

BUY

TP: Rs 2,300 | ▲ 25%

AJANTA PHARMA

Pharmaceuticals

03 May 2021

Another good quarter

Ajanta Pharma (AJP) reported strong Q4FY21 revenue/EBITDA growth of 11%/56% YoY to Rs 7.6bn/Rs 2.6bn, surpassing consensus estimates by 3%/23%. The revenue beat was due to robust growth in the Africa, India and US businesses. EBITDA margin expansion of 990bps YoY to 34.3% stemmed from improvement in gross margin to 78% (+390bps YoY) and lower R&D and SG&A expenses. We raise FY22-FY23 EPS by 6-7% to factor in stronger margins and increase our Mar'22 TP to Rs 2,300 (vs. Rs 2,100). Maintain BUY.

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Strong growth in India, US and Africa: India sales grew 23% YoY (flat QoQ) backed by a strong uptick in the cardiology and dermatology portfolios, recovery in the acute portfolio and new launches. In export formulations, the company is facing supply disruptions for branded products and recorded meagre 2% YoY growth in Africa branded sales and a 16% decline in Asia business, though Africa institutional business surged 86%. Management expects institutional business at similar levels in FY22 and believes branded sales will soon get back on track. US sales were healthy at US\$ 24mn (+11% QoQ).

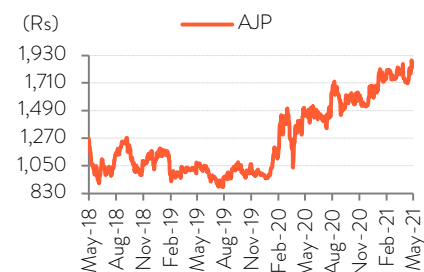
FY21 margins to moderate: Q4 EBITDA margin expansion of 990bps YoY to 34.3% came on the back of a better gross margin and lower other expenses (R&D at 5% of sales in Q4FY21 vs. 7% in Q4FY20). The FY21 margin at 34.6% saw a reversal of H1 gains in H2. Management expects moderation to 30% going forward as gross margin likely remains flattish and SGA spends normalise to higher pre-Covid levels.

Retain BUY: We expect a stable brand franchise (India/EM), US operating leverage and capex moderation to drive a 14% EPS CAGR over FY21-FY23. Further, improving FCF, 34%+ ROIC beyond FY23E and a steady pace of new launches (21 brands launched in India in FY21) should support stock upsides.

Ticker/Price	AJP IN/Rs 1,837
Market cap	US\$ 2.2bn
Shares o/s	87mn
3M ADV	US\$ 3.3mn
52wk high/low	Rs 1,930/Rs 1,331
Promoter/FPI/DII	71%/9%/9%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	20,553	25,878	28,897	33,007	37,456
EBITDA (Rs mn)	5,653	6,833	9,990	10,108	11,834
Adj. net profit (Rs mn)	3,869	4,716	6,534	7,005	8,522
Adj. EPS (Rs)	44.1	53.8	74.5	79.9	97.2
Adj. EPS growth (%)	(17.4)	21.9	38.5	7.2	21.7
Adj. ROAE (%)	17.8	19.1	22.9	21.1	21.6
Adj. P/E (x)	41.6	34.2	24.7	23.0	18.9
EV/EBITDA (x)	28.1	23.3	15.9	15.6	13.3

Source: Company, BOBCAPS Research | P – Provisional

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Cons.	Var. (%)	FY21	FY20	YoY (%)
Net Sales	7,568	6,820	11.0	7,487	1.1	7,348	3.0	28,897	25,878	11.7
EBITDA	2,594	1,664	55.9	2,417	7.3	2,118	22.5	9,990	6,988	42.9
Depreciation	306	260		291		-	-	1,160	956	-
EBIT	2,288	1,404	62.9	2,125	7.7	-	-	8,830	6,032	-
Interest	26	36	-	26	-	-	-	82	119	-
Other Income	25	116	-	55	-	-	-	260	470	-
PBT	2,288	1,484	54.1	2,155	6.2	-	-	9,007	6,384	41.1
Less: Taxation	695	470	-	388	-	-	-	2,462	1,964	-
Less: Minority Interest	-	-	-	-	-	-	-	0	0	-
Recurring PAT	1,593	1,014	57.0	1,766	(9.8)	1,392	14.4	6,545	4,420	48.1
Exceptional items	0	275		0	-	-	-	0	261	-
Reported PAT	1,593	1,289	23.5	1,766	(9.8)	1,392	14.4	6,545	4,681	40%
Key Ratios (%)			(bps)		(bps)					(bps)
Gross Margin	77.8	74.0	386	77.5	34	-	-	77.7	74.7	301
EBITDA Margin	34.3	24.4	987	32.3	200	28.8	-	34.6	27.0	757
Tax / PBT	30.4	31.7	-	18.0	-	-	-	27.3	30.8	-
NPM	21.0	14.9	-	23.6	-	18.9	-	22.6	17.1	-
EPS (Rs)	18.2	11.6	-	20.1	-	-	-	75	50	48.1

Source: Company, BOBCAPS Research

FIG 2 – REVENUE MIX

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Domestic Formulation	2,180	1,770	23.2	2,200	(0.9)	8,140	7,690	5.9
Export Formulation	5,260	4,900	7.3	5,240	0.4	20,288	17,890	13.4
Africa	1,770	1,380	28.3	1,630	8.6	6,744	5,950	13.3
Asia	1,760	2,090	(15.8)	2,000	(12.0)	7,174	6,740	6.4
US	1,730	1,430	21.0	1,610	7.5	6,370	5,150	23.7
Other Op Income	128	150	(14.4)	47	173.2	468	298	57.2
Revenues	7,568	6,820	11.0	7,487	1.1	28,896	25,878	11.7
USDINR	73	71	3	75	(2.8)	74	71	5
US revenue in USD terms	24	20	18	21	10.5	86	73	17.9

Source: Company, BOBCAPS Research

Earnings call highlights

- **Margins:** Gross margin improvement to 78% in FY21 from 75% in FY20 is on account of a better product mix and also product recall in the base year. Management expects the FY21 EBITDA margin to moderate from FY21 levels going forward as H1FY21 witnessed lower other expenses on account of Covid-led lockdowns, which has reversed in H2.
- **R&D:** R&D expense in Q4FY21 stood at Rs 390mn or 5% of sales (vs. Rs 500mn in Q4FY20). Full-year R&D expense at Rs 1.4bn was also 5% of sales (vs. Rs 1.6bn in FY20).
- **Capex:** AJP incurred capex of Rs 1.6bn in FY21 (including Rs 300mn on corporate office expansion). Capex guidance for FY22 stands at Rs 2.5bn (Rs 600mn-800mn towards the corporate office), which will thereafter come down to Rs 1.5bn-2bn.
- **Launches:** The company launched 21 new brands in India during FY21, including 5 which were introduced for the first time in the country. Out of these five, two were in Cardiac, two in Ophthal and one was in pain management segment.
- **Therapy-wise performance:** As per the IQVIA MAT Mar'21 data, AJP posted 14% growth in cardiology (vs. 13% growth in the segment), 1% growth in ophthalmology (-1%), 8% growth in dermatology (+6%) and 18% growth in pain management (-1%). Due to Covid, basic surgeries in ophthalmology reduced but are expected to revive going forward.
- **ANDA activity:** AJP received 12 ANDA approvals from the USFDA during FY21 (including TAs) and filed 2 ANDAs. As of 31 Mar 2021, the company had cumulative approvals for 42 ANDAs, commercialised 36 products and had 15 products awaiting approval. It plans to file 10-12 ANDAs a year.

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 a 14%+ 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-1.2bn annually. ROIC levels are thus forecast to remain intact at 34% for FY23.

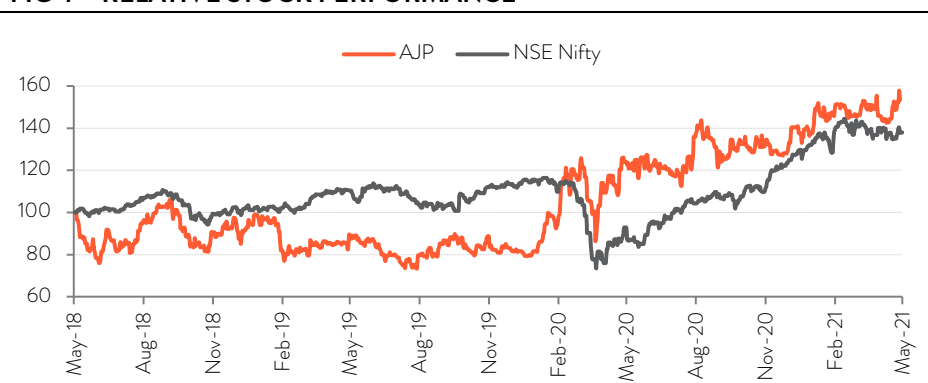
We increase our FY22/FY23 EPS estimates by 6-7% to factor in lower R&D spend at 6% of revenue (vs. 8% expected earlier) in light of management guidance. At CMP, the stock is trading at 13x FY23E EBITDA (15% below the 10-year mean and 40% below the 10-year high) and 19x P/E, which looks attractive in the context of ROIC improvement. We retain BUY and revise our Mar'22 target price to Rs 2,300 (from Rs 2,100), set at an unchanged 16x one-year forward EV/EBITDA multiple (23x implied P/E).

FIG 3 – REVISED ESTIMATES

(Rs bn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Sales	33.0	37.5	31.7	36.1	4.0	3.8
EBITDA	10.1	11.8	9.4	11.0	7.4	7.1
EBITDA margin (%)	30.6	31.6	29.7	30.6	95bps	97bps
EPS (Rs)	81	98	75	93	7.1	5.7

Source: 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	FY21P	FY22E	FY23E
Total revenue	20,553	25,878	28,897	33,007	37,456
EBITDA	5,653	6,833	9,990	10,108	11,834
Depreciation	720	957	1,161	1,221	1,331
EBIT	4,933	5,876	8,829	8,888	10,503
Net interest income/(expenses)	(12)	(119)	(83)	(12)	(12)
Other income/(expenses)	210	921	251	464	722
Exceptional items	0	0	0	0	0
EBT	5,132	6,678	8,997	9,339	11,213
Income taxes	1,263	1,962	2,463	2,335	2,691
Extraordinary items	0	39	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	3,869	4,756	6,534	7,005	8,522
Adjustments	0	39	0	0	0
Adjusted net profit	3,869	4,716	6,534	7,005	8,522

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	2,252	3,622	3,739	3,617	4,105
Other current liabilities	944	1,831	2,677	1,650	1,873
Provisions	383	246	296	339	384
Debt funds	340	436	198	198	198
Other liabilities	0	0	0	0	0
Equity capital	175	175	174	174	174
Reserves & surplus	22,545	26,398	30,203	35,807	42,624
Shareholders' fund	22,721	26,573	30,377	35,981	42,798
Total liabilities and equities	26,640	32,708	37,286	41,784	49,358
Cash and cash eq.	1,004	2,049	2,096	3,884	8,921
Accounts receivables	4,594	7,753	7,384	8,139	9,236
Inventories	4,357	4,956	7,665	6,782	7,696
Other current assets	1,510	1,211	1,891	2,641	2,996
Investments	776	794	1,846	1,846	1,846
Net fixed assets	11,719	14,509	15,214	16,493	16,663
CWIP	2,613	1,318	1,082	2,000	2,000
Intangible assets	67	117	108	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	26,640	32,707	37,286	41,784	49,358

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	4,589	5,634	7,695	8,225	9,853
Interest expenses	12	119	83	12	12
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(186)	(1,339)	(2,008)	(1,726)	(1,611)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	4,414	4,414	5,770	6,511	8,253
Capital expenditures	(1,930)	(3,294)	(1,550)	(2,500)	(1,500)
Change in investments	1,123	(18)	(1,051)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(807)	(3,313)	(2,601)	(2,500)	(1,500)
Equities issued/Others	(2)	0	(2)	0	0
Debt raised/repaid	330	96	(238)	0	0
Interest expenses	(12)	(119)	(83)	(12)	(12)
Dividends paid	(795)	(943)	(1,307)	(1,401)	(1,704)
Other financing cash flows	(3,055)	910	(1,493)	(810)	0
Cash flow from financing	(3,533)	(56)	(3,122)	(2,223)	(1,716)
Changes in cash and cash eq.	74	1,045	47	1,788	5,037
Closing cash and cash eq.	1,004	2,049	2,096	3,884	8,921

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	44.1	53.3	74.5	79.9	97.2
Adjusted EPS	44.1	53.8	74.5	79.9	97.2
Dividend per share	9.0	10.8	15.0	16.1	19.6
Book value per share	259.1	303.0	346.4	410.3	488.0

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	7.7	6.1	5.5	4.8	4.2
EV/EBITDA	28.1	23.3	15.9	15.6	13.3
Adjusted P/E	41.6	34.2	24.7	23.0	18.9
P/BV	7.1	6.1	5.3	4.5	3.8

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	75.4	70.6	72.6	75.0	76.0
Interest burden (PBT/EBIT)	104.0	113.6	101.9	105.1	106.8
EBIT margin (EBIT/Revenue)	24.0	22.7	30.6	26.9	28.0
Asset turnover (Revenue/Avg TA)	23.5	25.8	25.1	24.7	23.7
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	17.8	19.1	22.9	21.1	21.6

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	(3.6)	25.9	11.7	14.2	13.5
EBITDA	(14.1)	20.9	46.2	1.2	17.1
Adjusted EPS	(17.4)	21.9	38.5	7.2	21.7
Profitability & Return ratios (%)					
EBITDA margin	27.5	26.4	34.6	30.6	31.6
EBIT margin	24.0	22.7	30.6	26.9	28.0
Adjusted profit margin	18.8	18.2	22.6	21.2	22.8
Adjusted ROAE	17.8	19.1	22.9	21.1	21.6
ROCE	23.5	27.2	31.5	28.0	28.4
Working capital days (days)					
Receivables	82	109	93	90	90
Inventory	77	70	97	75	75
Payables	40	51	47	40	40
Ratios (x)					
Gross asset turnover	1.3	1.3	1.4	1.4	1.5
Current ratio	3.2	2.8	2.8	3.8	4.5
Net interest coverage ratio	425.3	49.4	106.8	749.2	885.4
Adjusted debt/equity	0.0	(0.1)	(0.1)	(0.1)	(0.2)

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

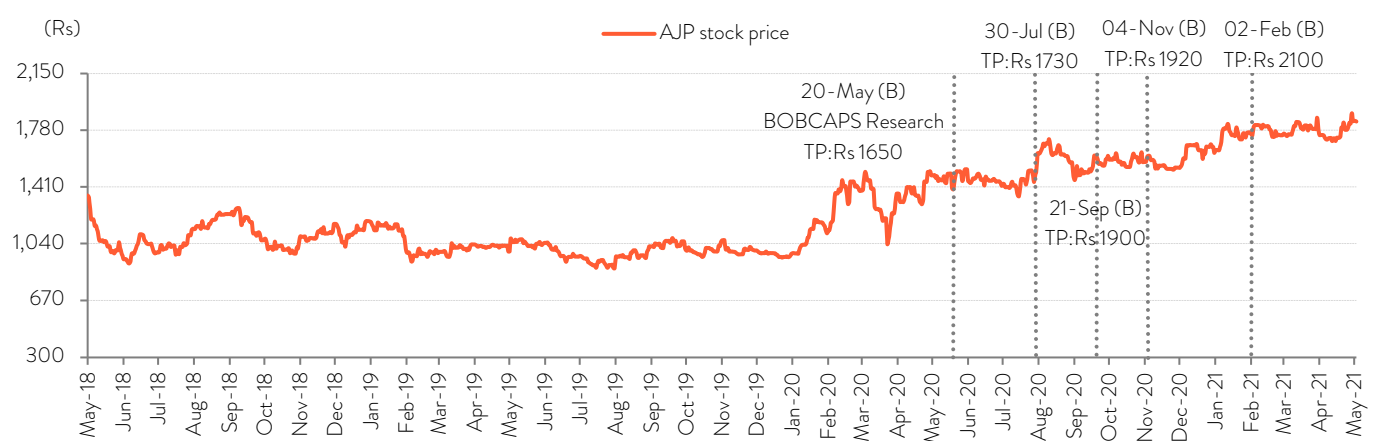
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

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

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



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

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