

Torrent Pharma: Home front still driving growth

Cost savings could drive margins higher in the near term

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After a healthy performance in the March quarter (Q4), expectations of margin expansion and continued outperformance in the Indian and Brazilian markets are positives for Torrent Pharmaceuticals. The stock of India's fifth-largest pharma company by market capitalisation has risen over 10 per cent since its lows in May.

Ambit Capital recently upgraded the stock on expectations of recovery in Indian chronic therapy sales, tangible progress on cost optimisation, and lower drag from the troubled US and German businesses, besides more reasonable valuations.

The near-term trigger is the improvement in operating profit margins in the current financial year. After reporting a 372-basis-point fall in margins in Q4 to 26.3 per cent, the company has indicated that there could be an improvement in the coming quarters.

It believes that margins will rise at least 300 basis points sequentially in QI/FY23. Most of the gains are expected to be driven by cost saving from the discontinued liquid plant in the US, which will account for half the margin gains.

The company, which acquired the plant in 2018 for about ₹450 crore, was incurring an annual cost of ₹35 crore. It

MARGIN GAINS AHEAD

	FY22	FY23E	FY24E
Netsales	8,508	9,476	10,557
% change YoY	6.3	11.4	11.4
Operating profit	2,431	2,890	3,378
% change YoY	-2.2	18.9	16.9
Margin (%)	28.6	30.5	32.0
Adjusted net profit	1,262	1,577	1,876
% change YoY	0.8	25.0	19.0

E: Estimates

Source: Sharekhan Research



took an impairment charge of ₹485 crore in Q4 related to the tangible assets at the site.

Says Saion Mukherjee of Nomura Research, "The decision to discontinue operations at the site is surprising to us given the investments the company made in the recent past.

However, we think it is prudent to discontinue and cut losses given commercial unviability as assessed by the company."

The other profitability gains

are expected to come from

plant optimisation and 7-8 per

cent price increases in branded

generics. The company has

guided for an improvement

despite the cost inflation

in raw materials and higher

logistics expenses.

The firm's outperformance in

the Indian market is another

trigger. Price increases and new

launches in the domestic market,

which saw a 12 per cent year-on-

year (YoY) growth in Q4, are

expected to help the company

outperform peers. In May, the

company posted 14.5 per cent

growth in the market. This is the

fourth consecutive quarter of

outperformance for the drug

maker. The growth was led by

vitamins, pain and gastrointes-

tinal medications. Expansion of

its field force, market share gains

and traction in the trade generics

segment could drive incremental

gains in the domestic business.

Among international mar-

kets, Brazil was the biggest out-

performer, registering a growth

of 33 per cent YoY. The growth

was led by five new launches

including the anticoagulant

Rivaroxaban. Expected healthy

growth in the existing portfolio,

likely relative outperformance,

and new product launches are

expected to drive Brazilian sales

growth, believes Sharekhan

Research. Sales in Germany were

below expectation due to the loss

of tenders in Q3.

Despite the mid-teen price

erosion in the US market YoY,

the business saw some recovery

(up 5 per cent YoY) due to the

launch of an antibiotic

Dapsone. The company has

filed six abbreviated new drug

applications (ANDAs) taking

the total to 57 ANDAs. Higher

competitive intensity, lack of

product launches and re-in

spection delays by the US

Food and Drug Administration

are the key risks for the US busi

ness. While Sharekhan has a

'buy' rating, analysts at JM

Financial have a 'hold' rating.

"While most of the earnings

traction is expected H2FY23

onwards, we maintain our

stand till the resolution of site

issues with the US FDA, new

tender wins in Germany and

key domestic launches

come into play. The aforemen-

tioned factors indicate moder-

ate earnings growth over the

next few quarters despite fac-

torizing margin expansion,"

believes JM Financial.

At the current price, the stock

is trading at 27 times its

FY24 earnings estimates and

could be looked at on dips.

BINDISHA SARANG

The Reserve Bank of India's (RBI) Monetary Policy Committee hiked the repo rate by 50 basis points (bps) on June 8, after a 40-basis-point increase in May. According to a recent Knight Frank India report, home loan rates are still approximately 150 bps below 2019 levels. A reversion to those levels would result in an 11.7 per cent increase in the home-buyer's equated monthly instalment (EMI) load.

Adhil Shetty, chief executive officer (CEO) of BankBazaar.com, says, "After the US Federal Reserve's rate hike of 75 bps, the RBI could undertake more rate hikes. Given this situation, borrowers should list all their repayment options for existing loans and make course corrections wherever required."

Here are four ways to deal with a rising EMI burden, all of which will, however, require hard negotiations with the lender.

Reschedule the loan
If you opt for this you will have to request your lender to increase the loan tenor and reduce the EMI. V Swaminathan, executive chairman, Andromeda and Apnapaisa, says,

"Rescheduling can prove beneficial for those who have multiple loans running simultaneously. It will allow them to manage their EMIs according to their budget."

For instance, for a ₹50 lakh loan at 7.5 per cent

HOME LOAN RATES OF KEY LENDERS

	Under ₹30 lakh	₹30 to 75 lakh	Above ₹75 lakh
Axis Bank	7.60-8.05	7.60-8.05	7.60-8.05
Bank of Baroda	7.45-8.90	7.45-8.90	7.45-8.90
 HDFC Ltd	7.55-8.30	7.55-8.55	7.55-8.65
ICICI Bank	7.60-8.20	7.60-8.35	7.60-8.45
LIC Housing Finance Ltd	6.90-7.75	6.90-7.95	6.90-8.15
State Bank of India	7.55-8.15	7.55-8.15	7.55-8.05
Union Bank of India	7.40-8.90	7.40-9.10	7.40-9.10

Note: Rates that vary with tenures or credit score within the specified loan amounts are indicated as a range. Data taken from respective bank's website as on June 17, 2022



Source: BankBazaar.com

interest with a tenor of 15 years, the EMI comes to ₹46,351. After a year, if your interest rate increases to 8.5 per cent, your new EMI will become ₹48,176 for the remaining tenor of 14 years. But if you increase the tenor to 20 years, your EMI will reduce to ₹42,456 even at 8.5 per cent interest rate.

Swaminathan says, "Most lenders charge only a nominal processing fee for rescheduling, but whether they allow it depends on their discretion."

Such rescheduling will, however, increase the total interest cost you pay to your lender over the entire tenor.

Deferment
If you expect a lump sum in the near future, you can request your bank to allow you to not service the entire EMI.

Alternatively, you could request your lender to allow you to not pay the

principal while you continue to service the interest. You will have to promise to repay the outstanding amount for the period of the deferment, once you receive the lump sum.

Shetty says, "A debt deferment is when you do not need to repay the outstanding amount on a loan for a specific period. This can be in the form of the moratorium offered by the RBI in 2020, or it can be built into the product itself, as in the case of education loans."

While deferment gives you some breathing space, it comes at a cost. Shetty says, "In most cases, a simple interest will be charged on the outstanding amount before you begin the repayment."

Switch to a lower-cost loan
Another option that will allow you to reduce your EMI is to switch your loan to another lender offering

lower interest rate.
Raj Khosla, founder and managing director, MyMoneyMantra.com, says, "Borrowers can switch after a rate hike to take advantage of a potentially lower rate of interest. Depending on the rate differential, savings can be significant for the borrower."

For a 20-year home loan of ₹75 lakh, a rate differential of 50 bps can result in a saving of ₹5.5 lakh in interest cost.

Switching makes more sense for those who have a longer tenure left.

Remember that switching carries a cost. Khosla says, "There is no prepayment penalty on floating-rate home loans. Nominal or zero switching fee is applicable to customers having a high credit score. But there are other costs, which you need to take into account while calculating the benefits of this move."

Finally, if you have a good credit score, your chances of being able to avail one of the above-mentioned options is higher.

Oil drops on recession concerns, heading for weekly fall

Oil prices fell almost 2 per cent on Friday and were on track for a weekly decline as interest rate hikes from major central banks fuelled worries about a sharp economic slowdown. Brent crude was down \$2.19, or 1.8 per cent,

cent, at \$117.62 a barrel at 1334 GMT (7.04 pm IST), and US West Texas Intermediate crude fell \$2.56, or 2.2 per cent, to \$115.03.

Brent was on track for its first weekly dip in five weeks, and US crude for its first decline in eight

weeks, in line with a fall in equity

markets amid fears of a possible

recession as several central

banks delivered big rate hikes.

The US government said while it is pursuing diplomacy to

revive a nuclear deal with Iran,

which saw a 12 per cent year-on-</p

