

January 30, 2013

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Rating	BUY
Price	Rs711
Target Price	Rs875
Implied Upside	23.1%
Sensex	20,005
Nifty	6,056

(Prices as on January 30, 2013)

Trading data

Market Cap. (Rs bn)	60.2
Shares o/s (m)	84.6
3M Avg. Daily value (Rs m)	50.4

Major shareholders

Promoters	71.51%
Foreign	6.99%
Domestic Inst.	9.74%
Public & Other	11.76%

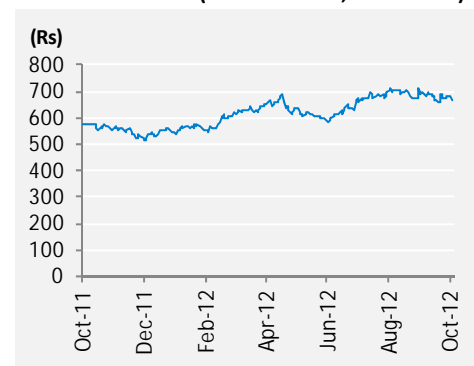
Stock Performance

(%)	1M	6M	12M
Absolute	0.0	5.9	29.2
Relative	(2.9)	(10.8)	10.6

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	50.5	46.5	8.5
2014	62.5	54.9	13.9

Price Performance (RIC: TORP.BO, BB: TRP IN)



Source: Bloomberg

Torrent Pharma's (TRP's) Q3FY13 result was above our estimates due to strong improvement in EBITDA margins. The top-line performance was in line with estimates as revenues from Brazil declined YoY, primarily impacted by unfavourable currency. However, with the revival in growth in domestic formulation business and strong growth in US and RoW markets, the company is expected to report strong performance, going forward. At the current price, the stock trades at 14.1x FY13E and 11.4x FY14E earnings. Maintain **'BUY'** with target price of Rs875.

- Top-line growth was impacted by Brazilian operations:** TRP's revenue for the quarter reported muted growth of 14.5% YoY to Rs8bn, primarily impacted by lower growth in international formulation business. However, the domestic formulation business continues to revive with 14% YoY growth during the quarter. CRAMS business reported flat revenues YoY due to lower demand from its partner on account of loss in few tenders.
- Adjusted PAT grew by 35%:** The company reported 33% YoY increase in EBITDA during the quarter to Rs1.6bn, while EBITDA margins expanded by 280bps YoY to 20.2% due to favourable product mix and operating leverage. PAT grew by 35% YoY to Rs1.12bn, in line with strong operational performance.
- Valuation and View:** TRP's earnings are likely to grow at 28% CAGR over FY12-14, in line with strong operating performance. Its high return ratios are likely to sustain. We believe that the current valuations do not reflect the improvement in business profitability, the turnaround of international operations and TRP's strong positioning in the domestic formulations business. The stock trades at 14.1x FY13E and 11.4x FY14E current earnings estimates. We retain our **'BUY'** recommendation, with target price of Rs875.

Key financials (Y/e March)

	2011	2012	2013E	2014E
Revenues (Rs m)	22,049	26,959	31,714	36,767
Growth (%)	15.8	22.3	17.6	15.9
EBITDA (Rs m)	3,876	5,006	6,221	7,659
PAT (Rs m)	2,702	3,251	4,269	5,291
EPS (Rs)	31.9	38.4	50.5	62.5
Growth (%)	0.8	20.3	31.3	23.9
Net DPS (Rs)	—	—	—	—

Profitability & Valuation

	2011	2012	2013E	2014E
EBITDA margin (%)	17.6	18.6	19.6	20.8
RoE (%)	29.2	29.3	31.4	30.6
RoCE (%)	20.1	21.6	24.8	25.3
EV / sales (x)	2.8	2.2	1.8	1.5
EV / EBITDA (x)	15.8	11.6	9.2	7.2
PE (x)	22.3	18.5	14.1	11.4
P / BV (x)	5.9	5.0	4.0	3.1
Net dividend yield (%)	—	—	—	—

Source: Company Data; PL Research

Exhibit 1: Q3FY13 Result Overview (Rs m)

Y/e March	Q3FY13	Q3FY12	YoY gr. (%)	Q2FY13	9MFY13	9MFY12	YoY gr. (%)
Gross sales	7,707	6,885	11.9	7,492	22,571	19,849	13.7
Excise duty	20	130	(84.4)	20	57	382	(85.0)
Net Sales	7,686	6,755	13.8	7,472	22,514	19,467	15.7
Other operating income	289	211	37.2	301	902	807	11.8
Total revenue	7,975	6,966	14.5	7,772	23,416	20,274	15.5
Raw Materials	2,467	2,223	11.0	2,169	6,836	6,404	6.7
Personnel Cost	1,538	1,199	40.0	1,555	4,624	3,475	20.0
Other Expenses	2,051	1,980	3.6	2,195	6,319	5,248	20.4
R&D	307	349	(12.0)	299	913	996	(8.3)
Total Expenses	6,363	5,751	10.6	6,219	18,692	16,122	15.9
EBITDA	1,612	1,215	32.7	1,553	4,725	4,152	13.8
Interest	67	2	NA	80	241	70	NA
Depreciation	204	197	3.7	203	608	600	1.5
Other Income	89	23	279.1	123	352	90	289.9
Recurring pre-tax income	1,429	1,040	37.5	1,394	4,227	3,572	18.3
Taxation	309	201	53.8	309	992	700	41.8
Net Income before Extraordinary item	1,121	839	33.6	1,085	3,236	2,873	12.6
Minority interest	(3)	7		12		16	
Reported Net income	1,123	832	35.1	1,073	3,236	2,873	12.6
Recurring Net Income	1,123	832	35.1	1,073	3,236	2,857	13.3
		9.8		12.7	38.2	33.8	
Ratios (%)							
EBITDA margins	20.2	17.4		20.0	20.2	20.5	
Net profit margins	14.1	11.9		13.8	13.8	14.1	
Raw material/sales	32.1	32.9		29.0	30.4	32.9	
Personnel cost/sales	20.0	17.8		20.8	20.5	17.8	
Others expenses/sales	26.7	29.3		29.4	28.1	27.0	
R&D/sales	4.0	5.2		4.0	4.1	5.1	
Tax rate	21.6	19.3		22.2	23.5	19.6	

Source: Company Data, PL Research

Brazil impacts an otherwise healthy performance

TRP's Q3FY13 results were above our estimates due to strong improvement in EBITDA margins. The top-line performance was in line with estimates as revenues from Brazil declined YoY, primarily impacted by unfavourable currency.

Top-line growth impacted by Brazil: TRP's revenue for the quarter reported growth of 14.5% YoY to Rs8bn, primarily impacted by Brazilian operations. International formulation business reported growth of 18.5% YoY to Rs4.5bn due to 5% YoY decline in revenue from Brazil on account of unfavourable currency. Adjusted for the same, growth was muted at 4%. The growth was lower due to two key products i.e. Losartan and Metformin being part of government program of affordable medicines.

Other international markets like RoW, Europe (excl. Germany) and US reported strong performance, partially led by favourable currency.

The domestic formulation business reported another quarter of healthy performance, with growth of 14% YoY to Rs2.6bn, led by both, acute and chronic therapeutic segments. The company is witnessing steady revival in acute therapeutic segments led by restructuring measures adopted in the last few quarters. Currently, the management indicated that the main focus of the company will be on improving field force productivity.

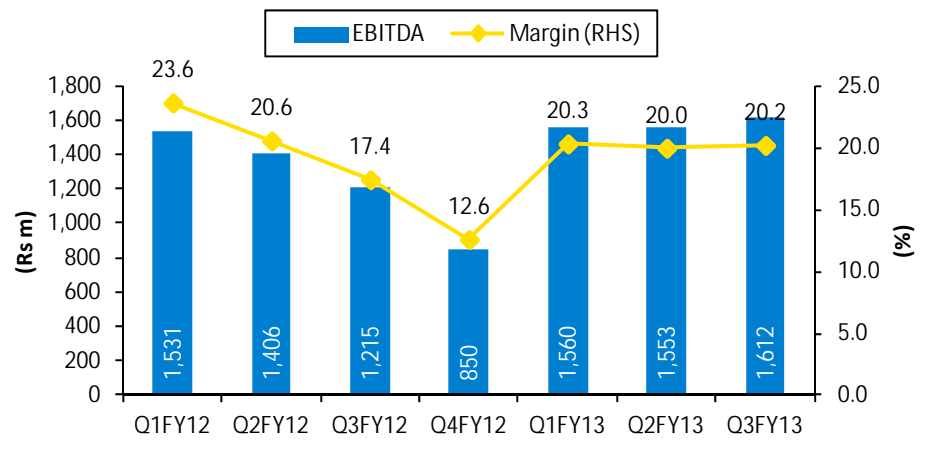
Exhibit 2: Geographical Sales Mix (Rs m)

Y/e March	Q2FY13	Q2FY12	YoY gr. (%)	Q1FY13	QoQ gr. (%)
Domestic Formulations	2,606	2,294	13.6	2,743	(5.0)
International	4,489	3,787	18.5	4,173	7.6
Latam	1,170	1,232	(5.0)	1,161	0.8
Germany	856	867	(1.3)	905	(5.4)
USA	920	628	46.5	814	13.0
Europe (excl. Germany)	704	472	49.1	619	13.7
Russia & CIS	219	202	8.4	180	21.7
RoW	561	386	45.3	508	10.4
Contract Mfg	587	599	(2.0)	563	4.2
Others	25	75	(67.2)	13	95.2
TOTAL	7,707	6,755	14.1	7,492	2.9

Source: Company Data, PL Research

EBITDA reported strong growth of 33%: TRP reported strong growth of 33% in EBITDA to Rs1.6bn on account of 1) healthy growth in revenues, 2) improving product mix and 3) benefit of operating leverage playing out in markets like US. EBITDA margins have expanded by 280bps to 20.2%. Adjusted PAT reported growth of 35% YoY to Rs1.12bn in line with strong operational performance.

Exhibit 3: EBITDA & Margin Trend



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Net Revenue	22,049	26,959	31,714	36,767
Raw Material Expenses	6,965	8,631	9,330	10,651
Gross Profit	15,084	18,328	22,384	26,116
Employee Cost	3,895	5,337	6,405	7,558
Other Expenses	7,312	7,984	9,758	10,899
EBITDA	3,876	5,006	6,221	7,659
Depr. & Amortization	626	817	866	1,033
Net Interest	387	395	371	371
Other Income	562	1,099	560	616
Profit before Tax	3,427	4,893	5,544	6,871
Total Tax	725	723	1,275	1,580
Profit after Tax	2,702	4,170	4,269	5,291
Ex-Od items / Min. Int.	—	(388)	—	—
Adj. PAT	2,702	3,251	4,269	5,291
Avg. Shares O/S (m)	84.6	84.6	84.6	84.6
EPS (Rs.)	31.9	38.4	50.5	62.5

Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	3,266	5,945	4,100	5,123
C/F from Investing	(2,087)	(1,148)	(1,940)	(1,884)
C/F from Financing	(275)	(2,807)	(1,017)	(1,217)
Inc. / Dec. in Cash	905	1,990	1,143	2,022
Opening Cash	3,883	4,788	6,743	7,886
Closing Cash	4,788	6,743	7,886	9,908
FCFF	2,390	3,846	2,010	3,239
FCFE	2,887	2,766	2,010	3,239

Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
Growth				
Revenue (%)	15.8	22.3	17.6	15.9
EBITDA (%)	(5.4)	29.1	24.3	23.1
PAT (%)	0.8	20.3	31.3	23.9
EPS (%)	0.8	20.3	31.3	23.9
Profitability				
EBITDA Margin (%)	17.6	18.6	19.6	20.8
PAT Margin (%)	12.3	12.1	13.5	14.4
RoCE (%)	20.1	21.6	24.8	25.3
RoE (%)	29.2	29.3	31.4	30.6
Balance Sheet				
Net Debt : Equity	0.1	(0.2)	(0.2)	(0.3)
Net Wrkng Cap. (days)	(46)	(70)	(56)	(44)
Valuation				
PER (x)	22.3	18.5	14.1	11.4
P / B (x)	5.9	5.0	4.0	3.1
EV / EBITDA (x)	15.8	11.6	9.2	7.2
EV / Sales (x)	2.8	2.2	1.8	1.5
Earnings Quality				
Eff. Tax Rate	21.2	20.2	23.0	23.0
Other Inc / PBT	16.4	10.5	10.1	9.0
Eff. Depr. Rate (%)	6.5	6.8	5.9	6.0
FCFE / PAT	106.9	85.1	47.1	61.2

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	10,224	11,938	15,225	19,299
Total Debt	5,721	4,640	4,640	4,640
Other Liabilities	496	549	514	514
Total Liabilities	16,440	17,127	20,379	24,453
Net Fixed Assets	8,541	9,619	11,253	12,720
Goodwill	—	—	—	—
Investments	1,460	1,240	1,240	1,240
Net Current Assets	6,439	6,268	7,886	10,492
<i>Cash & Equivalents</i>	<i>4,788</i>	<i>6,743</i>	<i>7,886</i>	<i>9,908</i>
<i>Other Current Assets</i>	<i>10,558</i>	<i>12,877</i>	<i>15,531</i>	<i>18,610</i>
<i>Current Liabilities</i>	<i>8,907</i>	<i>13,352</i>	<i>15,531</i>	<i>18,025</i>
Other Assets	—	—	—	—
Total Assets	16,440	17,127	20,379	24,453

Quarterly Financials (Rs m)

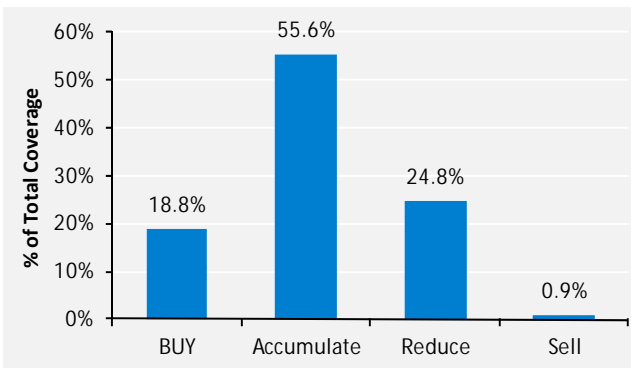
Y/e March	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Net Revenue	6,743	7,669	7,772	7,975
EBITDA	850	1,560	1,553	1,612
<i>% of revenue</i>	<i>12.6</i>	<i>20.3</i>	<i>20.0</i>	<i>20.2</i>
Depr. & Amortization	218	201	203	204
Net Interest	89	94	80	67
Other Income	124	140	123	89
Profit before Tax	14	1,404	1,394	1,429
Total Tax	24	374	309	309
Profit after Tax	(17)	1,019	1,085	1,121
Adj. PAT	637	1,019	1,085	1,121

Source: Company Data, PL Research.



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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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