

Ajanta Pharma

Estimate change



TP change



Rating change


CMP: INR1,746
TP: INR2,030 (+16%)
Buy

Branded Generics drives earnings

Pace of US filings to improve over the medium term

- Ajanta Pharma (AJP) delivered higher than expected earnings, led by superior growth in the Branded Generics segment. This was further supported by a lower tax rate in 3QFY21. While the pace of ANDA filing has moderated in 9MFY21 due to COVID-related disruptions, it would improve with the easing of lockdown restrictions.
- We have raised our FY21E/FY22/FY23E estimates by 7.4%/7.1%/6.5% to factor in: a) recovery in DF/Asia/Africa, b) robust ANDA pipeline, and c) improved capacity utilization. We continue to value AJP at 23x 12 months forward earnings to arrive at our PT of INR2,030.
- We remain positive given its: a) improved outlook in the Branded Generics segment, b) superior growth in US Generics, aided by consistent compliance, c) minimal financial leverage and healthy return ratios. Maintain **Buy**.

Superior product mix led to improved profitability in 3QFY21

- Sales were up 15% to INR7.5b (v/s our estimate of INR7.1b), led by Institutional/Banded Generics/DF segments.
- Institutional anti-Malaria sales were up 58% YoY (10% of sales).
- Branded Generics sales were up 19% YoY to INR2.9b (38% of total sales). DF sales were up 13% YoY at INR2.2b (~29% of total sales). US Generics were almost flat YoY at INR1.6b (22% of total sales).
- Gross Margin (GM) expanded 350bp YoY to 77.5% on a better product mix.
- EBITDA margin expanded at a higher rate of 370bp YoY to 32.3% (v/s our estimate of 30.7%) due to better GMs and lower employee cost (-30bp YoY as a percentage of sales).
- EBITDA grew 30% YoY to INR2.4b (v/s our estimate of INR2.2b).
- R&D expense for 3QFY21 stood at INR400m (5.4% of sales).
- PBT grew 23% YoY to INR2.2b.
- Tax rate during 3QFY21 was 18% against 38.6% in 3QFY20.
- PAT was up 64% YoY to INR1.8b (v/s our estimate of INR1.4b).
- During 9MFY21, revenue/EBITDA/PAT grew 12%/39%/46% YoY to INR21b/INR7b/ INR5b.

Highlights from the management commentary

- The management expects EM Branded segment sales to grow by 9-10% YoY in FY21 and overall EBITDA margin of 31-32%.
- Medical Representative (MR) activities are back to pre-COVID levels in Branded Generics (EM) and up to 90% in the DF segment.
- AJP filed two ANDAs in 9MFY21 due to COVID-related disruptions. It expects to file one more in 4QFY21. The management indicated it will file 10-12 ANDAs over the next 12-15 months. It received nine ANDA approvals in 9MFY21. It launched 6-7 ANDAs in YTD and had 18 ANDAs pending approval at the end of 3QFY21.
- The management has guided for an effective tax rate of 27% in FY21.

	AJP IN
Bloomberg	AJP IN
Equity Shares (m)	88
M.Cap.(INRb)/(USDb)	152.4 / 2.1
52-Week Range (INR)	1844 / 962
1, 6, 12 Rel. Per (%)	2/-26/29
12M Avg Val (INR M)	306

Financials & Valuations (INR b)

Y/E MARCH	2021E	2022E	2023E
Sales	28.2	32.3	37.4
EBITDA	9.3	10.4	11.8
Adj. PAT	6.2	6.9	8.0
EBIT Margin (%)	29.0	28.4	28.1
Cons. Adj. EPS (INR)	69.6	78.1	90.5
EPS Gr. (%)	36.1	12.2	15.9
BV/Sh. (INR)	349.8	408.6	476.8
Ratios			
Net D:E	-0.1	-0.2	-0.2
RoE (%)	21.6	20.6	20.4
RoCE (%)	21.9	20.8	20.6
Payout (%)	19.5	24.7	24.7
Valuations			
P/E (x)	25.1	22.3	19.3
EV/EBITDA (x)	16.1	14.3	12.2
Div. Yield (%)	0.8	1.1	1.3
FCF Yield (%)	1.7	2.6	3.3
EV/Sales (x)	5.3	4.6	3.9

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	70.3	70.5	70.5
DII	12.5	12.2	12.3
FII	7.9	7.7	7.9
Others	9.3	9.6	9.3

FII Includes depository receipts

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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, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- With a recovery in Asia Branded Generics segment, incremental orders for the Institutional business, and new launches/increased market share in existing products in US Generics, we have raised our FY21E/FY22/FY23E estimates by 7.4%/7.1%/6.5%.
- We expect 22%/11% revenue CAGR from US/Branded Generics, with 470bp EBITDA margin expansion driving 21% earnings CAGR over FY20-23E.
- We continue to value AJP at 23x 12-months forward earnings to arrive at a target price of INR2,030.
- We remain positive on AJP on the back of: a) better operating leverage in US Generics, and b) outperformance in Branded Generics segment and better capacity utilization, given that it is done with major expansion program for the next 2-3 years. Reiterate **Buy**.

Consolidated quarterly performance

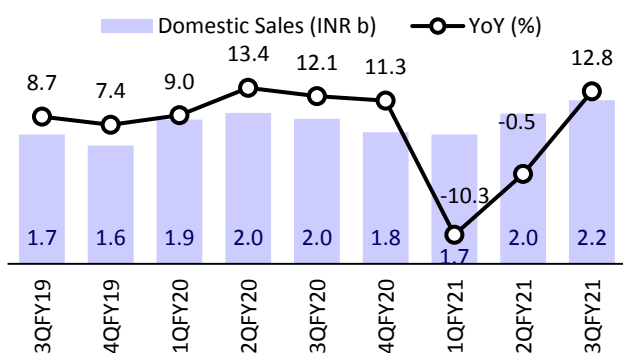
Y/E March	FY20				FY21E				FY20		FY21E	FY21E	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE		
Net Sales	6,119	6,428	6,512	6,820	6,682	7,159	7,487	6,884	25,879	28,212	7,074	5.8	
YoY Change (%)	19.8	18.1	34.2	32.4	9.2	11.4	15.0	0.9	25.9	9.0	8.6		
Total Expenditure	4,436	4,651	4,652	5,156	4,450	4,417	5,071	4,937	18,895	18,874	4,902	3.4	
EBITDA	1,684	1,776	1,860	1,663	2,232	2,743	2,417	1,947	6,983	9,338	2,172		
YoY Change (%)	1.6	6.9	61.3	30.9	32.6	54.4	30.0	17.0	21.6	33.7	16.8		
Margin (%)	27.5	27.6	28.6	24.4	33.4	38.3	32.3	28.3	27.0	33.1	30.7		
Depreciation	228	233	236	260	280	283	291	295	957	1,150	283		
EBIT	1,456	1,543	1,624	1,403	1,952	2,459	2,125	1,652	6,026	8,188	1,889	12.5	
YoY Change (%)	-2.0	3.8	68.0	29.5	34.1	59.3	30.9	17.7	20.0	35.9	16.3		
Interest	18	49	16	36	16	15	26	39	119	96	25		
Other Income	76	132	146	167	131	49	55	48	522	282	25		
PBT before EO expense	1,515	1,626	1,754	1,534	2,067	2,492	2,155	1,660	6,429	8,374	1,889	14.1	
Extra-Ord. expense	0	11	3	-225	0	0	0	0	-211	0	0		
PBT	1,515	1,616	1,751	1,759	2,067	2,492	2,155	1,660	6,640	8,374	1,889	14.1	
Tax	368	452	676	467	589	790	388	451	1,963	2,219	510		
Effective Rate (%)	24.3	28.0	38.6	26.6	28.5	31.7	18.0	27.2	29.6	26.5	27.0		
MI and P/L of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0		
Reported PAT	1,146	1,164	1,076	1,292	1,478	1,702	1,766	1,209	4,677	6,155	1,379	28.1	
Adj. PAT	1,146	1,171	1,078	1,126	1,478	1,702	1,766	1,209	4,522	6,155	1,379	28.1	
YoY Change (%)	8.4	-6.6	48.3	26.7	28.9	45.3	63.9	7.3	15.1	36.1	28.0		
Margin (%)	18.7	18.2	16.5	16.5	22.1	23.8	23.6	17.6	17.5	21.8	19.5		

Key performance indicators (consolidated)

Y/E March	FY20				FY21				FY20	FY21E	3QFY21E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
Domestic Formulations	1,940	2,030	1,950	1,770	1,740	2,020	2,200	1,936	7,690	7,881	2,079
YoY Change (%)	9.0	13.4	12.1	11.3	(10.3)	(0.5)	12.8	(0.2)	11.6	2.5	6.6
Asia	1,260	1,810	1,580	2,090	1,610	1,800	1,978	2,015	6,730	7,403	1,817
YoY Change (%)	(2.3)	34.1	30.6	46.2	27.8	(0.6)	25.2	(3.6)	27.2	10.0	15.0
Africa (branded + Institutional)	1,730	1,540	1,290	1,380	1,700	1,630	1,630	1,249	5,930	6,209	1,484
YoY Change (%)	32.1	13.2	13.2	14.0	(1.7)	5.8	26.4	(27.8)	17.9	4.7	15.0
US	1,020	1,110	1,590	1,430	1,490	1,540	1,610	1,666	5,160	6,306	1,638
YoY Change (%)	67.2	40.5	140.9	85.7	46.1	38.7	1.3	63.4	82.3	22.2	3.0
Cost Break-up											
RM Cost (% of Sales)	23.3	25.9	26.0	26.0	22.9	21.7	22.5	23.7	25.3	22.7	25.0
Staff Cost (% of Sales)	19.3	18.3	18.5	19.0	20.3	18.2	18.2	19.4	18.8	19.0	18.8
R&D Expenses (% of Sales)	6.5	6.2	5.4	7.2	4.6	4.1	5.3	0.0	6.3	5.5	0.0
Other Cost (% of Sales)	29.9	28.2	27.0	30.6	23.4	21.8	27.0	28.6	28.9	25.2	25.5
Gross Margin (%)	76.7	74.1	74.0	74.0	77.1	78.3	77.5	76.3	74.7	77.3	75.0
EBITDA Margin (%)	27.5	27.6	28.6	24.4	33.4	38.3	32.3	28.3	27.0	33.1	30.7
EBIT Margin (%)	23.8	24.0	24.9	20.6	29.2	34.4	28.4	24.0	23.3	29.0	26.7

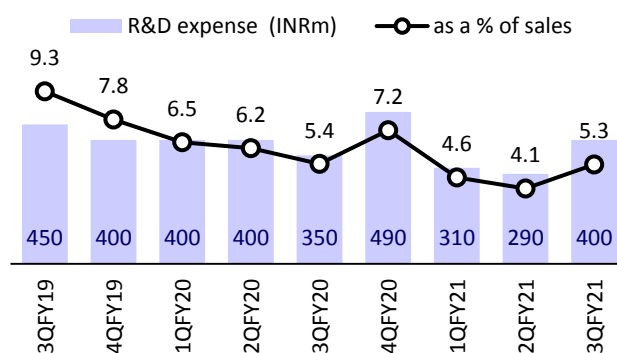
Key exhibits

Exhibit 1: DF sales growth on an uptrend



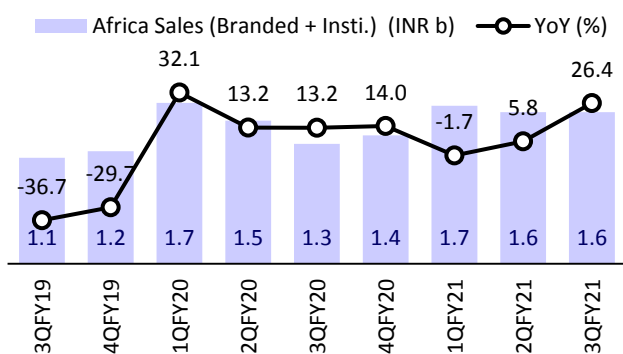
Source: MOFSL, Company

Exhibit 2: R&D spend picks up on a QoQ basis



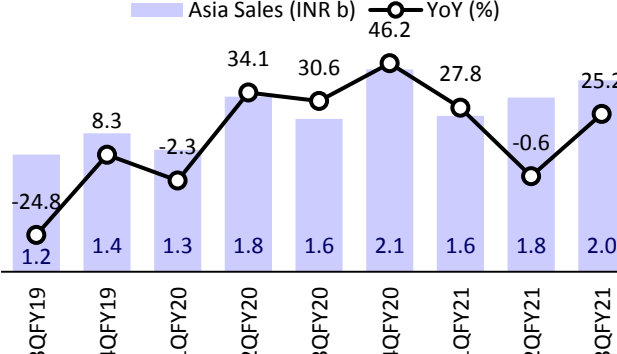
Source: MOFSL, Company

Exhibit 3: Africa sales (Branded + Institutional) up 26% YoY



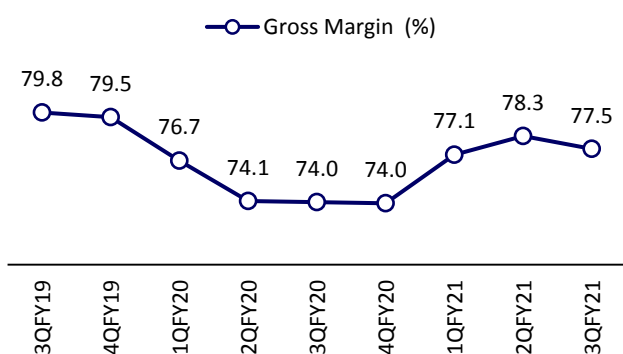
Source: MOFSL, Company

Exhibit 4: Asia sales up 25% YoY in 3QFY21



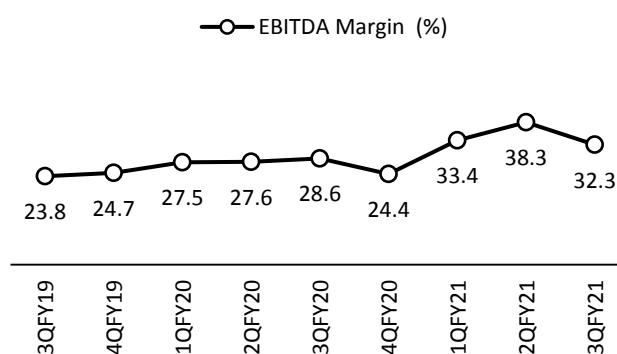
Source: MOFSL, Company

Exhibit 5: Gross margin expands 350bp YoY



Source: MOFSL, Company

Exhibit 6: EBITDA margin was better at 370bp YoY



Source: MOFSL, Company

Valuations and view

Branded Formulations – Back on the growth path

- During 9MFY21, DF sales were almost flat YoY at INR5.9b. With the easing of COVID-related disruptions, AJP delivered 13% YoY growth in 3QFY21. Therapy-wise, Pain Management continued to perform strongly. As per IQVIA on a MAT Dec'20 basis, the company outperformed the IPM by 100bp and recorded 5% growth YoY, led by 1,500bp outperformance in Pain Management with 14% YoY growth. Cardiology and Dermatology witnessed healthy recovery over the recent past.
- With growth recovering in some of the underperforming therapies, we expect India sales to clock 11% CAGR over FY20-23E, led by: a) continued recovery from the impact of COVID-19, b) new launches in the high growth Specialty segment, including first to market products, and c) market share gain for existing products.
- In the Branded Formulation segment, Asia/Africa business grew 16% each YoY to INR5.4b/INR2.9b in 9MFY21.
- A customized portfolio of over 200 products in these markets and on-ground presence in each of these markets gives them a competitive advantage over peers and thus an ability to outperform the industry. We expect 11%/10% sales CAGR in Asia/Africa to INR9.3b/IN4.6b over FY20-23E.

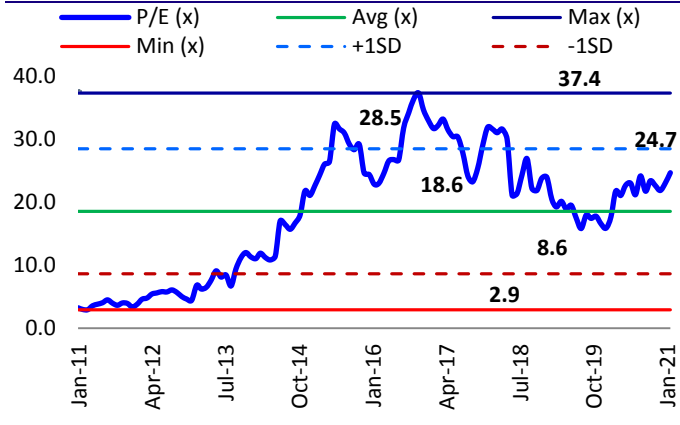
Sales momentum to sustain in the US generics business

- AJP's US business has grown to USD70m in FY20 from USD2.7m in FY16. During 9MFY21, the US segment has showcased resilient performance with 25% YoY growth to INR4.6b (USD63m).
- As of Dec'20, AJP has 42 final approvals (of which 36 products have been launched) and 18 ANDAs pending approval.
- The pace of filing has reduced to two in 9MFY21 due to COVID-related slowdown. We expect it to pick up over the medium term with 10-12 filings over the next 12-15 months.
- Considering new launches and market share gain in existing products, we expect AJP to garner 22% CAGR in US sales over FY20-23E to INR9.3b.

Expect 21% PAT CAGR over FY20-23E

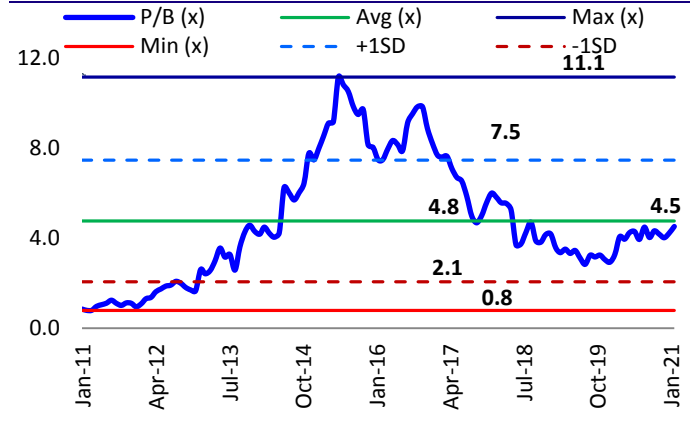
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- We continue to value AJP at 23x 12-months forward earnings to arrive at a target price of INR2,030.
- We remain positive on AJP on the back of: a) better operating leverage in US Generics, and b) outperformance in Branded Generics segment and better capacity utilization, given that it is done with major expansion program for the next 2-3 years. Reiterate **Buy**.

Exhibit 7: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 8: P/B chart



Source: MOFSL, Company, Bloomberg

Financials and valuations

Consolidated Income Statement

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Income from Operations	12,160	14,852	17,494	20,016	21,309	20,554	25,879	28,212	32,267	37,358
Change (%)	29.8	22.1	17.8	14.4	6.5	-3.5	25.9	9.0	14.4	15.8
Total Expenditure	8,472	9,800	11,623	13,126	14,725	14,809	18,895	18,874	21,877	25,516
% of Sales	69.7	66.0	66.4	65.6	69.1	72.1	73.0	66.9	67.8	68.3
EBITDA	3,688	5,052	5,871	6,890	6,584	5,744	6,983	9,338	10,390	11,843
Margin (%)	30.3	34.0	33.6	34.4	30.9	27.9	27.0	33.1	32.2	31.7
Depreciation	439	516	444	612	596	721	957	1,150	1,237	1,360
EBIT	3,249	4,536	5,426	6,278	5,988	5,024	6,026	8,188	9,153	10,483
Int. and Finance Charges	87	59	49	35	4	12	119	96	81	74
Other Income	137	168	212	239	242	211	522	282	323	336
PBT bef. EO Exp.	3,299	4,645	5,589	6,482	6,226	5,223	6,429	8,374	9,395	10,745
EO Items	0	-85	0	0	0	80	211	0	0	0
PBT after EO Exp.	3,299	4,560	5,589	6,482	6,226	5,143	6,640	8,374	9,395	10,745
Total Tax	960	1,462	1,433	1,413	1,539	1,273	1,963	2,219	2,490	2,740
Tax Rate (%)	29.1	32.0	25.6	21.8	24.7	24.8	29.6	26.5	26.5	25.5
Reported PAT	2,339	3,099	4,156	5,068	4,686	3,870	4,677	6,155	6,905	8,005
Adjusted PAT	2,339	3,156	4,156	5,068	4,686	3,930	4,522	6,155	6,905	8,005
Change (%)	108.6	34.9	31.7	21.9	-7.5	-16.1	15.1	36.1	12.2	15.9
Margin (%)	19.2	21.3	23.8	25.3	22.0	19.1	17.5	21.8	21.4	21.4

Consolidated Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	177	177	177	177	175	175	175	175	175	175
Total Reserves	5,756	8,234	11,732	15,500	20,237	22,277	25,813	30,768	35,968	41,995
Net Worth	5,933	8,411	11,909	15,677	20,412	22,452	25,989	30,943	36,143	42,171
Total Loans	1,305	724	814	10	11	7	7	7	7	7
Deferred Tax Liabilities	230	152	107	29	244	271	558	558	558	558
Capital Employed	7,468	9,286	12,829	15,716	20,667	22,730	26,553	31,508	36,707	42,735
Gross Block	4,903	5,499	7,157	8,949	14,172	16,152	20,045	22,550	25,021	27,275
Less: Accum. Deprn.	2,109	2,618	2,650	3,058	3,646	4,366	5,324	6,474	7,711	9,070
Net Fixed Assets	2,794	2,881	4,507	5,892	10,527	11,786	14,721	16,076	17,310	18,205
Capital WIP	936	1,702	2,398	3,393	613	2,613	1,319	1,714	1,443	1,389
Total Investments	635	595	860	1,909	2,044	888	476	476	476	476
Curr. Assets, Loans and Adv.	5,130	6,286	7,028	7,039	11,077	11,357	16,417	18,395	23,415	29,567
Inventory	1,554	1,590	2,046	2,110	3,506	4,357	4,957	5,947	7,073	8,249
Account Receivables	2,022	2,588	3,724	3,232	4,920	4,595	7,753	6,956	8,133	9,416
Cash and Bank Balance	604	1,368	434	713	932	1,005	2,053	3,570	6,011	9,357
Loans and Advances	949	740	825	985	1,719	1,400	1,655	1,922	2,198	2,544
Curr. Liability and Prov.	2,026	2,177	1,965	2,516	3,592	3,913	6,379	5,152	5,936	6,901
Account Payables	1,245	1,298	1,650	1,781	2,852	2,251	3,623	2,870	3,326	3,880
Other Current Liabilities	325	188	176	562	321	1,278	2,230	1,755	2,007	2,323
Provisions	455	691	139	173	419	384	526	527	603	698
Net Current Assets	3,104	4,108	5,063	4,524	7,485	7,444	10,038	13,243	17,479	22,666
Appl. of Funds	7,468	9,286	12,829	15,716	20,667	22,730	26,553	31,508	36,707	42,735

Financials and valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)										
EPS	26.4	35.7	47.0	57.3	53.0	44.4	51.1	69.6	78.1	90.5
Cash EPS	31.4	41.5	52.0	64.2	59.7	52.6	61.9	82.6	92.1	105.9
BV/Share	67.1	95.1	134.6	177.2	230.8	253.8	293.8	349.8	408.6	476.8
DPS	4.0	6.0	13.9	12.9	0.0	9.0	8.6	13.6	19.3	22.4
Payout (%)	17.6	18.9	29.6	22.6	0.0	20.5	16.3	19.5	24.7	24.7
Valuation (x)										
P/E	66.0	48.9	37.1	30.4	32.9	39.3	34.1	25.1	22.3	19.3
Cash P/E	55.5	42.0	33.5	27.2	29.2	33.2	28.2	21.1	18.9	16.5
P/BV	26.0	18.3	13.0	9.8	7.6	6.9	5.9	5.0	4.3	3.7
EV/Sales	12.7	10.3	8.8	7.7	7.2	7.5	5.9	5.3	4.6	3.9
EV/EBITDA	42.0	30.4	26.3	22.3	23.3	26.7	21.8	16.1	14.3	12.2
Dividend Yield (%)	0.2	0.3	0.8	0.7	0.0	0.5	0.5	0.8	1.1	1.3
FCF per share	2.8	19.9	3.2	34.9	4.2	-2.7	22.3	28.6	44.2	57.2
Return Ratios (%)										
RoE	47.4	44.0	40.9	36.7	26.0	18.3	18.7	21.6	20.6	20.4
RoCE	38.7	39.0	38.4	35.9	26.0	18.4	19.0	21.9	20.8	20.6
ROIC	45.9	56.5	54.7	52.1	33.7	21.4	20.7	24.8	24.7	25.9
Working Capital Ratios										
Asset Turnover (x)	1.6	1.6	1.4	1.3	1.0	0.9	1.0	0.9	0.9	0.9
Inventory (Days)	47	39	43	38	60	77	66	77	80	81
Debtor (Days)	61	64	78	59	84	82	109	90	92	92
Creditor (Days)	37	32	34	32	49	40	51	37	38	38
Leverage Ratio (x)										
Net Debt/Equity	0.0	-0.1	0.0	-0.2	-0.1	-0.1	-0.1	-0.13	-0.18	-0.2

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
OP/(Loss) before Tax	3,299	4,560	5,589	6,482	6,226	5,303	6,218	8,374	9,395	10,745
Depreciation	439	516	444	612	596	721	957	1,150	1,237	1,360
Interest and Finance Charges	87	59	49	35	-238	-199	-403	-186	-241	-262
Direct Taxes Paid	-937	-1,461	-1,615	-1,428	-1,539	-1,273	-1,963	-2,219	-2,490	-2,740
(Inc.)/Dec. in WC	-745	-817	-1,243	285	-2,742	115	-1,548	-1,688	-1,794	-1,841
CF from Operations	2,142	2,858	3,224	5,986	2,302	4,667	3,262	5,431	6,106	7,261
Others	-18	-64	37	106	509	-922	1,306	0	0	0
CF from Operations incl. EO	2,124	2,794	3,261	6,092	2,811	3,745	4,568	5,431	6,106	7,261
(Inc.)/Dec. in FA	-1,878	-1,036	-2,975	-3,002	-2,444	-3,979	-2,599	-2,900	-2,200	-2,200
Free Cash Flow	246	1,759	287	3,090	367	-234	1,969	2,531	3,906	5,061
(Pur.)/Sale of Investments	0	-45	-36	-914	-135	1,155	413	0	0	0
Others	0	-503	920	85	17	596	-58	282	323	336
CF from Investments	-1,878	-1,583	-2,091	-3,831	-2,562	-2,228	-2,244	-2,618	-1,877	-1,864
Inc./Dec. in Debt	57	-581	218	-746	1	-5	1	0	0	0
Interest Paid	-87	-60	-49	-35	-4	-12	-119	-96	-81	-74
Dividend Paid	-171	-411	-1,342	-1,287	b	-792	-762	-1,200	-1,706	-1,977
Others	0	0	0	50	7	-667	-405	35	0	0
CF from Fin. Activity	-201	-1,052	-1,173	-2,017	2	-1,475	-1,286	-1,261	-1,787	-2,051
Inc./Dec. in Cash	45	159	-3	244	251	42	1,037	1,552	2,442	3,346
Opening Balance	213	258	417	414	658	906	952	1,989	3,541	5,983
Closing Balance	258	417	414	658	909	949	1,989	3,541	5,983	9,329
Term Deposit with Banks	216	909	20	54	26	54	29	29	29	29
Total Cash and Cash Equity	604	1,367	433	713	932	1,005	2,053	3,570	6,011	9,357

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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