September 22, 2014

Ajanta Pharmaceuticals (AJAPHA)

₹ 1734

Differentiated approach – simplified…

Rating Matrix

Rating	:	Buy
Target	:	₹ 2151
Target Period	:	15-18 Months
Potential Upside	:	24%

YoY Growth (%)

	FY13	FY14	FY15E	FY16E	FY17E
Revenues	37	30	23	25	22
EBITDA	57	66	15	19	26
Net Profit	45	109	13	14	26

Current & target multiple

	FY13	FY14	FY15E	FY16E	FY17E
PE(x)	55	26	23	20	16
Target PE(x)	68	33	29	25	20
EV to EBITDA(x)	28	17	14	12	9
Target EV/EBITDA(x)	35	21	18	15	11
Price to Book(x)	16	10	8	6	5
Target P/BV(x)	19	13	9	7	6

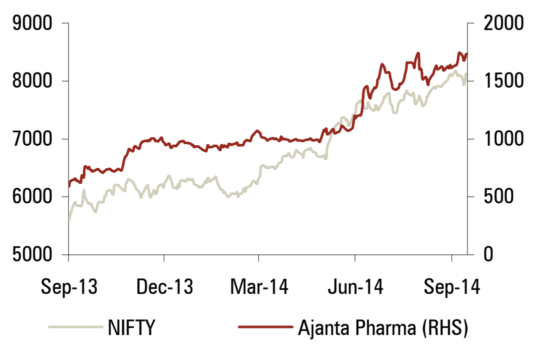
Stock Data

Bloomberg/Reuters Code	AJP IN/AJPH.BO
Sensex	26492
Average Volumes	36000
Market Cap(₹ crore)	6128.0
52 week High/Low(₹)	1799/635
Equity Capital(₹ crore)	17.67
Promoter's Stake(%)	73.6
FII Holdings(%)	7.9
DII Holdings(%)	0.8

Comparative return matrix (%)

	1M	3M	6M	1Y
Ajanta Pharma	8.7	27.1	71.8	152.5
Torrent Pharma	0.8	23.5	54.4	89.6
Ipca Labs	4.4	-6.8	-4.5	10.9

Price movement



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Ajanta Pharma (APL) is a midcap pharma company with its focus on a few emerging markets in the export space and a few therapies in the domestic space. Adopting a slightly unconventional approach of not following the time-tested business models, the company has come a long way by demonstrating stand-out performances and handsome wealth creation for shareholders. In the quest for new product launches, backed by strong R&D support and management vision, the so called 'differentiated approach' has helped APL to carve out its own niche in the crowded midcap pharma space. We are initiating coverage on Ajanta Pharma as the company offers a unique proposition in the midcap pharma space with its self defined growth path.

Domestic formulations - Focus on new launches and few therapies…

APL has had a happy knack of launching maximum number of first time launches with a focus on new drug delivery system (NDDS). Out of 160 actively marketed brands, 119 were first launches in India. Going ahead, we expect domestic formulations to grow at 22% CAGR to ₹ 711 crore in FY14-17E to be driven by a mix of existing products and new launches.

Exports traction mainly from emerging markets…

APL currently derives almost its entire export revenues from emerging markets. As opposed to the common practice of forging alliances with local/regional pharmaceutical players, the company's front-end marketing team interacts directly with doctors. APL has consistently introduced new products in these markets. We expect exports to grow at a CAGR of 24% to ₹ 1520 crore in FY14-17E driven by new product launches.

Low profile but focused; US foray important for scalability

With a focus on niche therapies in domestic formulations and a calculated approach in the exports market, APL remains an interesting candidate from the midcap pharma space with high growth rates, strong margins, commendable return ratios and a lighter balance sheet. Defying the normal trend of targeting the developed markets for generic generics, initially, the company focused on branded generics in the semi-regulated markets. At this juncture, the company is well poised to foray into the US market, especially once the newly constructed Dahej plant gets USFDA approval. We expect revenues, EBITDA and net profit to grow at a CAGR of 24%, 20% and 17%, respectively. We have ascribed a target price of ₹ 2151 based on 20x FY17E EPS of ₹ 107.6. We have a **BUY** recommendation on Ajanta Pharmaceuticals as the company offers a compelling investment argument.

Exhibit 1: Valuation Metrics

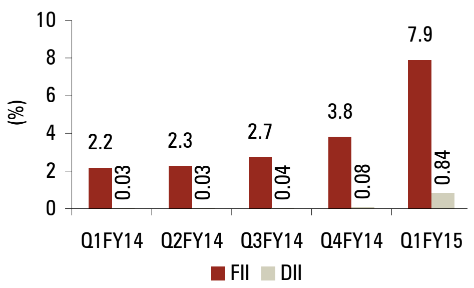
(Year-end March)	FY13	FY14	FY15E	FY16E	FY17E
Revenues (₹ crore)	930.8	1,208.3	1,491.6	1,870.1	2,276.2
EBITDA (₹ crore)	221.6	368.8	423.1	504.8	637.2
Net Profit (₹ crore)	112.1	233.9	265.0	302.5	380.2
EPS (₹)	31.7	66.2	75.0	85.6	107.6
P/E (x)	54.7	26.2	23.1	20.3	16.1
Price / Book (x)	15.6	10.3	7.6	5.9	4.6
EV/EBITDA (x)	28.0	16.7	14.5	11.9	9.0
RoCE (%)	36.2	44.9	40.6	38.1	38.3
RoE (%)	28.5	39.4	32.8	28.9	28.3

Source: Company, ICICIdirect.com Research

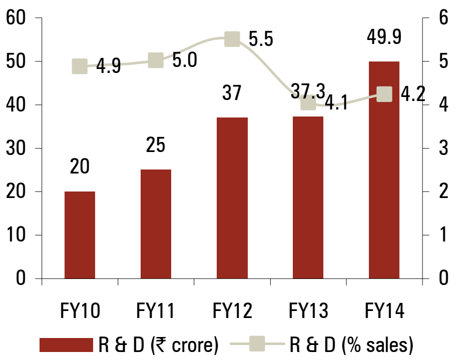
Shareholding pattern (Q1FY15)

Shareholders	Holding (%)
Promoter	73.6
Institutional Investor	8.7
Other Investors	3.0
General Public	14.7

FII & DII holding trend (%)

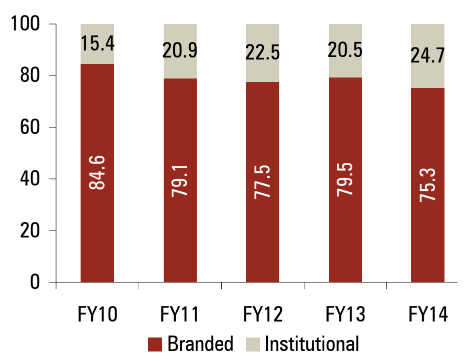


R&D cost



Source: Company

Sales break-up: Branded & tender business



Source: Company

Company background

Established in 1973, Ajanta Pharma (APL) is mainly engaged in exports as well as domestic formulations. As of FY14, the exports-domestic formulation ratio stood at 67:33. The company owns five manufacturing facilities - four in Aurangabad (Maharashtra) and one in Mauritius. Of these five facilities, only one in Aurangabad is an API facility while the rest are all formulations. Consolidated revenues, EBITDA and PAT have grown at a CAGR of 31%, 35% and 48%, respectively, in FY10-14. APL had come out with a maiden IPO in March 2000. The company raised ₹ 68 crore, which was earmarked for capacity expansion and debt repayment.

Domestic formulations constitute 33% of the total consolidated turnover (FY14). This segment has been further segregated into two sub-segments- 1) branded formulations and 2) institutional business. Initially, the company was catering to the institutional business. The institutional sub-segment accounts for ~17% of domestic formulations and is mainly confined to government and institutional tenders. It is only in the last 10 years that the focus shifted to the branded formulations business, which now accounts for ~83% of domestic formulations.

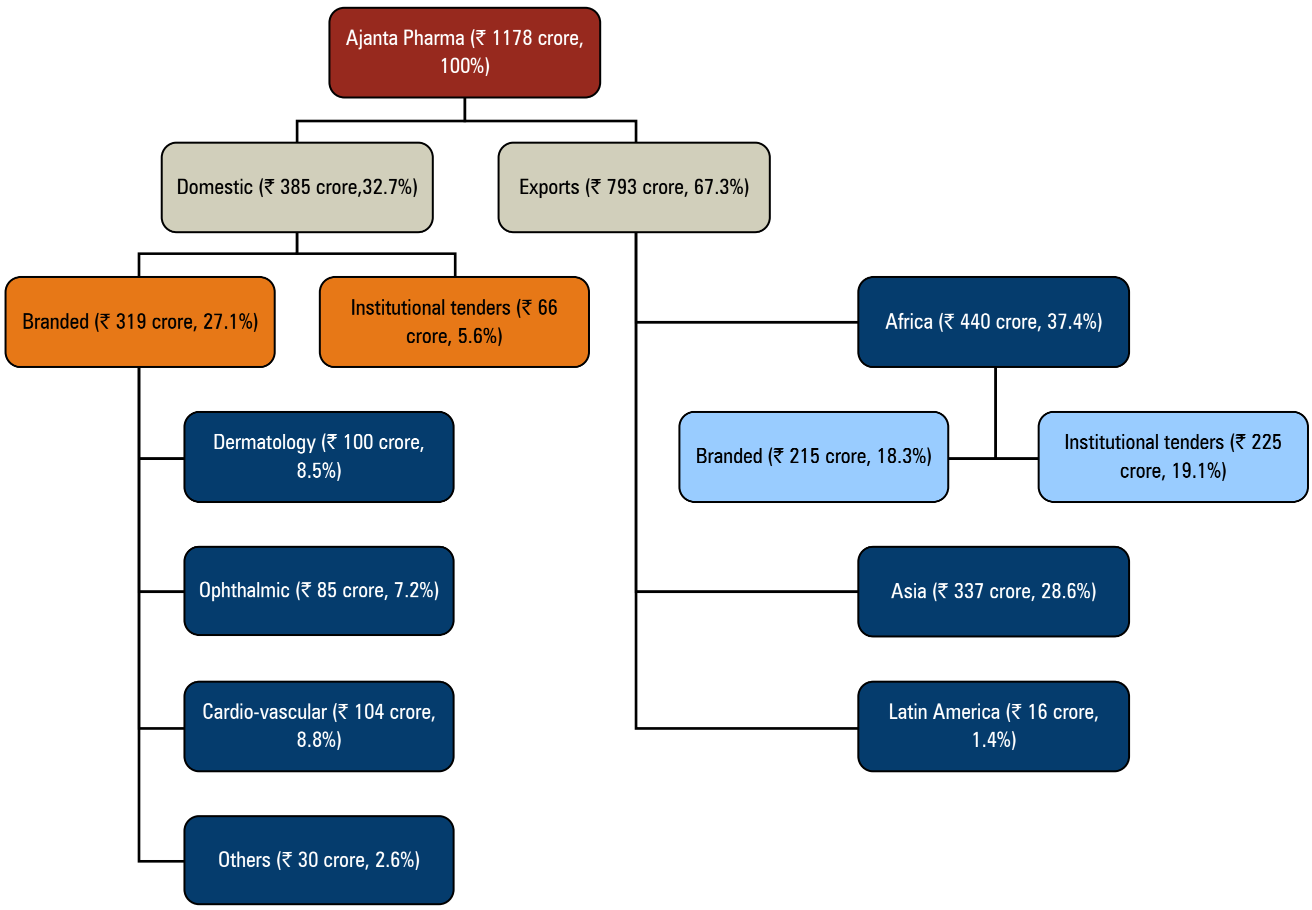
The company focuses on only a few so-called specialty therapies – ophthalmology, dermatology, cardiology, etc. Together, these therapies constitute ~75% of domestic branded formulations. APL invested heavily in the technology and field force, especially in the first five years after the changed focus. The focus was also on offering a novel delivery system. From ₹ 17 crore in FY05, branded formulations have grown at a CAGR of 34% to ₹ 319 crore in FY14. Till date, the company has launched 160 products out of which 119 are first time launches. The current MR strength is ~2500. Overall, domestic formulations have grown at a CAGR of 27% in FY10-14 to ₹ 385 crore. The company has only one product under the National List of Essential Medicines (NLEM) 2011.

Export formulations constitute 67% of the total consolidated turnover (FY14). Exports are mainly confined to emerging markets and constitute branded generics. APL exports its products in ~35 emerging markets with a significant presence in Franco-African countries and Philippines.

Africa accounts for ~56% of export formulations followed by Asia. The company also participates in anti-malarial tenders in Africa. APL operates through 450+ MRs in these emerging markets and owns a portfolio of 1443 registered brands in these markets encompassing major therapies such as anti-infectives, anti-malarials, ophthalmic, dermatology, cardiovascular, GI, etc. The company also has a marginal presence in Latin America. APL has also forayed into regulated markets such as the US where it filed 25 ANDAs, received approvals for two and launched one product. Overall, export formulations have grown at a CAGR of 32% in FY10-14 to ₹ 793 crore.

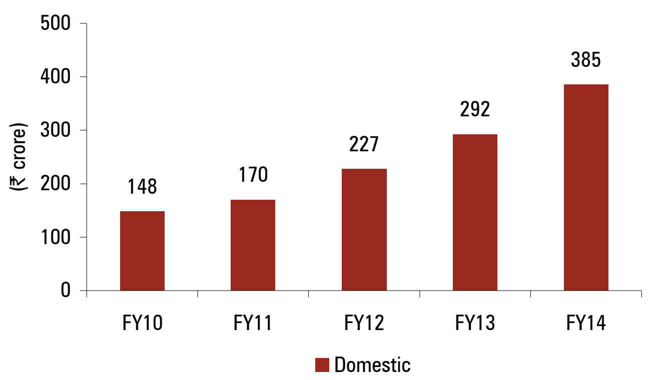
APL has five subsidiaries in the Philippines, the US and one step-down subsidiary in Mauritius. The Mauritius subsidiary, with an independent manufacturing base, mainly caters to the Franco-African markets. The subsidiary in Philippines, which is a marketing arm, caters to the Philippines market. The US subsidiary is an administrative office to facilitate US operations.

Exhibit 2: Ajanta Pharma break-up of FY14 sales – segment & geography wise



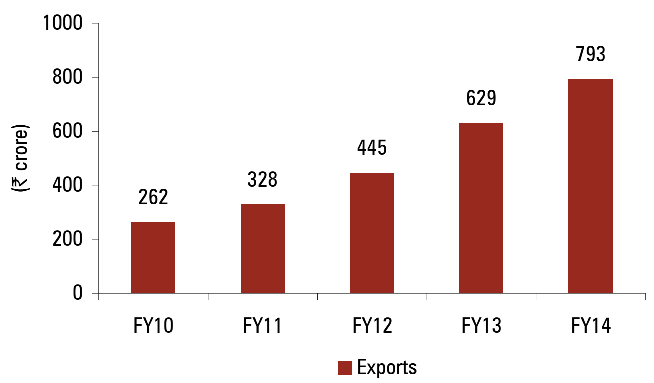
Source: Company, ICICIdirect.com Research

Exhibit 3: Domestic sales grow at CAGR of 27% in FY10-14



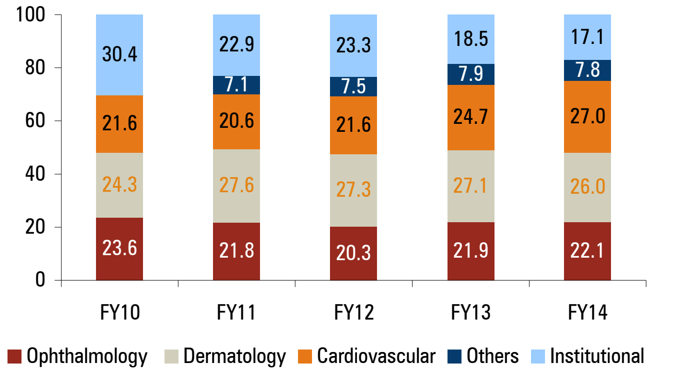
Source: Company, ICICIdirect.com Research

Exhibit 4: Exports sales grow at CAGR of 30.2% in FY10-14



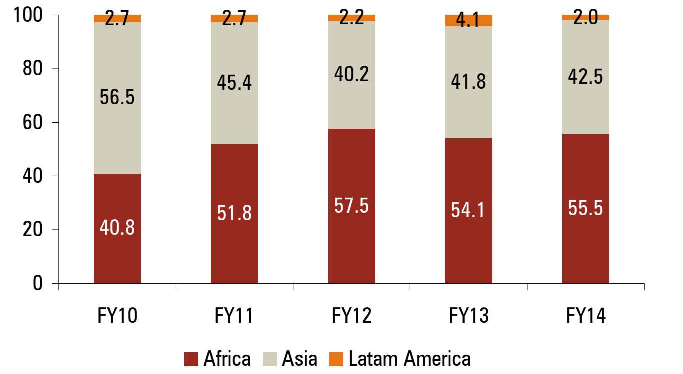
Source: Company, ICICIdirect.com Research

Exhibit 5: Break-up of domestic sales as per business segments…



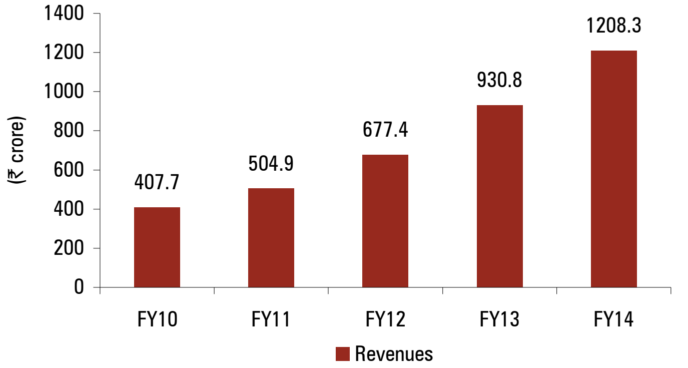
Source: Company, ICICIdirect.com Research

Exhibit 6: Break-up of export sales as per geographies…



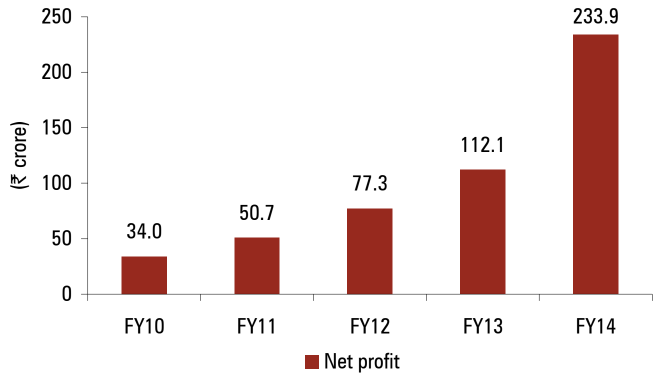
Source: Company, ICICIdirect.com Research

Exhibit 7: Revenues grow at CAGR of 31.2% in FY10-14



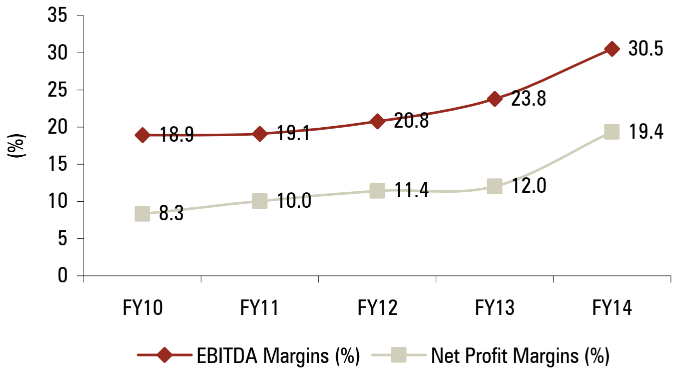
Source: Company, ICICIdirect.com Research

Exhibit 8: Profits grow at CAGR of ~62% in FY10-14



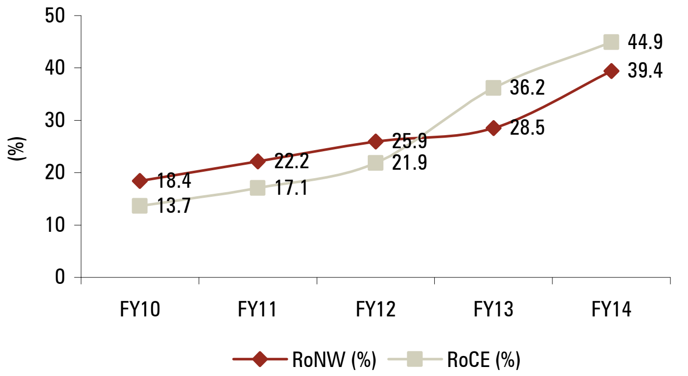
Source: Company, ICICIdirect.com Research

Exhibit 9: Trends in EBITDA & net profit margins (%)



Source: Company, ICICIdirect.com Research

Exhibit 10: Trends in return ratios



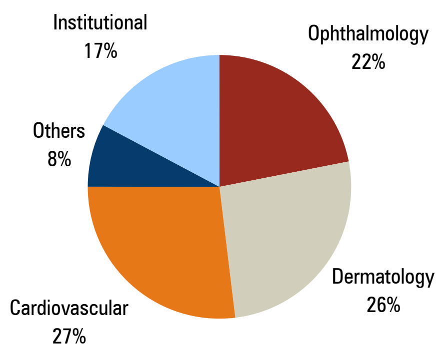
Source: Company, ICICIdirect.com Research

Investment Rationale

Focus on specialty therapies, new launches to drive formulations in India

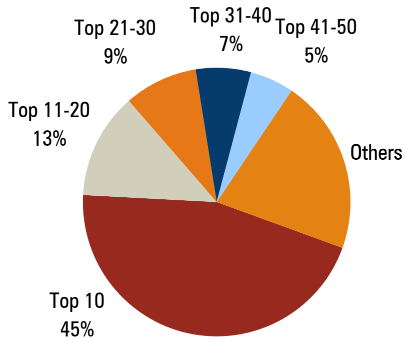
The India business contributed ~33% of sales. APL operates in the branded (prescription: Rx, 83% of domestic sales) and tender business (17% of domestic sales). In the branded space, it has a presence in fast growing specialty therapies, namely ophthalmology, dermatology and chronic therapies such as cardiovascular (CVS). In the acute space, it has a marginal presence in pain management and gastrointestinal. APL currently markets 160 brands through 2500 medical representatives (MRs) covering 3 lakh doctors.

Exhibit 11: Break-up of FY14 domestic sales



Source: Company, ICICIdirect.com Research

Exhibit 12: Brand concentration



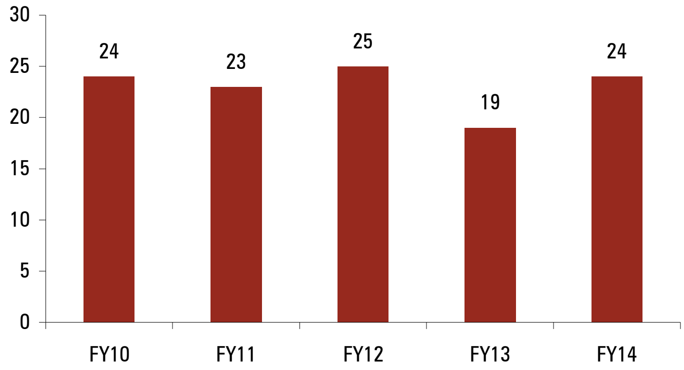
Source: AIOCD data base MAT August 2014 data, ICICIdirect.com Research

Over the years, the company has developed a knack of launching maximum number of first launches with a focus on the new drug delivery system (NDDS). It was one of the very few companies to launch products such as Metoprolol (CVS), Rosuvastatin + Clopidogrel (CVS), Hydroquinone + Mometasone + Tretinoin (Derma), etc. in the Indian market. The company's first differentiated (NDDS) product Nimesulide (pain, dosage: daily once) was launched under the brand name Nimlodi in FY02. Out of 160 actively marketed brands, 119 were first launches in India. The focus on specialty therapies and niche product led APL to post a strong CAGR of 27% in FY10-14, which is far higher than the industry growth of ~9% (AIOCD data).

As per the latest AIOCD data, APL ranks fiftieth in the Indian pharmaceutical market with 0.39% market share. Currently, only 12% of total domestic sales are under NLEM. They are mainly from CVS category.

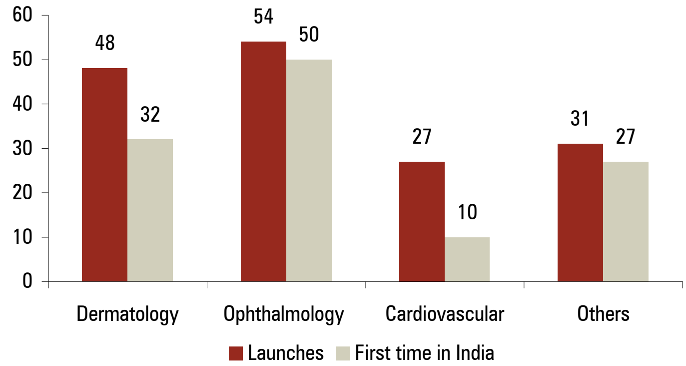
APL launched its first product Pinkoo gripe water (OTC) in the Indian market in 1979. It used to sell OTC products and participate in the institutional tender business in the Indian market until 1997. Gradually, it entered the branded (Rx) market with the launch of the natural anti-oxidant under the brand name Carofit. However, to focus more on niche segments, APL ventured into CVS, ophthalmic and derma therapies from FY04 onwards. The company markets CVS, ophthalmology and dermatology products under the divisions of Anvaxx, Illuma and Ansca. Till FY14, it has launched 48 brands in dermatology, 54 in ophthalmic and 27 in CVS. Of this, 32, 50 and 10 were first launches in India. The company launches ~20 new products every year, including line extensions. We expect APL to continue with15-20 product launches every year. Overall, we expect domestic sales to grow at a CAGR of 22.4% to ₹ 711 crore in FY14-17E.

Exhibit 13: Consistent in launching new products…



Source: Company, ICICIdirect.com Research

Exhibit 14: Total launches in Indian market (till FY14)



Source: Company, ICICIdirect.com Research

Exhibit 15: Top 10 brands performance (₹ crore)

Brand	Therapy	Aug'14	Aug'13	Gr. (%)
Met XL	Cardiac	36.5	28.5	28.0
Melacare	Derma	32.8	32.7	0.5
Atorfit CV	Cardiac	21.0	12.4	68.9
Soft Drops	Ophthal	8.9	6.7	33.0
Met XL AM	Cardiac	8.6	5.9	46.0
Feburic	Pain	7.8	5.1	53.2
Rosufit CV	Cardiac	6.4	2.7	132.5
Metaspan	Vitamins	6.0	3.1	93.2
Vertizac	Neuro	5.5	4.0	35.9
Olopat	Ophthal	5.4	4.4	23.2

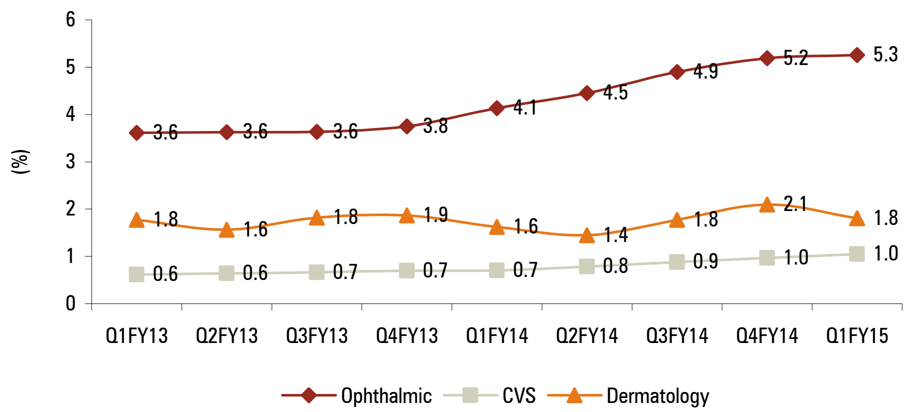
Source: AIOCD data base MAT August 2014 data, ICICIdirect.com Research

Exhibit 16: New products driving growth (₹ crore)

Brand	Therapy	Aug'14	Aug'13	Gr. (%)
Melacare Plus	Derma	4.2	0.0	NA
Peroclin	Derma	3.6	0.0	NA
Cinod	Cardiac	3.4	0.6	466.7
Nevirin	Neuro	2.3	0.9	155.6
Ilumax	Vitamins	2.0	0.0	NA
Cilamet	Cardiac	1.5	0.0	NA
Cinod T	Cardiac	1.4	0.0	NA
Sunstop Aquagel	Derma	1.1	0.2	440.3
Glotab	Vitamins	1.0	0.0	NA
Nepaflam OD	Ophthal	0.9	0.0	NA

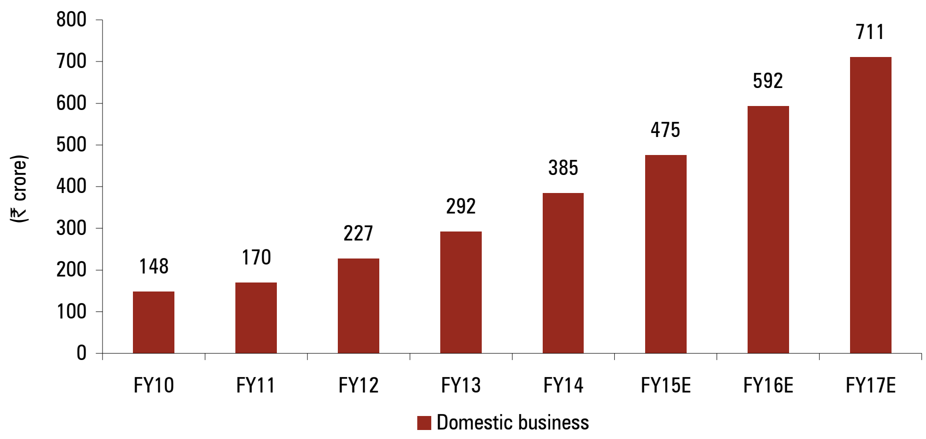
Source: AIOCD data base MAT August 2014 data, ICICIdirect.com Research

Exhibit 17: Market share improvement clearly seen in ophthalmic and CVS segments…



Source: AIOCD data base MAT August 2014 data, ICICIdirect.com Research

Exhibit 18: Domestic business to grow at 22.4% CAGR in FY14-17E



Source: Company, ICICIdirect.com Research

Cardiovascular therapy to grow at 28% CAGR in FY14-17E

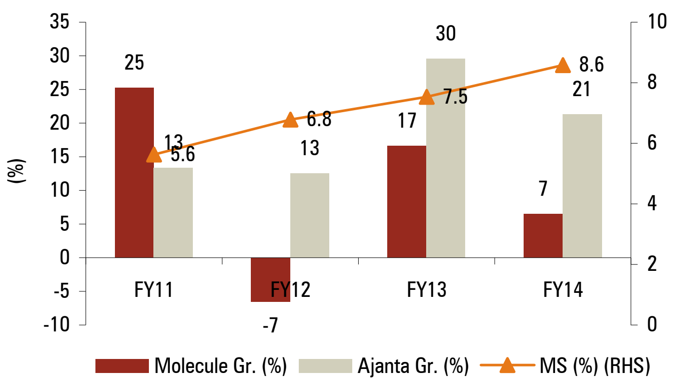
The cardiovascular segment is the largest one for APL that contributed ~27% to domestic sales. The company ranks twenty-sixth in the Indian cardiovascular market with a market share of ~1%, as per latest AIOCD data. Despite being a marginal player in therapy, the company has built a strong product portfolio in atherothrombosis, coronary artery disease, dyslipidaemia, hypertension and heart failure sub segment. APL is the first company to launch molecules like Metoprolol (brand: Met XL, fourth largest player in the category), Rosuvastatin + Clopidogrel combinations (Rosufit CV, largest player in the category) and Atorvastatin + Clopidogrel (Atrofit CV, second largest player in the category) combinations in the Indian market.

Exhibit 19: Top molecules in cardiac segment (₹ crore)

Molecule	Brands	Aug'14	Aug'13	Gr. (%)
Metoprolol	Met XL, Metoprolol	36.5	28.5	28.1
Atorvastatin + Clopidogrel	Atrofit CV	21.0	12.4	69.4
Metoprolol + Amlodipine	Met XL AM	8.6	5.9	45.8
Rosuvastatin + Clopidogrel	Rosufit CV	6.4	2.7	137.0

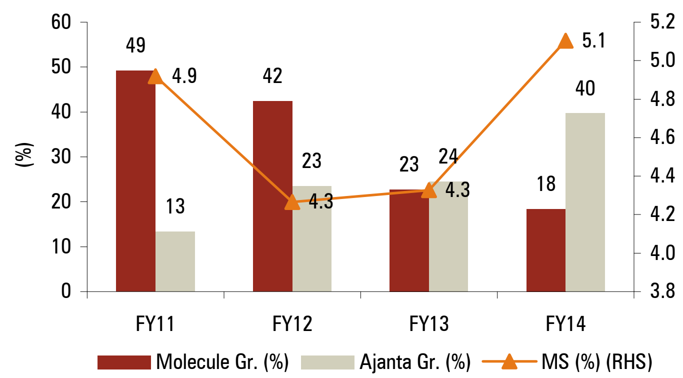
Source: AIOCD data base, MAT August'14 data, Company, ICICIdirect.com Research

Exhibit 20: Improvement in market share in Metoprolol molecule



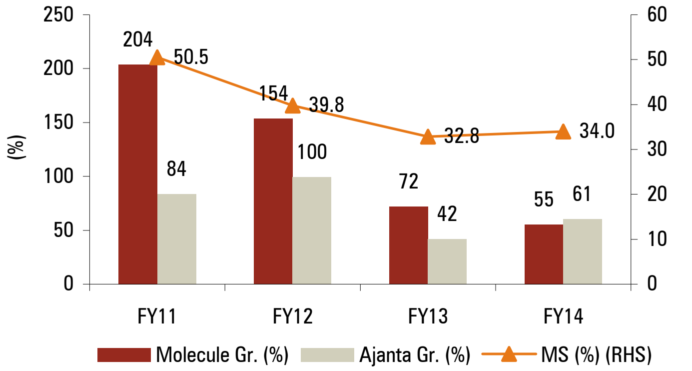
Source: AIOCD data base MAT August 2014 data, ICICIdirect.com Research

Exhibit 21: Metoprolol + Amlodipine molecule performance



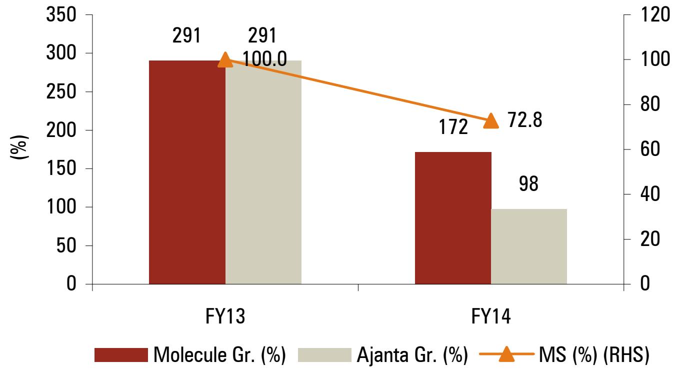
Source: AIOCD data base MAT August 2014 data, ICICIdirect.com Research

Exhibit 22: Atorvastatin + Clopidogrel molecule performance



Source: AIOCD data base MAT August 2014 data, ICICIdirect.com Research

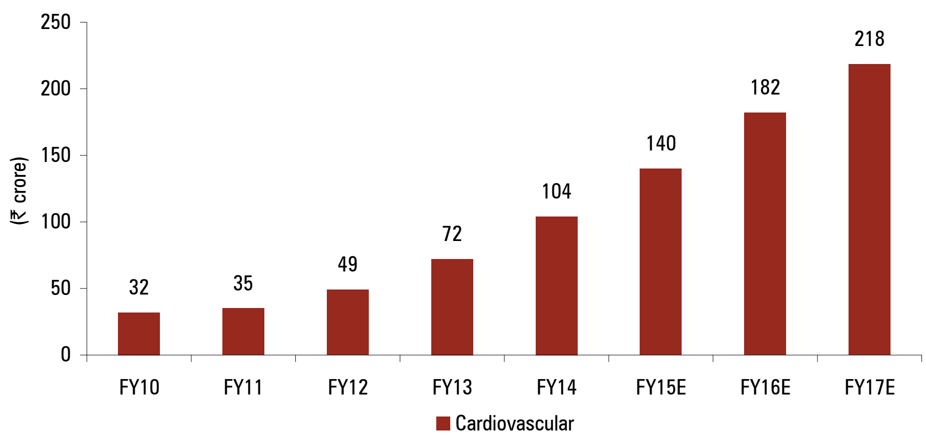
Exhibit 23: Rosuvastatin + Clopidogrel molecule performance



Source: AIOCD data base MAT August 2014 data, ICICIdirect.com Research

Sales from CVS segment grew at a CAGR of 34.3% in FY10-14, which was more than double the industry growth rate of 15.2% during the same period. The robust growth was mainly due to launch of differentiated products. So far, APL has launched 27 brands in this segment, which includes 10 first time launches in India. We expect the cardiovascular segment to grow at a CAGR of 28% to ₹ 218 crore in FY14-17E driven by new product launches and sustained demand in existing products.

Exhibit 24: Cardiovascular segment to grow at 28% CAGR in FY14-17E



Source: Company, ICICIdirect.com Research

Dermatology therapy to grow at 22.5% CAGR in FY14-17E

APL ranks sixteenth in the dermatology segment with a market share of ~1.8% as per AIOCD data. Sales from the dermatology segment witnessed a CAGR of 29% in FY10-14, far higher than industry growth of 13.4%. This was on account of its presence in both high-end cosmeceutical products and normal skin infections. It has a presence in sub-segments like acne, alopecia, dermatitis/eczema, skin infections, moisturisers, pigment disorders, psoriasis, scars, sunscreens, etc. The company generated ₹ 100 crore from the dermatology segment in FY14, which contributed around 26% of domestic formulations. APL has launched 48 products in the Indian market, including 32 first launches.

The largest molecule in the derma space is Hydroquinone + Memetasone + Tretinoin (Brand: Melacare), which contributes around 46% of total derma sales (as per AIOCD data). APL is the second largest player in this molecule after Cadila Healthcare with 16% market share. However, it has come down from 33% in FY12 to 16%. To address this fall in market share, the company has launched the extension under the brand name

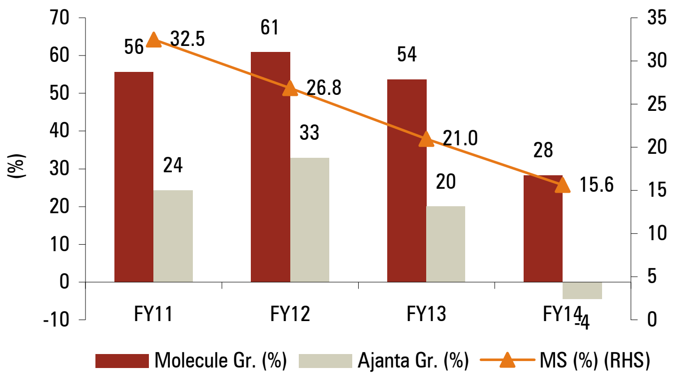
Melacare Plus. This product registered sales of ₹ 3 crore in the first year of launch. Going ahead, we expect new product launches to drive growth in the derma category. We expect dermatology sales to grow at a CAGR of 22.5% to ₹ 185 crore in FY14-17E.

Exhibit 25: Top molecules in dermatology segment (₹ crore)

Molecule	Brands	Aug'14	Aug'13	Gr. (%)
Hydroquinone+Mometasone+Tretinoin	Melacare, Melacare Plus	37.1	32.7	13.5
Salicylic Acid	Salisia KT, Salisia, Aquasoft S	4.3	3.3	30.3
Pimecrolimus	Pacroma	4.3	3.3	30.3
Burn Gels, all other wound healing agents	Vaniza	3.1	2.4	29.2

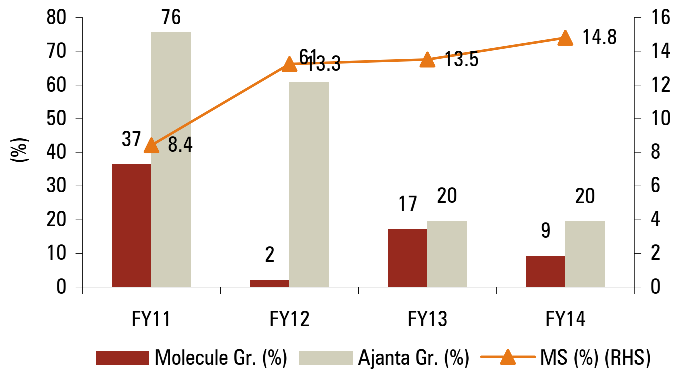
Source: AIOCD data base MAT August 2014 data, ICICIdirect.com Research

Exhibit 26: Hydroquinone/memetasone/tretinoin molecule performance



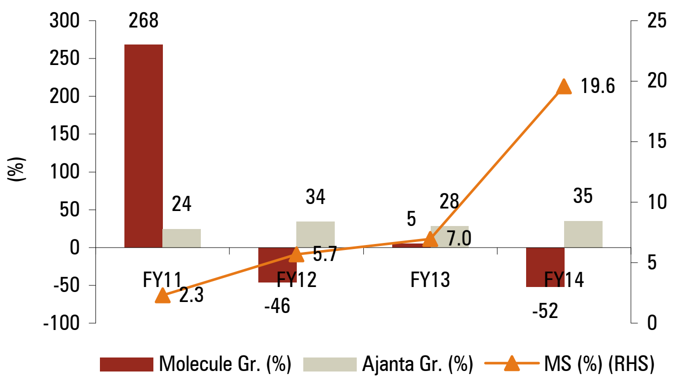
Source: AIOCD data base MAT August 2014 data, ICICIdirect.com Research

Exhibit 27: Salicylic acid molecule performance



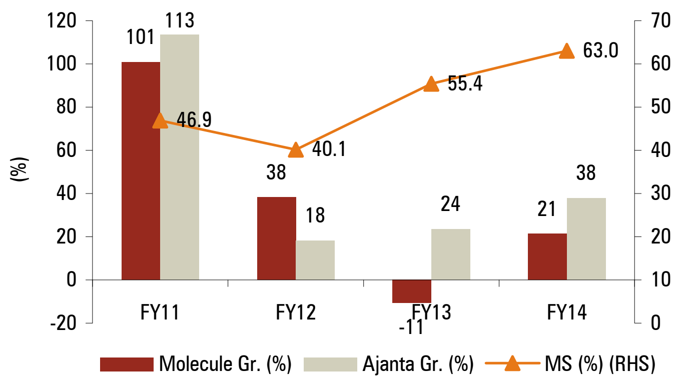
Source: AIOCD data base MAT August 2014 data, ICICIdirect.com Research

Exhibit 28: Burn gels molecules performance



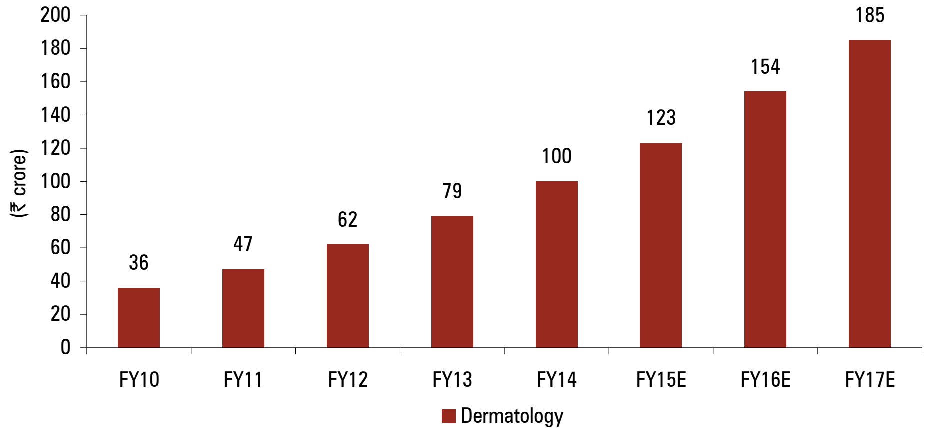
Source: AIOCD data base MAT August 2014 data, ICICIdirect.com Research

Exhibit 29: Pimecrolimus molecule performance



Source: AIOCD data base MAT August 2014 data, ICICIdirect.com Research

Exhibit 30: Dermatology segment to grow at 22.5% CAGR in FY14-17E



Source: Company, ICICIdirect.com Research

Ophthalmology therapy to grow at 24% CAGR in FY14-17E

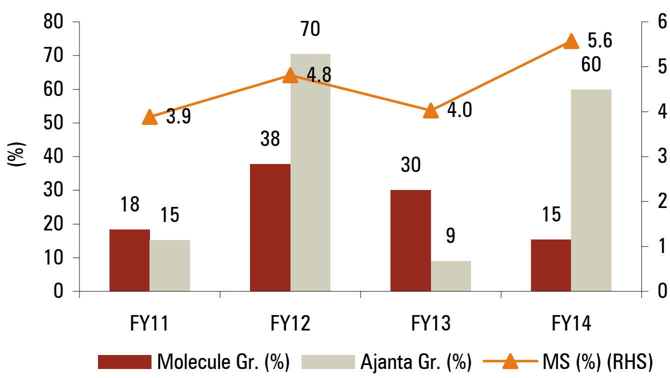
APL ranks sixth in the domestic ophthalmic segment with a market share of 5%, as per AIOCD data. The company has a presence across all sub-segments such as allergy, dry eye, glaucoma, eye infections, macular degeneration and retinopathies. So far, it has launched 54 products in the Indian market of which 50 were first launches. The strategy of launching selective products has helped the company to improve both the market share and rank in the domestic market. The market share has increased from 3.6% in Q1FY13 to 5.3% in Q1FY15. Sales from the ophthalmic division posted a CAGR of 24.8% in FY10-14 compared to industry growth of 17.2% in the same period. We expect sales from the ophthalmic division to grow at a CAGR of 24% to ₹ 163 crore in FY14-17E driven by new product launches.

Exhibit 31: Top molecules performance (₹ crore)

Molecule	Brands	Aug'14	Aug'13	Gr. (%)
Carboxy Methyl Cellulose	Soft Drops, Aqualube, Softvisc	14.4	9.5	51.6
Nepafenac	Nepaflam & Nepaflam OD	5.7	3.8	50.0
Olopatadine	Olopat	5.4	4.4	22.7
Moxifloxacin	Apdrops, Apdrops XG & Moxifloxacin	4.2	3.2	31.3
Bromfenac	Unibrom	3.0	2.7	11.9

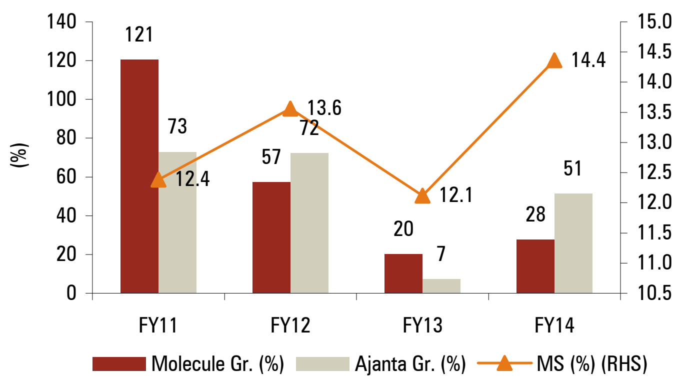
Source: AIOCD data base MAT August 2014 data, ICICIdirect.com Research

Exhibit 32: Carboxy methyl cellulose molecule performance



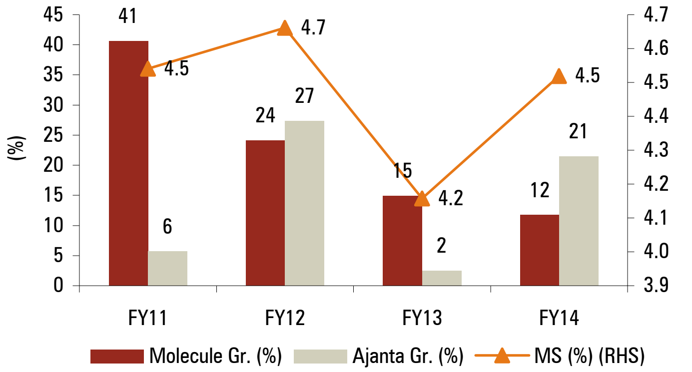
Source: AIOCD data base MAT August 2014 data, ICICIdirect.com Research

Exhibit 33: Nepafenac molecule performance



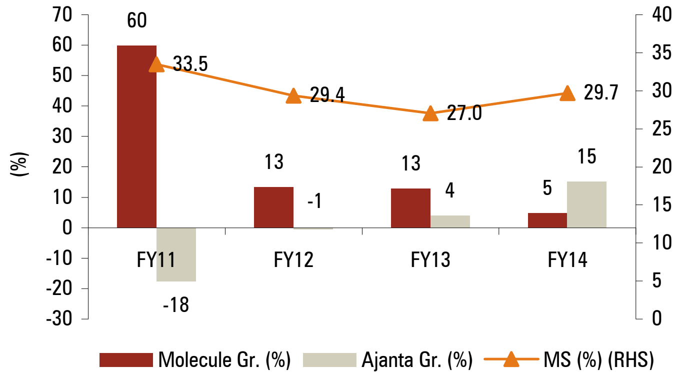
Source: AIOCD data base MAT August 2014 data, ICICIdirect.com Research

Exhibit 34: Moxifloxacin molecule performance



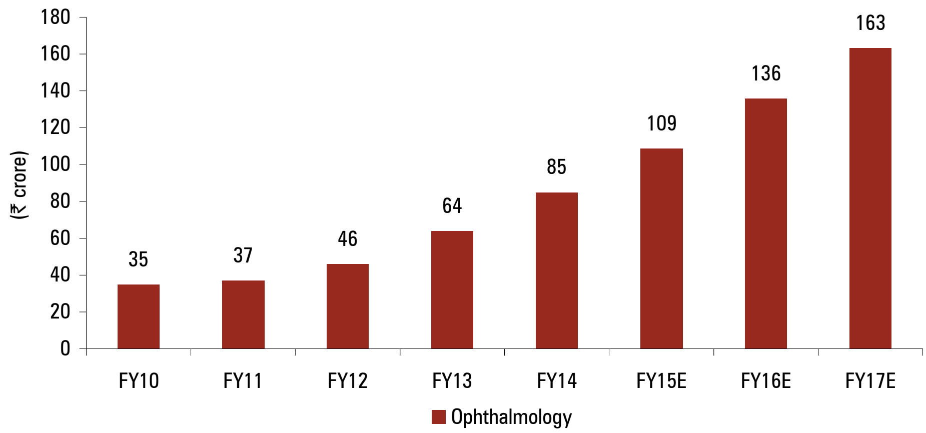
Source: AIOCD data base MAT August 2014 data, ICICIdirect.com Research

Exhibit 35: Bromfenac molecule performance



Source: AIOCD data base MAT August 2014 data, ICICIdirect.com Research

Exhibit 36: Ophthalmology to grow at 24% CAGR in FY14-17E

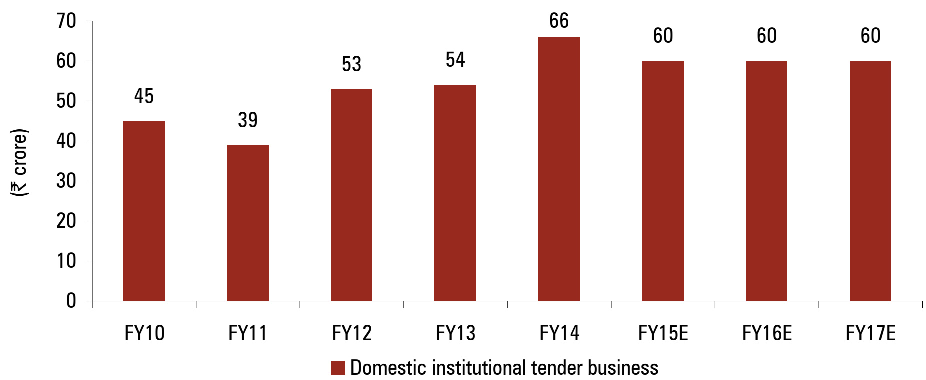


Source: Company, ICICIdirect.com Research

Defocusing on tender business

APL participates in state government, Army and Railway tenders. All these tenders are catalogue pricing contracts mostly in vitamins and cough syrups. Sales from this institutional tender business contributed ~17% to domestic formulations in FY14. The management has, however, indicated its intention to de-focus on this business, going ahead. We expect sales from this tender business to be around ₹ 60 crore every year.

Exhibit 37: Institutional business to not be focus area

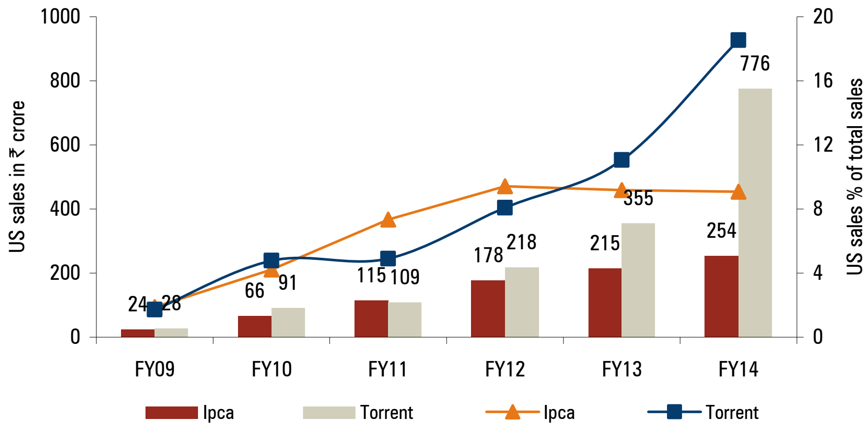


Source: Company, ICICIdirect.com Research

Growth paradox - Exports growth without US franchisee, and how!

APL's business model and growth story revolves around the similar models of Ipca and Torrent. The common thread among all these successful export stories is the relative less dependence on the US franchisees in the initial stages when these companies begun to flourish in the export markets.

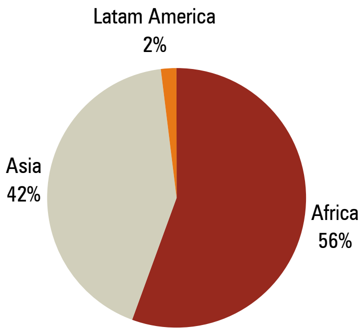
Exhibit 38: Low dependence on US



Source: Company, ICICIdirect.com Research

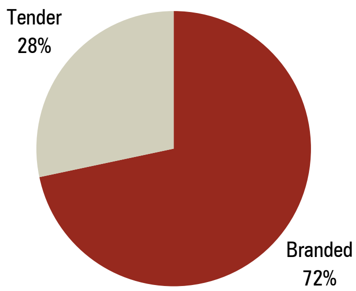
APL currently derives almost its entire export revenues from emerging regions like Africa (Franco Africa), Asia and the LatAm having a presence in more than 35 countries. Exports have grown at 32% CAGR in FY10-14.

Exhibit 39: FY14 export sales break-up



Source: Company, ICICIdirect.com Research

Exhibit 40: Sales break-up in terms of branded and tender



Source: Company, ICICIdirect.com Research

The company markets its products through a team of 450+ MRs. At present, the company is marketing 200+ products in these regions. In all, the company owns 1443 registered brands while another 1596 brands are under registration.

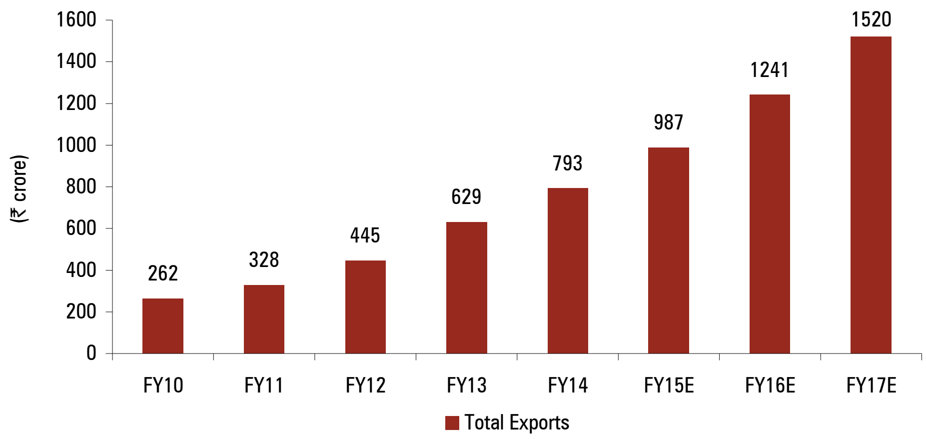
Exhibit 41: Product registrations in export markets

Region	Brands Registered	Brands under Registration	MRs Strength	Major Segments
Africa	998	1081	206	Antibiotic, Anti-Malaria, Ortho
Asia	383	387	244	Antibiotic, Derma, Ortho, OTC, Ophthal, Cardio, GI
Latam	62	128	-	Ophthal, GI
Total	1443	1596	450	

Source: Company, ICICIdirect.com Research

APL's success story in emerging markets was carved out of the so called differentiated approach. According to this, products were developed on the basis of unmet medical needs in a particular geography. As a result, the product basket varied from nation to nation. Similarly, the company resorted to a different strategy of product marketing. As opposed to the common practice of forging alliances with local/regional pharmaceutical players, APL's front-end marketing team interacts directly with doctors. The company has consistently introduced new products in these markets. Overall, we expect export sales to grow at a CAGR of 24% to ₹ 1520 crore in FY14-17E.

Exhibit 42: Exports to grow at 24% CAGR in FY14-17E

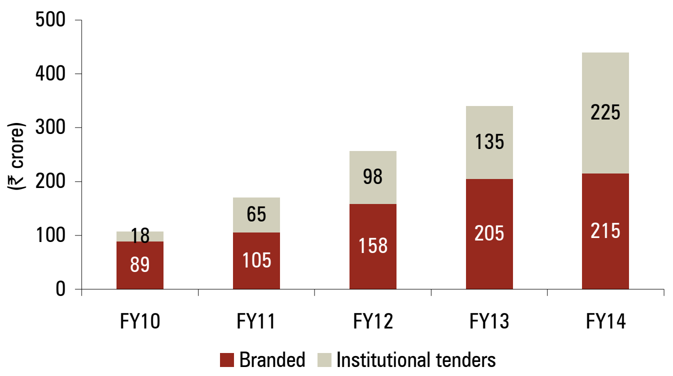


Source: Company, ICICIdirect.com Research

Africa sales a mix of branded and tender business

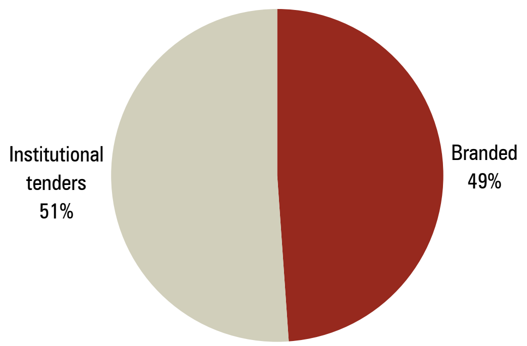
APL operates in 19 countries in the African region, especially in the Franco African markets via an Indian manufacturing base as well as its subsidiary in Mauritius. Its presence spreads across a wide range of therapeutic segments such as anti-malarial, anti-infectives, cardiovascular, orthopaedic, gynaecology, paediatric and general health. The focus is both on branded as well as institutional business wherein it participates in anti-malarials tenders. APL owns a field force of 200+ MRs to promote the branded portfolio. The African business has grown at a CAGR of 42.4% in FY10-14. The company was ranked sixth in the Franco African region as per IMS December 2013 ranking.

Exhibit 43: African sales grow at 42% CAGR in FY10-14



Source: Company, ICICIdirect.com Research

Exhibit 44: African sales break-up FY14

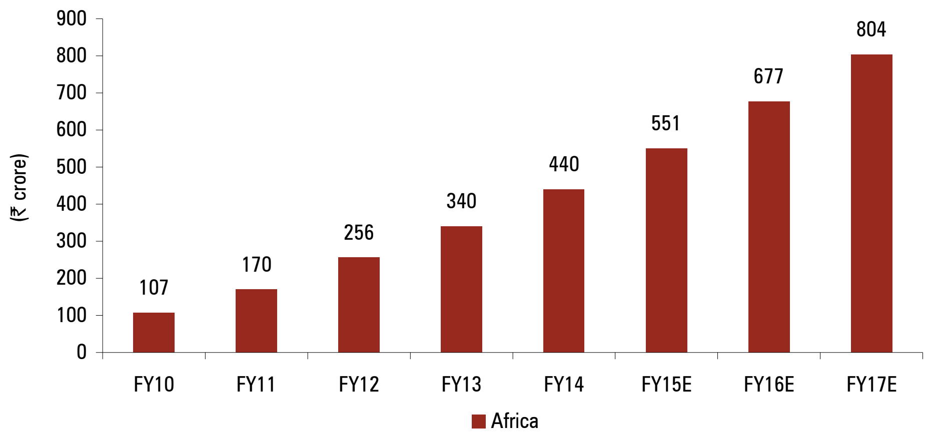


Source: Company, ICICIdirect.com Research

APL also has a significant presence in the anti-malarial segment in Africa. Anti-malarial tenders constitute 28.3% of export sales and 19.1% of overall sales. APL was the first generic company to secure WHO pre-qualification for Artemether 20 mg + Lumefantrine 120 mg tablets and Artemether 20 mg + Lumefantrine dispersible tablets. It was also among the first companies to have introduced Artemether + Lumefantrine in higher strengths such as 40 mg+240 mg; 60 mg+360 mg and 80 mg+480 mg. It promotes the entire Artemether + Lumefantrine range of products under the brand name Artefan and Combisunate in Africa. Going ahead, we expect some stagnancy in the anti-malarial tender business due to structural changes in the procurement process.

According to an IMS report, pharmaceutical spending in the entire African continent is expected to reach US$30 billion in 2016, up from US$18 billion in 2012. By 2020, the market, as per the same estimates, represents a US$45-billion opportunity to be driven by stability in the region, economic growth and demographic changes. We expect the Africa business to grow at 22% CAGR to ₹ 804 crore in FY14-17E, driven by new product launches and steady growth in the base business. We expect APL to introduce 10-12 new products every year. This is expected on the back of a huge back log of pending registrations, which currently stands at 1081 products. Also, ~1000 brands have already been registered that are expected to drive the steady growth in existing products.

Exhibit 45: Africa sales to grow at CAGR of 22% in FY14-17E



Source: Company, ICICIdirect.com Research

Philippines franchisee to drive Asia growth

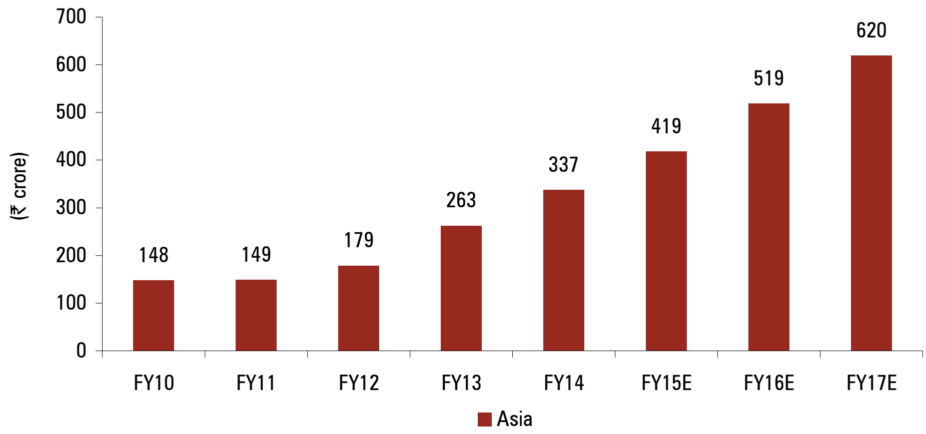
In Asia, the company has a presence in six countries. However, a major chunk comes from the Philippines. APL forayed into the Philippines market in 2009 via incorporation of the subsidiary Ajanta Pharma Philippines Inc (AAPI). Here also, the focus is on branded generics. In the entire region, the company has a team of 244 MRs to focus on doctors. The therapies on which it concentrates include anti-infectives, dermatology, orthopaedics, ophthalmics, cardiovascular and GI. Overall, APL owns 383 brands while another 387 are under registration. The Asian business has grown at a CAGR of 23% in FY10-14. The company was ranked thirty-fifth in the Philippines market as per IMS December 2013 ranking.

The Philippines' pharmaceutical market is the third largest pharma market in the Asean region after Indonesia and Thailand. It currently stands at ~US$4 billion and is going through some structural transformation from branded (innovator products) to branded generics to generic generics. The market has been dominated by MNCs, which account for 70% of the entire market. In terms of product categorisation: ~35% are branded products, ~50% branded generics and 15% generic generics. Drug prices in this country are relatively high due to higher MNC influence, absence of established local companies and very few manufacturing plants.

To increase healthcare access, the government has mandated price controls on certain essential drugs. In 2008, it passed the Universally Accessible Cheaper and Quality Medicines Act. This act granted the government the power to impose maximum retail prices on drugs included in the Philippines' Essential Drug List (last released in 2008). Under the new act, the government mandated a 50% price reduction on 21 molecules and their preparations including some big names such as Pfizer's hypertension drug Norvasc and GlaxoSmithKline's antibiotic, Augmentin. However, the market remains one of the costliest in terms of pricing on account of lower healthcare insurance penetration and heavy reliance on imported medicines as there are very few manufacturing bases in the country.

The Philippines' pharmaceutical market is expected to grow from US$4 billion to US$8 billion by 2020, at a CAGR of ~9%, mainly driven by high medicine prices, as per research and consulting firm Global Data. We expect the Asian business to grow at a CAGR of 22% to ₹ 620 crore in FY14-17E, driven by new product launches. We expect the company to introduce 15-20 new products every year. Here also our assumption is based upon a huge backlog of pending registrations, which currently stand at 387 products.

Exhibit 46: Sales from Asian region to grow at CAGR of 22.3% in FY14-17E



Source: Company, ICICIdirect.com Research

US story just evolving; well placed to take some calculated risks in US

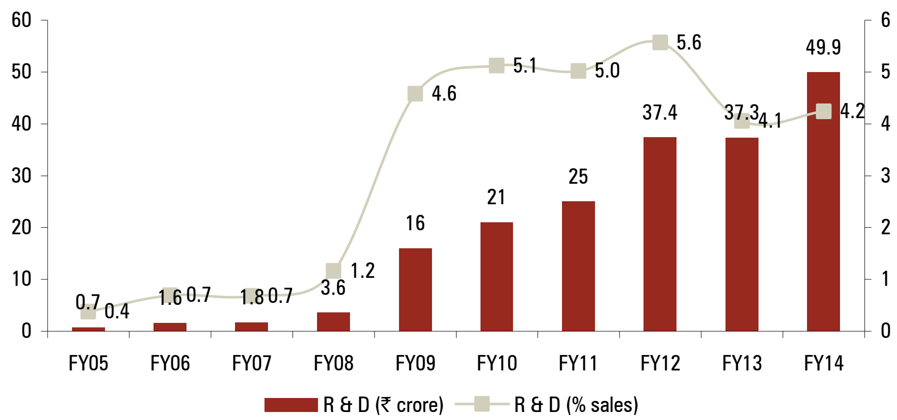
APL entered the US market in FY13 with the launch of Risperidone (CNS) through Breckenridge Pharmaceuticals in the US. The company, till date, has filed 25 ANDAs with the USFDA and received approval for two products. The branded potential market size of these filed products is ~US$1.5 billion. These filed products are all oral and comprise a mix of Para IVs and others. The company has recently tweaked its strategy by putting its own front-end team in the US. Accordingly, it has re-launched Risperidone. APL intends to file five to six products every year. The company's Paithan facility is USFDA approved. In future, to improve the US product basket, it has constructed a new oral solid dosage facility at Dahej, which is expected to be commissioned by Q1FY16. We do not envisage any contribution from the US in FY15 for want of major product launches. We expect US sales for FY16 and FY17 to be around ₹ 24 crore and ₹ 72 crore, respectively.

Enhanced R&D spend in sync with scalability

APL is one of the few domestic pharma companies, which focuses on differentiated (NDDS) products. Out of the 160 products launched in India, 119 were first-time launches in India. It is the first generic company to get

WHO pre-qualification for Artemether + Lumefantrine tablets. These are some of the instances to explain the R&D prowess of the company. The company commissioned a dedicated R&D facility in Kandivali, Mumbai in FY08, which was the major turning point for APL. With an R&D team of around 350 people, the company focuses on the development of differentiated products in therapies like ophthalmic, dermatology and cardiology for the Indian market. R&D spend, as a percentage of sales, has increased from 0.4% in FY05 to 4.2% in FY14. In absolute terms, it has increased from ₹ 0.7 crore in FY05 to ₹ 50 crore in FY14. Going ahead, the trend is likely to be maintained as the company will be expediting ANDA filings with the USFDA, among others.

Exhibit 47: R&D goes up post commissioning of R&D centre in Mumbai in FY08



Source: Company, ICICIdirect.com Research

Leeway for further capex to scale up

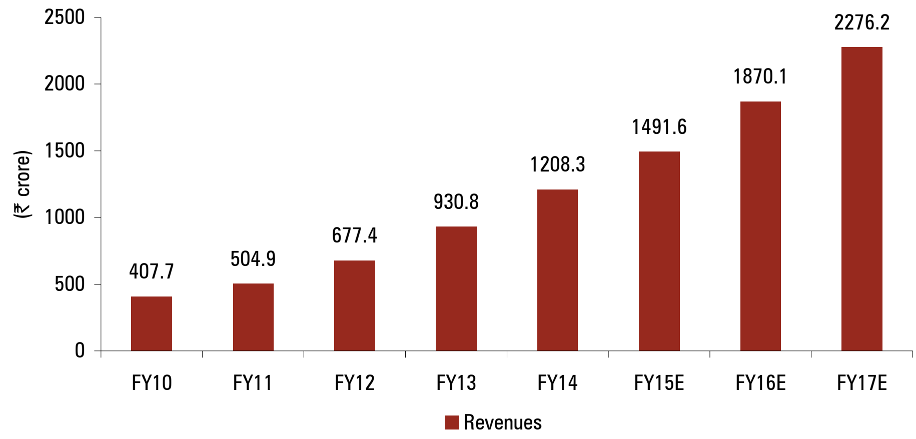
The company owns four formulations facilities (three in India and one in Mauritius) and one API facility. The current capacity utilisation of these facilities is more than 70%. To cater to future demand, APL is setting up two formulations facilities in Dahej (₹ 220 crore) and Savli (₹ 180 crore) with a capex of ₹ 400 crore. Of this, ₹ 168 crore has already been spent. The Dahej facility has been earmarked to cater to the US and EU markets while Savli will be used for the domestic markets. The Dahej and Savli facilities are expected to get commissioned in Q1FY16 and Q3FY16, respectively.

Financials

Revenues to grow at ~24% CAGR in FY14-17E

We expect revenues to grow at a CAGR of 23.5% to ₹ 2276.2 crore in FY14-17E, on the back of strong growth in both the exports as well as domestic formulation segments. Exports are likely to grow at a CAGR of 24% to ₹ 1520 crore during the same period driven by growth in the legacy export markets of Africa & Asia and commencement of US shipments. Similarly, the domestic formulations segment is likely to register a CAGR of 22.4% to ₹ 711 crore during the same period, to be driven by branded formulations.

Exhibit 48: Revenues to grow at CAGR of 24% in FY14-17E

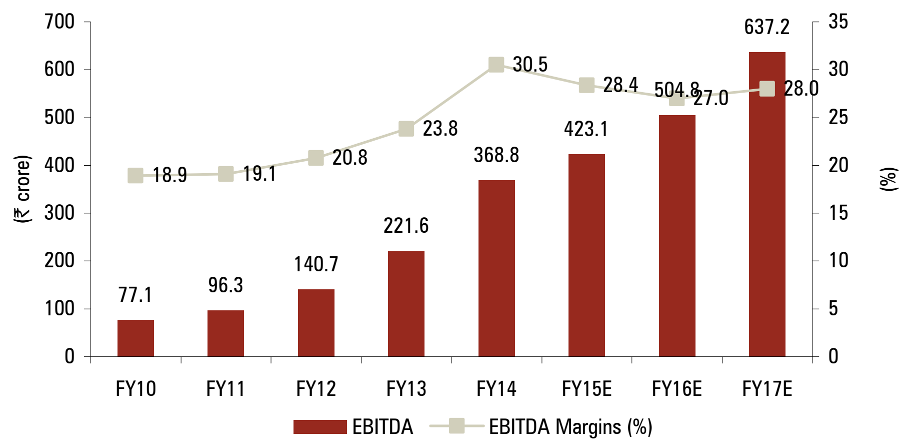


Source: Company, ICICIdirect.com Research

Gross profit margin to remain at elevated level; EBITDA margins to normalise

Gross profit margins (GPMs) are expected to remain in the range of 70-72% in FY14-17E on account of the significant presence in the branded space. On the other hand, EBITDA margins are likely to come down to 28% by FY17E from ~31% in FY14 on the back of the commencement of new facilities. EBITDA, in value terms, is likely to grow at a CAGR of 19.8% to ₹ 637.2 crore in FY14-17E.

Exhibit 49: EBITDA margins to normalise

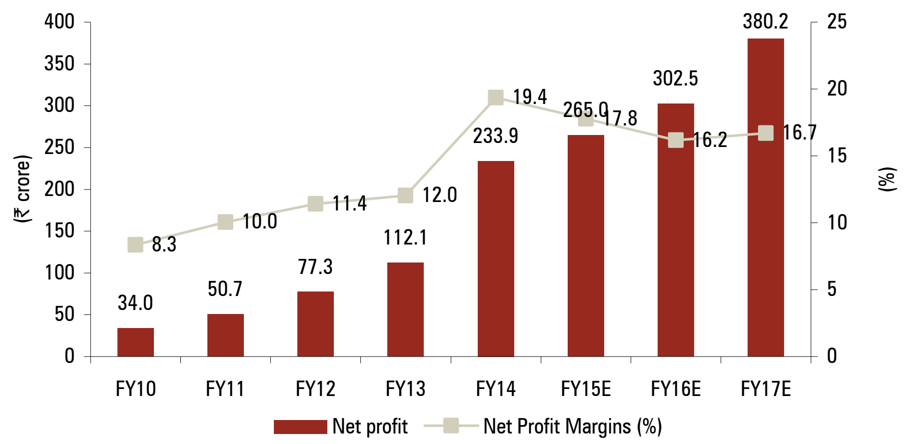


Source: Company, ICICIdirect.com Research

Net profit to grow at ~17% CAGR in FY14-17E

Net profit is expected to grow at a CAGR of 17.4% to ₹ 380.2 crore. Lower growth vis-à-vis EBITDA is expected on account of higher depreciation as per new schedule.

Exhibit 50: Net profit to grow at CAGR of 17% in FY14-17E

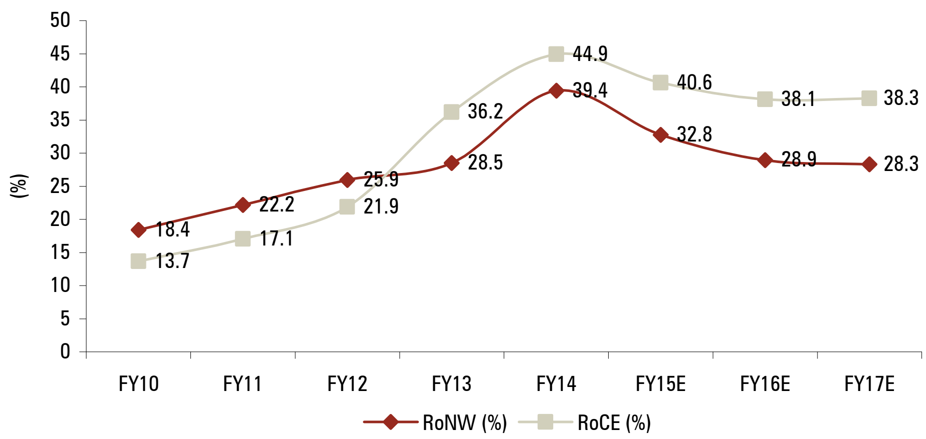


Source: Company, ICICIdirect.com Research

Return ratios to remain strong on normalised basis

Both RoEs and RoCEs, on a normalised basis, are expected to remain strong at 28.3% and 38.3%, respectively, through FY17E. The fall in both these ratios from the highs of FY14 is expected on account of the cooling down effect in both PAT a well as EBIT.

Exhibit 51: Return ratios to decline marginally due to commissioning of two facilities



Source: Company, ICICIdirect.com Research

Risk & concerns

May be weighed down by own expectations

In the last 10 years, the sales, EBITDA, PAT and gross block have grown by 5x, 12x, 23x and 3x, respectively. During this period, the stock has shot up by ~51x (till FY14). This shows that the market has given a substantial premium to Ajanta's quality of earnings. Going ahead, any prolonged miss or slowdown in earnings growth may impact its valuation premium.

Extension price control in ophthalmic, dermatology therapies by NPPA may impact profitability

Of late, the National Pharmaceutical Pricing Authority (NPPA) has been bringing incremental drugs, which were not a part of the NLEM list earlier, under price control. The recent price control imposed on 108 cardiac and diabetic formulations is an example. Any extension of price control to therapies like ophthalmic and dermatology (48% of domestic sales) may have an adverse impact on earnings.

High brand concentration remains a key concern

As per AIOCD data, top 10 brands contribute ~45% of total domestic sales. Price erosion/increase in competition in any of these drugs may significantly impact sales and profitability.

Exhibit 52: Brand concentration

Brand	Molecule	Therapy	MAT Aug'14	% domestic sales
Met XL	Metoprolol	Cardiac	36.5	11.9
Melacare	Hydroquinone + Mometasone + Tretinoin	Derma	32.8	10.7
Atorfit CV	Atorvastatin + Clopidogrel	Cardiac	21.0	6.8
Soft Drops	Carboxy Methyl Cellulose	Ophthal	8.9	2.9
Met XL AM	Metoprolol + Amlodipine	Cardiac	8.6	2.8
Feburic	Febuxostat	Pain	7.8	2.5
Rosufit Cv	Rosuvastatin + Clopidogrel	Cardiac	6.4	2.1
Metaspan	Methylcobalamin Combinations	Vitamins	6.0	2.0
Vertizac	Cinnarizine	Neuro	5.5	1.8
Olopat	Olopatadine Eye Drops / Ointment	Ophthal	5.4	1.8

Source: AIOCD data base, ICICIdirect.com Research

Government initiated price controls in some export markets

Exports constitute ~67% of revenues. Although most exports comprise branded generics, price controls or product tenderisation in any of the geographies may affect the margins. Philippines has already imposed price controls on some products in that country.

US a high reward but high risk proposition

Although highly rewarding, the US market is a risky proposition as the benefits of scalability come at the cost of high inventory, frequent price erosions due to the influence of pharmacy chains and above all stringent USFDA requirements. Also, there is a significant increase in ANDA filing costs as well.

Low volume in the stock remains a concern

Liquidity in the stock remains low on the back of low floating stock due to high promoter holding. This remains a concern for a mid-cap company like Ajanta.

Valuation

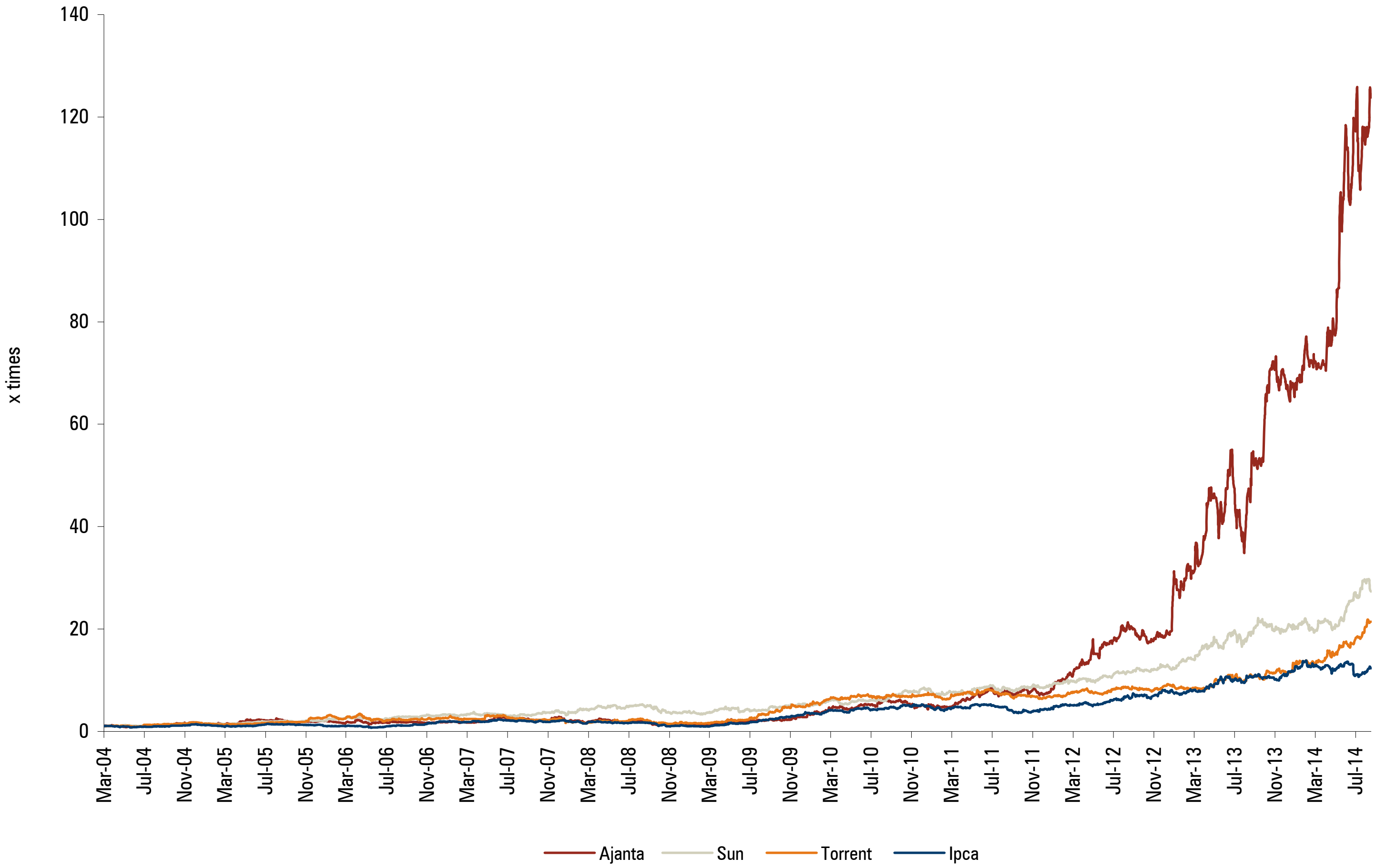
With the focus on niche therapies in domestic formulations and a calculated approach in the exports market, APL remains an interesting proposition from the midcap pharma space with high growth rates, strong margins, commendable return ratios and a relatively lighter balance sheet. Defying the normal trend of targeting developed markets for generic generics initially, the company has carved out its own niche by focusing on branded generics in the semi-regulated markets at a time when very few players were venturing into those markets. At this juncture, we believe the company is best poised to foray into the US market, especially once the newly constructed Dahej plant gets USFDA approval. We expect revenues, EBITDA and net profit to grow at a CAGR of 24%, 20% and 17%, respectively. We have ascribed a target price of ₹ 2151 based on 20x FY17E EPS of ₹ 107.6. We recommend **BUY** as the company offers a compelling investment argument.

Exhibit 53: Peer comparison

	PE (x)			EV/EBITDA			P/BV			RoCE (%)			RoNW (%)		
	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E
Ajanta Pharma	26.1	23.1	20.2	16.6	14.4	11.8	10.3	7.6	5.8	44.9	40.6	38.1	39.4	32.8	28.9
Ipca Labs	20.5	19.2	15.4	18.1	17.8	14.1	5.0	4.1	3.3	27.6	23.8	25.0	24.4	22.1	21.9
Torrent	21.4	18.5	16.8	10.7	9.0	7.8	7.5	5.8	4.6	28.5	24.8	25.9	34.9	31.3	27.6

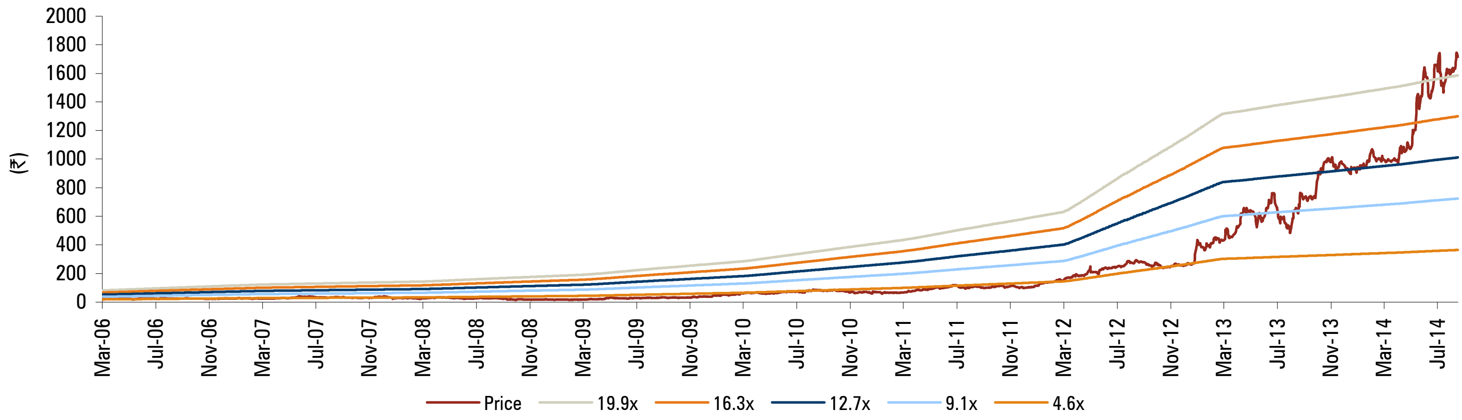
Source: Company, ICICIdirect.com Research

Exhibit 54: Return matrix of Ajanta Pharma vis-à-vis per since March 2004



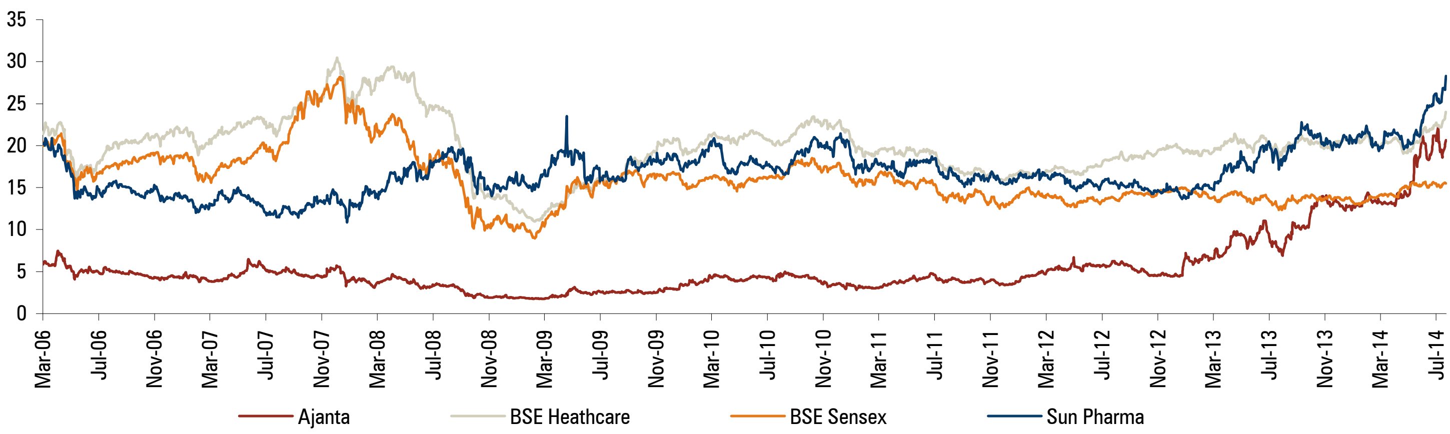
Source: Company, ICICIdirect.com Research

Exhibit 55: One year forward P/E on rolling basis



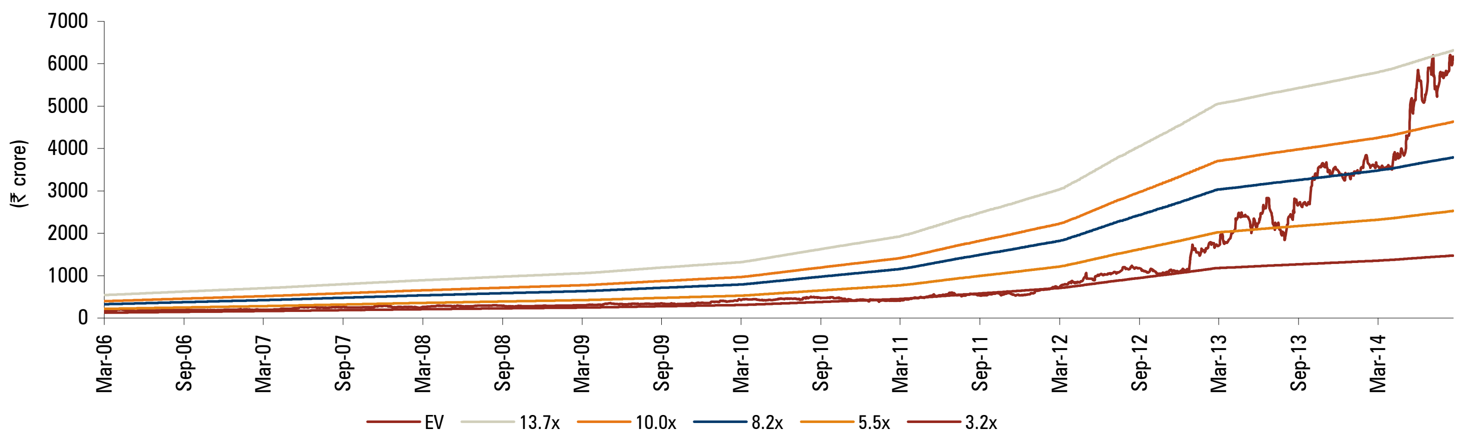
Source: Company, ICICIdirect.com Research

Exhibit 56: PE comparison with BSE Healthcare Index, BSE Sensex and Sun Pharma



Source: Company, ICICIdirect.com Research

Exhibit 57: One year forward EV/EBITDA on rolling basis



Source: Company, ICICIdirect.com Research

Exhibit 58: Profit & Loss Statement

(Year-end March)/ (₹ crore)	FY13	FY14	FY15E	FY16E	FY17E
Revenues	930.8	1,208.3	1,491.6	1,870.1	2,276.2
Growth (%)	37.4	29.8	23.4	25.4	21.7
Raw Material Expenses	302.6	345.5	429.3	523.6	637.3
Gross Profit	628.2	862.8	1,062.4	1,346.5	1,638.9
Gross Profit Margins (%)	67.5	71.4	71.2	72.0	72.0
Employee Expenses	123.2	157.0	223.4	280.5	341.4
Other Expenditure	283.5	337.1	415.8	561.1	660.2
Total Expenditure	709.3	839.6	1,068.5	1,365.3	1,639.0
EBITDA	221.6	368.8	423.1	504.8	637.2
Growth (%)	57.4	66.4	14.7	19.3	26.2
Interest	19.1	8.7	6.0	4.6	3.4
Depreciation	34.2	43.9	53.2	77.4	101.9
Other Income	8.5	13.7	14.6	9.2	11.2
PBT before Exceptional Items	176.8	329.9	378.6	432.1	543.1
Less: Exceptional Items	0.0	0.0	0.0	0.0	0.0
PBT	176.8	329.9	378.6	432.1	543.1
Total Tax	64.7	96.0	113.6	129.6	162.9
PAT before MI	112.1	233.9	265.0	302.5	380.2
MI & Profit from associates	0.0	0.0	0.0	0.0	0.0
PAT	112.1	233.9	265.0	302.5	380.2
Growth (%)	45.1	108.6	13.3	14.1	25.7
EPS (₹)	31.7	66.2	75.0	85.6	107.6

Source: Company, ICICIdirect.com Research

Exhibit 59: Balance Sheet

(Year-end March)/ (₹ crore)	FY13	FY14	FY15E	FY16E	FY17E
Equity Capital	11.8	17.7	17.7	17.7	17.7
Reserve and Surplus	381.6	575.6	791.0	1,027.3	1,324.7
Total Shareholders funds	393.4	593.3	808.6	1,044.9	1,342.4
Total Debt	124.6	130.0	102.0	77.0	57.0
Deferred Tax Liability	23.7	23.0	23.0	23.0	23.0
Long Term Provision	2.5	2.5	2.5	2.5	2.5
Minority Interest	3.0	2.8	3.8	4.8	4.8
Source of Funds	547.2	751.6	939.9	1,152.2	1,429.7
Total Gross Block	438.4	490.3	553.8	913.8	1,003.8
Accumulated Depreciation	165.9	210.9	264.1	341.5	443.4
Net Block	272.5	279.4	289.7	572.4	560.4
Capital WIP	12.5	93.6	250.0	40.0	20.0
Fixed Assets	285.0	372.9	539.7	612.4	580.4
Investments	8.5	63.5	33.5	33.5	33.5
Long term Loans & Advances	48.6	39.2	51.2	64.2	78.1
Other Non current assets	7.1	8.8	8.8	8.8	8.8
Inventory	147.6	155.4	200.3	276.3	336.3
Debtors	150.5	202.2	240.4	296.4	354.6
Loans and Advances	24.0	46.4	58.5	64.2	78.1
Other Current Assets	0.7	0.6	1.5	1.8	2.2
Cash	46.3	60.4	74.4	166.3	452.7
Total Current Assets	369.1	465.0	575.0	804.9	1,223.9
Creditors	131.7	124.5	160.3	226.0	305.7
Provisions	19.9	42.7	64.1	90.4	122.3
Other current libilities	19.5	30.5	43.9	55.0	66.9
Total Current Liabilities	171.1	197.8	268.2	371.5	494.9
Net Current Assets	198.0	267.3	306.8	433.5	728.9
Application of Funds	547.2	751.6	939.9	1,152.2	1,429.7

Source: Company, ICICIdirect.com Research

Exhibit 60: Cash Flow Statement

(Year-end March)/ (₹ crore)	FY13	FY14	FY15E	FY16E	FY17E
Profit After Tax	112.1	233.9	265.0	302.5	380.2
Add: Depreciation	34.2	43.9	53.2	77.4	101.9
(inc)/Dec in Current Assets	5.4	-81.9	-96.0	-138.0	-132.6
inc/(Dec) in Current Liabilities	44.4	26.7	70.5	103.2	123.5
Others	0.0	0.0	0.0	0.0	0.0
CF from Operating activities	196.1	222.6	292.7	345.1	473.0
Long term Loans & Advances	0.0	0.0	0.0	0.0	0.0
Other Investments	0.0	0.0	0.0	0.0	0.0
Liquid Investments	0.0	-55.0	30.0	0.0	0.0
(Purchase)/Sale of Fixed Assets	-70.5	-131.8	-220.0	-150.0	-70.0
Deferred Tax Liability	6.6	-0.7	0.0	0.0	0.0
Long Term Provision	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
CF from Investing activities	-69.6	-179.9	-201.0	-162.0	-83.9
(inc)/Dec in Secured Loan	-76.8	10.4	-28.0	-25.0	-20.0
(inc)/Dec in Unsecured Loan	1.8	-5.0	0.0	0.0	0.0
Dividend & Dividend tax	-17.1	-41.2	-49.6	-66.2	-82.7
Others	0.0	0.0	0.0	0.0	0.0
CF from Financing activities	-92.2	-35.8	-77.6	-91.2	-102.7
Net Cash Flow	34.4	6.9	14.0	91.9	286.4
Cash and Cash equ. at beginning	11.4	46.3	60.4	74.4	166.3
Cash	46.3	60.4	74.4	166.3	452.7

Source: Company, ICICIdirect.com Research

Exhibit 61: Key Ratios

(Year-end March)	FY13	FY14	FY15E	FY16E	FY17E
Per share data (₹)					
EPS	31.7	66.2	75.0	85.6	107.6
Cash EPS	41.4	78.6	90.0	107.5	136.4
BV	111.3	167.9	228.8	295.7	379.9
Cash per Share	13.1	17.1	21.0	47.1	128.1
DPS	6.2	10.0	12.0	16.0	20.0
Operating Ratios (%)					
EBITDA margins	23.8	30.5	28.4	27.0	28.0
PBT margins	19.2	28.0	25.9	23.6	24.3
Net Profit margins	12.0	19.4	17.8	16.2	16.7
Inventory days	59	48	50	55	55
Debtor days	60	63	60	59	58
Creditor days	52	39	40	45	50
Asset turnover ratio (x times)	1.7	1.8	1.7	1.8	1.7
Return Ratios (%)					
RoE	28.5	39.4	32.8	28.9	28.3
RoCE	36.2	44.9	40.6	38.1	38.3
RoIC	38.4	59.9	62.6	46.4	57.4
Valuation Ratios (x)					
P/E	54.7	26.2	23.1	20.3	16.1
EV / EBITDA	6.7	5.2	4.2	3.3	2.6
EV / Revenues	2.3	2.0	1.8	1.8	1.7
Market Cap / Revenues	6.7	5.2	4.2	3.3	2.7
Price to Book Value	15.6	10.3	7.6	5.9	4.6
Solvency Ratios					
Debt/EBITDA	0.3	0.2	0.1	0.1	0.0
Debt / Equity	0.6	0.4	0.2	0.2	0.1
Current Ratio	2.2	2.4	2.1	2.2	2.5
Quick Ratio	1.3	1.6	1.4	1.4	1.8

Source: Company, ICICIdirect.com Research

Exhibit 62: DuPont analysis

	FY13	FY14	FY15E	FY16E	FY17E
PAT/PBT	63.4	70.9	70.0	70.0	70.0
PBT/EBIT	94.3	101.5	102.3	101.1	101.5
EBIT/Sales	20.4	27.6	25.3	23.3	24.0
Sales/Asset	168.2	156.8	155.6	159.1	156.1
Asset/Equity	139.1	126.7	116.2	110.3	106.5
ROE	28.5	39.4	32.8	28.9	28.3

Source: Company, ICICIdirect.com Research

Exhibit 63: Free Cash Flow

(₹ crore)	FY13	FY14	FY15E	FY16E	FY17E
Net profit	112.1	233.9	265.0	302.5	380.2
Depreciation	34.2	43.9	53.2	77.4	101.9
Change in working capital	49.9	-55.2	-25.5	-34.7	-9.1
Capex	-70.5	-131.8	-220.0	-150.0	-70.0
FCFF	125.6	90.7	72.7	195.1	403.0

Source: Company, ICICIdirect.com Research

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