ANANDRATHI

India I Equities

Pharmaceuticals

Initiating Coverage

25 March 2015

Ajanta Pharma

Rating: **Buy**
Target Price: ₹1,454
Share Price: ₹1,146

Consistent strong growth; initiating, with a Buy

We initiate coverage on Ajanta Pharma, with a Buy rating and a target price of ₹1,454. We expect its strong revenue and profit growth to continue, driven by its focus on fast-growing domestic therapeutic segments and scaling up its brand-named generics in emerging markets.

Focus on domestic formulations. Ajanta has a clearly defined focus on fast-growing therapeutic areas in domestic formulations such as dermatology, ophthalmology and cardiac. Revenue from these segments recorded a strong 30% CAGR over FY09-14. It is also building a franchise in a new disease category: pain management, specifically musculo-skeletals. We expect this to help it maintain its growth momentum. We estimate revenue from domestic brand-named formulations to register a 21.4% CAGR over FY15-17.

Scaling up export formulations. Ajanta has taken a cautious approach in its exports business, gradually scaling it up by establishing strong franchises in Asia and Africa. It is also expanding into Latin America. Revenue from its US generics business could grow rapidly to $8m by FY17, considering its 23 pending ANDAs and two final approvals. We expect export revenue to register a 20% CAGR over FY15-17.

Healthy financials. We expect Ajanta to register 20% revenue and 28% PAT CAGRs over FY15-17. Strong profit growth could result in high RoE and RoCE in FY17 at, respectively, 37% and 33.8%, in our view. With a steady working capital cycle of 67 days and strong free-cash-flow generation of over ₹4bn in FY17, we expect it would have net cash of ~₹7bn on its books by FY17.

Valuation. Our target price of ₹1,454 is based on 25x FY17e EPS. We believe that the high PE is justified, considering its strong growth momentum, robust business model and healthy financials. **Risks**: Currency fluctuations and delay in regulatory approvals.

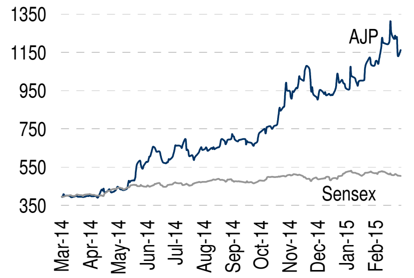
Key financials (YE Mar)	FY13	FY14	FY15e	FY16e	FY17e
Sales (₹ m)	9,308	12,083	14,632	17,485	21,042
Net profit (₹ m)	1,121	2,339	3,150	3,917	5,137
EPS (₹)	19.0	26.5	35.7	44.3	58.1
Growth (%)	39.5	39.3	34.7	24.3	31.2
PE (x)	61.0	43.8	32.5	26.2	19.9
EV/EBITDA (x)	30.8	28.0	21.6	17.5	13.8
P/B (x)	17.4	17.3	12.0	8.7	6.4
RoE (%)	32.4	47.4	43.6	38.6	37.0
RoCE (%)	23.4	37.9	36.8	34.2	33.8
Dividend yield (%)	0.2	0.3	0.5	0.6	0.8

Source: Company, Anand Rathi Research

Key data	AJP IN / AJPH.BO
52-week high/low	₹1380/ ₹385
Sensex/Nifty	28192/ 8551
3-m average volume	US$3.6m
Market cap	₹102bn/ US$1.64bn
Shares outstanding	88.4m

Shareholding pattern (%)	Dec '14	Sep'14	Jun '14
Promoters	73.8	73.8	73.6
- of which, Pledged	*4.4*	*5.6*	*5.6*
Free Float	26.2	26.2	26.5
- Foreign Institutions	7.3	7.4	7.9
- Domestic Institutions	1.5	1.3	0.8
- Public	17.4	17.5	17.7

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net revenues	9,308	12,083	14,632	17,485	21,042
Revenue growth (%)	37.4	29.8	21.1	19.5	20.3
- Oper. expenses	7,064	8,396	9,913	11,803	14,046
EBITDA	**2,245**	**3,688**	**4,719**	**5,683**	**6,997**
EBITDA margin (%)	24.1	30.5	32.3	32.5	33.3
- Interest expenses	191	87	56	56	56
- Depreciation	342	439	496	580	637
+ Other income	56	137	334	432	547
- Tax	647	960	1,350	1,561	1,712
Effective tax rate (%)	37	29	30	29	25
Reported PAT	1,121	2,339	3,150	3,917	5,137
+/- Extraordinary items	0	0	0	0	0
+/- Minority interest	0	0	0	0	0
Adjusted PAT	1,121	2,339	3,150	3,917	5,137
Adj. FDEPS (₹/sh)	19.0	26.5	35.7	44.3	58.1
Adj. FDEPS growth (%)	39.5	39.3	34.7	24.3	31.2

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Share capital	118	177	177	177	177
Reserves & surplus	3,816	5,756	8,354	11,583	15,819
Net worth	3,934	5,933	8,530	11,760	15,996
Minority interest	0	0	0	0	0
Total debt	1,248	1,305	1,129	1,129	1,129
Def. tax liab. (net)	237	230	230	230	230
Capital employed	**5,419**	**7,468**	**9,889**	**13,119**	**17,354**
Net fixed assets	2,851	3,729	4,798	5,218	5,581
Investments	85	635	635	635	635
- of which, Liquid	0	550	550	550	550
Net working capital	2,022	2,500	2,772	3,299	3,951
Cash and bank balance	462	604	1,685	3,968	7,187
Capital deployed	**5,419**	**7,468**	**9,889**	**13,119**	**17,354**
Net debt	786	151	-1107	-3390	-6609
WC days	78.4	63.4	67.8	67.8	67.6
Book value (₹/sh)	66.7	67.2	96.6	133.1	181.0

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
PAT	1,187	2,332	3,150	3,917	5,137
+Non-cash items	407	432	496	580	637
Cash profit	1,594	2,764	3,646	4,497	5,774
- Incr./(Decr.) in WC	(225)	311	448	527	653
Operating cash flow	1,819	2,453	3,198	3,970	5,121
-Capex	706	1,318	1,565	1,000	1,000
Free-cash-flow	1,113	1,136	1,634	2,970	4,121
-Dividend	171	412	553	687	902
+ Equity raised	0	0	0	0	0
+ Debt raised	(468)	(117)	0	0	0
-Investments	(0)	550	0	0	0
-Misc. items	127	(85)	0	0	0
Net cash-flow	348	142	1,081	2,283	3,220
+Opening cash	115	462	604	1,685	3,968
Closing cash	462	604	1,685	3,968	7,187

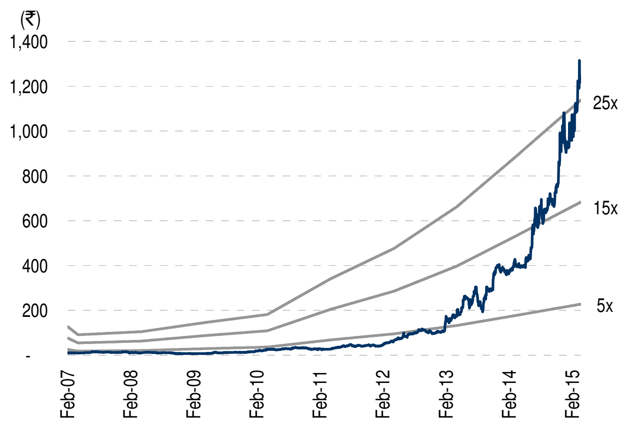
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹1,146

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
P/E (x)	61.0	43.8	32.5	26.2	19.9
P/B (x)	17.4	17.3	12.0	8.7	6.4
EV/EBITDA (x)	30.8	28.0	21.6	17.5	13.8
RoE (%)	32.4	47.4	43.6	38.6	37.0
RoCE (%)	23.4	37.9	36.8	34.2	33.8
Dividend yield (%)	0.2	0.3	0.5	0.6	0.8
Dividend payout (%)	13.1	15.0	15.0	15.0	15.0
Asset turnover (x)	3.5	3.7	3.4	3.5	3.9
Net Debt/Equity (x)	0.2	0.0	-0.1	-0.3	-0.4
Net debt/EBITDA (x)	0.4	0.0	-0.2	-0.6	-0.9
Net debt/Op. CF (x)	0.4	0.1	-0.3	-0.9	-1.3
Interest coverage (x)	9.9	37.2	74.8	90.4	112.7
P/CEPS (x)	46.8	36.9	28.1	22.8	17.7
EV/ sales (x)	7.4	8.5	7.0	5.7	4.6
M-cap/sales (x)	7.4	8.5	7.0	5.9	4.9

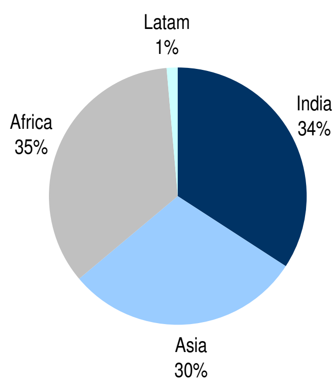
Source: Company, Anand Rathi Research

Fig 5 – PE band



Source: Bloomberg, Anand Rathi Research

Fig 6 –Revenue breakdown, geographically (FY14)



Source: Company

Domestic formulations – focus on sustaining strong growth

- The domestic brand-named formulations segment registered a 30% revenue CAGR in the past five years. We expect it to maintain strong growth, with a 21% revenue CAGR over FY15-17.
- We expect growth to be driven by the management's focus on high-growth categories such as dermatology, cardiology and ophthalmology, which are growing faster than the domestic pharma sector.

Business model

Focus on high growth segments such as cardiology, dermatology and ophthalmology

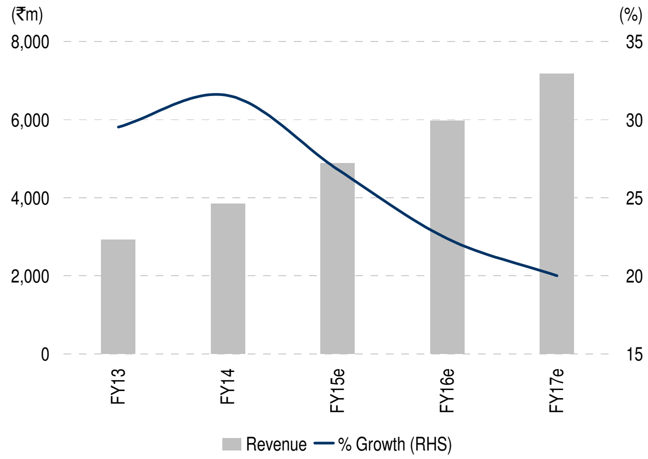
Ajanta Pharma is a mid-size Indian pharmaceutical company focusing on high-margin domestic formulations. Though a late entrant and despite stiff competition (given the generic nature of the market), it created an entry barrier by building brands, and has raised its ranking. Its key therapeutic areas are ophthalmology, dermatology and cardiology (ranked respectively 5, 13 and 24 by the IMS). These three bring in 91% of its revenue from domestic brand-named formulations.

After establishing itself in the above-mentioned segments, it is now focusing on pain management, specifically musculo-skeletals, introducing products to boost its growth momentum. In the musculo-skeletal sub-segment it has 31 brands, four leaders and 27 'first-of-their-kind' launches.

With its clear focus on the ophthalmology, dermatology and cardiology segments, revenue from its domestic-formulations business has recorded a 30% CAGR over FY09-14 to ₹3.85bn, more than double the industry's 13—14% growth rate. Also, the market in these key categories is growing rapidly, at 15—20%, well above the average industry growth rate. It has selectively focused on the ophthalmology, cardiology and dermatology sub-segments instead of merely launching products in various sub-segments. This strategy has helped it maintain its strong growth momentum, capture a decent market share in therapeutic sub-segments and hold on to its high profit margins.

Consistent high growth maintained well above industry growth

Fig 7 – Domestic revenue growth



Source: Company, Anand Rathi Research

Well-established brand franchise

A clear therapeutic focus and vigorous product launches, with more products in the first-in-the-market category, have led it to create a strong brand-named range. It now has two brands in the ₹500m+ annual revenue bracket. It launches, on average, 20+ products annually, including one-third being the first-in-the-market kind.

Fig 8 – Leading Brands

Brands	Value (₹ m) IMS MAT Mar'14	Segment
Melacare range	530	Dermatology
Met-XL range	510	Cardiology
Atorfit range	320	Cardiology
Softdrops range	110	Ophthalmology
Apdrops range	90	Ophthalmology
Rosufit range	80	Cardiology
Feburic	80	Orthopaedics

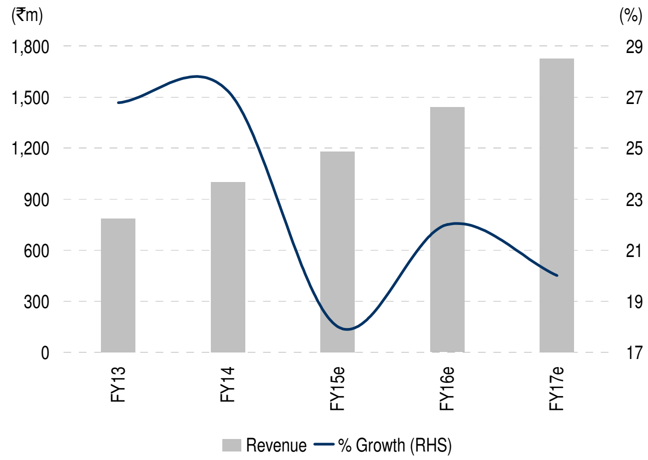
Source : Company, Anand Rathi Research

Focused therapeutic presence

Launching more first-of-their-kind products helped Ajanta in registering high growth

Ajanta is prominent in the home market in dermatology and, in the past five years, has registered a healthy, ~30%, revenue CAGR, strengthening its ranking from 21 in FY10 to 13 in FY14. It operates in sub-segments such as acne, alopecia, dermatitis/eczema, skin infections, moisturizers, pigment disorders, psoriasis, scars and sunscreens. In FY14, it generated ₹1bn from dermatology, which brought in ~31% to its domestic formulations revenue. It has ~48 brands in this space, with four leaders in the sub-therapeutic categories such as di-pigmentation, topical immune-modulators and anti-acne. More than 30 brands are 'first-of-their-kind' launches.

Fig 9 – Revenue growth in dermatology

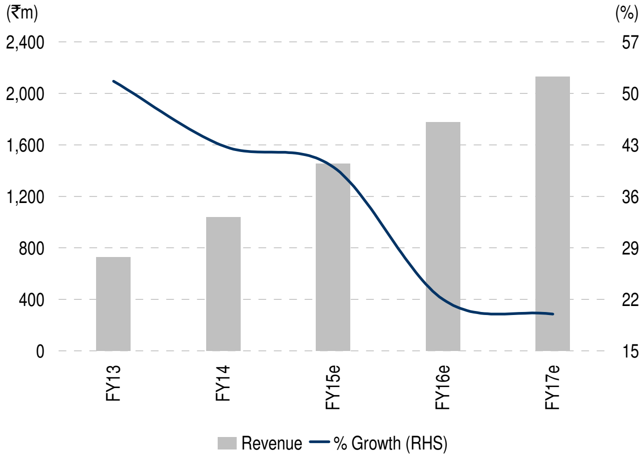


Source: Company

Delivered substantially high, 34%, CAGR even in the highly competitive cardiology segment

Its CVS business has outpaced industry growth in the sub-segment, registering a 34% CAGR in the past five years, and ranking 24th. Revenue from the CVS division constituted 32.6% of the company's domestic formulations revenue in FY14 (₹1.04bn). It has 27 brands in this space, with seven leaders in their categories. About 10 brands were 'first-of-their-kind' launches.

Fig 10 – Revenue growth in the cardiology segment

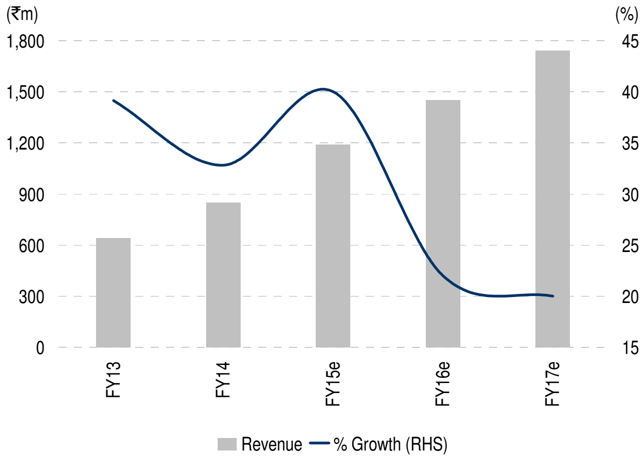


Source: Company, Anand Rathi Research

A 25% CAGR in the niche ophthalmology segment where competition is low

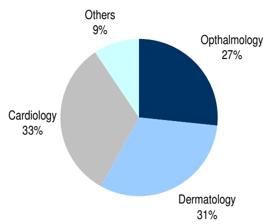
Ophthalmology is one of the major segments focused on by Ajanta and has been strong, with a 25% revenue CAGR over FY10-FY14. In FY14, revenue from this business comprised 26.6% of the company's domestic formulations revenue, with 54 brands in this space, and four leaders in their categories. More than 48 were 'first-of-their-kind' launches. The sub-segments here, where the company is well-established, are allergies, dry eyes, glaucoma, eye infections, inflammation, macular degeneration and retinopathies.

Fig 11 – Revenue growth in ophthalmology



Source: Company, Anand Rathi Research

Fig 12 – Therapy-wise domestic revenue break-up (FY14)



Source: Company

The chief distinguishing factor from its peers is its uncanny knack of launching a large number of first-time launches, focusing on a new-drug-delivery system (NDDS). Till now, it has launched 160 products, of which 119 are first-time launches. Its current marketing strength is ~2,800. We believe that its apt focus on fast-growing therapeutic areas, innovative products and a gradual ramp-up in new chronic segments would continue to drive its domestic growth. We expect any product launches and greater traction in present products to maintain the strong growth momentum in domestic formulations.

Exports to be scaled up

- Ajanta has been cautious in its export business, gradually scaling up and establishing strong franchises in Asia and Africa, and now expanding into Latin America.
- Its US generics business would gradually rise, with 25 ANDA filings already done, including two approvals. We expect its US revenue to rise from less-than-$1m currently to $8m in FY17.
- We expect export formulations to register a 20% CAGR over FY15-17, considering the company's strong presence in emerging markets and the scaling up of its US generics business.

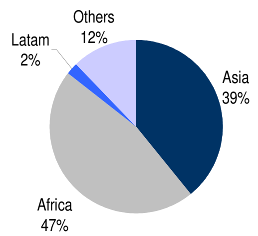
Its cautious approach of focusing on select export markets assisted the high growth without working-capital issues in emerging markets

Growth momentum in exports to continue

The company has cautiously approached scaling up exports and initially established a foothold in Asia and Africa with a little business in Latin America. The US generics business has recently begun, with two product approvals, of which one has been launched. We expect a 20% revenue CAGR in its exports over FY15-17e. In FY14 its exported formulations constituted 67% of its consolidated turnover. Most of its sales come from the emerging markets of Asia and Africa.

As huge opportunities open up in the next few years because of patent expiries of block-buster products, it has begun focusing on the US and Europe for further growth. Further, its plant has been approved by the US FDA and the UK HRA. To begin with, the company has already made a foray into the US with a basket of 25 ANDA filings, including two approved products, of which one has already been commercialised through a marketing tie-up with Breckenridge Pharmaceuticals. It plans to increase the pace of filings in these regulated markets in coming years.

Fig 13 – Export revenue break-up, geographically (FY14)



Source: Company, Anand Rathi Research

Strong footprint in emerging markets

Ajanta has established itself in emerging markets, with operations in brand-named generics in more than 50 countries across Africa, the CIS, the Middle East, Latin America and South-east Asia. Of these 50 countries, it has a field force in over 30, where it vigourously promotes brands to take them to leading positions.

It operates across a wide range of therapeutic segments such as anti-malarials, antibiotics, cardiovasculars, dermatology, orthopaedics, gastroenterology, general health, gynaecology, male erectile dysfunction (MED) and paediatrics, and its brands lead in many of these segments. Ajanta's emerging market business is primarily driven by Asia and Africa (accounting for ~86% of its export formulations) and registering strong revenue growth in the past three years, driven by its strong 200+ product basket and niche product concentration. It continues to strengthen its brand presence in the emerging markets it operates in, through 450+ market representatives and a portfolio of 1,454 registered brands, with 1,672 brands in the registration process.

Ajanta's African market contributes 46% of its export formulations revenue. It has recorded a 31% CAGR to ₹3.6bn over FY11-14. The African market is largely divided into two: East and West. The company concentrates on the high-premium West Africa market through its Mauritius subsidiary (Ajanta Pharma (Mauritius)) and supplies products from plants in India. Here, it markets premium brands in the antibiotic, anti-infective and CVS segments. In East Africa, its revenue is primarily driven by the tender business in the anti-malarial segment. Ajanta holds a 12—15% market share in the African anti-malarial tender business, which translates to 30% of revenue from Africa. It has 1,115 registered brands and is looking forward to registering 1,067 more in Africa. We expect a 14.3% revenue CAGR over FY15-17 from its Africa business, powered by a 20% CAGR in its brand-named generics and 10% in its anti-malarial tender business.

Foray into regulated markets

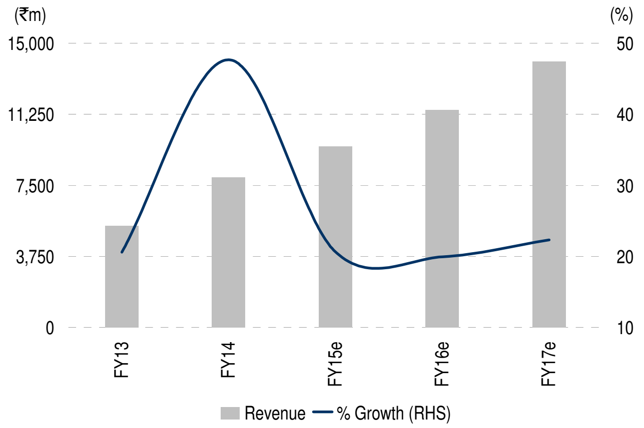
After building up a strong presence in Asia and Africa, it is now making a foray into the regulated US market with 25 ANDA filings already

It has so far received two ANDA approvals, for Risperidone and Levetiracetam. From its US FDA-approved plant it launched Risperidone through a marketing tie-up with Breckenridge Pharmaceuticals, and has already gained a 6% market share. Additionally, it has 23 ANDAs at various stages of approval and plans to file six to eight annually, building a differentiated product pipeline and capturing niche opportunities. It has also set up front-end sales and marketing teams in the US. We expect revenue from regulated markets to come at ₹40m, ₹120m and ₹480m, respectively, in FY15, FY16 and FY17.

Export revenue to record a 20% CAGR

We expect a 20% revenue CAGR over FY15-17 from export formulations, led by a 20% CAGR in Asia, 14.3% in Africa and 20% in Latin America (following strong industry growth in these markets that would drive volumes) and by a robust pipeline of products for future launches. Revenue from US generics would add to the growth momentum.

Fig 14 – Revenue growth momentum in formulation exports



Source: Company, Anand Rathi Research

Financials

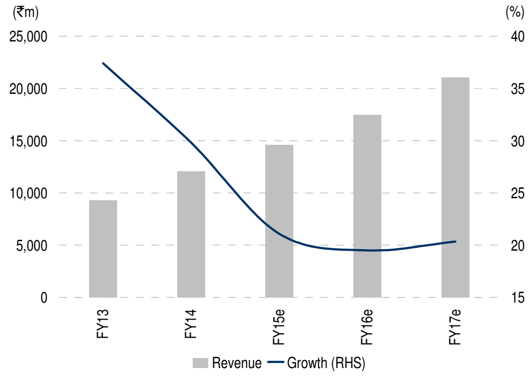
- We expect revenue to register a 20% CAGR over FY15-17, fueled by the company's aptly-focused approach to fast-growing therapeutic areas in the domestic market, scaling up its brand-named generics in emerging markets and its entry into US generics.
- We estimate adjusted PAT to record a strong 28% CAGR, driven by the robust revenue and healthy margins over FY15-17.
- We expect the company to have a strong balance sheet, with net cash of ~₹7bn and a steady working capital cycle of 67 days.

20% revenue CAGR over FY15-17

Expect a 20% consolidated revenue CAGR over FY15-17 on a high base with a 31% CAGR over FY11-15 driven by domestic formulations as well as by exports

Over FY15-17, we expect a 20% CAGR in revenue, to ₹21bn. The growth is likely to be driven by its domestic formulations, fuelled by its aptly-focused approach to fast-growing therapeutic areas, innovative product range and gradual shift to new chronic segments. We expect its exports business to register healthy revenue growth, powered by its strong presence in Asia and Africa, coupled with its entry into the US market, with huge opportunities in the next few years because of patent expiries of block-buster products.

Fig 15 – Revenue growth trend



Source: Company, Anand Rathi Research

Expect growth momentum to be maintained across the business segments

Fig 16 – Revenue break-up

(₹ m)	FY14	FY15e	FY16e	FY17e
Domestic	**3,850**	**4,882**	**5,975**	**7,169**
% growth	31.5	26.8	22.4	20.0
Branded Formulations	**3,190**	**4,222**	**5,183**	**6,219**
% growth	33.6	32.4	22.8	20.0
Ophthalmology	850	1,190	1,452	1,742
Dermatology	1,000	1,180	1,440	1,728
Cardiac	1,040	1,456	1,776	2,132
Others	300	396	515	618
Institutional sales	**660**	**660**	**792**	**950**
% growth	22.2	0.0	20.0	20.0
Exports	**7,930**	**9,520**	**11,281**	**13,643**
% growth	48	20	18	21
Asia	3,110	3,856	4,628	5,553
Africa	3,680	4,263	4,868	5,569
Latin America	160	160	192	230
US	-	40	120	480
Mauritius subsidiary (Africa)	730	876	1,051	1,261
Philippines subsidiary (Asia)	250	325	423	549
Other operating income	**301**	**230**	**230**	**230**
Total Sales	**12,081**	**14,632**	**17,485**	**21,042**

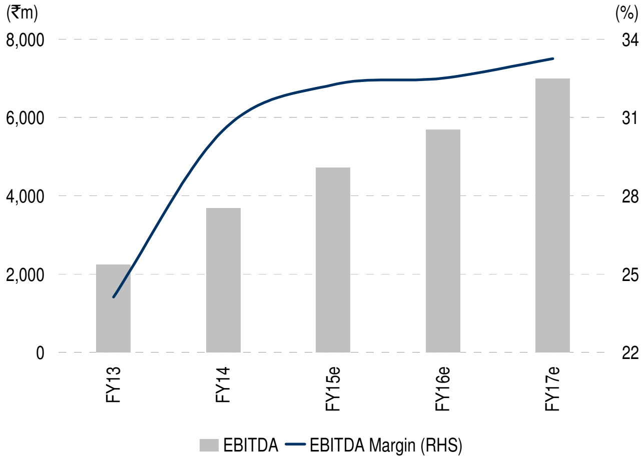
Source: Company, Anand Rathi Research

EBITDA margin to be strong

We expect the EBITDA margin to improve to a strong 33.3% in FY17, from 32.3% in FY15; in absolute terms, EBITDA would register a 22% CAGR through FY15-FY17, driven by strong revenue growth in its domestic formulations and exports and a better product mix.

Consistent margin improvement driven by a better business mix, strong revenue growth and a favourable currency scenario

Fig 17 – EBITDA and margin trend



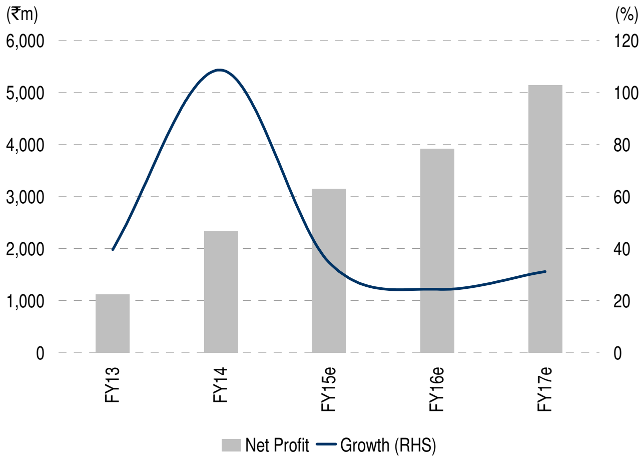
Source: Company, Anand Rathi Research

28% adjusted-net-profit CAGR

We expect a 28% CAGR over FY15-17 in adjusted net profit, to ₹5.1bn, boosted by strong revenue growth and the strong EBITDA margin. The growth in net profit, we estimate, would be considerably more than that in revenue, largely because of no major increase in depreciation charges and of higher other income.

Strong revenue growth and improving margins to result in a 28% adjusted PAT CAGR over FY15-17

Fig 18 – Net-profit-growth trend



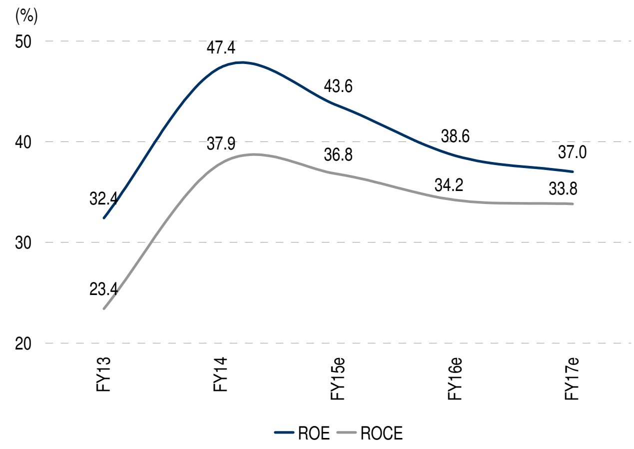
Source: Company, Anand Rathi Research

Healthy return ratios

We expect both RoE and RoCE, on a normalised basis, to come at a strong 37% and 33.8%, respectively, in FY17. The fall in both these ratios from the highs of FY14 is anticipated because of the cooling down effect in PAT as well as in EBIT and of slower revenue growth than the highs seen in past years.

RoE and RoCE to remain high, well above 30%, on account of strong net profit growth

Fig 19 – Healthy return ratios

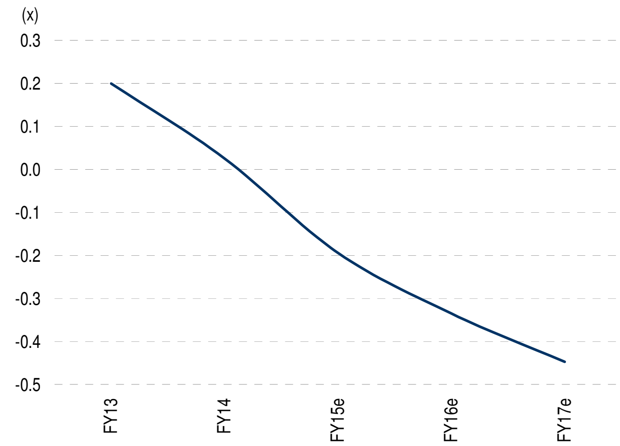


Source: Company, Anand Rathi Research

Strong balance sheet

The company has maintained a strong balance sheet, with net cash on its books and a steady working-capital cycle of ~67 days. Its debt-to-equity ratio has fallen from 1.6x in FY09 to 0.2x in FY14, likely to decline further to 0.1x by FY15, considering the strong free-cash-flow generation, buoyed up by improved profitability and the stable working-capital cycle.

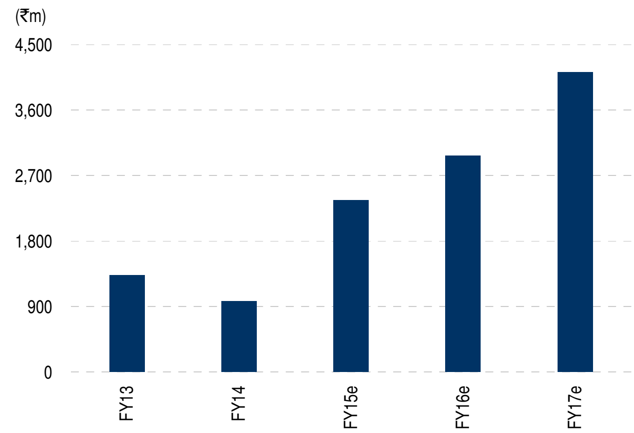
Fig 20 – Leverage position (net debt/equity)



Source: Company, Anand Rathi Research

Consistent free-cash-flow generation due to its strong business model; this should continue to improve

Fig 21 – Free-cash-flow trend



Source: Company, Anand Rathi Research

Fig 22 – Income statement (₹ m)

Y/E March	FY13	FY14	FY15e	FY16e	FY17e
Revenues	**9,308**	**12,083**	**14,632**	**17,485**	**21,042**
Growth in revenues (%)	*37.4*	*29.8*	*21.1*	*19.5*	*20.3*
Raw materials	3,026	3,455	4,134	4,896	5,787
% of Sales	*32.5*	*28.6*	*28.3*	*28.0*	*27.5*
Personnel expenses	1,232	1,570	2,048	2,361	2,788
% of Sales	*13.2*	*13.0*	*14.0*	*13.5*	*13.3*
Selling and other expenses	2,806	3,371	3,731	4,546	5,471
% of Sales	*30.1*	*27.9*	*25.5*	*26.0*	*26.0*
EBITDA	**2,245**	**3,688**	**4,719**	**5,683**	**6,997**
EBITDA Margin	*24.1*	*30.5*	*32.3*	*32.5*	*33.3*
Depreciation	342	439	496	580	637
PBIT	**1,903**	**3,249**	**4,223**	**5,103**	**6,360**
Interest expenses	191	87	56	56	56
PBIT from operations	**1,712**	**3,161**	**4,166**	**5,046**	**6,303**
Other non operating income	56	137	334	432	547
PBT before extraordinary items	1,768	3,299	4,500	5,478	6,850
Extraordinary income/ (expenses)	-	-	-	-	-
PBT	**1,768**	**3,299**	**4,500**	**5,478**	**6,850**
Provision for tax	647	960	1,350	1,561	1,712
Effective tax rate	*36.6*	*29.1*	*30.0*	*28.5*	*25.0*
PAT	**1,121**	**2,339**	**3,150**	**3,917**	**5,137**
Minority Interest	-	-	-	-	-
PAT after minority interest	**1,121**	**2,339**	**3,150**	**3,917**	**5,137**
Adjusted PAT	**1,121**	**2,339**	**3,150**	**3,917**	**5,137**
Growth in PAT (%)	*39.6*	*108.6*	*34.7*	*24.3*	*31.2*
PAT margin	*12.0*	*19.4*	*21.5*	*22.4*	*24.4*

Source: Company, Anand Rathi Research

Fig 23 – Balance sheet (₹ m)

Y/E March	FY13	FY14	FY15e	FY16e	FY17e
Shareholders' funds	**3,934**	**5,933**	**8,530**	**11,760**	**15,996**
Share capital	118	177	177	177	177
Reserves & Surplus	3,816	5,756	8,354	11,583	15,819
Non-current liabilities	**1,025**	**806**	**812**	**819**	**827**
Long term borrowings	733	523	523	523	523
Deferred tax liabilities	237	230	230	230	230
Other Long term liabilities	25	25	25	25	25
Long term provisions	30	28	34	41	49
Current Liabilities	**2,223**	**2,754**	**3,189**	**3,687**	**4,290**
Short term borrowings	513	606	606	606	606
Trade payables	1,317	1,245	1,490	1,774	2,111
Other current liabilities	194	476	577	689	829
Short term provisions	199	427	517	618	744
Total liabilities	**7,182**	**9,494**	**12,532**	**16,266**	**21,112**
Non-current assets	**3,492**	**4,293**	**5,444**	**5,956**	**6,435**
Fixed assets	**2,851**	**3,729**	**4,798**	**5,218**	**5,581**
Tangible assets	2,623	2,768	3,772	4,192	4,555
Intangible assets	103	26	26	26	26
Capital WIP	125	936	1,000	1,000	1,000
Non-current investments	85	85	85	85	85
Long-term loans & advances	486	392	474	567	682
Other non-current assets	71	88	88	88	88
Current Assets	**3,690**	**5,201**	**7,088**	**10,309**	**14,677**
Inventories	1,476	1,554	1,835	2,185	2,600
Trade receivables	1,505	2,022	2,449	2,926	3,522
Cash & Bank balances	462	604	1,685	3,968	7,187
Short-term loans & advances	240	464	562	672	808
Other current assets	7	6	8	9	11
Total Assets	**7,182**	**9,494**	**12,532**	**16,266**	**21,112**

Source: Company, Anand Rathi Research

Fig 24 – Cash flow statement (₹ m)

Y/E March	FY13	FY14	FY15e	FY16e	FY17e
Cash flow from operating activities					
Profit before tax	1,768	3,299	4,500	5,478	6,850
Depreciation	342	439	496	580	637
Interest expenses	191	87	56	56	56
Operating profit before working capital change	**2,301**	**3,825**	**5,053**	**6,115**	**7,543**
Working capital adjustment	225	(311)	(448)	(527)	(653)
Gross cash generated from operations	**2,526**	**3,514**	**4,605**	**5,588**	**6,890**
Direct taxes paid	(581)	(966)	(1,350)	(1,561)	(1,712)
Cash generated from operations	**1,945**	**2,547**	**3,255**	**4,027**	**5,178**
Cash flow from investing activities					
Capex	(706)	(1,318)	(1,565)	(1,000)	(1,000)
Investment	0	(550)	-	-	-
Cash generated from investment activities	**(706)**	**(1,868)**	**(1,565)**	**(1,000)**	**(1,000)**
Cash flow from financing activities					
Proceeds from share capital and premium	-	-	-	-	-
Borrowings/ (Repayments)	(468)	(117)	-	-	-
Interest paid	(191)	(87)	(56)	(56)	(56)
Dividend paid	(171)	(412)	(553)	(687)	(902)
Cash generated from financing activities	**(830)**	**(616)**	**(609)**	**(744)**	**(958)**
Others	(61)	78	-	-	-
Net cash increase/ (decrease)	**348**	**142**	**1,081**	**2,283**	**3,220**

Source: Company, Anand Rathi Research

Fig 25 – Ratio analysis @ ₹1,146

Y/E March	FY13	FY14	FY15e	FY16e	FY17e
Margin Ratios (%)					
EBITDA Margin	24.1	30.5	32.3	32.5	33.3
PBIT Margin	20.4	26.9	28.9	29.2	30.2
PBT Margin	19.0	27.3	30.8	31.3	32.6
PAT Margin	12.0	19.4	21.5	22.4	24.4
Growth Ratios (%)					
Revenues	37.4	29.8	21.1	19.5	20.3
EBITDA	59.5	64.3	28.0	20.4	23.1
Net Profit	39.6	108.6	34.7	24.3	31.2
Return Ratios (%)					
RoCE	23.4	37.9	36.8	34.2	33.8
RoIC	25.1	35.0	38.9	43.2	50.9
RoE	32.4	47.4	43.6	38.6	37.0
Turnover Ratios (x)					
Asset turnover ratio (x)	3.5	3.7	3.4	3.5	3.9
Working capital cycle (days)	78	63	68	68	68
Average collection period (days)	57	53	56	56	56
Average payment period (days)	60	56	50	50	50
Inventory holding (days)	81	66	62	62	62
Per share (₹)					
EPS	19.0	26.5	35.7	44.3	58.1
CEPS	24.8	31.4	41.3	50.9	65.4
Book Value	66.7	67.2	96.6	133.1	181.0
Solvency ratios					
Net Debt/ Equity	0.2	(0.0)	(0.1)	(0.3)	(0.4)
Interest coverage	9.9	37.2	74.8	90.4	112.7
Net Debt/ EBITDA	0.4	0.2	(0.1)	(0.5)	(0.9)
Valuation parameters (x)					
P/E	61.0	43.8	32.5	26.2	19.9
P/BV	17.4	17.3	12.0	8.7	6.4
EV/ EBITDA	30.8	28.0	21.6	17.5	13.8
EV/ Sales	7.4	8.5	7.0	5.7	4.6
M-Cap/ Sales	7.4	8.5	7.0	5.9	4.9

Source: Company, Anand Rathi Research

Valuation

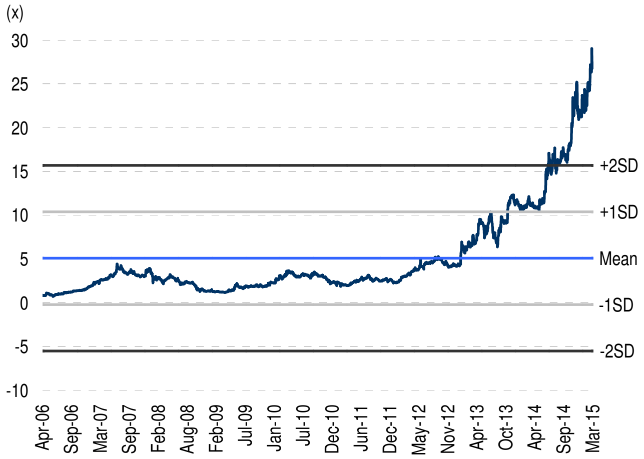
Considering Ajanta's persistent strong growth momentum (a 28% PAT CAGR over FY15-17, over 60% CAGR in free-cash-flow generation to ₹4bn in FY17), a sturdy business model (focusing on brand-named generics), and one of the best RoEs and RoCEs, we are sanguine about its mid- to long-term prospects.

We initiate coverage on the stock, with a Buy rating and a target price of ₹1,454, implying 27% upward potential

The stock has experienced significant valuation re-rating in the recent past as the company has been consistently delivering strong growth along with margin expansion. Further, the US generics business is expected to scale up from FY16, adding to the growth momentum, in our view. The greenfield plant at the Dahez SEZ would be commercialised by Q1 FY17, reducing dependence on out-sourcing and, thereby, further improving margins.

At present, the stock trades at 26.2x FY16e and 19.9x FY17e earnings. We initiate coverage on Ajanta Pharma, with a price target of ₹1,454 based on 25x FY17e earnings. Our target PE multiple is in line with the valuations of large-cap pharmaceuticals considering the company's consistently high growth momentum, strong balance sheet, free cash-flow and one of the best return ratios.

Fig 26 – One-year-forward mean PE and standard deviation



Source: Bloomberg, Anand Rathi Research

Background and Management

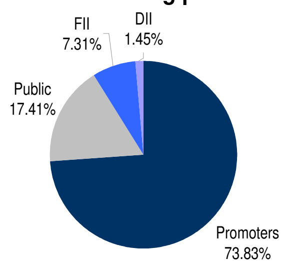
Overview

Established in 1973 and headquartered in Mumbai, Ajanta Pharma is a specialty pharmaceutical company developing, manufacturing and marketing quality finished dosages for domestic and international markets. In FY14, its export-domestic formulations ratio was 67:33.

It has five world-class manufacturing plants: four in India and one in Mauritius, and more than 5,000 employees worldwide, with distribution facilities in over 40 countries. One of its manufacturing plants in India has been approved by the US FDA, the UK MHRA, pre-qualified by the World Health Organization, besides approvals from FDAs of other countries. It is in the process of setting up two manufacturing plants, one for regulated markets, the other for emerging markets.

In India, Ajanta is well established in the fast-growing specialty therapeutic segments: cardiovascular, dermatology, ophthalmology and musculo-skeletal. Gaining first-mover advantage, many of its brands are leaders in their therapeutic sub-segments. Ajanta is extensively operative in many countries in Asia, Africa and Latin America. Having successfully gone through a US FDA inspection, it began commercial operations in the US market in Q1 2013, with a basket of 25 ANDAs filed with the US FDA, and two approved.

Fig 28 – Shareholding pattern



Source: BSE

Fig 27 – Manufacturing units

Product Category	Facility Location	Approvals
Formulations	Paithan	US FDA, UK MHRA, WHO
Formulations	Aurangabad	WHO cGMP
Formulations	Aurangabad	WHO cGMP
Formulations	Mauritius	WHO cGMP
API	Aurangabad	WHO cGMP
Formulations	Dahej (will cater to regulated markets)	Regulatory filing batches are expected to be taken in the quarter ending June 2015
Formulations	Savli (will cater to emerging markets)	Construction in progress

Source:

Fig 29 – Management and Board of Directors

Name	Position	Profile
Mannalal B. Agrawal	Chairman	Founder-promoter-director; industrialist, with over four decades' business experience
Purushottam B. Agrawal	Vice-chairman	Founder-promoter-director. Pharmacy graduate. More than three decades' experience in the pharmaceutical sector
Madhusudan B. Agrawal	Vice-chairman	Founder-promoter-director. Science graduate. Business development head since inception. Spearheaded overseas expansion
Yogesh M. Agrawal	Managing director	Management graduate from Johnson & Wales University, the USA; responsible for unprecedented growth in the last seven years. Transformed Ajanta Pharma into a focused specialty-product company
Dr. Rajesh Agarwal	Jt. Managing Director	Management graduate from USA; instrumental in the domestic formulations business' huge success.

Source: Company

Appendix

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