

Torrent Pharma prospects improve as portfolio widens with Elder buy

Price rises and operational efficiencies help improve latter's performance and overcome acquisition-related concerns

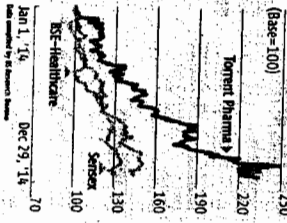
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Torrent Pharmaceuticals was a star performer in the pharmaceutical segment in 2014, making investors richer more than twice over. The market capitalisation has crossed \$3 billion (₹8,300 crore), up from \$1.3bn (₹8,000 crore) in this period.

Investors have been buying the scrip due to strong growth in America, fuelled by a series of generic launches, traction in the Brazilian market and domestic growth with the acquisition of Elder Pharma's branded formulation business. Further, the recent tie-up with Reliance Life Sciences for marketing of three biosimilars, at various stages of development/approvals in India, is a positive. Biosimilars currently account for a small share of the overall pharma pie but Indian companies have been adding these to their portfolio to take advantage of a potential spurt in future sales.

While the acquisition of Elder's business in India and Nepal was looked at with scepticism, things seem to be falling into place. The Street was initially concerned about the increase in debt, deal valuations and the low margin on Elder's products. At 16 per cent for their base-

STRONG TRIGGERS



ROBUST GROWTH OUTLOOK

	FY14	FY15	FY16	FY17E
Revenues (₹ crore)	4,940	5,846	6,776	7,776
% Change Y-o-Y	18.0	18.3	15.9	15.9
Ebitda (₹ crore)	1,259	1,530	1,806	2,067
Ebitda (%)	25.5	26.2	26.7	26.7
Net profits (₹ crore)	806	925	1,146	1,316
% change Y-o-Y	21.3	14.8	23.9	14.8
EPS (₹)	₹1.6	₹1.6	₹1.7	₹1.7
PE (x)	23.1	20.1	16.2	16.2

Source: Ambit Capital

ket, this was significantly lower than Torrent's 22-23 per cent. However, the concerns were misplaced, as the ₹913 crore deal funded through a mix of debt and internal accrual, did not cause much stress on the balance sheet.

On profitability, the Ebitda (earnings before interest, taxes, depreciation and amortisation) margin of 24.7 per cent in FY14 (21.7 per cent in FY13) are expected to improve to 25.47 per cent in FY15, estimates Ambit Capital. The margin boost is expected to come from the Elder portfolio. Analysts at Ambit feel the Elder portfolio yielded Ebitda margins of around 60 per cent in the September quarter. Torrent's Ebitda margin in that quarter was 22.4 per cent, compared to 18.4 per cent in

the year-ago quarter. The reason for the improved performance was continued price increases, premium brand positioning and operational efficiencies. This has led analysts to upgrade growth estimates and Ebitda margins for the Elder business. Instead of the earlier estimate of a seven to eight-year payback, the period has been revised to five to six years.

The company's US growth continues to be strong, with a significant boost coming from products such as anti-depressant drug Zymbalta. Analysts at Nomura, citing an IMS report, say Torrent's trailing three-month sales at the end of October was \$64 million (₹384 crore), up 74 per cent over a year. Ex-Cymbalta, three-month sales grew 25

per cent over a year.

The Brazilian market has been a key performer for the company for some time. The geography that contributes 12-15 per cent to Torrent's revenue is expected to keep the growth momentum going, with estimates of a 20 per cent uptick in FY15 as compared to 6.2 per cent growth in FY14.

On the domestic front, Torrent's monthly sales improved significantly at 23.3 per cent in November after a decline in sales of 5.1 per cent in October. Surpreet Pal of Prabhudas Lilladher says sales growth had initially suffered because of the Elder incorporation. For the overall entity, analysts at Morgan Stanley estimate earnings will grow 22.5 per cent annually over FY13-16.



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