

Sector: Pharmaceuticals
RESULT REVIEW Q3FY22
Declared On: 25 Jan 2022
Torrent Pharmaceuticals Limited

RECOMMENDATION SNAPSHOT					
*CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs3161	Rs2980	Rs3430	9%	Hold	535

**as on 25th Jan, 2022*
About the Company:

Incorporated in 1959, Torrent Pharmaceuticals Limited (Torrent Pharma) is a mid-sized generic player with a strong presence in domestic and semi-regulated markets and growing presence in the regulated markets. It is ranked 8th in the Indian Pharmaceuticals Market and is amongst the Top 5 in the therapeutics segments of Cardiovascular (CV), Central Nervous System (CNS), and Vitamins Minerals Nutritional (VMN). It is a specialty-focused company with 76% of its revenues coming from India from chronic & sub-chronic therapies. It has presence in 40 countries and is ranked No. 1 amongst the Indian Pharma companies in Brazil, Germany and Philippines. The company has 8 manufacturing facilities (7 in India & 1 in the US), of which 5 are USFDA approved. With R&D as the backbone for its growth in domestic and overseas market, Torrent Pharma has invested significantly in R&D capabilities with state-of-the-art R&D infrastructure employing around 700+ scientists. The company has Mr. Samir Mehta as the Chairman.

Results: Quick Glance

- The total revenue for the quarter grew by 5.7%; Rs21,080mn as compared to Rs19,950mn in the same quarter last year
- The EBITDA margin for the quarter under review stood at 25.5% as against 30.4% in the corresponding quarter of last year
- The company reported a net profit of Rs2,490mn as against Rs2,970mn in the comparative quarter, essentially due to the tax change that has happened during the year
- The EPS for the quarter under review stood at Rs14.8
- The company has announced an interim dividend of Rs25/- per equity share of Rs5/- each

Conference Call Highlights:

- The US base business price erosion impacted the revenues and performance during the quarter
- **India Business:** The revenues for the quarter came in at Rs10,720mn; growth of 15% on a y-o-y basis. The business continues to be on a strong footing delivering significantly higher than market growth during the quarter. Growth was driven by robust performance of top brands in all the focus therapies. Torrent reported a growth of 15% v/s the IPM growth of 6% for Q3FY22. 16 brands of Torrent are a part of the top 500 in the IPM. The company continues to foray its leadership in the chronic portfolio. For the quarter, the PCPM count stood at Rs9.9lakhs with an MR strength of 3600. The company has indicated 400-500MR addition (half to be done in Q4FY22 and rest in Q1FY23) (for the focus therapies, CV, CNS, gastro etc.; which would lead to 30-40% increase in coverage per division) The breakup of India business growth reflected: 4.4% volume growth, 8% price and 3% new product launches. The Trade generics business has stabilized with 2% to the total India business with the 1st phase of SKU launches done. There were 10 new launches in Q3 across combination and extensions, and similarly in Q4, 10 more are expected of which 2 have been already launched (Molnupiravir and Dydrogesterone)
- **International Business:**
- **US Business:** The revenues came in at Rs2,350mn; de-growth of 20%. The business was largely affected by the higher than anticipated pricing pressure as well as prolonged delays in re-inspection of the US facilities on account of the pandemic. In constant currency the sales were USD31mn. The sales were lower due to price erosion in the base business and lack of new approvals pending re-inspection of facilities. The manufacturing facility at Levittown, USA, was inspected by the USFDA during December, 2021 without any observation. As on December 31, 2021, 51 ANDAs were pending approval with USFDA and 7 tentative approvals were received. 2 ANDAs were approved during the quarter. The company has initiated cost optimisation measures which should help the company get back on track with respect to margins in the upcoming quarters. However, it believes that the share of the US business would be in the decline mode unless fresh approvals are received. There are a few set of approvals with one of them expected by Feb'22; Dapsone (Derma product) with USD135mn potential market with 2 players

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Conference Call Highlights (contd.):

- **Brazil:** revenues came in at Rs1,820mn v/s Rs1,730mn in Q3FY21; growth of 5%. In constant currency terms, the growth witnessed was 8% at USD135mn. Growth was aided by market growth together with performance of top brands and new launches. During the quarter, the company has launched a new division in the CNS segment. It has launched Rivaroxaban molecule [brand name Acog], which has market size of ~USD800+ million. Strong momentum is expected to continue in the growth
- **Germany business:** revenues came in at Rs2,370mn v/s Rs2,650mn in Q3FY21. Growth was impacted due to muted market growth and increasing competition in the tender segment
- The one offs include the increase in the freight by 1% due Omicron surge led-disruption, which is expected to get back to normal in a quarter or two. There was also 1% impact of failure to supply provisions made for the US business of one of the products which is now discontinued. Manufacturing volumes were lower than planned which led to under absorption of overheads, impacting the margins by 1%. The US generic pressure as well as under absorption impacted the GM by ~2.4%. The GM are expected to get back on track by Q1FY23 with some reversal in Q4FY22. The RM price increase also impacted the margins which was more towards the acute side
- For R&D spend, the company would stick to the historic levels of 6-7% of the overall revenues
- On the debt repayment, till date Rs7,500mn has been done with Rs9,000mn expected by March. For FY23 as well similar figure of repayment is expected

Financials:

Performance (Q3FY22)									
Q3FY22 Result (Rs mn)	Dec-21	Dec-20	y-o-y	Sept-21	q-o-q	9MFY22	9MFY21	y-o-y	FY22E
Total Revenue	21080	19950	5.7%	21370	(1.4%)	63790	60680	5.1%	85877
EBITDA	5380	6070	(11.4%)	6600	(18.5%)	18750	19030	(1.5%)	25763
Other Income	480	80	-	510	(5.9%)	1390	180	-	1651
Interest	620	910	(31.9%)	710	(12.7%)	2010	2850	(29.5%)	2818
Depreciation	1670	1670	-	1680	(0.6%)	5000	4930	1.4%	6701
Exceptional Items	0	0	-	0	-	0	0	-	0
Tax	1080	600	80%	1560	(30.8%)	4180	2150	94.4%	5905
Net Profit	2490	2970	(16.2%)	3160	(21.2%)	8950	9280	(3.6%)	11990

Outlook and Recommendations:

The company has reported flat sales with hit on the profits majorly led by the pull down by the US business. The pricing pressure as well as the lack of new approvals and pending facility re-inspections has led to the drop in US revenues. However, the company remains hopeful on the prospects of the US business once the re-inspections happen and the pending product approvals start flowing in. On the other hand, the domestic business grew by 15% higher than the IPM growth of 6% for the quarter. This should continue further with the addition of MRs to happen going forward. While Brazil witnessed an uptick in revenues led by the market growth with performance of top brands and new launches; Germany business was impacted due to muted market growth and increasing competition in the tender segment. The impact on the gross as well as operating margins is attributed to the one offs elaborated above which should settle majorly by Q1FY23. Thereby, the company is hoping for a pick up in the US business, with India and Brazil continuing to show strong growth prospects. However, we have lowered our estimates to factor in the sharp reduction in the price realisation of certain products (Nebivolol/Sartans) in the US, prolonged delays in new approvals due to regulatory issues at Indrad/Dahej, and increased competition in the German business. We maintain a Hold on the stock for a target of Rs3430.

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