

Institutional Equity Research

Ajanta Pharma

Pharmaceuticals | India

2QFY20 Result Update | November 6, 2019

CMP* (Rs)	1,004
Upside/ (Downside) (%)	13
Bloomberg Ticker	AJP IN
Market Cap. (Rs bn)	89
Free Float (%)	29
Shares O/S (mn)	88

BUY 

Target Price: Rs1,130

Better-than-Expected Performance; Maintain BUY

Ajanta Pharma (AJP) has delivered a higher-than-expected sales performance in 2QFY20 with its revenue growing by 18.1% YoY to Rs6.4bn led by growth in India, Asia and the US businesses. Domestic business grew by 13.4% YoY and 4.6% QoQ (vs. our estimate of 9% YoY) led by new product launches and volume growth. Its Africa, Asia and US business grew by 13%, 34%, and 39% YoY, respectively. Gross margin declined by 261bps QoQ to 74.1% due to strong growth in low-margin US and Africa-institutional business (+60% YoY), while gross profit grew by 6.3% YoY. Its EBITDA grew by just 6.9% YoY to Rs1.8bn owing to lower gross profit and higher employee cost, while EBITDA margin contracted by 291bps to 27.6% on high base. PAT declined by 6.3% YoY to Rs1.2bn on higher interest, depreciation and tax rate. Tax rate stood at 27.8% of PBT vs. 23.5% in 2QFY19 vs. 24.3% in 1QFY20. **We maintain our BUY recommendation on the stock with a revised Target Price of Rs1,130 (from Rs1,200 earlier).**

Key Result Highlights

- Domestic Biz (31% of Sales):** AJP's domestic business grew by 13.4% YoY and 4.6% QoQ owing to higher volume and new launches. As per IMS MAT Sept'19, AJP grew by 16% vs. IPM growth of 10%, while it also reported higher growth than IPM in four key therapeutic segments i.e. CVS (16% vs. 12% IPM growth), Ophthalmology (17% vs. 10% IPM growth), Dermatology (12% vs. 10% IPM growth) and Pain Management (20% vs. 11% IPM growth). AJP maintained its ranking in IPM at 31 in Sept'19 vs. 32 in Sept'18. Its MR headcount currently stands at >3,000 with 270+ product basket.
- Africa Biz (24% of Sales) & Asia Biz (28% Sales):** AJP reported impressive sales growth in institutional anti-malaria sales on lower YoY base (+60% YoY vs. 50% YoY in 1QFY20), while branded Africa business declined by 10% YoY. Overall African sales grew by 13% YoY in 2QFY20 (vs. 32% YoY decline in FY19) owing to increase in supplies (government order). AJP's Asia business grew 34% YoY to Rs1.8bn. The Management maintained its guidance that Africa institutional sales to decline by 10-15% YoY in FY20E led by uncertainty over procurement and lower pricing. Overall, we expect Africa (branded) and Asia business to clock 10% and 12% CAGR over FY19-21E.

Outlook & Valuation

Looking ahead, we expect AJP's domestic formulation business to clock 12.5% CAGR over FY19-21E led by new product launches, while Asia and US businesses are expected to record 12% and 27% CAGR, respectively. AJP has lowered its gross margin guidance to 75% (from 79% earlier) and EBITDA margin to 25% (from 27.0-27.5% earlier) on account of higher sales contribution from low-margin Africa and US business. At CMP, the stock trades at 23.1x and 18.7x of FY20E and FY21E earnings (1-Yr fwd 3-yr historical avg PE @27.1x). **Hence, downwardly revising our PAT estimates by 9.8%/5.8% for FY20E/FY21E, we maintain our BUY recommendation on the stock with a revised Target Price of Rs1,130 (from Rs1,200 earlier), valuing it at 21x of FY21E EPS of Rs53.8.**

Quarterly Performance (Rs mn)	2QFY20	2QFY19	YoY, %	1QFY20	QoQ, %
Revenue	6,428	5,441	18.1	6,119	5.0
EBIDTA	1,777	1,662	6.9	1,684	5.5
EBIDTA Margin (%)	27.6	30.5	(291)bps	27.5	12bps
EBIT	1,676	1,640	2.2	1,532	9.4
PBT	1,627	1,638	(0.7)	1,515	7.4
Tax	452	385	17.6	368	22.8
Adj. PAT	1,175	1,254	(6.3)	1,146	2.5
Adj EPS (Rs)	13.3	14.2	(6.3)	13.0	2.5

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	1.8	4.7	(5.4)
Relative to Nifty	7.1	8.9	13.2

Shareholding Pattern (%)	Sep-19	Jun-19
Promoter	70.5	70.5
Public	29.5	29.5

Key Financials (Rs mn)	FY19	FY20E	FY21E
Sales	20,554	22,907	25,726
EBITDA	5,664	5,733	6,824
Adj. PAT	3,870	3,847	4,760
EPS (Rs)	43.8	43.5	53.8
P/E (x)	22.9	23.1	18.7
EV/Sales (x)	4.3	3.8	3.4
EV/EBITDA (x)	15.4	15.3	12.8
ROE (%)	17.2	15.0	16.1
ROCE (%)	22.6	20.0	21.0

Change of Estimates (% change)	FY20E	FY21E
Revenue	1.4	2.8
EBITDA	(8.1)	(5.3)
PAT	(9.8)	(5.8)

1 Year Stock Price Performance



Note: * CMP as on Nov. 05, 2019

Research Analyst: Krishnanath.Munde

Contact: (022) 4034629

Email: Krishnanath.Munde@relianceada.com

Institutional Equity Research

Ajanta Pharma

Pharmaceuticals | India

CMP* (Rs)	1,004
Upside/ (Downside) (%)	13
Bloomberg Ticker	AJP IN

BUY 

Target Price: Rs1,130

US sales (17% of sales)

US business rose by 39% YoY to Rs1.1bn (vs. our estimate of Rs1bn) due to lower YoY base and new launches. AJP expects US business to grow by 25-30% YoY in FY20 led by new launches. Cumulative ANDA filings stood at 53 as of 2QFY20-end, while 26 ANDAs are pending for approvals. The Company is expected to file 10-12 ANDAs with the US FDA in FY20E (FY19 filed ANDAs - 13). Notably, AJP has so far commercialised 27 ANDAs in the US.

Key Guidance

The Management re-iterated its guidance on branded business (India, Africa and Asia: 72% of sales) to grow by 10-11% YoY in FY20E. It pegs gross margin at 75% (77% in 1QFY20; 74% in 2QFY20 and 81% in FY19) on account of higher sales contribution from low-margin US and Africa business. AJP also lowered its EBITDA margin guidance to 25% in FY20E (vs. earlier guidance of 27-27.5% in 1QFY20), while expecting 100-150bps improvement in FY21E.

Risks to the View

- ▶ Inordinate delay in US FDA approvals.
- ▶ Unfavourable currency fluctuations in the Emerging Markets.

Exhibit 1: Segment-wise sales performance

(Rs mn)	2QFY20	2QFY19	YoY, %	1QFY20	QoQ, %
India	2,030	1,790	13.4	1,940	4.6
Emerging market	3,360	2,730	23.1	3,020	11.3
Africa	1,540	1,360	13.2	1,730	(11.0)
Asia	1,810	1,350	34.1	1,260	43.7
LatAm & others	10	20	(50.0)	30	(66.7)
US	1,110	800	38.8	1,020	8.8
Total Sales	6,500	5,320	22.2	5,980	8.7

Source: Company, RSec Research

Institutional Equity Research

Ajanta Pharma

Pharmaceuticals | India

CMP* (Rs)	1,004
Upside/ (Downside) (%)	13
Bloomberg Ticker	AJP IN

BUY 

Target Price: Rs1,130

Exhibit 2: Quarterly Performance

(Rs mn)	2QFY20	2QFY19	YoY, %	1QFY20	QoQ, %
Net Sales	6,428	5,441	18.1	6,119	5.0
Cost of Revenues	1,665	959	73.5	1,425	16.8
Gross Profit	4,763	4,482	6.3	4,694	1.5
% of net sales	74.1	82.4	-827 bps	76.7	-261 bps
Employee expenses	1,174	1,058	11.0	1,183	(0.8)
Other Expenses	1,812	1,762	2.8	1,827	(0.8)
Total operating expenses	4,651	3,779	23.1	4,436	4.9
EBITDA	1,777	1,662	6.9	1,684	5.5
EBITDA margin (%)	27.6	30.5	-291 bps	27.5	12 bps
Depreciation	233	175	33.2	228	2.3
Other Income	132	152	(13.3)	76	73.0
EBIT	1,676	1,640	2.2	1,532	9.4
Interest	49	1	3,692.3	18	175.4
PBT	1,627	1,638	(0.7)	1,515	7.4
Total tax	452	385	17.6	368	22.8
Tax Rate (%)	27.8	23.5	432 bps	24.3	348 bps
Adj PAT	1,175	1,254	(6.3)	1,146	2.5
Extra-ordinary items	10.7	-	-	-	-
Reported PAT	1,164	1,254	(7.2)	1,146	1.5
Adj. EPS (Rs)	13.3	14.2	(6.3)	13.0	2.5

Source: Company, RSec Research

Institutional Equity Research

Ajanta Pharma

Pharmaceuticals | India

CMP* (Rs)	1,004
Upside/ (Downside) (%)	13
Bloomberg Ticker	AJP IN

BUY 

Target Price: Rs1,130

Profit & Loss Statement

Y/E March (Rs mn)	FY18	FY19	FY20E	FY21E
Net sales	21,309	20,554	22,907	25,726
% yoy change	6.5	-3.5	11.4	12.3
RM cost	4,064	3,835	5,727	6,300
Employee expenses	3,765	4,307	4,604	5,171
Other expenses	6,896	6,748	6,843	7,431
Total operating expenditure	14,725	14,889	17,174	18,902
EBIDTA	6,584	5,664	5,733	6,824
EBIDTA margin (%)	30.9	27.6	25.0	26.5
Depreciation	596	721	903	923
Other income	242	211	369	412
EBIT	6,230	5,154	5,199	6,313
Interest costs	4	12	70	50
PBT	6,226	5,143	5,129	6,263
Taxes	1,539	1,273	1,282	1,503
Tax rate (%)	24.7	24.8	25.0	24.0
Adjusted PAT	4,686	3,870	3,847	4,760
% yoy change	-7.5	-17.4	-0.6	23.7
Adjusted EPS (Rs)	53.0	43.8	43.5	53.8

Balance Sheet

Y/E March (Rs mn)	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS				
Equity Share Capital	177	175	175	175
Reserves & Surplus	20,237	22,277	25,493	29,472
Shareholders Funds	20,414	22,452	25,668	29,647
Total Loans	10	340	340	340
Other long term liabilities	-	3	3	3
Deferred tax liabilities	470	589	589	589
Total Liabilities	20,894	23,384	26,600	30,579
APPLICATION OF FUNDS				
Gross Block	14,172	16,103	18,803	20,153
Less: Acc. Depreciation	3,646	4,318	5,220	6,143
Net Block	10,527	11,786	13,583	14,010
Capital Work-in-Progress	613	2,613	2,913	3,063
Investments	76	130	130	130
Current Assets	12,236	11,812	12,809	15,836
Current investment	1,824	647	680	714
Inventories	3,506	4,357	4,505	5,334
Sundry Debtors	4,920	4,595	5,334	6,343
Cash and Bank	906	952	730	1,277
Bank Balance	25	54	54	54
Loans & Advances	1,055	1,208	1,506	2,114
Current liabilities	3,592	3,577	3,389	3,031
Net Current Assets	8,644	8,235	9,420	12,806
Net Deferred Tax	226	318	237	237
Other non-current assets	808	303	318	334
Total Assets	20,894	23,384	26,600	30,579

Institutional Equity Research

Ajanta Pharma

Pharmaceuticals | India

CMP* (Rs)	1,004
Upside/ (Downside) (%)	13
Bloomberg Ticker	AJP IN

BUY 

Target Price: Rs1,130

Cash Flow Statement

Y/E March (Rs mn)	FY18	FY19	FY20E	FY21E
Profit before tax	6,226	5,143	5,129	6,263
Depreciation	596	721	903	923
Interest provided	4	12	70	50
Change in Working Capital	(2,544)	(904)	(1,374)	(2,805)
Tax Paid	(1,396)	(1,182)	(1,282)	(1,503)
Others	(75)	(42)	82	-
Cash Flow from Operations	2,811	3,748	3,527	2,927
(Inc.)/ Dec. in Fixed Assets	(2,627)	(3,430)	(3,000)	(1,500)
(Inc.)/ Dec. in Investments	-	-	32	34
Others	66	1,202	(48)	(50)
Cash Flow from Investing	(2,561)	(2,228)	(3,048)	(1,550)
Issue of Equity	-	(1,010)	-	-
Inc./(Dec.) in loans	5	342	-	-
Dividend Paid (Incl. Tax)	(3)	(795)	(631)	(781)
Interest provided	(4)	(12)	(70)	(50)
Others	1	1	-	-
Cash Flow from Financing	(1)	(1,474)	(701)	(831)
Inc./(Dec.) in Cash	248	45	(222)	547
Opening Cash balances	658	906	952	730
Closing Cash balances	906	952	730	1,277

Key Ratios

Y/E March	FY18	FY19	FY20E	FY21E
Valuation Ratio (x)				
P/E	18.9	22.9	23.1	18.7
P/CEPS	16.8	19.3	18.7	15.6
P/BV	4.4	4.0	3.5	3.0
Dividend yield (%)	0.0	0.9	0.7	0.9
EV/Sales	4.0	4.3	3.8	3.4
EV/EBITDA	13.1	15.4	15.3	12.8
Per Share Data (Rs)				
EPS	53.0	43.8	43.5	53.8
Cash EPS	59.7	51.9	53.7	64.2
DPS	0.0	9.0	7.1	8.8
Book Value (BV)	230.8	253.8	290.2	335.2
Returns (%)				
RoCE	30.5	22.6	20.0	21.0
RoE	23.0	17.2	15.0	16.1
Turnover ratios (x)				
Asset Turnover (Gross Block)	1.5	1.3	1.2	1.3
Asset Turnover (Net Block)	2.0	1.7	1.7	1.8
Inventory (days)	60	77	80	85
Receivables (days)	84	82	85	90
Payables (days)	43	40	38	30

Institutional Equity Research

Ajanta Pharma

Pharmaceuticals | India

CMP* (Rs)	1,004
Upside/ (Downside) (%)	13
Bloomberg Ticker	AJP IN

BUY 

Target Price: Rs1,130

Rating History

Date	Reco	CMP	TP
01-Aug-19	BUY	957	1,200
03-May-19	BUY	1,049	1,200
31-Jan-19	BUY	1,021	1,225
31-Oct-18	BUY	1,058	1,360
1-Aug-18	BUY	1,137	1,360
4-May-18	HOLD	1,261	1,337
29-Jan-18	BUY	1,447	1,860
1-Nov-17	BUY	1,209	1,500

[PLEASE CLICK HERE FOR PREVIOUS REPORTS](#)

Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

Reliance Securities Limited (RSL), the broking arm of Reliance Capital is one of the India's leading retail broking houses. Reliance Capital is amongst India's leading and most valuable financial services companies in the private sector. Reliance Capital has interests in asset management and mutual funds, life and general insurance, commercial finance, equities and commodities broking, wealth management services, distribution of financial products, private equity, asset reconstruction, proprietary investments and other activities in financial services. The list of associates of RSL is available on the website www.reliancecapital.co.in. RSL is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014

General Disclaimers: This Research Report (hereinafter called 'Report') is prepared and distributed by RSL for information purposes only. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through RSL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security(ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by RSL to be reliable. RSL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of RSL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

Risks: Trading and investment in securities are subject to market risks. There are no assurances or guarantees that the objectives of any of trading / investment in securities will be achieved. The trades/ investments referred to herein may not be suitable to all categories of traders/investors. The names of securities mentioned herein do not in any manner indicate their prospects or returns. The value of securities referred to herein may be adversely affected by the performance or otherwise of the respective issuer companies, changes in the market conditions, micro and macro factors and forces affecting capital markets like interest rate risk, credit risk, liquidity risk and reinvestment risk. Derivative products may also be affected by various risks including but not limited to counter party risk, market risk, valuation risk, liquidity risk and other risks. Besides the price of the underlying asset, volatility, tenor and interest rates may affect the pricing of derivatives.

Disclaimers in respect of jurisdiction: The possession, circulation and/or distribution of this Report may be restricted or regulated in certain jurisdictions by appropriate laws. No action has been or will be taken by RSL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. RSL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to RSL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Disclosure of Interest: The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the securities and their respective issuers. None of RSL, research analysts, or their relatives had any known direct /indirect material conflict of interest including any long/short position(s) in any specific security on which views/opinions have been made in this Report, during its preparation. RSL's Associates may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report. RSL, its Associates, the research analysts, or their relatives might have financial interest in the issuer company(ies) of the said securities. RSL or its Associates may have received a compensation from the said issuer company(ies) in last 12 months for the brokerage or non brokerage services. RSL, its Associates, the research analysts or their relatives have not received any compensation or other benefits directly or indirectly from the said issuer company(ies) or any third party in last 12 months in any respect whatsoever for preparation of this report.

The research analysts has served as an officer, director or employee of the said issuer company(ies)?: No

RSL, its Associates, the research analysts or their relatives holds ownership of 1% or more, in respect of the said issuer company(ies).?: No

Copyright: The copyright in this Report belongs exclusively to RSL. This Report shall only be read by those persons to whom it has been delivered. No reprinting, reproduction, copying, distribution of this Report in any manner whatsoever, in whole or in part, is permitted without the prior express written consent of RSL.

RSL's activities were neither suspended nor have defaulted with any stock exchange with whom RSL is registered. Further, there does not exist any material adverse order/judgments/strictures assessed by any regulatory, government or public authority or agency or any law enforcing agency in last three years. Further, there does not exist any material enquiry of whatsoever nature instituted or pending against RSL as on the date of this Report.

Important These disclaimers, risks and other disclosures must be read in conjunction with the information / opinions / views of which they form part of.

RSL CIN: U65990MH2005PLC154052. SEBI registration no. (Stock Brokers: NSE - INB / INF / INE 231234833; BSE - INB / INF / INE 011234839, Depository Participants: CDSL IN-DP-257-2016 IN-DP-NSDL-363-2013, Research Analyst: INH000002384); AMFI ARN No.29889.