

**CMP : Rs.724**

**Reco : HOLD**

**Target : Rs.787**

**STOCK INFO**

BSE	500420
NSE	TORNTPHARM
Bloomberg	TRP IN
Reuters	TORP.BO
Sector	Pharmaceutical
Face Value (Rs)	5
Equity Capital (Rs mn)	423
Mkt Cap (Rs mn)	52,100
52w H/L (Rs)	761/540
Avg Daily Vol (BSE+NSE)	89,952

**SHAREHOLDING PATTERN**

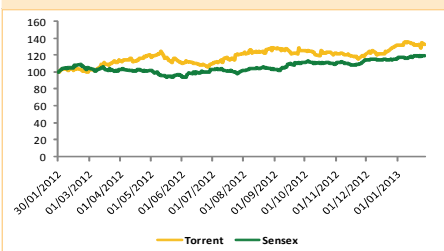
	%
(as on 31st Dec. 2012)	
Promoters	71.5
FII's	7.0
DII's	9.7
Public & Others	11.8

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
TORRENT PHARMA	1.0	8.5	33.3
SENSEX	2.0	8.6	19.2

Source: Capitaline, IndiaNivesh Research

**TORRENT PHARMA v/s SENSEX**



Source: Capitaline, IndiaNivesh Research

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**Slow growth in International business linked with 3% decline in Brazilian business, while domestic business was in-line with industry.**

On the back of a) 44% y-o-y increase in US business, b) 14% y-o-y increase in Europe (Excluding Heumann), CIS & ROW business and c) 15% y-o-y growth from Heumann (Germany) & d) 3% y-o-y decline in Brazilian business linked with government program for Losartan & Metformin, International business grew merely 16% y-o-y to Rs 4.49 billion in Q3FY13. Domestic branded formulation business grew in-line with the industry and reported 13% y-o-y growth to Rs 2.60 billion. CRAMs business declined 4% y-o-y to Rs 587 million due to lower supply of Insulin to its customer.

Hence, overall business grew 14% y-o-y (2.9% q-o-q) to Rs 7.69 billion below our estimates. (V/s Rs 8.04 billion)

**Revenue Mix:**

(Rs Mn)	Q3FY13	Contribution	Q3FY12	Contribution	Y-o-Y
<b>Domestic Sales</b>					
Branded business	2,606	33.8%	2,302	33.9%	13.2%
Contract Manufacture	587	7.6%	609	9.0%	-3.6%
Others	25	0.3%	14	0.2%	77.0%
<b>Total Domestic Sales</b>	<b>3,218</b>	<b>41.8%</b>	<b>2,925</b>	<b>43.0%</b>	<b>10.0%</b>
Export	4,489	58.2%	3,873	57.0%	15.9%
<b>Total Sales</b>	<b>7,707</b>	<b>100.0%</b>	<b>6,797</b>	<b>100.0%</b>	<b>13.4%</b>
Excise Duties	(20)		-12.5		60.8%
<b>Net Sales</b>	<b>7,686</b>		<b>6,785</b>		<b>13.3%</b>

Source: Company Filings; IndiaNivesh Research

**Operating performance:**

Company's EBITDA grew 32% y-o-y (5.6% sequentially) to Rs 1.32 billion in Q3 FY13 (V/s INSPL est= Rs 1.45 billion). EBITDA margin declined 235 bps y-o-y (45 bps q-o-q) to 17.2% level in Q3FY13 (V/s INSPL est= 18%) due to decline in material cost & other expenditure partially offset by increase in employee cost.

During the quarter company received income of Rs 110 million from litigation settlement & another Rs 110 million as royalty payment, reported in other operating income. Hence, company reported other operating income of Rs289 million in Q3FY13 (V/s Rs 211 million in Q2FY12), & effective tax rate increased 216 bps y-o-y to ~22% level. Company's net profit grew 35% y-o-y to Rs 1.12 billion in Q3FY13 (V/s INSPL est= Rs 1.21 billion).

Company reported EPS of Rs 13.3 in Q3 FY13 compared to Rs 9.8 in Q3 FY12. Additionally, company has declared interim dividend of 120% for Rs 5 face value per share.

**Valuation:**

At CMP of Rs 724, the stock is trading at P/E multiple of 14x & 12x of FY13E & FY14E earnings estimates respectively. During the quarter company's growth in domestic market was in line with industry growth while company missed the estimates on international front mainly due to slowdown in Brazilian business (which declined ~3% y-o-y) partially due to currency variation. Brazilian business in constant currency grew 4% y-o-y. Due to governments interference for pricing of certain life savings drugs & slowdown in approval, Torrent's growth in Brazilian market would be critical. After muted performance in the previous year, Torrent's domestic market has reported 13.5% revenue growth in 9MFY13, almost in-line with industry. Currently, company has ~3900 field force in domestic market & likely to maintain the number

for next 1-2 years. However, management has emphasized on the improvement of productivity of field force from current Rs 0.24 million to Rs .40 million. We believe that despite low base, company's growth in domestic market is not satisfactory. In our view, international business seems on auto pilot mode and likely to maintain healthy momentum going forward. Due to inconsistency performance in the past, stock has traded at discount valuations to its peers and likely to trade at discount in future also. At current level, stock looks fairly valued. We maintain HOLD rating on the stock, with the target price of Rs 787, valuing at 13x of FY14E earnings estimates.

Particulars (Rs Mn except EPS)	Q3FY13	Q3FY12	Y-o-Y	Q2FY13	Q-o-Q	FY12
Net Sales	7,686	6,755	13.8%	7,472	2.9%	25,944
<b>Total Income</b>	<b>7,686</b>	<b>6,755</b>	<b>13.8%</b>	<b>7,472</b>	<b>2.9%</b>	<b>25,944</b>
(increase)/Decrease in closing stock	(393)	(7)	NM	(700)	-43.8%	(34)
Consumption of raw material	2,118	1,653	28.2%	2,122	-0.2%	6,512
Purchase of finished goods	742	578	28.5%	747	-0.6%	2,153
Employee Cost	1,538	1,199	28.2%	1,555	-1.1%	5,337
Other Expenditure	2,358	2,329	1.2%	2,494	-5.5%	7,984
<b>Total Expenditure</b>	<b>6,363</b>	<b>5,751</b>	<b>10.6%</b>	<b>6,219</b>	<b>2.3%</b>	<b>21,953</b>
<b>EBITDA</b>	<b>1,323</b>	<b>1,004</b>	<b>31.8%</b>	<b>1,253</b>	<b>5.6%</b>	<b>3,991</b>
Depreciation & Ammortization	204	197	3.7%	203	0.6%	817
<b>EBIT</b>	<b>1,119</b>	<b>807</b>	<b>38.6%</b>	<b>1,050</b>	<b>6.6%</b>	<b>3,174</b>
Other Operating Income	289	211	37.2%	301	-3.9%	1,015
Other Income	89	23	279.1%	123	-28.0%	445
Interest Expenses/ (income)	67	2	4386.7%	80	-15.7%	395
<b>Pre-tax Profit</b>	<b>1,429</b>	<b>1,040</b>	<b>37.5%</b>	<b>1,394</b>	<b>2.5%</b>	<b>4,240</b>
Tax	309	201	53.8%	309	-0.2%	723
<b>Net Profit before minority interest</b>	<b>1,121</b>	<b>839</b>	<b>33.5%</b>	<b>1,085</b>	<b>3.3%</b>	<b>3,517</b>
Minority Interest	3	(7)	-137.0%	(12)	-122.1%	(23)
<b>Net Profit after minority interest</b>	<b>1,123</b>	<b>832</b>	<b>35.0%</b>	<b>1,073</b>	<b>4.7%</b>	<b>3,494</b>
Exceptional items	-	-	-	-	NA	(654)
<b>Net profit Reported</b>	<b>1,123</b>	<b>832</b>	<b>35.0%</b>	<b>1,073</b>	<b>4.7%</b>	<b>2,840</b>
EPS	13.3	9.8	35.0%	12.7	4.7%	41.3
O/Share (million)	85	85	-	85	-	85

Ratios	Q3FY13	Q3FY12	Bps	Q2FY13	Bps	FY12
EBITDA margin	17.2%	14.9%	235	16.8%	45	15.4%
Net Margin	14.6%	12.3%	230	14.4%	26	13.5%
Material cost/Net Sales	32.1%	32.9%	(81)	38.4%	(630)	33.3%
Employee Cost/ Net Sales	20.0%	17.8%	226	20.8%	(81)	20.6%
Other Expenditure/ Net Slaes	30.7%	34.5%	(380)	33.4%	(270)	30.8%
Tax Rate	21.6%	19.3%	230	22.2%	(58)	17.1%

Source: Company Filings; IndiaNivesh Research



Trust.....we earn it.

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