

Torrent Pharmaceuticals

29 October 2012

Reuters: TORP.BO; Bloomberg: TRP IN

Brazil Business Dents Overall Strong Performance

Torrent Pharmaceuticals' (TPL) results were in line with our/consensus estimates, but a month-long strike at ANVISA, Brazil's drug regulator, hurt overall performance in an otherwise strong quarter for remaining geographies. Going forward, the management believes Brazilian growth (1HFY13 growth of 10%YoY) will moderate due to: a) Loss of market share in some of the affected products, and b) General slowdown in Brazilian market. We have marginally tweaked our revenue assumptions (factoring in lower growth in Brazil and higher growth in the US and Europe, in line with 1HFY13) although our overall numbers remain broadly unchanged. We have retained our target price of Rs715 (14x FY14E EPS of Rs51) and Hold rating on the stock.

Strike at Brazilian drug regulator hurts overall export growth: A month-long strike at Brazilian drug regulator, ANVISA (Agencia Nacional de Vigilancia Sanitaria) led to delay in product clearance at the ports, thereby affecting Brazilian operations (down 7%YoY) during the quarter. Subsequently, the company lost market share in some of its key products, a part of which may be non-recoverable as per the management. Overall exports thus grew at a muted 14% YoY, despite strong performance by the US market (up 71% YoY), Europe excluding Heumann (up 22%YoY) and ROW markets (up 25% YoY). Russian market growth moderated to 8%YoY, while Heumann, TPL's German subsidiary, posted a 4% YoY decline. Domestic branded business grew 15% YoY (growth recovery in acute therapies), contrary to our expectation of moderate growth (our estimate was 10%) due to a delayed monsoon. Contract manufacturing business growth was flat, due to lower insulin off-take by Novo-Nordisk.

Operating performance - some hits, some misses: TPL's operating performance was boosted by licensing income of Rs300mn (of which Rs100mn is non-recurring) and currency benefits (by ~100bps), while additional field force in Brazil (65 people added in 2QFY13) and India (150 people added in 4QFY12) dragged margins, which stood at 20%, slightly lower than our/consensus estimates. We stick to our thesis of margin expansion (led by break-even in the US business, higher capacity utilisation at its Sikkim facility and higher growth in India – its most profitable market) and believe our margin assumption of 17.7% for FY13E (1HFY13 margins stood at 20.3%) adequately cushions any margin contraction in the coming quarters due to lower growth in Brazil.

Outlook and valuation: We remain positive on TPL's domestic growth recovery and expect a gradual expansion in margins, but moderation in Brazilian growth in the near term may keep the stock's performance muted despite cheap valuation (30-40% discount to peers). We have retained our Hold rating on the stock with a TP of Rs715.

HOLD
Sector: Pharmaceuticals

CMP: Rs669

Target Price: Rs715

Upside: 7%

Praful Bohra

praful.bohra@nirmalbang.com

+91-22-3926 8175

Key Data

Current Shares O/S (mn)	84.6
Mkt Cap (Rsbn/US\$bn)	56.6/1.0
52 Wk H / L (Rs)	729/505
Daily Vol. (3M NSE Avg.)	544,42

Price Performance (%)

	1 M	6 M	1 Yr
Torrent	(3.7)	2.0	16.1
Nifty Index	(0.6)	9.2	5.8

Source: Bloomberg

Y/E March (Rsmn)	2QFY12	1QFY13	2QFY13	YoY (%)	QoQ (%)	1HFY12	1HFY13	YoY (%)
Net revenue	6,833	7,669	7,772	13.7	1.3	13,308	15,441	16.0
Raw material costs	2,221	2,200	2,169	(2.3)	(1.4)	4,180	4,369	4.5
% of revenue	32.5	28.7	27.9	-	-	31.4	28.3	-
Personnel costs	1,161	1,531	1,555	34.0	1.6	2,276	3,086	35.6
% of revenue	17.0	20.0	20.0	-	-	17.1	20.0	-
Other expenses	2,045	2,379	2,494	22.0	4.8	3,915	4,874	24.5
% of revenue	29.9	31.0	32.1	-	-	29.4	31.6	-
EBITDA	1,407	1,560	1,553	10.4	(0.4)	2,938	3,113	6.0
EBITDA margin (%)	20.6	20.3	20.0	-	-	22.1	20.2	-
Other income	43	140	123	189.9	(12.1)	67	263	293.7
Depreciation	201	201	203	1.1	0.8	403	404	0.4
Interest expenses	29.3	94.2	79.8	172.4	(15.3)	70	174	149.3
PBT	1,219	1,404	1,394	14.3	(0.7)	2,533	2,798	10.5
Tax	212	374	309	46.1	(17.3)	499	683	36.9
Tax rate (%)	17.3	26.6	22.2	-	-	19.7	24.4	-
Minority interest	7.8	11.9	12.2	-	-	9	24	-
Net profit	1,000	1,019	1,073	7.3	-	2,025	2,091	3.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E Mar (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Revenue	19,160	22,265	26,364	30,222	34,313
YoY (%)	17.5	16.2	18.4	14.6	13.5
EBITDA	4,208	4,092	4,350	5,357	6,509
EBITDA (%)	22.0	18.4	16.5	17.7	19.0
Adj PAT	2,312	2,702	2,840	3,477	4,313
YoY (%)	19.9	16.8	5.1	22.4	24.1
Fully DEPS	27.3	31.9	33.6	41.1	51.0
RoE (%)	31.2	29.2	25.6	25.7	25.9
RoCE (%)	27.1	22.6	20.1	21.6	22.4
P/E (x)	24.5	21.0	19.9	16.3	13.1
EV/EBITDA (x)	13.8	14.1	12.8	10.3	8.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Revenue break-up

(Rsmn)	2QFY12	1QFY13	2QFY13	YoY (%)	QoQ (%)	1HFY12	1HFY13	YoY (%)
India	2,362	2,778	2,710	14.7	(2.4)	4,831	5,488	13.6
Latin America	1,280	1,403	1,225	(4.3)	(12.7)	2,330	2,628	12.8
Germany	938	783	905	(3.5)	15.6	1,756	1,688	(3.9)
US	542	789	924	70.5	17.1	921	1,713	86.0
Europe (excl. Heumann)	507	532	619	22.1	16.4	761	1,151	51.2
Rest of the world	408	492	508	24.5	3.3	679	1,000	47.3
Russia & CIS	167	213	180	7.8	(15.5)	269	393	46.1
Contract manufacturing	656	639	663	1.1	3.8	1,155	1,302	12.7
Others	(12)	40	37	(408.3)	(7.5)	15	77	413.3
Total	6,848	7,669	7,771	13.5	1.3	12,717	15,440	21.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Actual versus NBIE, Bloomberg consensus estimates

Particulars (Rsmn)	Actuals	Our estimates	Variation (%)	Bloomberg cons. est.	Variation (%)
Revenue	7,772	7,777	(0.1)	7,917	(1.8)
EBITDA	1,553	1,603	(3.1)	1,648	(5.7)
EBITDA margin (%)	20.0	20.6	(60bps)	20.8	(80bps)
Reported PAT	1,073	1,110	(3.4)	1,103	(2.8)

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Rating history

Date	Rating	Market price (Rs)	Target price (Rs)
1 November 2011	Buy	575	715
12 January 2012	Buy	551	715
24 January 2012	Buy	548	715
16 April 2012	Buy	623	715
21 May 2012	Buy	617	715
24 July 2012	Hold	632	715
4 October 2012	Hold	684	715

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

This report is published by Nirmal Bang's Institutional Equities Research desk. Nirmal Bang has other business units with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets. This report is for the personal information of the authorised recipient and is not for public distribution. This should not be reproduced or redistributed to any other person or in any form. This report is for the general information for the clients of Nirmal Bang Equities Pvt. Ltd., a division of Nirmal Bang, and should not be construed as an offer or solicitation of an offer to buy/sell any securities.

We have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

Nirmal Bang or any persons connected with it do not accept any liability arising from the use of this document or the information contained therein. The recipients of this material should rely on their own judgment and take their own professional advice before acting on this information. Nirmal Bang or any of its connected persons including its directors or subsidiaries or associates or employees or agents shall not be in any way responsible for any loss or damage that may arise to any person/s from any inadvertent error in the information contained, views and opinions expressed in this publication.

'Access our reports on Bloomberg Type NBIE <GO>'

Team Details:

Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	+91 22 3926 8098 / 99
Hemindra Hazari	Head of Research	hemindra.hazari@nirmalbang.com	+91 22 3926 8017 / 18

Sales and Dealing:

Neha Grover	AVP Sales	neha.grover@nirmalbang.com	+91 22 3926 8093
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8833
Sudhindar Rao	Dealing Desk	sudhindar.rao@nirmalbang.com	+91 22 3926 8229, +91 22 6636 8832
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 3926 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park
 Lower Parel (W), Mumbai-400013.
 Board No. : 91 22 3926 8000/1
 Fax. : 022 3926 8010