

| Current | Previous |
|--------------------------|--------------------------|
| CMP : Rs.2,355 | |
| Rating : HOLD | Rating : SELL |
| Target : Rs.1,846 | Target : Rs.1,569 |

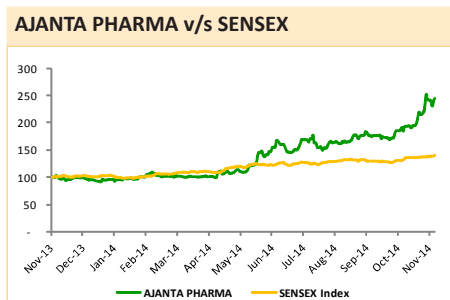
| STOCK INFO | |
|-------------------------|----------------|
| BSE | 532331 |
| NSE | AJANTPHARM |
| Bloomberg | AJP IN |
| Reuters | AJPH.BO |
| Sector | Pharmaceutical |
| Face Value (Rs) | 5 |
| Equity Capital (Rs mn) | 177 |
| Mkt Cap (Rs mn) | 84,486 |
| 52w H/L(Rs) | 2,528 / 777 |
| Avg Daily Vol (BSE+NSE) | 106,388 |

| SHAREHOLDING PATTERN | % |
|----------------------|------|
| (as on Sep. 2014) | |
| Promoters | 73.8 |
| FII's | 7.4 |
| DII's | 1.3 |
| Public & Others | 17.5 |

Source: BSE

| STOCK PERFORMANCE (%) | 1m | 3m | 12m |
|-----------------------|------|------|-------|
| AJANTA PHARMA | 28.0 | 51.1 | 144.3 |
| SENSEX | 6.9 | 7.9 | 40.0 |

Source: Capitaline, IndiaNivesh Research



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Recent interaction with Management:

Our recent interaction with Ajanta Pharma (AJP IN) management has strengthened our conviction on business of the company. We raise the PE multiple from 17x to 20x to factor AJP's efforts to have strong footing in regulated market over next 2-3 years and sustained momentum in existing business in domestic formulation segment and emerging markets. The capex as well as R&D work is on track for next phase of growth. Accordingly, we raise our PT from Rs1,569 to Rs1,846. Despite our PT being 21.6% lower than current market price, we upgrade from SELL to HOLD. We have not yet factored the potential upside in earnings from regulated market as it is subject to approvals. The under-estimation has also led to lower price target. However, we maintain positive stance on the stock.

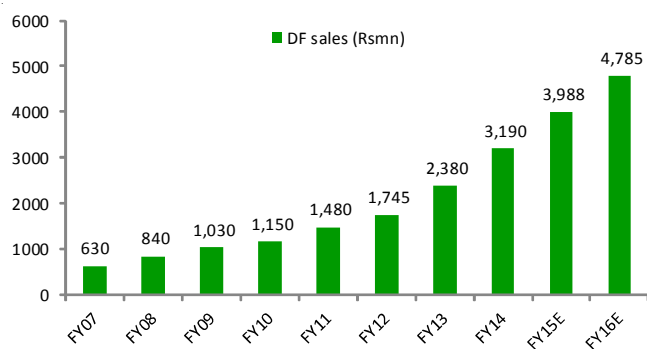
AJP to start reaping benefits from foundation built for regulated markets: AJP's R&D efforts for past 2-3 years have resulted in 25 ANDA filing for US market as of now. Out of 25 ANDA filings, 2 have been approved and one has been launched in the US market. AJP has launched Risperidone in the market and have accrued sales of Rs10mn and market share of 6% in Q2FY15. There has been delay in getting further approvals which is in line with other pharma players. There could be volatility in revenue from US market because of timing of approvals; however, pipeline of 23 ANDAs pending for approvals gives us comfort for better future. The ANDAs are mix of Para II, Para III and Para IV with expected market size of US\$1.5bn. Assuming 20 product launches and atleast US\$2-3mn of sales per product on an average, AJP may garner peak sales of US\$60mn from these products over next 2-3 years. Recently, AJP has been sued for its para IV filing on a product which has annual sales of ~US\$5bn for 12 months ending September 2014. Though there could be stiff competition post genericization on this product since there are atleast five other companies which have been sued, sales could be considerable for AJP on account of low base (if litigation outcome is in favor of generic players). AJP has also made capital expenditure of Rs1.79bn (out of total capex of Rs2.2bn) at Dahej and expect commercialization to start from 1QFY16 from the facility.

New product launches and increased traction in existing products to drive growth for domestic formulation: AJP intends to launch 10-12 products including line extensions on annual basis for next two years. AJP has been introducing products in pain segment, which could support such high growth going forward. AJP had a phenomenal CAGR of 39% over FY05-14 in domestic formulation (DF) market, mainly driven by Ophthalmology, Cardiology and Dermatology. AJP has launched about 175 products over FY05-14, out of which 127 has been new to market. AJP has guided to maintain 30% y-y growth for FY15, however, the y-y growth rate may taper down to 25% post FY15 due to high base effect and lesser number of new launches on account of delay from regulatory authorities.

Emerging markets remains the focus area for AJP: Africa and Asia market are the other key drivers for AJP's revenue as well as profitability. Overall exports have grown at CAGR of 27% over FY07-14. Anti-malaria and branded generics led higher growth in Africa, while branded generics led higher growth in Asia region. However, with lower pricing for anti-malaria business, AJP has guided for relatively lower CAGR of 13-15% in Africa region over FY14-16. AJP would be able to maintain momentum on the back of new product launches and increased traction in existing products in Asia region.

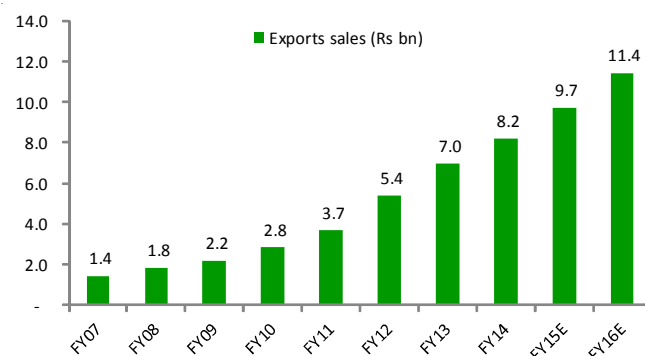
Valuation: We raise PE multiple from 17x to 20x to factor enhanced visibility for growth in revenue as well as profitability from regulated market and sustained growth in earnings from existing branded business in domestic formulation segment and emerging market. Accordingly, we raise our price target from Rs1,569 to Rs1,846. Despite our price target being lower by 21.6% from current market price, we upgrade the stock from SELL to HOLD on increased confidence on business as well as management execution. Also, we have not yet factored any upside in earnings from regulated market in our current estimates, which makes our earning estimates look subdued. However, we remain positive on the stock on long term basis.

We expect DF sales CAGR to be 23% over FY14-16



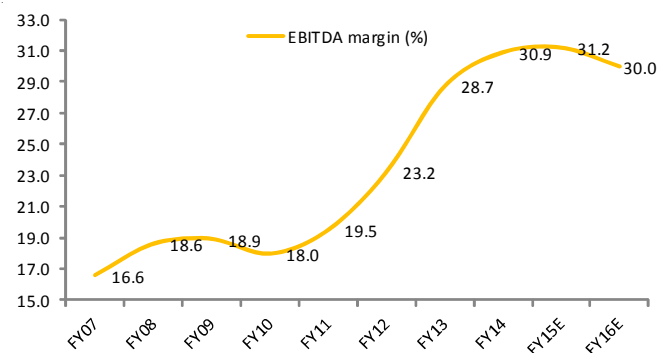
Source: Company Filings; IndiaNivesh Research

We expect Exports to grow at CAGR of 18% over FY14-16, excluding any sales from regulated market



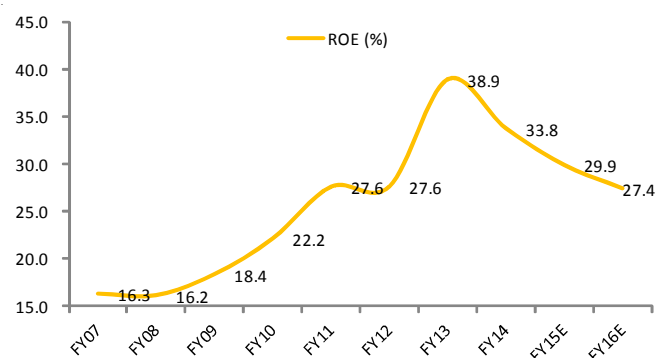
Source: Company Filings; IndiaNivesh Research

We expect EBITDA margin to remain stable at ~30-31% over FY14-16



Source: Company Filings; IndiaNivesh Research

ROE is expected to taper down as AJP is in capex mode



Source: Company Filings; IndiaNivesh Research

Financial Statements

Income statement

| Y E March (Rs m) | FY12 | FY13 | FY14 | FY15E | FY16E |
|------------------------|--------------|--------------|--------------|--------------|--------------|
| Net sales | 6,651 | 9,201 | 11,783 | 13,935 | 16,466 |
| Growth % | 33.3% | 38.3% | 28.1% | 18.3% | 18.2% |
| Expenditure | | | | | |
| Material Cost | 2,299 | 3,026 | 3,455 | 4,041 | 4,775 |
| Employee cost | 938 | 1,232 | 1,570 | 1,853 | 2,174 |
| Other expenses | 2,117 | 2,806 | 3,371 | 3,735 | 4,380 |
| EBITDA | 1,298 | 2,138 | 3,387 | 4,306 | 5,138 |
| Growth % | 44.6% | 64.8% | 58.4% | 27.1% | 19.3% |
| EBITDA Margin % | 19.5% | 23.2% | 28.7% | 30.9% | 31.2% |
| Depreciation | 319 | 342 | 439 | 468 | 630 |
| EBIT | 979 | 1,796 | 2,948 | 3,838 | 4,508 |
| EBIT Margin % | 14.4% | 18.8% | 27.7% | 30.4% | 30.5% |
| Other Income | 135 | 129 | 409 | 482 | 569 |
| Interest | 154 | 191 | 87 | 85 | 60 |
| PBT | 960 | 1,734 | 3,270 | 4,235 | 5,017 |
| Tax | 137 | 647 | 960 | 1,355 | 1,555 |
| Effective tax rate % | 14.3% | 37.3% | 29.4% | 32.0% | 31.0% |
| Extraordinary items | (50) | 34 | 29 | - | - |
| Minority Interest | - | - | - | - | - |
| Adjusted PAT | 823 | 1,087 | 2,310 | 2,880 | 3,462 |
| Growth% | 62.3% | 32.1% | 112.5% | 24.7% | 20.2% |
| PAT margin % | 12.4% | 11.8% | 19.6% | 20.7% | 21.0% |
| Reported PAT | 773 | 1,121 | 2,339 | 2,880 | 3,462 |
| Growth% | 62.3% | 32.1% | 112.5% | 24.7% | 20.2% |

Balance sheet

| Y E March (Rs m) | FY12 | FY13 | FY14 | FY15E | FY16E |
|--------------------------------|--------------|--------------|--------------|---------------|---------------|
| Share Capital | 118 | 118 | 177 | 177 | 177 |
| Reserves & Surplus | 2,862 | 3,816 | 5,756 | 8,348 | 11,394 |
| | 2,980 | 3,934 | 5,933 | 8,525 | 11,571 |
| Non Current Liabilities | | | | | |
| Long term borrowings | 761 | 733 | 523 | 623 | 23 |
| Deferred Tax liabilities | 171 | 237 | 230 | 230 | 230 |
| Other long term Liabilities | 25 | 25 | 25 | 25 | 25 |
| Long term Provisions | 49 | 30 | 28 | 28 | 28 |
| | 1,006 | 1,025 | 806 | 906 | 306 |
| Current Liabilities | | | | | |
| Short term borrowings | 953 | 513 | 606 | 606 | 606 |
| Trade payables | 1,013 | 1,317 | 1,245 | 1,457 | 1,721 |
| Other current liabilities | 431 | 194 | 476 | 222 | 146 |
| Short term Provisions | 105 | 199 | 427 | 427 | 279 |
| | 2,502 | 2,223 | 2,754 | 2,711 | 2,751 |
| Total | 6,488 | 7,182 | 9,494 | 12,142 | 14,628 |
| Non Current Assets | | | | | |
| Net Block | 2,461 | 2,851 | 3,729 | 4,934 | 5,292 |
| CWIP | 25 | - | - | - | - |
| Non current investment | 13 | 71 | 88 | 88 | 88 |
| Long term loans and advances | 85 | 85 | 85 | 85 | 85 |
| Other non current assets | 507 | 486 | 392 | 392 | 507 |
| | 3,091 | 3,492 | 4,293 | 5,497 | 5,971 |
| Current Assets | | | | | |
| Current Investments | - | - | 550 | 550 | 550 |
| Inventories | 1,678 | 1,476 | 1,554 | 1,833 | 2,165 |
| Sundry Debtors | 1,410 | 1,505 | 2,022 | 2,392 | 2,826 |
| Cash & bank Balances | 115 | 462 | 604 | 1,446 | 2,615 |
| Loans & Advances | 187 | 240 | 464 | 418 | 494 |
| Other current Assets | 7 | 7 | 6 | 6 | 6 |
| | 3,397 | 3,690 | 5,201 | 6,644 | 8,657 |
| Total | 6,488 | 7,182 | 9,494 | 12,141 | 14,628 |

Cash Flow

| Y E March (Rs m) | FY12 | FY13 | FY14E | FY15E | FY16E |
|------------------------------------|--------------|----------------|----------------|----------------|----------------|
| PBT | 910 | 1,768 | 3,270 | 4,235 | 5,017 |
| Depreciation | 319 | 342 | 439 | 468 | 630 |
| Interest | 241 | 191 | 87 | 85 | 60 |
| Other non cash charges | 41 | 5 | 11 | - | - |
| Changes in working capital | (571) | 385 | (745) | (645) | (919) |
| Tax | (174) | (331) | (937) | (1,355) | (1,555) |
| Cash flow from operations | 766 | 2,360 | 2,124 | 2,788 | 3,233 |
| Capital expenditure | (493) | (912) | (1,348) | (1,672) | (988) |
| Free Cash Flow | 273 | 1,448 | 776 | 1,115 | 2,245 |
| Other income | 48 | (141) | (530) | - | - |
| CWIP | - | - | - | - | - |
| Cash flow from investments | (445) | (1,053) | (1,878) | (1,672) | (988) |
| Equity capital raised | | | | | |
| Loans availed or (repaid) | 31 | (748) | 57 | 100 | (600) |
| Interest paid | (238) | (195) | (87) | (85) | (60) |
| Dividend paid (incl tax) | (68) | (102) | (171) | (288) | (415) |
| Inc from other investments | | | | | |
| Cash flow from Financing | (275) | (1,045) | (201) | (273) | (1,075) |
| Net change in cash | 47 | 262 | 45 | 842 | 1,169 |
| Cash at the beginning of the year | 36 | 115 | 462 | 604 | 1,446 |
| Adjusted cash | 32 | 85 | 97 | | |
| Cash at the end of the year | 115 | 462 | 604 | 1,446 | 2,615 |

Key ratios

| Y E March | FY12 | FY13 | FY14 | FY15E | FY16E |
|---------------------|-------|-------|-------|-------|-------|
| Adj EPS (Rs) | 23.3 | 30.8 | 65.4 | 81.5 | 98.0 |
| Cash EPS (Rs) | 32.3 | 40.4 | 77.8 | 94.7 | 115.8 |
| DPS (Rs) | 1.9 | 2.9 | 10.0 | 8.1 | 11.8 |
| BVPS | 84 | 111 | 168 | 241 | 327 |
| ROCE | 12.9% | 15.7% | 21.9% | 21.5% | 21.3% |
| ROE | 27.6% | 27.6% | 38.9% | 33.8% | 29.9% |
| Inventories Days | 92 | 59 | 48 | 48 | 48 |
| Sundry Debtors Days | 77 | 60 | 63 | 63 | 63 |
| Trades Payable days | 161 | 159 | 132 | 132 | 132 |
| PER (x) | 101.1 | 76.6 | 36.0 | 28.9 | 24.0 |
| P/BV (x) | 27.9 | 21.2 | 14.0 | 9.8 | 7.2 |
| P/CEPS (x) | 72.9 | 58.2 | 30.3 | 24.9 | 20.3 |
| EV/EBITDA (x) | 65.4 | 39.3 | 24.7 | 19.3 | 15.8 |
| Dividend Yield % | 0.1% | 0.1% | 0.4% | 0.3% | 0.5% |
| m cap/sales (x) | 12.5 | 9.0 | 7.1 | 6.0 | 5.1 |
| net debt/equity (x) | 0.6 | 0.3 | 0.2 | 0.1 | 0.1 |
| net debt/ebitda (x) | 1.3 | 0.4 | 0.2 | -0.1 | -0.4 |

Source: Company Filings; IndiaNivesh Research



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