

Disappointment continues in domestic biz – Maintain Hold

January 25, 2012

Reco Hold	Previous Reco Hold
CMP Rs 550	Target Price Rs 618
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	5,158
Sensex	17,077

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	(3)	(16)	(7)
Rel. to Nifty	(2)	(3)	(10)	3

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)	47/939
Daily Avg Volume (No of sh)	19585
Daily Avg Turnover (US\$m)	0.2

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	71.5	71.5	71.5
FII/NRI	5.5	4.9	4.3
Institutions	11.8	12.3	12.7
Private Corp	3.9	3.8	3.8
Public	7.3	7.5	7.7

Source: Capitaline

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- Q3FY12 results - Revenues at Rs6.7bn (up 22% YoY), EBITDA at Rs1bn (up 9%) and PAT at Rs832mn (up 8% YoY)
- Strong growth in revenues led by 71% growth in US and 29% growth in Brazil. Domestic business continues to disappoint with 8% growth
- Profitability impacted because of weak growth in profitable markets like India and forward covers taken at lower rate
- Going forward – Q4 is also expected to be subdued because of weak growth in India and forward covers at lower rates compared to current USD/ INR rate. Maintain hold on the stock with a target price of Rs618 (14x FY13 EPS of Rs44)

Domestic growth remains subdued, strong exports led by weak INR

- Domestic formulations (contributed 34%) growth was subdued at 8% led by –
 - Increased competition in key therapies like the Gastro, CNS, CVS and anti-infective segment. Torrent is growing below industry rate in all the therapies
 - The acute portfolio (contributes 45%) grew by only 4% compared to industry growth of 13% and the chronic segment (contributes 55%) grew by 11% against industry growth rate of 18%
 - Among the companies top 10 brands: anti-infective brands like topcef & droxyl declined by 3% & 2% and CVS brands like dilzem & domstal declined by 4% and 2% (source: AIOCD)
- Export formulations (contributed 56%) grew at 34% YoY (23% in constant currency terms) in Q3FY12 on account of
 - 71% growth in the US market (50% in USD) led by FTF launch of Zyprexa ODT and Aricept generic
 - 29% growth in Brazil and 14% growth in Heumann

Future growth drivers

- Management has guided for domestic growth rates to improve to industry growth rate in FY13 led by aggressive campaigns and higher promotional expenses in some categories of acute segment. It plans to launch one more division in the acute therapy with an expected additional strength of 400MRs
- In the US, the company has filed 3 ANDAs this quarter (5 till date) taking the cumulative filings to 65. Management has guided for 3 ANDA launches in Q4FY12
- 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 17% revenue CAGR over FY11-13E. EBITDA margins are expected to increase from 15.7% in FY11 to 16.5% in FY12E and 17.1% in FY13E. Earnings will grow by 29% CAGR over FY11-13E. We maintain our target price on the stock at Rs618 (14x FY13E EPS of Rs44) with a Hold rating. At CMP, Torrent trades at 15x FY12E and 12x FY13E EPS.

Financials

Rs mn

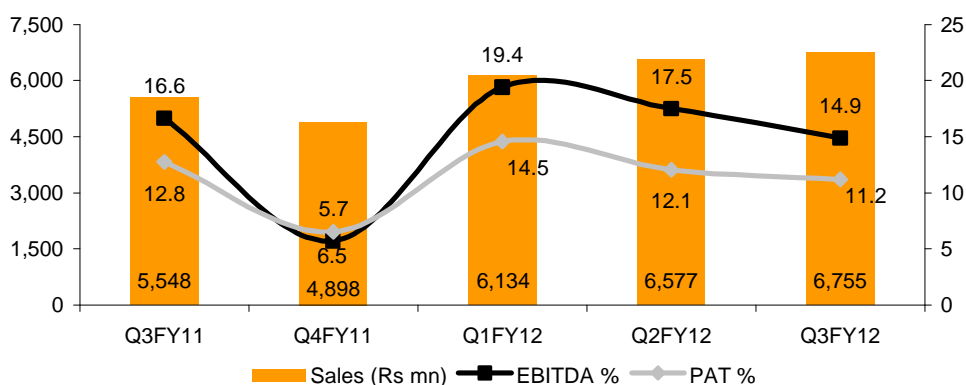
YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	18,890	3,937	20.8	2,665	31.5	13.7	31.2	17.5	12.2	5.6
FY11	21,438	3,365	15.7	2,248	26.6	(15.6)	26.1	20.7	14.1	4.6
FY12E	25,746	4,245	16.5	3,191	37.7	41.9	27.8	14.6	11.7	4.0
FY13E	29,249	4,999	17.1	3,730	44.1	16.9	26.2	12.5	10.2	3.6

Key Financials - Quarterly

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Net Sales	5,548	4,898	6,134	6,577	6,755	21.8	2.7	19,466	16,322	19.3
Other operating income	227	256	341	256	211	(13.6)	(17.7)	807	679	18.9
Total Revenues	5,775	5,154	6,475	6,583	6,871	19.0	4.4	19,929	17,000	17.2
Expenditure	4,625	4,619	4,944	5,427	5,751	24.3	6.0	16,121	13,519	19.3
as % of sales	83.4	94.3	80.6	82.5	85.1	176.6	262.5	82.8	82.8	(1.2)
Consumption of RM	1,771	1,722	1,959	2,221	2,223	25.5	0.1	6,403	5,244	22.1
as % of sales	31.9	35.2	31.9	33.8	32.9	98.7	(86.7)	32.9	32.1	76.6
Employee Cost	979	1,003	1,115	1,161	1,199	22.5	3.3	3,475	2,893	20.1
as % of sales	17.6	20.5	18.2	17.6	17.8	10.3	10.4	17.8	17.7	12.8
Other expenditure	1,875	1,894	1,870	2,045	2,329	24.2	13.9	6,244	5,383	16.0
as % of sales	33.8	38.7	30.5	31.1	34.5	67.6	338.7	32.1	33.0	(90.6)
EBITDA	923	279	1,190	1,150	1,004	8.8	(12.7)	3,345	2,803	19.3
Depreciation	161	167	202	201	197	22.1	(1.8)	600	458	30.9
EBIT	762	112	988	950	807	6.0	(15.0)	2,745	2,345	17.1
Other Income	18	16	24	43	23	28.6	(44.9)	90	221	(59.2)
Interest	35	28	41	29	2	(95.7)	(94.9)	71	93	(23.1)
PBT	972	356	1,313	1,219	1,040	6.9	(14.7)	3,572	3,152	13.3
Total Tax	203	37	287	212	201	(1.3)	(5.2)	700	688	1.7
Extra ordinary items	0	110	1	8	7	-	-	16	-35	
Reported PAT	769	428	1,025	999	832	8.2	(16.8)	2,856	2,429	17.6
Reported EPS	9.1	5.1	12.1	11.8	9.8	8.2	(16.8)	33.8	28.7	17.6
Forex gains, net	55	-	-	124.0	-	-	-	124.0	-	-
One-time R&D income	6	-	133	82.6	77	-	-	292.1	-	-
Adjusted PAT	708	318	892	793	755	6.7	(4.7)	2,440	2,327	4.9
Adj. EPS	8.4	3.8	10.5	9.4	8.9	6.7	(4.7)	28.8	27.5	4.9

Margins (%)					(bps)	(bps)				(bps)
EBIDTA	16.6	5.7	19.4	17.5	14.9	(177)	(262)	17.2	17.2	1
EBIT	13.7	2.3	16.1	14.4	12.0	(177)	(249)	14.1	14.4	(26)
EBT	17.5	7.3	21.4	18.5	15.4	(213)	(314)	18.3	19.3	(96)
PAT	12.8	6.5	14.5	12.1	11.2	(157)	(87)	14.7	14.9	(21)
Effective Tax rate	20.9	10.5	21.9	17.4	19.3	(160)	194	19.6	21.8	(223)

Quarterly trend



Revenue Break-Up

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY %	QoQ %
India	2,116	1,815	2,460	2,371	2,294	8.4	-3.2
CMO	599	532	613	551	674	12.5	22.3
Total Dom	2,715	2,347	3,073	2,922	2,968	9.3	1.6
Brazil	920.0	769.0	1055.0	1210.0	1186.0	28.9	-2.0
US	367	143.0	422.0	499	628	71.1	25.9
Heumann	758	812.00	825.00	931	867	14.4	-6.9
Mexico	11.0	18.0	27.0	38.0	46.0	318.2	21.1
RoW	297	364	292	387	386	30.0	-0.3
Russia	144	166	108	161	202	40.3	25.5
RoE	337	279	332	429	472	40.1	10.0
Total export	2834	2551	3061	3655	3787	33.6	3.6
Total Sales	5,549	4,898	6,134	6,577	6,755	21.7	2.7

- **EBITDA margins** at 14.9% contracted by 177bps YoY on account of –
 - **Raw material cost** (33% of sales) increased by 26% YoY
 - **Staff cost** (18% of sales) increased by 23% YoY due to MR addition in earlier quarters. Management has guided for total MR strength to increase by 15% to 3000 due to the addition of more division in the acute category
 - **Other expenses** (35% of sales) increased by 24% YoY due to higher spend on promotional activities and higher manufacturing overheads
 - Margins were also impacted because of reduction in export benefits and adverse product mix
- **PAT margin** for the quarter contracted by 60bps to 14.5% post adjusting for forex loss of Rs180mn and licensing income of Rs94mn this quarter

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 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 H2FY13. Torrent has received licensing income of Rs200mn in FY11, Rs270mn in H1FY12 and Rs94mn in Q3FY12.

Key Concall Highlights

Revenue growth: Revenues grew by 22% in INR and 19% in constant currency terms. US business grew 71% in INR (50% in USD) and Brazil grew 29% in INR (21% in USD). Sales were realized at higher rates of Rs52 vs. Rs45 in Q3FY11

Domestic business: Acute segment grew 4% and chronic grew by 15%. The company plans to add a division in the acute therapy for which it is expected to increase its field force strength from 2600 currently to 3000

Brazil: Management has guided for 3-4 product launches in the next 2 quarters and is confident of maintain 15-20% on an on-going basis

US: The Company has gained market share in Aricept and Olanzapine ODT. It has guided for 3 ANDA launches in Q4FY12. It currently has 31 ANDA filings and 14 are pending for approval. The approval time for ANDA has increased from 18 months to 24 months

DEPB Impact: The Company used to get 5% credit on its international sales. Lack of DEPB benefit has impacted EBITDA margins to the extent of 1%

Torrent Pharma – Domestic Metrics

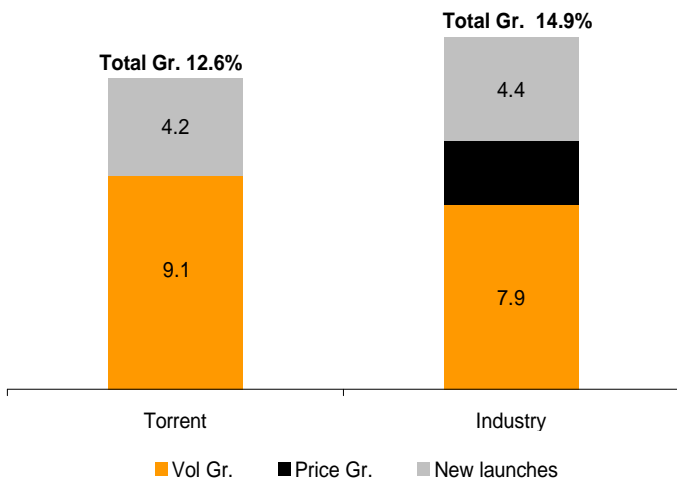
Torrent's therapeutic growth

Therapies	% Contribution	MAT Dec'11	MAT Dec'10	YoY Gr. %
Cardiac	32.8%	300.4	264.5	13.6%
Gastro	18.1%	165.5	156.0	6.1%
CNS	21.0%	192.8	170.1	13.3%
Anti-Infective	13.3%	121.8	111.3	9.5%
Anti-Diabetic	5.8%	53.4	47.4	12.6%
Pain	3.1%	28.3	23.8	18.8%
Vit/ Minerals	1.7%	15.7	12.8	23.0%
Respiratory	0.5%	4.9	4.9	0.4%
Derma	1.1%	10.0	8.1	24.3%
Others	2.6%	23.5	15.2	54.8%
Acute	40.2%	368.2	327.4	12.5%
Chronic	59.8%	548.2	486.6	12.6%
Total Sales	100.0%	916.3	814.0	12.6%

Dec'11 MAT growth for Torrent has been subdued at 9%

- Acute segment which contributes 40% grew by 12.5%
- Chronic segment which contributes 60% grew by 12.6%

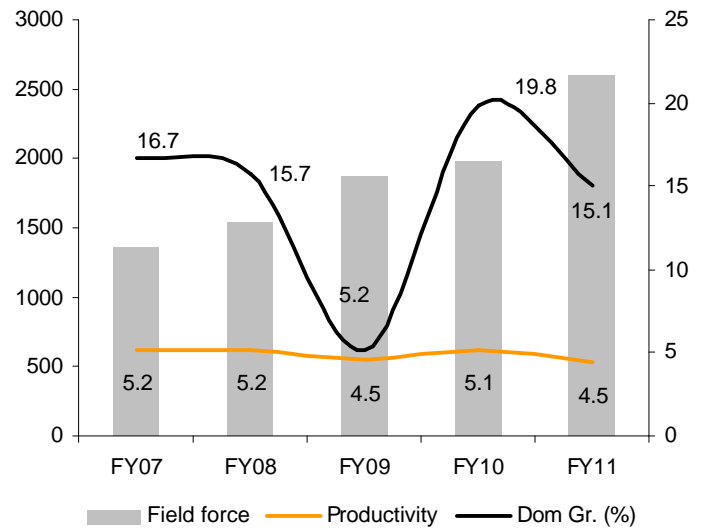
Growth drivers - Volume/ Price/ New launches



- Torrent's growth during MAT Dec'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
- Lower MR productivity remains a concern for the company

Top 10 brand performance

Rs Cr	Therapies	MAT Dec'11	MAT Dec'10	YoY Gr.
Alprax	CNS	38.3	34.9	9.6%
Nikoran	Gynaec	34.2	31.1	10.3%
Dilzem	CVS	30.5	31.8	-4.2%
Topcef	Anti-Infective	28.8	29.7	-2.8%
Domstal	CVS	28.1	28.6	-2.0%
Nebicard	Gastro	23.8	19.4	22.8%
Azulix-mf	Anti-Diabetics	20.3	16.4	23.5%
Nexpro rd	Gastro	19.9	14.8	34.5%
Droxyl	Anti-Infective	19.6	19.9	-1.8%
Deplatt-a	CVS	17.6	15.5	13.5%
Total		261.2	242.3	7.8%

- Top 10 brands contribute 29% to the domestic formulation sales
- There has been increasing pressure on company's top brands like topcef, droxyl, domstal and dilzem

Financial Snapshot

Rs mn	FY11	FY12E	YoY %	FY13E	YoY %
Formulations	18984	23383	23.2%	25735	10.1%
Domestic	8030	9119	13.6%	9676	6.1%
Exports	10955	14264	30.2%	16059	12.6%
Brazil	3551	4627	30.3%	5182	12.0%
Heumann	2812	3495	24.3%	3670	5.0%
Europe (W/o Heumann)	1476	1661	12.5%	1827	10.0%
US	1143	2034	78.0%	2683	31.9%
Russia CIS	620	619	-0.2%	650	5.0%
ROW	1353	1828	35.1%	2047	12.0%
Contract Manufacturing	2199	2337	6.3%	3488	49.2%
Total Sales	21184	25720	21.4%	29223	13.6%
Others	1081	983	-9.1%	553	-43.8%
Gross Sales	22265	26703	19.9%	29776	11.5%
Licensing Income	230	460	-	0	-
Other income	210	-30	-	0	-
Core Revenues	21825	26273	20.4%	29776	13.3%
EBITDA	3,365	4,245	26.2%	4,999	17.8%
EBITDA %	15.7	16.5		17.1	
Adjusted EBITDA %	17.3	14.4%		16.8%	
PAT	2,248	3,191	41.9%	3,730	16.9%
PAT %	10.5	12.4		12.8	
EPS	26.6	37.7	41.9%	44.1	16.9%
PE @ CMP	20.7	14.6		12.5	

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	18,890	21,438	25,746	29,249
<i>Growth (%)</i>	15.9	13.5	20.1	13.6
Expenditure	14,953	18,073	21,501	24,250
Raw Materials	5,710	6,965	10,419	11,828
SGA	5,406	6,467	4,959	5,393
Employee Cost	3,162	3,895	5,226	6,010
Other Exp	675	746	896	1,018
EBITDA	3,937	3,365	4,245	4,999
<i>Growth (%)</i>	31.3	-14.5	26.2	17.8
EBITDA margin (%)	20.8	15.7	16.5	17.1
Depreciation	606	626	797	810
EBIT	3,331	2,739	3,448	4,189
EBIT margin (%)	17.6	12.8	13.4	14.3
Other Income	216	81	117	114
Interest expenses	291	121	73	167
PBT	2,942	3,139	3,922	4,136
Tax	632	725	890	933
<i>Effective tax rate (%)</i>	21.5	23.1	22.7	22.5
Adjusted PAT	2,665	2,248	3,191	3,730
(Profit)/loss from JV's/Ass/MI	0	0	0	0
Adjusted PAT after MI	2,665	2,248	3,191	3,730
<i>Growth (%)</i>	13.7	-15.6	41.9	16.9
Net Margin (%)	14.1	10.5	12.4	12.8
E/O items	-314	440	430	0
Reported PAT	2,311	2,414	3,032	3,203
<i>Growth (%)</i>	25.3	4.5	25.6	5.6

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	2,726	3,059	3,805	4,022
Depreciation	606	626	797	810
Interest Provided	291	121	73	167
Other Non-Cash items	0	0	0	0
Chg in working cap	348	577	-1,267	-488
Tax paid	-705	-725	-890	-933
Operating Cashflow	3,266	3,656	2,518	3,578
Capital expenditure	-1,469	-2,656	-3,537	-2,500
Free Cash Flow	1,797	1,000	-1,019	1,078
Other income	216	81	117	114
Investments	-17	-48	0	0
Investing Cashflow	-1,270	-2,624	-3,420	-2,386
Equity Capital Raised	81	-1,190	-1,288	-1,897
Loans Taken / (Repaid)	398	497	375	450
Interest Paid	-291	-121	-73	-167
Dividend paid (incl tax)	-592	-787	-594	-594
Income from investments	0	0	0	0
Others	-10	1,472	527	0
Financing Cashflow	-414	-128	-1,053	-2,208
Net chg in cash	1,583	905	-1,954	-1,016
Opening cash position	2,300	3,883	4,788	2,834
Closing cash position	3,883	4,788	2,834	1,818

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	423	423	423	423
Reserves & surplus	7,887	9,801	11,191	12,430
Net worth	8,310	10,224	11,614	12,853
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	18,205	19,894
Gross Block	8,129	9,643	13,217	15,717
Less: Depreciation	2,717	3,287	4,123	4,933
Net block	5,412	6,355	9,095	10,784
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	15,345	14,771	14,861
Inventories	3,236	5,048	5,226	5,060
Sundry debtors	2,982	3,404	4,377	4,972
Cash & bank balance	3,883	4,788	2,834	2,345
Loans & advances	1,507	2,105	2,334	2,484
Other current assets	0	0	0	0
Current lia & Prov	5,496	8,907	9,304	9,396
Current liabilities	4,216	7,479	7,771	7,869
Provisions	1,280	1,427	1,534	1,527
Net current assets	6,112	6,439	5,467	5,464
Misc. exp & Def. Assets	0	0	0	0
Total Assets	14,033	16,440	18,205	19,894

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	20.8	15.7	16.5	17.1
Net Margin	14.1	10.5	12.4	12.8
ROCE	28.5	19.1	21.2	23.2
ROE	31.2	26.1	27.8	26.2
RoIC	46.8	37.3	36.7	34.0
Per Share Data (Rs)				
EPS	31.5	26.6	37.7	44.1
CEPS	34.5	28.8	42.1	53.7
BVPS	98.2	120.8	137.2	151.9
DPS	6.0	8.0	6.0	0.0
Valuations (x)				
PER	17.5	20.7	14.6	12.5
P/CEPS	16.5	15.9	12.6	0.0
P/BV	5.6	4.6	4.0	3.6
EV / Sales	2.5	2.2	1.9	1.7
EV / EBITDA	12.2	14.1	11.7	10.2
Dividend Yield (%)	1.1	1.5	1.1	0.0
Gearing Ratio (x)				
Net Debt/ Equity	16.1	9.1	28.1	32.7
Net Debt/EBITDA	0.3	0.3	0.7	0.8
Working Cap Cycle (days)	68	52	63	62

Recommendation History: Torrent Pharma – TRP IN

Date	Reports	Reco	CMP	Target
19/10/2011	Torrent Pharma Q2FY12 Result Update	Hold	577	618
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

Recent Research Reports

Date	Reports	Reco	CMP	Target
24/01/2012	Lupin Q3FY12 Result Update	Buy	446	521
23/01/2012	Unichem Laboratories Q3FY12 Result Update	Hold	143	144
17/01/2012	Pair Trade Lupin vs Cadila			
14/12/2011	Rupee depreciation Who will benefit			

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