

| Current           | Previous          |
|-------------------|-------------------|
| CMP : Rs.1,345    |                   |
| Rating : BUY      | Rating : HOLD     |
| Target : Rs.1,599 | Target : Rs.1,190 |

**STOCK INFO**

|                         |                |
|-------------------------|----------------|
| BSE                     | 500420         |
| NSE                     | TORNTPHARM     |
| Index                   | S&P BSE 200    |
| Bloomberg               | TRP IN         |
| Reuters                 | TORP.BO        |
| Sector                  | Pharmaceutical |
| Face Value (Rs)         | 5              |
| Equity Capital (Rs mn)  | 846            |
| Mkt Cap (Rs mn)         | 227,458        |
| 52w H/L(Rs)             | 1,369 / 656    |
| Avg Daily Vol (BSE+NSE) | 260,568        |

**SHAREHOLDING PATTERN**

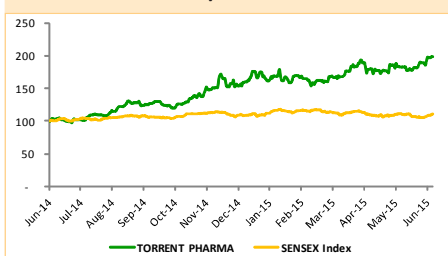
|                          | %    |
|--------------------------|------|
| <i>(as on Mar. 2015)</i> |      |
| Promoters                | 71.2 |
| FIIs                     | 12.3 |
| DIIIs                    | 6.8  |
| Public & Others          | 9.7  |

Source: BSE

| STOCK PERFORMANCE (%) | 1m  | 3m   | 12m  |
|-----------------------|-----|------|------|
| TORRENT PHARMA        | 8.4 | 18.5 | 91.4 |
| SENSEX                | 1.3 | 1.6  | 11.3 |

Source: Capitaline, IndiaNivesh Research

**TORRENT PHARMA v/s SENSEX**



Source: Capitaline, IndiaNivesh Research

**Daljeet S. Kohli**  
Head of Research

Tel: +91 22 66188826  
[daljeet.kohli@indianivesh.in](mailto:daljeet.kohli@indianivesh.in)

**Tushar Manudhane**  
Research Analyst

Tel: +91 22 66188835  
[tushar.manudhane@indianivesh.in](mailto:tushar.manudhane@indianivesh.in)

*We expect Torrent Pharmaceuticals (TRP) to have sales of US\$130mn for FY16E from g-Abilify opportunity. Given the market size of Abilify to be ~US\$5bn on annual basis, at-risk launch and one among the few early entrants for generic version of Abilify in US market, we expect TRP to have considerable traction from this product. Accordingly, we raise our EPS estimate by 28.9% and 28% to Rs70.5 and Rs76.1 for FY16E and FY17E, respectively. We also raise PE multiple from 20x to 22x to factor robust ANDA pipeline, increased capacity post commissioning of Dahej facility, product diversification expected to be achieved in regulated markets through acquisition of Zyg Pharma and ongoing revival of Elder portfolio. We raise our price target from Rs1,190 to Rs1,599 based on FY17E earnings. With 18.9% upside from current levels, we upgrade TRP from HOLD to BUY. At CMP of Rs1,345, the stock is trading at 19.1x FY16E EPS of Rs70.5 and 17.7x FY17E EPS of Rs76.1.*

**Key changes in estimates**

| Rs mn    | Old estimates |        | New estimates |        | Change (%) |       |
|----------|---------------|--------|---------------|--------|------------|-------|
|          | FY16E         | FY17E  | FY16E         | FY17E  | FY16E      | FY17E |
| Sales    | 56,190        | 64,185 | 64,250        | 70,224 | 14.3       | 9.4   |
| EBITDA   | 13,764        | 15,962 | 17,146        | 18,529 | 24.6       | 16.1  |
| PAT      | 9,258         | 10,069 | 11,929        | 12,887 | 28.9       | 28.0  |
| EPS (Rs) | 54.7          | 59.5   | 70.5          | 76.1   | 28.9       | 28.0  |
| PT (Rs)  |               | 1,190  |               | 1,599  |            |       |

Source: IndiaNivesh Research

**G-Abilify case background:**

Otsuka Pharmaceutical Co. (Otsuka) had sued Alembic Pharma (ALPM), Torrent Pharma (TRP), Teva, Hetero Drugs, Sun Pharmaceuticals, Sandoz and Apotex for para IV filing of g-Abilify. While the litigation with companies for generic version was ongoing, Otsuka was simultaneously trying to get marketing exclusivity for seven years under Orphan drug act on account of treating Tourette's syndrome for orphans. However, USFDA approved first generic version of Abilify to treat schizophrenia and bipolar disorder. USFDA approved the generic version of Abilify on 20 April 2015 when the period of pediatric exclusivity associated with US patent no: 5,006,528 expired. Also, the innovator lost the lawsuit challenging FDA approval of generic Abilify in US district court in May 2015. Based on the FDA approval and outcome in US district court, ALPM, TRP, Teva and Hetero launched g-Abilify at risk in US market. The Otsuka's attempt to go to higher court to prevent generics and having the verdict in its favor is the key risk for "At-risk" launch by generic players.

**Potential business for Torrent Pharma:**

Media sources indicate 11% market share garnered by TRP in a month post launch. We expect gradual gain in market share as well as price stability as long as entry of new players is delayed. The innovator had annual sales of about ~US\$5bn for 12-months ending March 2015. With limited competition for this product, we expect TRP to have sales of ~US\$130mn for FY16 on the back of 10-12% market share and 30-40% price erosion. If the entry of new players is earlier than expected then the sales from this opportunity could be US\$100mn (bear case scenario) on the back of price erosion and loss of market share to some extent. Given the product size and delay in entry of players could mean sales of US\$300mn for TRP (bull case scenario).

**Valuation:**

We increase our EPS estimate by 28.9% and 28% to Rs70.5 and Rs76.1 for FY16E and FY17E, respectively. We raise PE multiple from 20x to 22x to factor robust ANDA pipeline, increased capacity post commissioning of Dahej facility, product diversification expected to be achieved in regulated markets through acquisition of Zyg Pharma and ongoing revival of Elder portfolio. Accordingly, we raise our price

target from Rs1,190 to Rs1,599 based on 22x FY17E earnings. With 18.9% upside from current levels, we upgrade TRP from HOLD to BUY. At CMP of Rs1,345, the stock is trading at 19.1x FY16E EPS of Rs70.5 and 17.7x FY17E EPS of Rs76.1.

### Key risks:

Otsuka's attempt to go to higher court and getting verdict in its favor, earlier-than-expected entry of new players in g-Abilify market, delay in ANDA approvals and delay in revival of Elder portfolio are the key risks to our price target and rating for TRP.

## Financial Summary

### Profit & Loss

| Y E March (Rs m)       | FY13          | FY14          | FY15AE        | FY16E         | FY17E         |
|------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Net sales</b>       | <b>30,540</b> | <b>40,360</b> | <b>45,850</b> | <b>64,250</b> | <b>70,224</b> |
| Growth %               | 17.7%         | 32.2%         | 13.6%         | 40.1%         | 9.3%          |
| Other Operating Income | 1,580         | 1,480         | 680           | 1,072         | 1,119         |
| Total sales            | 32,120        | 41,840        | 46,530        | 65,322        | 71,343        |
| <b>Expenditure</b>     |               |               |               |               |               |
| Raw Material           | 9,260         | 12,430        | 14,150        | 20,399        | 21,067        |
| Employee cost          | 6,230         | 7,410         | 8,420         | 10,525        | 11,827        |
| Other expenses         | 9,700         | 12,480        | 13,760        | 17,252        | 19,919        |
| <b>EBITDA</b>          | <b>6,930</b>  | <b>9,520</b>  | <b>10,200</b> | <b>17,146</b> | <b>18,529</b> |
| Growth %               | 38.4%         | 37.4%         | 7.1%          | 68.1%         | 8.1%          |
| <b>EBITDA Margin %</b> | <b>17.5%</b>  | <b>19.9%</b>  | <b>20.8%</b>  | <b>25.0%</b>  | <b>24.8%</b>  |
| Depreciation           | 830           | 870           | 1,910         | 1,995         | 2,102         |
| EBIT                   | 6,100         | 8,650         | 8,290         | 15,150        | 16,427        |
| <b>EBIT Margin %</b>   | <b>20.0%</b>  | <b>21.4%</b>  | <b>18.1%</b>  | <b>23.6%</b>  | <b>23.4%</b>  |
| Other Income           | 430           | 380           | 2,860         | 1,800         | 1,500         |
| Interest               | 340           | 590           | 1,750         | 1,850         | 1,615         |
| PBT                    | 6,190         | 8,440         | 9,400         | 15,100        | 16,312        |
| Tax                    | 1,470         | 1,800         | 1,890         | 3,171         | 3,426         |
| Effective tax rate %   | 23.7%         | 21.3%         | 20.1%         | 21.0%         | 21.0%         |
| Extraordinary items    | (370)         | -             | -             | -             | -             |
| Minority Interest      | (20)          | -             | -             | -             | -             |
| <b>Adjusted PAT</b>    | <b>4,700</b>  | <b>6,640</b>  | <b>7,510</b>  | <b>11,929</b> | <b>12,887</b> |
| Growth%                | 34.5%         | 41.3%         | 13.1%         | 58.8%         | 8.0%          |
| <b>PAT margin %</b>    | <b>15.4%</b>  | <b>16.5%</b>  | <b>16.4%</b>  | <b>18.6%</b>  | <b>18.4%</b>  |
| Reported PAT           | 4,330         | 6,640         | 7,510         | 11,929        | 12,887        |
| Growth%                | 52.4%         | 53.3%         | 13.1%         | 58.8%         | 8.0%          |

### Balance sheet

| Y E March (Rs m)                            | FY13          | FY14          | FY15AE        | FY16E         | FY17E         |
|---|---------------|---------------|---------------|---------------|---------------|
| Share Capital                               | 423           | 846           | 846           | 846           | 846           |
| Reserves & Surplus                          | 13,796        | 18,178        | 24,060        | 33,629        | 43,862        |
| <b>Net Worth</b>                            | <b>14,219</b> | <b>19,024</b> | <b>24,906</b> | <b>34,475</b> | <b>44,709</b> |
| Minority Interest                           | 4             | 4             | 4             | 4             | 4             |
| Secured Loans                               | 5,474         | 8,890         | 30,376        | 28,376        | 26,376        |
| Unsecured Loans                             | 1,587         | 2,464         | 2,464         | 2,464         | 2,464         |
| <b>Total debt</b>                           | <b>7,061</b>  | <b>11,354</b> | <b>32,840</b> | <b>30,840</b> | <b>28,840</b> |
| Net deferred tax liability                  | 258           | (182)         | 1,050         | 1,050         | 1,050         |
| <b>Total Liabilities</b>                    | <b>21,542</b> | <b>30,201</b> | <b>58,801</b> | <b>66,369</b> | <b>74,603</b> |
| Gross Block                                 | 12,955        | 14,200        | 38,900        | 43,397        | 47,611        |
| Less: Depreciation                          | 4,757         | 5,447         | 7,357         | 9,352         | 11,454        |
| <b>Net Block</b>                            | <b>8,198</b>  | <b>8,753</b>  | <b>32,243</b> | <b>34,745</b> | <b>36,857</b> |
| Capital Work in Progress                    | 3,273         | 6,177         | 6,057         | 6,057         | 6,057         |
| Investments                                 | 844           | 2,464         | 2,980         | 2,980         | 2,980         |
| <b>Current Assets</b>                       |               |               |               |               |               |
| Inventories                                 | 9,239         | 10,060        | 10,670        | 18,483        | 20,201        |
| Sundry Debtors                              | 6,878         | 10,994        | 15,950        | 14,434        | 15,776        |
| Cash & Bank Balance                         | 6,270         | 7,694         | 5,671         | 13,606        | 19,010        |
| Other Current Assets                        | 1,859         | 2,590         | 4,730         | 4,730         | 4,730         |
| Loans & advances                            | 968           | 1,209         | 3,160         | 1,584         | 1,732         |
|   | <b>25,213</b> | <b>32,547</b> | <b>40,181</b> | <b>52,837</b> | <b>61,450</b> |
| <b>Current Liabilities &amp; provisions</b> |               |               |               |               |               |
| Current Liabilities                         | 12,266        | 16,202        | 18,280        | 25,870        | 28,360        |
| Provisions                                  | 3,720         | 3,538         | 4,380         | 4,380         | 4,380         |
|   | <b>15,986</b> | <b>19,740</b> | <b>22,660</b> | <b>30,250</b> | <b>32,740</b> |
| <b>Net Current Assets</b>                   | <b>9,227</b>  | <b>12,807</b> | <b>17,521</b> | <b>22,587</b> | <b>28,709</b> |
| <b>Total assets</b>                         | <b>21,542</b> | <b>30,201</b> | <b>58,801</b> | <b>66,369</b> | <b>74,603</b> |

### Cash Flow

| Y E March (Rs m)                   | FY13           | FY14           | FY15AE          | FY16E          | FY17E          |
|------------------------------------|----------------|----------------|-----------------|----------------|----------------|
| <b>PBT</b>                         | <b>5,820</b>   | <b>8,440</b>   | <b>6,494</b>    | <b>15,100</b>  | <b>16,312</b>  |
| Depreciation                       | 827            | 870            | 1,910           | 1,995          | 2,102          |
| Interest                           | -              | 312            | 1,750           | 1,850          | 1,615          |
| Other non cash charges             | 430            | 186            | -               | -              | -              |
| Changes in working capital         | (4,218)        | (1,197)        | (6,738)         | 2,869          | (718)          |
| Tax                                | (1,325)        | (2,617)        | (1,249)         | (3,171)        | (3,426)        |
| <b>Cash flow from operations</b>   | <b>1,535</b>   | <b>5,994</b>   | <b>2,167</b>    | <b>18,643</b>  | <b>15,886</b>  |
| Capital expenditure                | (2,929)        | (4,001)        | (25,400)        | (4,497)        | (4,213)        |
| <b>Free Cash Flow</b>              | <b>(1,394)</b> | <b>1,994</b>   | <b>(23,232)</b> | <b>14,146</b>  | <b>11,672</b>  |
| Other income                       | 425            | 337            | -               | -              | -              |
| Investments                        | 87             | 106            | 700             | -              | -              |
| <b>Cash flow from investments</b>  | <b>(2,417)</b> | <b>(3,558)</b> | <b>(24,700)</b> | <b>(4,497)</b> | <b>(4,213)</b> |
| Equity capital raised              | -              | -              | -               | -              | -              |
| Loans availed or (repaid)          | 1,343          | 4,149          | 21,486          | (2,000)        | (2,000)        |
| Interest paid                      | (312)          | (610)          | (1,750)         | (1,850)        | (1,615)        |
| Dividend paid (incl tax)           | (834)          | (2,674)        | (1,083)         | (2,360)        | (2,653)        |
| <b>Cash flow from Financing</b>    | <b>197</b>     | <b>865</b>     | <b>18,653</b>   | <b>(6,210)</b> | <b>(6,268)</b> |
| Net change in cash                 | (685)          | 3,301          | (3,880)         | 7,935          | 5,404          |
| Cash at the beginning of the year  | 7,608          | 6,270          | 9,550           | 5,671          | 13,606         |
| Foreign currency exchange impact   | (49)           | (624)          | -               | -              | -              |
| <b>Cash at the end of the year</b> | <b>6,270</b>   | <b>7,694</b>   | <b>5,671</b>    | <b>13,606</b>  | <b>19,010</b>  |

### Key ratios

| Y E March           | FY13        | FY14        | FY15AE      | FY16E       | FY17E       |
|---------------------|-------------|-------------|-------------|-------------|-------------|
| EPS (Rs)            | 25.6        | 39.2        | 44.4        | 70.5        | 76.1        |
| Cash EPS (Rs)       | 30.5        | 44.4        | 55.7        | 82.3        | 88.6        |
| DPS (Rs)            | 11.5        | 10.0        | 5.5         | 12.0        | 13.5        |
| BVPS                | 84.0        | 112.4       | 147.2       | 203.7       | 264.2       |
| ROCE                | 13.4%       | 16.9%       | 8.6%        | 15.5%       | 15.2%       |
| ROE                 | 30.5%       | 34.9%       | 30.2%       | 34.6%       | 28.8%       |
| EBITDA Margin %     | 17.5%       | 19.9%       | 20.8%       | 25.0%       | 24.8%       |
| Net Margin %        | 15.4%       | 16.5%       | 16.4%       | 18.6%       | 18.4%       |
| <b>PER (x)</b>      | <b>52.6</b> | <b>34.3</b> | <b>30.3</b> | <b>19.1</b> | <b>17.7</b> |
| P/BV (x)            | 16.0        | 12.0        | 9.1         | 6.6         | 5.1         |
| P/CEPS (x)          | 44.1        | 30.3        | 24.2        | 16.3        | 15.2        |
| EV/EBITDA (x)       | 32.96       | 24.29       | 24.98       | 14.28       | 1.04        |
| Dividend Payout (%) | 45.6        | 27.0        | 20.0        | 20.0        | 20.0        |
| m cap/sales (x)     | 7.5         | 5.6         | 5.0         | 3.5         | 3.2         |
| net debt/equity (x) | 0.1         | 0.2         | 1.1         | 0.5         | 0.2         |
| net debt/ebitda (x) | 0.1         | 0.4         | 2.7         | 1.0         | 0.0         |

Source: Company Filings; IndiaNivesh Research

**Disclaimer:** This document has been prepared by IndiaNivesh Securities Private Limited ("INSPL"), for use by the recipient as information only and is not for circulation or public distribution. INSPL includes subsidiaries, group and associate companies, promoters, employees and affiliates. INSPL researches, aggregates and faithfully reproduces information available in public domain and other sources, considered to be reliable and makes them available for the recipient, though its accuracy or completeness has not been verified by INSPL independently and cannot be guaranteed. The third party research material included in this document does not represent the views of INSPL and/or its officers, employees and the recipient must exercise independent judgement with regard to such content. This document has been published in accordance with the provisions of Regulation 18 of the Securities and Exchange Board of India (Research Analysts) Regulations, 2014. This document is not to be altered, transmitted, reproduced, copied, redistributed, uploaded or published or made available to others, in any form, in whole or in part, for any purpose without prior written permission from INSPL. This document is solely for information purpose and should not be construed as an offer to sell or the solicitation of an offer to buy any security. Recipients of this document should be aware that past performance is not necessarily a guide for future performance and price and value of investments can go up or down. The suitability or otherwise of any investments will depend upon the recipients particular circumstances. INSPL does not take responsibility thereof. The research analysts of INSPL have adhered to the code of conduct under Regulation 24 (2) of the Securities and Exchange Board of India (Research Analysts) Regulations, 2014. This document is based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Nothing in this document constitutes investment, legal, accounting and/or tax advice or a representation that any investment or strategy is suitable or appropriate to recipients' specific circumstances. INSPL does not accept any responsibility or whatever nature for the information, assurances, statements and opinion given, made available or expressed herein or for any omission or for any liability arising from the use of this document. Opinions expressed are our current opinions as of the date appearing on this document only. The opinions are subject to change without any notice. INSPL directors/employees and its clients may have holdings in the stocks mentioned in the document.

This report is based / focused on fundamentals of the Company and forward-looking statements as such, may not match with a report on a company's technical analysis report

Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Daljeet S Kohli, Amar Maurya, Abhishek Jain, Yogesh Hotwani, Prerna Jhunjunwala, Kaushal Patel, Rahul Koli, Tushar Manudhane & Dharmesh Kant.

Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter:

| Disclosure of Interest Statement |  |  |
|----------------------------------|--|--|
| 1.                               | Details of business activity of IndiaNivesh Securities Private Limited (INSPL)   | INSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. INSPL is also a Depository Participant and registered with both Depository viz. CDSL and NSDL. Further, INSPL is a Registered Portfolio Manager and is registered with SEBI.  |
| 2.                               | Details of Disciplinary History of INSPL   | No disciplinary action is / was running / initiated against INSPL  |
| 3.                               | Details of Associates of INSPL   | Please refer to the important 'Stock Holding Disclosure' report on the IndiaNivesh website (investment Research Section - <a href="http://www.indianivesh.in/Research/Holding_Disclosure.aspx?id=10">http://www.indianivesh.in/Research/Holding_Disclosure.aspx?id=10</a> link). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. INSPL and its affiliates may have investment positions in the stocks recommended in this report. |
| 4.                               | Research analyst or INSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest  | No (except to the extent of shares held by Research analyst or INSPL or its relatives'/associates')  |
| 5.                               | Research analyst or INSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document. | Please refer to the important 'Stock Holding Disclosure' report on the IndiaNivesh website (investment Research Section - <a href="http://www.indianivesh.in/Research/Holding_Disclosure.aspx?id=10">http://www.indianivesh.in/Research/Holding_Disclosure.aspx?id=10</a> link). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. INSPL and its affiliates may have investment positions in the stocks recommended in this report. |
| 6.                               | Research analyst or INSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document   | No   |
| 7.                               | Has research analyst or INSPL or its associates received any compensation from the subject company in the past 12 months   | No   |
| 8.                               | Has research analyst or INSPL or its associates managed or co-managed public offering of securities for the subject company in the past 12 months  | No   |
| 9.                               | Has research analyst or INSPL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months                                      | No   |
| 10.                              | Has research analyst or INSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months      | No   |
| 11.                              | Has research analyst or INSPL or its associates received any compensation or other benefits from the subject company or third party in connection with the document.   | No   |
| 12.                              | Has research analyst served as an officer, director or employee of the subject company   | No   |
| 13.                              | Has research analyst or INSPL engaged in market making activity for the subject company  | No   |
| 14.                              | Other disclosures  | No   |

INSPL, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within. This information is subject to change, as per applicable law, without any prior notice. INSPL reserves the right to make modifications and alternations to this statement, as may be required, from time to time.

**Definitions of ratings**

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

HOLD. We expect this stock to deliver -15% to +15% returns over the next 12 months.

SELL. We expect this stock to deliver <-15% returns over the next 12 months.

Our target prices are on a 12-month horizon basis.

**Other definitions**

NR = Not Rated. The investment rating and target price, if any, have been arrived at due to certain circumstances not in control of INSPL

CS = Coverage Suspended. INSPL has suspended coverage of this company.

UR=Under Review. Such e invest review happens when any developments have already occurred or likely to occur in target company & INSPL analyst is waiting for some more information to draw conclusion on rating/target.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Research Analyst has not served as an officer, director or employee of Subject Company

One year Price history of the daily closing price of the securities covered in this note is available at [www.nseindia.com](http://www.nseindia.com) and [www.economicstimes.indiatimes.com/markets/stocks/stock-quotes](http://www.economicstimes.indiatimes.com/markets/stocks/stock-quotes). (Choose name of company in the list browse companies and select 1 year in icon YTD in the price chart)



**IndiaNivesh Securities Private Limited**

Research Analyst SEBI Registration No. INH000000511

601 & 602, Sukh Sagar, N. S. Patkar Marg, Girgaum Chowpatty, Mumbai 400 007.

Tel: (022) 66188800 / Fax: (022) 66188899

e-mail: [research@indianivesh.in](mailto:research@indianivesh.in) | Website: [www.indianivesh.in](http://www.indianivesh.in)

