

Ajanta Pharma

BSE SENSEX	S&P CNX
29,921	9,314
Bloomberg	AJP IN
Equity Shares (m)	586
M.Cap.(INRb)/(USDb)	146.7 / 2.2
52-Week Range (INR)	2150 / 1400
1, 6, 12 Rel. Per (%)	-7/-24/-7
Avg Val, INRm	291
Free float (%)	26.2

CMP: INR1,658 TP: INR2,028(+22%) Buy

In-line results; Outlook remains positive

AJP posted in-line sales of INR4.8b (est. of INR4.7b). EBITDA margin of 35.9%, adjusted for forex loss accounting for mark-to-market, was significantly better than estimate of 33.8% due to a superior product mix. Higher depreciation on account of commercialization of the Guwahati facility and lower-than-expected other income led to PBT growing at a lower rate than EBITDA. As a result, adjusted PAT grew 4% YoY to INR1.2b (est. of INR1.2b).

- **US, India and Asia drive sales growth:** Sales grew 12% YoY, led by healthy growth in India sales and strong momentum in US sales. Currency stabilization led to a revival in Asia segment sales (+15% YoY) after two quarters of decline. Africa sales declined 24% YoY due to lower anti-malaria sales, impacting overall growth for the quarter.
- **Aggressive ANDA filings expected in FY18:** AJP continued to post robust performance in the US, with sales at INR450m v/s INR50m in the previous quarter, led by sustained business from approved products. AJP has ~15 ANDAs pending for approval and intends to file 12-15 in FY18.
- **Inspection update:** In 4QFY17, AJP had successful 1st USFDA inspection at its Dahej facility. The USFDA issued one observation at its Paithan facility, which is minor in nature, in our view.
- **Capex guidance:** AJP guided for capex of ~INR3bn in FY18, largely toward the Guwahati facility, R&D and maintenance.
- **Healthy FY17 performance:** AJP posted sales growth of 14.9% YoY to INR20b, EBITDA margin of 35.2% and PAT growth of 25.7% YoY to INR5.2b.

Valuation: We remain positive on AJP, given its aggressive filings in the US and better-than-industry growth in India branded sales. We tweak FY18 estimates to factor in better EBITDA margin and a marginal fall in Africa sales. We maintain FY19 estimates and TP of 2,028 on 25x FY19E earnings. Reiterate **Buy**.

Financials & Valuations (INR b)

Y/E Mar	FY17	FY18E	FY19E
Net Sales	20.0	22.6	27.5
EBITDA	7.0	7.9	9.4
PAT	5.2	5.9	7.1
EPS (INR)	58.4	66.4	79.9
Gr. (%)	24.0	13.6	20.3
BV/Sh (INR)	177.2	233.0	300.0
P/E(x)	28.4	25.0	20.8
P/B (x)	9.4	7.1	5.5
ROE (%)	37.7	32.3	30.0
RoCE (%)	36.4	31.9	29.6

Estimate change



TP change



Rating change



Quarterly Performance (Consolidated)

Y/E March	FY16				FY17				FY16	FY17
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	3,914	4,417	4,766	4,257	4,759	5,158	5,331	4,768	17,354	20,016
YoY Change (%)	21.6	18.8	16.9	14.4	21.6	16.8	11.8	12.0	17.8	15.3
Total Expenditure	2,688	2,878	3,131	2,831	3,093	3,426	3,551	3,054	11,528	13,125
EBITDA	1,225	1,539	1,636	1,426	1,666	1,732	1,780	1,714	5,826	6,892
Margins (%)	31.3	34.8	34.3	33.5	35.0	33.6	33.4	35.9	33.6	34.4
Depreciation	103	110	117	121	130	140	153	189	451	612
Interest	12	11	15	11	10	8	8	9	49	35
Other Income	80	62	23	50	55	67	192	24	214	337
PBT before EO expense	1,190	1,480	1,526	1,344	1,580	1,651	1,811	1,540	5,541	6,582
Extra-Ord expense	0	0	0	20	0	0	0	160	20	160
PBT	1,190	1,480	1,526	1,324	1,580	1,651	1,811	1,380	5,521	6,422
Tax	330	446	387	249	385	345	385	300	1,412	1,413
Rate (%)	27.7	30.1	25.3	18.8	24.3	20.9	21.2	21.7	25.6	22.0
Minority Interest & Profit/Loss of Asso.	0	0	0	0	0	0	0	0	0	0
Reported PAT	860	1,034	1,139	1,075	1,196	1,307	1,426	1,080	4,109	5,008
Adj PAT	860	1,034	1,139	1,091	1,196	1,307	1,426	1,205	4,124	5,133
YoY Change (%)	44.2	24.6	22.4	47.2	39.0	26.3	25.2	10.5	33.1	24.5
Margins (%)	22.0	23.4	23.9	25.6	25.1	25.3	26.7	25.3	23.8	25.6

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Decent show in FY17 in terms of overall sales

AJP's sales came in at INR4.8b (+12% YoY), led by 13.3% growth in domestic formulation sales, 15% growth in Asia sales and ~9x sales in US market. This, however, was offset to some extent by contraction in Africa sales.

In FY17, sales grew 15.3% YoY to INR20b, led by 18% growth in domestic formulation sales and a sharp increase in US sales. Africa sales grew at a muted rate of 2.9% YoY to INR7.1b, partly on a high base of past year. Asia sales declined 9.3% YoY to INR4.2b.

Exhibit 1: Sales break-up

	FY16				FY17			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Domestic	1,479	1,310	1,340	1,236	1,620	1,585	1,540	1,400
Pharmaceutical	1,319	1,270	1,176	1,176	1,570	1,540	1,490	1,330
Yoy (%)	18.0	23.3	17.0	16.0	19.0	21.3	13.7	13.3
Institutional Sales	160	40	30	60	50	45	50	70
Exports	2,420	3,040	3,323	3,000	2,970	2,979	3,600	3,170
Emerging markets	2,390	3,020	3,280	2,950	2,870	2,730	3,010	2,720
Africa	1,470	1,750	1,960	1,740	1,940	1,750	2,110	1,320
Yoy (%)	29.0	26.8	40.0	31.0	32.0	0.0	7.7	-24.1
Asia	890	1,240	1,290	1,190	930	980	900	1,370
Yoy (%)	13.0	11.7	4.0	6.0	4.5	-21.0	-30.2	15.1
Latam	30	30	30	20	0	10	10	30
Regulated markets	30	20	43	50	100	710	590	450
Total	3,899	4,350	4,663	4,236	4,590	5,025	5,140	4,570

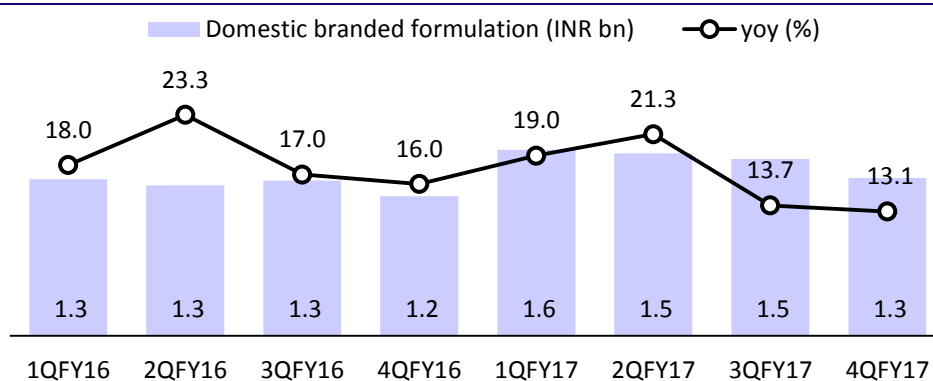
Source: MOSL, Company

Ophthalmology and Cardiology drive growth in domestic formulation

AJP continued to outperform industry in 4QFY17, with 19% YoY and 18% YoY growth in Ophthalmology and Cardiology, respectively. Sales from Dermatology remained flat. Growth in Ophthalmology sales revived post demonetization. Seasonality impacted growth in Dermatology. AJP launched five products during the quarter, which had two as new to market.

In FY17, AJP grew 12% YoY to INR6.14b. Cardiology remained high-growth segment for AJP with YoY growth of 21%. As a result, share of Cardiology increased from 37% to 41% in domestic formulation sales. Growth in Dermatology was impacted by the base effect of Melacare range of products, resulting in 12% YoY growth for FY17. Subdued performance in 3QFY17 impacted Ophthalmology, resulting in 11% YoY growth for FY17. Management guided for overall growth in domestic formulations to be in mid-teens for FY18.

Exhibit 2: AJP continues to post better-than-industry growth



Source: MOSL, Company

US remain on strong trajectory

During the quarter, AJP received one ANDA approval, taking cumulative final approvals to 17. AJP continues to have better traction from already launched products in previous quarters, with sales at INR450m v/s INR50m in 4QFY16 and INR590m in 3QFY17. The QoQ reduction is due to increased price erosion in some products.

During the quarter, AJP filed two ANDAs, taking cumulative filing for FY17 to 8. Although the number of filings in FY17 has been low, management has guided for 12-15 filings in FY18. AJP has 15 ANDAs pending for approval, which would drive growth in FY18, subject to approval from USFDA.

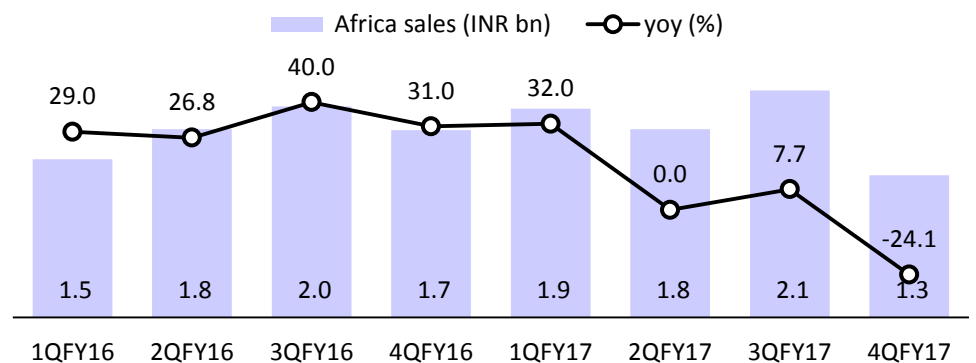
Most of the current US sales are from Paithan facility. There is one ANDA filed from Dahej. Both the facilities were recently inspected by USFDA. AJP had zero observation at Dahej facility and one minor observation at Paithan facility. We expect US sales to continue without regulatory hurdle post recent inspection.

Africa sales fall YoY, outlook remains intact

AJP's Africa sales came in at INR1.3b, down 24% YoY for the quarter. The decline is mainly due to contraction in institutional anti-malaria sales. Institutional anti-malaria sales at INR800m were down 29% YoY for the quarter. Branded generics sales also reduced by 14.7% YoY.

On FY17 basis, Africa sales remained stable at INR7.2b, with INR4.4b from the institutional antimalarial segment. Management has guided for similar business from institutional anti-malarial segment in terms of volume for FY18, while there could be a slight decline in prices.

Exhibit 3: Africa sales contract for the first time in eight quarters



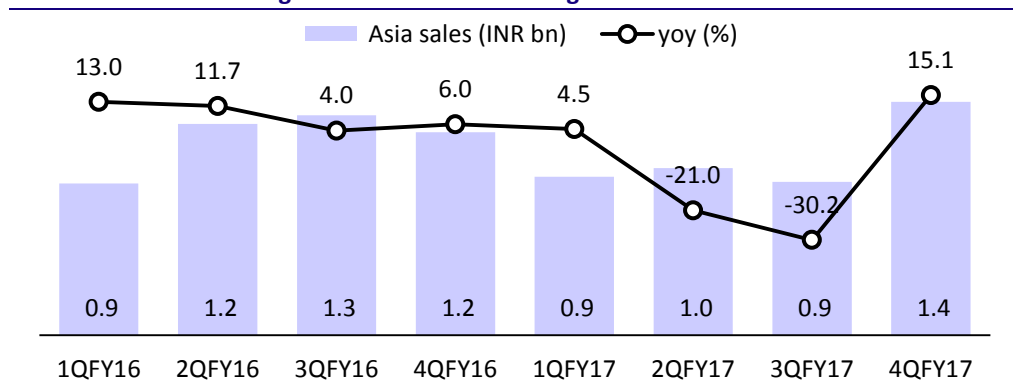
Source: MOSL, Company

Stable currency revives growth in Asia segment

AJP's sales from Asia came in at INR1.4b, up 15% YoY. After two quarters of YoY decline, AJP reported growth in this segment. This is on the back of currency stabilization, resulting in enhanced focus on this segment.

Management has guided for low-double-digit growth in this segment in FY18.

Exhibit 4: Downtrend in growth reverses in Asia segment



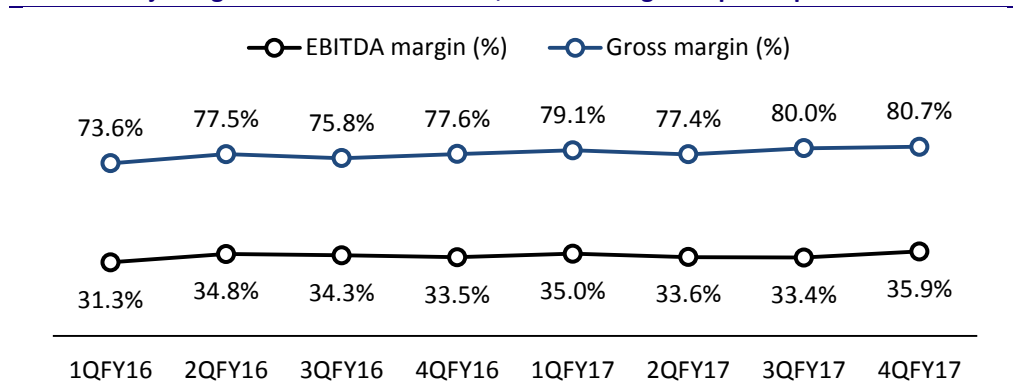
Source: MOSL, Company

AJP continues to deliver superior EBITDA margin

AJP has delivered strong gross margin of 80.7% in 4QFY17, led by a superior product mix. Accordingly, EBITDA margin also improved 245bp YoY to 35.9%. R&D spent was INR390m, forming 8.1% of net sales for the quarter.

In FY17, AJP spent INR1.5b toward R&D (for developing products for US market).

Exhibit 5: Adjusting for unrealized forex loss, EBITDA margin is up 245bp YoY



Source: MOSL, Company

Capex update

In FY17, AJP had capex of INR3.1b, of which INR1b was spent on Guwahati, ~INR700m on Dahej, ~INR450m on R&D and remaining on maintenance. Management has guided for similar capex in FY18.

Financials and Valuations

Consolidated - Income Statement						(INR Million)		
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Total Income from Operations	9,369	12,160	14,852	17,429	20,020	22,628	27,519	33,437
Change (%)	36.7	29.8	22.1	17.4	14.9	13.0	21.6	21.5
Raw Materials	3,026	3,455	3,654	4,138	4,146	4,752	5,806	7,089
Employees Cost	1,232	1,570	2,006	2,570	2,954	3,394	4,210	5,183
R&D expenses	370	530	660	1,060	1,530	1,607	2,009	2,441
Other Expenses	2,436	2,841	3,363	3,700	4,396	5,023	6,082	7,256
Total Expenditure	7,064	8,396	9,683	11,468	13,027	14,776	18,107	21,968
% of Sales	75.4	69.0	65.2	65.8	65.1	65.3	65.8	65.7
EBITDA	2,305	3,764	5,169	5,961	6,994	7,852	9,411	11,469
Margin (%)	24.6	31.0	34.8	34.2	34.9	34.7	34.2	34.3
Depreciation	342	439	516	451	612	676	840	969
EBIT	1,964	3,325	4,652	5,511	6,382	7,176	8,571	10,500
Int. and Finance Charges	191	87	59	49	35	16	16	16
Other Income	56	137	168	166	239	317	385	468
PBT bef. EO Exp.	1,828	3,375	4,761	5,628	6,585	7,476	8,940	10,952
EO Items	0	0	-85	0	100	0	0	0
PBT after EO Exp.	1,828	3,375	4,677	5,628	6,685	7,476	8,940	10,952
Total Tax	647	960	1,462	1,460	1,413	1,607	1,877	2,190
Tax Rate (%)	35.4	28.4	31.3	25.9	21.1	21.5	21.0	20.0
Reported PAT	1,182	2,415	3,215	4,168	5,247	5,869	7,063	8,761
Adjusted PAT	1,182	2,415	3,273	4,168	5,168	5,869	7,063	8,761
Change (%)	33.4	104.4	35.5	27.3	24.0	13.6	20.3	24.0
Margin (%)	12.6	19.9	22.0	23.9	25.8	25.9	25.7	26.2

Consolidated - Balance Sheet						(INR Million)		
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	118	177	177	177	177	177	177	177
Total Reserves	3,816	5,756	8,234	11,544	15,500	20,431	26,357	33,680
Net Worth	3,934	5,933	8,411	11,721	15,677	20,608	26,534	33,857
Total Loans	1,248	1,305	724	929	323	323	323	323
Deferred Tax Liabilities	237	230	152	200	29	29	29	29
Capital Employed	5,419	7,468	9,286	12,850	16,029	20,959	26,886	34,208
Gross Block	4,385	4,903	5,499	7,242	9,382	13,537	16,737	19,778
Less: Accum. Deprn.	1,659	2,109	2,618	2,726	3,338	4,014	4,855	5,824
Net Fixed Assets	2,726	2,794	2,881	4,516	6,044	9,522	11,883	13,954
Capital WIP	125	936	1,702	2,398	3,380	2,126	1,925	1,885
Total Investments	85	635	595	664	1,909	1,909	1,909	1,909
Curr. Assets, Loans&Adv.	4,247	5,130	6,286	7,237	6,651	9,587	13,847	19,718
Inventory	1,476	1,554	1,590	2,046	2,110	2,394	2,933	3,559
Account Receivables	1,505	2,022	2,588	3,724	3,218	3,638	4,424	5,375
Cash and Bank Balance	462	604	1,368	550	573	2,709	5,460	9,533
Loans and Advances	804	949	740	918	749	847	1,030	1,251
Curr. Liability & Prov.	1,763	2,026	2,177	1,965	1,955	2,215	2,709	3,288
Account Payables	1,317	1,245	1,298	1,650	1,396	1,583	1,940	2,354
Other Current Liabilities	217	325	188	176	400	452	550	668
Provisions	229	455	691	139	160	180	219	266
Net Current Assets	2,484	3,104	4,108	5,272	4,695	7,371	11,138	16,430
Appl. of Funds	5,419	7,468	9,286	12,850	16,029	20,928	26,854	34,177

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)								
EPS	13.4	27.3	37.0	47.1	58.4	66.4	79.9	99.1
Cash EPS	17.2	32.3	42.8	52.2	65.3	74.0	89.4	110.0
BV/Share	44.5	67.1	95.1	132.5	177.2	233.0	300.0	382.8
DPS	1.7	4.0	6.0	8.0	13.1	9.8	11.8	15.0
Payout (%)	14.5	17.0	18.2	18.4	23.9	16.0	16.1	16.4
Valuation (x)								
P/E			44.8	35.2	28.4	25.0	20.8	16.7
Cash P/E			38.7	31.8	25.4	22.4	18.6	15.1
P/BV			17.4	12.5	9.4	7.1	5.5	4.3
EV/Sales			9.8	8.4	7.3	6.4	5.1	4.1
EV/EBITDA			28.2	24.7	20.9	18.4	15.0	12.0
Dividend Yield (%)	0.1	0.2	0.4	0.5	0.8	0.6	0.7	0.9
FCF per share	14.8	2.8	19.9	3.4	32.7	31.7	39.8	57.2
Return Ratios (%)								
RoE	34.2	49.0	45.6	41.4	37.7	32.3	30.0	29.0
RoCE	25.7	39.9	40.5	38.6	36.4	31.9	29.6	28.8
RoIC	26.2	47.4	58.6	54.9	51.9	46.2	42.6	43.7
Working Capital Ratios								
Asset Turnover (x)	1.7	1.6	1.6	1.4	1.2	1.1	1.0	1.0
Inventory (Days)	58	47	39	43	38	39	39	39
Debtor (Days)	59	61	64	78	59	59	59	59
Creditor (Days)	51	37	32	35	25	26	26	26
Leverage Ratio (x)								
Net Debt/Equity	0.2	0.0	-0.1	0.0	-0.1	-0.2	-0.3	-0.3

Consolidated - Cash Flow Statement

(INR Million)

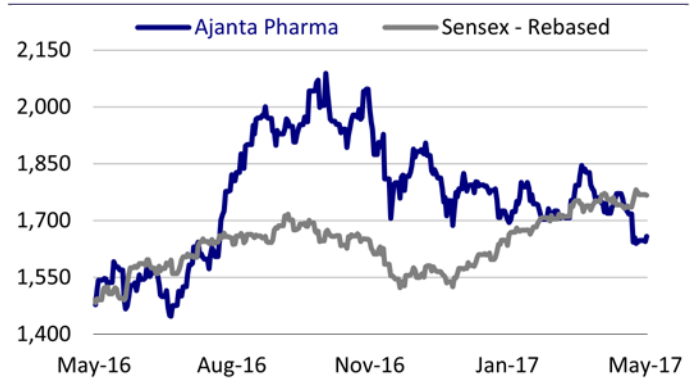
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	1,635	3,299	4,560	5,474	6,585	7,476	8,940	10,952
Depreciation	342	439	516	451	612	676	840	969
Interest & Finance Charges	191	87	59	49	-204	-300	-369	-452
Direct Taxes Paid	-331	-937	-1,461	-1,614	-1,576	-1,607	-1,877	-2,190
(Inc)/Dec in WC	386	-745	-817	-1,235	600	-540	-1,015	-1,219
CF from Operations	2,223	2,142	2,858	3,125	6,017	5,705	6,519	8,059
Others	120	-18	-64	139	0	0	0	0
CF from Operating incl EO	2,343	2,124	2,794	3,264	6,017	5,705	6,519	8,059
(Inc)/Dec in FA	-1,037	-1,878	-1,036	-2,962	-3,123	-2,900	-3,000	-3,000
Free Cash Flow	1,306	246	1,759	302	2,895	2,805	3,519	5,059
(Pur)/Sale of Investments	0	0	-45	-69	-1,245	0	0	0
Others	87	97	102	135	239	317	385	468
CF from Investments	-950	-1,781	-979	-2,896	-4,129	-2,583	-2,615	-2,532
Inc/(Dec) in Debt	-748	57	-581	206	-607	0	0	0
Interest Paid	-195	-87	-60	-49	-35	-16	-16	-16
Dividend Paid	-102	-171	-411	-1,343	-1,255	-938	-1,137	-1,439
CF from Fin. Activity	-1,045	-201	-1,052	-1,186	-1,897	-955	-1,153	-1,455
Inc/Dec of Cash	348	142	764	-818	-8	2,167	2,751	4,073
Opening Balance	115	462	604	1,368	550	542	2,709	5,460
Closing Balance	462	604	1,368	550	542	2,709	5,460	9,533

Corporate profile

Company description

- Ajanta Pharma (AJP) is a specialty pharmaceuticals company engaged in the development, manufacture and marketing of finished dosages. It started with repackaging of generic products in 1973, and moved from OTC products to prescription-based products for the Indian market. In addition, it has strong presence into the international markets of Africa and Asia, and continues to build a strong foundation for the US market.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-17	Dec-16	Mar-16
Promoter	73.8	73.8	73.8
DII	2.1	2.0	1.9
FII	10.9	10.4	9.8
Others	13.2	13.8	14.6

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Matthews India Fund	2.5
Motilal Oswal Most Focused Multicap 35 Fund	1.3
Kotak Mahindra (International) Limited	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Mannalal B Agrawal	Chairman
Madhusudan B Agrawal	Vice Chairman
Purushottam B Agrawal	Vice Chairman
Yogesh Agrawal	Managing Director

Source: Capitaline

Exhibit 5: Directors

Name	Name
Anil Kumar	
Chandrakanth M Khetan	
K H Viswanathan	
Anjana Grewal	
Prabhakar Dalal	

*Independent

Exhibit 6: Auditors

Name	Type
Kapoor & Parekh Associates	Statutory
Sevekari Khare & Associates	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	58.4	59.2	-1.4
FY18	66.4	66.6	-0.4
FY19	79.9	79.2	0.9

Source: Bloomberg

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