

Ajanta Pharma

BSE SENSEX 35,176
S&P CNX 10,718

CMP: INR1,340

TP: INR1,560(+16%)

Buy

Bloomberg	AJP IN
Equity Shares (m)	88.5
M.Cap.(INRb)/(USD\$b)	118.7 / 1.9
52-Week Range (INR)	1700 / 1106
1, 6, 12 Rel. Per (%)	-11/3/-36
Avg. Val, INRm	328.0
Free float (%)	29.3

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	21.3	21.5	26.2
EBITDA	6.6	6.0	7.5
PAT	4.7	4.6	5.7
EPS (INR)	53.0	51.6	65.0
Gr. (%)	-7.5	-2.6	25.9
BV/Sh (INR)	230.8	274.8	329.9
RoE (%)	26.0	20.4	21.5
RoCE (%)	26.0	20.4	21.5
P/E (x)	25.3	26.0	20.6
P/BV (x)	5.8	4.9	4.1

Estimate change



TP change



Rating change



Higher costs dampen FY18 performance; FY19 outlook muted too

- **Higher fixed overheads drag operating margins:** Revenue grew 11.2% YoY to INR5.3b (our estimate: INR5b), mainly led by growth in the branded generics business in Africa. Although the gross margin improved 166bp YoY to 82.3%, EBITDA margin shrunk 923bp YoY to 26.3% (our estimate: 28.2%) due to higher fixed overheads related to the newly commissioned facilities. As a result, adj. PAT declined 23% YoY to INR945m (our estimate: INR1b) in 4QFY18.
- **Lower EBITDA margin impacts FY18 PAT:** For full-year FY18, revenue grew 6.5% YoY to INR21.3b, EBITDA margin shrunk to 30.9% (from 34.4% in FY17) and PAT declined 7.5% YoY to INR4.7b.
- **Muted anti-malaria sales and higher fixed cost to hurt FY19 performance:** AJP expects to outperform the industry in the domestic formulations, Africa and Asia branded generics businesses in FY19. The company also guided for better US sales, led by recent launches and a healthy product pipeline pending for approval. However, AJP has guided for significantly lower institutional anti-malaria business, considering steep price erosion and lower off-take from Global Fund. In addition, increased fixed overheads related to the commissioning of facilities are expected to affect the EBITDA margin in FY19.
- **Valuation view:** We have reduced our sales growth estimate by 13.5%/11.9% for FY19/20 and PAT growth estimate by 21.6%/20.2% for FY19/20 to factor in lower institutional anti-malaria business and higher operating expenses. We have also reduced our P/E multiple from 25x to 24x to factor in muted sales and profit growth in FY19. We continue to value AJP at a premium relative to peers due to its strong branded generics business, wherein it continues to outperform industry and enjoy superior margins. Accordingly, we revise our price target to INR1,560 from INR1,840. Maintain **Buy**.

Consolidated - Quarterly Earning Model

Y/E March	FY17				FY18				FY17	FY18	FY18 vs Est	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	4,759	5,158	5,331	4,768	4,731	5,404	5,870	5,303	20,016	21,308	4,992	6.2
YoY Change (%)	21.6	16.8	11.8	12.0	-0.6	4.8	10.1	11.2	15.3	6.5		
Total Expenditure	3,093	3,426	3,551	3,054	3,424	3,567	3,896	3,908	13,127	14,794	3,580	9.2
EBITDA	1,666	1,732	1,780	1,714	1,307	1,837	1,975	1,395	6,890	6,514	1,412	-1.2
Margins (%)	35.0	33.6	33.4	35.9	27.6	34.0	33.6	26.3	34.4	30.6		
Depreciation	130	140	153	189	134	146	150	166	612	596	144	15.6
Interest	10	8	8	9	1	1	1	1	35	4	1	
Other Income	55	67	192	24	48	92	152	52	337	343	62	-15.5
PBT before EO expense	1,580	1,651	1,811	1,540	1,219	1,783	1,975	1,280	6,580	6,258	1,329	-3.6
Extra-Ord expense	0	0	0	98	32	0	0	0	98	32		
PBT	1,580	1,651	1,811	1,442	1,187	1,783	1,975	1,280	6,482	6,226	1,329	-3.6
Tax	385	345	385	300	239	464	501	335	1,413	1,541	318	5.5
Rate (%)	24.3	20.9	21.2	20.8	20.1	26.0	25.3	26.2	21.8	24.7		
Minority Interest & P/L of Asso. Cos.	0	0	0	0	0	0	0	0	0	0		
Reported PAT	1,196	1,307	1,426	1,142	948	1,319	1,475	945	5,068	4,686	1,011	-6.5
Adj PAT	1,196	1,307	1,426	1,220	980	1,319	1,475	945	5,145	4,775	1,011	-6.5
YoY Change (%)	39.0	26.3	25.2	11.8	-18.0	0.9	3.4	-22.5	24.8	-7.2		
Margins (%)	25.1	25.3	26.7	25.6	20.7	24.4	25.1	17.8	25.7	22.4		

E: MOSL Estimates

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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.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Branded generics business in Africa drives growth in 4QFY18

Revenue for the company stood at INR5.3b (+11% YoY), led by the branded generics business in Africa. Growth in overall revenue was offset to some extent by a decline in institutional anti-malaria sales/Asia sales/ US sales and moderate growth in domestic formulation sales.

On a full-year basis, revenue grew by 6.5% YoY to INR21.3b, led by branded generics business in Africa/ Asia and US sales. Domestic formulation business grew marginally, impacting overall growth.

Exhibit 1: Sales breakdown (INR m)

	FY17				FY18			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Domestic	1,620	1,585	1,540	1,400	1,430	1,780	1,600	1,480
Pharmaceutical	1,570	1,540	1,490	1,330	1,350	1,720	1,550	1,410
YoY (%)	19.0	21.3	13.7	13.1	-14.0	11.7	4.0	6.0
Institutional Sales	50	45	50	70	80	60	50	70
Exports	2,970	2,979	3,600	3,170	3,210	3,510	4,150	3,480
Emerging markets	2,870	2,730	3,010	2,720	2,670	3,250	3,440	3,060
Africa	1,940	1,750	2,110	1,320	1,680	2,180	1,800	1,720
YoY (%)	32.0	0.0	7.7	-24.1	-13.4	24.6	-14.7	30.3
Asia	930	980	900	1,370	960	1,040	1,610	1,320
YoY (%)	4.5	-21.0	-30.2	15.1	3.2	6.1	78.9	-3.6
Latam	0	10	10	30	30	30	30	20
Regulated markets	100	710	590	450	540	260	710	420
Total	4,590	5,025	5,140	4,570	4,640	5,290	5,750	4,960

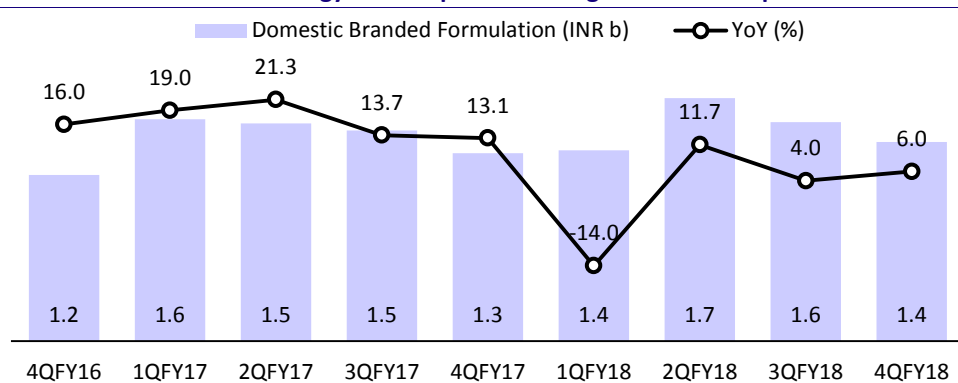
Source: MOSL, Company

AJP to deliver better growth in domestic formulation in FY19

Domestic formulation sales grew 6% YoY to INR1.4b for the quarter. Therapy-wise, AJP continued outperforming in Cardiology (+10% YoY v/s industry growth of 6%), Ophthalmology (+13% YoY v/s industry growth of 7%) and Pain (+8% YoY v/s industry growth of 4%). YoY growth in the domestic formulation segment was affected by a decline in the dermatology segment. Ajanta continues to work on changing the strategy to revive growth in dermatology sales.

AJP grew by 2.4% YoY on a full-year basis to INR6.3b. The company has guided for 12-15% YoY growth in FY19 on a low base of FY18. Also, recovery in the dermatology segment would support growth in FY19.

Exhibit 2: Decline in dermatology sales impacts overall growth for the quarter



Source: MOSL, Company

New products and recent launches to drive US sales in FY19

US sales reduced marginally by 7% YoY to INR420m, led by pricing pressure on a few products due to supply chain consolidation in the US market. Accordingly, AJP has rationalized its product portfolio and withdrawn 3 products. Cumulatively, the company has commercialized 18 products (six in FY18).

There are about 18 products under approval and AJP has guided for 10-12 filings in FY19. Based on increased traction in existing products, recent launches and upcoming approvals, the company has guided for better growth in FY19 compared to FY18 in the US business.

The new filings are from Dahej facility, as its existing Paithan facility is almost fully utilized.

Branded generics on track; Institutional sales a dampener in overall Africa sales

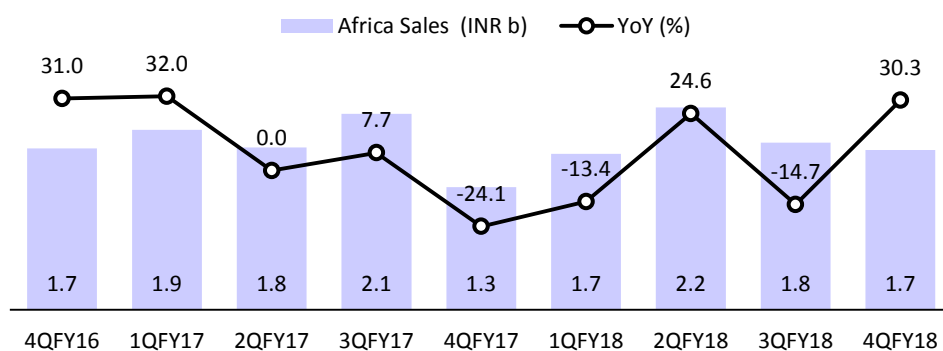
AJP's Africa sales grew strongly by 30% YoY to INR1.7b for the quarter, led by almost doubling of Africa branded generic business.

The company has launched more than 20 products in Africa and is fourth largest company in Franco Africa. On a full-year basis, branded generic business grew by 30% in FY18. Due to high base of Africa branded generic business in FY18, the YoY growth may be moderate for FY19, but AJP continues to outperform industry on new launches and increased traction in existing products.

Strong growth in branded generic was offset to some extent by a decline in institutional anti-malaria sales (INR630m v/s INR810m in 4QFY17).

AJP guided for significantly lower institutional anti-malaria business in FY19 due to steep price erosion and lower off-take by Global Fund.

Exhibit 3: Low base of past year led sharp YoY rise in branded generics business in Africa



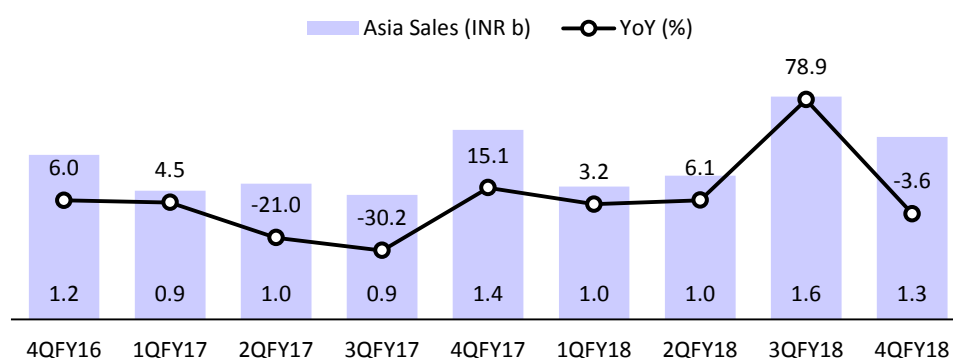
Source: MOSL, Company

Robust growth in Asia sales (FY18); expected to continue superior performance in FY19

AJP's sales from Asia came in at INR1.3b, down 3% YoY. However, there has been a revival in growth in the branded generic business of Asia since 3QFY18. AJP launched 8 products and continues to have strong product pipeline for Asia market (across cardio, pain, GI, diabetes, anti-biotic, derma, anti-histamine and ophthalmology segments).

With 381 registrations, field force of ~333 people, enhanced focus and new product introductions, AJP has maintained its guidance for better growth in FY19 as well.

Exhibit 4: Asia sales decline of high base of past year



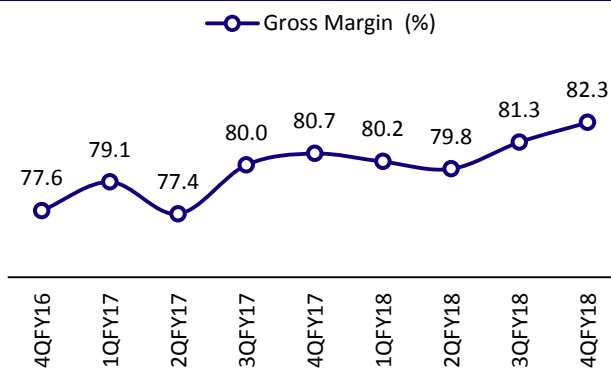
Source: MOSL, Company

Gross margin improves, while EBITDA margin shrinks YoY

Though the gross margin remained strong at 82.3% for the quarter, EBITDA margin saw a significant dip of 960bps YoY. This is due to significant increase in employee benefit expenses as a % of sales (21% in 4QFY18 vs 16% in 4QFY17) and other expenses as a % of sales (36% in 4QFY18 v/s 29% in 4QFY17). The increased operating expense is largely due to fixed overheads associated with commercialization of Guwahati Phase I and Dahej facility. Ajanta would be commercializing Guwahati Phase II (for derma) in FY19. This would keep operating expenses at elevated level in FY19 as well.

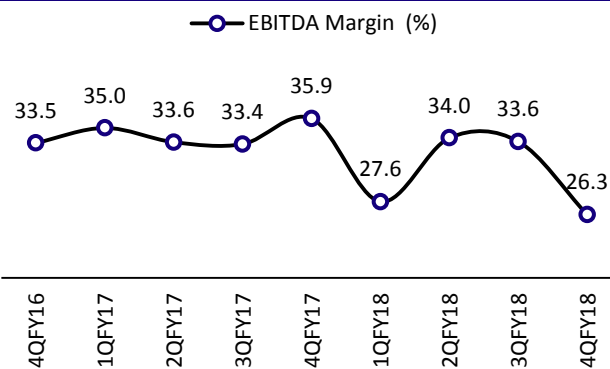
In addition, there has been 23% YoY increase in R&D spend to INR480m (+9% of sales). Ajanta spent INR1.9b toward R&D in FY18. The company has guided for similar amount of R&D for FY19 as well, which would be largely toward product development for US generics and branded generics for domestic formulation, Africa and Asia regions.

Exhibit 5: Gross margin continue to inch up



Source: MOSL, Company

Exhibit 6: Higher operating cost affects EBITDA margin



Source: MOSL, Company

Valuation and View

We have reduced our sales growth estimate by 13.5%/11.9% for FY19/20 and PAT growth estimate by 21.6%/20.2% for FY19/20 to factor in lower institutional anti-malaria business and higher operating expenses. We have also reduced our P/E multiple from 25x to 24x to factor in muted sales and profit growth in FY19.

Exhibit 7: Key changes in estimates

INR m	Old estimates		New estimates		Change (%)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Sales	24,887	29,727	21,518	26,192	(13.5)	(11.9)
EBITDA	7,715	9,423	6,047	7,466	(21.6)	(20.8)
EBITDA Margin (%)	31.0	31.7	28.1	28.5		
PAT	5,822	7,198	4,565	5,747	(21.6)	(20.2)
EPS (INR)	65.8	81.4	51.6	65.0	(21.6)	(20.2)
TP	1,840		1,560		(15.2)	

Source: MOSL, Company

We continue to value AJP at a premium relative to peers due to its strong branded generics business, wherein it continues to outperform industry and enjoy superior margins. Accordingly, we revise our price target to INR1,560 from INR1,840. Maintain **Buy**.

Financials and Valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Total Income from Operations	9,369	12,160	14,852	17,494	20,016	21,309	21,518	26,192
Change (%)	36.7	29.8	22.1	17.8	14.4	6.5	1.0	21.7
Raw Materials	3,026	3,455	3,654	4,138	4,146	4,064	4,089	5,003
Employees Cost	1,232	1,570	2,006	2,566	2,954	3,765	3,802	4,627
R&D expenses	370	530	660	1,065	1,530	1,860	1,878	2,286
Other Expenses	2,496	2,918	3,480	3,854	4,497	5,036	5,702	6,810
Total Expenditure	7,124	8,472	9,800	11,623	13,126	14,725	15,471	18,726
% of Sales	76.0	69.7	66.0	66.4	65.6	69.1	71.9	71.5
EBITDA	2,245	3,688	5,052	5,871	6,890	6,584	6,047	7,466
Margin (%)	24.0	30.3	34.0	33.6	34.4	30.9	28.1	28.5
Depreciation	342	439	516	444	612	596	634	726
EBIT	1,903	3,249	4,536	5,426	6,278	5,988	5,413	6,740
Int. and Finance Charges	191	87	59	49	35	4	1	1
Other Income	56	137	168	212	239	242	366	445
PBT bef. EO Exp.	1,768	3,299	4,645	5,589	6,482	6,226	5,779	7,184
EO Items	0	0	-85	0	0	0	0	0
PBT after EO Exp.	1,768	3,299	4,560	5,589	6,482	6,226	5,779	7,184
Total Tax	647	960	1,462	1,433	1,413	1,539	1,213	1,437
Tax Rate (%)	36.6	29.1	32.0	25.6	21.8	24.7	21.0	20.0
Reported PAT	1,121	2,339	3,099	4,156	5,068	4,686	4,565	5,747
Adjusted PAT	1,121	2,339	3,156	4,156	5,068	4,686	4,565	5,747
Change (%)	39.4	108.6	34.9	31.7	21.9	-7.5	-2.6	25.9
Margin (%)	12.0	19.2	21.3	23.8	25.3	22.0	21.2	21.9

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	118	177	177	177	177	177	177	177
Total Reserves	3,816	5,756	8,234	11,732	15,500	20,237	24,126	29,006
Net Worth	3,934	5,933	8,411	11,909	15,677	20,414	24,303	29,183
Total Loans	1,248	1,305	724	814	10	10	10	10
Deferred Tax Liabilities	237	230	152	107	29	244	244	244
Capital Employed	5,419	7,468	9,286	12,829	15,716	20,668	24,557	29,436
Gross Block	4,385	4,903	5,499	7,157	8,949	14,181	16,021	18,549
Less: Accum. Deprn.	1,659	2,109	2,618	2,650	3,058	3,654	4,288	5,014
Net Fixed Assets	2,726	2,794	2,881	4,507	5,892	10,527	11,733	13,536
Capital WIP	125	936	1,702	2,398	3,393	613	1,473	1,645
Total Investments	85	635	595	860	1,909	2,044	2,044	2,044
Curr. Assets, Loans&Adv.	4,247	5,130	6,286	7,028	7,039	11,076	12,196	15,715
Inventory	1,476	1,554	1,590	2,046	2,110	3,506	3,179	3,848
Account Receivables	1,505	2,022	2,588	3,724	3,232	4,920	4,422	5,382
Cash and Bank Balance	462	604	1,368	434	713	932	3,537	5,197
Loans and Advances	804	949	740	825	985	1,718	1,059	1,289
Curr. Liability & Prov.	1,763	2,026	2,177	1,965	2,516	3,592	2,889	3,502
Account Payables	1,317	1,245	1,298	1,650	1,781	2,496	2,099	2,541
Other Current Liabilities	217	325	188	176	562	677	604	735
Provisions	229	455	691	139	173	419	186	226
Net Current Assets	2,484	3,104	4,108	5,063	4,524	7,484	9,307	12,213
Appl. of Funds	5,419	7,468	9,286	12,829	15,716	20,668	24,557	29,436

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Basic (INR)								
EPS	12.7	26.4	35.7	47.0	57.3	53.0	51.6	65.0
Cash EPS	16.5	31.4	41.5	52.0	64.2	59.7	58.8	73.2
BV/Share	44.5	67.1	95.1	134.6	177.2	230.8	274.8	329.9
DPS	1.7	4.0	6.0	13.9	12.9	0.0	7.6	9.8
Payout (%)	15.3	17.6	18.9	29.6	22.6	0.0	14.8	15.1
Valuation (x)								
P/E			37.6	28.5	23.4	25.3	26.0	20.6
Cash P/E			32.3	25.8	20.9	22.5	22.8	18.3
P/BV			14.1	10.0	7.6	5.8	4.9	4.1
EV/Sales			7.9	6.8	5.9	5.5	5.4	4.3
EV/EBITDA			23.4	20.3	17.1	17.9	19.0	15.2
Dividend Yield (%)	0.1	0.3	0.4	1.0	1.0	0.0	0.6	0.7
FCF per share	14.8	2.8	19.9	3.2	34.8	-1.7	33.0	23.5
Return Ratios (%)								
RoE	32.4	47.4	44.0	40.9	36.7	26.0	20.4	21.5
RoCE	24.5	38.7	39.0	38.4	35.9	26.0	20.4	21.5
RoIC	25.0	45.9	56.5	54.7	52.1	33.7	24.7	28.3
Working Capital Ratios								
Asset Turnover (x)	1.7	1.6	1.6	1.4	1.3	1.0	0.9	0.9
Inventory (Days)	58	47	39	43	38	60	54	54
Debtor (Days)	59	61	64	78	59	84	75	75
Creditor (Days)	51	37	32	34	32	43	36	35
Leverage Ratio (x)								
Net Debt/Equity	0.2	0.0	-0.1	0.0	-0.2	-0.1	-0.2	-0.2

Consolidated - Cash Flow Statement

(INR Million)

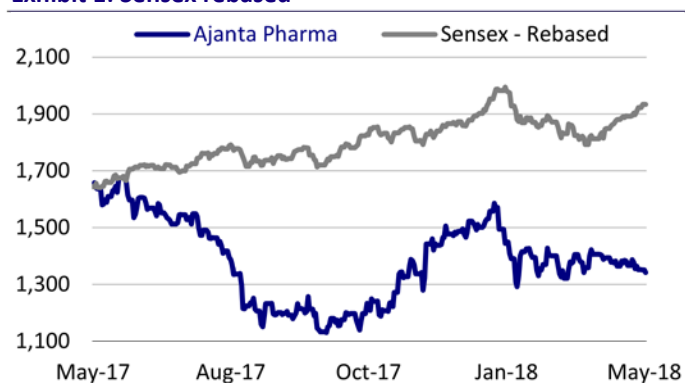
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
OP/(Loss) before Tax	1,635	3,299	4,560	5,589	6,482	6,226	5,779	7,184
Depreciation	342	439	516	444	612	596	634	726
Interest & Finance Charges	191	87	59	49	35	-238	-365	-445
Direct Taxes Paid	-331	-937	-1,461	-1,615	-1,428	-1,539	-1,213	-1,437
(Inc)/Dec in WC	386	-745	-817	-1,243	285	-2,741	782	-1,246
CF from Operations	2,223	2,142	2,858	3,224	5,986	2,304	5,616	4,783
Others	120	-18	-64	38	95	0	0	0
CF from Operating incl EO	2,343	2,124	2,794	3,262	6,081	2,304	5,616	4,783
(Inc)/Dec in FA	-1,037	-1,878	-1,036	-2,975	-3,002	-2,452	-2,700	-2,700
Free Cash Flow	1,306	246	1,759	287	3,079	-148	2,916	2,083
(Pur)/Sale of Investments	0	0	-45	-36	-914	-135	0	0
Others	87	97	102	-11	182	242	366	445
CF from Investments	-950	-1,781	-979	-3,022	-3,734	-2,346	-2,334	-2,255
Inc/(Dec) in Debt	-748	57	-581	218	-746	0	0	0
Interest Paid	-195	-87	-60	-49	-35	-4	-1	-1
Dividend Paid	-102	-171	-411	-1,342	-1,287	0	-676	-868
CF from Fin. Activity	-1,045	-201	-1,052	-1,173	-2,068	262	-677	-868
Inc/Dec of Cash	348	142	764	-934	279	220	2,604	1,660
Opening Balance	115	462	604	1,368	434	713	932	3,537
Closing Balance	462	604	1,368	434	713	932	3,537	5,197

Corporate profile

Company description

- Ajanta Pharma (AJP) is a specialty pharmaceuticals company engaged in the development, manufacture and marketing of finished dosages. It started with repackaging of generic products in 1973, and moved from OTC products to prescription-based products for the Indian market. In addition, it has strong presence into the international markets of Africa and Asia, and continues to build a strong foundation for the US market.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-18	Dec-17	Mar-17
Promoter	70.7	70.7	73.8
DII	6.8	5.9	2.1
FII	12.2	12.7	10.9
Others	10.3	10.7	13.2

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Matthews India Fund	3.4
SBI Magnum Balanced Fund	2.5
Motilal Oswal Most Focused Multicap 35 Fund	2.2
Kotak Mahindra (International) Limited	1.1
UTI - Equity Fund	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Mannalal B Agrawal	Chairman
Madhusudan B Agrawal	Vice Chairman
Purushottam B Agrawal	Vice Chairman
Yogesh Agrawal	Managing Director

Source: Capitaline

Exhibit 5: Directors

Name	Name
Anil Kumar	
Anjana Grewal	
Chandrakanth M Khetan	
K H Viswanathan	
Prabhakar Dalal	

*Independent

Exhibit 6: Auditors

Name	Type
Alwyn Dsouza & Co	Secretarial Audit
B S R & Co LLP	Statutory
Kapoor & Parekh Associates	Statutory
Mahajan & Aibara	Internal
Sevekari Khare & Associates	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	53.0	54.8	-3.2
FY19	51.6	63.5	-18.7
FY20	65.0	75.6	-14.0

Source: Bloomberg

NOTES

Explanation of Investment Rating	Expected return (over 12-month)
Investment Rating	
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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