

June 15, 2021

PICK OF THE MONTH

VOL-7, NO-07

Industry: Pharmaceuticals

Torrent Pharmaceuticals Limited

BUY

CMP: Rs.2980

TARGET PRICE: Rs.3430

TIME : 12 months

OVERVIEW: Indian Pharma Industry:

India's domestic pharmaceutical market is estimated at USD41bn in 2021 and is likely to reach USD65bn by 2024, further expanding to reach USD120-130bn by 2030, as per market reports. IPM growth was at 47.8% y-o-y in May, while it was 51.5% y-o-y in the previous month as Covid-led demand for drugs continued. Sales of anti-infectives, respiratory, and vitamins and minerals grew 142%, 87% and 60% y-o-y respectively. Like the previous month, growth in May was led by the acute segment, which was up 70% y-o-y. Going forward, IPM is estimated to grow 8-10% y-o-y in size during FY22E.

Industry Dynamics Demands

Covid-19 has unlocked new emerging opportunities for the Indian Pharma sector. Investing in innovation, R&D and developing partnerships will help domestic companies expand their reach and establish a stronger position on the global front. Advancing and pacing up research and innovation are top focus areas for the industry. Different Indian companies have partnered with global manufacturers to provide better accessibility to essential drugs. To enable innovation and growth, the industry will continue to invest in development of skillset and appropriate infrastructure. Regulatory simplification, industry-academia collaboration and funding will be the pillars for innovation in the near future.

Domestic Formulations:

The Indian domestic formulation market is estimated to be ~USD21bn, 3rd largest market by volume and 14th largest by value in the world and for generics the market is ~USD1.5bn. It registered 10.7% CAGR growth over FY15-20 led by volume growth of 5-6%, price increase ranging from 2-3% and new introductions contributing 2-3%.

The IPM growth in FY21 has been low (+2% y-o-y) due to the decline in volumes (-5% y-o-y) impacted by Covid led lockdown and disruptions (which started from Mar'20) with slowdown in key therapies like anti-infective, respiratory that impacted the most.

Going forward, the domestic formulations market is expected to post a CAGR growth of 8-11% to reach USD31-35bn by 2024.

The key parameters that would lead to favourable industry dynamics include:

- overall economic growth
- demographic positioning
- disease burden tilted more towards chronic symptoms
- increasing healthcare spending
- insurance penetration
- increasing focus on preventive care

Chronic Led the Way:

Chronic therapy contribution to IPM increased from 27% in FY11 to 33% in FY21. Over the last decade, the chronic share increased majorly due to increase in number of lifestyle led and non-communicable diseases, coupled with change in focus towards specialty and differentiated launches. There was slowdown witnessed due to lower addition of new patients/prescriptions. The share of acute segment declined due to increasing focus on wellness and healthy lifestyle which has been resulting in overall lower infections. It was also hit due to lower patient footfall in hospitals/clinics.

Thereby, increasing contribution from the Chronic segment has led to companies taking initiatives for future growth by realigning business segments and focusing on digital capabilities to capture the chronic opportunity.

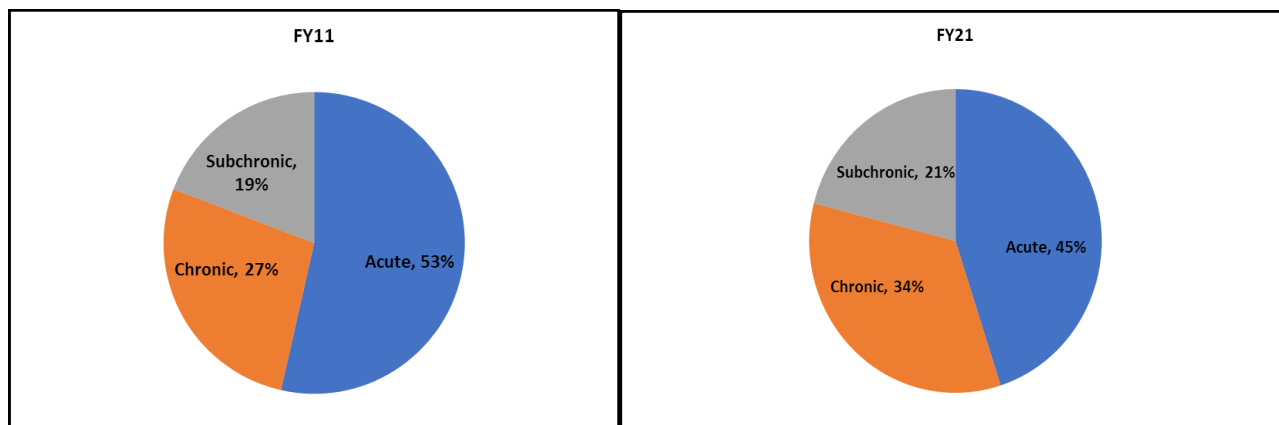
SNAPSHOT				
52 week H / L		Mcap (INR mn)		
3040 / 2232		504,224		
Face value: 5				
BSE Code		NSE CODE		
500420		TORNTPHARM		
Annual Performance				
(Rs mn)	FY19	FY20	FY21	FY22E
Total Revenue	76,728	79,393	80,050	90,295
EBITDA	19,831	21,704	24,850	27,991
EBITDA (%)	25.8	27.3	31.0	31.0
Other Income	571	1,213	570	790
Interest	5,038	4,507	3,580	2,886
Depreciation	6,177	6,544	6,580	6,801
PBT	9,187	11,866	15,260	19,094
PAT	4,363	10,247	12,520	14,703
Equity (Rs mn)	846	846	846	846
EPS (INR)	26	61	74	87
Quarterly Performance				
Parameters (Rs mn)	Jun-20	Sept-20	Dec-20	Mar-21
Sales (Net)	20,560	20,170	19,950	19,370
EBITDA	6,610	6,350	6,070	5,820
EBITDA (%)	32.1	31.5	30.4	30.0
Other Income	40	60	80	390
Interest	1020	920	910	730
Depreciation	1610	1650	1,670	1,650
PAT	3360	3720	2,970	3,470
Equity (Rs mn)	846	846	846	846
Ratio Analysis				
Parameters (Rs mn)	FY19	FY20	FY21	FY22E
EV/EBITDA (x)	27.6	25.0	21.5	18.9
EV/Net Sales (x)	7.1	6.8	6.7	5.9
M Cap/Sales (x)	6.6	6.4	6.3	5.6
M Cap/EBITDA (x)	25.4	23.2	20.3	18.0
Debt/Equity (x)	1.35	1.27	0.88	0.71
ROCE (%)	16	19	21	24
Price/Book Value (x)	10.7	10.5	8.6	7.6
P/E (x) TTM	40.2	75.0	40.3	34.3
Shareholding Pattern as on 31st March, 2021				
Parameters	No of Shares	%		
Promoters	120,564,720	71.25		
Institutions	33,370,938	19.72		
Public	15,287,062	9.03		
TOTAL	169,222,720	100		

Source: Annual Report

Note: All the data is calculated as per Market Price on 14 June, 2021

OVERVIEW: Industry (contd.)

Exhibit 01: Increase In Chronic Share



Source: Industry Reports, Progressive Research

ABCD Technologies: The Digital Venture

ABCD Technologies has been created with the intent to streamline logistics for improving efficiency and increasing overall cost savings. Digital supply chain management will help stockists have better visibility on which drugs to stock, the quantity, etc. Various drug companies like Sun Pharma, Cipla, Lupin, Cadila, Dr Reddy's, Torrent, Ipca, Alembic Pharma have subscribed to partnership interest in the healthcare services firm ABCD Technologies incorporated on 10th Feb'21; which is to be renamed to IndoHealth Services LLP. Further, DigiHealth, subsidiary of ABCD Technologies has recently acquired the market research firm AIOCD AWACS and Pharmatrack Technologies which has years of experience in creating digital ecosystem in the industry downstream supply chain. Pharmatrack works with 3,000-4,000 distributors and 100,000 retailers in the Pharma space, offering services such as analytics, logistics and supply chain financing and AWACS is engaged in data collection and market research focused on data analytics. This group may build its own online pharmacy in coming future to compete with big players such as Reliance, Tata, Amazon, Apollo Pharmacy as these companies are launching their own private label brands posing challenge to drug manufacturers. It is one of the first groupings in India where traditional manufacturers are coming to participate in the fast-growing online space, showcasing technology adoption which will be the major force changing the Pharma industry.

e-Pharmacy Expansion:

The term 'e-pharmacy' refers to the online pharmacy that offers medical care, with the ability to prescribe medications to patients online. The prime focus of e-pharmacies' is to provide easy access to medicines. It provides quick delivery and a simple ordering procedure, helping a person avoid the hassle of a long waiting period. With Covid-19 and lockdown driven demands, e-pharmacies witnessed increased customer attraction for medicinal supplies. Most of the Pharma players have expanded their distribution reach significantly over the last few years. The rural penetration however has been limited which helps in building up on the scope for the e-pharmacies to supply medicine via tie-ups with local doctors and retail chain outlets.

According to Frost & Sullivan, the e-pharmacy market in India is around USD512mn (~Rs3,500cr) in 2018 and is estimated to grow at a CAGR of 63% to reach USD3,657mn (~Rs25,000cr) by 2022. As per EY survey report, the Indian e-pharmacy as a percentage of total IPM is expected to increase from 2-3% in CY19 to 10-12% by CY25E.

Production-Linked Incentive (PLI) Scheme:

The Indian government announced a PLI scheme on 21st July, 2020 which aimed at boosting India's bulk drug security, meet local demand and boost exports while reducing the import dependency. It covered Active Pharmaceutical Ingredients (API)/Key Starting Materials (KSM)/Drug Intermediates (DI). The new scheme announced by the government offers a total of Rs150bn in incentives over a nine-year period till March 2029 for identified Pharma products. PLI 1.0 is focused on greenfield APIs/ KSMs manufacturing plant with an outlay of Rs69.4bn with 41 products (fermentation and chemical synthesis base) already approved. In PLI 2.0, the focus is largely on formulation products coupled with APIs/KSMs. **The recent performance of the IPM has portrayed a positive outlook for the Indian Pharma Industry going forward.**

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 Nutritionals (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.

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INVESTMENT RATIONALE:

A) Geographical Spread:

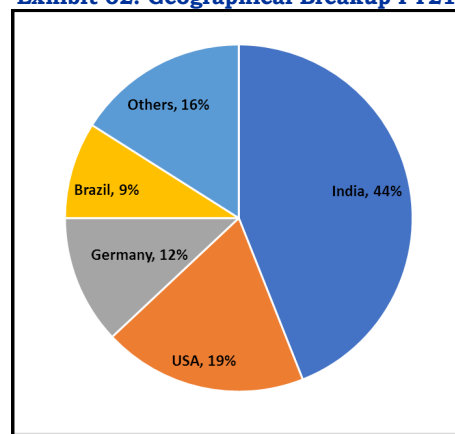
Torrent Pharma's major markets are in India (44% of total revenues), US (19% of total revenues), Germany (12% of total revenues) and Brazil (9% of total revenues). The company's strategic priorities remain in India and Brazil with continued focus on strengthening specialties, field force productivity and new product development. These markets remain the key to offer higher visibility and sustainability to the business. In US and Germany, the company continues to focus on its new product pipeline by developing complex products which should help cater to customers across different therapeutic segments of focus.

a) India Formulations:

Torrent Pharma is ranked 8th in the Indian Pharmaceuticals Market (5th in the chronic/sub-chronic segment) and has registered 12% growth compared to 10% (as per AIOCD). It is a leading domestic formulation player with strong presence in chronic/sub-chronic segment (~75% of India portfolio). It has 17 brands in the top 500 brands of IPM, out of which 10 brands have revenues of more than Rs1,000mn.

Torrent Pharma reaches the target market segments through 22 sales divisions and a wide customer coverage through 5000+ stockists and 59,000 retailers serviced through 22 distribution centres across India. With ~47% share in net sales in FY21, the domestic formulations market remains a key contributor to Torrent Pharma's topline. Growth in the domestic market is driven by therapeutic segments like CVS, CNS, anti-diabetic and gynaecology segment. In terms of sales by value, it is ranked second in the CVS segment (market share of ~7%) and third in CNS segment (~6%) in the domestic market. Domestic branded formulations including CRAMs comprised of 53% of sales.

Exhibit 02: Geographical Breakup FY21



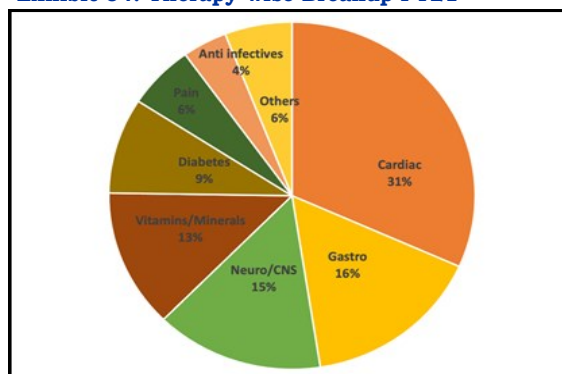
Source: Annual Report, Progressive Research

Exhibit 03: Market Share in Key Therapies %

Market Share in Key Therapies	FY20	FY21
Cardiac	7.5	7.2
GI	7.6	7.5
Neuro/CNS	4.5	4.5
Vit/Min/Nut	4.6	4.5
Anti-diabetic	2.6	2.8
Pain/Analgesic	3.0	2.9
Anti-infective	1.2	0.9
Derma	1.3	1.1
Gynaecology	1.3	1.4
Respiratory	0.2	0.2

Source: AIOCD, Progressive Research

Exhibit 04: Therapy-wise Breakup FY21



Source: Company, Progressive Research

Exhibit 05: Therapeutic Breakup (%)

Therapeutic breakup	FY17	FY18	FY19	FY20	FY21
Acute	26	25	25	26	24
Chronic	55	53	53	53	54
Sub-chronic	20	21	21	21	22

Source: AIOCD, Progressive Research

Exhibit 06: Top Brands Performance during FY21

Top Brand Performance (FY21)	FY21 sales (Rsbn)	FY21 (y-o-y)	FY17-21 CAGR
Shelcal	2.6	19%	10%
Chymoral Forte	1.6	(1%)	11%
Nikoran	1.3	8%	7%
Nexpro Rd	1.2	16%	15%
Azulif Mf	1.1	(2%)	7%
Nebicard	1.0	3%	9%
Losar H	1.0	9%	(1%)

Source: AIOCD, Progressive Research

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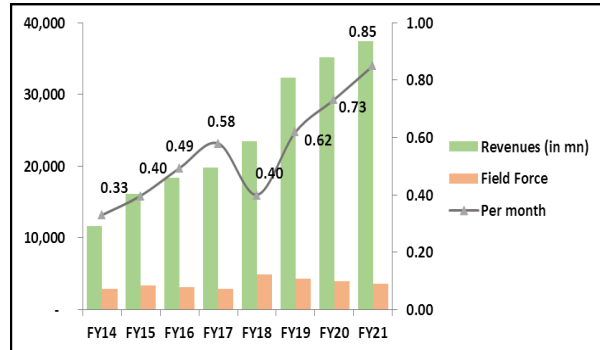
TIME : 12 months

INVESTMENT RATIONALE (contd.)

Torrent Pharma had acquired Elder Pharma’s branded portfolio that has added new therapies like nutraceuticals, gynaecology and helped fill up portfolio gaps. Unichem acquisition has added branded portfolio comprising of some power brands besides achievement of long term synergy benefits. Price increases in the domestic formulation segment have been the largest driver of growth for the company. Torrent Pharma expects to sustain 6-7% increase in prices each year over the next two years. In its large brands, the company has typically taken the maximum allowed annual price increase in the range of ~10%. The competing brands have also undertaken similar price increases. Given the pricing discipline, there has not been any major divergence in prices that could trigger a shift in market share.

On the MR side, the company has completed its field force restructuring process to improve efficiency (which led to reduction of 400MRs) and now has field force strength of 3,600 MRs with productivity of Rs0.85mn per MR per month. The focus remains on reaching the specialists and before expanding the field force further, Torrent Pharma targets PCPM to increase by ~20%.

Exhibit 7: MR Productivity

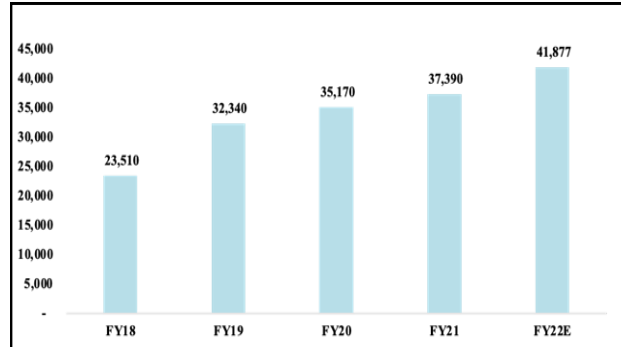


Source: Company presentation, Progressive Research

Relative to other Pharma companies; Torrent Pharma’s domestic portfolio is not a large beneficiary of Covid-19 related demand. The acute segments including GI, Pain, Anti-infectives and Vitamin and Minerals where the demand surged during the second wave in India account for ~39% of sales as of FY21. Unienzyme, Shelcal and Veloz were the key brands prescribed to Covid patients. Overall, management has indicated strong double digit growth on a normalized base during H1FY22E. The company plans to strengthen its Covid portfolio by tying up with foreign players to bring new drugs to India.

For FY21, India sales grew 6% y-o-y to Rs37.4bn led by chronic and sub-chronic therapies. The chronic brands namely Shelcal, Losar and Nikoran are helping the company grow 100bps above the market rate as per AIOCD. The company introduced ~20 products in FY21, which led to growth of 3% while price rise aided 6-7% growth. Strong brands, efficient field force (rationalization exercise has been completed in H2FY21) and steady launches are likely to boost the overall India formulations. Going forward, higher focus on key brands, launches and improvement in field-force productivity will be major growth drivers. We expect domestic formulations to clock a 11% CAGR over FY21-23E.

Exhibit 8: Domestic Formulations (Rs mn)



Source: Company, Progressive Research

b) Export Formulations:

i) US Formulations:

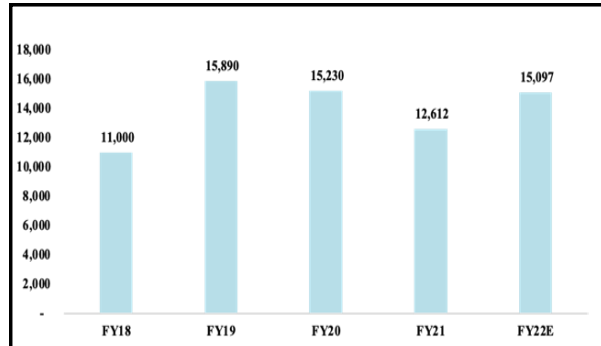
Torrent Pharma has significant presence in the exports market in countries like Brazil, Germany and US. Despite being a late entrant in the US, the company’s US revenue stood at ~USD166mn in FY21, up from just ~USD23mn in FY11 mainly due to limited competition products such as gAbilify (Aripiprazole, CNS) in FY16 and gCymbalta (duloxetine; anti-depression) in FY14. Post-acquisition of Zyg Pharma (from Mumbai based Encore Group), the company has also started filings in niche dermatological segment in the US. The company has strengthened US presence through acquisition of Bio-Pharm, Inc., a generic pharmaceuticals and OTC company, based in Levittown Pennsylvania, USA, which includes, its first overseas USFDA registered manufacturing facility. Torrent is ranked No. 11 amongst the US generic Indian companies and has a market share of ~17% in its covered market. The new product approvals have been on hold due to its Dahej and Indrad facility being classified OAI and WL respectively. Given the future market moving towards complex products; the company is ramping up its pipeline with products like oral liquids, ophthalmics, ointments & creams and oncology. As of March 2021, the company had a pipeline of 54 ANDAs pending approval along with 6 tentative approvals. In FY21 it filed 12 ANDAs including a couple of complex products.

Near Term Opportunity: During the company’s recent quarter conference call, the management highlighted an interesting opportunity and potential upside from Dapsone gel in the US. (Torrent Pharma received tentative approval for Dapsone gel 7.5% in Apr’21). Although the opportunity may unfold in the near term, we feel it is unlikely to be very significant for the company. Dapsone gel 7.5% has a market size of USD180mn, according to IQVIA. There are six known filers namely Taro, Amneal, Zydus, Mylan, Perrigo and Torrent Pharma. Taro is the FTF, has received approval, and is already in the market. The patent is invalidated by the PTO post review and is currently being litigated in appeals court. According to the management, the appeals court hearing and decision are likely to come in the near term. If generics prevail, it would allow other players to enter. Torrent Pharma is the only generic company other than Taro with an approval. Hence, if other players don’t get an approval, by the time the appeals court decision comes through, it may create a window of low competition opportunity for Torrent Pharma. However, given, the uncertainty around litigations and approval timings of other players, we have not factored in any material upside into our estimates as of now.

INVESTMENT RATIONALE (contd.):

For FY21, there was a drop in revenues by 17% y-o-y to Rs12.6bn. US revenues remain under pressure, with five consecutive quarters of sales decline. Growth in the US was impacted due to the discontinuation of Sartans, absence of new launches and price erosion in the base portfolio. The management has indicated of re-launch of the Sartan portfolio from Jun'21, and in two years could clock sales of ~USD14-15mn. The Levittown plant has started manufacturing GMP batches from Apr'21, and the management expects to commercialize them Jun'21 onwards. The company has set the medium term target of launching 10-12 products on annualized basis. The company has not received any correspondence from the USFDA regarding re-inspection of its plants. US revenues are likely to stabilize in FY22E with the contribution from the Levittown facility, reintroduction of Sartans and a few new launches. We expect 16% CAGR growth in the US over FY21-23E.

Exhibit 9: US Revenues (Rs mn)



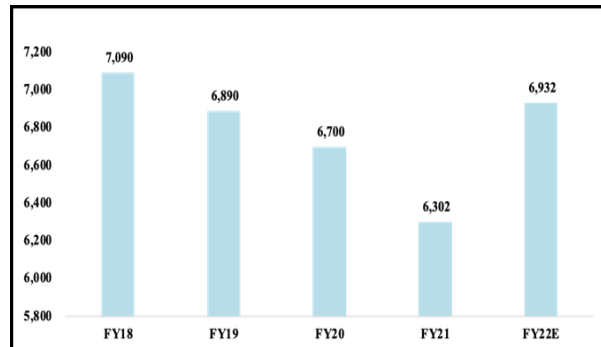
Source: Company, Progressive Research

ii) Brazil:

Among the Indian companies, in terms of value, Torrent Pharma ranks No. 1, with the second largest being less than half of the size of Torrent Pharma as per close-up dataset. Currently, it has commercialized 23 branded generics and 20 generic products. In its branded generic portfolio, the company has 9 filings under approval, 23 under preparation for filing in existing business and 19 in new business. In addition, the company has been building its portfolio in the generics with parallel filings of branded generic products.

For FY21, Brazil sales stood at Rs6,302mn. As per IMS, in Q4FY21 the branded generics market of Brazil grew 5% y-o-y. It is further expected to grow 9-10% in FY22, where Torrent Pharma is expected to grow faster than the markets. The company expects to grow faster than the market with 3-4 launches each year and these products can provide market leading growth, coupled with the price

Exhibit 10: Brazil Revenues (Rs mn)



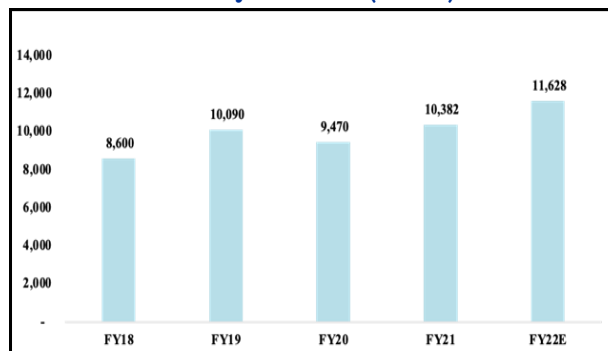
Source: Company, Progressive Research

increase of 4-5% every year. The company plans to discontinue the tender business in FY22E, after which around 90% of Torrent's portfolio would comprise of branded generics, while the rest being generics. This would ramp up margins and also reduce the lumpiness in the business. We expect revenues from this region to improve from FY22E on account of the strong chronic portfolio and market-share gains to drive 8% CAGR growth over FY21-23E.

iii) Germany:

Torrent Pharma forayed into Germany in 2005 with acquisition of Heumann Pharma Generics, a Pfizer Group company. Heumann's broad product portfolio coupled with Torrent's low-cost manufacturing facilities provide a good strategic market position in one of the biggest pharmaceutical markets in the globe. The company's European business is mainly in Germany and UK, where the company has its direct presence. Germany is the 4th largest pharmaceutical market in the world and the largest in Western Europe. It is valued around USD52bn and is expected to grow at a CAGR of 4-7% till 2024. Majority of the market is tender driven which leads to a very competitive environment for the industry. Among the generic players, Torrent Pharma holds 5th position with a market share of around 7.1% and is ranked No. 1 among Indian players in the German market. It plans to achieve 9-10% market share ahead, with the intention of launching eight products annually.

Exhibit 11: Germany Revenues (Rs mn)



Source: Company, Progressive Research

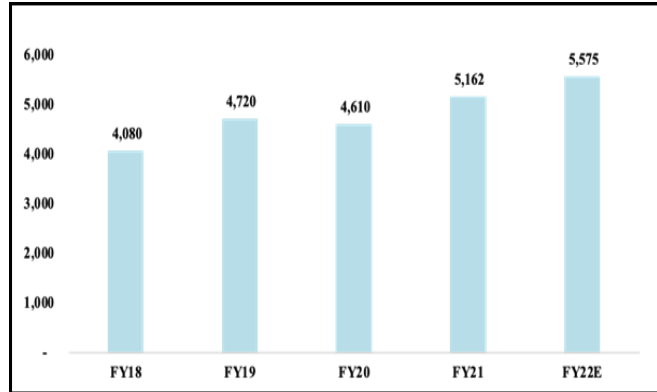
For FY21, sales in Germany grew by 10% y-o-y to Rs1bn. During 2HFY21, the company faced temporary delays in releasing the products into the market due to upgradation of its quality management processes. Torrent Pharma continues to expand its market coverage through new launches and gain in tender as well as non-tender business. The business has recovered from past issues related to quality. Growth was impacted due to Covid-19 related restrictions/lockdowns. Going ahead, we expect continued ramp up in German business as upgradation of its quality management systems is now complete. As vaccination picks up, management expects high-single-digit growth in Germany during FY22E. We expect this region to report an 11% CAGR over FY21-23E.

INVESTMENT RATIONALE (contd.):

B) CRAMs:

Based in Denmark, Novo Nordisk is a leading global healthcare company that has been involved in diabetes care for more than 90 years. It markets various treatments for obesity, haemophilia, growth disorders and other serious chronic diseases. Since 1992, Torrent Pharma is a preferred partner for Novo Nordisk to manufacture human insulin. The company imports raw materials from Novo Nordisk, converts it into human insulin and delivers to Novo Nordisk (India). Novo Nordisk is by far the largest player in the human insulin space, both in India as well as abroad. It has a market share of ~65% in the domestic market. For FY21, the CRAMS segment contributed 6% to total revenues. In Q4FY21, insulin supplies to Novo Nordisk as part of the agreement was lower by Rs250mn due to a revalidation exercise and maintenance activities at the plant, and is now likely to be booked in Q1FY22E. The management expects a quarterly revenue run-rate of Rs850-900mn from the contract manufacturing segment.

Exhibit 12: CRAMs Revenues (Rs mn)



Source: Company, Progressive Research

C) Chain of Acquisitions:

The acquisition of Elder Pharma's Indian branded business in 2013, Dermaceutical business of Zyg Pharma in 2015, API plant of Glochem Industries in 2016, women healthcare brands from Novartis and Unichem's Indian branded business along with its Sikkim Plant in 2017 collectively strengthened Torrent Pharma's position in the Indian Pharma market.

Elder Pharma Acquisition: In FY14, Torrent acquired the branded domestic formulations business of Elder Pharmaceutical in India and Nepal for Rs20,040mn. Elder's India business comprised of a portfolio of 30 brands mainly in the women's healthcare, pain management and nutraceuticals business.

Unichem Acquisition: Torrent Pharma acquired Unichem's branded business of India and Nepal on a slump sale basis for a consideration of Rs36,000mn (~4x sales) in CY17. Unichem's India business comprised of a portfolio of more than 120 brands in India and Nepal, a manufacturing plant at Sikkim catering to these markets and all the employees engaged in the said business. Unichem's top brands included Losar, Unienzyme, Ampoxin, Telsar and Vizylac.

Exhibit 13: Growth of Key brands from Elder and Unichem Acquisition

MAT Growth y-o-y (%)	Therapy	Value Growth		Pricing Growth	
ELDER BRANDS		FY20	FY21	FY20	FY21
Shelcal	Vit/Min/Nut	6	19	10	10
Chymoral Forte	Pain/Analgesics	13	(1)	7	4
MAT Growth y-o-y	Therapy	Value Growth		Pricing Growth	
UNICHEM BRANDS		FY20	FY21	FY20	FY21
Losar H	Cardiac	(7)	6	8	9
Losar	Cardiac	5	8	11	9
Unienzyme	GI	12	8	8	11

Source: AIOCD, Progressive Research

Torrent Pharma started international acquisitions in 2005 with 90 year old Heumann from Pfizer to enter the German market. Later on it purchased ANDA of Minocycline from Ranbaxy for the US market in 2015. In January 2018, Torrent also acquired Bio-Pharm, Inc. (BPI) a generic pharmaceuticals and OTC company, based in Levittown Pennsylvania, USA, which also included a USFDA registered manufacturing facility. Torrent acquired two brands from Novartis in Q1FY18, which further strengthens its domestic gynaecology portfolio.

All these acquisitions whether domestic or in the international markets have proved to be positive for the company in terms of product addition, synergies of scale and overall exposure on the customer front.

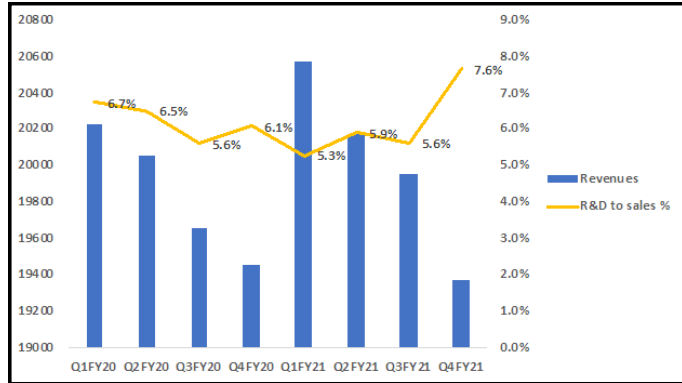
INVESTMENT RATIONALE (contd.):

D) Research & Development:

Torrent Pharma is currently developing several in-house New Chemical Entities (NCE's) in the areas of metabolic, cardiovascular, gastrointestinal, dermatological and respiratory disorders. As per the Annual Report 2020, the company has cumulatively filed 806 patent applications for NCEs from these and earlier projects in all major markets of which, 473 patents have been granted/accepted so far. The most advanced discovery program of the company is a metabolic modulator NCE for the reduction of cardiovascular risk. This program is currently undergoing the pivotal Phase III clinical trial in key markets where the company has presence. Torrent believes that this program is uniquely positioned to address the consequences of relative chronic over-nutrition, which is assuming alarming proportions of health hazard in India and other emerging economies besides developed countries. The next advanced discovery program is for management of heart failure in diabetic patients, for which the Phase II clinical trial has been completed in India and Europe. The formulation has been optimized and the company is planning to file for pivotal Phase III clinical trial early this year. Phase II study for the company's 3rd NCE being developed for inflammatory bowel disease is ongoing. The company's pipeline includes several New Drug Delivery System (NDDS), adapted for existing medications, which will give it an edge over its competitors through differentiation. It is currently focusing its R&D efforts on several innovative projects in the area of complex generics with respect to oral solids, foams/ointments/creams and nasal delivery. Foam based topical product for psoriasis has completed its Phase III trial and has been granted permission for manufacturing and marketing. Another program that completed its Phase III clinical trial is for the indication of acute pain management through nasal route of delivery. Nasal route of delivery is also being explored for management of vitamin B12 deficiency. The Phase I trial has been completed and Phase III trial is ongoing.

R&D expense during Q4FY21 was at Rs1.48bn (7.6% of sales) compared to Rs1.12bn (5.6% of sales) during Q3FY21 and Rs1.18bn (6.1% of sales) during Q4FY20. Guidance for R&D expense for FY22E stands at 6-6.5% of sales.

Exhibit 14: R&D Expenses to be in the range of 6-6.5%



Source: Company Data, Progressive Research

Recent Deal with Eli Lilly:

Torrent Pharma has entered into a royalty free, non-exclusive voluntary licensing agreement with Eli Lilly and Company, joining a group of leading Indian pharmaceutical companies for Baricitinib for Covid-19 in India. Under the agreement, Lilly has provided the license to manufacture and distribute Baricitinib to Torrent for India along with Lilly's other license partners. The agreement will help ensure wider reach and access to patients in India and further adds to Torrent Pharma's effort in helping patients affected by the pandemic. Baricitinib has been approved by the Central Drug Standard Control Organisation (CDSCO), India for restricted emergency use in combination with Remdesivir for the treatment of suspected or laboratory confirmed Covid-19 in hospitalized adults requiring supplemental oxygen, invasive mechanical ventilation or extracorporeal membrane oxygenation.

Risks and Concerns:

- Slower-than-estimated growth in India and other key markets and expanded price control in India
- Higher-than-expected price erosion in the US and delay in resolution of regulatory issues and approvals
- Adverse currency movements in emerging markets
- Attrition of sales force
- Regulatory issues at plants

Financials:

Strong cashflow to strengthen balance sheet:

Torrent Pharma generated Rs16.8bn cashflow in FY21 and this is likely to be maintained. Besides, the management continues to boost MR productivity by launches and field-force rationalisation. It has reduced debt by ~Rs9bn (gross debt at Rs50bn) and expects to make similar repayment in FY22E.

Different growth triggers across business segments to boost sales:

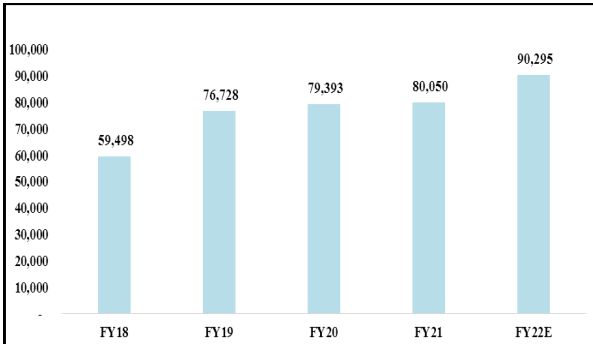
The company has different growth triggers across the business segments and geographies. The domestic business is on an uptrend and despite near-term challenging macroeconomic factors, region-specific volatility on larger scale, growth prospects stay intact.

Lower operating cost continue to boost EBITDA:

Lower operating cost continues to boost the Ebitda margins of the company. Also different margin accretive measures across different geographies of operations is the key for operating leverage.

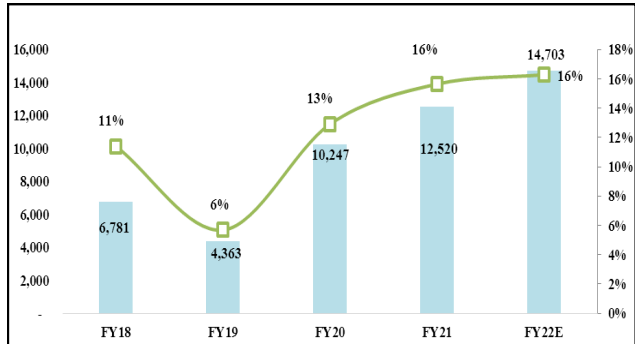
INVESTMENT RATIONALE (contd.):

Exhibit 15: Sales Growth (Rs mn)



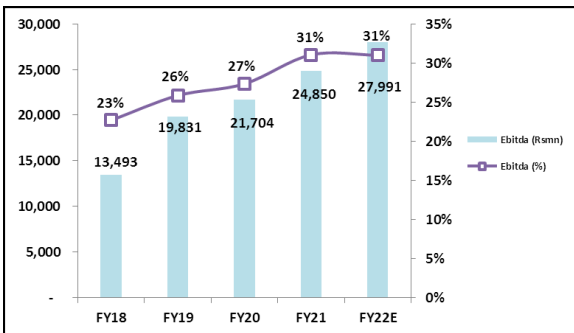
Source: Annual Report, Progressive Research

Exhibit 16: PAT Growth (Rs mn) v/s PAT Margins



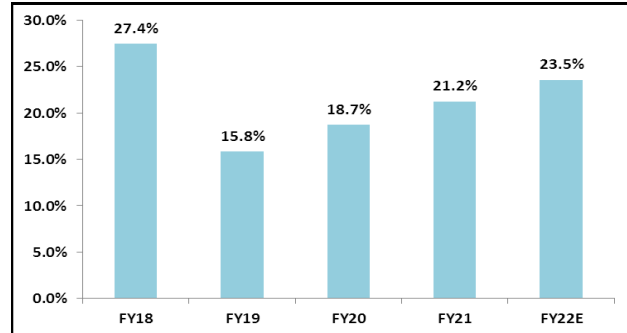
Source: Annual Report, Progressive Research

Exhibit 17: Ebitda (Rs mn) v/s Ebitda Margins



Source: Annual Report, Progressive Research

Exhibit 18: Return Ratios –ROCE Expansion

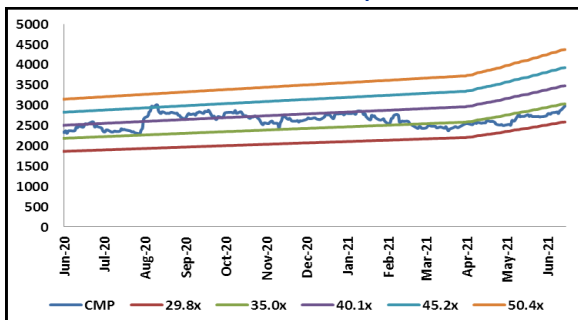


Source: Annual Report, Progressive Research

Outlook and Recommendations:

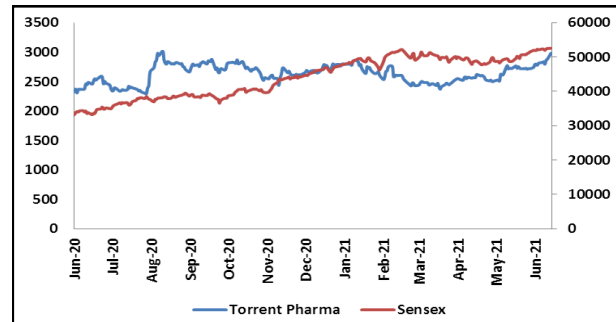
Domestic business growth and debt repayment are expected to be the key earnings drivers going forward. Strong growth in domestic formulation is expected in FY22E, driven by Covid-19-related demand and price increases. Launches and strong traction in its focused brands are expected to drive growth in domestic base. On the exports, issues in Germany are being resolved and the company has also regained the lost market share. Underlying growth in Brazil continues to be strong and Torrent is likely to grow above the market growth rate. Besides, price hikes of 4-5% in Brazil, and 6-7% in India every year, further boosts the margin profile. US revenues are likely to stabilize in FY22E with the contribution from the Levittown facility, reintroduction of sartans and a few new launches. There is no visibility on resolution of USFDA issues currently. A further boost would stem from clearances of the Dahej and Indrad plants, which are currently awaiting re-inspection by the USFDA. Strong cashflows from the branded generics businesses are likely to help Torrent repay debt (reduced by Rs9bn in FY21), which had mounted after the Unichem acquisition. Keeping aside the overhang pertaining to the two US focused plants; Torrent Pharma continues to impress with robust margins attributed to the global portfolio that comprises ~60% branded generics. The company's portfolio is finely balanced between India, Brazil, Germany and the US with India being the leader. Overall, chronic focus, financial discipline, successful M&A deals, higher return ratios and higher dividend payouts are some of the triggers that we bet on for Torrent Pharma. We initiate our Buy rating, with a target price of Rs3,430 over a 12 months horizon.

Exhibit 19: One Year Forward P/E



Source: Ace Equity, Progressive Research

Exhibit 20: Price v/s Sensex



Source: Ace Equity, Progressive Research

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