

May 1, 2021

Strong domestic growth; margins upbeat

Q4 revenues grew 11.0% YoY to ₹ 757 crore. Domestic sales grew 23.2% to ₹ 218 crore whereas emerging markets (branded) de-grew 10.5% YoY to ₹ 273 crore amid logistical challenges in Asia and Africa. US sales grew 21% to ₹ 173 crore. Africa tender business grew 86% YoY to ₹ 80 crore. EBITDA margins improved significantly to 34.3% (vs. 22.2% in Q4FY20) amid better gross margins and lower other expenditure. EBITDA grew 71.4% YoY to ₹ 259 crore. PAT grew 21% YoY to ₹ 159 crore. Delta vis-à-vis EBITDA was mainly due to lower other income and higher tax rate.

Domestic formulations - Focus on new launches, few therapies

Domestic formulations comprise 29% of FY21 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 300+ actively marketed brands, ~60% were first time launches. However, a slowdown in dermatology segment due to increased competition in existing products and slow offtake in new launches are some near term challenges. We expect domestic formulations to grow at ~15% CAGR in FY21-23E to ₹ 1077 crore to be driven by existing products & new launches.

Exports traction from EMs; US generics shaping up

Ajanta derives export revenues (71% of revenues) from emerging markets like Africa (Franco Africa), Asia and the US. In emerging markets, as opposed to common practice of forging alliances with regional pharma players, its front-end marketing team interacts directly with doctors. The US foray is also getting momentum. Notwithstanding the lumpiness in African tender business, overall export formulations CAGR (FY16-21) has been steady at ~12%. We expect export formulations to grow at 12% CAGR FY21-23E to ₹ 2561 crore driven by Asia, African branded business, strong growth in US.

Valuation & Outlook

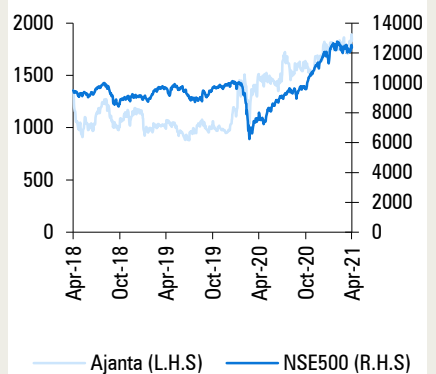
Q4 revenue was mostly in-line with expectations, albeit skewed. Profitability was better-than-expected due to lower-than-expected other expenses leading to a strong margin performance. The management expects to continue to outperform the market in the Branded Generic space, in domestic and export markets both. We expect the US to maintain its 20% growth momentum, going ahead. On the margin front, we expect Ajanta's performance to remain stable at +30% with the current run-rate of other expenses (the new base) to be moderated by slightly higher spend on R&D and increased MR activity. Overall, calculated focus, healthy margins, return profile and lighter balance sheet are some key differentiators for Ajanta. The company remains a play on global branded generics space. We maintain **BUY** rating and arrive at our target price of ₹ 2250 (unchanged) based on 24x FY23E EPS of ~₹ 93.8.



Particulars

Particular	Amount
Market Capitalisation	₹ 15937 crore
Debt (FY21)	₹ 4 crore
Cash (FY21)	₹ 210 crore
EV	₹ 15731 crore
52 week H/L	1932/1330
Equity capital	₹ 17.5 crore
Face value	₹ 2

Price performance



Key risks to our call

- USFDA regulatory challenges
- Volatility in tender business

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Key Financial Summary

₹ Crore	FY20	FY21	FY22E	FY23E	CAGR FY21-23E (%)
Revenues	2587.9	2889.7	3300.8	3709.8	13.3
EBITDA	683.3	998.6	1039.8	1205.7	9.9
EBITDA margins (%)	26.4	34.6	31.5	32.5	
Net Profit	467.7	653.9	694.0	828.4	12.6
EPS (₹)	53.4	74.0	78.6	93.8	
PE (x)	34.8	24.9	23.4	19.6	
EV to EBITDA (x)	23.5	15.9	15.1	12.8	
RoCE (%)	24.7	29.0	25.7	25.7	
ROE (%)	18.1	21.8	19.7	20.0	

Source: ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	Comments
Revenue	756.8	682.0	748.7	11.0	1.1	YoY growth mainly due to strong growth in domestic branded, tender business and US
Raw Material Expenses	167.9	177.6	168.7	-5.5	-0.5	
gross margins (%)	77.8	74.0	77.5	386 bps	34 bps	YoY Improvement mainly due to change in product mix
Employee Expenses	145.8	129.5	136.2	12.6	7.1	
Other Expenditure	183.8	223.5	202.2	-17.8	-9.1	Declined amid saving in other expenditure amid Covid
Total Operating Expenditure	497.4	530.6	507.1	-6.3	-1.9	
EBITDA	259.4	151.3	241.7	71.4	7.3	
EBITDA (%)	34.3	22.2	32.3	1208 bps	200 bps	YoY improvement mainly due to better gross margins and lower other expenditure
Interest	2.6	3.6	2.6	-29.3	0.4	
Depreciation	30.6	26.0	29.1	17.5	5.0	
Other income	2.5	56.7	5.5	-95.5	-53.8	
PBT before EO	228.8	178.4	215.5	28.3	6.2	
Less: Exceptional Items	0.0	2.5	0.0	0.0	0.0	
PBT	228.8	175.9	215.5	30.1	6.2	
Tax	69.5	46.7	38.8	48.9	79.0	
MI & Share of loss/ (gain) ass	0.0	0.0	0.0	0.0	0.0	
Adj. Net Profit	159.3	131.7	176.6	21.0	-9.8	Delta vis-à-vis EBITDA was mainly due to higher tax and depreciation
Key Metrics						
India	218.0	177.0	220.0	23.2	-0.9	YoY growth was on the back of revival in almost all key segments
Total Export	526.0	491.0	524.0	7.1	0.4	
Emerging Branded Markets	273.0	305.0	286.0	-10.5	-4.5	Declined amid Covid related disruption mainly led by logistic related issues
Africa - Tender	80.0	43.0	77.0	86.0	3.9	Sharp increase amid execution of additional orders during the quarter
US	173.0	143.0	161.0	21.0	7.5	

Source: ICICI Direct Research

Exhibit 2: Change in Estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Revenue	3,261.8	3,300.8	1.2	3,682.5	3,709.8	0.7
EBITDA	1,011.2	1,039.8	2.8	1,178.4	1,205.7	2.3
EBITDA Margin (%)	31.0	31.5	50 bps	32.0	32.5	50 bps
PAT	682.6	694.0	1.7	828.0	828.4	0.1
EPS (₹)	77.3	78.6	1.7	93.7	93.8	0.1

Source: ICICI Direct Research

Exhibit 3: Change in Estimates

(₹ crore)	Current				Earlier	
	FY20	FY21	FY22E	FY23E	FY22E	FY23E
Domestic	769.0	814.0	956.5	1,076.5	929.9	1,046.6
Africa	594.0	673.0	711.4	759.8	687.5	734.9
Asia	674.0	713.0	794.9	874.4	824.9	923.9
US	515.0	637.0	762.7	915.3	744.9	893.9

Source: ICICI Direct Research

Conference call highlights

Domestic

- MR strength: 3000; 300+ products
- WFH active but strong customer connect maintained
- Total 21 new launches in FY21; five were launched for the first time in the country (two in cardio, two in ophthal and the fifth in pain)
- Domestic institutional sales for Q4 - ₹ 21 crore
- MR productivity: Near the best in the market
 - Cardio – Four teams, two of which are at ₹ 5-6 PCPM
 - Ophthal – Highest PCPM
 - Diabetology was impacted in the year, to grow ahead
- Couple of good launches lined up, expect to be in the top two in those launches
- Some first to market opportunities may pan out over the next four years
- Outsourcing has come down significantly due to transfer to Guwahati plant for most domestic formulation dosage forms
- As per IQVIA MAT March 2021,
 - Bifurcation: 43:29:21:7 – Cardio, Ophthal, Derma and Pain respectively
 - 14% in cardiology (market grew by 13%),
 - 1% in ophthalmology (market de-grew by 1%),
 - 8% in dermatology (market grew by 6%) and
 - 18% in pain management (market de-grew by 1%)

US

- Cumulative ANDAs: 42 approvals (including tentative); 36 commercialised (three in Q4FY21); 15 under approval
- In FY21 ANDAs: 12 approvals (including tentative); two filed
- Filing target: 10-12 per annum (come close to in FY22)

EM - Branded Generics

- 1300+ products registered; 200+ customised
- Asia and Africa saw some impact due to logistical challenges, more on Asia (down 16% for Q4)
 - Asia Q4 sales: ₹ 176 crore; Africa: ₹ 97 crore

Africa Tender

- To at least maintain similar level of sales in FY22

Others

- R&D FY21 – 5% of sales: ₹ 139 crore
 - R&D was impacted due to pandemic, to be ~6% in FY22
- Other expense in the quarter is the new base but will go up over the year
 - Other expenses saving in H1 due to lockdown not sustainable
- Capex
 - FY21: ₹ 155 crore (₹ 30 crore: office expansion); net asset turnover for FY21 was ~1.75
 - FY22E: ₹ 250 crore – maintenance capex + corporate office extensions (₹ 60-80 crore)
 - Sufficient capacity available
 - Post FY22E – to be ~₹ 150-200 crore
- Receivables improved due to better collection in the US, can be maintained
- Gross margins to be 75%+- 1/2%
- ABCD Technologies
 - To streamline logistics (sales return, stock visibility, etc.)
 - For an efficient supply chain

Exhibit 4: Trends in quarterly financials

(₹ crore)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)
Total Operating Income	530.3	511.0	544.1	485.1	515.2	611.9	642.8	651.2	682.0	668.2	715.9	748.7	756.8	11.0	1.1
Raw Material Expenses	93.8	84.1	95.9	97.9	105.5	142.5	166.5	169.1	177.6	153.1	155.4	168.7	167.9	-5.5	-0.5
% of Revenue	17.7	16.5	17.6	20.2	20.5	23.3	25.9	26.0	26.0	22.9	21.7	22.5	22.2	-386 bps	-34 bps
Gross Profit	436.6	426.9	448.2	387.2	409.6	469.4	476.3	482.1	504.4	515.1	560.6	580.1	588.9	16.8	1.5
GPM (%)	82.3	83.5	82.4	79.8	79.5	76.7	74.1	74.0	74.0	77.1	78.3	77.5	77.8	386 bps	34 bps
Employee Expenses	105.2	104.8	105.8	112.8	107.4	118.3	117.4	120.4	129.5	135.8	130.5	136.2	145.8	12.6	7.1
% of Revenue	19.8	20.5	19.4	23.2	20.8	19.3	18.3	18.5	19.0	20.3	18.2	18.2	19.3	27 bps	108 bps
Other Expenditure	191.9	164.6	176.2	167.1	175.2	182.7	181.2	175.8	223.5	156.1	155.8	202.2	183.8	-17.8	-9.1
% of Revenue	36.2	32.2	32.4	34.5	34.0	29.9	28.2	27.0	32.8	23.4	21.8	27.0	24.3	-850 bps	-273 bps
Total Expenditure	390.8	353.5	377.9	377.8	388.1	443.6	465.1	465.2	530.6	445.0	441.7	507.1	497.4	-6.3	-1.9
% of Revenue	73.7	69.2	69.5	77.9	75.3	72.5	72.4	71.4	77.8	66.6	61.7	67.7	65.7	-1208 bps	-200 bps
EBITDA	139.5	157.5	166.2	107.3	127.1	168.4	177.6	186.0	151.3	223.2	274.3	241.7	259.4	71.4	7.3
EBITDA Margin (%)	26.3	30.8	30.5	22.1	24.7	27.5	27.6	28.6	22.2	33.4	38.3	32.3	34.3	1208 bps	200 bps
Other Income	5.2	8.1	15.2	4.4	1.6	7.6	13.2	14.6	56.7	13.1	4.9	5.5	2.5	-95.5	-53.8
Interest	0.1	0.2	0.1	0.1	0.8	1.8	4.9	1.6	3.6	1.6	1.5	2.6	2.6	-29.3	0.4
Depreciation	16.6	17.2	17.5	18.7	18.8	22.8	23.3	23.6	26.0	28.0	28.3	29.1	30.6	17.5	5.0
PBT	128.0	148.3	163.8	93.0	109.2	151.5	162.6	175.4	178.4	206.7	249.2	215.5	228.8	28.3	6.2
Total Tax	33.5	42.5	38.5	26.1	20.3	36.8	45.2	67.6	46.7	58.9	79.0	38.8	69.5	48.9	79.0
Tax rate (%)	26.2	28.7	23.5	28.0	18.6	24.3	27.8	38.5	26.2	28.5	31.7	18.0	30.4	421 bps	1236 bps
PAT	94.5	105.8	125.4	66.9	88.9	114.6	116.4	107.6	129.2	147.8	170.2	176.6	159.3	23.3	-9.8
PAT Margin (%)	17.8	20.7	23.0	13.8	17.3	18.7	18.1	16.5	18.9	22.1	23.8	23.6	21.0	210 bps	-255 bps

Source: ICICI Direct Research

Company Background

Established in 1973, Ajanta Pharma (Ajanta) is mainly into exports as well as domestic formulations. As of FY21, the exports: domestic formulation ratio was at 71:31. The company owns eight manufacturing facilities- four in Aurangabad (Maharashtra), one each in Dahej (Gujarat), Guwahati (Assam), the newly operationalised Pithampur (Madhya Pradesh) and Mauritius. Of these 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 11%, 11% and 10%, respectively, in FY16-21. Ajanta Pharma (Ajanta) had come out with a maiden IPO in March 2000. It raised ₹ 68 crore, which was earmarked for capacity expansion and debt repayment.

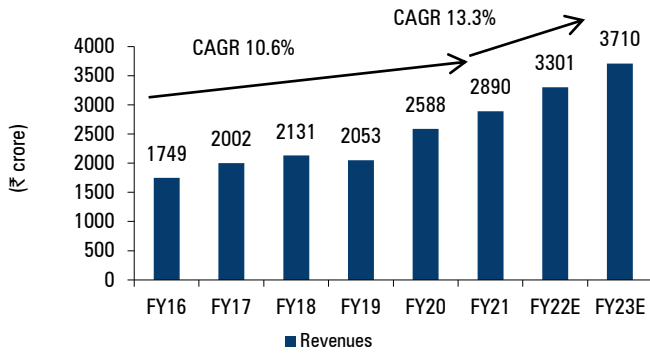
Domestic formulations constitute 29% of the total consolidated turnover (FY21). This segment has been further segregated into two sub-segments- 1) branded formulations and 2) institutional business. Initially, the company was catering to the institutional business. The institutional sub-segment accounts for ~8% 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 92% of domestic formulations.

The company focuses on only a few so called specialty therapies – ophthalmology, dermatology and cardiology. Together, these therapies constitute ~92% of domestic branded formulations. Ajanta invested heavily in the technology and field force, especially in the first five years after the changed focus. The focus was also to offer novel delivery system. From ₹ 17 crore in FY05, formulations have grown to ~₹ 733 crore in FY21. Till date, the company has launched 300+ products out of which 60% are first time launches. The current MR strength is 3000+. Overall, domestic branded formulations have grown at ~8% CAGR in FY16-21 to ~₹ 733 crore. The company has only one product under the National List of Essential Medicines (NLEM) 2011 list.

Export formulations constitute 71% of total revenue (FY21). 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.

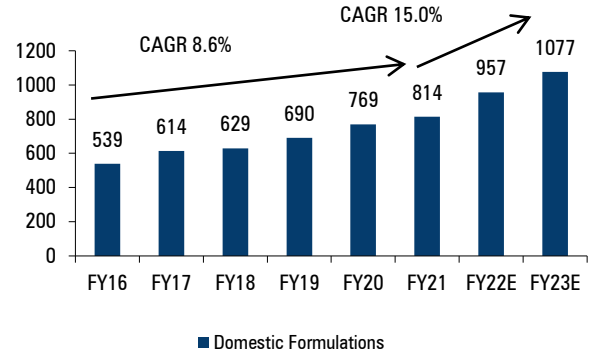
Asia accounts for ~35% of export formulations followed by Africa and the US with 33% and 31% contribution to exports, respectively. The company also participates in anti-malarial tenders in Africa. It operates through 710+ MRs in these emerging markets. APL owns a portfolio of more than 1300 registered 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 the US where it has filed 57 ANDAs and received approvals for 42.

Exhibit 5: Revenues to grow at ~13% CAGR over FY21-23E



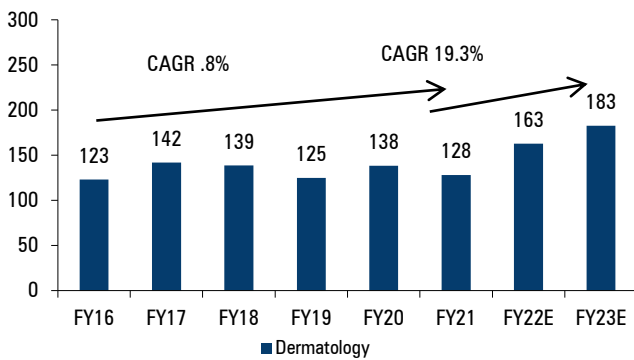
Source: ICICI Direct Research, Company

Exhibit 6: Domestic formulations (₹ crore)



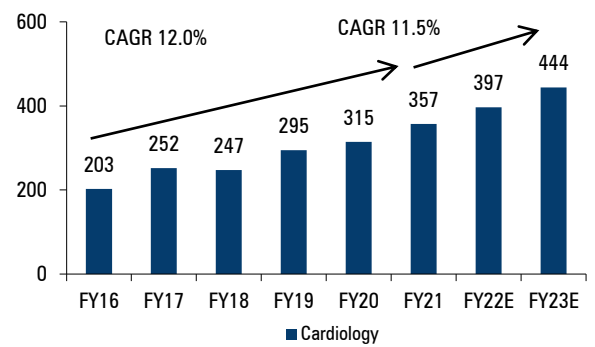
Source: ICICI Direct Research, Company

Exhibit 7: Domestic dermatology segment (₹ crore)



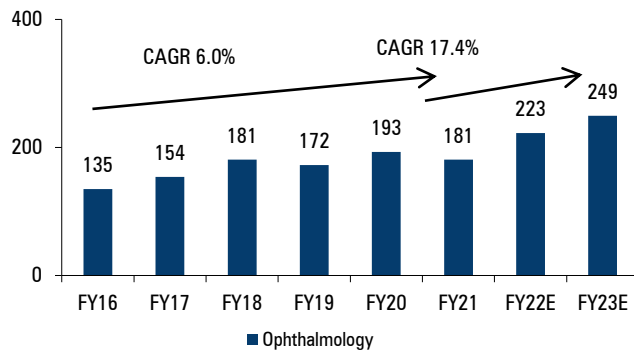
Source: ICICI Direct Research, Company

Exhibit 8: Domestic cardiology segment (₹ crore)



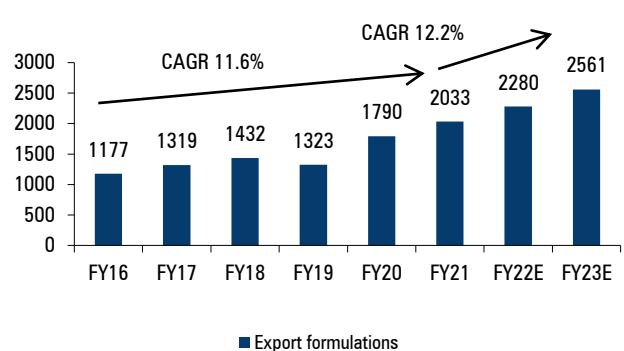
Source: ICICI Direct Research, Company

Exhibit 9: Domestic ophthalmology segment (₹ crore)



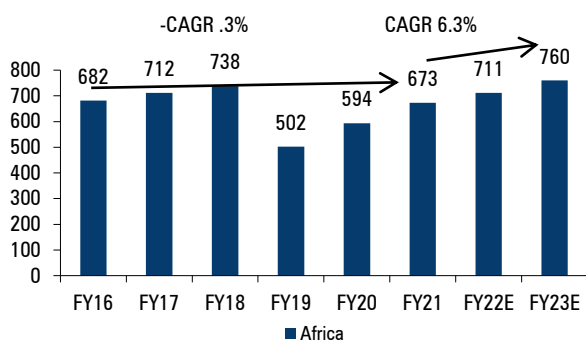
Source: ICICI Direct Research, Company

Exhibit 10: Export formulations (₹ crore)



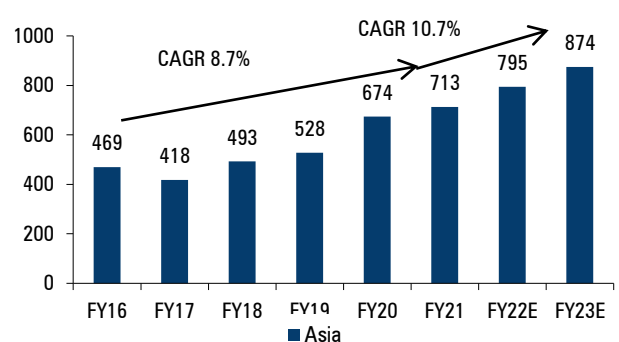
Source: ICICI Direct Research, Company

Exhibit 11: Africa revenues (₹ crore)



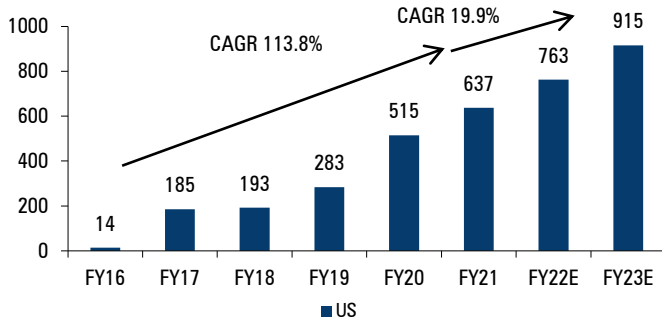
Source: ICICI Direct Research, Company

Exhibit 12: Asia revenues (₹ crore)



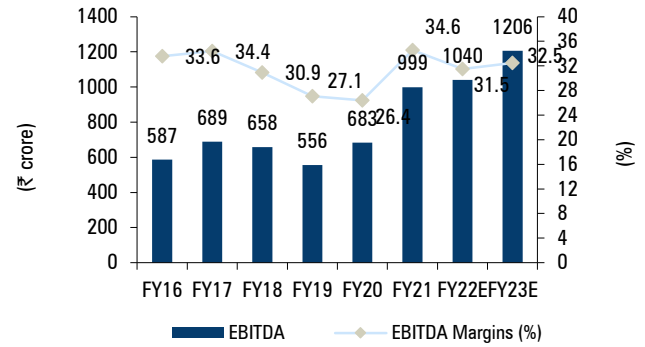
Source: ICICI Direct Research, Company

Exhibit 13: US revenues (₹ crore)



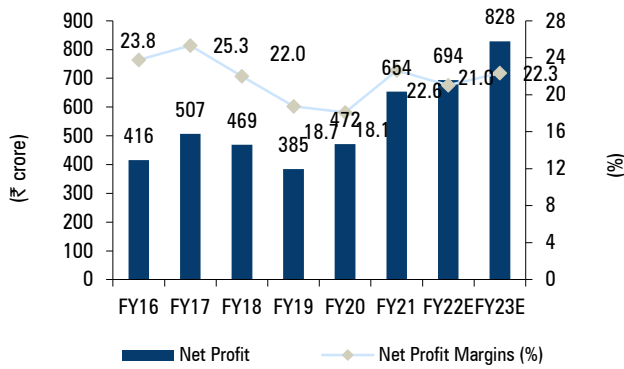
Source: ICICI Direct Research, Company

Exhibit 14: EBITDA & EBITDA margins trend



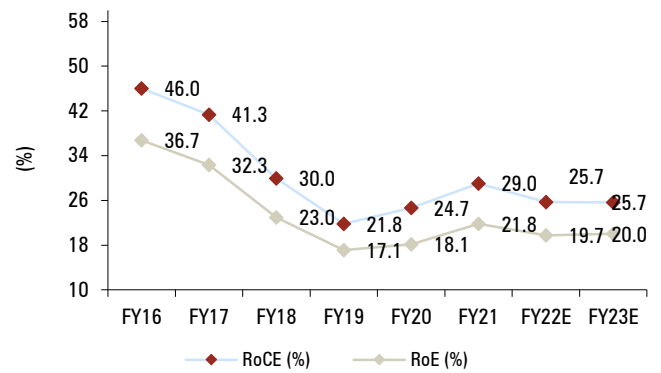
Source: ICICI Direct Research, Company

Exhibit 15: PAT & PAT margins trend



Source: ICICI Direct Research, Company

Exhibit 16: Return ratios



Source: ICICI Direct Research, Company

Exhibit 17: Valuation

	Revenues (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoE (%)	RoCE (%)
FY20	2588	26.1	53.4	21.6	34.8	23.5	18.1	24.7
FY21	2890	11.7	74.0	39.8	24.9	15.9	21.8	29.0
FY22E	3301	14.2	78.6	6.1	23.4	15.1	19.7	25.7
FY23E	3710	12.4	93.8	19.4	19.6	12.8	20.0	25.7

Source: ICICI Direct Research

Exhibit 18: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	70.5	70.5	70.5	70.3	70.3
Others	29.5	29.5	29.5	29.7	29.7

Source: ICICI Direct Research, Company

Financial Summary

Exhibit 19: Profit & Loss (₹ crore)

(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	2,587.9	2,889.7	3,300.8	3,709.8
Growth (%)	26.1	11.7	14.2	12.4
Raw Material Expenses	655.7	645.1	775.7	853.3
Gross Profit	1,932.2	2,244.6	2,525.1	2,856.5
Gross Profit Margins (%)	74.7	77.7	76.5	77.0
Employee Expenses	485.6	548.3	610.6	667.8
Other Expenditure	763.2	697.8	874.7	983.1
Total Operating Expenditure	1,904.5	1,891.1	2,261.0	2,504.1
EBITDA	683.3	998.6	1,039.8	1,205.7
Growth (%)	23.0	46.1	4.1	16.0
Interest	11.9	8.3	8.3	8.3
Depreciation	95.7	116.1	139.5	161.2
Other Income	92.2	26.0	39.6	53.8
PBT before Exceptional Item	667.9	900.2	931.6	1,090.0
Less: Exceptional Items	3.9	0.0	0.0	0.0
PBT after Exceptional Items	664.0	900.2	931.6	1,090.0
Total Tax	196.3	246.3	237.6	261.6
PAT before MI	467.7	653.9	694.0	828.4
PAT	467.7	653.9	694.0	828.4
Growth (%)	21.6	39.8	6.1	19.4
EPS (Adjusted)	53.4	74.0	78.6	93.8

Source: ICICI Direct Research

Exhibit 20: Cash Flow Statement (₹ crore)

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	509.1	669.8	694.0	828.4
Add: Depreciation & Amortization	95.7	116.1	139.5	161.2
Net Increase in Current Assets	-316.4	-268.5	-208.4	-316.4
Net Increase in Current Liabilities	193.2	59.7	-6.4	50.4
Others	-24.9	-0.8	8.3	8.3
CF from Operating activities	456.8	576.3	627.0	731.9
(Purchase)/Sale of Fixed Asset	-229.0	-158.9	-250.0	-200.0
Investments	-1.7	-123.5	-200.0	-200.0
Others	7.3	28.7	0.6	0.6
CF from Investing activities	-223.4	-253.7	-449.4	-399.4
(inc)/Dec in Loan	9.7	-44.0	0.0	0.0
Dividend & Dividend tax	-115.9	-82.9	-173.2	-206.7
Other	-22.4	-191.4	-8.3	-8.3
CF from Financing activities	-128.6	-318.3	-181.5	-215.0
Net Cash Flow	104.7	4.4	-3.8	117.5
Cash and Cash Equivalent	100.5	205.3	209.6	205.8
Cash	205.3	209.6	205.8	323.3
Free Cash Flow	227.7	417.4	377.0	531.9

Source: ICICI Direct Research

Exhibit 21: Balance Sheet (₹ crore)

(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	17.5	17.4	17.4	17.4
Reserve and Surplus	2,581.3	2,978.2	3,499.1	4,120.8
Total Shareholders funds	2,598.9	2,995.6	3,516.5	4,138.2
Total Debt	45.7	3.7	3.7	3.7
Deferred Tax Liability	81.2	92.2	94.0	95.9
Long-Term Provisions	15.7	17.9	18.3	18.7
Other Non Current Liabilities	16.1	22.8	23.2	23.7
Source of Funds	2,757.5	3,132.2	3,655.7	4,280.1
Gross Block - Fixed Assets	1,976.2	2,161.2	2,486.2	2,686.2
Accumulated Depreciation	504.0	620.1	759.6	920.8
Net Block	1,472.1	1,541.1	1,726.6	1,765.4
Capital WIP	131.9	108.2	33.2	33.2
Fixed Assets	1,604.0	1,649.3	1,759.8	1,798.6
Investments	79.4	175.7	375.7	575.7
Other non-Current Assets	60.7	101.8	103.9	105.9
Inventory	495.7	766.5	836.2	990.6
Debtors	775.3	738.4	874.4	1,033.6
Other Current Assets	98.3	137.4	140.2	143.0
Cash	205.3	209.6	205.8	323.3
Total Current Assets	1,574.6	1,851.9	2,056.5	2,490.4
Creditors	362.3	373.9	362.0	406.9
Provisions	9.2	11.7	11.9	12.2
Other Current Liabilities	189.7	261.0	266.2	271.5
Total Current Liabilities	561.2	646.5	640.2	690.6
Net Current Assets	1,013.3	1,205.4	1,416.4	1,799.8
Application of Funds	2,757.5	3,132.2	3,655.7	4,280.1

Source: ICICI Direct Research

Exhibit 22: Key Ratios (₹ crore)

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Reported EPS	52.9	74.0	78.6	93.8
Cash EPS	51.0	68.7	74.7	88.6
BV per share	294.2	339.1	398.0	468.4
Cash per Share	23.2	23.7	23.3	36.6
Dividend per share	13.2	18.5	19.6	23.4
Operating Ratios (%)				
Gross Profit Margins	74.7	77.7	76.5	77.0
EBITDA margins	26.4	34.6	31.5	32.5
PAT Margins	18.2	22.6	21.0	22.3
Cash Conversion Cycle	128.2	142.9	149.1	159.1
Asset Turnover	1.3	1.3	1.3	1.4
EBITDA conversion Rate	66.8	57.7	60.3	60.7
Return Ratios (%)				
RoE	18.1	21.8	19.7	20.0
RoCE	24.7	29.0	25.7	25.7
RoIC	25.0	33.4	29.6	31.2
Valuation Ratios (x)				
P/E	34.8	24.9	23.4	19.6
EV / EBITDA	23.5	15.9	15.1	12.8
EV / Net Sales	6.2	5.5	4.8	4.1
Market Cap / Sales	6.3	5.6	4.9	4.4
Price to Book Value	6.3	5.4	4.6	3.9
Solvency Ratios				
Debt / EBITDA	0.1	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.4	2.5	2.9	3.1

Source: ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



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