

Established in 1959, Torrent Pharmaceuticals Ltd (Torrent Pharama), with an annual turnover of over ₹4,700 crore is the flagship company of the Torrent Group. Torrent Pharma ranked 15th (by turnover) in the domestic formulations market with six of its brands among the top 300 brands in India. The company is a leading player in the key chronic segments such as cardiovascular (CVS) and central nervous systems (CNS) in India. The company's international presence spanning over 40 countries with over 1,200 product registrations. The company has three manufacturing facilities at Indrad (Gujarat), Baddi (Himachal Pradesh) and Sikkim. The company's new facility is taking shape at Dahej SEZ in Western India, which will cater to the international markets.

Key Developments

Subdued operational performance in Q4FY15: Torrent Pharma reported muted performance in Q4FY15, with revenue declining by 6% YoY to ₹1,154 crore as compared to ₹1,225 crore, in the corresponding quarter a year-ago as 37% YoY growth in revenue from India was offset by 23% YoY decline in revenue from export market. In terms of regional performance, Brazil reported growth of 33% YoY in constant currency (cc) and revenue from Europe & ROW grew by 5% YoY and 3% YoY, respectively. While revenue from US business declined by 44% YoY. The company's EBITDA showed de-growth of 54% YoY to ₹160 crore in Q4FY15 as compared to ₹350 crore in Q4FY14 due to higher employee costs and other expenses. Consequently, EBITDA margin of the company contracted to 14.3% in Q4FY15 from 29.0% in Q4FY14. It reported other income of ₹100 crore as compared to ₹10 crore on account of forex gains. However, on higher finance cost, the net profit of the company plunged by 46.7% YoY to ₹130 crore in Q4FY15 from ₹244 crore in Q4FY14.

Domestic business supported FY15 performance: In FY15, the company's net sales rose by 11% YoY to ₹4,653 crore from ₹4,184 crore in previous year, on account of 28.7% YoY revenue growth from domestic business. The rise in company's domestic business during the year was mainly on account of 37.8% YoY revenue growth from branded formulation segment.

Ranked 15th by turnover in the domestic formulations market: The company's Indian formulations segment, which accounts for 35% of total sales, grew at a CAGR of ~17% over FY10-15. According to All India Organisation of Chemists and Druggists (AIOCD), the growth in Torrent Pharma's domestic formulation business was 27% in Q4FY15 as compared to covered market growth of 16%. While, in FY15, the company's domestic formulation business growth came at 16% as against the covered market growth of 13%. (AIOCD Dataset March 2015).

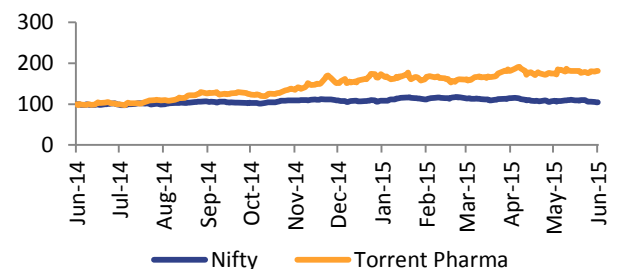
Market Data

CMP (₹)	1,274.0
Face Value	5.0
52 week H/L (₹)	1,334.1/654.5
Adj. all time High (₹)	1,334.0
Decline from 52WH (%)	4.5
Rise from 52WL (%)	94.6
Beta	0.4
Mkt. Cap (₹Cr)	21,639.7
Enterprise Value (₹Cr)	23,463.0

Fiscal Year Ended

	FY13A	FY14A	FY15A
Net Sales (₹Cr)	3,054	4,036	4,585
Net Profit (₹Cr)	472	664	751
Share Capital (₹Cr)	42	85	85
EPS (₹)	56	39	44
PE (x)	23	33	29
P/BV (x)	8	11	9
ROCE (%)	33	33	20

One year Price Chart



Shareholding	Mar15	Dec14	Diff.
Promoters	52.1	52.1	0.0
DII	19.4	19.7	(0.3)
FII	14.4	13.4	1.0
Others	14.2	14.9	(0.7)

Torrent Pharma, with an annual turnover of over ₹4,700 crore is the flagship company of the Torrent Group. The company is a leading player in the key chronic segments such as cardiovascular (CVS) and central nervous systems (CNS) in India.

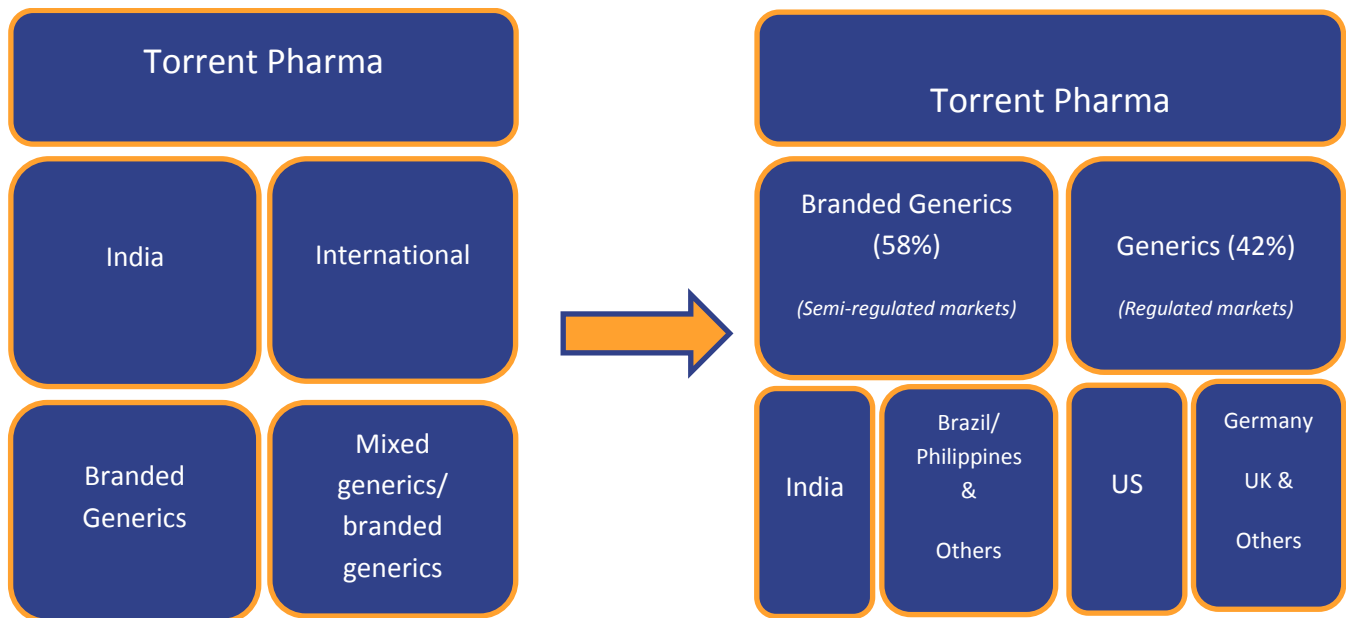
Business Overview

Established in 1959, Torrent Pharma, with an annual turnover of over ₹4,700 crore is the flagship company of the Torrent Group. Torrent Pharma ranked 15th (by turnover) in the domestic formulations market with six of its brands among the top 300 brands in India. The company is a leading player in the key chronic segments such as cardiovascular (CVS) and central nervous systems (CNS) in India. It is having international presence spanning over 40 countries with over 1,200 product registrations. Currently, it has 15 sales and marketing divisions - Prima, Vista, Sparsh, Sensa, Mind, Axon, Neuron, Psycan CnD, Psycan, Azuca, Delta, Oncology, B Well, Uno Spirit and Nephro each of which have a clear therapeutic focus.

The company has three world-class manufacturing facilities at Indrad (Gujarat), Baddi (Himachal Pradesh) and Sikkim. The company's new facility is taking shape at Dahej SEZ in Western India, which will cater to the international markets.

Recently, Torrent Pharma acquired the branded domestic formulations business of Elder Pharmaceuticals in India and Nepal. The acquisition comprises a portfolio of 30 brands including market-leading brands in the Women's Healthcare, Pain Management, Wound Care and Nutraceuticals therapeutic segments.

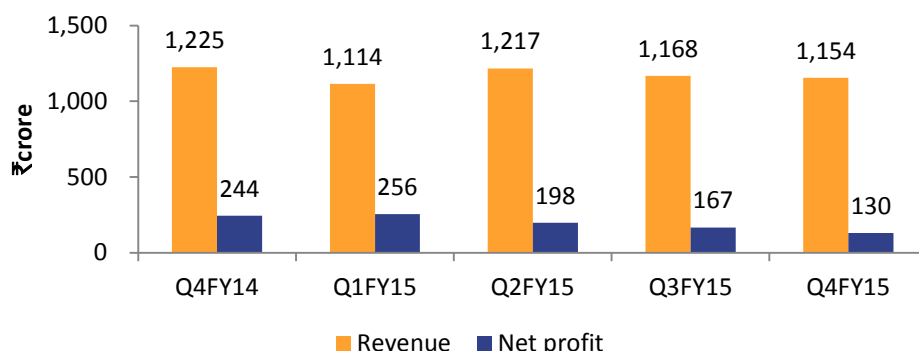
Torrent Pharma new segmentation



Lower export revenue resulted in 6% YoY fall in revenue in Q4FY15

Torrent Pharma reported muted performance in Q4FY15, with standalone revenue declining by 6% YoY to ₹1,154 crore as compared to ₹1,225 crore, in the corresponding quarter a year-ago as 37% YoY growth in revenue from India was offset by 23% YoY decline in revenue from export market. In terms of regional performance, revenue from Brazil reported growth of 33% YoY in constant currency (cc) and revenue from Europe & ROW grew by 5% YoY and 3% YoY, respectively. While revenue from US business declined by 44% YoY. The company's EBITDA showed de-growth of 54% YoY to ₹160 crore in Q4FY15 as compared to ₹350 crore in Q4FY14 due to higher employee costs and other expenses. Consequently, EBITDA margin of the company contracted to 14.3% in Q4FY15 from 29.0% in Q4FY14. Going ahead, the company reported other income of ₹100 crore as compared to ₹10 crore on account of forex gains. However, on higher finance cost, the net profit of the company plunged by 46.7% YoY to ₹130 crore in Q4FY15 from ₹244 crore in Q4FY14.

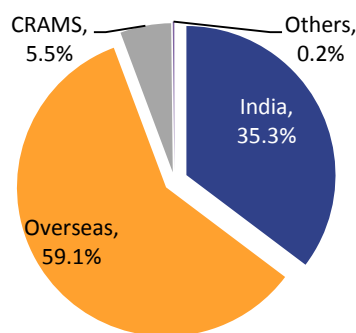
Quarterly performance Trend



Improved performance in FY15

In FY15, the company's net sales rose by 11% YoY to ₹4,653 crore from ₹4,184 crore in previous year, on account of 28.7% YoY revenue growth from domestic business. The growth in company's domestic business during the year was mainly on account of 37.8% YoY revenue growth from branded formulation segment. EBITDA surged by 7.1% to ₹1,020 crore in FY15 from ₹952 crore in previous year. However, EBITDA margin declined by 83 bps to 21.9% in FY15, due to higher operating expenses. Despite of higher depreciation & finance charges, the company managed to post 13.1% YoY growth in its consolidated net profit to ₹751 crore in FY15.

FY15 Revenue Segmentation



Surge in domestic business lifted up the annual numbers for the company.

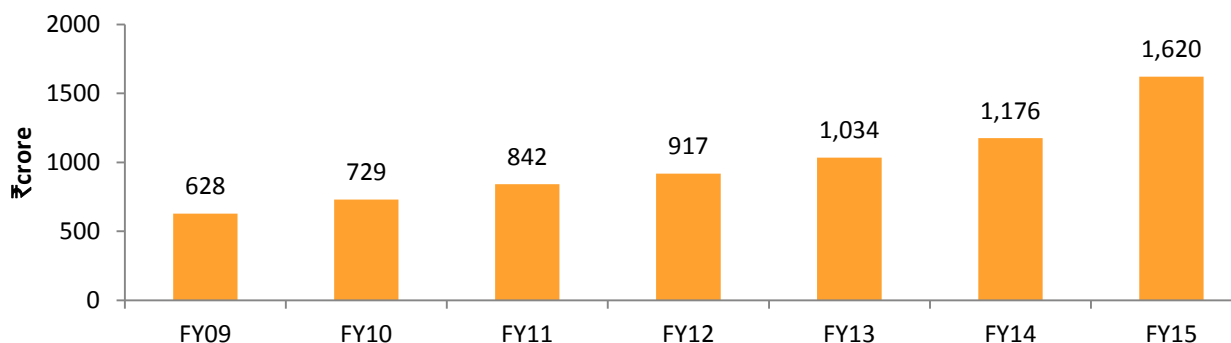
According to All India Organisation of Chemists and Druggists (AIOCD), the growth in Torrent Pharma's domestic formulation business was 27% in Q4FY15 as compared to covered market growth of 16%.

Domestic formulation business

Indian formulations segment, which accounts 35% of the company's total sales, grew at a CAGR of ~17% over FY10-15. According to All India Organisation of Chemists and Druggists (AIOCD), the growth in Torrent Pharma's domestic formulation business was 27% in Q4FY15 as compared to covered market growth of 16%. While, in FY15, the company's domestic formulation business growth came at 16% as against the covered market growth of 13%. (AIOCD Dataset March 2015).

Torrent is having leadership position in some of the key chronic therapies of Cardiovascular and Neuro-psychiatry. The company is ranked fourth in both cardiovascular and Neuro-psychiatry therapies in Indian Pharmaceuticals market (IPM). With a market share of 2.34%, the company ranked 15th by turnover in the domestic market as per AIOCD (MAT April 2015). The company has significant presence in the chronic segment as 64% of the revenue of the company is from the chronic segment.

Revenue performance trend from domestic formulation business

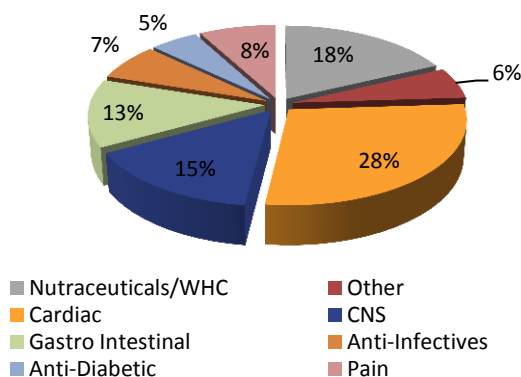


In Q1FY15, Torrent Pharma acquired branded formulation business of Elder Pharmaceuticals in India and Nepal.

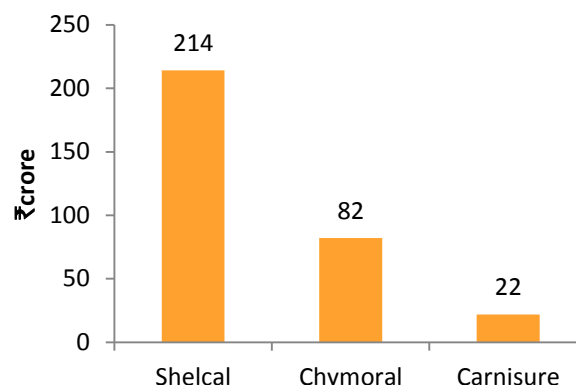
Acquired Elder Pharma in Q1FY15

In Q1FY15, Torrent Pharma acquired branded formulation business of Elder Pharmaceuticals in India and Nepal. The branded domestic formulation business of Elder comprises a portfolio of over 30 brands, which fall in therapies such as women's healthcare/ nutraceuticals, pain management and wound care. The acquisition transferred 30 brands of Elder to Torrent Pharma, which also involves transfer of employees engaged in sales, marketing and operations of India business.

Torrent's therapeutic composition post Elder's acquisition



Annual sales of top three brands of Elder



Torrent Pharma entered into a deal in May 2015 to acquire a 100% stake in Zyg Pharma Pvt Ltd which makes dermatological formulations including creams, ointments, gels, lotions, solutions, and is part of the Encore Group promoted by the Merchant family.

The acquisition will help the company to further access to tier II-IV markets with 1,100 market representatives adding distribution network of 2,900 stockists to Torrent Pharma’s existing base of ~1,700. The company funded this ₹2,000 crore acquisition with cash and internal accruals and borrowings.

Acquired 100% stake in Zyg Pharma

Torrent Pharma has entered into a deal in May 2015 to acquire a 100% stake in Zyg Pharma Pvt Ltd, part of the Mumbai-based Encore Group, for an undisclosed sum. Zyg Pharma creates dermatological formulations including creams, ointments, gels, lotions, solutions, and is part of the Encore Group. It has its manufacturing site at Pithampur (Indore) and is approved by various regulatory authorities including USFDA, TGA Australia. The site includes capabilities for on site development, analytical method development and QC laboratory with separate areas for chemical instrumental and micro sections.

Entered into licensing agreement for biosimilars

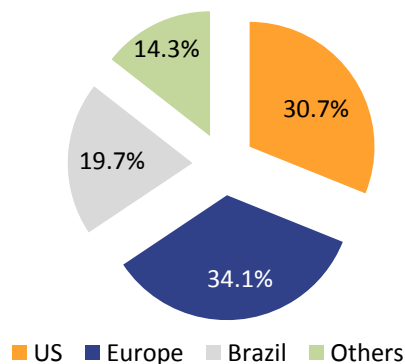
In Q3FY15 Torrent Pharma entered into an exclusive licensing agreement with Reliance Life Sciences for marketing three biosimilars in India — Rituximab, Adalimumab and Cetuximab. Rituximab and Cetuximab cater to the oncology segment and are used in the treatment of various cancers such as leukaemia, lymphoma, colorectal, head and neck. Adalimumab is the therapy for the treatment of auto-immune disorders such as rheumatoid arthritis, psoriasis and inflammatory bowel disease.

According to the terms of the agreement, Reliance Life Sciences will manufacture these products at its facility in Navi Mumbai and supply to Torrent Pharma for a period of 10 years, after obtaining all necessary regulatory approvals. Torrent had launched exclusive divisions for oncology and dermatology segments in 2011-12.

Overseas business accounts for 55% of sales

The company’s overseas business accounts for 55% of the total sales, with US, the largest pharmaceutical market with a market size of ~\$310 billion. In US, the company has healthy product pipeline, with 48 ANDA approvals in FY15 and its pipeline consists of 19 pending approvals and 40 products under development. Torrent Pharma’s Brazilian pharmaceutical market started showing signs of recovery with 14% YoY growth in revenue from the company’s Brazil operation. Other export markets like Europe and ROW too grew at a steady pace.

Export revenue mix in FY15



Balance Sheet (Consolidated)

(₹Cr)	FY13A	FY14A	FY15A
Share Capital	42	85	85
Reserve and surplus	1,380	1,818	2,406
Net Worth	1,422	1,903	2,491
Long term borrowings	455	745	2,185
Other long term liabilities	10	10	8
Long-term provisions	130	190	207
Deferred tax liabilities	58	47	189
Current Liabilities	1,710	2,174	2,831
Total Liabilities	3,783	5,069	7,911
Fixed assets	1,105	1,409	3,495
Deferred tax assets	31	66	84
Investments	0	0	16
Loans & Advances	63	129	207
Other Assets	24	61	50
Current Assets	2,560	3,404	4,059
Total Assets	3,783	5,069	7,911

Cash Flow (Consolidated)

Y/E (₹ Cr)	FY13A	FY14A
Net Profit/Loss Before Extraordinary Items And Tax	582	844
Net CashFlow From Operating Activities	153	599
Net Cash Used In Investing Activities	(242)	(356)
Net Cash Used From Financing Activities	20	86
Foreign Exchange Gains / Losses	(5)	(62)
Net Inc/Dec In Cash And Cash Equivalents	(73)	268
Cash And Cash Equivalents End Of Year	687	955

Financial performance snapshot

Torrent Pharma reported muted performance in Q4FY15, with revenue declining by 6% YoY to ₹1,154 crore as compared to ₹1,225 crore, in the corresponding quarter a year-ago as 37% YoY growth in revenue from India was offset by 23% YoY decline in revenue from export market. In FY15, the company's net sales rose by 11% YoY to ₹4,653 crore from ₹4,184 crore in previous year, on account of 28.7% YoY revenue growth from domestic business. The company's domestic business grew strongly during the year mainly on account of 37.8% YoY revenue growth from branded formulation segment.

Profit & Loss Account (Consolidated)

(₹Cr)	FY13A	FY14A	FY15A
Net Sales	3,054	4,036	4,585
Operating Income	158	148	68
Revenue from Operations	3,211	4,184	4,653
Expenses	2,519	3,232	3,633
EBITDA	692	952	1,020
Depreciation/Amortisation	83	87	191
Other income	43	38	286
EBIT	653	903	1,115
Interest	34	59	175
Profit before Tax	619	844	940
Exceptional Items	37	0	0
Tax	147	180	189
Net Profit	472	664	751

Key Ratios (Consolidated)

	FY13A	FY14A	FY15A
EBITDA Margin (%)	22	23	22
ROCE (%)	33	33	20
ROE (%)	33	35	30
EPS (₹)	56	39	44
P/E (x)	23	33	29
BVPS (₹)	168	112	147
P/BVPS (x)	8	11	9
EV/Operating Income (x)	2	5	5
EV/EBITDA (x)	7	23	23



Indbank Merchant Banking Services Ltd.
I Floor, Khiviraj Complex I,
No.480, Anna Salai, Nandanam, Chennai 600035
Telephone No: 044 – 24313094 - 97
Fax No: 044 – 24313093
www.indbankonline.com

Disclaimer

@ All Rights Reserved

This report and Information contained in this report is solely for information purpose and may not be used as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. The investment as mentioned and opinions expressed in this report may not be suitable for all investors. In rendering this information, we assumed and relied upon, without independent verification, the accuracy and completeness of all information that was publicly available to us. The information has been obtained from the sources that we believe to be reliable as to the accuracy or completeness. While every effort is made to ensure the accuracy and completeness of information contained, Indbank Limited and its affiliates take no guarantee and assume no liability for any errors or omissions of the information. This information is given in good faith and we make no representations or warranties, express or implied as to the accuracy or completeness of the information. No one can use the information as the basis for any claim, demand or cause of action.

Indbank and its affiliates shall not be liable for any direct or indirect losses or damage of any kind arising from the use thereof. Opinion expressed is our current opinion as of the date appearing in this report only and are subject to change without any notice.

Recipients of this report must make their own investment decisions, based on their own investment objectives, financial positions and needs of the specific recipient. The recipient should independently evaluate the investment risks and should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document and should consult their advisors to determine the merits and risks of such investment.

The report and information contained herein is strictly confidential and meant solely for the selected recipient and is not meant for public distribution. This document should not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced, duplicated or sold in any form.