

## Ajanta Pharma

Sensex: 33273

CMP: INR 1200

Target: INR 1520



## Pharmaceuticals

Ajanta Pharma (APL) a midcap pharma company, has focus on a few emerging markets in the export space and a few therapies in the domestic space. With its unconventional approach of focusing on FTF launches and vertically integrated model, the company has come a long way by demonstrating stand-out performances. With consistent new product launches, backed by strong R&D support, the unconventional approach has helped APL to create its own mark in the crowded midcap pharma space. We are initiating coverage on Ajanta Pharma as the company offers healthy growth and high margins with its USP in the midcap pharma space.

**FTF launches in Key Therapies to trigger Domestic sales**

Domestic branded formulations constitute 31% of FY17 revenues. The main distinguishing factor (triggering high margins) for the company is its maximum number of first time launches with focus on New Drug Delivery System (NDDS). Out of 200 actively marketed brands, 140 were first launches in India. The company launches ~20 new products every year including line extensions. We expect 12-15 product launches every year, of which ~60% of the launches are expected to be FTF opportunities. The company's Domestic branded formulation focuses on key speciality therapies, namely CVS (41% of FY17 Domestic Sales), Dermatology (23% of FY17 Domestic Sales) and Ophthalmology (25% of FY17 Domestic Sales). The company has 3000+ MRs in domestic business with MR productivity of ~INR 20 lakh/MR. Going ahead, we expect domestic formulations to grow at 27.5% CAGR to INR 10 billion between FY17-19E to be driven by a mix of existing products and new launches.

**Emerging Markets provide major Export Traction**

African Business comprises of two sub-segments; namely 1) Branded Generics and 2) Institutional (Anti-Malaria Tenders). With a field force of 371 MRs and 1310 product registrations, this segment contributes ~37% of the total sales (INR 7.12 billion as of FY17). We expect muted sales growth in Africa for FY18 on account of de-growth of 18-20% in Anti-malarial Tender Business.

The company has presence in twelve Asian countries with an aggregate of 359 product registrations across the geography. However, a major chunk comes from the Philippines. Here also, the focus is on branded generics. The company has a front-end team of 352 MRs to cater to these markets. Revenues from these markets grew at a CAGR of 18.5% between FY12-17 to INR 4.18 bn.

Going ahead, with new launches and enhanced focus, we expect sales in Asia to grow at a CAGR of 12.1% between FY17-19E to INR 5.25 billion.

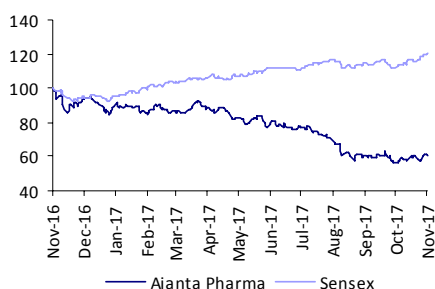
**US to provide a strong growth trajectory**

Currently, the company is well poised to expand in the US market with 21 approved, 2 tentatively approved and 16 pending approvals with the USFDA. It plans to file 12-15 products every year in Para II, Para III and Para IV categories. The company has currently commercialized 15 products in the US with a focus on Oral Solids. The company commercialized operations from its Dahej facility in April, 2017, post approval from the USFDA. FY17 revenues from the US were INR 1.89 billion (~9% of total sales). We expect US sales to grow at 37% CAGR to INR 3.47 billion (~13% of FY19E total sales) from FY17-19E.

**Outlook and Valuation**

With a focus of niche therapies in Domestic market and a front-end presence in all markets, Ajanta Pharma has maintained high growth, strong margins, commendable return ratios and a debt-free balance sheet. The company is currently well established to expand its presence in the US generic markets. Commissioning of Dahej facility to focus on US products and Anti-malaria products for its tender business in Africa and Guwahati facility for in-house production of currently out-licensed products has provided the company with operational and administrative ease to expand its presence in these markets. The company has planned a capex of INR 3 billion and INR 2 billion for FY18 and FY19 for its Guwahati facility expansion. We expect Revenues, EBITDA and PAT to grow at 15.7%, 13.3% and 16.2% respectively to INR 26.8 billion, INR 8.8 billion and INR 6.7 billion. We recommend a BUY rating with a Target Price of INR 1520 (26.6% upside) for a period of 12-18 months at a FY19E PE of 20x and FY19E EPS of INR 76.

Shareholding (%)	Sep-17
Promoters	70.71
FIIIs	12.50
DIIIs	5.44
Others	11.35

**Relative Price Performance**

Key Data	
BSE Code	532331
NSE Code	AJANTPHARM
Bloomberg Code	AJP IN
Reuters Code	AJPH.BO
Shares Outstanding (mn)	88
Face Value	2
Mcap (INR bn)	107.43
52 Week H/L	2050.00/1106.00
2W Avg. Qty.NSE	326550
Free Float (INR Bn)	31.47
Beta	0.92

(INR mn)	FY16	FY17	FY18E	FY19E
Net Sales	17494	20016	21510	26805
Growth	18.7%	14.4%	7.5%	24.6%
EBIDTAM	33.6%	34.4%	31.2%	33.0%
Adj. PAT	4167	4970	5020	6713
Growth	32.4%	19.3%	1.0%	33.7%
Adj. EPS (INR)	47.0	57.4	56.8	76.0
P/E (x)	25.4	21.2	21.3	16.0
EV/EBIDTA	18.2	15.3	15.2	11.2
Net Debt/Equity	0.0	0.0	0.0	0.0
RoACE (%)	46.0	42.3	32.7	34.1
RoAE (%)	40.9	36.8	26.3	27.7

## Business Overview

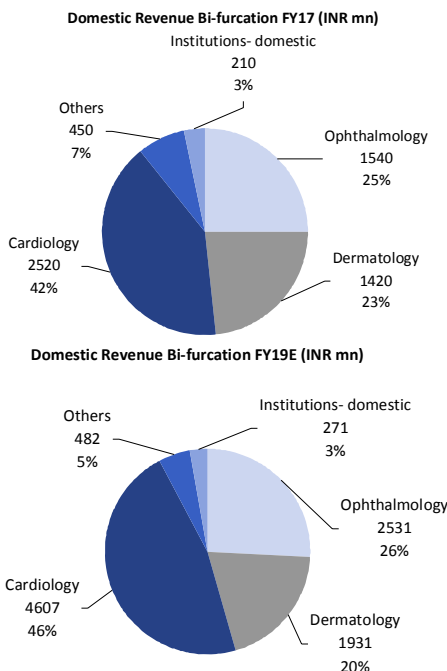
### FTF launches in Key Therapies to trigger Domestic sales

Domestic branded formulations constitute 31% of FY17 revenues. The main distinguishing factor (triggering high margins) for the company is its maximum number of first time launches with focus on New Drug Delivery System (NDDS). Out of 200 actively marketed brands, 140 were first launches in India. The company launches ~20 new products every year including line extensions. We expect company to continue with 12-15 product launches every year, of which ~60% to be FTF opportunities.

(INR million)	FY14	FY15	FY16	FY17
India Sales (INR million)	3850	4790	5390	6140
MRs- India	2200	2400	3000	3000
Products	160	181	190	200
FTF	119	127	133	140
Sales/MR (INR million)	1.8	2.0	1.8	2.0
Sales/Product (INR million)	24.1	26.5	28.4	30.7

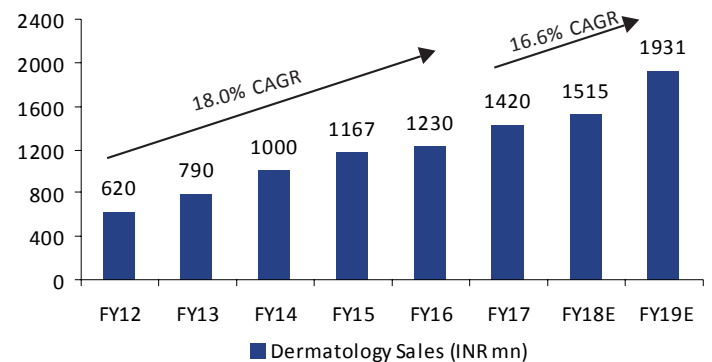
Source: Ajanta Pharma, SPA Securities

Domestic Sales are contributed to by two sub-segments- 1) branded formulations and 2) institutional business. Initially, the company was catering to the institutional business. The institutional sub-segment accounts for ~3.5% of domestic formulations and is mainly confined to government and institutional tenders. It is only in the last 12 years that the focus shifted to the branded formulations business, which now accounts for ~96.5% of domestic formulations. The company's Domestic branded formulation focuses on key speciality therapies, namely CVS (41% of FY17 Domestic Sales), Dermatology (23% of FY17 Domestic Sales) and Ophthalmology (25% of FY17 Domestic Sales). The company has 3000+ MRs in domestic business with MR productivity of ~INR 20 lakh/MR.



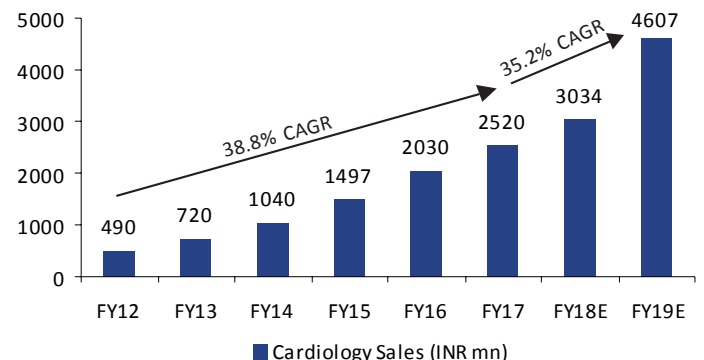
Source: Ajanta Pharma, SPA Securities

In FY17, it generated INR 1.42 billion from dermatology (Ajanta ranks 13th in the segment), which brought in ~23% to its domestic formulations revenue. This was on account of its presence in both high-end cosmeceutical products and normal skin infections. It has a presence in sub-segments like acne, alopecia, dermatitis/eczema, skin infections, moisturisers, pigment disorders, psoriasis, scars, sunscreens, etc. It has ~58 brands in this space; more than 38 of which are 'first-of-their-kind' launches. The largest molecule in the derma space is Hydroquinone + Memetasone + Tretinoin (Brand: Melacare), which contributes around 39% of total derma sales.



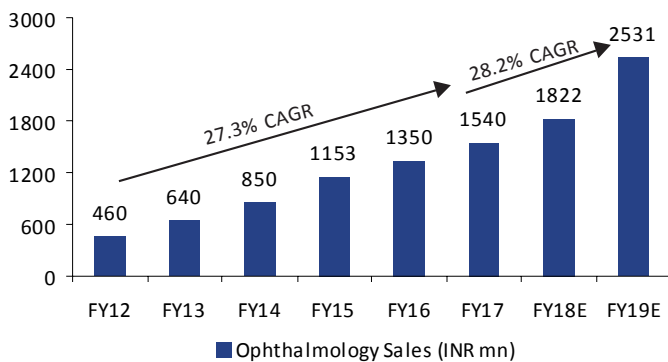
Source: Ajanta Pharma, SPA Securities

Its CVS business has outpaced industry growth in the sub-segment, registering a ~39% CAGR in the past five years, and ranking 19th. Revenue from the CVS division constituted 41% of the company's domestic formulations revenue in FY17 (INR 1.42 bn). It has 52 brands in this space, with six leaders in their categories. About 36 brands were 'first-of-their-kind' launches. APL is the first company to launch molecules like Metoprolol (brand: Met XL, fourth largest player in the category), Rosuvastatin + Clopidogrel combinations (Rosufit CV, largest player in the category) and Atorvastatin + Clopidogrel (Atrofit CV, second largest player in the category) combinations in the Indian market.



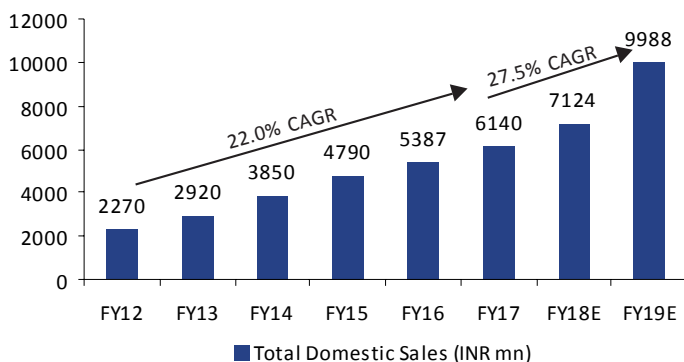
Source: Ajanta Pharma, SPA Securities

Ophthalmology is one of the major segments of focus for Ajanta which ranks 3rd in the segment and has been strong, with 27.3% revenue CAGR over FY12-FY17. In FY17, revenue from this business comprised 25.1% of the company's domestic formulations revenue, with 70 brands in this space, and four leaders in their categories. More than 48 were 'first-of-their-kind' launches. The company has a presence across all sub-segments such as allergy, dry eye, glaucoma, eye infections, macular degeneration and retinopathies.



Source: Ajanta Pharma, SPA Securities

The focus on specialty therapies and niche product led APL to post high margins and a strong growth at a CAGR of 22% in FY12- 17, far higher than industry growth of ~12%. On account of GST roll out, FY18E sales growth in domestic market is expected to be in low double digits (though above IPM growth; owing to new launches in specialty segment and niche therapies). Going ahead, we expect domestic formulations to grow at 27.5% CAGR to INR 10 billion in FY17-19E to be driven by a mix of existing products and new launches.



Source: Ajanta Pharma, SPA Securities

**US to provide a strong growth trajectory**

Currently, the company is well poised to expand in the US market with 21 approved, 2 tentatively approved and 16 pending approvals with the USFDA. It plans to file 12-15 products every year in Para II, Para III and Para IV categories. The company has currently commercialized 15 products in the US with a focus on Oral Solids.

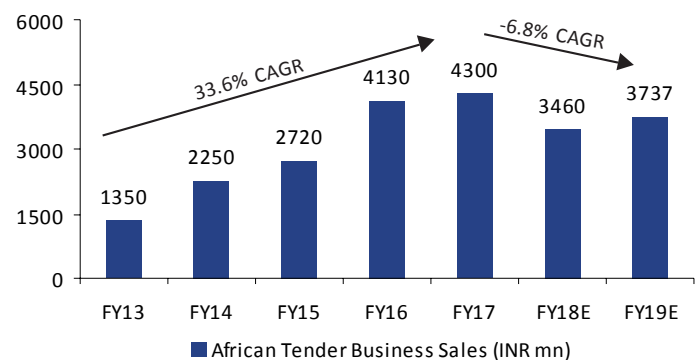
The company commercialized operations from its Dahej facility in April, 2017, post approval from the USFDA. FY17 revenues from the US were INR 1.89 billion (~9% of total sales). We expect US sales to grow at 37% CAGR to INR 3.47 billion (~13% of FY19E total sales) from FY17-19E.

(INR million)	FY12	FY13	FY14	FY15	FY16	FY17
US Sales	100	260	160	110	250	1890
US Commercialised Products	1	1	1	1	8	13
Sales/Drug	100	260	160	110	31	145

Source: Ajanta Pharma, SPA Securities

**African sales to be muted in short term; yet long term outlook remains strong**

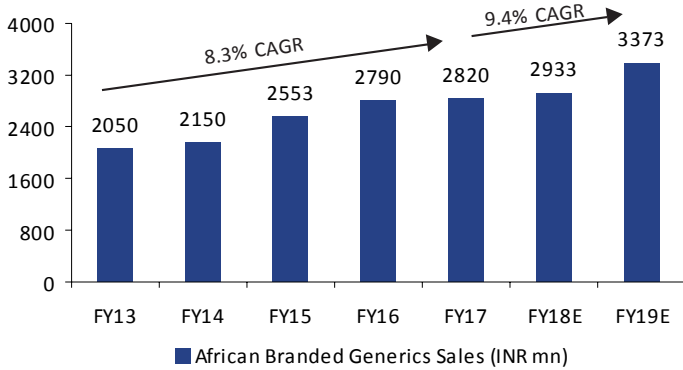
African Business comprises of two sub-segments; namely 1) Branded Generics and 2) Institutional (Anti-Malaria Tenders). The company caters to Anti Malaria, Multivitamin, Cardio, Antibiotic, Gynaec, MED and Pain therapies in 19 countries in this geography. With a field force of 371 MRs and 1310 product registrations, this segment contributes ~37% of the total sales (INR 7.12 billion as of FY17). We expect muted sales growth in Africa for FY18 on account of de-growth of 18-20% in Anti-malarial Tender Business. Of the African market sales of INR 7.12 billion, ~INR 4.4 billion was contributed by the tender business. While the management expects similar volumes of sales through the tender business, price decline is expected on account of reduction in Global Fund allocation in FY18. This could lead to a de-growth of 18-20% in tender business sales for the geography. As volume-based demand remains stable, re-entry of Ipca Lab in tender business post implementation of remediation measures and subsequent clearance by USFDA post re-inspection, we expect anti-malaria tender business to remain stable for AJP in FY19. We expect a decline of 6.8% from FY17-19E for the Anti-Malaria tender business to INR 3.74 billion.



Source: Ajanta Pharma, SPA Securities

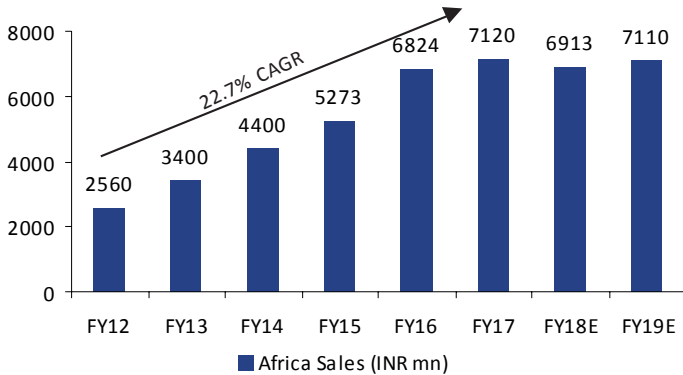
Branded generics form remaining part of the Africa business. AJP has majority of branded generics business from West Africa. The

African Branded Generics business grew ~8.3% from FY13-17 majorly on account of currency volatility. Economic growth of countries like Nigeria, Algeria and Gabon is highly sensitive to oil prices. With stability in the economic scenario, management has guided for a gradual recovery in the branded generics business over the medium term. We expect the sales to grow by ~9.4% CAGR between FY17-19E to INR 3.37 billion as the currency challenges settle down.



Source: Ajanta Pharma, SPA Securities

Overall, Africa sales grew by 22.7% CAGR from FY12-17 to INR 7.12 billion, which we expect to stay muted for the period FY17-19E to INR 7.11 billion.

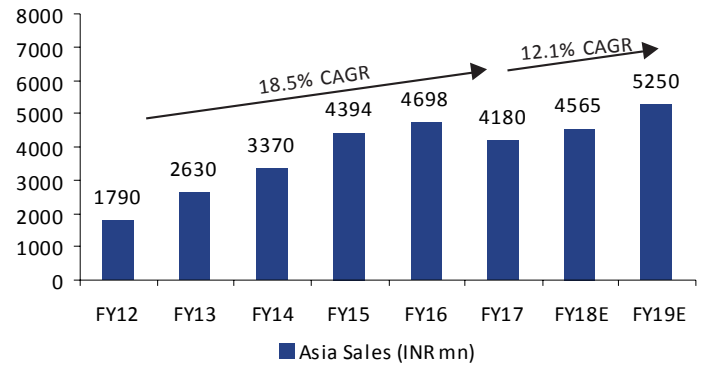


Source: Ajanta Pharma, SPA Securities

### Asian Sales to stay strong despite currency devaluations

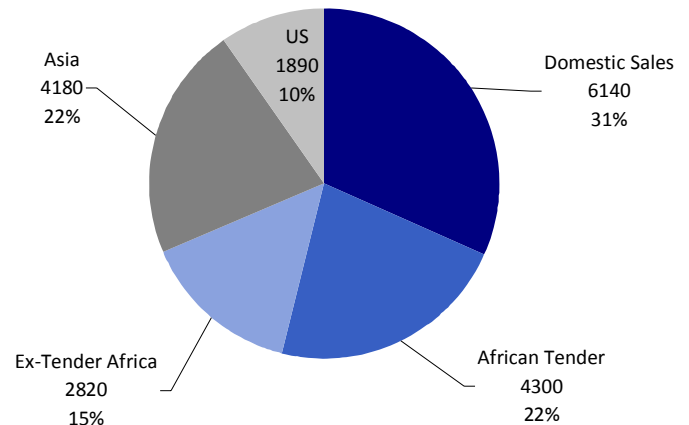
The company has presence in twelve Asian countries, including three south-east Asian countries, six CIS countries and three west Asian countries with an aggregate of 359 product registrations across the geography. However, a major chunk comes from the Philippines. APL forayed into the Philippines market in 2009 via incorporation of the subsidiary Ajanta Pharma Philippines Inc (AAPi). Here also, the focus is on branded generics. The company caters to Cardio, Pain, MED, GI, Antibiotic, Derma and Anti Histamine segments in Asian markets. The company has a front-end team of 352 MRs to cater to these markets. Revenues from these markets grew at a CAGR of 18.5% between FY12-17 to INR

4.18 billion. Going ahead, with new launches and enhanced focus, we expect sales in Asia to grow at a CAGR of 12.1% between FY17-19E to INR 5.25 billion.

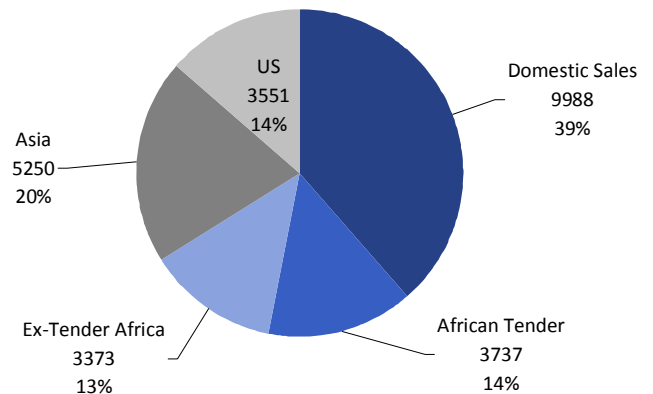


Source: Ajanta Pharma, SPA Securities

Revenue Bi-furcation FY17 (INR mn)



Revenue Bi-furcation FY19E (INR mn)

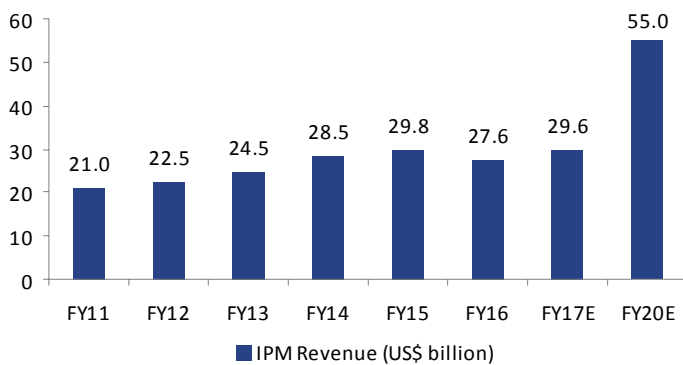


Source: Ajanta Pharma, SPA Securities

## Industry Overview

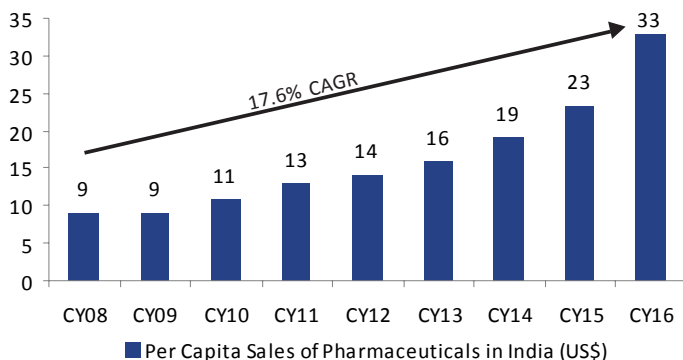
### Indian Pharmaceutical Market

The Indian pharmaceuticals market is the third largest in terms of volume and thirteenth largest in terms of value. The Indian pharma industry, which is expected to grow over 15% per annum between 2015 and 2020, will outperform the global pharma industry, which is set to grow at an annual rate of ~5% between the same period. The market is expected to grow to US\$ 55 billion by 2020, thereby emerging as the sixth largest pharmaceutical market globally by absolute size. Branded generics dominate the pharmaceuticals market, constituting nearly 80% of the market share (in terms of revenues).



Source: Department of Pharmaceuticals, Arance Research, Spa Securities

The Indian pharmaceutical market growth is expected to be driven by increasing consumer spending, rapid urbanization, and rising healthcare insurance among others.



Source: BMI, Spa Securities

For FY17, Chronic Therapies : Acute Therapies sales ratio of IPM stood at ~55:45.

Going forward, better growth in domestic sales would also depend on the ability of companies to align their product portfolio towards chronic therapies for diseases such as cardiovascular, anti-diabetes, anti-depressants and anti-cancers that are on the rise.

With increase in per capita income focus has been seen shifting towards speciality therapies such as Ophthalmology and Dermatology in the recent past.

The Indian government has taken many steps to reduce costs and bring down healthcare expenses. Speedy introduction of generic drugs into the market has remained in focus and is expected to benefit the Indian pharmaceutical companies. In addition, the thrust on rural health programs, lifesaving drugs and preventive vaccines also augurs well for the pharmaceutical companies.

### Combination Drug Market

A FDC is a cocktail of two or more active drug ingredients in a fixed ratio of doses. According to US healthcare provider IMS Health, almost half the drugs sold in India in 2014 were FDC, making it a world leader in combination drugs. Currently, the Indian FDC market garners ~INR 400 billion revenues annually.

FDCs' popularity in India is due to advantages such as increased efficacy, better compliance, reduced cost and simpler logistics of distribution. FDCs have shown to be particularly useful in the treatment of infectious diseases like HIV, malaria and tuberculosis, where giving multiple antimicrobial agents is the norm. FDCs are also useful for chronic conditions especially, when multiple disorders co-exist.

Given that there is not much data available on drug-drug interaction and side-effects in FDC, India's system for collecting data for problematic drug reactions is weak. When multiple drugs from the same therapeutic group, like antibiotics, are clubbed together, it may lead to resistance. A lot of FDCs sold in India are unapproved, given the lack of coordination between state and central regulators. A study published in the journal of Public Library of Science (PLOS) in May found that over 70% of non-steroidal anti-inflammatory drug (NSAID) combinations, which are used as painkillers, were being marketed in India without central government approval.

FDCs are quite common and are administered in almost every therapeutic area. Some of the common products include cough syrups based on codeine combinations, NSAID, analgesics and antibiotics. For instance, in the banned list of 344 FDCs, 27 are anti-diabetic drug metformin combinations, 16 anti-inflammatory nimesulide, 18 diclofenac, and half dozen codeine combination cough syrups.

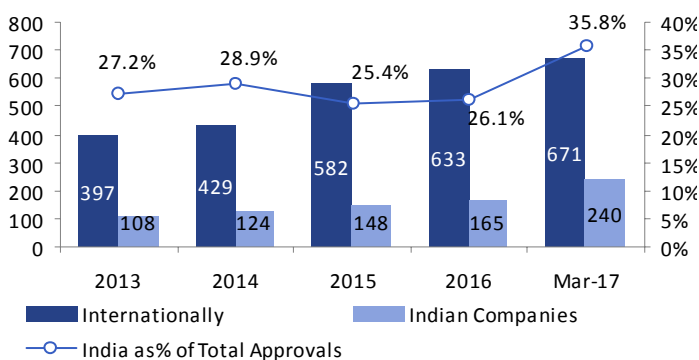
### US Market

The U.S. pharmaceutical market is the world's most important market. Together with Canada and Mexico, it represents the largest continental pharma market worldwide. The United States alone holds over ~45% of the global pharmaceutical market. In 2016, this share was valued around US\$ 446 billion.

Total nominal medicine spending in the U.S. was around US\$ 425 billion in 2015. In recent years, the three top therapy classes for which most money was spent included oncology, diabetes, and autoimmune. These three areas alone were worth over US\$ 110 billion in 2015. In the same year, Gilead Sciences' Harvoni, a hepatitis C drug, was the best-selling drug in the U.S., generating some US\$ 14 billion in revenue. The elderly accounted for 14.8% of the total US population in 2016, while the same is projected to increase to 16.6% by 2020. The growth is expected to cause a burden on the healthcare system, while also driving the growth of the future healthcare market. A number of opportunities still exist for pharmaceutical companies despite the uncertainty, as government spending is projected to increase. US Government forecasts suggest that spending on Medicare and Medicaid will be approximately US\$ 1.4 trillion by 2024. The US pharmaceutical market is projected to increase from US\$ 354 billion in 2015 to US\$ 497 billion by 2020.

Based on the number of prescriptions, generics represent the top drugs. For example, Levothyroxine and Acetaminophen were prescribed a combined 218 million times in 2015. As of FY16, the total generic drugs market in the US stood at ~US\$ 60 billion. Growth in the aforementioned segments will be the result of patent expirations of a number of the major drugs in the next few years. The support from the US government in the form of approvals and incentives, will also act as a catalyst for future growth in the generic domain.

**ANDA approvals annually**



Source: USFDA, Spa Securities

**African Tender Market**

As per the UNITAID report, the global market for anti-malarial medicines is estimated to be 1.3 billion anti-malarial treatment courses per year and is expected to grow to 1.4 billion treatments by 2018. Artemisinin-based combination therapy (ACT)-based treatment currently comprises roughly only one-third of this market, and its share is expected to increase going forward. Within ACT-based treatment, AL (Artemether-Lumefantrine) would continue to dominate the market over the medium term. There are three major sources of funding health systems, prevention and treatment: government of endemic countries, global fund and USAID. Total funding for malaria control and elimination in 2015 was estimated at USD 2.9 billion, having increased by USD 0.06 billion since 2010. This total represents just 46% of the GTS 2020 milestone of USD 6.4 billion on annualized basis.

**Philippines Pharmaceutical Market**

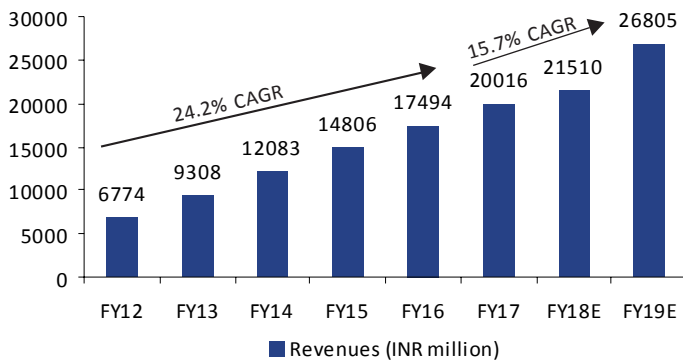
The Philippines' pharmaceutical market is the third largest pharma market in the Asian region after Indonesia and Thailand. It currently stands at ~US\$ 4 billion and is going through some structural transformation from branded (innovator products) to branded generics to generic generics. 70% of the market has been dominated by MNCs. The Philippines market is segmented into: ~35% of branded products, ~50% branded generics and 15% generic generics. Drug prices in this country are relatively high due to higher MNC influence, absence of established local companies and very few manufacturing plants.

To increase healthcare access, the government has mandated price controls on certain essential drugs through the Universally Accessible Cheaper and Quality Medicines Act. This act granted the government the power to impose maximum retail prices on drugs included in the Philippines' Essential Drug List (last released in 2008). Under the new act, the government mandated a 50% price reduction on 21 molecules and their preparations including some big names such as Pfizer's hypertension drug Norvasc and GlaxoSmithKline's antibiotic, Augmentin. However, the market remains one of the costliest in terms of pricing on account of lower healthcare insurance penetration and heavy reliance on imported medicines as there are very few manufacturing bases in the country.

## Financial Performance

### Revenues to see a healthy growth of ~16% for FY17-19E

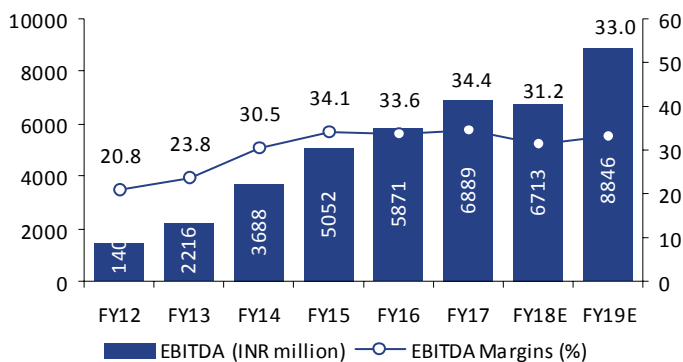
We expect revenues to grow at a CAGR of 15.7% for FY17-19E to INR 26.8 billion on the back of 27.5% growth in Domestic sales over the corresponding period. Exports are likely to grow at a CAGR of 9.8% for FY17-19E to INR 15.9 billion, growth mainly dragged by the African Tender business (expected to de-grow ~6.8% during the same period).



Source: Ajanta Pharma, SPA Securities

### EBITDA to grow at 13.3% CAGR between FY17-19E as EBITDA Margins shrink in near term but would regain 35% by FY20

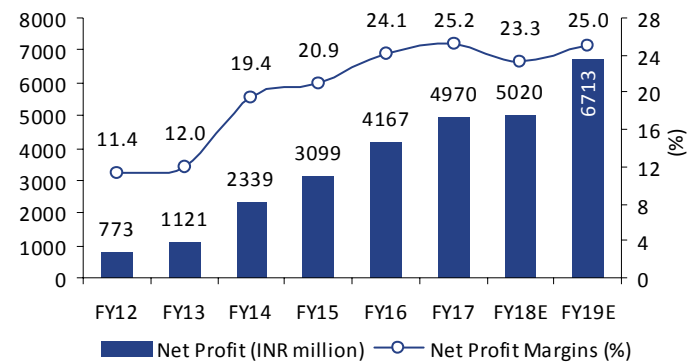
Over FY12-17, the company saw a rise in EBITDA margins on account of increased focus on FTF opportunities in Domestic market and increased front-end presence in domestic and international markets. On account of commissioning of Dahej and Guwahati facilities, the company expects its EBITDA margins to shrink down to 31-33% for FY18E and FY19E. But the company is confident to rebuild its margins to ~35% by FY20 post proper utilization of these facilities.



Source: Ajanta Pharma, SPA Securities

### 16.2% CAGR expected in Net Profit between FY17-19E in spite of margin contraction

Net Profit grew at a CAGR of 52.7% between FY12-17 to INR 5 billion as a result of exceptional spurt in EBITDA margins. Adjusted Net Profit is expected to grow at a CAGR of 16.2% between FY17-19E to INR 6.7 billion on account of differed tax with respect to Gross Block addition.



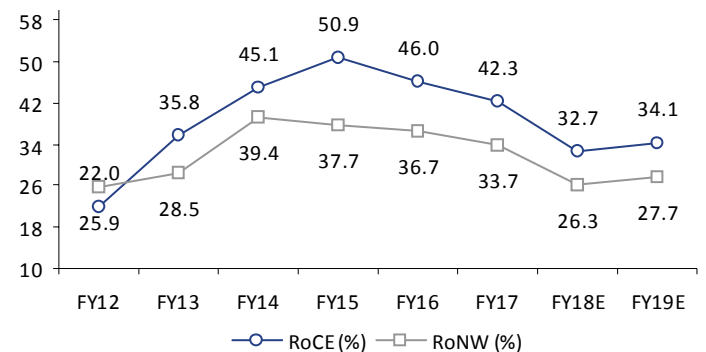
Source: Ajanta Pharma, SPA Securities

### Capex plans of INR 5 billion for the next two years

The company has planned a capex of INR 3 billion for FY18 and INR 2 billion for FY19. This capex is planned for the commissioning of its Dahej plant and expansion and commissioning of Phase 2 of its Guwahati facility. Dahej facility will cater to US business and the ant-malarial tender business of the company, while Guwahati facility will be used for in-house production of currently out licensed products (which account for ~40% of Domestic Business). In-house production of out-licensed products and dedicated facility for its US and African tender businesses is a big positive for the company with regards to its operational and administrative functions as it would create a vent for growth in these segments for the company.

### Lower Return Ratios till the added capacities improve their utilization

Return Ratios are expected to fall in FY18E as a result of addition of Dahej and Guwahati facilities. We expect them to improve with improvement in the capacity utilization of these facilities.



Source: Ajanta Pharma, SPA Securities

## Outlook and Valuation

With a focus of niche therapies in Domestic market and a front-end presence in all markets, Ajanta Pharma has maintained high growth, strong margins, commendable return ratios and a debt-free balance sheet. The company is currently well established to expand its presence in the US generic markets. Commissioning of Dahej facility to focus on US products and Anti-malaria products for its tender business in Africa and Guwahati facility for in-house production of currently out-licensed products has provided the company with operational and administrative ease to expand its presence in these markets. The company has planned a capex of INR 3 billion and INR 2 billion for FY18 and FY19 for its Guwahati facility expansion. We expect Revenues, EBITDA and PAT to grow at 15.7%, 13.3% and 16.2% respectively to INR 26.8 billion, INR 8.8 billion and INR 6.7 billion. We recommend a BUY rating with a Target Price of INR 1520 (26.6% upside) for a period of 12-18 months at a FY19E PE of 20x and FY19E EPS of INR 76.

### Peer Comparison

Ajanta Pharma has showcased better growth in Revenues and Net Profit along with substantially high margins compared to its peers. The company's R&D as a % of sales has been increased to ~9% with its focus on FTF opportunities compared to its peers whose focus is in the US (with evident pricing pressure). Ajanta Pharma commands better valuations based on these factors along with high return ratios and debt free status.

	Revenues (INR billion)				EBITDA Margins (%)			APAT (INR billion)				R&D as % of Sales		
	FY17	FY18E	FY19E	CAGR % (FY17-19E)	FY17	FY18E	FY19E	FY17	FY18E	FY19E	CAGR % (FY17-19E)	FY17	FY18E	FY19E
<b>Ajanta Pharma</b>	<b>20.0</b>	<b>21.5</b>	<b>26.8</b>	<b>15.7%</b>	<b>34.4%</b>	<b>31.2%</b>	<b>33.0%</b>	<b>5.0</b>	<b>5.0</b>	<b>6.7</b>	<b>16.2%</b>	<b>7.6%</b>	<b>9.2%</b>	<b>9.0%</b>
Torrent Pharma*	62.0	62.0	72.2	8.0%	25.2%	19.8%	24.3%	8.8	8.9	11.3	13.4%	7.4%	8.0%	8.0%
Glenmark Pharma*	90.8	94.9	105.3	7.7%	32.8%	20.4%	20.7%	11.6	10.7	12.3	3.3%	11.9%	11.0%	12.0%
Unichem Labs*	15.2	17.4	20.2	15.4%	12.2%	9.7%	8.6%	1.1	1.2	1.7	24.8%	6.7%	7.0%	7.0%

	PE (x)			EV/EBITDA (x)			Debt/Equity			RONW (%)			ROCE (%)		
	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
<b>Ajanta Pharma</b>	<b>30.7</b>	<b>21.3</b>	<b>16.0</b>	<b>22.3</b>	<b>15.2</b>	<b>11.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>36.8</b>	<b>26.3</b>	<b>27.7</b>	<b>42.3</b>	<b>32.7</b>	<b>34.1</b>
Torrent Pharma*	29.2	24.2	19.0	17.4	15.4	12.5	1.8	1.5	0.9	20.9	21.0	21.3	18.9	17.6	20.7
Glenmark Pharma*	21.8	15.9	14.0	14.0	10.6	9.5	0.8	0.6	0.4	27.3	20.7	19.7	16.0	15.9	16.9
Unichem Labs*	23.9	22.6	16.4	14.1	16.7	16.2	0.5	0.6	0.4	9.6	11.4	13.7	11.9	10.7	15.7

Company\*- FY18E and FY19E are Bloomberg Estimates, Estimates for Torrent Pharma and Unichem Labs prior to Torrent Pharma and Unichem Labs Domestic Business deal  
 Source: Ajanta Pharma, Bloomberg, SPA Securities;

## Key Concerns

### High Brand concentration may result in large revenue loss

Around 47% of the Domestic Branded Sales are contributed by the top 10 brands of the company. This can adversely affect the company in case of pricing pressure, increase in competition or product ban by DPCO.

BRAND (INR mn)	Therapy	SEP 16 MAT VAL	SEP 17 MAT VAL	MAT GR SEP 17
Met XL	CARDIAC	744	834	12.0%
Atrofit CV	CARDIAC	488	506	3.7%
Melacare	DERMA	515	490	-4.9%
Rosufit CV	CARDIAC	197	217	10.4%
Met XL AM	CARDIAC	179	202	12.9%
Soft Drops	OPHTHAL / OTOLOGICALS	176	183	3.8%
Olopat	OPHTHAL / OTOLOGICALS	104	107	2.2%
Maxmoist	OPHTHAL / OTOLOGICALS	70	89	26.9%
Nepaflam	OPHTHAL / OTOLOGICALS	77	85	9.5%
Aquasoft	DERMA	68	69	1.7%
<b>Top 10 Brands</b>		<b>2619</b>	<b>2781</b>	<b>6.2%</b>
<b>Total Branded Sales</b>		<b>5587</b>	<b>5894</b>	<b>5.5%</b>

Source: Ajanta Pharma, SPA Securities

### African Tender allocation

African anti-malarial tender business contributes ~20% of total sales. Loss of tender business or revision of fund allocation for the tenders can cause disruptions in the revenue flow of the company.

### Regulatory audits by USFDA

Currently, the company has two manufacturing facilities approved by the USFDA. USFDA conducts annual inspections for the pharmaceutical manufacturing facilities. Adverse observations to either of the facilities can disrupt the growth trajectory in the US for the company.

### Pricing pressure in Domestic and US business

Domestic business and quite recently, the US has seen price erosion for quite a few drugs. Any such price restrictions on selected portfolio of the company could adversely impact the growth and margins of the company.



## Financials

### Income Statement

Y/E Mar (INR mn)	FY16	FY17	FY18E	FY19E
Total Operating Income	17494	20016	21510	26805
<i>Growth</i>	18.7%	14.4%	7.5%	24.6%
Raw Material Expenses	4138	4146	4280	5361
Employee Expenses	2566	2954	3451	3753
Other Expenditure	4918	6026	7066	8846
Total Optg. Exps.	11623	13126	14797	17959
EBIDTA (excl OI)	5871	6890	6713	8846
<i>Growth</i>	18.2%	17.4%	-2.6%	31.8%
<i>EBITDA Margin</i>	33.6%	34.4%	31.2%	33.0%
Depreciation	444	612	571	712
EBIT	5426	6278	6143	8134
<i>EBIT Margin</i>	31.0%	31.4%	28.6%	30.3%
Interest	49	35	3	3
Other Income	212	239	244	367
Less: Exceptional Items	(56)	24.2	0	0
EBT	5589	6482	6384	8498
Total Tax	1433	1413	1364	1784
PAT	4156	5068	5020	6713
Adjustment to PAT	(11)	98	0	0
APAT	4167	4970	5020	6713
<i>Growth</i>	32.4%	19.3%	1.0%	33.7%
<i>APAT Margin</i>	23.8%	24.8%	23.3%	25.0%

### Key Ratios

Y/E Mar	FY16	FY17	FY18E	FY19E
<b>Per Share Data (INR)</b>				
Reported EPS	47.2	57.1	56.8	76.0
Adjusted EPS	47.2	57.4	56.8	76.0
<i>Growth</i>	35.2%	21.8%	-1.0%	33.7%
Cash EPS	52.1	64.3	63.3	84.0
Dividend per share	15.2	14.6	11.3	17.1
BV per share	134.6	177.2	215.7	274.6
<b>Return Ratios (%)</b>				
RoACE	46.0	42.3	32.7	34.1
RoANW	40.9	36.8	26.3	27.7
<b>Liquidity Ratios</b>				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.4	2.6	3.2	3.2
Quick Ratio	2.5	2.1	2.2	2.2
<b>Efficiency Ratios</b>				
Asset Turnover	1.6	1.4	1.1	1.1
Inventory Days	40	33	33	33
Debtor Days	73	61	61	61
Creditor Days	30	25	25	25
<b>Valuation Ratios</b>				
P/E (x)	29.9	30.7	21.3	16.0
Price to Book Value	11.0	10.3	5.6	4.4
P/CEPS	27.0	27.4	19.2	14.4
Dividend Yield (%)	1.3	1.2	0.9	1.4
EV / Net Sales (x)	7.1	7.7	4.8	3.7
EV / EBITDA (x)	21.1	22.3	15.2	11.2

### Balance Sheet

Y/E Mar (INR mn)	FY16	FY17	FY18E	FY19E
Equity Capital	177	177	177	177
Reserve and Surplus	11732	15500	18880	24085
Total Networth	11909	15677	19057	24262
Long Term Borrowings	596	68	0	0
Short term Borrowings	217	0	55	55
Total Debt	814	68	55	55
Deferred Tax Liability	236	274	413	576
Other Non Current Liabilities	31	32	33	34
<b>Sources of Funds</b>	<b>13048</b>	<b>15971</b>	<b>19177</b>	<b>24415</b>
Net Block	4507	5892	8159	9447
Capital WIP	2398	3393	1893	1593
Investments	860	1909	3988	6488
Total Current Assets	6865	6651	7245	9499
Total Current Liabilities	1934	2176	1961	2338
Net Current Assets	4931	4474	5284	7160
Deferred Tax Assets	0	0	0	0
Other non-Current Assets	351	304	235	240
<b>Application of Funds</b>	<b>13048</b>	<b>15971</b>	<b>19177</b>	<b>24415</b>

### Cash Flow

Y/E Mar (INR mn)	FY16	FY17	FY18E	FY19E
EBT	5645	6457	6384	8498
Less: Other Income/Exceptionals	212	239	244	367
Add: Depreciation & Amortization	444	612	571	712
Add: Interest paid	49	35	3	3
Direct taxes paid	1433	1413	1364	1784
Change in Working Capital	(1853)	217	(513)	(1757)
<b>CF from Operations</b>	<b>3515</b>	<b>5840</b>	<b>5307</b>	<b>6426</b>
Change in Fixed Assets	(1683)	(1801)	(3000)	(2000)
Change in CWIP	(696)	(995)	1500	300
Change in Investments	(117)	(1048)	(2000)	(2500)
Other	(744)	(927)	1635	459
<b>CF from Investing activities</b>	<b>(2544)</b>	<b>(3776)</b>	<b>(3365)</b>	<b>(4041)</b>
Change in Equity	0	0	0	0
(Inc)/Dec in Loan	100	(617)	0	0
Divident Paid	(1342)	(1287)	(1002)	(1508)
Other	379	(285)	(3)	(3)
<b>CF from Financing activities</b>	<b>(864)</b>	<b>(2189)</b>	<b>(1005)</b>	<b>(1510)</b>
Net Cash Flow	108	(125)	937	874
Cash and Cash Equivalent at the beginning	106	214	89	1026
Cash	214	89	1026	1900

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