

Stellar Q1 led by lower opex

Ajanta Pharma reported stellar Q1 beating our estimates on the operating performance. While India reported a 10% de-growth, exports have surprised us positively (20% YoY growth) led by branded markets of Africa and Asia (EM-up 11% YoY). US, at US\$20mn, reported an in-line growth at 37% YoY in constant currency. Higher contribution from branded exports helped in 50bps expansion of gross margins at 76.7%. Further, aided by slower field activities, lower expenses spiked EBITDA margin at 33% (up 640 bps QoQ and 1,170 bps YoY), way higher than our estimates. While the same is expected to taper as activities resume in subsequent quarters, management guided EBITDA margins to go up to 29% for FY21E led by a lower spend in 1H.

Over the past few years, Ajanta has continued to maintain a tight squeeze on costs, however lower A/O resulted in EBITDA margin contraction from 34% in FY17 to 26% in FY20. Ajanta has invested Rs16bn in facilities over the last 4-years, majority of which has completed, indicating better free cash generation going ahead. We reckon that peak capacity utilization at Guwahati and Pithampur plants over the next 2 years could potentially add Rs12bn to revenues. We estimate sales/PAT CAGR of 9%/16% over FY20–22E, along with a margin expansion largely playing out in FY21E led by operating efficiencies and lower SGA spend.

We have upgraded our numbers by 8%/3% respectively for FY21/22E factoring in margin improvement largely in FY21. At the CMP, Ajanta is trading at 25x and 22x its FY21E and FY22E EPS, respectively. Maintain ACCUMULATE. Volatility in the emerging markets remains a key risk.

Key commentary from the management:

Guidance: Branded business (Africa and Asia) is expected to grow 6-7%, US by 10%, while India is guided for a de-growth of 10% (lockdown impacting its 40% acute portfolio) implying a top-line growth of 2%. Nonetheless, given the lower on-field activities company guided for 29% EBITDA margin for FY21E. Further, we expect ~100–150 bps jump in EBITDA margins as capacity utilization ramps up at Guwahati and Pithampur over the next 2-3 years.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	6,682	6,119	9.2	6,820	(2.0)
Total Expense	4,450	4,436	0.3	5,306	(16.1)
EBITDA	2,232	1,684	32.6	1,513	47.5
Depreciation	280	228	23.0	260	7.6
EBIT	1,952	1,456	34.1	1,253	55.8
Other Income	131	76	71.7	567	(76.9)
Interest	16	18	(8.9)	36	(55.0)
EBT	2,067	1,515	36.5	1,784	15.9
Tax	589	368	60.0	467	26.2
RPAT	1,478	1,146	28.9	1,317	12.2
APAT	1,478	1,146	28.9	1,317	12.2
			(bps)		(bps)
Gross Margin (%)	77.1	76.7	38	74.0	313
EBITDA Margin (%)	33.4	27.5	589	22.2	1121
NPM (%)	22.1	18.7	338	19.3	281
Tax Rate (%)	28.5	24.3	420	26.2	233
EBIT Margin (%)	29.2	23.8	542	18.4	1084

CMP	Rs 1,629
Target / Upside	Rs 1,676 / 3%
BSE Sensex	37,660
NSE Nifty	11,074

Scrip Details

Equity / FV	Rs 175mn / Rs 2
Market Cap	Rs 143bn
	USD 2bn
52-week High/Low	Rs 1,648/Rs 882
Avg. Volume (no)	205,862
NSE Symbol	AJANTPHARM
Bloomberg Code	AJP IN

Shareholding Pattern Jun'20(%)

Promoters	70.5
MF/Banks/FIs	10.6
FII	8.9
Public / Others	10.0

Valuation (x)

	FY20A	FY21E	FY22E
P/E	30.3	25.3	22.4
EV/EBITDA	20.6	17.3	14.9
ROE (%)	19.5	20.1	19.5
RoACE (%)	18.6	18.8	18.3

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	25,879	27,128	30,878
EBITDA	6,833	7,946	8,875
PAT	4,716	5,637	6,376
EPS (Rs.)	53.8	64.3	72.7

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Exhibit 1: Revenue mix

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ%	FY20	FY19	YoY (%)
Domestic Formulations	1,740	1,940	(10.3)	1,770	(1.7)	7,690	6,900	11.4
US	1,490	1,020	46.1	1,430	4.2	5,160	2,830	82.3
Africa branded	1,080	920	17.4	950	13.7	3,490	3,070	13.7
Africa Tender	620	810	(23.5)	430	44.2	2,440	1,960	24.5
Asia	1,610	1,260	27.8	2,090	(23.0)	6,730	5,290	27.2
Others	30	30	0.0	10	200.0	80	90	(11.1)
Gross revenues	6,570	5,980	9.9	6,680	(1.6)	25,590	20,140	27.1

Source: Company, DART

Key Concall Highlights

- India:** Q1 reported a de-growth of 10% given the lower offtake of ophthal and derma products due to lockdown. However, the cardiac and pain segment grew 10% YoY each. With Ajanta being the 3rd largest player in its covered ophthalmology market, it expects growth to peak in the medium term for this segment. However, derma has been sluggish for some time now and is expected to remain subdued given the higher concentration of cosmetology products. We project India formulations to report decline of 6% and the same is expected to recover to 11% in FY22E.
- US:** Ajanta continue to report healthy growth in the US (46% YoY; 37% growth YoY in US\$ terms) aided by currency, new launches and market share gains. The management reiterated its guidance of 10–12 filings and 7–8 launches for FY21E (5 launches in Q1). We expect the US business to grow 20% sales CAGR over FY20–22E, led by new launches and a lower base. On a cumulative basis, Ajanta has 36 approvals, 30 commercialized and 19 products pending for approval.
- Asia:** The Asia business reported strong growth of 27% YoY in Q1. Higher growth was on the lower base (high channel filling in FY19 which went under inventory correction in 1HFY20) and resumed normalcy from 3Q onwards. As on FY20, Asia has 350+ products registered, 15 new launches in 7 major markets.
- Africa:** Higher growth in the branded business led to a beat in our overall revenue estimation. Further, the tender business declined 24% in Q1 in-line with expectation. We expect branded Africa business to report 9% CAGR, while the tender business is expected to decline 5% over FY20–22E.
- Capex:** Ajanta's Dahej facility, built with a capex of ~Rs4bn, is expected to ramp up from FY21E. The management guided for capex of Rs1.5bn for FY21. Most of the capex would be spent on the Pithampur facility. With majority of capex done, management guided for operating leverage to drive profitability in the next 2–3 years.

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	20,554	25,879	27,128	30,878
Total Expense	14,890	19,045	19,182	22,003
COGS	3,835	6,557	6,752	7,684
Employees Cost	4,307	4,856	5,096	5,957
Other expenses	6,748	7,632	7,335	8,361
EBIDTA	5,664	6,833	7,946	8,875
Depreciation	721	957	940	1,136
EBIT	4,944	5,876	7,006	7,738
Interest	12	119	79	35
Other Income	211	922	902	913
Exc. / E.O. items	0	0	0	0
EBT	5,143	6,679	7,829	8,616
Tax	1,273	1,963	2,192	2,240
RPAT	3,870	4,716	5,637	6,376
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	3,870	4,716	5,637	6,376

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	175	175	175	175
Minority Interest	0	0	0	0
Reserves & Surplus	22,277	25,813	30,003	34,933
Net Worth	22,452	25,989	30,179	35,109
Total Debt	340	436	437	437
Net Deferred Tax Liability	976	1,897	1,951	2,029
Total Capital Employed	23,768	28,321	32,566	37,576

Applications of Funds

Net Block	11,786	13,813	14,479	14,343
CWIP	2,613	2,227	2,327	2,627
Investments	187	181	221	268
Current Assets, Loans & Advances	12,376	16,966	19,860	24,876
Inventories	4,357	4,957	4,824	5,054
Receivables	4,595	7,753	7,348	7,449
Cash and Bank Balances	1,005	2,053	5,406	9,989
Loans and Advances	934	669	748	850
Other Current Assets	838	863	863	863
Less: Current Liabilities & Provisions	3,193	4,866	4,321	4,539
Payables	2,252	3,623	3,145	3,284
Other Current Liabilities	942	1,242	1,176	1,255
<i>sub total</i>				
Net Current Assets	9,183	12,100	15,539	20,337
Total Assets	23,768	28,321	32,566	37,576

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	81.3	74.7	75.1	75.1
EBIDTA Margin	27.6	26.4	29.3	28.7
EBIT Margin	24.1	22.7	25.8	25.1
Tax rate	24.8	29.4	28.0	26.0
Net Profit Margin	18.8	18.2	20.8	20.6
(B) As Percentage of Net Sales (%)				
COGS	18.7	25.3	24.9	24.9
Employee	21.0	18.8	18.8	19.3
Other	32.8	29.5	27.0	27.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	426.2	49.3	89.1	221.1
Inventory days	77	70	65	60
Debtors days	82	109	99	88
Average Cost of Debt	6.6	30.7	18.0	8.0
Payable days	40	51	42	39
Working Capital days	163	171	209	240
FA T/O	1.7	1.9	1.9	2.2
(D) Measures of Investment				
AEPS (Rs)	44.1	53.8	64.3	72.7
CEPS (Rs)	52.3	64.7	75.0	85.7
DPS (Rs)	9.1	13.2	16.5	16.5
Dividend Payout (%)	20.6	24.6	25.7	22.7
BVPS (Rs)	256.0	296.3	344.1	400.3
RoANW (%)	18.1	19.5	20.1	19.5
RoACE (%)	17.2	18.6	18.8	18.3
RoAIC (%)	22.9	24.0	26.2	28.3
(E) Valuation Ratios				
CMP (Rs)	1629	1629	1629	1629
P/E	36.9	30.3	25.3	22.4
Mcap (Rs Mn)	142,881	142,881	142,881	142,881
MCap/ Sales	7.0	5.5	5.3	4.6
EV	141,568	140,593	137,240	132,658
EV/Sales	6.9	5.4	5.1	4.3
EV/EBITDA	25.0	20.6	17.3	14.9
P/BV	6.4	5.5	4.7	4.1
Dividend Yield (%)	0.6	0.8	1.0	1.0
(F) Growth Rate (%)				
Revenue	(3.5)	25.9	4.8	13.8
EBITDA	(14.0)	20.6	16.3	11.7
EBIT	(17.4)	18.9	19.2	10.5
PBT	(17.4)	29.9	17.2	10.1
APAT	(17.4)	21.9	19.5	13.1
EPS	(17.4)	21.9	19.5	13.1
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	4,063	4,710	6,623	7,411
CFI	(2,479)	(2,617)	(1,745)	(1,348)
CFF	(1,510)	(1,045)	(1,524)	(1,480)
FCFF	1,584	2,093	4,878	6,063
Opening Cash	931	1,005	2,053	5,406
Closing Cash	1,005	2,053	5,406	9,989

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jun-20	Accumulate	1,600	1,492

**Price as on recommendation date*

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