

11 May 2022

Ajanta Pharma

Rating: Buy

Target Price: Rs.2,378

Share Price: Rs.1,688

Stellar show in its branded generics; maintaining a Buy

Ajanta's Q4 FY22 sales grew 15% to Rs8.7bn. Its India and Africa branded divisions and Asia reported stellar growth. More price erosion and keener competition, however, led to muted US business. Its gross margin slid 531bps to 72.5% y/y due to higher raw material prices and a one-time impact (1.5% of sales due to flu-related products written back, and 1.5% more due to price erosion in the US). Adjusting for this, the gross margin contracted 280bps y/y to 75%. Higher other expenses squeezed the EBITDA margin 1053bps to 23.7%. PAT fell 5.1% to Rs1.5bn. With launches, continuing momentum in India, other branded markets and a pick-up in the US, Ajanta would deliver 12% revenue/PAT growth each over FY22-24. We retain our Buy with a lower TP of Rs2,378.

Ajanta's core therapies outstrip IPM growth. Its healthy 12% India sales growth is primarily attributable to better traction in its chronic and sub-chronic therapies. Launches were ~16 in FY22 (including four FtF). We believe the launches, efficient MR productivity and price hikes in Apr'22 would drive a 15% revenue CAGR in its India business over FY22-24.

Muted US business. On higher price erosion (~18%) and fewer-than-expected launches (on lower filings), its US sales declined 3% to Rs1.7bn. It plans to file 10-12 products in FY23. We anticipate a 14% CAGR over FY22-24 supported by the launches.

Margins to be stable. With more price erosion in the US, higher raw material prices and other expenses normalising to pre-Covid levels, the FY22 EBITDA margin declined 674bps to 27.8%. FY23 margins are expected to remain at 28% and expand gradually with the improving branded generic business.

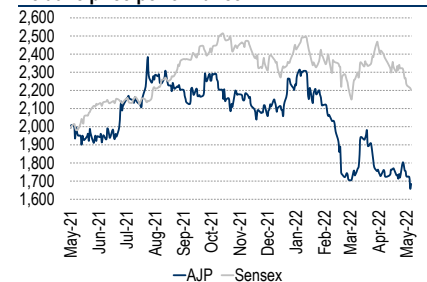
Valuation. At the CMP of Rs1,688, the stock trades at 20x/16x FY23e/FY24e EPS. We maintain a Buy with a lower target of Rs2,378 (earlier Rs2,730). **Risks:** Currency fluctuations, ramping-up delays, pricing risk in India.

Key data	AJP IN / AJPH.BO
52-week high / low	Rs.2435 / 1593
Sensex / Nifty	54088 / 16167
3-m average volume	\$2m
Market cap	Rs.144bn / \$1863.1m
Shares outstanding	85m

Shareholding pattern (%)	Mar'22	Dec'21	Sep'21
Promoters	70.5	70.3	70.3
- of which, Pledged	16.6	15.4	13.7
Free float	29.5	29.7	29.7
- Foreign institutions	8.6	9.0	8.7
- Domestic institutions	12.3	11.6	11.5
- Public	8.6	9.2	9.5

Estimates revision (%)	FY23e	FY24e
Sales	1.1	2.8
EBITDA	(7.2)	(5.6)
EPS	(10.9)	(9.1)

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	25,879	28,897	33,410	36,751	41,770
Net profit (Rs m)	4,705	6,539	7,127	7,418	8,877
EPS (Rs)	53.6	75.2	83.0	86.4	103.4
PE (x)	25.5	23.8	20.3	19.5	16.3
EV / EBITDA (x)	17.2	15.4	15.6	13.5	10.7
PBV (x)	4.6	5.2	4.5	3.8	3.2
RoE (%)	19.4	23.4	22.8	20.7	20.6
RoCE (%)	19.0	22.8	22.5	20.5	20.5
Dividend yield (%)	0.8	0.6	0.6	0.6	0.8
Net debt / equity (x)	-0.1	-0.1	-0.1	-0.2	-0.4

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

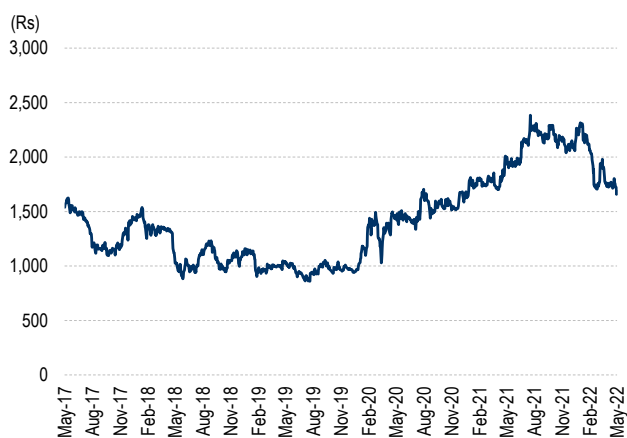
Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Net revenues	25,879	28,897	33,410	36,751	41,770
Growth (%)	25.9	11.7	15.6	10.0	13.7
Direct costs	6,557	6,451	8,323	9,261	10,359
SG&A	12,488	12,461	15,794	17,199	19,214
EBITDA	6,834	9,986	9,293	10,290	12,197
EBITDA margins (%)	26.4	34.6	27.8	28.0	29.2
- Depreciation	957	1,161	1,253	1,361	1,463
Other income	922	260	1,157	448	471
Interest expenses	119	83	102	105	108
PBT	6,640	9,002	9,095	9,272	11,096
Effective tax rate (%)	29.6	27.4	21.6	20.0	20.0
+ Associates / (Minorities)	-	-	-	-	-
Net income	4,677	6,539	7,127	7,418	8,877
Adjusted income	4,705	6,539	7,127	7,418	8,877
WANS	88	87	86	86	86
FDEPS (Rs / sh)	53.6	75.2	83.0	86.4	103.4
R&D (% of sales)	6.3	4.8	6.1	6.0	6.0

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
PBT (adj. for int.exp./other inc.)	5,837	8,825	8,040	8,929	10,734
+ Non-cash items	957	1,161	1,253	1,361	1,463
Oper. prof. before WC	6,794	9,986	9,293	10,290	12,197
- Incr. / (decr.) in WC	1,487	1,957	2,776	66	-988
Others incl. taxes	1,864	2,614	1,917	1,854	2,219
Operating cash-flow	3,444	5,416	4,600	8,370	10,965
- Capex (tang.+ intang.)	2,599	1,614	1,409	2,100	1,100
Free cash-flow	846	3,802	3,192	6,270	9,865
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	1,159	829	904	940	1,125
+ Equity raised	-	-2	-2	-	-
+ Debt raised	369	-415	-63	-	-
- Fin investments	17	963	-287	500	500
- Misc. (CFI + CFF)	(1,009)	1,551	2,490	(343)	(362)
Net cash-flow	1,047	42	20	5,173	8,602

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

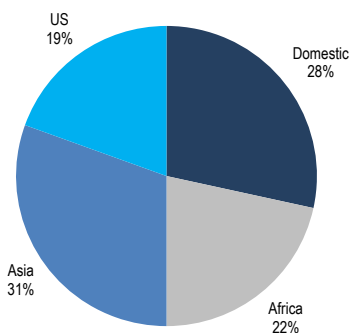
Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	175	174	172	172	172
Net worth	25,989	29,956	32,644	39,121	46,872
Debt	729	314	250	250	250
Minority interest	-	-	-	-	-
DTL / (Assets)	558	421	463	463	463
Capital employed	27,275	30,691	33,357	39,834	47,586
Net tangible assets	13,696	15,303	15,030	15,626	15,137
Net intangible assets	1,026	108	90	132	159
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	1,319	1,082	1,529	1,629	1,729
Investments (strategic)	123	-	251	251	251
Investments (financial)	671	1,757	1,219	1,719	2,219
Current assets (excl. cash)	14,046	16,940	19,764	18,868	17,345
Cash	2,053	2,096	2,118	7,291	15,893
Current liabilities	5,658	6,596	6,643	5,681	5,145
Working capital	8,388	10,345	13,121	13,187	12,199
Capital deployed	27,275	30,691	33,357	39,834	47,586
Contingent liabilities	501	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	25.5	23.8	20.3	19.5	16.3
EV / EBITDA (x)	17.2	15.4	15.6	13.5	10.7
EV / Sales (x)	4.6	5.3	4.3	3.8	3.1
P/B (x)	4.6	5.2	4.5	3.8	3.2
RoE (%)	19.4	23.4	22.8	20.7	20.6
RoCE (%) - after tax	19.0	22.8	22.5	20.5	20.5
DPS (Rs / sh)	13.2	9.5	10.5	11.0	13.1
Dividend yield (%)	0.8	0.6	0.6	0.6	0.8
Dividend payout (%) - incl. DDT	24.8	12.7	12.7	12.7	12.7
Net debt / equity (x)	-0.1	-0.1	-0.1	-0.2	-0.4
Receivables (days)	109	93	111	90	70
Inventory (days)	70	97	86	80	65
Payables (days)	51	47	36	29	25
CFO:PAT%	73.2	82.8	64.5	112.8	123.5

Source: Company, Anand Rathi Research

Fig 6 – Revenue break-up (Q4 FY22)


Source: Company

Conference Call Highlights

FY23 Guidance

- Management guided to mid-teen growth in its domestic formulations for FY23. Ajanta is looking for brand acquisitions, preference India.
- In emerging markets, it guided to mid-teen to high-teen growth.
- Its Africa institutional business guidance was flat, same as FY22 revenue.
- EBITDA margin guidance: ~28%.

India business (~30% of overall revenues)

- As per IQVIA MAT Mar'22, Ajanta posted healthy, 11%, growth in cardiology (vs. the segment's 10%), 25% in ophthalmology (21%), 17% in dermatology (10%) and 28% in pain management (22%).
- It launched 16 products in India.
- Its domestic business growth was driven by launches, market-share gains and price hikes.
- Its field force is now 2,800 (post the re-structuring exercises).
- Less than 20% of its portfolio is under the NLEM; prices hiked last month will reflect from May/Jun.

US business

- In the US, the company experienced 18% price erosion (10% earlier); management said this would normalise in FY23 and expects an 8-10% price erosion.
- It FY22, Ajanta received three ANDA approvals (incl. one tentative), filed eight ANDAs and launched three products. Launches were few, as approvals were withheld until sites are US FDA inspected. Management said once sites are audited, approvals will come through and it will launch 5-8 products.
- In the US, the company has cumulatively commercialized 39 products till now, received approval for 42 ANDAs, with 20 pending approvals.
- It plans to file 10-12 ANDAs in FY23.

Other highlights

- Its Africa branded generics reported healthy, 37.4%, growth. Its lumpy and unpredictable institutional business in Africa fell 37.5% in Q4 FY22.
- Growth in its Asia business was a stellar 50% y/y.
- Q4 R&D spends were higher, at 6.8% of sales, to Rs590m (up 51% y/y). ~55% of the R&D cost is associated with the ANDA pipeline build-up for its US generics.

Fig 7 – Quarterly financials

(Rs m)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	% Y/Y	% Q/Q
Sales	6,512	6,820	6,682	7,159	7,487	7,568	7,480	8,848	8,379	8,703	15.0	3.9
Gross profit	4,821	5,044	5,151	5,606	5,801	5,889	5,763	6,526	6,489	6,310	7.1	(2.8)
Gross margins (%)	74	74	77	78	77	78	77	74	77	73	-531bps	-494bps
R&D expenditure	350	500	310	290	400	390	450	490	510	590	51.3	15.7
EBITDA	1,860	1,513	2,232	2,743	2,417	2,594	2,202	2,628	2,396	2,067	(20.3)	(13.7)
EBITDA margin (%)	29	22	33	38	32	34	29	30	29	24	-1053bps	-484bps
Interest	16	36	16	15	26	26	15	4	10	73	186.7	672.6
Depreciation	236	260	280	283	291	306	309	315	317	312	1.8	(1.8)
Other income	146	567	131	49	55	25	326	295	240	295	1,065.2	22.7
PBT	1,751	1,759	2,067	2,492	2,155	2,288	2,205	2,604	2,309	1,977	(13.6)	(14.4)
Tax	676	467	589	790	388	695	467	645	392	465	(33.2)	18.6
Effective tax rate (%)	39	27	29	32	18	30	21	25	17	24	-688bps	655bps
Adjusted PAT	1,078	1,310	1,478	1,702	1,766	1,593	1,738	1,959	1,918	1,512	(5.1)	(21.2)

Source: Company

Fig 8 – Revenue break-up (Rs m)

Quarterly results (YE Mar)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	% Y/Y	% Q/Q
Domestic	1,950	1,770	1,740	2,020	2,200	2,180	2,290	2,480	2,560	2,450	12.4	(4.3)
Exports	4,480	4,910	4,830	5,030	5,230	5,260	5,100	6,100	5,630	6,170	17.3	9.6
Emerging markets	2,890	3,480	3,340	3,490	3,620	3,530	3,420	4,160	3,970	4,490	27.2	13.1
Africa, branded generics	800	950	1,080	1,150	890	990	1,230	1,590	1,670	1,360	37.4	(18.6)
Africa institution	490	430	620	510	770	800	540	660	360	500	(37.5)	38.9
Asia	1,580	2,090	1,610	1,800	1,960	1,740	1,650	1,910	1,940	2,630	51.1	35.6
Latam	20	10	30	30	20	-	-	-	-	-	-	-
Regulated markets	1,590	1,430	1,490	1,540	1,610	1,730	1,680	1,940	1,660	1,680	(2.9)	1.2
Total	6,430	6,680	6,570	7,050	7,430	7,440	7,390	8,580	8,190	8,620	15.9	5.3

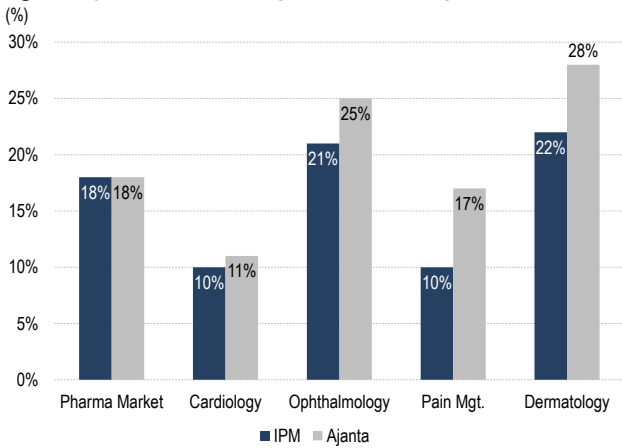
Source: Company, Anand Rathi Research

Fig 9 – Sales break-up

	FY21	FY22	FY23e	FY24e
Domestic	8,130	9,820	11,100	12,870
% of sales	28.6	29.9	30.7	31.4
% Y/Y	5.7	20.8	13.0	15.9
Exports	20,320	23,020	25,007	28,172
% of sales	71.4	70.1	69.3	68.6
% Y/Y	13.5	13.3	8.6	12.7
Asia	7,110	8,130	9,106	10,471
% of exports	35.0	35.3	36.4	37.2
% Y/Y	5.6	14.3	12.0	15.0
Africa	6,840	7,930	8,147	8,636
% of exports	33.7	34.4	32.6	30.7
% Y/Y	15.3	15.9	2.7	6.0
US	6,370	6,960	7,754	9,065
% of exports	31.3	30.2	31.0	32.2
% Y/Y	23.4	9.3	11.4	16.9
Revenue	28,450	32,840	36,107	41,042

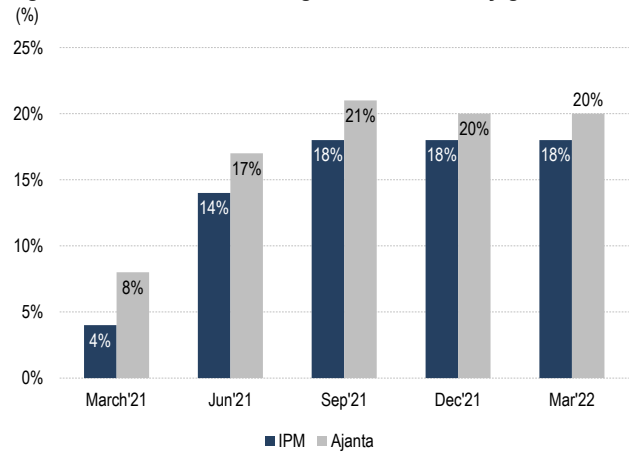
Source: Company

Fig 10– Ajanta’s therapeutic growth vs. industry - MAT Mar’22



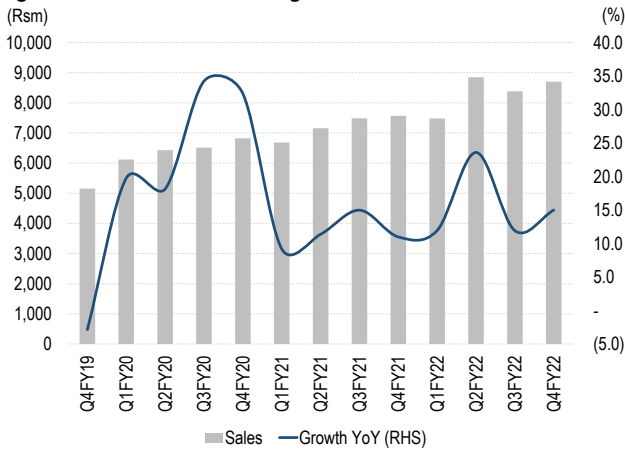
Source: Company, Anand Rathi Research

Fig 11 – Domestic business growth vs. industry growth



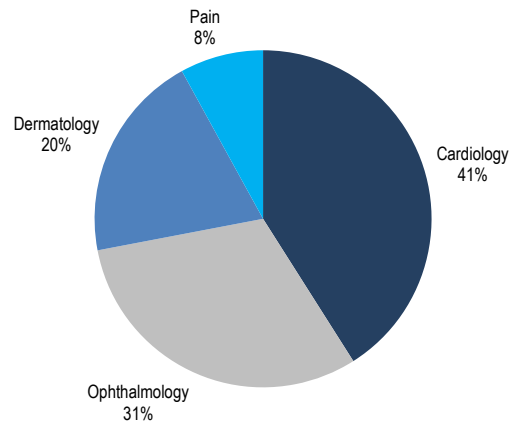
Source: Company, Anand Rathi Research

Fig 12 – Domestic business grew 12.4% in Q4 FY22



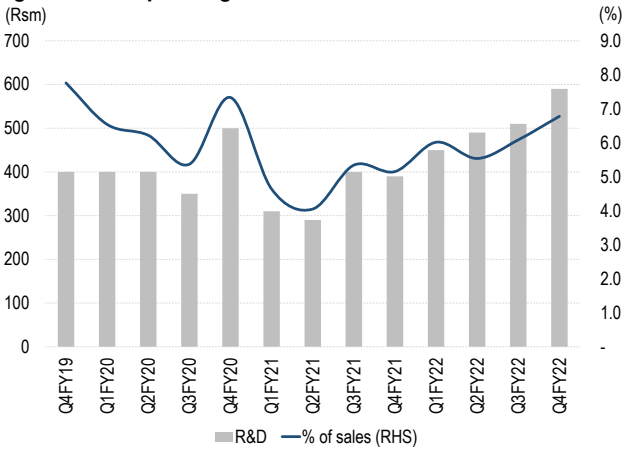
Source: Company, Anand Rathi Research

Fig 13 – IQVIA, Mar'22



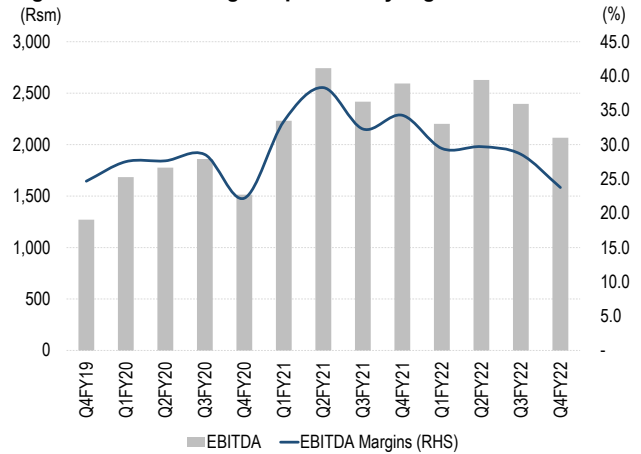
Source: Company, Anand Rathi Research

Fig 14 – R&D spending at 6% of sales



Source: Company, Anand Rathi Research

Fig 15 – EBITDA margin squeezed by higher overheads



Source: Company, Anand Rathi Research

Fig 16 – Key therapeutic growth in Q4 FY22 (Rs m)

(Rs m)	Q4 FY22	Q4 FY21	% Y/Y	Q3 FY22	% Q/Q
Cardiac	1,162	1,129	2.9	1,266	(8.3)
Ophthal	684	612	11.8	697	(1.9)
Derma	467	419	11.5	474	(1.6)
Pain / Analgesics	180	161	11.5	204	(12.0)
Vitamins / Minerals / Nutrients	64	65	(1.9)	71	(10.0)
Anti-Infectives	75	59	27.5	89	(15.1)
Neuro / CNS	55	66	(16.7)	60	(8.4)
Anti-Diabetes	72	56	29.0	74	(1.9)
Respiratory	51	40	29.1	61	(16.3)
Others	24	28	(14.7)	24	(0.9)
Domestic sales	2,833	2,634	7.6	3,020	(6.2)

Source: AIOCD

Fig 17 – Performance of top brands in Q4 FY22 (Rs m)

Brands	Molecules	Therapy	Chronic/Acute	Q4 FY22	Q4 FY21	% Y/Y	Q3 FY22	% Q/Q
Met XI	Metoprolol	Cardiac	Chronic	341	321	6.2	362	(5.7)
Atorfit Cv	Atorvastatin + Clopidogrel	Cardiac	Chronic	124	137	(9.0)	143	(12.9)
Melacare	Hydroquinone + Mometasone + Tretinoin	Derma	Chronic	128	132	(2.7)	123	4.3
Rosutor Gold	Aspirin + Rosuvastatin + Clopidogrel	Cardiac	Chronic	84	124	(32.2)	141	(40.4)
Feburic	Febuxostat	Pain	Acute	113	105	7.4	135	(16.4)
Cinod	Cilnidipine	Cardiac	Chronic	102	86	18.4	101	1.3
Met XI Am	Metoprolol + Amlodipine	Cardiac	Chronic	83	79	4.9	87	(4.5)
Rosufit Cv	Rosuvastatin + Clopidogrel	Cardiac	Chronic	74	65	13.8	76	(2.6)
Vertizac	Cinnarizine + Dimenhydrinate	CNS	Sub Chronic	34	52	(34.2)	42	(18.5)
Cilamet	Cilnidipine + Metoprolol	Cardiac	Chronic	50	46	9.4	48	3.6
Top 10 brands sales				1,134	1,147	(1.1)	1,257	(9.8)

Source: AIOCD

Valuations

According to IQVIA MAT Mar'22, Ajanta outperformed the IPM in its key therapies. Cardiology grew 11% (vs the segment's 10%), ophthalmology 25% (21%), pain management 22% (28%) and dermatology 10% (17%). Strong traction in cardiology, dermatology and ophthalmology therapies would boost the company's India sales. We expect its India formulations sales to clock ~15% CAGR over FY22-24, driven by launches, price hikes of its portfolio under the NLEM (10%, in line with the WPI) and better MR productivity.

Our FY23e/FY24e EPS of Rs86/Rs103 take into consideration the lower operating performance in FY22 on expenses normalising to pre-covid levels.

We expect revenue/PAT CAGRs of 12%/12% over FY22-24. At the CMP of Rs1,688, the stock trades at 20x/16x FY23e/FY24e earnings. We maintain a Buy with a lower target of Rs2,378 (earlier Rs2,730) based on 23x FY24e EPS.

Fig 18 – Change in estimates

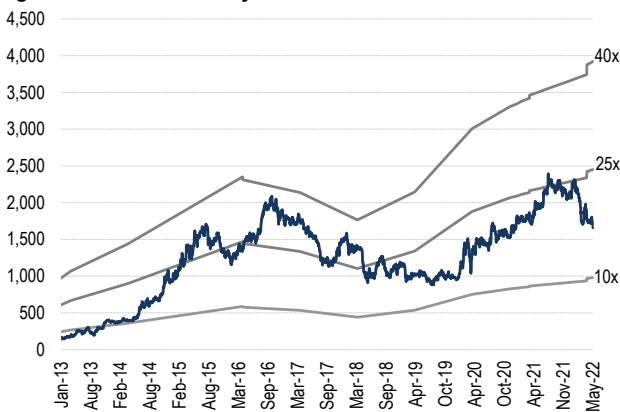
(Rs m)	Old		Revised		Change %	
	FY23e	FY24e	FY23e	FY24e	FY23	FY24
Revenue	36,368	40,639	36,751	41,770	1.1	2.8
EBITDA	11,092	12,923	10,290	12,197	(7.2)	(5.6)
Margins (%)	30.5	31.8	28.0	29.2		
PAT	8,428	9,887	7,418	8,877	(12.0)	(10.2)
EPS	96.9	113.7	86.4	103.4	(10.9)	(9.1)

Source: Anand Rathi Research

Risks

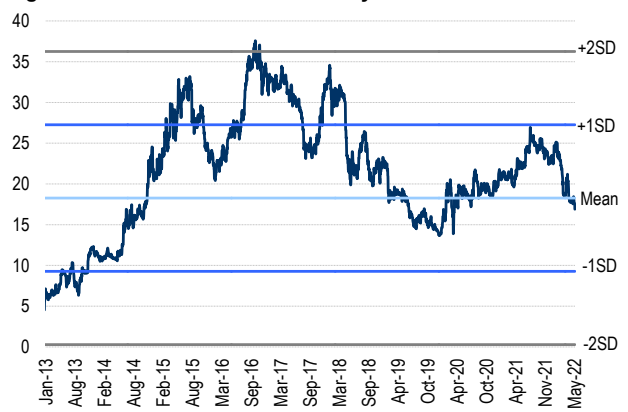
- Pricing risk in India.
- Currency fluctuations
- Delay in the ramp-up of the new facilities

Fig 19 – PE band – one-year-forward



Source: Bloomberg, Anand Rathi Research

Fig 20 – Standard deviation – one-year-forward



Source: Bloomberg, Anand Rathi Research

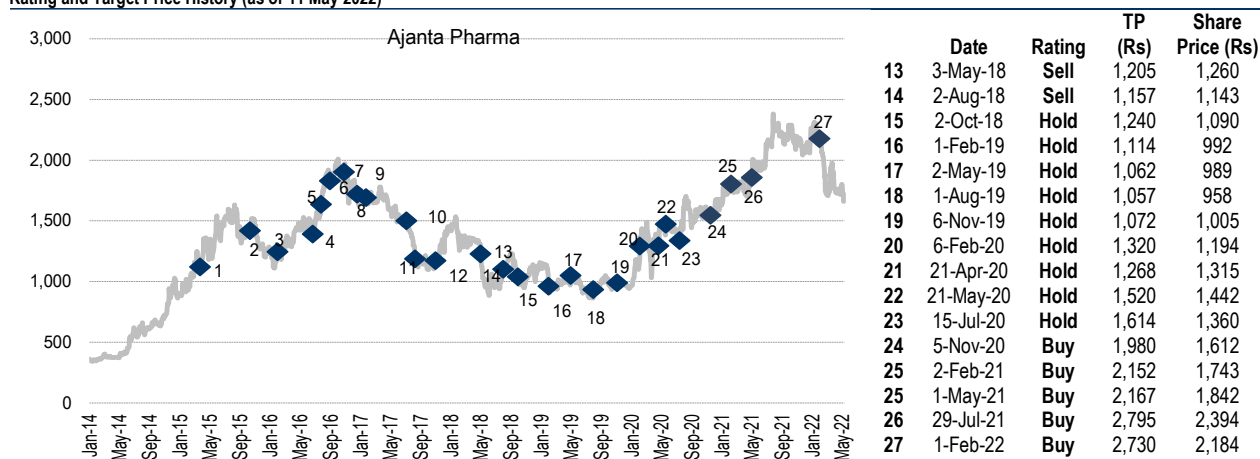
Appendix

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Rating and Target Price History (as of 11 May 2022)



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Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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