

### Higher forex gains aids 1Q, margin sustenance to drive re-rating

Ajanta's Q1 missed our estimates by 5%/15% on top-line and PAT (adjusted for forex gain of Rs250mn). EBITDA margins at 29.4% contracted 480 bps QoQ despite 77% gross margins as cost structures normalized in Q1. Revenue grew 13% YoY, driven by strong recovery in India (32% YoY). Field force rationalization aided in productivity. Exports performance was muted at 6% YoY growth with US steady at US\$23mn (lack of major launch), branded business up 8% YoY. Tender business declined owing to its lumpy nature. Management remained confident of outperforming market growth of its major geographies (India, Asia and Africa) and maintaining EBITDA margins at 29-30% for FY22E. With most levers of cost control exhausted, the margin performance will now be driven by higher revenue growth.

**Key triggers:** (1) India business to outperform IPM by 2-3% (2) US achieved breakeven in FY19 and is expected to drive operating leverage benefits with new launches (3) High exposure to branded business (70%) offers good growth visibility with superior margins (4) Margins to sustain at ~30% (5) Capex cycle done, expect improved A/O of 1.8-2x resulting in operating leverage, core RoCE expansion from 29% in FY20 to 39% in FY23E.

**Our View:** After breaking even in the US in FY19 and realigning its Africa branded business, Ajanta has consistently registered growth across market segments. 2HFY21 highlights the recovery in its ophthal and derma portfolio in India, while Q1FY22 reflects ramp up in cardiac portfolio which is likely to drive low teens growth in FY22. Besides, Ajanta's gross block has increased 3x in past 5 years (invested Rs16bn in facilities through internal accruals), indicating better free cash generation going ahead. We reckon that peak capacity utilization at Guwahati and Dahej plants over the next 2 years could potentially add Rs12bn to revenues.

Despite higher capex, slowdown in businesses, company has consistently generated FCF, which speaks volumes about its strong business model. We estimate sales/PAT CAGR of 13%/12% over FY21–23E, along with a margins at 31-32%. At the CMP, Ajanta is trading at 25x its FY23E EPS. Given its strong return profile and healthy balance sheet, we value Ajanta at a premium vs its peers. Our SOTP methodology values Ajanta at Rs2,642 (implying PE of 28x FY23E).

### Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	7,480	6,682	11.9	7,568	(1.2)
Total Expense	5,278	4,450	18.6	4,974	6.1
EBITDA	2,202	2,232	(1.3)	2,594	(15.1)
Depreciation	309	280	10.2	306	0.9
EBIT	1,893	1,952	(3.0)	2,288	(17.3)
Other Income	76	131	(41.8)	25	201.6
Interest	15	16	(7.4)	26	(41.0)
EBT	2,205	2,067	6.7	2,288	(3.6)
Tax	467	589	(20.8)	695	(32.8)
RPAT	1,738	1,478	17.6	1,593	9.1
APAT	1,488	1,478	0.7	1,593	(6.6)
			(bps)		(bps)
Gross Margin (%)	77.1	77.1	(4)	77.8	(76)
EBITDA Margin (%)	29.4	33.4	(397)	34.3	(484)
NPM (%)	23.2	22.1	112	21.0	219
Tax Rate (%)	21.2	28.5	(733)	30.4	(920)
EBIT Margin (%)	25.3	29.2	(390)	30.2	(492)

CMP	Rs 2,395		
Target / Upside	Rs 2,642 / 10%		
NIFTY	15,779		
<b>Scrip Details</b>			
Equity / FV	Rs 174mn / Rs 2		
Market Cap	Rs 208bn		
	USD 3bn		
52-week High/Low	Rs 2,435 / 1,425		
Avg. Volume (no)	124,185		
Bloom Code	AJP IN		
<b>Price Performance</b>			
1M	3M	12M	
Absolute (%)	15	27	61
Rel to NIFTY (%)	15	21	22

### Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	70.3	70.3	70.3
MF/Banks/FIs	20.8	20.4	20.2
FII	7.9	8.4	8.9
Public / Others	1.0	0.9	0.6

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	31.8	29.4	25.4
EV/EBITDA	20.5	19.4	16.4
ROE (%)	23.4	21.6	21.0
RoACE (%)	21.8	20.1	19.7

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	28,897	32,815	37,034
EBITDA	9,986	10,273	11,825
PAT	6,539	7,070	8,194
EPS (Rs.)	75.2	81.3	94.2

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**Exhibit 1: Revenue Mix**

Rs mn	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY22E	FY21	YoY (%)
Domestic Formulations	2,290	1,740	31.6	2,180	5.0	9,024	8,130	11.0
US	1,680	1,490	12.8	1,730	(2.9)	7,889	6,370	23.8
Africa branded	1,250	1,080	15.7	970	28.9	4,582	4,091	12.0
Africa Tender	540	620	(12.9)	800	(32.5)	2,846	2,710	5.0
Asia	1,650	1,610	2.5	1,760	(6.3)	8,007	7,149	12.0
Others	10	30	(66.7)	0	0	0	0	0
<b>Gross revenues</b>	<b>7,420</b>	<b>6,570</b>	<b>12.9</b>	<b>7,440</b>	<b>(0.3)</b>	<b>32,347</b>	<b>28,450</b>	<b>13.7</b>

Source: DART, Company

**Key con-call takeaways:**

**India:** Branded formulations in Q1 reported 32% YoY growth on a lower base, price hikes in select products and 5 new launches (including 1 FTM).

- Management guided for additional 5-6 launches in 9M.
- Revival in the cardiac segment at 14% vs IPM growth of 15%, Pain segment grew 30% YoY vs IPM of 10% coupled with improving offtake of derma products (21% growth vs IPM growth of 12%) as clinic footfalls increase has driven growth.
- Issues in derma (Melacare) and Opthal (Softdrops market shift towards MaxMoist) has now stabilized and these segments are expected to outperform branded formulations growth vs IPM.
- In-order to improve productivity, company has rationalized its field force by 200 MRs. The cumulative field force now stands at 2800 and MR productivity as on Q1 stands at 3.2mn PCPA. The sales force rationalization program is ongoing.
- Management guided to beat IPM growth for FY22E to be driven by marketing and customer connect initiatives.

**US:** Ajanta continue to report steady growth in the US at US\$23mn in 1Q (up 13% YoY, down 3% QoQ) as Ranitidine recall comes in base.

- The management reiterated its filing guidance of 10-12 and 4-5 launches in FY22E (2 launched in Q1).
- Given that FY20 and FY21 had lower filings, we expect the product launch rate to also be at the lower end instead of usual run-rate of 6-8 launches.
- R&D guided to remain at 6% of sales in FY22E
- We expect the US business to grow 22% sales CAGR over FY21-23E, led by new launches and a lower base. US is profitable at the net level and new launches are expected to drive operating leverage. Key products filed are Chantix, Vimovo, Bystolic whose patents are set to expire in the near term.
- On a cumulative basis, Ajanta has 43 approvals, and 15 products pending for approval. It has already commercialized 38 products until now.

**Branded EM:** The EM branded business reported 8% YoY and 6% QoQ in Q1FY22.

- Management stated that activities in these markets have reached normalcy and guided of beating market growth across geographies.
- As on Q1, EM has 1400+ products registered across 29 markets.

- Growth in Asia is expected to be driven by steady performance in Philippines, new launches and volume led, whereas Africa market is guided to grow in high single digit over the next 2 years.

**Africa tender:** The tender business declined 13% YoY and 33% QoQ in Q1. We expect branded Africa business to report 9% CAGR, while the tender business is expected to grow at a modest 5% over FY21-23E.

**Capex:** Incurred Rs270mn capex in Q1, guided for Rs2bn for FY22E.

- Ajanta's Dahej facility, built with a capex of ~Rs4bn, is expected to ramp up from FY22E.
- Investment in Guwahati is Rs4bn. Its new ophthalmology block has started commercialization in 3QFY20. Management guided for asset turn of 1.5-2x for this unit.
- Current capacity utilization is ~60-70%
- Next 3 years, capex is expected to be largely maintenance capex.

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>25,879</b>	<b>28,897</b>	<b>32,815</b>	<b>37,034</b>
<b>Total Expense</b>	<b>19,045</b>	<b>18,911</b>	<b>22,542</b>	<b>25,209</b>
COGS	6,557	6,451	8,124	8,892
Employees Cost	4,856	5,483	6,308	7,126
Other expenses	7,632	6,978	8,111	9,191
<b>EBIDTA</b>	<b>6,833</b>	<b>9,986</b>	<b>10,273</b>	<b>11,825</b>
Depreciation	957	1,161	1,326	1,444
<b>EBIT</b>	<b>5,876</b>	<b>8,825</b>	<b>8,947</b>	<b>10,380</b>
Interest	119	83	33	17
Other Income	922	260	268	278
Exc. / E.O. items	(39)	0	0	0
<b>EBT</b>	<b>6,640</b>	<b>9,002</b>	<b>9,182</b>	<b>10,642</b>
Tax	1,963	2,463	2,112	2,448
RPAT	4,677	6,539	7,070	8,194
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>4,677</b>	<b>6,539</b>	<b>7,070</b>	<b>8,194</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	175	174	174	174
Minority Interest	0	0	0	0
Reserves & Surplus	25,813	29,782	35,418	42,178
<b>Net Worth</b>	<b>25,989</b>	<b>29,956</b>	<b>35,592</b>	<b>42,352</b>
Total Debt	436	16	18	19
Net Deferred Tax Liability	1,897	2,551	2,685	2,832
<b>Total Capital Employed</b>	<b>28,321</b>	<b>32,524</b>	<b>38,295</b>	<b>45,203</b>

**Applications of Funds**

Net Block	<b>13,813</b>	<b>14,489</b>	<b>15,374</b>	<b>15,430</b>
CWIP	2,227	2,004	2,304	2,604
Investments	181	139	174	218
<b>Current Assets, Loans &amp; Advances</b>	<b>16,966</b>	<b>21,155</b>	<b>24,859</b>	<b>32,747</b>
Inventories	4,957	7,665	5,597	7,263
Receivables	7,753	7,384	7,799	8,410
Cash and Bank Balances	2,053	2,096	7,311	12,764
Loans and Advances	669	1,018	1,159	1,319
Other Current Assets	863	1,235	1,235	1,235
<b>Less: Current Liabilities &amp; Provisions</b>	<b>4,866</b>	<b>5,264</b>	<b>4,416</b>	<b>5,796</b>
Payables	3,623	3,739	2,821	4,194
Other Current Liabilities	1,242	1,525	1,595	1,602
<i>sub total</i>				
Net Current Assets	12,100	15,891	20,443	26,951
<b>Total Assets</b>	<b>28,321</b>	<b>32,524</b>	<b>38,295</b>	<b>45,203</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	74.7	77.7	75.2	76.0
EBIDTA Margin	26.4	34.6	31.3	31.9
EBIT Margin	22.7	30.5	27.3	28.0
Tax rate	29.6	27.4	23.0	23.0
Net Profit Margin	18.1	22.6	21.5	22.1
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	25.3	22.3	24.8	24.0
Employee	18.8	19.0	19.2	19.2
Other	29.5	24.1	24.7	24.8
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	49.3	106.7	270.5	627.6
Inventory days	70	97	62	72
Debtors days	109	93	87	83
Average Cost of Debt	30.7	36.6	196.9	89.5
Payable days	51	47	31	41
Working Capital days	171	201	227	266
FA T/O	1.9	2.0	2.1	2.4
<b>(D) Measures of Investment</b>				
AEPS (Rs)	53.8	75.2	81.3	94.2
CEPS (Rs)	64.8	88.6	96.6	110.9
DPS (Rs)	13.3	9.5	16.5	16.5
Dividend Payout (%)	24.8	12.7	20.3	17.5
BVPS (Rs)	298.9	344.5	409.3	487.1
RoANW (%)	19.3	23.4	21.6	21.0
RoACE (%)	18.6	21.8	20.1	19.7
RoAIC (%)	24.0	31.1	29.1	32.7
<b>(E) Valuation Ratios</b>				
CMP (Rs)	2395	2395	2395	2395
P/E	44.5	31.8	29.4	25.4
Mcap (Rs Mn)	208,219	208,219	208,219	208,219
MCap/ Sales	8.0	7.2	6.3	5.6
EV	205,931	204,382	199,169	193,718
EV/Sales	8.0	7.1	6.1	5.2
EV/EBITDA	30.1	20.5	19.4	16.4
P/BV	8.0	7.0	5.9	4.9
Dividend Yield (%)	0.6	0.4	0.7	0.7
<b>(F) Growth Rate (%)</b>				
Revenue	25.9	11.7	13.6	12.9
EBITDA	20.6	46.1	2.9	15.1
EBIT	18.9	50.2	1.4	16.0
PBT	29.1	35.6	2.0	15.9
APAT	20.9	39.8	8.1	15.9
EPS	20.9	39.8	8.1	15.9

**Cash Flow**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	4,670	5,708	9,226	8,744
CFI	(2,617)	(2,657)	(2,546)	(1,844)
CFF	(1,006)	(3,007)	(1,465)	(1,448)
FCFF	2,053	3,051	6,680	6,900
Opening Cash	1,005	2,053	2,096	7,311
Closing Cash	2,053	2,096	7,311	12,764

E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-20	Accumulate	1,771	1,629
Nov-20	Accumulate	1,771	1,611
Feb-21	Buy	2,208	1,802
Feb-21	Buy	2,208	1,805
Apr-21	Buy	2,205	1,840

\*Price as on recommendation date

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