

Institutional Equity Research

Ajanta Pharma

Pharmaceuticals | India

2QFY18 Result Update | November 01, 2017

CMP* (Rs)	1,209
Upside/ (Downside) (%)	24
Bloomberg Ticker	AJP IN
Market Cap. (Rs bn)	107
Free Float (%)	29
Shares O/S (mn)	88.45

BUY 

Target Price: Rs1,500

Growth Momentum to Continue in Domestic Biz; Maintain BUY

Led by recovery in domestic formulations business and robust performance in African business, Ajanta Pharma (AJP) has delivered a better-than-expected performance in 2QFY18. Its revenues, EBITDA and PAT stood at Rs 5.4bn (vs. our estimate of Rs 4.8bn), Rs 1.8bn (vs. our estimate of Rs 1.4bn) and Rs 1.3bn (vs. our estimate of Rs 1.0bn), respectively. EBITDA margin at 34.0% exceeded our estimate of 29.0% led by better product-mix and recovery in domestic business. Notably, AJP's US sales dipped 63% YoY to Rs260mn primarily owing to price erosion in base business product portfolio following channel consolidation. Notably, AJP plans to file 12-15 ANDAs with the US FDA in FY18. Domestic business grew by 12.7% YoY to Rs1.8bn owing to inventory restocking post GST roll-out and new product launches. Its African business surged by 24.6% YoY on account of strong growth in institutional anti-malaria business. We expect AJP to sustain growth momentum owing to new product launches in domestic market and likely healthy exports post US FDA clearance to its Dahej unit. **We maintain our BUY recommendation on the stock with a Target Price of Rs1,500, valuing the stock at 25x FY19 EPS of Rs60.**

Key Quarterly Highlights

- **Domestic (34% of Sales) Biz:** Above industry growth in domestic business (12% YoY vs. IPM growth of 4%; source IMS MAT Sept'17) was led by growth in therapies i.e. CVS (16% YoY vs. IPM 6%), ophthalmology (16% YoY vs. IPM 8%), and pain management (10% YoY vs. IPM 3%). We expect steady growth momentum to continue, going forward as well driven by improved sales force productivity and new product launches (15-20 products per year). We envisage AJP's domestic formulation business to report a 12.5% CAGR over FY17-19E.
- **African (41% of Sales) & US (5% of Sales) Biz:** AJP's Africa sales surged by 24.6% YoY on the back of strong growth in institutional anti-malaria business (Rs1.3bn) during the quarter. Looking ahead, we expect AJP's Africa business to witness a muted growth over FY17-19E owing to likely reduction in institutional anti-malaria business. While its US sales declined in 2QFY18 primarily due to price erosion in base business product portfolio, we expect a gradual improvement on account of new launches from recently approved products.

Outlook & Valuation

We believe that AJP's long-term fundamentals continue to remain healthy driven by strong traction in the US business (post US FDA clearance to its Dahej unit) and above industry growth in domestic business. Its Sales, EBITDA and PAT witnessed 24%, 37% and 44% CAGR, respectively through FY12-17 owing to strong growth in domestic formulation business (22% CAGR) and healthy growth in exports (21% CAGR). We expect AJP's overall sales to clock 9% CAGR over FY17-19E (with EBITDA margin at 30-31%), while return ratios to remain healthy (RoCE & RoE seen at 30% & 23%, respectively in FY19E). We believe the current valuation (PE multiple of 24.5x FY18E and 20.2x FY19E EPS) offers an attractive entry point. **We maintain our BUY recommendation on the stock with a Target Price of Rs1,500, valuing the stock at 25x FY19E EPS of Rs60.**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Sales	17,494	20,016	20,707	23,928
EBITDA	5,871	6,890	6,241	7,471
Adj. PAT	4,156	5,068	4,356	5,307
EPS (Rs)	47.0	57.3	49.3	60.0
P/E (x)	25.7	21.1	24.5	20.2
EV/Sales (x)	6.1	5.3	5.1	4.3
EV/EBITDA (x)	18.2	15.4	16.9	13.8
ROE (%)	34.9	32.3	23.0	23.2
ROCE (%)	44.3	40.7	29.8	29.8

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	8.2	(11.3)	(38.8)
Relative to Nifty	1.6	(14.5)	(59.7)

Shareholding Pattern (%)	Sept'17	Jun'17
Promoter	70.7	70.7
Public	29.3	29.3

1 Year Stock Price Performance



Note: * CMP as on Nov 01, 2017

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Risks to the View

- ▶ Any further addition of drugs under New Drug Pricing Policy would dent AJP's domestic formulation business.
- ▶ Delay in product approvals from the US FDA.
- ▶ Unfavourable currency fluctuations in Emerging Markets

Exhibit 1: Segment-wise sales performance

(Rs mn)	2QFY18	2QFY17	YoY, %	1QFY18	QoQ, %
India	1,780	1,580	12.7	1,430	24.5
Emerging market	3,230	2,740	17.9	2,660	21.4
Africa	2,180	1,750	24.6	1,680	29.8
Asia	1,040	980	6.1	960	8.3
LatAm & others	10	10	-	20	(50.0)
US	260	710	(63.4)	540	(51.9)
Total Sales	5,270	5,030	4.8	4,630	13.8

Source: Company, RSec Research

Exhibit 2: Quarterly Performance

(Rs mn)	2QFY18	2QFY17	YoY, %	1QFY18	QoQ, %
Net Sales	5,404	5,158	4.8	4,731	14.2
Cost of Revenues	1,090	1,166	(6.5)	936	16.4
Gross Profit	4,314	3,993	8.0	3,795	13.7
% of net sales	79.8	77.4	242 bps	80.2	-39 bps
Employee expenses	894	722	23.9	867	3.2
Other Expenses	1,582	1,071	47.8	1,621	(2.4)
Total operating expenses	3,567	3,328	7.2	3,424	4.1
EBITDA	1,837	1,831	0.4	1,307	40.6
EBITDA margin (%)	34.0	35.5	-149 bps	27.6	638 bps
Depreciation	146	140	4.0	134	8.4
EBIT	1,692	1,691	0.1	1,173	44.3
Other Income	92	67	37.8	15	496.1
Interest	1	8	(88.3)	1	28.6
PBT	1,783	1,750	1.9	1,187	50.1
Total tax	464	345	34.6	239	93.7
Tax Rate (%)	26.0	19.7	632 bps	20.2	585 bps
Minority Interest	-	-	-	-	-
Adj PAT before extraordinary	1,319	1,405	(6.1)	948	39.1
Extraordinary items	-	98.4	-	-	-
Reported PAT	1,319	1,307	0.9	948	39.1
Adj. EPS (Rs)	14.9	15.9	(6.1)	10.7	39.1

Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Net sales	17,494	20,016	20,707	23,928
% yoy change	18.7	14.4	3.5	15.6
Adjusted RM cost	4,138	4,146	5,115	5,647
Employee expenses	2,566	2,954	3,106	3,589
Other expenses	3,858	4,496	4,638	5,360
Total operating expenditure	11,623	13,126	14,466	16,457
EBIDTA	5,871	6,890	6,241	7,471
EBIDTA margin (%)	33.6	34.4	30.1	31.2
Depreciation	444	612	756	851
EBIT	5,426	6,278	5,485	6,619
Other income	212	239	262	289
Interest costs	49	35	16	16
PBT	5,589	6,482	5,732	6,892
Taxes	1,433	1,413	1,376	1,585
Tax rate (%)	25.6	21.8	24.0	23.0
Adjusted PAT	4,156	5,068	4,356	5,307
% yoy change	32.3	21.9	(14.0)	21.8
Reported PAT	4,156	5,068	4,356	5,307
% yoy change	34.1	21.9	(14.0)	21.8
Adjusted EPS	47.0	57.3	49.3	60.0

Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS				
Equity Share Capital	177	177	177	177
Reserves & Surplus	11,732	15,505	18,763	22,691
Shareholders Funds	11,909	15,682	18,940	22,867
Total Loans	616	67	67	67
Other long term liabilities	5	1	1	1
Deferred tax liability	193	273	273	273
Total Liabilities	12,722	16,023	19,281	23,208
APPLICATION OF FUNDS				
Gross Block	7,157	8,949	11,049	12,449
Less: Acc. Depreciation	2,650	3,058	3,813	4,665
Net Block	4,507	5,892	7,236	7,784
Capital Work-in-Progress	2,398	3,393	4,293	4,893
Current Assets	7,633	8,466	9,626	12,621
Cash	434	560	1,490	3,690
Loans & Advances	478	637	659	761
Other	5,953	5,453	5,571	6,168
Current liabilities	2,162	2,210	2,369	2,598
Net Current Assets	5,470	6,256	7,257	10,023
Net Deferred Tax	86	237	237	237
Other non-current assets	260	247	259	272
Total Assets	12,722	16,023	19,281	23,208

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Cash Flow Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Profit before tax	5,589	6,482	5,732	6,892
Depreciation	444	612	756	851
Interest provided	49	35	16	16
Change in Working Capital	(1,243)	285	19	(470)
Tax Paid	(1,615)	(1,428)	(1,376)	(1,585)
Others	37	117	-	(0)
Cash Flow from Operations	3,261	6,103	5,147	5,704
(Inc.)/ Dec. in Fixed Assets	(2,979)	(3,015)	(3,000)	(2,000)
Others	889	(894)	(103)	(108)
Cash Flow from Investing	(2,091)	(3,908)	(3,103)	(2,108)
Inc./(Dec.) in loans	171	(746)	-	-
Dividend Paid (Incl. Tax)	(1,342)	(1,287)	(1,099)	(1,379)
Interest provided	(49)	(35)	(16)	(16)
Others	28	(22)	-	-
Cash Flow from Financing	(1,193)	(2,089)	(1,115)	(1,395)
Inc./(Dec.) in Cash	(22)	105	929	2,200
Opening Cash balances	436	434	560	1,490
Bank Balance	20	22	-	-
Closing Cash balances	434	560	1,490	3,690

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
Valuation Ratio (x)				
P/E	25.7	21.1	24.5	20.2
P/CEPS	23.2	18.8	20.9	17.4
P/BV	9.0	6.8	5.6	4.7
Dividend yield (%)	1.2	1.1	0.9	1.1
EV/Sales	6.1	5.3	5.1	4.3
EV/EBITDA	18.2	15.4	16.9	13.8
EV / Total Assets	8.4	6.6	5.5	4.5
Per Share Data (Rs)				
EPS	47.0	57.3	49.3	60.0
Cash EPS	52.0	64.2	57.8	69.6
DPS	14.0	13.0	11.0	13.9
Book Value	134.6	177.3	214.1	258.5
Returns (%)				
RoCE	44.3	40.7	29.8	29.8
RoE	34.9	32.3	23.0	23.2
Turnover ratios (x)				
Asset Turnover (Gross Block)	2.4	2.2	1.9	1.9
Inventory / Sales (days)	43	38	38	38
Receivables (days)	78	59	59	59
Payables (days)	46	39	39	39

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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