

May 10, 2022

RESULT REPORT Q4 FY22 | Sector: Pharmaceutical

Ajanta Pharma

US approvals can drive rerating

Result Synopsis

Ajanta clocked 15% growth in 4Q, higher than our 4% forecast driven by resilient performance in India business along with strong performance in branded business. Margins during the quarter were impacted due to one-time write off of certain products and high price erosion in US. Increased raw material prices also impacted margins but the company is still sure of maintaining 75% gross margin in FY23. US business is expected to pick up once the FDA commences inspections of various facilities as company is sitting on a healthy pipeline awaiting approvals. Branded business is expected to grow in mid-teens despite having a high base. R&D spends have gone back to pre-Covid levels while working capital is on the higher side but could be new normal as US share in revenues inches up compared to previous years.

Ajanta Pharma guided to 75% gross margin in FY23 and margin similar to FY22. Management unveiled enhanced capex of Rs2bn (earlier guided to just maintenance capex of Rs1-1.5bn) coupled with investments in promotion, product registration and R&D. Hence, current fiscal is likely to witness EBIDTA growth at best matching revenue growth. While domestic business would continue to clock early teens growth, a big unknown is the trajectory of US business. Ajanta does have few good products like Chantix, Vimovo though we understand these would require FDA inspection. With significant R&D for India/emerging markets, expected relief in US price erosion, reckon gross margin have bottomed out aided by price increase in domestic business in the non NLEM portfolio. Guidance for increased investments in opex leads to ~200bps & 9% cut in FY24 margin & EPS estimates respectively. Reduced FY24 estimate lead to corresponding cut in TP to Rs2,350 (earlier Rs2,620) though BUY stays based on unchanged 26x PE. Key trigger would be a successful FDA inspection which would open up approval to several important products.

Result Highlights

- Revenues ahead of estimate at +15% YoY vs estimated +4% YoY led by 13% growth in India and sharp jump in branded exports of +46% YoY – remains to be seen if a case of channel filling as base does not appear unduly low last year
- US sales flat QoQ and -3% YoY as expected due to high price erosion & no new approvals in 4Q; institutional business volatile with -38% YoY decline
- Gross margin declined ~500bps QoQ and YoY each as input costs surged; R&D also jumped to Rs590mn, up ~50% YoY leading to sharp contraction in margin to 23.7% (vs expected 27.5%)
- About 10-12 filings target vs 8 filed in FY22
- Bal sheet – receivables jumped 38% YoY in FY22 vs 16% revenue growth leading to decline in operating CF YoY.

Exhibit 1: Actual vs estimates

Rs Mn	Actual	Estimates		% Variation		Remarks
		Yes Sec	Consensus	YES Sec	Consensus	
Sales	8,703	7,872	8,115	10.6	7.2	Strong show in India/EM; COGS surge leads to margin miss
EBITDA	2,067	2,162	2,277	-4.4	-9.2	
OPM (%)	23.8	27.5	28.1	-371bps	-431bps	
Adjusted PAT	1,512	1,605	1,625	-5.8	-7.0	

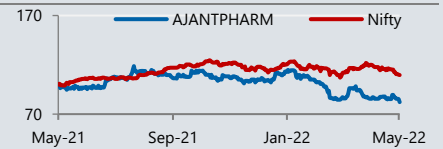
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 1,657
Target Price	: Rs 2,350
Potential Return	: 42%

Stock data (as on May 10, 2022)

Nifty	16,240
52 Week h/l (Rs)	2435 / 1631
Market cap (Rs/USD mn)	141628 / 1832
Outstanding Shares (mn)	85
6m Avg t/o (Rs mn):	150
Div yield (%):	0.6
Bloomberg code:	AJP IN
NSE code:	AJANTPHARM

Stock performance



	1M	3M	1Y
Absolute return	-4.1%	-19.5%	-17.1%

Shareholding pattern (As of Mar'22 end)

Promoter	70.5%
FII+DII	20.9%
Others	8.1%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	2,350	2620

Δ in earnings estimates

	FY23e	FY24e
EPS (New)	80.0	90.7
EPS (Old)	82.8	99.4
% change	-3.3	-8.8

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenue	33,410	36,211	40,050
YoY Growth	15.6	8.4	10.6
EBIDTA	9,293	9,735	11,014
YoY Growth	-6.9	4.8	13.1
PAT	7,127	6,872	7,784
YoY Growth	9.0	(3.6)	13.3
ROE	22.8	19.3	18.5
EPS	83.0	80.0	90.7
P/E	20.0	20.7	18.3
BV	380.2	450.8	532.0
EV/EBITDA	15.0	14.0	11.9

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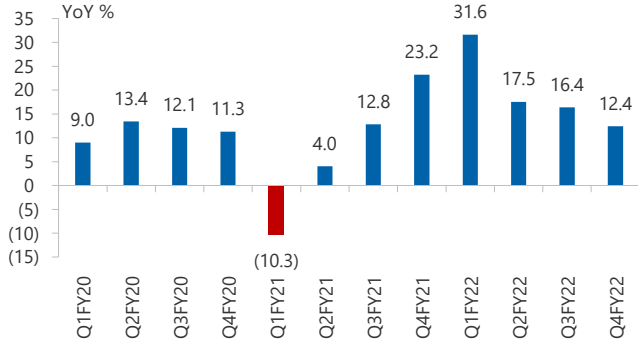
YASH SINGHEE, Associate

Exhibit 2: Quarterly snapshot

Rs mn	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	y/y (%)	q/q (%)	FY22	FY21	y/y (%)
Revenue	7,568	7,480	8,848	8,379	8,703	15.0	3.9	33,410	28,897	(13.5)
Expenditure	4,974	5,278	6,221	5,983	6,636	33.4	10.9	24,117	18,911	(21.6)
- RM	1,679	1,717	2,323	1,891	2,393	42.5	26.6	8,323	6,451	(22.5)
- Staff Cost	1,458	1,580	1,601	1,622	1,655	13.5	2.1	6,458	5,483	(15.1)
- Other Cost	1,838	1,981	2,297	2,471	2,588	40.8	4.7	9,336	6,978	(25.3)
Operating Profit	2,594	2,202	2,627	2,396	2,067	(20.3)	(13.7)	9,293	9,986	7.5
OPM(%)	34.3	29.4	29.7	28.6	23.8	-1052 bps	-484 bps	27.8	34.6	-674 bps
Other Income	25	326	295	240	295	1,066	23	1,157	260	(77.6)
Depreciation	306	309	315	317	312	2	(2)	1,253	1,161	(7.4)
Interest	26	15	4	10	73	185	668	102	83	(18.9)
PBT	2,288	2,205	2,603	2,309	1,977	(13.6)	(14.4)	9,095	9,002	(1.0)
Tax	695	467	645	392	465	(33.1)	18.7	1,968	2,463	25.2
PAT	1,593	1,738	1,958	1,918	1,512	(5.1)	(21.2)	7,127	6,539	(8.3)

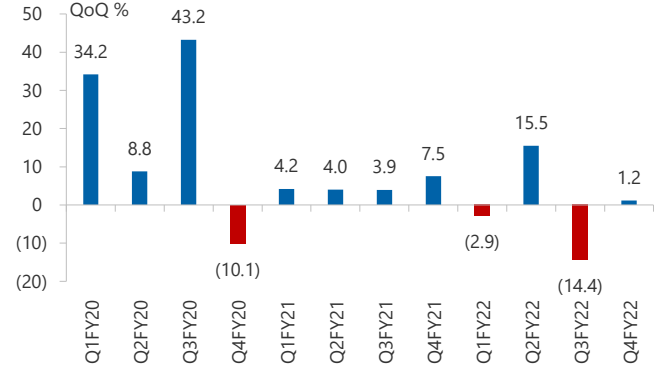
Source: Company, YES Sec

Exhibit 3: India business remains upbeat



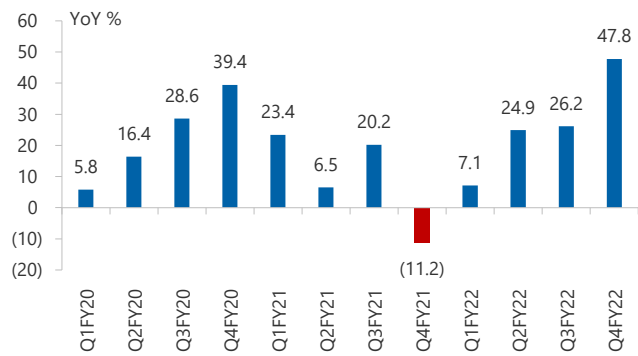
Source: Company, YES Sec

Exhibit 4: US flat due to price erosion & lack of new launches



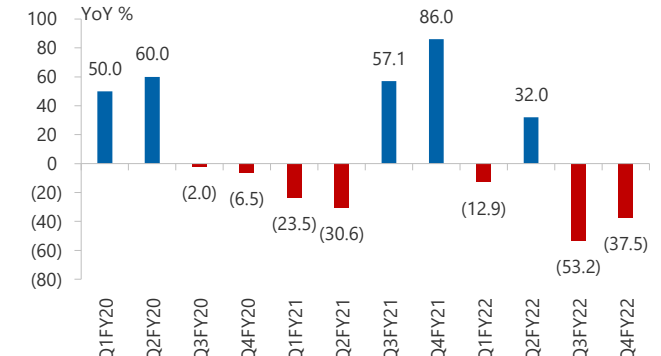
Source: Company, YES Sec

Exhibit 5: Branded business delivers strong growth



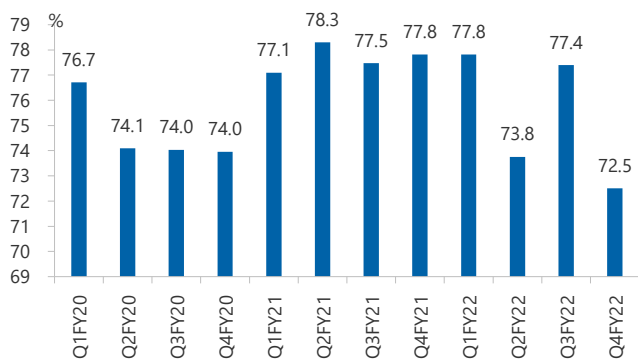
Source: Company, YES Sec

Exhibit 6: Institutional business volatility continues



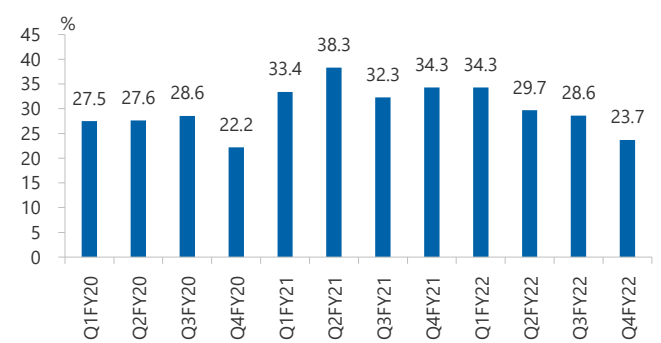
Source: Company, YES Sec

Exhibit 7: Gross margins contract sharply



Source: Company, YES Sec

Exhibit 8: Operating margins fall in line with GM



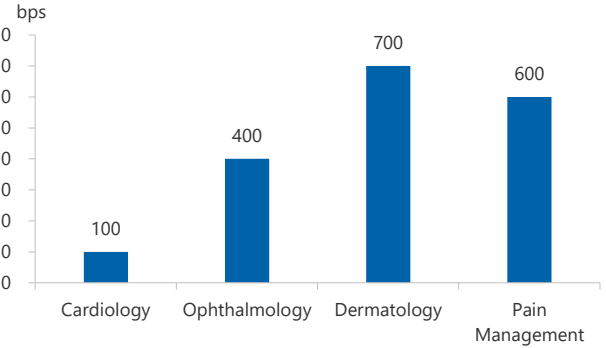
Source: Company, YES Sec

Exhibit 9: R&D spending back to pre-Covid level



Source: Company, YES Sec

Exhibit 10: Therapy outperformance vs IPM in Q4



Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Business Highlights

- FY21 saw benefits from COVID portfolio so FY22 will not be exact comparable to FY21.
- Receivable days have increased but all receivables are normal in nature. This is the normal levels of receivables pre-covid and should remain at those levels.
- Inventory was ramped up last year due to covid and is now being pruned out slowly. Also new launches expected in US led to build up of inventory but apart from that no concerns.
- Some approvals come without inspections which happened in the case of March approval.

India Business

- Contributed 30% of total revenue
- Able to pass on price increases under NLEM (20% of domestic portfolio) and NPPA allowed drugs. Price increases are done on a very granular basis. Max 10% price increase on drugs under NLEM and NPPA.

Trade Generics

- Focus on specialty helped the business to grow fast and cross 1bn last year.
- Gross margins are lower than usual business.

US Business

- Certain number of products under approval as FDA inspections pending. As soon as FDA inspections resume 5-8 launches per year will start again.
- Price erosions for most of the companies have been aggressive and are levelling out now.

Margins

- Increase in API prices continue and may impact GM going forward.
- COGS is ~28% in this quarter. 1.5% is one-time charge as one of the products sent to US 2 years back is being written off and 1.5% is due to price erosion impact.
- As branded business component increases, will try to maintain 25% COGS guidance given earlier.
- High RM prices will get offset over the whole year but can get impacted in some quarters.
- Price erosion in US portfolio also affected margins. Price erosion should normalize to 8-10% going ahead.
- Rationalizing of field force is complete and no need to reduce it further.
- Stock in trade purchase is 136crs out of 832 (15%-16% of total material cost). APIs and Packing material and consumables is balance cost.
- R&D: 55% is for US markets and 45% is for India and regulated market. Was lower in FY21 but normalized in FY22.

Guidance

- Income Tax rate to increase going ahead.
- Rs2bn capex guidance for FY23.
- Mid-teens growth expected in domestic formulations business in FY23.

Ajanta Pharma Ltd

- Mid-teens to high teens growth rate expected to continue in branded markets of Asia and Africa. New brand launches, increasing market share, price increases and increasing expansion by adding MRs and regions to drive growth.
- Looking at brand acquisitions for some time now. Preference remains in India.
- EBITDA margin of FY22 can be replicated in FY23 also.
- Institutional business should remain flattish in FY23 also.
- 10-12 ANDA filings expected in FY23 and can be higher than this also.

FINANCIALS

Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	175	174	172	172	172
Reserves	25,813	29,782	32,472	38,529	45,497
Net worth	25,989	29,956	32,644	38,700	45,669
Debt	325	423	420	420	420
Def. tax lia	812	922	1,019	1,019	1,019
Total liabilities	27,126	31,301	34,082	40,139	47,107
Fixed assets	15,946	16,404	16,649	17,364	17,970
Investments	570	606	707	707	707
Net working capital	10,292	13,790	16,171	21,512	27,874
Inventories	4,957	7,665	7,911	8,433	9,327
Sundry debtors	7,753	7,384	10,198	10,913	12,070
Cash	2,661	3,853	3,334	6,514	11,251
Other current assets	984	1,374	1,199	1,811	2,003
Sundry creditors	(3,624)	(3,739)	(3,272)	(3,546)	(3,922)
Other current liabilities	(2,439)	(2,748)	(3,199)	(2,612)	(2,854)
Def tax assets	318	501	556	556	556
Total assets	27,126	31,301	34,082	40,139	47,107

Source: Company, YES Sec

Exhibit 12: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Revenue	25,879	28,897	33,410	36,211	40,050
Operating profit	6,834	9,986	9,293	9,735	11,014
Depreciation	(957)	(1,161)	(1,253)	(1,284)	(1,394)
Interest expense	(119)	(83)	(102)	(140)	(140)
Other income	922	260	1,157	500	500
Profit before tax	6,680	9,002	9,095	8,811	9,979
Taxes	(1,963)	(2,463)	(1,968)	(1,938)	(2,195)
Adj. profit	4,717	6,539	7,127	6,872	7,784
Exceptional item	(39)	-	-	-	-
Net profit	4,678	6,539	7,127	6,872	7,784

Source: Company, YES Sec

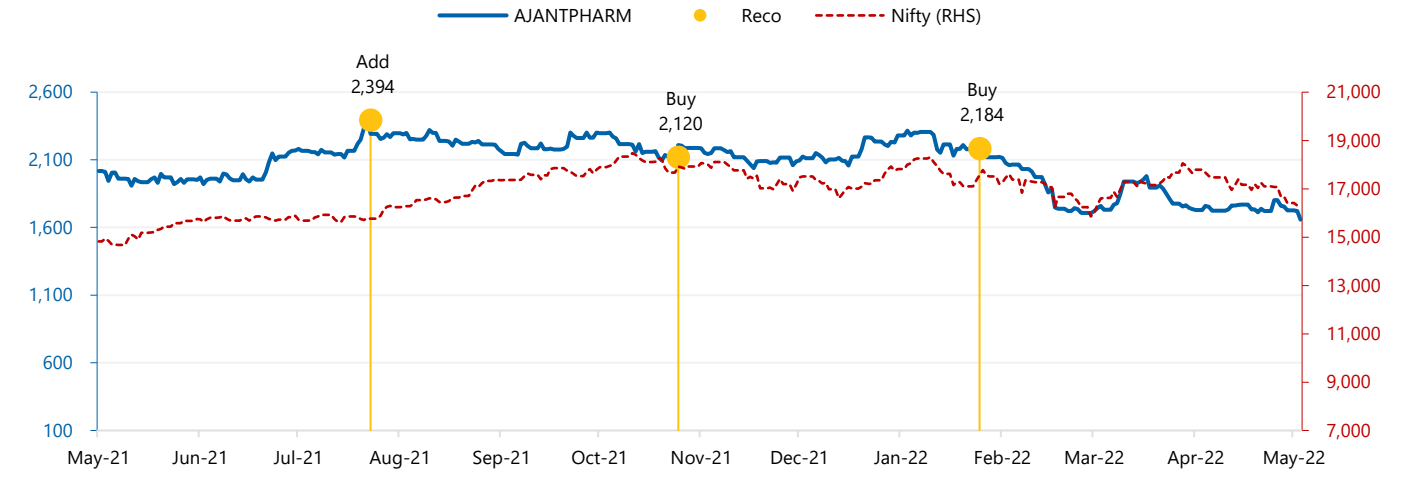
Exhibit 13: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)					
Revenue growth	25.9	11.7	15.6	8.4	10.6
Op profit growth	20.6	46.1	(6.9)	4.8	13.1
EBIT growth	31.9	33.6	1.2	(2.7)	13.1
Net profit growth	20.9	39.8	9.0	(3.6)	13.3

Profitability ratios (%)					
OPM	26.4	34.6	27.8	26.9	27.5
EBIT margin	26.3	31.4	27.5	24.7	25.3
Net profit margin	18.2	22.6	21.3	19.0	19.4
RoCE	27.0	31.1	28.1	24.1	23.2
RoNW	19.5	23.4	22.8	19.3	18.5
RoA	15.9	18.6	18.4	16.0	15.7
Per share ratios					
EPS	53.3	75.2	83.0	80.0	90.7
Dividend per share	13.0	9.5	9.5	9.5	9.5
Cash EPS	64.7	88.6	97.6	95.0	106.9
Book value per share	296.3	344.5	380.2	450.8	532.0
Valuation ratios (x)					
P/E	30.4	21.8	20.0	20.7	18.3
P/BV	5.6	4.8	4.4	3.7	3.1
M Cap/Sales	5.6	5.0	4.3	3.9	3.6
EV/EBIDTA	20.9	14.1	15.0	14.0	11.9
Payout (%)					
Tax payout	29.4	27.4	21.6	22.0	22.0
Dividend payout	28.5	12.6	11.4	11.9	10.5
Liquidity ratios					
Debtor days	109	93	111	110	110
Inventory days	70	97	86	85	85
Creditor days	51	47	36	36	36
Leverage ratios					
Interest coverage	57.1	109.8	90.2	63.9	72.3
Net debt / equity	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Net debt / op. profit	(0.3)	(0.3)	(0.3)	(0.6)	(1.0)

Source: Company, YES Sec

Recommendation Tracker



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