

# Ajanta Pharma

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
35,591	10,652
<b>Bloomberg</b>	<b>AJP IN</b>
Equity Shares (m)	88
M.Cap.(INRb)/(USDb)	95.9 / 1.3
52-Week Range (INR)	1468 / 898
1, 6, 12 Rel. Per (%)	-7/0/-24
12M Avg Val (INR M)	416
Free float (%)	29.5

**CMP: INR1,090 TP: INR1,390 (+28%) Buy**

## Lower exports, higher operating costs impact earnings

- Revenues in line; higher operational cost hurts margin:** Ajanta Pharma (AJP) reported its 3QFY19 revenue down 17% YoY to INR4.8b (in-line), largely due to lower exports, down 27% YoY to INR3b (64% of sales). The decline was offset to some extent by 9% YoY growth in domestic formulation (36% of sales) to INR1.7b. Gross margin (GM) contracted 144bp YoY to 79.8%, mainly due to increased raw material prices and change in product mix. EBITDA margin contracted at higher rate of 990bp YoY on higher employee cost/other expenses, up 700bp/145bp YoY (as % of sales). The increased operational cost is associated with newer facilities at Dahej and Guwahati. Absolute EBITDA declined 42% YoY to INR1.1b (our estimate: INR1.2b). Reduced margins, higher depreciation and tax rate led to PAT decline of 51% YoY to INR727m (our estimate: INR837m). For 9MFY19, sales/EBITDA/PAT declined 4%/14%/19% YoY to INR15.4b/INR4.4b/INR3b.
- On-track to file 10-12 ANDAs in FY19:** For 9MFY19, AJP filed eight ANDAs and received 10 ANDA approvals (7-final and 3-tentative), taking the number of cumulative approvals to 24. AJP has already commercialized 21 ANDAs and has 17 ANDAs pending for approval. It has maintained its guidance of 10-12 filings for FY19.
- Other key highlights:** (1) R&D spend for the quarter stood at INR450m (9% of sales), (2) AJP has withdrawn its appeal against the NCLT order rejecting its amalgamation with Gabs Investment.
- Valuation and view:** We cut our FY19/20/21 EPS estimates by 4%/8%/8% to INR44/INR52/INR60 to factor in a muted 3Q and increased operational costs associated with newer facilities. We roll to 24x (unchanged) 12M forward earnings to arrive at a TP of INR1,390 (prior: INR1,482). We remain positive on AJP, given its healthy growth in Branded Generics and in the US. **Buy**.

### Financials & Valuations (INR b)

Y/E Mar	FY19E	FY20E	FY21E
Net Sales	20.4	23.3	26.9
EBITDA	5.6	6.5	7.4
PAT	3.9	4.6	5.3
EPS (INR)	43.7	51.9	60.0
Gr. (%)	-17.5	18.7	15.6
BV/Sh (INR)	268.6	312.7	363.6
RoE (%)	17.5	17.9	17.7
RoCE (%)	17.5	17.9	17.7
P/E (x)	24.9	21.0	18.2
P/BV (x)	4.1	3.5	3.0

Estimate change



TP change



Rating change

### Consolidated - Quarterly Earning Model

(INR m)

Y/E March	FY18				FY19E				FY18	FY19E	FY19	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
<b>Net Sales</b>	<b>4,731</b>	<b>5,404</b>	<b>5,870</b>	<b>5,303</b>	<b>5,110</b>	<b>5,441</b>	<b>4,851</b>	<b>5,024</b>	<b>21,308</b>	<b>20,426</b>	<b>4,772</b>	<b>1.7</b>
YoY Change (%)	-0.6	4.8	10.1	11.2	8.0	0.7	-17.4	-5.3	6.5	-4.1		
Total Expenditure	3,424	3,567	3,896	3,908	3,535	3,779	3,698	3,838	14,794	14,849	3,531	4.7
<b>EBITDA</b>	<b>1,307</b>	<b>1,837</b>	<b>1,975</b>	<b>1,395</b>	<b>1,575</b>	<b>1,662</b>	<b>1,153</b>	<b>1,186</b>	<b>6,514</b>	<b>5,576</b>	<b>1,241</b>	<b>-7.1</b>
Margins (%)	27.6	34.0	33.6	26.3	30.8	30.5	23.8	23.6	30.6	27.3		
Depreciation	134	146	150	166	172	175	187	191	596	724	170	9.8
Interest	1	1	1	1	2	0	1	-1	4	2		
Other Income	16	92	152	52	81	152	44	29	311	306	45	-2.0
<b>PBT before EO expense</b>	<b>1,187</b>	<b>1,783</b>	<b>1,975</b>	<b>1,280</b>	<b>1,483</b>	<b>1,640</b>	<b>1,010</b>	<b>1,024</b>	<b>6,225</b>	<b>5,156</b>	<b>1,116</b>	<b>-9.5</b>
Extra-Ord expense	0	0	0	0	0	0	80	0		80		
<b>PBT</b>	<b>1,187</b>	<b>1,783</b>	<b>1,975</b>	<b>1,280</b>	<b>1,483</b>	<b>1,640</b>	<b>930</b>	<b>1,024</b>	<b>6,225</b>	<b>5,076</b>	<b>1,116</b>	<b>-16.7</b>
Tax	239	464	501	335	425	385	261	239	1,539	1,309	279	-6.6
Rate (%)	20.1	26.0	25.3	26.2	28.7	23.5	28.0	23.3	24.7	25.8		
<b>Reported PAT</b>	<b>948</b>	<b>1,319</b>	<b>1,475</b>	<b>945</b>	<b>1,058</b>	<b>1,255</b>	<b>669</b>	<b>785</b>	<b>4,686</b>	<b>3,767</b>	<b>837</b>	<b>-20.0</b>
<b>Adj PAT</b>	<b>948</b>	<b>1,319</b>	<b>1,475</b>	<b>945</b>	<b>1,058</b>	<b>1,255</b>	<b>727</b>	<b>785</b>	<b>4,686</b>	<b>3,826</b>	<b>837</b>	<b>-13.2</b>
YoY Change (%)	-20.7	0.9	3.4	-22.5	11.6	-4.8	-50.7	-16.9	-8.9	-18.3		
Margins (%)	20.0	24.4	25.1	17.8	20.7	23.1	15.0	15.6	22.0	18.7		

E: MOSL Estimates

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

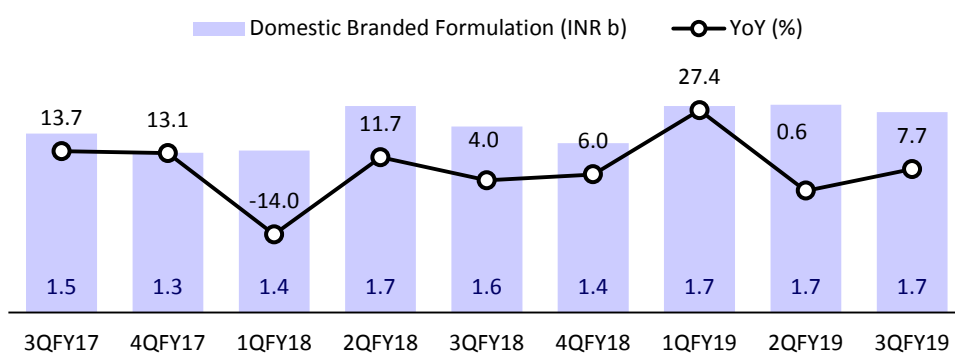
Motilal Oswal research is available on [www.motilalosal.com/Institutional-Equities](http://www.motilalosal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Dermatology led growth in Domestic formulation business**

AJP’s domestic formulation sales at INR1.7b are up 9% YoY. Therapy-wise, muted growth was witnessed in Ophthalmology (2% YoY) and Cardiology (3% YoY). Dermatology segment grew 6% YoY while other therapeutic segments grew 8% YoY. Institutional business sales stood at INR130m v/s INR50m in 3QFY18.

For 9MFY19, Ophthalmology grew 8% and Cardiology grew 10% YoY. Other therapeutic segments also saw robust growth of 22% YoY. Dermatology sales saw subdued growth of 3% YoY. Institutional business sales stood at INR260m v/s INR190m in 9MFY18. Overall, for 9MFY19, revenue growth in the domestic segment stood at 10% YoY.

**Exhibit 1: Domestic branded formulation sales up 8% YoY for the quarter**



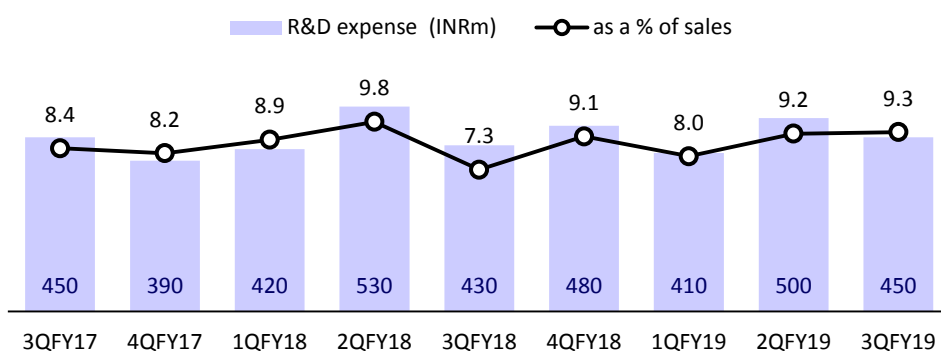
Source: MOSL, Company

**US sales subdued for the quarter; filings pace improves**

The US business (14% of sales) declined 7% YoY and 18% QoQ to INR660m on price erosion in the base business and traction from new launches yet to pick-up. For 9MFY19, the company filed eight ANDAs, of which six were filed in 3Q. AJP received seven final approvals and three tentative approvals. At present, the company has 24 final approvals, of which 21 are already commercialized. AJP holds four tentative approvals; 17 ANDAs are pending for approval. The company has also maintained its guidance of 10-12 filings for FY19.

R&D spends for the quarter stood at INR500m and 9% of total sales.

**Exhibit 2: Stable R&D cost**

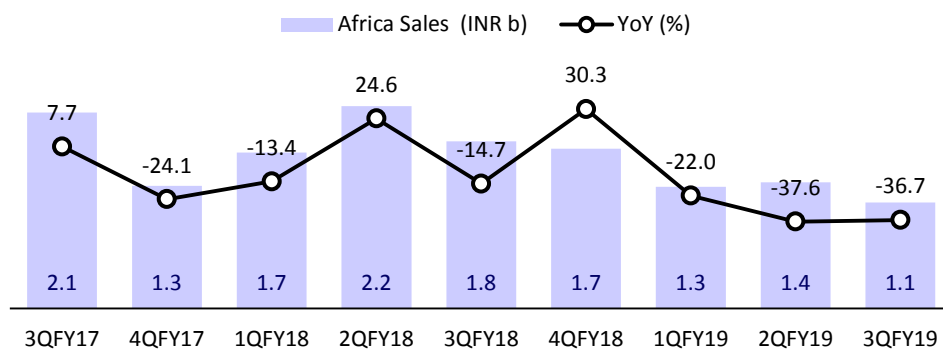


Source: MOSL, Company

**Both Branded Generics and Institutional business in Africa underperform**

AJP reported Africa sales of INR1.1b declining 37% YoY. Within the Africa segment, Branded Generics sales came in at INR640m, declining 26% YoY and 30% QoQ. The Institutional Anti-Malaria business continues to bleed with sales coming in at INR500m, down 47% YoY on lower offtake by global donor agencies. The company has 1,000+ product registrations in this geography and has launched eight new products during the quarter.

**Exhibit 3: Africa biz declined 37% YoY as branded Generics & Insti business underperform**

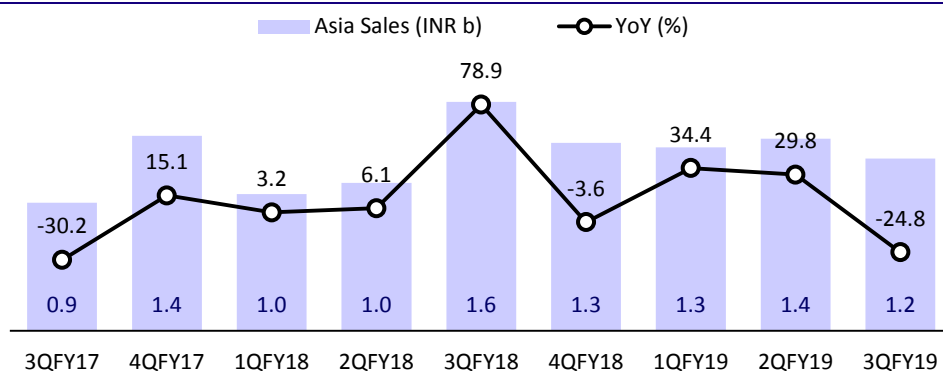


Source: MOSL, Company

**Sharp YoY decline in Asia business for the quarter**

Asia business revenues at INR1.2b (25% of sales), is down 25% YoY. However, for 9MFY19, AJP delivered 7% YoY growth to INR3.8b. AJP launched three products during the quarter. With 380+ registrations, a field force of ~333 people, AJP continues to enhance its product pipeline in the branded generic space of Asia market.

**Exhibit 4: Asia business down 25% YoY**

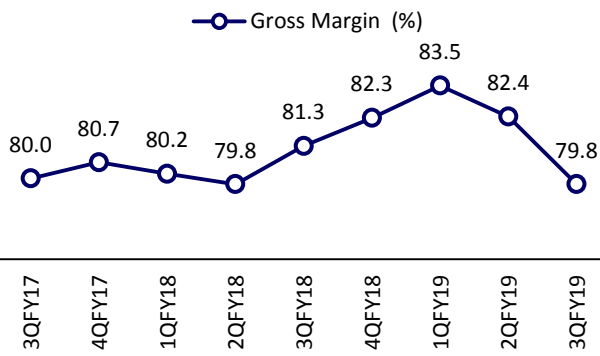


Source: MOSL, Company

**Margins contract due to increased RM cost, higher other operating expenses**

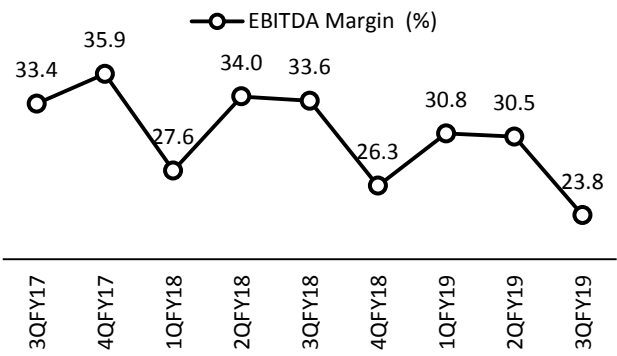
Gross margins for the company contracted 144bp YoY and 255bp QoQ to 79.8% on account of increased raw material prices and change in product mix. Higher operational expenses with respect to newer facilities (Dahej and Guwahati) led to a 700bp YoY expansion in employee expenses (as % of sales to 23.2%) and 140bp YoY expansion in other expenses (as % of sales to 32.8%). Consequently, EBITDA margin contracted 990bp YoY to 23.8%. With increased capacity utilization of the newer facilities going forward, we expect margins to improve gradually.

**Exhibit 5: Gross margin contracted by 144bp YoY**



Source: Company, MOSL

**Exhibit 6: EBITDA margin contracted 990bp YoY**



Source: Company, MOSL

**Valuation and view:** We cut our FY19/20/21 EPS estimates by 4%/8%/8% to INR44/INR52/INR60 to factor in a muted 3Q and increased operational costs associated with the newer facilities. We roll to 24x (unchanged) 12M forward earnings to arrive at a TP of INR1,390 (prior: INR1,482). We remain positive on AJP, given its healthy growth in Branded Generics and in the US market. **Buy.**

## Financials and Valuations

### Consolidated - Income Statement

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Total Income from Operations</b>	<b>12,160</b>	<b>14,852</b>	<b>17,494</b>	<b>20,016</b>	<b>21,309</b>	<b>20,426</b>	<b>23,336</b>	<b>26,870</b>
Change (%)	29.8	22.1	17.8	14.4	6.5	-4.1	14.2	15.1
<b>EBITDA</b>	<b>3,688</b>	<b>5,052</b>	<b>5,871</b>	<b>6,890</b>	<b>6,584</b>	<b>5,576</b>	<b>6,487</b>	<b>7,416</b>
Margin (%)	30.3	34.0	33.6	34.4	30.9	27.3	27.8	27.6
Depreciation	439	516	444	612	596	724	795	835
<b>EBIT</b>	<b>3,249</b>	<b>4,536</b>	<b>5,426</b>	<b>6,278</b>	<b>5,988</b>	<b>4,852</b>	<b>5,693</b>	<b>6,582</b>
Int. and Finance Charges	87	59	49	35	4	2	1	1
Other Income	137	168	212	239	242	306	350	403
<b>PBT bef. EO Exp.</b>	<b>3,299</b>	<b>4,645</b>	<b>5,589</b>	<b>6,482</b>	<b>6,226</b>	<b>5,156</b>	<b>6,042</b>	<b>6,984</b>
EO Items	0	-85	0	0	0	80	0	0
<b>PBT after EO Exp.</b>	<b>3,299</b>	<b>4,560</b>	<b>5,589</b>	<b>6,482</b>	<b>6,226</b>	<b>5,236</b>	<b>6,042</b>	<b>6,984</b>
Total Tax	960	1,462	1,433	1,413	1,539	1,309	1,450	1,676
Tax Rate (%)	29.1	32.0	25.6	21.8	24.7	25.0	24.0	24.0
<b>Reported PAT</b>	<b>2,339</b>	<b>3,099</b>	<b>4,156</b>	<b>5,068</b>	<b>4,686</b>	<b>3,927</b>	<b>4,592</b>	<b>5,308</b>
<b>Adjusted PAT</b>	<b>2,339</b>	<b>3,156</b>	<b>4,156</b>	<b>5,068</b>	<b>4,686</b>	<b>3,867</b>	<b>4,592</b>	<b>5,308</b>
Change (%)	108.6	34.9	31.7	21.9	-7.5	-17.5	18.7	15.6
Margin (%)	19.2	21.3	23.8	25.3	22.0	18.9	19.7	19.8

### Consolidated - Balance Sheet

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	177	177	177	177	177	177	177	177
Total Reserves	5,756	8,234	11,732	15,500	20,237	23,583	27,481	31,988
<b>Net Worth</b>	<b>5,933</b>	<b>8,411</b>	<b>11,909</b>	<b>15,677</b>	<b>20,414</b>	<b>23,760</b>	<b>27,658</b>	<b>32,165</b>
Total Loans	1,305	724	814	10	11	11	11	11
Deferred Tax Liabilities	230	152	107	29	244	244	244	244
<b>Capital Employed</b>	<b>7,468</b>	<b>9,286</b>	<b>12,829</b>	<b>15,716</b>	<b>20,669</b>	<b>24,015</b>	<b>27,913</b>	<b>32,419</b>
Gross Block	4,903	5,499	7,157	8,949	14,172	16,013	18,541	21,207
Less: Accum. Deprn.	2,109	2,618	2,650	3,058	3,646	4,370	5,165	5,999
<b>Net Fixed Assets</b>	<b>2,794</b>	<b>2,881</b>	<b>4,507</b>	<b>5,892</b>	<b>10,527</b>	<b>11,643</b>	<b>13,376</b>	<b>15,207</b>
Capital WIP	936	1,702	2,398	3,393	613	1,473	1,645	1,679
<b>Total Investments</b>	<b>635</b>	<b>595</b>	<b>860</b>	<b>1,909</b>	<b>2,044</b>	<b>2,044</b>	<b>2,044</b>	<b>2,044</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>5,130</b>	<b>6,286</b>	<b>7,028</b>	<b>7,039</b>	<b>11,077</b>	<b>11,621</b>	<b>13,992</b>	<b>17,116</b>
Inventory	1,554	1,590	2,046	2,110	3,506	3,051	3,462	3,997
Account Receivables	2,022	2,588	3,724	3,232	4,920	4,197	4,795	5,521
Cash and Bank Balance	604	1,368	434	713	932	3,367	4,587	6,276
Loans and Advances	949	740	825	985	1,719	1,005	1,148	1,322
<b>Curr. Liability &amp; Prov.</b>	<b>2,026</b>	<b>2,177</b>	<b>1,965</b>	<b>2,516</b>	<b>3,592</b>	<b>2,764</b>	<b>3,143</b>	<b>3,626</b>
Account Payables	1,245	1,298	1,650	1,781	2,852	2,014	2,286	2,640
Other Current Liabilities	325	188	176	562	321	573	655	754
Provisions	455	691	139	173	419	176	201	232
<b>Net Current Assets</b>	<b>3,104</b>	<b>4,108</b>	<b>5,063</b>	<b>4,524</b>	<b>7,485</b>	<b>8,857</b>	<b>10,849</b>	<b>13,490</b>
<b>Appl. of Funds</b>	<b>7,468</b>	<b>9,286</b>	<b>12,829</b>	<b>15,716</b>	<b>20,669</b>	<b>24,015</b>	<b>27,913</b>	<b>32,419</b>

## Financials and Valuations

### Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>26.4</b>	<b>35.7</b>	<b>47.0</b>	<b>57.3</b>	<b>53.0</b>	<b>43.7</b>	<b>51.9</b>	<b>60.0</b>
Cash EPS	31.4	41.5	52.0	64.2	59.7	51.9	60.9	69.4
BV/Share	67.1	95.1	134.6	177.2	230.8	268.6	312.7	363.6
DPS	4.0	6.0	13.9	12.9	0.0	6.6	7.8	9.1
Payout (%)	17.6	18.9	29.6	22.6	0.0	14.8	15.1	15.1
<b>Valuation (x)</b>								
P/E		30.5	23.2	19.0	20.6	24.9	21.0	18.2
Cash P/E		26.3	21.0	17.0	18.3	21.0	17.9	15.7
P/BV		11.5	8.1	6.1	4.7	4.1	3.5	3.0
EV/Sales		6.4	5.5	4.8	4.5	4.6	3.9	3.4
EV/EBITDA		19.0	16.5	13.9	14.5	16.7	14.2	12.2
Dividend Yield (%)	0.4	0.5	1.3	1.2	0.0	0.6	0.7	0.8
FCF per share	2.8	19.9	3.2	34.8	-1.6	30.7	17.7	23.6
<b>Return Ratios (%)</b>								
RoE	47.4	44.0	40.9	36.7	26.0	17.5	17.9	17.7
RoCE	38.7	39.0	38.4	35.9	26.0	17.5	17.9	17.7
RoIC	45.9	56.5	54.7	52.1	33.7	21.3	23.5	23.8
<b>Working Capital Ratios</b>								
Asset Turnover (x)	1.6	1.6	1.4	1.3	1.0	0.9	0.8	0.8
Inventory (Days)	47	39	43	38	60	55	54	54
Debtor (Days)	61	64	78	59	84	75	75	75
Creditor (Days)	37	32	34	32	49	36	36	36
<b>Leverage Ratio (x)</b>								
Net Debt/Equity	0.0	-0.1	0.0	-0.2	-0.1	-0.2	-0.2	-0.3

### Consolidated - Cash Flow Statement

(INR m)

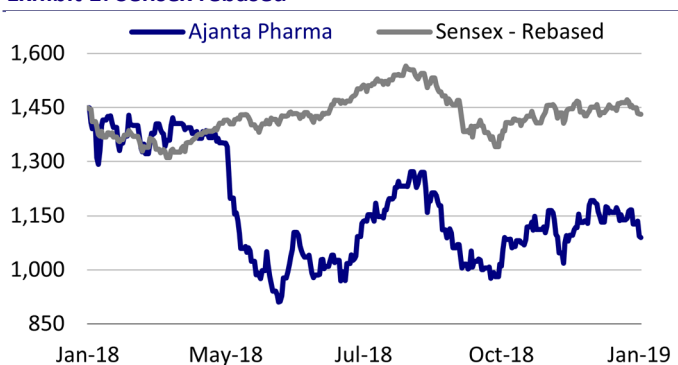
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
OP/(Loss) before Tax	3,299	4,560	5,589	6,482	6,226	5,236	6,042	6,984
Depreciation	439	516	444	612	596	724	795	835
Interest & Finance Charges	87	59	49	35	-238	-304	-349	-403
Direct Taxes Paid	-937	-1,461	-1,615	-1,428	-1,539	-1,309	-1,450	-1,676
(Inc)/Dec in WC	-745	-817	-1,243	285	-2,742	1,064	-774	-952
<b>CF from Operations</b>	<b>2,142</b>	<b>2,858</b>	<b>3,224</b>	<b>5,986</b>	<b>2,302</b>	<b>5,412</b>	<b>4,263</b>	<b>4,788</b>
Others	-18	-64	38	95	0	0	0	0
<b>CF from Operating incl EO</b>	<b>2,124</b>	<b>2,794</b>	<b>3,262</b>	<b>6,081</b>	<b>2,302</b>	<b>5,412</b>	<b>4,263</b>	<b>4,788</b>
(Inc)/Dec in FA	-1,878	-1,036	-2,975	-3,002	-2,444	-2,700	-2,700	-2,700
<b>Free Cash Flow</b>	<b>246</b>	<b>1,759</b>	<b>287</b>	<b>3,079</b>	<b>-141</b>	<b>2,712</b>	<b>1,563</b>	<b>2,088</b>
(Pur)/Sale of Investments	0	-45	-36	-914	-135	0	0	0
Others	97	102	-11	182	241	306	350	403
<b>CF from Investments</b>	<b>-1,781</b>	<b>-979</b>	<b>-3,022</b>	<b>-3,734</b>	<b>-2,338</b>	<b>-2,394</b>	<b>-2,350</b>	<b>-2,297</b>
Inc/(Dec) in Debt	57	-581	218	-746	1	0	0	0
Interest Paid	-87	-60	-49	-35	-4	-2	-1	-1
Dividend Paid	-171	-411	-1,342	-1,287	0	-581	-693	-801
<b>CF from Fin. Activity</b>	<b>-201</b>	<b>-1,052</b>	<b>-1,173</b>	<b>-2,068</b>	<b>255</b>	<b>-583</b>	<b>-694</b>	<b>-802</b>
<b>Inc/Dec of Cash</b>	<b>142</b>	<b>764</b>	<b>-934</b>	<b>279</b>	<b>219</b>	<b>2,435</b>	<b>1,220</b>	<b>1,689</b>
Opening Balance	462	604	1,368	434	713	933	3,367	4,587
<b>Closing Balance</b>	<b>604</b>	<b>1,368</b>	<b>434</b>	<b>713</b>	<b>932</b>	<b>3,367</b>	<b>4,587</b>	<b>6,276</b>

## 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 repacking of products in 1973, and moved from OTC products to prescription-based products for the Indian market. It has established itself as a strong specialty player in the domestic market in Ophthalmology, Dermatology and Cardiology. In addition, it has strong presence in 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 (%)

	Dec-18	Sep-18	Dec-17
Promoter	70.5	70.5	70.7
DII	9.6	8.4	5.9
FII	10.1	10.9	12.7
Others	9.8	10.2	10.7

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Matthews India Fund	3.6
Motilal Oswal Multicap 35 Fund	3.2
SBI Equity Hybrid Fund	2.2
UTI - Equity Fund	1.5
Kotak Mahindra (International) Limited	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Mannalal B Agrawal	Chairman
Madhusudan B Agrawal	Vice Chairman
Yogesh Agrawal	Managing Director
Rajesh M Agrawal	Joint Managing Director
Gaurang Shah	Company Secretary

Source: Capitaline

Exhibit 5: Directors

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

\*Independent

Exhibit 6: Auditors

Name	Type
Alwyn Dsouza & Co	Secretarial Audit
B S R & Co LLP	Statutory
Mahajan & Aibara	Internal
Sevekari Khare & Associates	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	43.7	47.8	-8.5
FY20	51.9	58.6	-11.4
FY21	60.0	50.6	18.7

Source: Bloomberg

## NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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