

Beat on operational performance continues

Ajanta Pharma reported stellar Q3 beating our estimates on the operating performance. Top-line grew 16% YoY, driven by strong recovery in India as well branded exports segment. US was in line at US\$22mn (flat QoQ, YoY). Despite higher expenses in marketing and promotional post normalization, EBITDA margins was higher at 32.3% (up 370 bps YoY but lower by 600bps QoQ), vs our estimate of 30%. For 9MFY21, company has reported EBITDA margins of 34.7% vs its earlier guidance of 29-30% for FY21E. Higher EBITDA, better working capital management and end of the capex cycle contributed to Rs2.4bn FCF in 1HFY21 (Rs2bn in FY20).

Ajanta has invested Rs16bn in facilities over the last 4-years (all through internal accruals), 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 13%/10% over FY21–23E, along with a margin sustenance at 29-30%.

Factoring the strong 9M performance, we increase our FY21/22 estimates by 16%/9% for FY21/22E respectively. At the CMP, Ajanta is trading at 22x and 19x its FY22E and FY23E EPS, respectively. Post the recent correction, we upgrade our rating to BUY. Volatility in the emerging markets remains a key risk.

Key commentary from the management:

Guidance: Branded business (Africa and Asia) is expected to grow 9-10%, US by 20% in FY21E. EBITDA margins guided at 31-32%. Tax rate guided at 27% for FY21E.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	7,487	6,512	15.0	7,159	4.6
Total Expense	5,071	4,652	9.0	4,417	14.8
EBITDA	2,417	1,860	30.0	2,743	(11.9)
Depreciation	291	236	23.5	283	2.9
EBIT	2,125	1,624	30.9	2,459	(13.6)
Other Income	55	146	(62.6)	49	13.0
Interest	26	16	62.4	15	66.7
EBT	2,155	1,754	22.8	2,492	(13.5)
Tax	388	676	(42.5)	790	(50.8)
RPAT	1,766	1,079	63.7	1,702	3.8
APAT	1,766	1,079	63.7	1,702	3.8
			(bps)		(bps)
Gross Margin (%)	77.5	74.0	344	78.3	(83)
EBITDA Margin (%)	32.3	28.6	372	38.3	(603)
NPM (%)	23.6	16.6	702	23.8	(19)
Tax Rate (%)	18.0	38.5	(2048)	31.7	(1368)
EBIT Margin (%)	28.4	24.9	345	34.4	(596)

CMP	Rs 1,802
Target / Upside	Rs 2,208 / 23%
NIFTY	14,790

Scrip Details

Equity / FV	Rs 175mn / Rs 2
Market Cap	Rs 158bn
	USD 2bn
52-week High/Low	Rs 1,878/ 961
Avg. Volume (no)	1,52,767
Bloom Code	AJP IN

Price Performance	1M	3M	12M
Absolute (%)	9	12	53
Rel to NIFTY (%)	4	(13)	27

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	70.5	70.5	70.3
MF/Banks/FIs	9.7	10.1	9.8
FIs	8.2	7.7	7.9
Public / Others	11.6	11.7	12.0

Valuation (x)

	FY21E	FY22E	FY23E
P/E	23.9	22.7	19.6
EV/EBITDA	16.2	14.6	12.3
ROE (%)	23.1	20.6	20.1
RoACE (%)	21.6	19.3	19.0

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	28,634	32,534	36,731
EBITDA	9,398	10,044	11,515
PAT	6,605	6,972	8,047
EPS (Rs.)	75.3	79.5	91.8

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Exhibit 1: Revenue mix

Rs mn	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)	FY21	FY20	YoY (%)
Domestic Formulations	2,200	1,950	12.8	2,030	8.4	5,970	5,920	0.8	8,069	7,690	4.9
US	1,610	1,590	1.3	1,540	4.5	4,640	3,720	24.7	6,391	5,160	23.9
Africa branded	921	800	15.1	1,120	(17.8)	3,121	2,540	22.9	4,014	3,490	15.0
Africa Tender	770	490	57.1	510	51.0	1,900	2,020	(5.9)	2,489	2,440	2.0
Asia	1,929	1,580	22.1	1,800	7.2	5,339	4,650	14.8	7,268	6,730	8.0
Others	10	20	(50.0)	30	(66.7)	70	70	0.0	88	80	10.0
Gross revenues	7,440	6,430	15.7	7,030	5.8	21,040	18,920	11.2	28,319	25,590	10.7

Source: Company, DART

Key Concall Highlights

- India:** Q3 reported a strong recovery in performance up 13% YoY, 8% QoQ. Revival in the cardiac segment at 18% vs IPM growth of 14%, Pain segment grew 14% YoY vs IPM of -1% coupled with improving offtake of derma products as clinic footfalls increase has driven growth. With Ajanta being the 3rd largest player in its covered ophthalmology market, it expects growth to peak in the medium term for this segment. Further, most marketing and promotional activities have resumed fully. We project India formulations to report growth of 5% (vs management's earlier guidance of -% de-growth) and the same is expected to recover to 11-12% in FY22/23E each.
- US:** Ajanta continue to report steady growth in the US at US\$20mn as Ranitidine recall comes in base. Besides weaker seasonality led to lower offtake of gTamiflu and 3 new launches towards the end of this quarter restricted US growth. The management reiterated its filing guidance of 3-4 (2 filed so far) and 7-8 launches for FY21E (6 launches in 9M). We expect the US business to grow 22% sales CAGR over FY20-22E, led by new launches and a lower base. On a cumulative basis, Ajanta has 36 approvals, and 18 products pending for approval.
- Branded EM:** The EM branded business reported 20% YoY, declined 2% QoQ. Management guided for normalcy in these markets from 4Q onwards as 2nd wave of COVID is resulting into pre-buying. As on FY20, Asia has 350+ products registered, 15 new launches in 7 major markets. Growth in Asia is expected to be driven by steady performance in Philippines, new launches and volume led, whereas Africa market is guided to grow in high single digit over the next 2 years.
- Africa tender:** The tender business grew 57% YoY and 51% QoQ. We expect branded Africa business to report 9% CAGR, while the tender business is expected to grow at a modest 4% over FY20-23E.
- Capex:** Ajanta's Dahej facility, built with a capex of ~Rs4bn, is expected to ramp up from FY22E. 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)	FY20A	FY21E	FY22E	FY23E
Revenue	25,879	28,634	32,534	36,731
Total Expense	19,045	19,236	22,490	25,215
COGS	6,557	6,516	7,754	8,783
Employees Cost	4,856	5,381	6,279	7,094
Other expenses	7,632	7,340	8,457	9,339
EBIDTA	6,833	9,398	10,044	11,515
Depreciation	957	947	1,153	1,202
EBIT	5,876	8,451	8,891	10,313
Interest	119	79	35	31
Other Income	922	434	440	446
Exc. / E.O. items	(39)	0	0	0
EBT	6,640	8,807	9,296	10,729
Tax	1,963	2,202	2,324	2,682
RPAT	4,677	6,605	6,972	8,047
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	4,677	6,605	6,972	8,047

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	175	175	175	175
Minority Interest	0	0	0	0
Reserves & Surplus	25,813	30,971	36,496	43,096
Net Worth	25,989	31,147	36,671	43,271
Total Debt	436	437	437	438
Net Deferred Tax Liability	1,897	1,963	2,041	2,168
Total Capital Employed	28,321	33,546	39,149	45,878

Applications of Funds

Net Block	13,813	14,772	14,619	14,772
CWIP	2,227	2,327	2,627	2,927
Investments	181	221	268	328
Current Assets, Loans & Advances	16,966	20,475	26,308	32,816
Inventories	4,957	4,767	5,144	5,588
Receivables	7,753	7,759	7,852	8,572
Cash and Bank Balances	2,053	5,661	10,921	16,149
Loans and Advances	669	755	857	973
Other Current Assets	863	863	863	863
Less: Current Liabilities & Provisions	4,866	4,249	4,673	4,965
Payables	3,623	3,008	3,350	3,570
Other Current Liabilities	1,242	1,241	1,323	1,395
		<i>sub total</i>		
Net Current Assets	12,100	16,226	21,635	27,851
Total Assets	28,321	33,546	39,149	45,878

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	74.7	77.2	76.2	76.1
EBIDTA Margin	26.4	32.8	30.9	31.4
EBIT Margin	22.7	29.5	27.3	28.1
Tax rate	29.6	25.0	25.0	25.0
Net Profit Margin	18.1	23.1	21.4	21.9
(B) As Percentage of Net Sales (%)				
COGS	25.3	22.8	23.8	23.9
Employee	18.8	18.8	19.3	19.3
Other	29.5	25.6	26.0	25.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	49.3	107.5	254.1	336.1
Inventory days	70	61	58	56
Debtors days	109	99	88	85
Average Cost of Debt	30.7	18.0	8.0	7.0
Payable days	51	38	38	35
Working Capital days	171	207	243	277
FA T/O	1.9	1.9	2.2	2.5
(D) Measures of Investment				
AEPS (Rs)	53.3	75.3	79.5	91.8
CEPS (Rs)	64.2	86.1	92.6	105.5
DPS (Rs)	13.2	16.5	16.5	16.5
Dividend Payout (%)	24.8	21.9	20.8	18.0
BVPS (Rs)	296.3	355.1	418.1	493.4
RoANW (%)	19.3	23.1	20.6	20.1
RoACE (%)	18.6	21.6	19.3	19.0
RoAIC (%)	24.0	31.2	31.7	35.6
(E) Valuation Ratios				
CMP (Rs)	1802	1802	1802	1802
P/E	33.8	23.9	22.7	19.6
Mcap (Rs Mn)	1,58,005	1,58,005	1,58,005	1,58,005
Mcap/ Sales	6.1	5.5	4.9	4.3
EV	1,55,717	1,52,109	1,46,850	1,41,622
EV/Sales	6.0	5.3	4.5	3.9
EV/EBITDA	22.8	16.2	14.6	12.3
P/BV	6.1	5.1	4.3	3.7
Dividend Yield (%)	0.7	0.9	0.9	0.9
(F) Growth Rate (%)				
Revenue	25.9	10.6	13.6	12.9
EBITDA	20.6	37.5	6.9	14.7
EBIT	18.9	43.8	5.2	16.0
PBT	29.1	32.6	5.6	15.4
APAT	20.9	41.2	5.6	15.4
EPS	20.9	41.2	5.6	15.4
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	4,670	7,178	8,088	8,419
CFI	(2,617)	(2,045)	(1,348)	(1,714)
CFF	(1,006)	(1,524)	(1,481)	(1,476)
FCFF	2,053	5,133	6,741	6,705
Opening Cash	1,005	2,053	5,661	10,921
Closing Cash	2,053	5,661	10,921	16,149

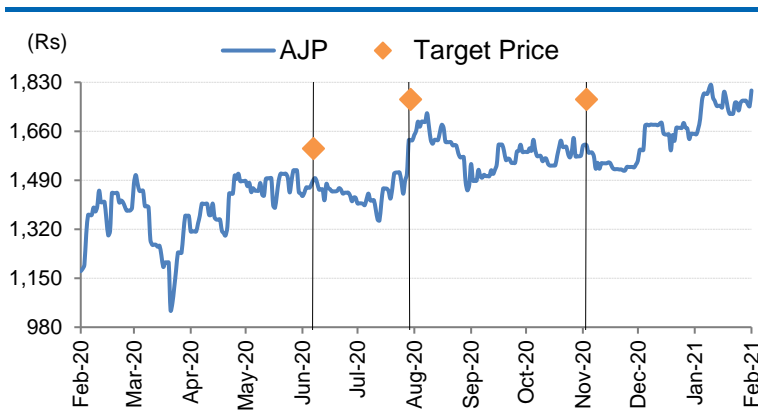
E – Estimates

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	ACCUMULAT E	1,600	1,492
Aug-20	ACCUMULAT E	1,771	1,629
Nov-20	ACCUMULAT E	1,771	1,611

*Price as on recommendation date

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