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Maintain 'buy' on Torrent Pharma with TP of ₹1,570

Reliance Securities

LED BY SUBSTANTIAL 14.2% YoY decline in US business, Torrent Pharmaceuticals (TRP) has delivered a subdued performance in 3QFY18. Its reported sales and EBITDA grew by 2.4% YoY and 13.6% YoY to R1,480 crore and R360 crore, respectively. PAT declined by 75% YoY to R58 crore due to re-measurement of deferred tax (change in US tax law) and one-time impact of Unichem acquisition, adjusted for which PAT declined by 8% YoY due to higher depreciation and interest cost.

Notably, TRP's Brazil and Germany sales grew by 22% & 18% YoY, respectively, while post adjusting for GST-led accounting change, its India business grew by 16.5% YoY (ex-Unichem by 13% YoY). Its gross margin rose by 561bps YoY, while EBITDA margin expanded by 241bps YoY to 24.3% owing to better product-mix. Looking ahead, we expect TRP's sales, EBITDA and PAT to clock 14%, 17% and 12.5% CAGR, respectively, while EBITDA margin is expected to improve by 197bps to 25.5% through FY17-20E. Rolling over our estimates to FY20E, we maintain our BUY recommendation on the stock with a revised Target Price of ₹1,570 (from ₹1,450 earlier).

TRP's domestic business grew by 16.5% YoY, which adjusted for Unichem acquisition and GST roll-out related changes, grew by 13% YoY. During 3QFY18, TRP booked Unichem sales from 14th to 31st Dec-17, as part of its domestic business. As per management, sales growth of the acquired business is still slow due to integration with TRP. Further, despite re-stocking post GST roll-out, inventory is yet to match pre-GST level (14 days vs 21 days).

Led by Unichem acquisition, product overlap stood at ~70% while doctor overlap at 90%. TRP expects any cost synergies driven by the overlaps to be limited due to higher rural penetration of Unichem's products (70% vs 30% of TRP).