

BUY

TP: Rs 2,100 | ▲ 20%

AJANTA PHARMA

Pharmaceuticals

02 February 2021

Another good quarter; resilient outlook to drive stock upside

Ajanta Pharma (AJP) reported yet another excellent quarter with Q3 revenue/EBITDA growth of 15%/30% YoY to Rs 7.5bn/Rs 2.4bn, surpassing our estimates by 11%/14%. The revenue beat was across geographies, notably in Africa/Asia/US of 20%/15%/9%. EBITDA margin expansion of 370bps YoY was due to lower KSM/RM prices – these gains are likely to reverse in coming quarters as evident from QoQ margin contraction due to rising prices. We raise FY22-FY23 EPS 4% each and our Mar'22 TP to Rs 2,100 (vs. Rs 1,920) as we roll valuations over. **BUY.**

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Revenue beat India and Asia-led: India sales growth (13% YoY, 9% QoQ) was backed by recovery in the acute portfolio (dermatology, ophthalmology). The chronic segment also did well. In export formulations, Asia sales grew at 27% YoY (+11% QoQ) due to easing of Covid-19 restrictions and Africa sales grew 25% (muted QoQ) driven by the institutional business. We continue to see good visibility in exports with commercialisation of the ophthalmology block (Guwahati) in Q3. US sales were at US\$ 21mn (+3% QoQ). AJP expects a healthy Q4 following contribution from Divalproex DR (launched in mid-Dec).

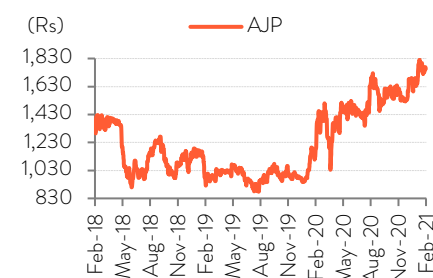
Margin beat to normalise going forward: Despite sequential pick-up in SGA spends (+28%) and R&D (+38%), EBITDA margin surprised positively at 32.3% (31.2% est.). This was also supported by gross margins of 77.5%. Q4 operating margins could moderate as we expect steady-state gross margins of 76% (9M: 77.6%) on rising KSM/RM prices and further normalising of SGA spends.

Retain BUY: We expect a stable brand franchise (India/EM), US operating leverage and capex moderation to drive a 25%+ EPS CAGR over FY21-FY23 (75% of EPS estimated to accrue from the branded business). Further, improving FCF and 34%+ ROIC beyond FY23E should support stock upsides.

Ticker/Price	AJP IN/Rs 1,747
Market cap	US\$ 2.1bn
Shares o/s	88mn
3M ADV	US\$ 3.2mn
52wk high/low	Rs 1,845/Rs 961
Promoter/FPI/DII	71%/9%/9%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	20,553	25,878	27,803	31,723	36,072
EBITDA (Rs mn)	5,653	6,944	8,671	9,413	11,046
Adj. net profit (Rs mn)	3,869	4,082	5,751	6,593	8,128
Adj. EPS (Rs)	44.1	46.6	65.6	75.2	92.7
Adj. EPS growth (%)	(17.4)	5.5	40.9	14.6	23.3
Adj. ROAE (%)	17.8	16.6	19.9	19.5	20.5
Adj. P/E (x)	39.6	37.5	26.6	23.2	18.9
EV/EBITDA (x)	27.0	22.0	17.5	16.0	13.4

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Q3FY21E	Var. (%)	9MFY21	9MFY20	YoY (%)
Net Sales	7,487	6,512	15.0	7,159	4.6	6,778	10.5	21,328	19,058	11.9
EBITDA	2,417	1,861	29.9	2,744	(11.9)	2,117	14.2	7,396	5,324	38.9
Depreciation	291	236	-	283	-	283	-	854	696	-
EBIT	2,125	1,625	30.8	2,461	(13.6)	1,834	-	6,541	4,628	41.3
Interest	26	16	-	15	-	15	-	57	83	-
Other Income	55	146	-	49	-	40	-	234	354	-
PBT	2,155	1,755	22.8	2,495	(13.6)	1,859	15.9	6,719	4,899	37.1
Less: Taxation	388	675	-	789	-	483	-	1,766	1,494	-
Less: Minority Interest	-	-	-	-	-	0	-	0	0	-
Recurring PAT	1,766	1,080	63.5	1,706	3.6	1,376	28.4	4,953	3,405	45.4
Exceptional items	0	(3)	-	0	-	0	-	0	(14)	-
Reported PAT	1,766	1,077	64.0	1,706	3.6	1,376	28.4	4,953	3,391	46.0
Key Ratios (%)										
Gross Margin	77.5	74.0	342bps	78.3	(84bps)	76.5	-	77.6	74.9	-
EBITDA Margin	32.3	28.6	370bps	38.3	(605bps)	31.2	-	34.7	27.9	-
Tax / PBT	18.0	38.5	-	31.6	-	26.0	-	26.3	30.5	-
NPM	23.6	16.6	-	23.8	-	20.3	-	23.2	17.9	-
EPS (Rs)	20.1	12.3	-	19.4	-	15.7	-	56.5	38.8	-

Source: Company, BOBCAPS Research

FIG 2 – REVENUE MIX

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Q3FY21E	Var. (%)	9MFY21	9MFY20	YoY (%)
Domestic Formulation	2,200	1,950	12.8	2,020	8.9	2,081	5.7	5,960	5,920	0.7
Export Formulation	5,240	4,480	17.0	4,988	5.1	4,577	14.5	15,028	12,990	15.7
Africa	1,630	1,300	25.4	1,644	(0.9)	1,359	19.9	4,974	4,570	8.8
Asia	2,000	1,580	26.6	1,804	10.9	1,738	15.1	5,414	4,650	16.4
US	1,610	1,590	1.3	1,540	4.5	1,480	8.8	4,640	3,720	24.7
Other Op Income	47	146	(67.8)	151	(68.9)	120	(61)	340	252	34.9
Revenues	7,487	6,576	13.9	7,159	4.6	6,778	10.5	21,328	19,162	11.3
INR/USD	75	71	6	74	1.4	75	-	74	70	6
US revenue in USD terms	21	22	(4)	21	3.2	20	8.8	62	53	18

Source: Company, BOBCAPS Research

Valuation methodology

AJP has a strong track record in terms of rational capital allocation, building a brand franchise, flawless cGMP compliance and stable returns ratios. We believe the branded generic franchise (India and EM) is robust and likely to remain resilient – this alongside operating leverage in the US business should drive an accelerated 25%+ EPS CAGR over FY21-FY23 (vs. flat growth for FY18-FY20).

In FY18, the company embarked on a major capex drive worth Rs 11bn towards augmenting formulation capacity, which is now nearing an end and should fuel a doubling of current sales, per management. We expect improved FCF momentum over the next 2-3 years based on healthy earnings growth and a normalised capex run-rate of Rs 1bn-1.25bn annually. ROIC levels are thus forecast to expand from 26% in FY20 to 36% by FY23.

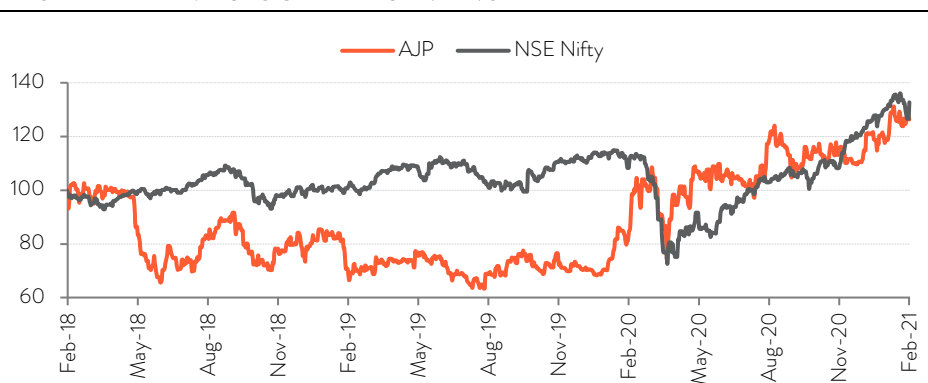
We increase our FY22/FY23 EPS estimates by 4% each to factor in higher EBITDA margin assumptions on the back of cost optimisation in the India business. At CMP, the stock is trading at 13x FY23E EBITDA (15% below the 10-year mean and 40% below the 10-year high) and 19x P/E which looks attractive in the context of ROIC improvement. We retain BUY and roll forward to a revised Mar'22 target price of Rs 2,100 (from Rs 1,920), set at an unchanged 16x one-year forward EV/EBITDA multiple (23x implied P/E).

FIG 3 – REVISED ESTIMATES

(Rs bn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Sales	27.8	31.7	36.1	27.2	31.0	35.3	2.2	2.2	2.1
EBITDA	8.7	9.4	11.0	8.4	9.1	10.7	3.6	3.5	3.3
EBITDA margin (%)	31.2	29.7	30.6	30.8	29.3	30.3	42bps	37bps	36bps
EPS (Rs)	66	75	93	62	72	89	5.5	3.8	3.7

Source: Company, BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Concentration and regulatory risk in India business:** AJP's domestic formulation business is concentrated around three key therapies – ophthalmology, cardiology and dermatology – which drive 90% of sales. Any adverse regulatory action here can slow down overall business momentum. Current portfolio under price control is at 13% of India sales vs. 16% for industry.
- **US execution:** We estimate that the US business will contribute a third of our EPS over the next three years. This is mainly dependent on two key units – Paithan (~90% of existing US sales) and Dahej (future growth driver). Establishment inspection reports (EIR) for both units are in place (last inspected in Jul-Aug'19). Thus, strong cGMP compliance is key.
- **Slower offtake in branded generic exports:** Currency devaluation and repatriation concerns will lead to slower growth in branded generics markets.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	20,553	25,878	27,803	31,723	36,072
EBITDA	5,653	6,944	8,671	9,413	11,046
Depreciation	720	957	1,104	1,181	1,264
EBIT	4,933	5,987	7,567	8,232	9,782
Net interest income/(expenses)	(12)	(119)	(52)	(78)	(78)
Other income/(expenses)	210	176	363	637	991
Exceptional items	0	0	0	0	0
EBT	5,132	6,044	7,878	8,791	10,695
Income taxes	1,263	1,962	2,127	2,198	2,567
Extraordinary items	0	595	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	3,869	4,677	5,751	6,593	8,128
Adjustments	0	595	0	0	0
Adjusted net profit	3,869	4,082	5,751	6,593	8,128

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	2,252	3,622	3,047	3,476	3,953
Other current liabilities	944	1,831	1,390	1,586	1,804
Provisions	383	246	264	302	343
Debt funds	340	436	1,300	1,300	1,300
Other liabilities	0	0	0	0	0
Equity capital	175	175	175	175	175
Reserves & surplus	22,545	26,398	30,999	36,273	42,776
Shareholders' fund	22,721	26,573	31,174	36,448	42,951
Total liabilities and equities	26,640	32,708	37,175	43,113	50,351
Cash and cash eq.	1,004	2,049	4,826	8,406	13,040
Accounts receivables	4,594	7,753	6,856	7,822	8,894
Inventories	4,357	4,956	5,713	6,518	7,412
Other current assets	1,510	1,211	2,224	2,538	2,886
Investments	776	794	794	794	794
Net fixed assets	11,719	14,509	14,763	15,034	15,324
CWIP	2,613	1,318	2,000	2,000	2,000
Intangible assets	67	117	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	26,640	32,707	37,175	43,113	50,351

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	4,589	5,634	6,855	7,775	9,392
Interest expenses	12	119	52	78	78
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(186)	(1,339)	(1,870)	(1,423)	(1,578)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	4,414	4,415	5,037	6,430	7,892
Capital expenditures	(1,930)	(3,294)	(1,358)	(1,453)	(1,555)
Change in investments	1,123	(18)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(807)	(3,313)	(1,358)	(1,453)	(1,555)
Equities issued/Others	(2)	0	0	0	0
Debt raised/repaid	330	96	865	0	0
Interest expenses	(12)	(119)	(52)	(78)	(78)
Dividends paid	(795)	(816)	(1,150)	(1,319)	(1,626)
Other financing cash flows	(3,055)	783	(565)	0	0
Cash flow from financing	(3,533)	(57)	(903)	(1,397)	(1,704)
Changes in cash and cash eq.	74	1,045	2,776	3,580	4,634
Closing cash and cash eq.	1,004	2,049	4,825	8,406	13,040

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	44.1	53.3	65.6	75.2	92.7
Adjusted EPS	44.1	46.6	65.6	75.2	92.7
Dividend per share	9.0	9.3	13.1	15.0	18.5
Book value per share	259.1	303.0	355.5	415.6	489.7

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	7.4	5.9	5.5	4.7	4.1
EV/EBITDA	27.0	22.0	17.5	16.0	13.4
Adjusted P/E	39.6	37.5	26.6	23.2	18.9
P/BV	6.7	5.8	4.9	4.2	3.6

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	75.4	67.5	73.0	75.0	76.0
Interest burden (PBT/EBIT)	104.0	101.0	104.1	106.8	109.3
EBIT margin (EBIT/Revenue)	24.0	23.1	27.2	25.9	27.1
Asset turnover (Revenue/Avg TA)	23.5	25.8	23.4	22.6	22.0
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	17.8	16.6	19.9	19.5	20.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	(3.6)	25.9	7.4	14.1	13.7
EBITDA	(14.1)	22.8	24.9	8.6	17.3
Adjusted EPS	(17.4)	5.5	40.9	14.6	23.3
Profitability & Return ratios (%)					
EBITDA margin	27.5	26.8	31.2	29.7	30.6
EBIT margin	24.0	23.1	27.2	25.9	27.1
Adjusted profit margin	18.8	15.8	20.7	20.8	22.5
Adjusted ROAE	17.8	16.6	19.9	19.5	20.5
ROCE	23.5	24.6	26.7	25.3	26.3
Working capital days (days)					
Receivables	82	109	90	90	90
Inventory	77	70	75	75	75
Payables	40	51	40	40	40
Ratios (x)					
Gross asset turnover	1.3	1.3	1.3	1.4	1.5
Current ratio	3.2	2.8	4.2	4.7	5.3
Net interest coverage ratio	425.3	50.3	145.3	105.5	125.4
Adjusted debt/equity	0.0	(0.1)	(0.1)	(0.2)	(0.3)

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): AJANTA PHARMA (AJP IN)



B – Buy, A – Add, R – Reduce, S – Sell

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