

# Elder buy raises debt concerns for Torrent

**BITTER PILL?** Torrent will get access to strong brands and large distribution network. But debt woes may hit stock, say analysts

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**MUMBAI:** Ahmedabad-based Torrent Pharma's acquisition of debt-laden Elder Pharma's domestic branded formulations business earlier this month may have given Torrent access to high-growth segments including women's healthcare, nutraceuticals and pain management, but analysts are concerned over the huge debt Torrent itself would have taken on to fund the ₹2,000-crore deal.

"We see Torrent Pharma's acquisition as a negative development due to increase in its debt," said Meeta Shetty of HDFC Securities.

Torrent will get access to strong brands of Elder including Shelcal (sales of ₹214 crore in the last one year) and Chymoral (sales of ₹82 crore) and its distribution will also get a big push with 4,000 stockists post the acquisition from 1,800 earlier. However, it's the high debt, which led to analysts downgrading the stock to "neutral" from "buy."

Due to this acquisition, Torrent is likely to accrue a debt of ₹2,600 crore by 2014-15, analysts said.

The debt worries also prompted Edelweiss Securities

## GAINS AND LOSSES

**₹2,000cr** Amount Torrent paid for buying Elder's domestic formulation biz

### UPSIDE

- Torrent will get access to strong brands of Elder including Shelcal (sales of ₹214 cr in last one year) and Chymoral (sales of ₹82 cr)
- Distribution is also likely to get a big push with 4,000 stockists post the acquisition from 1,800 earlier

### FLIPSIDE

- Torrent is likely to accrue a debt of ₹2,600 cr by 2014-15, according to analysts
- Debt worries are also likely to result in earnings cut of 11% and 14% for 2013-14 and 2014-15, respectively
- Interest costs to shoot up to ₹190 crore from ₹61 crore earlier

to downgrade Torrent Pharma to "hold," as it is likely to result in earnings cut of 11% and 14% for 2013-14 and the next fiscal year, respectively.

Post acquisition, Sudhir Mehta, Torrent Group chairman, had said the transaction was a strategic fit; it would strengthen Torrent's core prescription-based business. For the year ended March 2013, Torrent Pharma reported revenues of ₹3,212 crore on net profit of ₹433 crore.

"The acquisition benefits could be leveraged over three-five years, but in the medium-term,

Torrent would have immediate cost-push concerns, which would outweigh the synergy benefits," said Rahul Sharma of Karvy Stock Broking, who downgraded the stock to "sell."

Sharma expects Torrent's interest costs to shoot up to ₹190 crore from ₹61 crore earlier.

Some brokerages including ICICI Direct still remain bullish on Torrent and advise a "buy" citing long-term strengths of the deal, though it too feels that markets are likely to remain circumspect as the deal is "bit more costly than expected earlier."

Company / Industry