

Ajanta Pharmaceuticals (AJAPHA) ₹ 1290

Expansion related costs hurt margins...

- Revenues grew 9% YoY to ₹ 530 crore (I-direct estimate: ₹ 488 crore) mainly due to 110% YoY growth in African branded formulation to ₹ 109 crore (I-direct estimate: ₹ 83 crore). Domestic sales grew 6% YoY to ₹ 148 crore, in line with I-direct estimate of ₹ 151 crore
- EBITDA margins contracted 743 bps YoY to 26.3% (I-direct estimate: 33.0%), lowest in the past three years, mainly due to higher costs related to commissioning of new plants. EBITDA declined 13% YoY to ₹ 140 crore (I-direct estimate: ₹ 161 crore)
- Net profit declined 17% YoY to ₹ 95 crore (I-direct estimate: ₹ 116 crore) mainly due to a below expected operational performance

Domestic formulations - Focus on new launches, few therapies

Domestic branded formulations constitute 28% of FY18 revenues. The main distinguishing factor is the uncanny knack of launching maximum number of first time launches with focus on new drug delivery system (NDDS). Out of the 270+ actively marketed brands, ~60% were introduced for the first time in India. The focus on specialty therapies and niche product led Ajanta Pharma (APL) to post a strong 20% CAGR in FY13-18, thus outpacing the industry growth comprehensively. However, a slowdown in the dermatology segment owing to increased competition in existing products and slow offtake in new launches may impact near term growth, to some extent. We expect domestic formulations to grow at 15% CAGR in FY18-20E to ₹ 797 crore driven by a mix of existing products and new launches.

Exports traction mainly from emerging markets; US segment shaping up

Export formulations constitute 67% of FY18 revenues. The company is currently deriving export revenues from emerging markets such as Africa (Franco Africa), Asia, LatAm and more recently from the US. In emerging markets, as opposed to the common practice of forging alliances with regional pharmaceutical players, APL's front-end marketing team interacts directly with doctors. The US foray is also getting momentum. Overall export formulations have grown at 18% CAGR in FY13-18 to ₹ 1460 crore. However, due to a sharp reduction in the African tender opportunity on account of a reduction in overall procurement and price reduction, growth is likely to be muted over FY18-20.

One of the best matrices among peers

With focus on niche therapies in domestic formulations and a calculated approach in the export market, APL remains an interesting candidate from the midcap pharma space with high growth rates, strong margins, commendable return ratios and a lighter balance sheet.

Squeeze in African tender, front loading of cost to impact growth

Q4 margins were impacted mainly due to commissioning of new plants, which is likely to impact the company's FY19 margins. Apart from this, the sharp reduction in the African tender business opportunity is likely to impact near term growth significantly. We expect the contribution from this business to go down from ~17% of revenues to ~5-6%, going ahead. On the positive side, branded business in domestic, Africa and Asia are improving and are expected to grow in double digits. US growth is expected to remain strong despite an adverse scenario. However, front loading of cost and shrinking of the African tender opportunity is likely to impact near term sentiments. We reduce our FY19E and FY20E earnings estimates by 27% and 21%, respectively. Accordingly, we reduce our target price to ₹ 1190 based on 20x FY20E EPS of ₹ 59.6.

Rating matrix		
Rating	:	Hold
Target	:	₹ 1190
Target Period	:	12-15 months
Potential Upside	:	-8%

What's Changed?	
Target	Changed from ₹ 1515 to ₹ 1190
EPS FY18E	Changed from ₹ 57 to ₹ 53
EPS FY19E	Changed from ₹ 63.5 to ₹ 46.4
EPS FY20E	Changed from ₹ 75.7 to ₹ 59.6
Rating	Unchanged

Quarterly Performance					
	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Revenue	530.3	476.8	11.2	587.1	-9.7
EBITDA	139.5	160.9	-13.3	197.5	-29.4
EBITDA (%)	26.3	33.7	-743 bps	33.6	-733 bps
Adj. Net Profit	94.5	114.0	-17.1	147.5	-35.9

Key Financials				
(₹crore)	FY17	FY18E	FY19E	FY20E
Revenues	2001.6	2130.9	2073.4	2340.4
EBITDA	689.0	651.4	582.5	716.5
Net Profit	506.8	468.6	410.1	526.2
EPS (₹)	57.4	53.0	46.4	59.6

Valuation summary				
	FY17	FY18E	FY19E	FY20E
PE (x)	22.5	24.3	27.8	21.7
M.Cap/ Revenues (x)	5.7	5.4	5.5	4.9
EV to EBITDA (x)	16.3	17.2	18.9	15.2
Price to book (x)	7.6	5.8	5.0	4.3
RoNW (%)	33.7	23.8	18.0	19.7
RoCE (%)	42.3	31.0	23.3	24.8

Stock data	
Particular	Amount
Market Capitalisation	₹ 22711 crore
Debt (FY17)	₹ 1 crore
Cash (FY17)	₹ 32 crore
EV	₹ 22681 crore
52 week H/L	1700/1106
Equity capital	₹ 17.7 crore
Face value	₹ 2

Price Performance (%)				
	1M	3M	6M	1Y
Ajanta Pharma	-3.8	-3.0	7.6	-18.4
Alembic Pharma	-1.7	0.0	4.1	-13.2
Torrent Pharma	11.7	4.8	7.4	2.8

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Variance analysis

	Q4FY18	Q4FY18E	Q4FY17	Q3FY18	YoY (%)	QoQ (%)	Comments
Revenue	530.3	488.0	476.8	587.1	11.2	-9.7	YoY growth and beat vis-à-vis I-direct estimates largely due to robust growth in African branded formulation sales
Raw Material Expenses	93.8	92.7	92.3	110.0	1.6	-14.8	A 167 bps YoY improvement in gross margins was mainly due to a better product mix
Employee Expenses	105.2	92.7	75.5	95.2	39.3	10.4	YoY increased mainly due to commissioning of new plants and one-off ₹ 10-12 crore of gratuity payment
Other Expenditure	191.9	141.5	148.2	184.3	29.5	4.1	YoY increase mainly due to commissioning of new plants
Total Operating Expenditure	390.8	326.9	315.9	389.6	23.7	0.3	
EBITDA	139.5	161.0	160.9	197.5	-13.3	-29.4	YoY decline and miss vis-à-vis I-direct estimates mainly due to higher-than-expected cost of commissioning of new plants
EBITDA (%)	26.3	33.0	33.7	33.6	-743 bps	-733 bps	
Interest	0.1	0.1	0.4	0.1	-71.8	-21.4	
Depreciation	16.6	15.0	18.9	15.0	-12.1	11.1	YoY decline mainly due to change in accounting method
Other income	5.2	8.3	2.4	15.2	119.2	-65.4	Included forex gains of ~₹ 2.5 crore
PBT before EO	128.0	154.2	144.0	197.5	-11.1	-35.2	
Less: Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	128.0	154.2	144.0	197.5	-11.1	-35.2	
Tax	33.5	38.6	30.0	50.1	11.9	-33.0	
MI & Share of loss/ (gain) asso.	0.0	0.0	0.0	0.0	0.0	0.0	
Adj. Net Profit	94.5	115.7	114.0	147.5	-17.1	-35.9	YoY decline and miss vis-à-vis I-direct estimates mainly due to a below expected operational performance
Key Metrics							
Domestic	148.0	150.5	140.0	160.0	5.7	-7.5	YoY growth was driven by strong growth in ophthalmology segment, which was partly offset by a decline in sales in the cardiology segment
Exports	348.0	325.6	316.0	415.0	10.1	-16.1	YoY growth and beat vis-à-vis I-direct estimates largely due to 110% YoY growth in African branded business to ₹ 109 crore. African tender business declined 21% YoY to ₹ 63 crore

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY19E			FY20E			
	Old	New	% Change	Old	New	% Change	
Revenue	2,325.5	2,073.4	-10.8	2,581.2	2,340.4	-9.3	Reduced mainly due to significant lowering of African tender business opportunity
EBITDA	767.4	582.5	-24.1	877.6	716.5	-18.4	
EBITDA Margin (%)	33.0	28.1	-490 bps	34.0	30.6	-339 bps	Reduced mainly due to higher-than-expected cost of new plants related fixed overheads
PAT	560.9	410.1	-26.9	669.0	526.2	-21.3	
EPS (₹)	63.5	46.4	-26.9	75.7	59.6	-21.3	Reduced mainly in sync with EBITDA

Source: Company, ICICI Direct Research

Assumptions

(₹ crore)	Current				Earlier		
	FY17	FY18E	FY19E	FY20E	FY19E	FY20E	
Branded - domestic	593.0	603.0	691.1	797.1	701.2	794.8	
Exports Total	1,319.0	1,432.0	1,305.7	1,460.2	1,519.6	1,673.1	Reduced mainly due to significant lowering of African tender business opportunity

Source: Company, ICICI Direct Research

Company Analysis

Established in 1973, APL is mainly into exports as well as domestic formulations. As of FY18, the exports: domestic formulation ratio was at 67:33. The company owns five manufacturing facilities- four in Aurangabad, Maharashtra and one in Mauritius. Of these five facilities, only one in Aurangabad is an API facility. The rest are all formulations. Consolidated revenues, EBITDA and PAT have grown at a CAGR of 18%, 24% and 52%, respectively, in FY13-18. APL had come out with a maiden IPO in March 2000. It raised ₹ 68 crore, which was earmarked for capacity expansion and debt repayment.

Domestic formulations constitute 30% of the total consolidated turnover (FY18). This segment has been further segregated into two sub-segments- 1) Branded formulations and 2) Institutional business. Initially, the company was catering to the institutional business. Institutional sub-segment accounts for ~4% of domestic formulations and is mainly confined to government and institutional tenders. It is only in the last 10 years that the focus shifted to the branded formulations business, which now accounts for ~96% of domestic formulations.

The company focuses on only a few so called specialty therapies – ophthalmology, dermatology and cardiology. Together, these therapies constitute ~94% of domestic branded formulations. The company invested heavily in the technology and field force, especially in the first five years after the changed focus. The focus was also to offer a novel delivery system. From ₹ 17 crore in FY05, branded formulations have grown to ₹ 603 crore in FY18. Till date, the company has launched 270+ products out of which 60% are first time launches. The current MR strength is 3000+. Overall, domestic branded formulations have grown at 20% CAGR in FY13-18 to ₹ 603 crore. The company has only one product under the National List of Essential Medicines (NLEM) 2011 list.

Export formulations constitute 67% of total revenue (FY18). Exports are mainly confined to emerging markets and constitute branded generics. APL exports its products in ~31 emerging markets with a significant presence in Franco African countries and Philippines.

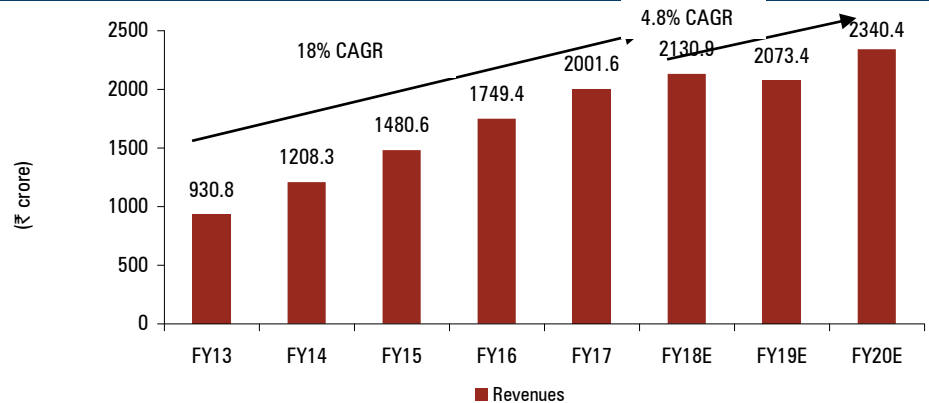
Africa accounts for ~54% of export formulations followed by Asia. The company also participates in anti-malarial tenders in Africa. It operates through 710+ MRs in these emerging markets and owns a portfolio of 1395 registered brands in these markets encompassing major therapies such as anti-infectives, anti-malarials, ophthalmic, dermatology, cardiovascular, GI, etc. The company also has a marginal presence in Latin America. It has also forayed into regulated markets such as US where it has filed 38 ANDAs and received approvals for 19. Overall export formulations have grown at 18% CAGR in FY13-18 to ₹ 1432 crore.

Ajanta Pharma has five subsidiaries including one step down subsidiary in Mauritius, Philippines and the US. The Mauritius subsidiary with an independent manufacturing base mainly caters to the Franco African markets. The subsidiary in Philippines, which is a marketing arm, caters to the Philippines market. The US subsidiary is an administrative office to facilitate US operations.

We expect revenues to grow at a CAGR of just 5% to ₹ 2340 crore in FY18-20E, mainly due to a sharp reduction in the African tender business opportunity. Due to this, exports business growth is likely to be muted over FY18-20. Domestic formulations segment is likely to register a CAGR

of 14% to ₹ 629 crore during the same period, to be driven by branded formulations.

Exhibit 1: Revenues growth trend



Source: Company, ICICI Direct Research

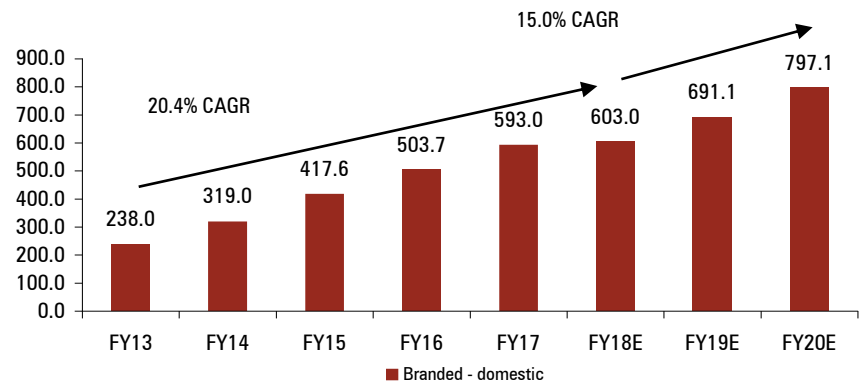
Domestic formulations - APL operates in the branded (prescription: Rx, 93.4% of domestic sales) and tender business (6.6% of domestic sales). In the branded space, it has a presence in fast growing specialty therapies viz. ophthalmology, dermatology, chronic therapies like cardiovascular (CVS). In the acute space, it has a marginal presence in pain management and gastrointestinal. APL currently markets 270+ brands through 3000+ medical representatives (MRs) covering 3 lakh doctors.

Over the years, the company has developed a knack of launching maximum number of first launches with focus on new drug delivery system (NDDS). It was one of the very few companies to launch products such as Metoprolol (CVS), Rosuvastatin + Clopidogrel (CVS), Hydroquinone + Mometasone + Tretinoin (Derma), etc in the Indian market. The company's first differentiated (NDDS) product Nimesulide (pain) daily once was launched under the brand name of Nimlodi in FY02. Out of 270+ actively marketed brands, 60% were first launches in India. The focus on specialty therapies and niche product led APL to post a strong CAGR of 20% in FY13-18, which is far higher than the industry growth.

As per the AIOCD data, APL ranks 31st in Indian pharmaceutical market with 0.63% market share.

The company markets CVS, ophthalmology and dermatology products under the divisions of Anvaxx, Illuma and Ansca. APL launches ~20 new products every year including line extensions. We expect the company to continue with 12-15 product launches every year. Overall, we expect domestic branded formulation sales to grow at a CAGR of 15% to ₹ 797 crore in FY18-20E.

Exhibit 2: Domestic branded formulation likely to grow at CAGR of 15% in FY18-20E



Source: Company, ICICI Direct Research

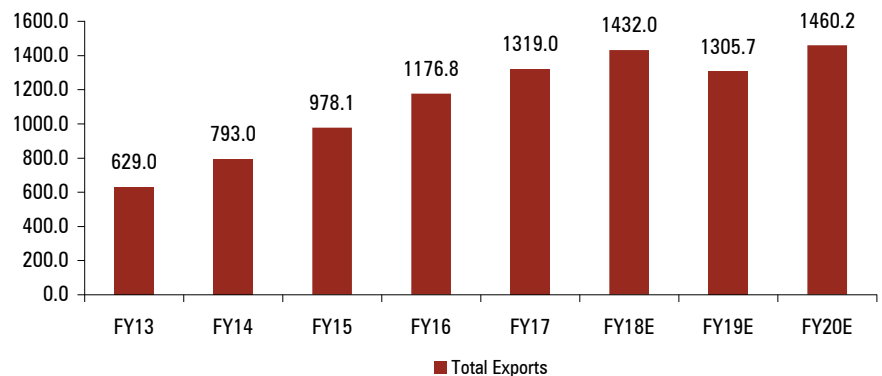
Formulation exports

Exports account for 67% of revenues. APL currently derives almost its entire export revenues from emerging regions like Africa (Franco Africa), Asia and the LatAm having a presence in more than 31 countries. Exports have grown at 18% CAGR in FY13-18.

The company markets its products through a team of 710+ MRs. At present, the company is marketing 1550+ products in these regions.

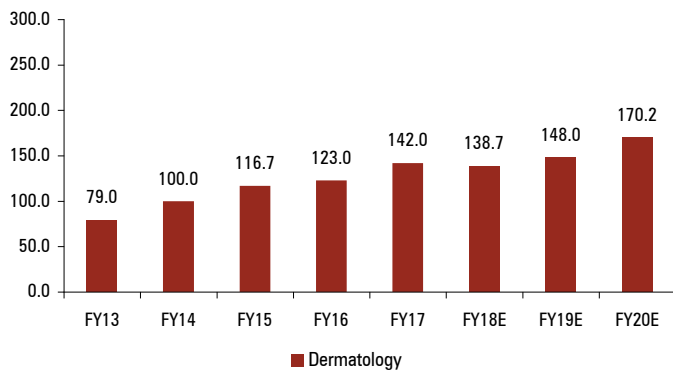
APL's success story in emerging markets was carved out of the so called differentiated approach. According to this, products were developed on the basis of unmet medical needs in a particular geography. As a result, the product basket varied from nation to nation. Similarly, the company resorted to a different strategy of product marketing. As opposed to the common practice of forging alliances with local/regional pharmaceutical players, APL's front-end marketing team interacts directly with doctors. The company has consistently introduced new products in these markets. However, there was a sharp drop in the African tender business. Overall export business growth is expected to remain muted over FY18-20E.

Exhibit 3: Exports to grow at CAGR of 1% in FY18-20E



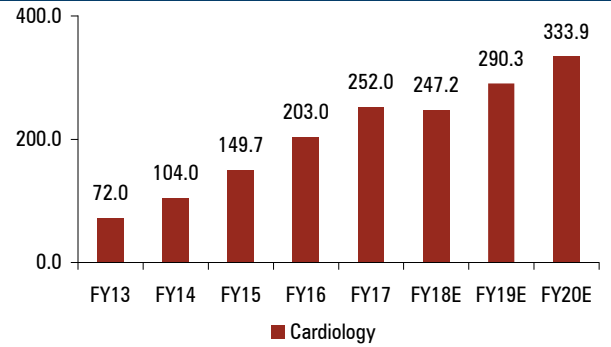
Source: Company, ICICI Direct Research

Exhibit 4: Derma sales (domestic) to grow at 10.8% CAGR in FY18-20E



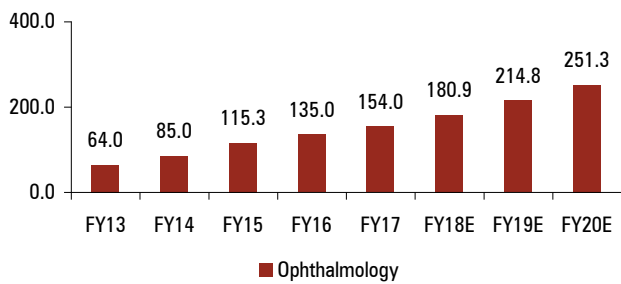
Source: Company, ICICI Direct Research

Exhibit 5: Cardio sales (domestic) to grow at CAGR of 16% in FY18-20E



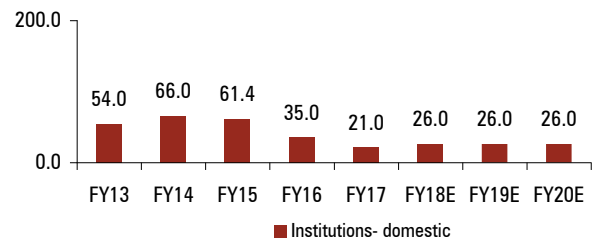
Source: Company, ICICIdirect.com, Research

Exhibit 6: Ophthalmic sales (domestic) at CAGR 18% in FY18-20E



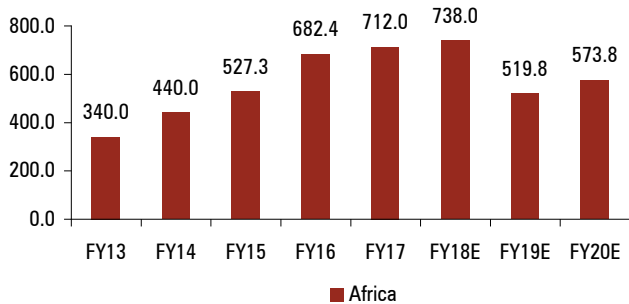
Source: Company, ICICIdirect.com, Research

Exhibit 7: Institutional domestic business



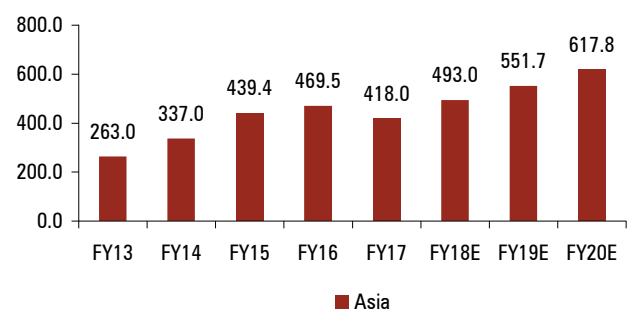
Source: Company, ICICIdirect.com, Research

Exhibit 8: Africa sales exports declined at 12% CAGR in FY18-20E



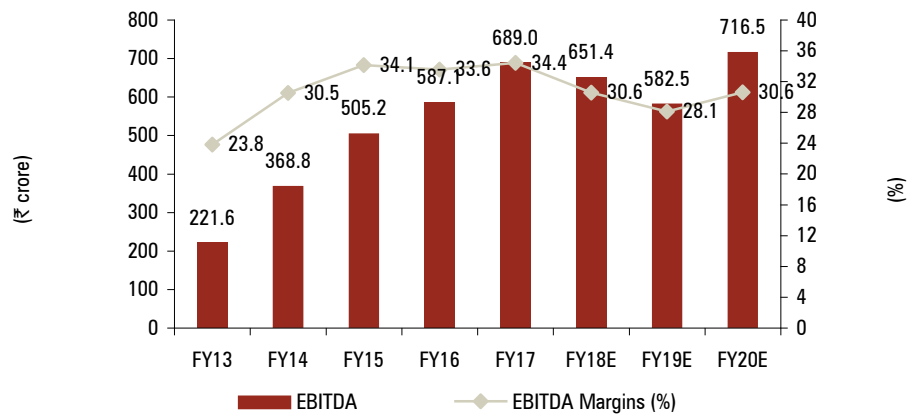
Source: Company, ICICIdirect.com, Research

Exhibit 9: Asia exports growth at 12% CAGR in FY18-20E



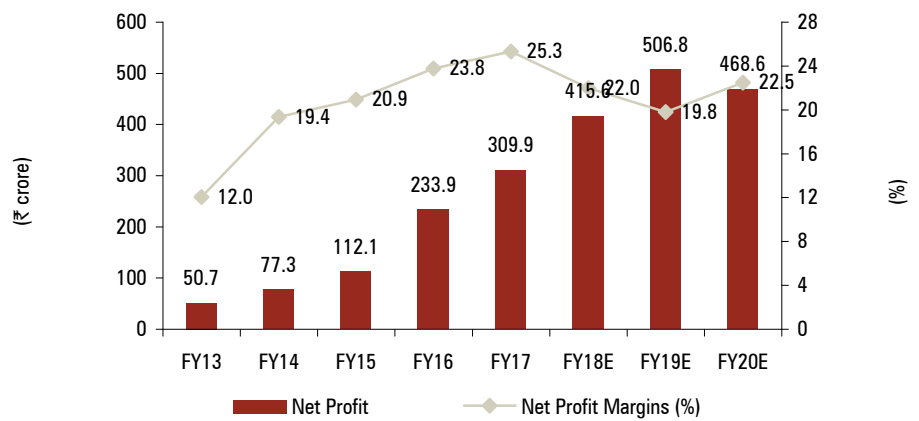
Source: Company, ICICIdirect.com, Research

Exhibit 10: EBITDA to grow at 5% CAGR in FY18-20E



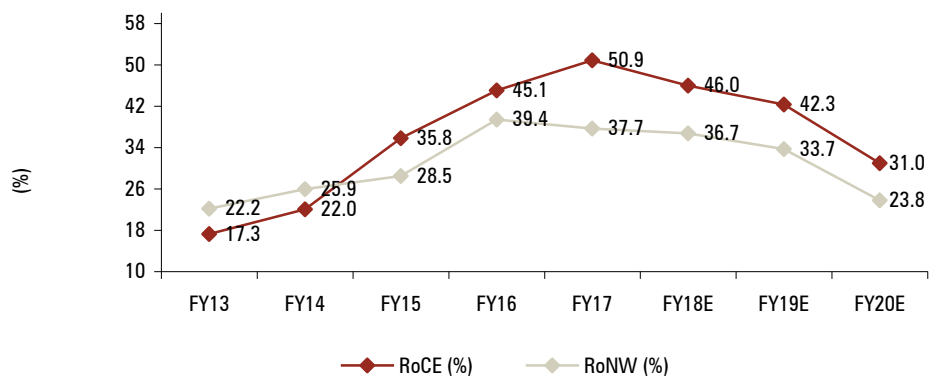
Source: Company, ICICI Direct Research

Exhibit 11: Net profit to grow at 6% CAGR in FY18-20E



Source: Company, ICICI Direct Research

Exhibit 12: Trends in return ratios



Source: Company, ICICI Direct Research

Exhibit 13: Trends in quarterly financials

(₹ crore)	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	YoY (%)	QoQ (%)
Net Sales	363.0	385.7	434.5	469.6	419.2	454.2	502.4	515.0	456.1	463.0	528.4	575.0	530.3	16.3	-7.8
Other Operating Income	8.5	5.7	3.2	7.1	6.5	16.8	13.4	18.1	20.7	21.0	12.0	12.1	0.0	-100.0	-100.0
Total Operating Income	371.5	391.4	437.7	476.6	425.7	471.0	515.8	533.1	476.8	484.0	540.4	587.1	530.3	11.2	-9.7
Raw Material Expenses	89.6	103.4	99.5	115.5	95.5	99.4	116.6	106.4	92.3	93.6	109.0	110.0	93.8	1.6	-14.8
% of Revenue	24.1	26.4	22.7	24.2	22.4	21.1	22.6	20.0	19.3	19.3	20.2	18.7	17.7	-167 bps	-106 bps
Gross Profit	281.9	288.0	338.2	361.2	330.3	371.7	399.3	426.7	384.6	390.4	431.4	477.1	436.6	13.5	-8.5
Gross Profit Margin (%)	75.9	73.6	77.3	75.8	77.6	78.9	77.4	80.0	80.7	80.7	79.8	81.3	82.3	167 bps	106 bps
Employee Expenses	54.7	59.2	63.8	64.8	69.0	70.3	72.2	77.4	75.5	86.7	89.4	95.2	105.2	39.3	10.4
% of Revenue	14.7	15.1	14.6	13.6	16.2	14.9	14.0	14.5	15.8	17.9	16.5	16.2	19.8	399 bps	361 bps
Other Expenditure	96.7	106.2	120.5	132.5	120.7	140.3	154.4	171.3	148.2	162.1	158.2	184.3	191.9	29.5	4.1
% of Revenue	26.0	27.1	27.5	27.8	28.3	29.8	29.9	32.1	31.1	33.5	29.3	31.4	36.2	511 bps	478 bps
Total Expenditure	241.1	268.8	283.8	312.8	285.1	309.9	343.1	355.1	315.9	342.4	356.7	389.6	390.8	23.7	0.3
% of Revenue	64.9	68.7	64.9	65.6	67.0	65.8	66.5	66.6	66.3	70.8	66.0	66.4	73.7	743 bps	733 bps
EBITDA	130.4	122.5	153.8	163.9	140.6	161.1	172.7	178.0	160.9	141.6	183.7	197.5	139.5	-13.3	-29.4
EBITDA Margin (%)	35.1	31.3	35.1	34.4	33.0	34.2	33.5	33.4	33.7	29.2	34.0	33.6	26.3	-743 bps	-733 bps
Other Income	5.0	8.0	5.4	2.3	2.6	5.5	6.7	19.2	2.4	1.5	9.2	15.2	5.2	119.2	-65.4
Interest	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	0.0	0.0
Depreciation	13.2	10.3	11.0	11.7	12.1	13.0	14.0	15.3	18.9	13.4	14.6	15.0	16.6	-12.1	11.1
PBT (bef Excep's)	121.1	119.1	147.2	153.4	130.1	152.5	164.4	180.8	143.3	128.6	177.3	196.6	127.1	-11.3	-35.4
Less: Exceptional Items	8.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
PBT	129.6	119.1	147.2	153.4	130.1	152.5	164.4	180.8	143.3	128.6	177.3	196.6	127.1	-11.3	-35.4
Total Tax	40.8	33.0	47.2	38.7	24.9	38.5	34.5	38.5	30.0	23.9	46.4	50.1	33.5	11.9	-33.0
Tax rate (%)	31.4	27.7	32.1	25.2	19.1	25.2	21.0	21.3	20.9	18.6	26.2	25.5	26.4	548 bps	92 bps
PAT	71.5	89.6	100.0	114.3	107.5	122.0	130.7	142.6	114.0	94.8	131.9	147.5	94.5	-17.1	-35.9
PAT Margin (%)	19.2	22.9	22.8	24.0	25.3	25.9	25.3	26.7	23.9	19.6	24.4	25.1	17.8	-610 bps	-730 bps

Source: Company, ICICI Direct Research

SWOT Analysis

Strengths- Industry beating growth on a consistent basis, focused approach in the exports space, high return ratios, knack of launching new products on a consistent basis.

Weakness- High product concentration.

Opportunities- US generics space.

Industry specific threats- Increased USFDA scrutiny across the globe regarding cGMP issues, pricing pressure due to client consolidation. Increased competition in the domestic formulations space.

Conference call highlights

- India MR strength at 3000+
- Total 18 pending ANDAs and two under tentative approval. Approved ANDAs were at 19. In FY19, the company expects to file 10-12 ANDAs in the US
- The company has drastically reduced its African tender business guidance to ₹ 115-120 crore in FY19 vs. ₹ 380 crore in FY18 mainly due to 15-20% of price erosion and reduced overall size of tender due to stoppage of procurement from some countries
- Due to this, the company expects negative to muted revenue growth in FY19. It expects the domestic business to grow in mid-teens in FY19 while the African and Asian branded businesses are expected to grow in low teens. The US business is expected to grow in high mid-teens
- The management expects gross margins to remain in the range of 80-81%. However, it expects EBITDA margins in FY19 to come down to 30% mainly due to commissioning of new plants
- Guided for 24% tax rate in FY19 and ~22% in FY20
- FY18 capex was ₹ 275 crore. The management expects to spend ~₹ 250 crore every year in capex for the next two to three years
- Despite commissioning of new plants in FY18, full in house production of domestic dermatology and ophthalmology segment will start only from FY20. In FY19, the company expects 30-40% in-house production for these two segments

Exhibit 14: Brand introduction in export markets

Region	Brands Registered	Major Segments
Africa	1383	Anti Malaria, Multivitamin, Cardio, Antibiotic, Gynaec, MED, Pain
Asia	381	Cardio, Pain, MED, GI, Antibiotic, Derma, Anti Histamine

Source: Company, ICICI Direct Research

Exhibit 15: Facilities

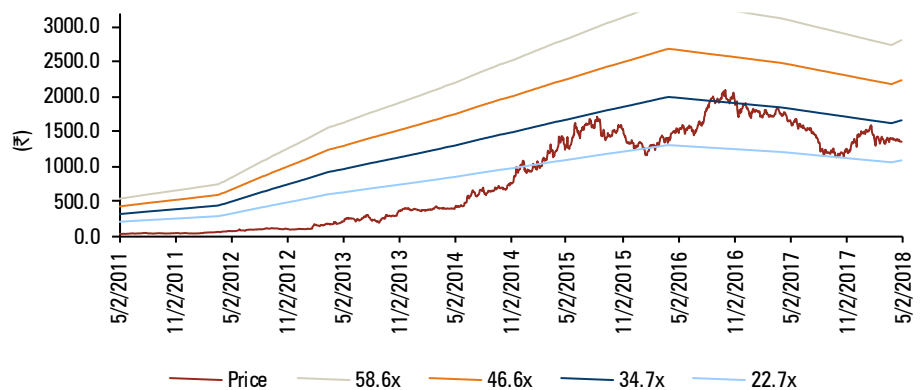
Location	Segment	Regulatory Approvals	Type
Paithan, India (3 Aurangabad facilities)	Formulations	US FDA, UK MHRA, health authorities of Brazil and Colombia, WHO pre-qualification	tablets, capsules, ointments, injections and dry powder
Mauritius	Formulations		
Dahej (upcoming)	Formulations	US FDA	
Guwahati (upcoming)	Formulations		
Aurangabad	API	WHO	

Source: Company, ICICI Direct Research

Valuation

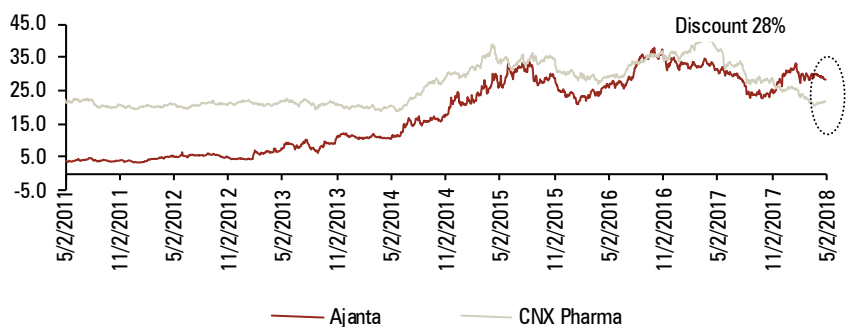
Q4 margins were impacted mainly due to commissioning of new plants, which is likely to impact the company's FY19 margins. Apart from this, the sharp reduction in African tender business opportunity is likely to impact the near term growth significantly. We expect the contribution from this business to go down from ~17% of revenues to ~5-6%, going ahead. On the positive side, the branded business in domestic, Africa and Asia is improving and is expected to grow in double digits. US growth is expected to remain strong despite an adverse scenario. However, front loading of cost and shrinking of the African tender opportunity are likely to impact near term sentiments. We reduce our FY19E and FY20E earnings estimates by 27% and 21%, respectively. Accordingly, we reduce our target price to ₹ 1190 based on 20x FY20E EPS of ₹ 59.6.

Exhibit 16: One year forward PE



Source: Company, ICICI Direct Research

Exhibit 17: One year forward PE of company vs. CNX Pharma Index



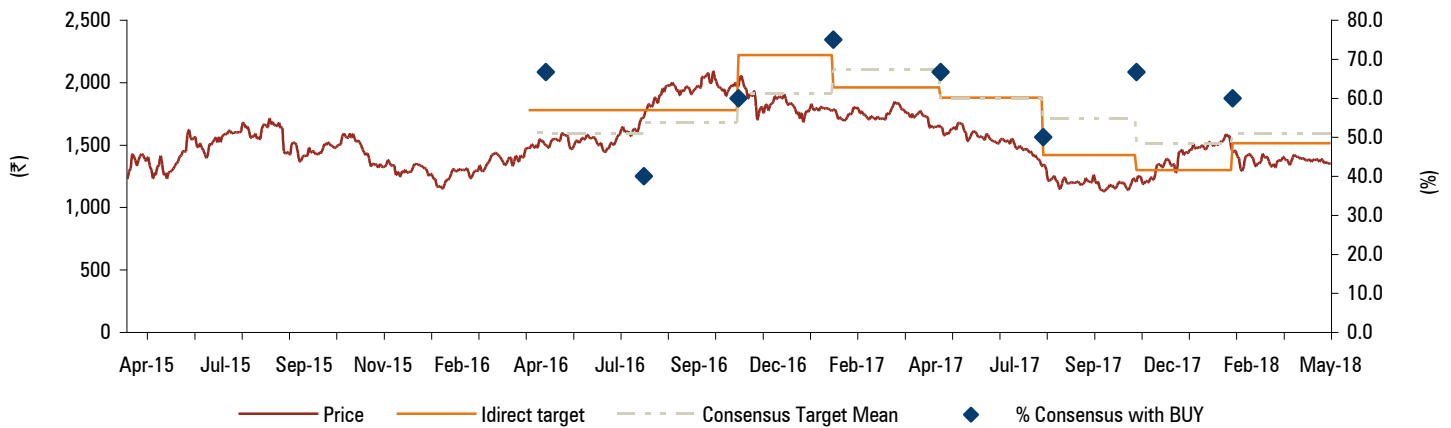
Source: Company, ICICI Direct Research

Exhibit 18: Valuation

	Revenues (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoNW (%)	RoCE (%)
FY17	2002	14.4	57.4	21.9	22.5	16.3	33.7	42.3
FY18E	2131	6.5	53.0	-7.5	24.3	17.2	23.8	31.0
FY19E	2073	-2.7	46.4	-12.5	27.8	18.9	18.0	23.3
FY20E	2340	12.9	59.6	28.3	21.7	15.2	19.7	24.8

Source: Company, ICICI Direct Research

Recommendation history vs. Consensus



Source: Reuters, Company, ICICI Direct Research; Initiated on September 22, 2014

Key events

Date	Event
Jun-08	Commissions dedicated R&D facility in Kandivali, Mumbai
Mar-09	Enters the Philippines market via incorporation of a subsidiary
Mar-09	USFDA approves Paithan facility
Mar-10	Acquires formulation facility near Aurangabad to cater to ROW markets
Dec-12	Enters regulated markets with first product approval in the US and one for Europe.
Mar-13	Launches first product in the US
Jan-15	Board approves subdivision of shares from ₹ 5 to ₹ 2
Mar-16	Aurangabad facility receives EIR with no observations
Mar-16	Dahej facility receives one USFDA 483 observation
Apr-17	Dahej facility cleared by USFDA without any Form 483 observations

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Top Investors (As of Latest Filing)	Top Investors (As of Latest Filing)	Top Investors (As of Latest Filing)	Top Investors (As of Latest Filing)
1	Agrawal (Ravi P)	31-Dec	0.1	12.8m
2	Gabs Investments Pvt. Ltd.	31-Dec	0.1	8.4m
3	Ganga Exports	31-Dec	0.0	2.4m
4	Matthews International Capital Management, L.	30-Jun	0.0	2.4m
5	SBI Funds Management Pvt. Ltd.	31-Dec	0.0	2.3m
6	Motilal Oswal Asset Management Company Ltd	31-Dec	0.0	1.3m
7	Kotak Mahindra Asset Management Company L	31-Dec	0.0	1.0m
8	UTI Asset Management Co. Ltd.	31-Dec	0.0	1.0m
9	Agrawal (Ayush Madhusudan)	28-Mar	0.0	0.9m
10	The Vanguard Group, Inc.	31-Mar	0.0	0.7m

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoter	73.8	73.8	70.7	70.7	70.7
Others	26.2	26.2	29.3	29.3	29.3

Recent Activity

Buys			Sells		
Investor name	Value (\$)	Shares	Investor name	Value (\$)	Shares
Agrawal (Mannalal B)	3.6m	0.2m	Agrawal (Yogesh Mannalal)	-265.0m	-12.8m
UTI Asset Management Co. Ltd.	1.4m	0.1m	Agrawal (Ayush Madhusudan)	-254.7m	-11.9m
Axis Asset Management Company Limited	0.6m	0.0m	Agrawal (Rajesh)	-18.8m	-0.9m
Invesco Asset Management (India) Private Limited	0.5m	0.0m	Pictet Asset Management Ltd.	-6.8m	-0.3m
BlackRock Institutional Trust Company, N.A.	0.2m	0.0m	Union Investment Luxembourg S.A.	-5.1m	-0.2m

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement					₹ crore
(Year-end March)/ (₹ crore)	FY17	FY18E	FY19E	FY20E	
Total Operating Income	2,001.6	2,130.9	2,073.4	2,340.4	
Growth (%)	14.4	6.5	-2.7	12.9	
Raw Material Expenses	414.6	406.4	383.6	433.0	
Gross Profit	1,587.1	1,724.5	1,689.8	1,907.4	
Gross Profit Margins (%)	79.3	80.9	81.5	81.5	
Employee Expenses	295.4	376.5	386.0	412.3	
Other Expenditure	602.6	696.5	721.3	778.7	
Total Operating Expenditure	1,312.6	1,479.4	1,490.8	1,624.0	
EBITDA	689.0	651.4	582.5	716.5	
Growth (%)	17.4	-5.5	-10.6	23.0	
Interest	3.5	0.4	0.1	0.1	
Depreciation	61.2	59.6	73.9	82.7	
Other Income	23.9	31.1	31.1	41.0	
PBT before Exceptional Items	648.2	622.6	539.7	674.7	
Less: Exceptional Items	0.0	0.0	0.0	0.0	
PBT after Exceptional Items	648.2	622.6	539.7	674.7	
Total Tax	141.3	153.9	129.5	148.4	
PAT before MI	506.8	468.6	410.1	526.2	
PAT	506.8	468.6	410.1	526.2	
Growth (%)	21.9	-7.5	-12.5	28.3	
EPS (Adjusted)	57.4	53.0	46.4	59.6	

Source: Company, ICICI Direct Research

Balance sheet					₹ crore
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Equity Capital	17.7	17.7	17.7	17.7	
Reserve and Surplus	1,486.3	1,954.9	2,262.7	2,657.6	
Total Shareholders funds	1,503.9	1,972.6	2,280.4	2,675.3	
Total Debt	5.5	1.0	1.0	1.0	
Deferred Tax Liability	27.4	24.4	24.9	25.4	
Long-Term Provisions	3.2	13.2	13.4	13.7	
Other Non Current Liabilities	0.1	0.1	0.1	0.1	
Source of Funds	1,540.1	2,011.2	2,319.8	2,715.5	
Gross Block - Fixed Assets	859.3	1,391.3	1,566.3	1,741.3	
Accumulated Depreciation	286.4	345.9	419.9	502.6	
Net Block	572.9	1,045.3	1,146.4	1,238.7	
Capital WIP	339.3	61.3	136.3	211.3	
Fixed Assets	912.2	1,106.7	1,282.7	1,450.0	
Investments	198.8	190.0	340.0	490.0	
Other non-Current Assets	23.0	80.6	82.2	83.8	
Inventory	179.3	350.6	332.8	375.7	
Debtors	336.0	492.0	467.1	527.2	
Other Current Assets	66.6	105.5	107.6	109.8	
Cash	8.9	31.9	42.7	46.7	
Total Current Assets	590.8	980.1	950.2	1,059.4	
Creditors	138.8	249.6	237.0	267.5	
Provisions	12.8	28.8	29.3	29.9	
Other Current Liabilities	33.2	67.7	69.0	70.4	
Total Current Liabilities	184.8	346.1	335.3	367.8	
Net Current Assets	406.1	634.0	614.9	691.6	
Application of Funds	1,540.1	2,011.2	2,319.8	2,715.5	

Source: Company, ICICI Direct Research

Cash flow statement					₹ crore
(Year-end March)/ (₹ crore)	FY17	FY18E	FY19E	FY20E	
Profit/(Loss) after taxation	506.8	468.6	410.1	526.2	
Add: Depreciation & Amortization	61.2	59.6	73.9	82.7	
Net Increase in Current Assets	-39.1	-366.3	40.6	-105.2	
Net Increase in Current Liabilities	-3.4	161.3	-10.7	32.5	
Others	3.5	0.4	0.1	0.1	
CF from Operating activities	529.1	323.7	514.0	536.3	
Long term Loans & Advances	0.0	0.0	0.0	0.0	
Investments	-91.4	8.9	-150.0	-150.0	
(Purchase)/Sale of Fixed Assets	-303.5	-254.1	-250.0	-250.0	
Others	47.3	-50.5	-0.9	-0.9	
CF from Investing activities	-347.5	-295.7	-400.9	-400.9	
(inc)/Dec in Loan	-61.7	-4.5	0.0	0.0	
Dividend & Dividend tax	-128.7	0.0	-102.3	-131.3	
Other	-3.7	-0.4	-0.1	-0.1	
CF from Financing activities	-194.1	-4.9	-102.4	-131.4	
Net Cash Flow	-12.5	23.0	10.8	4.0	
Cash and Cash Equivalent at the beginning	21.4	8.9	31.9	42.7	
Cash	8.9	31.9	42.7	46.7	
Free Cash Flow	225.6	69.6	264.0	286.3	

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Per share data (₹)				
Reported EPS	57.4	53.0	46.4	59.6
Cash EPS	42.8	53.0	34.8	44.7
BV per share	170.2	223.3	258.1	302.8
Cash per Share	1.0	3.6	4.8	5.3
Dividend per share	14.6	0.0	11.6	14.9
Operating Ratios (%)				
Gross Profit Margins	79.3	80.9	81.5	81.5
EBITDA margins	34.4	30.6	28.1	30.6
PAT Margins	25.3	22.0	19.8	22.5
Inventory days	32.7	60.1	58.6	58.6
Debtor days	61.3	84.3	82.2	82.2
Creditor days	25.3	42.8	41.7	41.7
Asset Turnover	2.3	1.5	1.3	1.3
EBITDA conversion Rate	76.8	49.7	88.2	74.9
Return Ratios (%)				
RoE	33.7	23.8	18.0	19.7
RoCE	42.3	31.0	23.3	24.8
RoIC	62.1	34.1	28.1	32.1
Valuation Ratios (x)				
P/E	22.5	24.3	27.8	21.7
EV / EBITDA	16.3	17.2	18.9	15.2
EV / Net Sales	5.6	5.2	5.3	4.6
Market Cap / Sales	5.7	5.4	5.5	4.9
Price to Book Value	7.6	5.8	5.0	4.3
Solvency Ratios				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.1	2.7	2.7	2.8
Quick Ratio	2.2	1.7	1.7	1.7

Source: Company, ICICI Direct Research

ICICIdirect.com coverage universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Ajanta Pharma	AJAPHA	1290	1,190	Hold	22711.5	57.4	53.0	46.4	59.6	22.5	24.3	27.8	21.7	42.3	31.0	23.3	24.8	33.7	23.8	18.0	19.7
Alembic Pharma	ALEMPHA	535	570	Hold	10085.6	21.2	23.7	23.0	28.6	25.3	22.6	23.2	18.7	25.3	19.6	17.6	19.7	21.0	19.9	16.8	18.0
Apollo Hospitals	APOHOS	1082	1,230	Hold	15056.8	15.9	10.3	23.8	31.6	68.1	105.2	45.5	34.3	6.1	6.8	9.3	10.8	6.0	3.8	8.2	10.0
Aurobindo Pharma	AURPHA	638	665	Hold	37351.6	38.8	42.6	38.0	41.5	16.4	14.9	16.8	15.4	24.4	23.5	18.4	17.9	24.2	21.3	16.1	15.2
Biocon	BIOCON	663	740	Buy	39759.0	8.5	6.2	9.3	14.0	78.2	106.8	71.2	47.4	9.6	8.4	11.3	14.7	10.5	7.2	9.8	13.0
Cadila Healthcare	CADHEA	410	405	Hold	41947.9	14.5	16.6	18.1	20.3	28.2	24.6	22.7	20.2	13.1	17.6	16.7	17.3	21.4	20.7	19.2	18.6
Cipla	CIPLA	618	640	Hold	49732.2	12.5	19.6	26.8	32.1	49.3	31.6	23.0	19.2	7.7	9.7	14.5	16.0	8.0	11.4	13.9	14.7
Divi's Lab	DIVLAB	1194	1,070	Hold	31699.6	39.9	32.7	40.7	48.7	29.9	36.5	29.3	24.5	25.3	19.3	21.2	22.2	19.8	14.7	16.2	16.9
Dr Reddy's Labs	DRREDD	2123	2,520	Hold	35206.8	78.0	59.4	93.4	140.2	27.2	35.7	22.7	15.1	7.3	6.8	9.5	12.1	10.5	7.5	10.8	14.2
Glenmark Pharma	GLEPHA	561	535	Hold	15821.2	42.2	33.4	31.5	38.2	13.3	16.8	17.8	14.7	19.5	16.2	14.3	15.5	26.5	17.5	14.3	14.9
Indoco Remedies	INDREM	199	280	Hold	1833.8	8.4	4.8	12.2	15.4	23.8	41.2	16.3	13.0	8.7	5.4	11.2	13.8	11.8	6.5	14.5	16.0
Ipca Laboratories	IPCLAB	626	715	Buy	9273.7	15.4	21.4	37.6	44.7	40.6	29.2	16.7	14.0	8.7	9.6	15.5	16.7	7.9	10.1	15.4	15.9
Jubilant Life	JUBLIF	871	1,090	Buy	13867.0	36.1	46.9	68.0	85.3	24.1	18.6	12.8	10.2	13.8	14.7	18.4	20.4	16.8	18.1	21.0	21.0
Lupin	LUPIN	809	850	Hold	36595.5	56.7	30.2	35.1	45.2	14.3	26.8	23.0	17.9	16.6	10.0	10.9	13.7	19.0	9.3	10.0	11.6
Narayana Hrudalaya	NARHRU	270	360	Buy	5519.8	4.1	3.8	6.4	9.7	65.4	71.4	42.0	27.8	12.5	10.5	14.1	18.4	8.8	7.4	11.2	14.5
Natco Pharma	NATPHA	816	910	Hold	15059.3	26.3	34.8	41.5	26.7	31.0	23.5	19.7	30.5	33.6	26.7	28.1	16.7	29.5	21.4	21.9	12.9
Sun Pharma	SUNPHA	524	530	Hold	125601.4	29.0	12.2	18.6	22.4	18.0	42.9	28.1	23.4	20.3	10.5	12.4	13.7	19.0	7.6	10.7	11.6
Syngene Int.	SYNINT	624	715	Buy	12475.0	14.4	15.3	18.6	20.4	43.2	43.2	33.4	30.4	16.8	16.6	18.5	18.7	20.3	18.0	18.1	16.7
Torrent Pharma	TORPHA	1416	1,390	Hold	23961.7	55.2	38.8	51.1	69.6	25.7	36.5	27.7	20.4	18.9	12.6	14.2	17.4	21.5	13.6	15.7	18.5

Source: Company, ICICI Direct Research

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