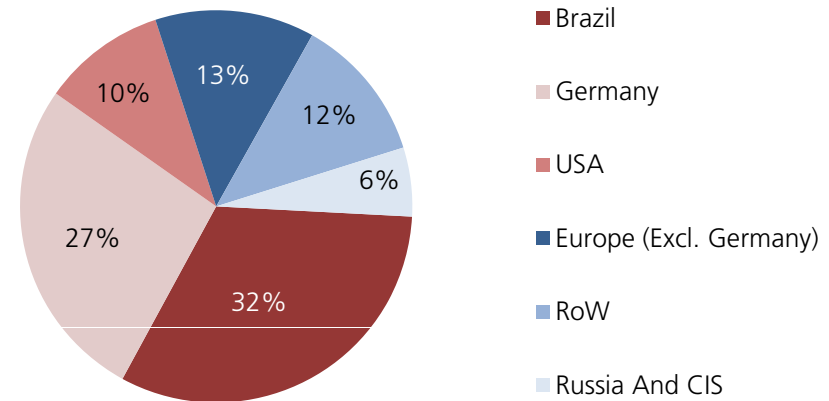
...International business is growing faster than domestic business

International Business (₹ mn)



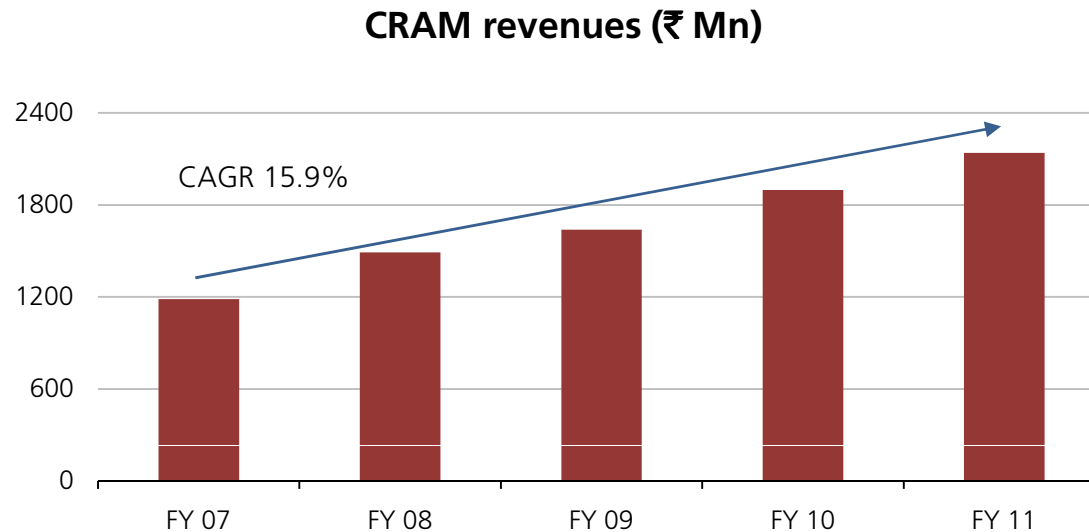
Source: Company

International Business -
FY11 Geography wise Break up



- ❑ Contribution from the international business has increased from 45% in FY08 to 51% in FY11 to the total revenue with addition of new geographies in the portfolio.
- ❑ Torrent entered into Thailand and Mexico by introducing products in CVS, CNS and Anti-Diabetic segments in FY11. Torrent has commenced its operations in the Mexican market with 4 molecules in CNS segment and has extended its portfolio to total 11 molecules (6 CNS, 5 CVS).
- ❑ With 7 filings for the Mexican market in the 1st phase, the company expects to complete the registration process by FY13. The company plans to launch 10 products every year.

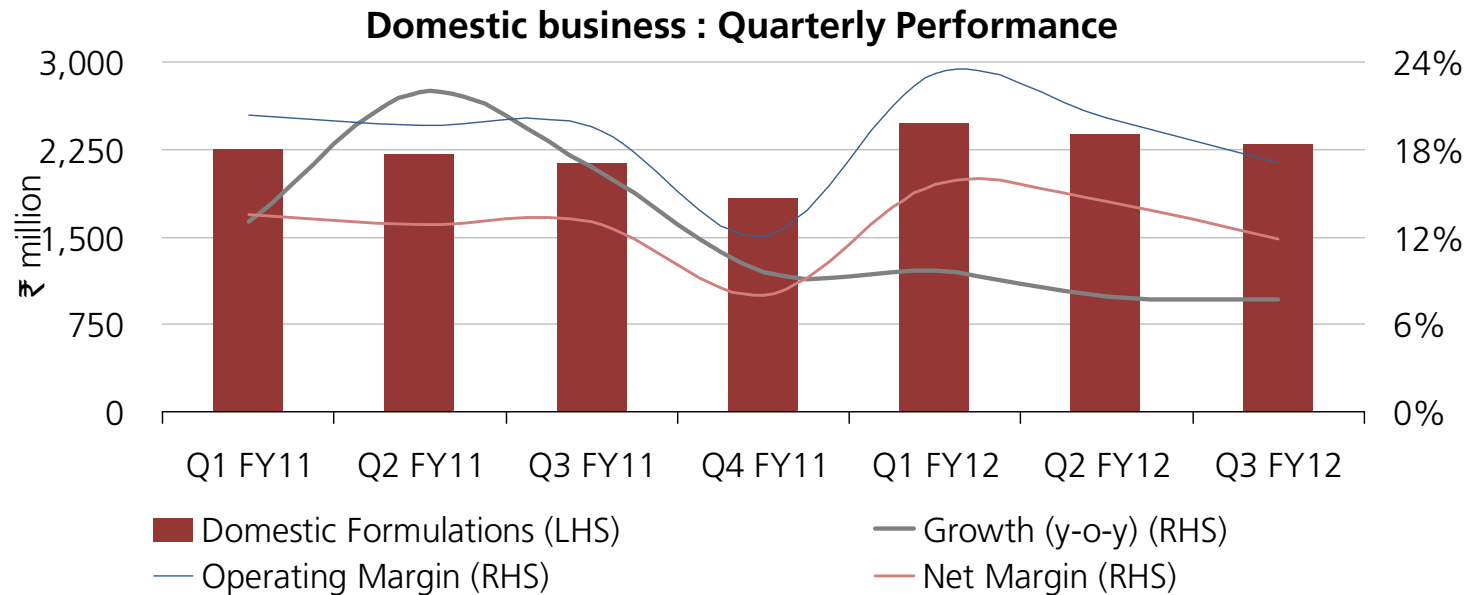
CRAM business is expected to grow on the back of new contracts and recent deal with Astra Zeneca



Source: Company

- ❑ This segment is primarily driven by contract with Novo Nordisk (Denmark) for the supply of Insulin. The company recently signed contracts with three companies, which involve dossier filing followed by supply of involved drugs.
- ❑ Recent deal with Astra Zeneca to license and supply 18 of Torrent's products in different geographies would start adding to the CRAM revenues by 2013-14.

Poor performance in the acute segment has impacted recent performance of the company

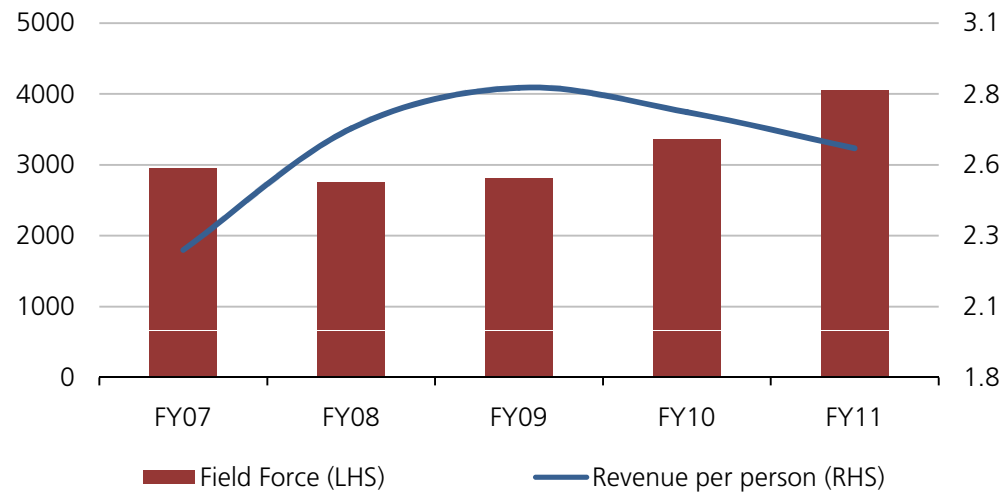


Source: Company

- ❑ During 9MFY12, domestic business underperformed due to competitive pressure mainly in Anti-biotic and Gastro-Intestinal therapies .
- ❑ With Sikkim facility now operational , the company has enhanced its capacity to cater to the domestic business. Plants at Dahej SEZ and Chatral are undergoing capacity expansion, to meet the future demand from US and Europe post 2013-14.

Improvement in efficiency...

Field Force v/s Revenue per person



Source: Company, Destimoney Research

- ❑ The company has streamlined its distribution strategy and expects to revive its growth in the coming quarters.
- ❑ It aims to increase the field efficiency to revive the revenue growth back to historical level for acute segment.

... and new launches should enable Torrent to record 17% revenue CAGR in next three years

- Apart from regular 25-30 drug launches in domestic market every year, we expect the company to record 10.7% revenue CAGR in next 3 years.
- Similarly in its existing international market, new launches in Brazil and U.S should enable Torrent to post 22.2% revenue CAGR in next 3 years.
- Entry into new therapy areas like oncology (chronic), gynecology and infertility (acute) in domestic market and new geographies like Mexico, Thailand should empower the company for future growth.

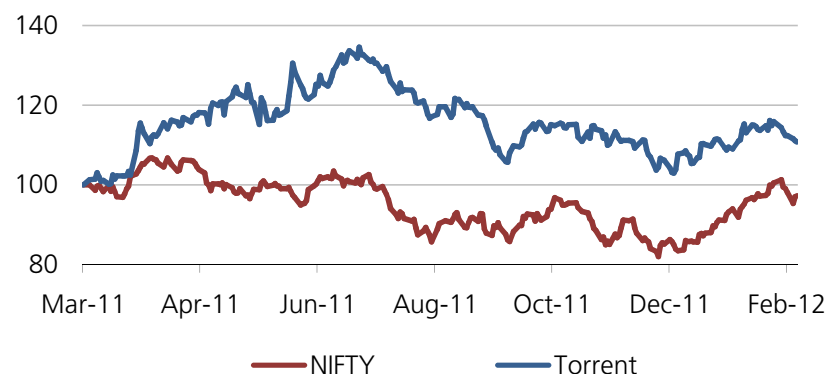
(₹ Mn)	FY11	FY12E	FY13E	FY14E	CAGR
Domestic	8,416	9,191	10,202	11,427	10.7%
International	11,016	13,967	16,751	20,107	22.2%
CRAM's	2,139	2,404	2,693	3,030	12.3%
Others	36	50	57	66	22.6%
Gross Revenue	21,606	25,612	29,703	34,629	17.0%

Source: Company, Destimoney Research

Valuation and Recommendation

- ❑ New launches and increase in field force efficiency remain key to success for Torrent. We remain optimistic towards the company's growth in the international market.
- ❑ At CMP, the stock is trading at 13.9 times and 12.9 times FY12 and FY13 earnings respectively.
- ❑ Therefore, we initiate coverage on TORRENT PHARMACEUTICALS LIMITED, with **BUY** rating and a target price of **₹660** per share.

Relative stock performance (Mar'11 =100)



(Fully Diluted Equity)	FY10	FY11	FY12E	FY13E
EPS (₹)	27.3	31.9	40.5	43.9
P/E (x)	20.7	17.7	13.9	12.9
P/B (x)	5.8	4.7	3.9	3.3
ROE	27.8%	26.4%	27.9%	25.6%
ROCE	25.9%	21.6%	25.4%	24.5%
EV/EBIDTA (x)	14.0	15.5	11.9	9.7

Source: Company, Destimoney Research

Financials

Income Statement

(In ₹ mn)	FY10	FY11	FY12E	FY13E
Net Sales	18,329	21,220	25,114	29,109
Operating expense	14,953	18,173	21,146	24,248
EBIDTA	3,377	3,047	3,968	4,861
Depreciation	661	626	935	1,222
EBIT	2,716	2,421	3,033	3,639
Interest	165	121	176	219
EBT	2,551	2,301	2,857	3,420
Other Income	90	81	120	-
PBT	2,641	2,382	2,977	3,420
Tax	1,160	725	804	871
PAT	1,481	1,657	2,173	2,549
Ratios				
Sales Growth %	15.5%	15.7%	18.5%	16.0%
Operating Margin %	18.4%	14.4%	15.8%	16.7%
Net Margin %	8.1%	7.8%	8.7%	8.8%

Balance Sheet

(In ₹ mn)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity Share Capital	423	423	423	423
Reserves & Surplus	7,887	9,801	11,843	14,055
Loans	5,224	5,721	4,621	4,621
Minority Interest	0	16	16	16
Deferred Tax Liability	622	617	617	617
Current Liabilities (CL)	4270	7479	8790	10479
Provisions	1,226	1,427	753	873
Total	19,652	25,484	27,063	31,084
Assets				
Gross Block + CWIP	8875	11460	14389	18799
Accumulated Depreciation	2,718	3,287	4,223	5,445
Fixed Assets	6158	8173	10166	13355
Advances in Capex	352	368	-	-
Investments	190	200	200	200
Deferred Tax Asset	123	137	137	137
Current Assets (CA)	12828	16606	16559	17392
Total	19,652	25,484	27,063	31,084

Source: Company, Destimoney Research

Key risks

- ❑ Stiff competition by MNCs in acute as well as chronic segments is a key risk for Torrent's business.
- ❑ Currently, 75 drugs are controlled as per Drug Price Control Order. Any further addition of drugs under price control may lead to margin erosion for the company.
- ❑ Company is exposed to currency fluctuation risk as majority of its revenue comes from outside India.

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