

29 July 2021

Ajanta Pharma

India shines, export growth to pick up ahead; maintaining a Buy

Ajanta's Q1 FY22 sales grew 11.9% to Rs7.5bn, driven by a rebound in India and strong growth in the US and Africa branded segment. The gross margin was flat at 77.1% y/y, while the EBITDA margin contracted 397bps to 29.4% as promotional costs are now surging to pre-Covid levels. PAT grew 17.6% to Rs1.7bn due to a lower tax rate and forex gains. Ajanta's operations are now recovering from the impact of Covid and the company has launched 25 products in India in the last one year while R&D spend for the US has gone up. With launches and continuing momentum in the Rest of Asia and Africa, Ajanta is set to deliver 16.4%/15.7%/24.4% revenue/EBITDA/PAT growth over FY21-23. We retain our Buy rating, with a higher target of Rs2,795 (earlier Rs2,167), 24x FY23e EPS.

India business to grow more than the market. In Q1, the India business sales grew 31.6% to Rs2.2bn, driving traction in ophthal and derma. The company launched five products and may launch another 4-5 in the rest of the fiscal. The India business growth will be accelerated by launches, price hikes and market-share gains. We build in 15.1% growth over FY21-23.

US sales to grow 26% over FY21-23. Its US sales were up 13% to Rs1.7bn. In Q1 FY22 it launched two products. It has so far commercialised 38 products in the US and has 12 awaiting US FDA approval. Overall in FY22, it aims to launch 4-5 products and file 10-12.

Cost efficiencies steps may help margins persist. As promotional costs return to pre-Covid levels, Ajanta's Q1 margins took a hit. Ahead, price hikes in its branded portfolio (70% of its business), more captive manufacturing and greater leverage will be primary drivers of margins. The new plants tax exemptions will reduce the tax rate to 22% in FY22.

Valuation. At the CMP, the stock trades at 24.8x/20.6x FY22e/23e earnings. We maintain a Buy, with a higher target of Rs2,795. **Risks:** Currency fluctuations, delay in ramping up new facilities, pricing risk in India.

Key financials (YE Mar)	FY19	FY20	FY21	FY22e	FY23e
Sales (Rs m)	20,554	25,879	28,897	34,004	39,171
Net profit (Rs m)	3,870	4,705	6,539	8,403	10,123
EPS (Rs)	44.1	53.6	75.2	96.6	116.4
PE (x)	23.4	25.5	23.8	24.8	20.6
EV / EBITDA (x)	15.7	17.2	15.4	17.5	14.4
PBV (x)	4.0	4.6	5.2	5.6	4.6
RoE (%)	18.1	19.4	23.4	25.0	24.3
RoCE (%)	17.7	19.1	23.0	24.8	24.1
Dividend yield (%)	0.9	0.6	0.4	0.5	0.6
Net debt / equity (x)	-0.1	-0.1	-0.1	-0.3	-0.4

Source: Company, Anand Rathi Research

Rating: **Buy**

Target Price: Rs2,795

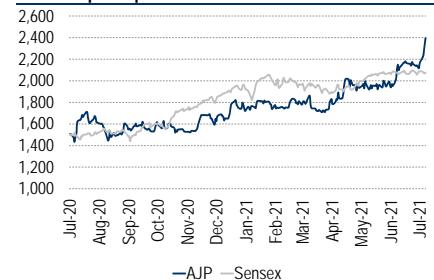
Share Price: Rs2,394

Key data	AJP IN / AJPH.BO
52-week high / low	Rs.2422 / 1422
Sensex / Nifty	52653 / 15778
3-m average volume	\$3.6m
Market cap	Rs.207bn / \$2789.5m
Shares outstanding	87m

Shareholding pattern (%)	Jun'21	Mar'21	Dec'20
Promoters	70.3	70.3	70.3
- of which, Pledged	15.0	15.5	15.2
Free float	29.7	29.7	29.7
- Foreign institutions	8.9	8.4	7.9
- Domestic institutions	11.0	10.9	10.9
- Public	9.7	10.4	10.9

Estimates revision (%)	FY22e	FY23e
Sales	(0.1)	(0.1)
EBITDA	(0.1)	(0.1)
EPS	7.2	7.3

Relative price performance



Source: Bloomberg

Abdulkader Puranwala

Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Net revenues	20,554	25,879	28,897	34,004	39,171
Growth (%)	-3.5	25.9	11.7	17.7	15.2
Direct costs	3,835	6,557	6,451	7,787	8,970
SG&A	11,055	12,488	12,461	14,792	16,843
EBITDA	5,665	6,834	9,986	11,425	13,357
EBITDA margins (%)	27.6	26.4	34.6	33.6	34.1
- Depreciation	721	957	1,161	1,307	1,406
Other income	211	922	260	714	764
Interest expenses	12	119	83	59	61
PBT	5,143	6,640	9,002	10,773	12,654
Effective tax rate (%)	24.8	29.6	27.4	22.0	20.0
+ Associates / (Minorities)	-	-	-	-	-
Net income	3,870	4,677	6,539	8,403	10,123
Adjusted income	3,870	4,705	6,539	8,403	10,123
WANS	88	88	87	87	87
FDEPS (Rs / sh)	44.1	53.6	75.2	96.6	116.4
R&D (% of sales)	8.6	6.3	4.8	6.0	6.0

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
PBT (adj. for int.exp./other inc.)	4,944	5,837	8,825	10,118	11,951
+ Non-cash items	721	957	1,161	1,307	1,406
Oper. prof. before WC	5,665	6,794	9,986	11,425	13,357
- Incr. / (decr.) in WC	197	1,194	1,952	-393	1,546
Others incl. taxes	1,239	1,864	2,614	2,370	2,531
Operating cash-flow	4,229	3,737	5,420	9,449	9,281
- Capex (tang.+intang.)	3,979	2,599	1,614	2,500	1,800
Free cash-flow	250	1,138	3,806	6,949	7,481
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	1,794	1,159	829	1,065	1,283
+ Equity raised	-2	-	-2	-	-
+ Debt raised	342	76	-420	33	-
- Fin investments	-1,122	17	963	-	-
- Misc. (CFI + CFF)	(156)	(1,009)	1,551	(655)	(703)
Net cash-flow	74	1,047	42	6,571	6,900

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

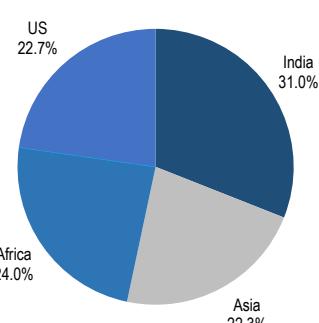
Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Share capital	175	175	174	174	174
Net worth	22,452	25,989	29,956	37,294	46,134
Debt	360	436	16	49	49
Minority interest	-	-	-	-	-
DTL / (Assets)	271	558	421	421	421
Capital employed	23,083	26,982	30,393	37,763	46,603
Net tangible assets	11,716	14,604	15,303	17,303	17,725
Net intangible assets	67	117	108	101	72
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	2,616	1,319	1,082	282	282
Investments (strategic)	130	123	-	-	-
Investments (financial)	647	671	1,757	1,757	1,757
Current assets (excl. cash)	10,463	14,046	16,940	19,833	22,758
Cash	1,005	2,053	2,096	8,667	15,567
Current liabilities	3,561	5,951	6,893	10,179	11,559
Working capital	6,902	8,096	10,047	9,654	11,200
Capital deployed	23,083	26,982	30,393	37,763	46,603
Contingent liabilities	461	501	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	23.4	25.5	23.8	24.8	20.6
EV / EBITDA (x)	15.7	17.2	15.4	17.5	14.4
EV / Sales (x)	4.3	4.5	5.3	5.9	4.9
P/B (x)	4.0	4.6	5.2	5.6	4.6
RoE (%)	18.1	19.4	23.4	25.0	24.3
RoCE (%) - after tax	17.7	19.1	23.0	24.8	24.1
ANDA filings	-	-	-	-	-
DPS (Rs / sh)	20.5	13.2	9.5	12.3	14.8
Dividend yield (%)	0.9	0.6	0.4	0.5	0.6
Dividend payout (%) - incl. DDT	46.4	24.8	12.7	12.7	12.7
Net debt / equity (x)	-0.1	-0.1	-0.1	-0.3	-0.4
Receivables (days)	82	109	93	93	93
Inventory (days)	77	70	97	97	97
Payables (days)	40	51	47	72	72
CFO:PAT%	109.3	79.3	83.0	112.4	91.7

Source: Company, Anand Rathi Research

Fig 6 – Revenue break-up (Q1 FY22)



Source: Company

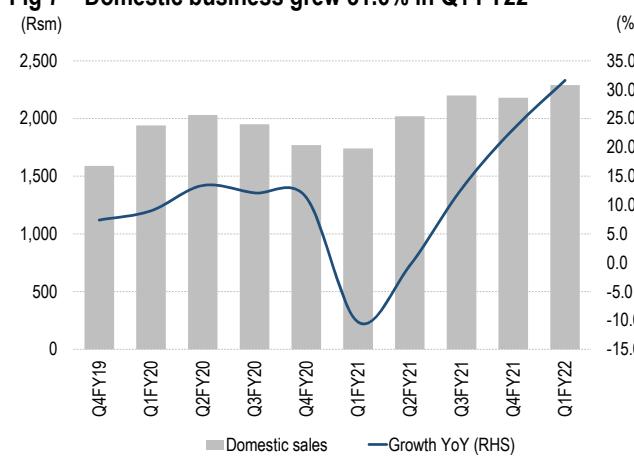
■ Highlights, by segment

India business growing in healthy double-digits. Ajanta's domestic business grew 31.6% in Q1 FY22 due to recovery in its dermatology and ophthalmology divisions and continued momentum in the cardiology and pain management categories.

According to IQVIA MAT Jun'21, the company's cardiology category grew 14% (vs the segment's 15%), ophthalmology 17% (10%), pain management 30% (10%) and dermatology 21% (12%).

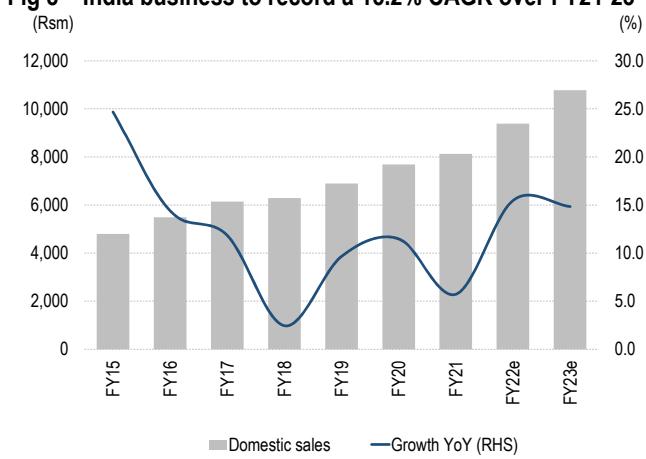
We believe its India business will continue on a growth trajectory, backed by traction in its cardiac, dermatology and ophthalmology therapies. We expect this region to clock a 15.2% CAGR over FY21-23 due to launches each year.

Fig 7 – Domestic business grew 31.6% in Q1 FY22



Source: Company, Anand Rathi Research

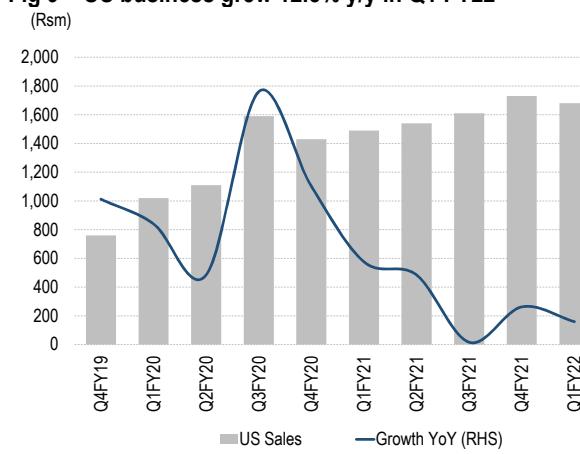
Fig 8 – India business to record a 15.2% CAGR over FY21-23



Source: Company, Anand Rathi Research

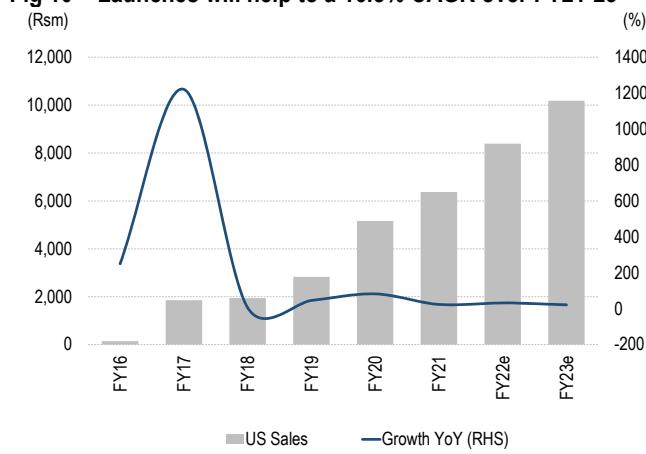
- **Launches to drive growth in the US.** The US business grew 12.8% y/y in Q1 FY22, to Rs1.68bn, aided by two launches in the quarter. In Q1, the company filed one ANDA and plans to file 10-12 in FY22. Ahead, we expect the US business to clock a 16.8% revenue CAGR over FY21-23, aided by the launches.

Fig 9 – US business grew 12.8% y/y in Q1 FY22



Source: Company, Anand Rathi Research

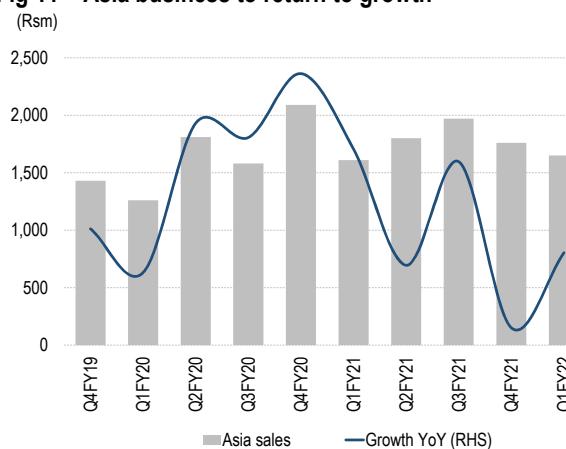
Fig 10 – Launches will help to a 16.8% CAGR over FY21-23



Source: Company, Anand Rathi Research

Asia business to clock a 15.2% CAGR over FY21-23. On a higher base, in Q1 FY22 the Asia business grew 2.5% y/y to Rs1.65bn. We expect this region to register a 15.2% CAGR over FY21-23.

Fig 11 – Asia business to return to growth



Source: Company, Anand Rathi Research

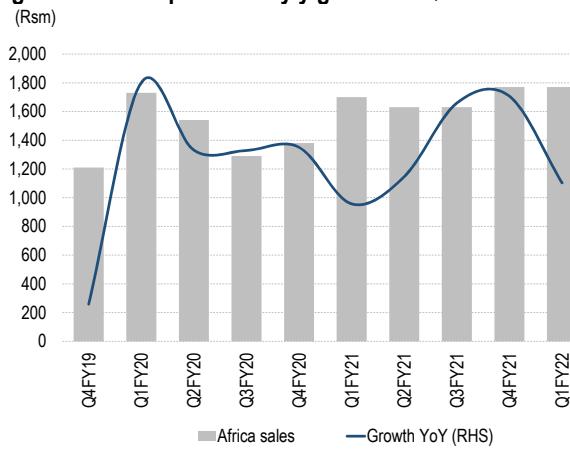
Fig 12 – 15.2% CAGR over FY21-23 expected in Asia business



Source: Company, Anand Rathi Research

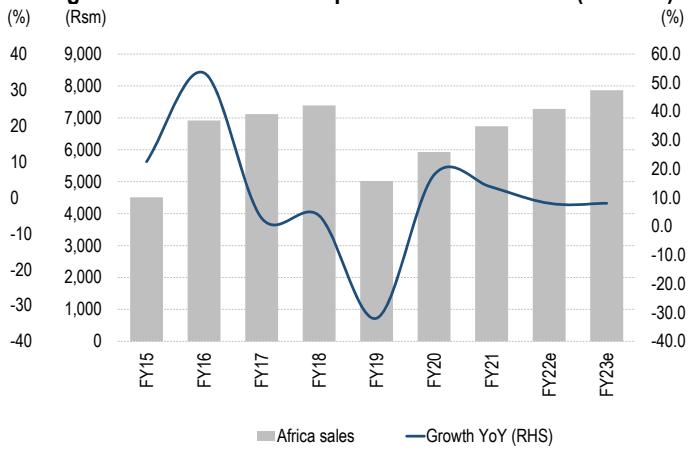
- **Africa business: modest growth.** In Q1 FY22 overall sales to Africa grew 4.1% y/y to Rs1.8bn on the weak institutional business. The Africa branded business grew 15% y/y to Rs1.2bn, while the institutional business declined 13% y/y to Rs540m. Ahead, we expect this region to clock an 8% CAGR over FY21-23.

Fig 13 – Africa reported 4% y/y growth in Q1 FY22



Source: Company, Anand Rathi Research

Fig 14 – Africa business expected at an 8% CAGR (FY21-23)



Source: Company, Anand Rathi Research

Conference Call Highlights

India business

- Launched five products, including one first-to-file in the market
- May launch a further 4-5 products in FY22
- Field-force count reduced by 200; now at 2,800 MRs. May further rationalise the field-force ahead
- Nearly 25% of India sales are from products sourced from third parties. This may come down to 20% in the near term.

US business

- Filed one product with the US FDA and aims to file 10-12 in FY22
- Received approval for one product and launched two.
- Overall, it markets 38 products in the US.

Q1 performance

- Forex gain: Rs250m
- R&D spend: 6% of sales to Rs450m
- Capex in Q1: Rs270m
- Commercialized a new ophthal block in Guwahati, which inflated employee and depreciation costs in Q1.

Guidance

- FY22 tax rate will be 21-23%
- Only maintenance capex for next 3-4 years. FY22 capex: Rs2bn
- R&D for the full year: 6%
- In FY22, its India business would grow ahead of the 11-13% market growth rate
- Cashflow from operations for the next 3-4 years will be mostly returned to shareholders through buybacks and/or dividends.

Fig 15 – Quarterly financials

(Rs m)	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	% Y/Y	% Q/Q
Sales (Rsm)	5,152	6,119	6,428	6,512	6,820	6,682	7,159	7,487	7,568	7,480	11.9	(1.2)
Gross Profit (Rsm)	4,096	4,694	4,763	4,821	5,044	5,151	5,606	5,801	5,889	5,763	11.9	(2.1)
Gross Margin (%)	80	77	74	74	74	77	78	77	78	77	-4bps	-76bps
R&D exps (Rsm)	400	400	400	350	500	310	290	400	390	450	45.2	15.4
EBITDA (Rsm)	1,271	1,684	1,776	1,860	1,513	2,232	2,743	2,417	2,594	2,202	(1.3)	(15.1)
EBITDA margin (%)	24.7	27.5	27.6	28.6	22.2	33.4	38.3	32.3	34.3	29.4	-397bps	-484bps
Interest (Rsm)	8	18	49	16	36	16	15	26	26	15	(7.4)	(41.0)
Depreciation (Rsm)	188	228	233	236	260	280	283	291	306	309	10.2	0.9
Other income (Rsm)	16	76	132	146	567	131	49	55	25	326	148.7	1,189.7
PBT (Rsm)	1,092	1,515	1,616	1,751	1,759	2,067	2,492	2,155	2,288	2,205	6.7	(3.6)
Tax (Rsm)	203	368	452	676	467	589	790	388	695	467	(20.8)	(32.8)
Effective tax rate (%)	18.6	24.3	28.0	38.6	26.6	28.5	31.7	18.0	30.4	21.2	-733bps	-920bps
Adjusted PAT (Rsm)	889	1,146	1,171	1,078	1,310	1,478	1,702	1,766	1,593	1,738	17.6	9.1

Source: Company

Fig 16 – Revenue break-up (Rsm)

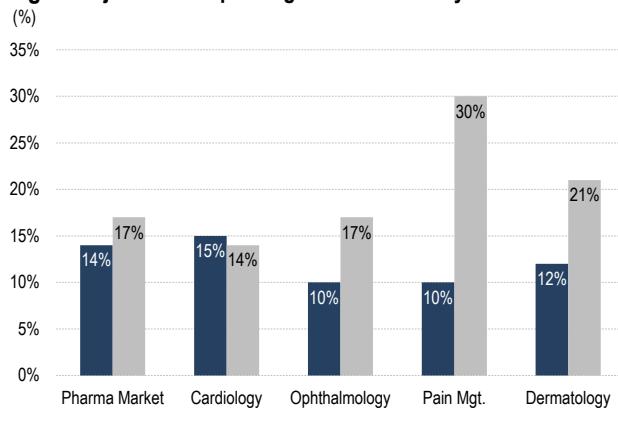
Quarterly results (YE Mar)	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	% Y/Y	% Q/Q
Domestic	1,590	1,940	2,030	1,950	1,770	1,740	2,020	2,200	2,180	2,290	31.6	5.0
Exports	3,430	4,040	4,470	4,480	4,910	4,830	5,000	5,230	5,260	5,100	5.6	(3.0)
Emerging markets	2,670	3,020	3,360	2,890	3,480	3,340	3,460	3,620	3,530	3,420	2.4	(3.1)
Africa, branded generics	750	920	820	800	950	1,080	1,120	860	970	1,230	13.9	26.8
Africa Institution	460	810	720	490	430	620	510	770	800	540	(12.9)	(32.5)
Asia	1,430	1,260	1,810	1,580	2,090	1,610	1,800	1,970	1,760	1,650	2.5	(6.3)
Latam	30	30	10	20	10	30	30	20	-	-	(100.0)	-
Regulated markets	760	1,020	1,110	1,590	1,430	1,490	1,540	1,610	1,730	1,680	12.8	(2.9)
Total	5,020	5,980	6,500	6,430	6,680	6,570	7,020	7,430	7,440	7,390	12.5	(0.7)

Source: Company, Anand Rathi Research

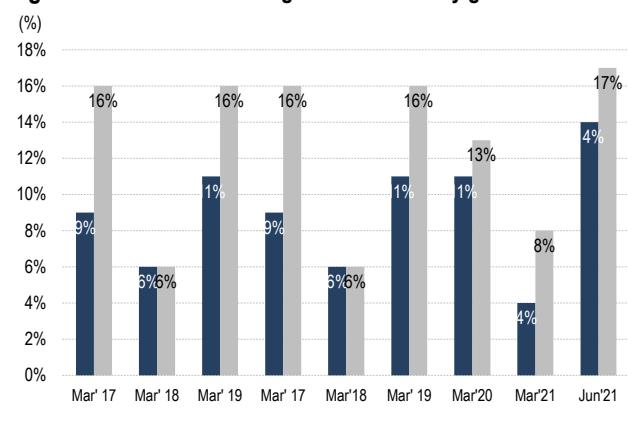
Fig 17 – Sales break-up

	FY21	FY22e	FY23e
Domestic	8,130	9,387	10,781
% of sales	28.5	28.0	27.9
% y/y	5.7	15.5	14.8
Exports	20,400	24,119	27,827
% of sales	71.5	72.0	72.1
% y/y	14.0	18.2	15.4
Asia	7,210	8,364	9,702
% of sales	35.3	34.7	34.9
% y/y	7.1	16.0	16.0
Africa	6,740	7,279	7,864
% of sales	33.0	30.2	28.3
% y/y	13.7	8.0	8.0
Latam	80	80	80
% of sales	0.4	0.3	0.3
% y/y	-	-	-
US	6,370	8,397	10,181
% of sales	31.2	34.8	36.6
% y/y	23	32	21
Revenue	28,530	33,506	38,607

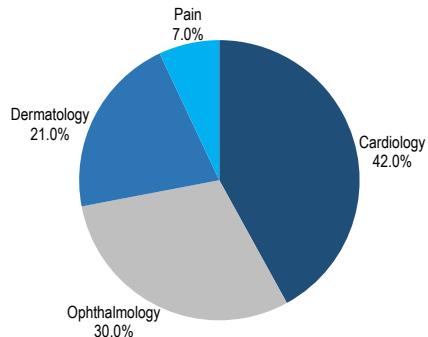
Source: Company

Fig 18 – Ajanta's therapeutic growth vs. industry - MAT Jun'21 (%)

Source: Company, Anand Rathi Research

Fig 19 – Domestic business growth vs. industry growth (%)

Source: Company, Anand Rathi Research

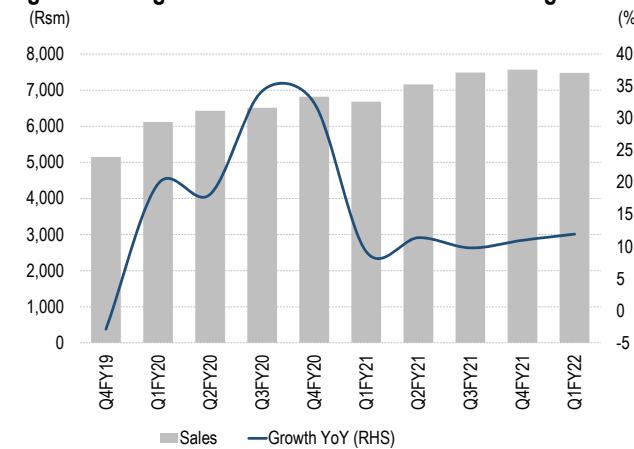
Fig 20– IQVIA,Jun'21

Source: Company, Anand Rathi Research

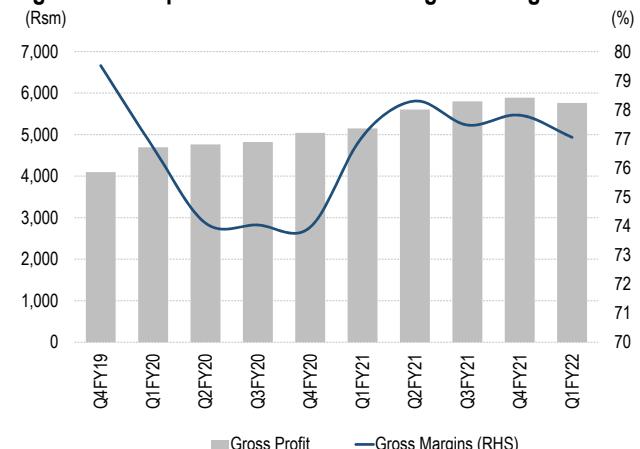
Fig 21 – Segment-wise ranking of therapies in India

Therapy	Mar-05	Mar-20	Mar-21	Jun-21
Ophthalmology	28	2	2	2
Dermatology	98	14	15	15
Cardiology	38	17	18	18
Pain	NA	39	33	33
Ajanta	88	30	28	29

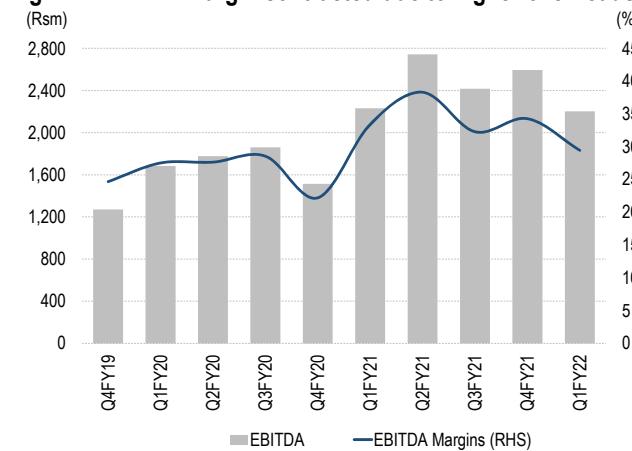
Source: Company, Anand Rathi Research

Fig 22 – Strong India & US business drove revenue growth

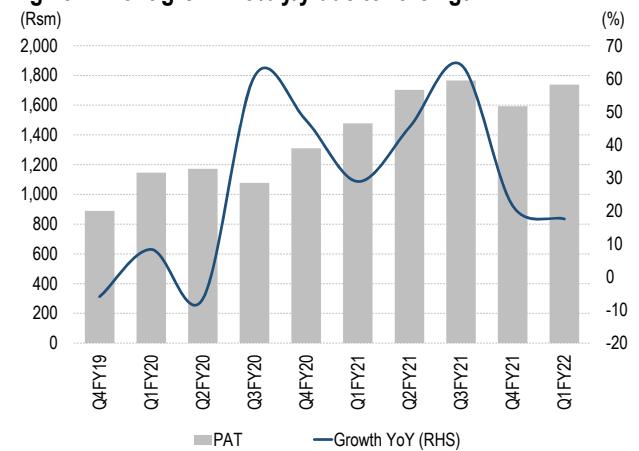
Source: Company, Anand Rathi Research

Fig 23 – Better product mix led to stable gross margin

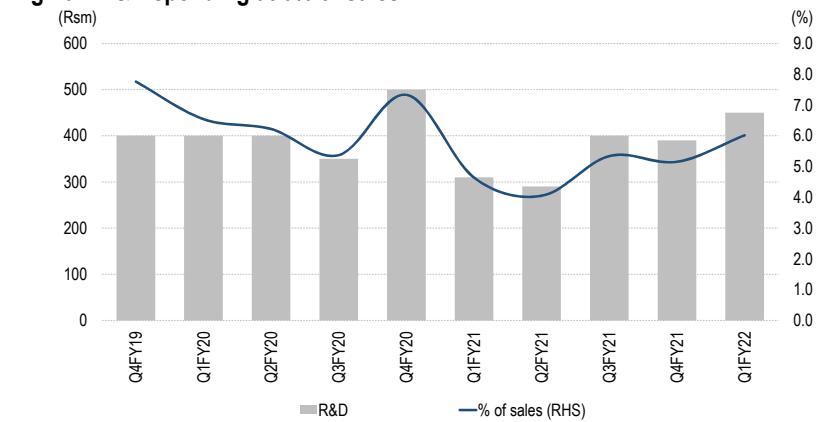
Source: Company, Anand Rathi Research

Fig 24 – EBITDA margin contracted due to higher overheads

Source: Company, Anand Rathi Research

Fig 25 – Profit grew ~18% y/y due to forex gain

Source: Company, Anand Rathi Research

Fig 26 – R&D spending at 6% of sales

Source: Company, Anand Rathi Research

Fig 27 – Key therapeutic growth in Q1 FY22

	Q1FY21	Q1FY22	YoY (%)	Q4FY21	QoQ (%)
Cardiac	970	1,213	25.1	1,129	7.4
Ophthal	439	632	44.1	612	3.3
Derma	277	356	28.3	419	-15.1
Pain / Analgesics	126	169	34.1	161	4.9
Vitamins / Minerals / Nutrients	49	62	26.7	65	-4.1
Anti-Infectives	40	59	46.1	59	-0.7
Neuro / CNS	36	57	56.0	66	-13.9
Anti Diabetic	40	68	69.5	56	22.1
Respiratory	25	44	74.5	40	10.8
Domestic sales (all figures in Rs m)	2,032	2,686	32.2	2,634	2.0

Source: AIOCD

Fig 28 – Performance of top brands in Q1 FY22

Brands	Molecules	Therapy	Chronic/Acute	Q1FY21	Q1FY22	YoY (%)	Q4FY21	QoQ (%)
Met XI	Metoprolol	Cardiac	Chronic	313	356	13.5	321	10.7
AtorfitCv	Atorvastatin + Clopidogrel	Cardiac	Chronic	125	149	18.8	137	9.1
Melacare	Hydroquinone + Mometasone + Tretinoin	Derma	Chronic	123	112	-8.9	132	-15.2
Rosutor Gold	Aspirin + Rosuvastatin + Clopidogrel	Cardiac	Chronic	74	114	53.3	124	-8.5
Feburic	Febuxostat	Pain	Acute	91	114	25.3	105	8.1
Cinod	Cilnidipine	Cardiac	Chronic	74	94	28.4	86	9.5
Met XI Am	Metoprolol + Amlodipine	Cardiac	Chronic	73	82	11.3	79	3.6
RosufitCv	Rosuvastatin + Clopidogrel	Cardiac	Chronic	57	71	24.9	65	9.3
Vertizac	Cinnarizine + Dimenhydrinate	CNS	Sub Chronic	27	43	63.1	52	-16.9
Cilamet	Cilnidipine + Metoprolol	Cardiac	Chronic	39	43	12.3	46	-5.2
Domestic sales (all figures in Rs m)				2,032	2,686	32.2	2,634	2.0

Source: AIOCD

Valuations

Fig 29 – Change in estimates

(Rsm)	Old estimates		New estimates		Change (%)	
	FY22	FY23	FY22	FY23	FY22	FY23
Revenue	34,034	39,219	34,004	39,171	(0.1)	(0.1)
EBITDA	11,436	13,374	11,425	13,357	(0.1)	(0.1)
PAT	7,842	9,434	8,403	10,123	7.2	7.3

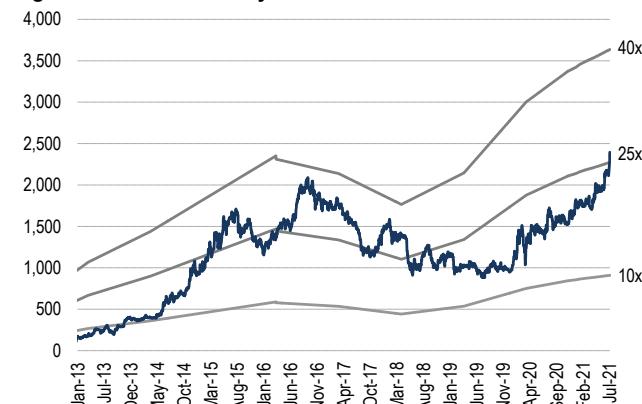
Source: Anand Rathi Research

Rise in number of patient footfalls at doctors' clinics and new-prescription generation are helping to a rebound in Ajanta's derma and ophthal product sales. Ahead, we expect its India business growth to be linear as it lines up healthy launches every year.

We expect its India formulation sales to record a ~15% CAGR over FY21-23. The greater proportion of brand-named generics and cost savings due to higher utilisation at the new plants at Dahej, Guwahati and Pithampur would help margins return to 34% by FY23.

We expect revenue/PAT CAGRs of 16.4%/24.4% over FY21-23. At the CMP of Rs2,394, the stock trades at attractive valuations of 24.8x/20.6x its FY22e/FY23e earnings. We retain our Buy rating with a higher target of Rs2,795, based on 24x FY23e EPS.

Fig 30 – PE band – one-year-forward



Source: Bloomberg, Anand Rathi Research

Fig 31 – Standard deviation – one-year-forward



Source: Bloomberg, Anand Rathi Research

Risks

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

Fig 32 – Valuation Summary

Company	Rating	CMP	TP	M Cap	EPS (Rs)			PE (x)			EV / EBITDA (x)			RoE (%)		
		(Rs)	(Rs)	(Rsbn)	FY21	FY22e	FY23e	FY21	FY22e	FY23e	FY21	FY22e	FY23e	FY21	FY22e	FY23e
Aarti Drugs	Buy	664	844	62.8	30.1	30.2	42.2	22.1	22.0	15.7	15.6	14.8	10.7	35.8	27.4	30.1
Ajanta	Buy	2394	2795	210.0	75.2	96.6	116.4	31.8	24.8	20.6	15.4	17.5	14.4	23.4	25.0	24.3
Alembic	Hold	777	955	179.0	59.9	38.6	46.7	13.0	20.1	16.6	7.0	16.2	12.2	28.2	14.0	15.2
Alkem	Hold	3321	3177	402.9	132.6	129.8	144.5	25.0	25.6	23.0	16.8	20.0	17.4	23.4	19.6	19.1
ZydusCadila	Sell	571	515	656.4	21.7	21.4	23.4	26.3	26.7	24.4	20.7	19.0	17.1	19.0	15.9	15.7
Eris	Hold	771	812	104.8	26.2	29.1	32.5	29.5	26.5	23.7	18.3	20.7	17.9	24.7	22.8	21.3
Granules India	Hold	371	392	92.0	22.2	20.4	24.2	16.7	18.2	15.3	11.3	11.5	9.6	27.4	21.1	20.9
Indoco Remedies	Sell	441	313	42.4	10.1	13.0	17.2	43.7	33.9	25.6	20.0	16.3	13.1	12.8	14.5	16.5
Ipca Labs	Hold	2143	2240	264.2	81.3	84.4	101.8	26.4	25.4	21.1	18.2	17.0	13.8	24.7	20.6	20.8
JB Chemicals	Hold	1803	1648	139.7	58.0	58.0	58.0	31.1	31.1	31.1	16.1	16.1	16.1	27.6	27.6	27.6
NatcoPharma	Hold	1015	1172	195.3	24.2	34.7	86.0	41.9	29.3	11.8	31.7	22.2	9.1	11.2	14.5	30.1
Neuland	Sell	2008	1501	26.8	62.5	69.5	91.6	32.1	28.9	21.9	19.1	16.9	12.9	10.8	10.8	12.8
Pfizer	Buy	5920	6805	270.8	108.8	140.4	159.4	54.4	42.2	37.1	27.5	29.6	25.7	17.2	24.5	23.4
SuvenPharma	Buy	504	560	120.9	14.2	17.2	20.0	35.4	29.3	25.2	27.3	22.5	18.7	35.8	32.5	29.8
Torrent Pharma	Buy	3033	3664	508.4	74.0	79.4	98.2	41.0	38.2	30.9	22.1	19.4	16.5	23.5	21.6	23.5

Source: Company, Anand Rathi Research

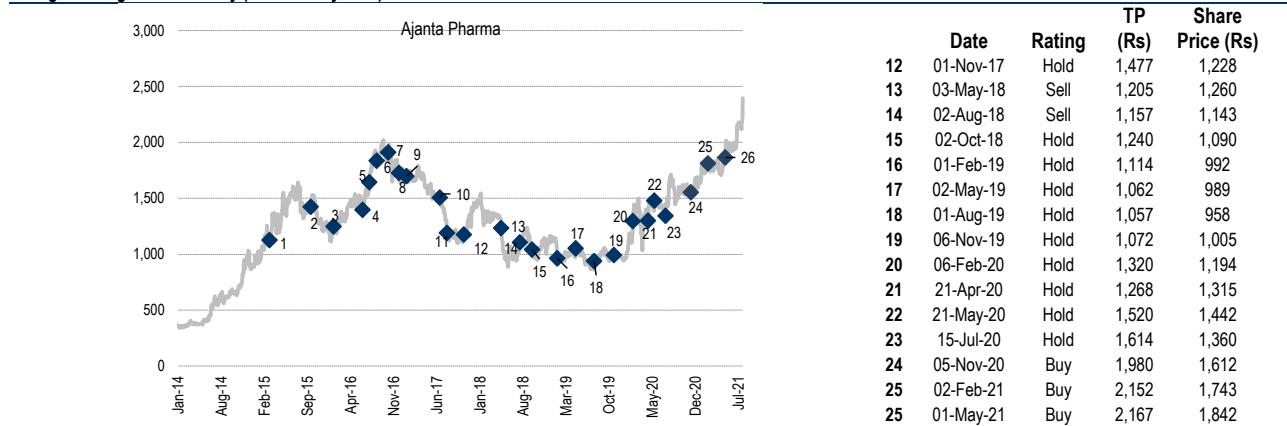
Appendix

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