

Current	Previous
CMP : Rs.1,893	
Rating : SELL	Rating : HOLD
Target : Rs.1,569	Target : Rs.1,569

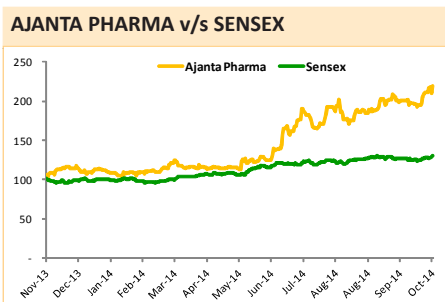
STOCK INFO	
BSE	532331
NSE	AJANTPHARM
Bloomberg	AJP IN
Reuters	AJPH. BO
Sector	Pharmaceutical
Face Value (Rs)	5
Equity Capital (Rs mn)	177
Mkt Cap (Rs mn)	66,401
52w H/L (Rs)	1948/777
Avg Daily Vol (BSE+NSE)	110,100

SHAREHOLDING PATTERN	%
<i>(as on Sep. 2014)</i>	
Promoters	73.8
FII's	7.4
DII's	1.3
Public & Others	17.5

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
AJANTA PHARMA	9.7	15.2	119.9
SENSEX	2.7	4.8	30.0

Source: Capitaline, IndiaNivesh Research



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Earnings momentum continue; however, downgrade to SELL based on expensive valuation

Better-than-expected operating margins and higher-other-income offsets lower-than-expected growth in sales for Ajanta Pharma (AJP IN) for the quarter. AJP's adjusted PAT has been growing consistently at more than 40% for six quarters now. We maintain our estimates for FY15 and FY16. We continue to value AJP at 17x FY16E EPS of Rs92.3 to arrive at price target of Rs1,569. We remain confident on business model of AJP due to superior historical performance as well as key drivers in place to maintain momentum going forward. However, we downgrade the stock to SELL based on expensive valuation.

Particulars (Rs Mn)	Q2FY15	Q2FY14A	Q1FY15A	YoY %	QoQ %	INSPL Est	Variance (%)
Net Sales	3,312	2,708	2,808	22.3	18.0	3474	(4.7)
EBITDA	1,046	751	830	39.4	26.0	1059	(1.2)
Adj PAT	775	554	586	39.9	32.1	758	2.2
Reported PAT	786	558	588	40.9	33.9	758	3.7

Source: Company Filings; IndiaNivesh Research

Highest ever quarterly PAT in past 14 quarters: AJP adjusted PAT came in at Rs775mn, up 40% y-y and 32% q-q. Such strong growth is driven by superior performance in, domestic formulation (DF) and emerging markets, as well as lower material cost. Lower material cost led gross margin to improve from 66% in 2Q FY14 to 71% in 2Q FY15. There has been 514bps reduction in material cost as percentage of sales due to lower credit cost, supplying API technology to vendors and higher scale of economy. EBITDA margin has been on improving trend for 14 quarters now. Management has revised its EBITDA margin guidance to 29-30% for FY15. Other income also increased by 40% y-y supporting adjusted PAT growth of 40% y-y for the quarter. R&D spent for the Q2FY15 and H1FY15 has been Rs110mn and Rs300mn, respectively. Management has guided for 5% of net sales to be spent on R&D for FY15. The R&D spend would be divided equally for DF, regulated markets and emerging markets, respectively

DF sales growth continue to outperform industry growth by wide margin: Domestic branded sales came in Rs1bn, up 33% y-y. This significant growth is mainly due to 36% y-y, 23% y-y and 39% y-y growth in Ophthalmology, Dermatology and Cardiology segment respectively. Pain segment has also started showing better traction. The considerable portion of growth is led by volume growth and new product launches and partly by price hikes. During the quarter, AJP launched six new products, out of which, three were first to market. We expect robust growth to continue for AJP on the back of new product launches and increased market share in existing products.

Increased tender business and new product launches led superior performance in emerging market: Emerging market sales came in at Rs2.2bn, up 27% y-y and 35% q-q. Robust growth in sales was driven by strong growth of 34% y-y in Asia market and decent growth of 24% y-y in Africa region. AJP launched ten new products in Africa and two new products in Asia, resulting in such high growth on overall basis. Tender business formed 52% of total sales for Africa region. Volume growth in Philippines as well as CIS region led to strong growth in Asia region. We expect healthy growth in emerging market led by higher tender business and new product launches.

Efforts on track to make regulated market as a new growth driver: AJP's cumulative ANDA filing stands at 25. AJP has approval for 2 ANDAs and has launched one in US through its own front end. AJP had sales to the tune of Rs10mn from this product. AJP has guided for atleast 6 ANDA filing every year over next 2-3 years.

Capex update: The capex program at Dahej and Savli, both located in Gujarat, is on track. AJP has spent Rs1.79bn till date out of Rs2.2bn to be spent in total. AJP expects

commercialization of this facility by Q1FY16. AJP has envisaged capex of Rs1.8bn for Savli facility and have spent Rs150mn till date. AJP has guided for construction to start in Q3FY15 and complete it by Q2FY17.

Valuation: We maintain our earnings estimates for FY15/FY16 and price target of Rs1,569 based on 17x FY16E EPS of Rs92.3. We remain confident on business model of AJP due to superior historical performance as well as key drivers in place to maintain momentum going forward. However, the current valuation of 24.1x FY15E and 20.5x FY16E earnings seems to have moved ahead of fundamentals. Hence we downgrade the stock to SELL from HOLD.

Quarterly results summary

Particulars (Rs Mn)	Standalone	Q2FY15	Q2FY14	y-o-y (%)	Q1FY15	Q-o-Q(%)	H1FY15	H1FY14	y-o-y (%)
Net Sales		3,312	2,708	22.3	2,808	18.0	6,120	4,861	25.9
(increase)/Decrease in closing stock		(197)	273	(172.1)	125	(257.5)	(72)	434	(116.5)
Consumption of raw material		1,034	572	80.9	578	78.9	1,612	1,080	49.3
Purchase of finished goods		129	85	51.5	100	28.9	229	161	42.2
Employee Cost		445	374	19.2	428	3.9	874	712	22.7
Other Expenditure		854	654	30.6	746	14.4	1,600	1,248	28.2
Total Expenditure		2,266	1,957	15.8	1,978	14.6	4,243	3,635	16.7
EBITDA		1,046	751	39.4	830	26.0	1,877	1,226	53.0
Depreciation & Amortization		122	90	35.7	120	1.3	242	176	37.8
EBIT		924	661	39.9	710	30.2	1,634	1,050	55.6
Other Income		208	149	39.6	153	36.3	361	233	55.1
Interest		13	22	(39.4)	14	(5.6)	28	38	(28.1)
Pre-tax Profit		1,119	788	42.0	849	31.9	1,968	1,245	58.1
Tax		345	235	47.0	262	31.5	607	386	57.1
Adj Net Profit		775	554	39.9	586	32.1	1,361	858	58.6
Forex gain (loss)		-	-	-	-	-	-	-	-
Net Profit Reported		775	554	39.9	586	32.1	1,361	858	58.6
Forex(loss) gain		12	5	-	1	-	13	25	-
Net Profit		786	558	40.9	588	33.9	1,374	884	55.5
Adj EPS (Rs)		21.9	15.64	39.9	16.56	32.1	38.4	24.2	58.6
Equity Capital (face value of Rs 5 each)		177	177	-	177	-	177	177	-

Key ratios

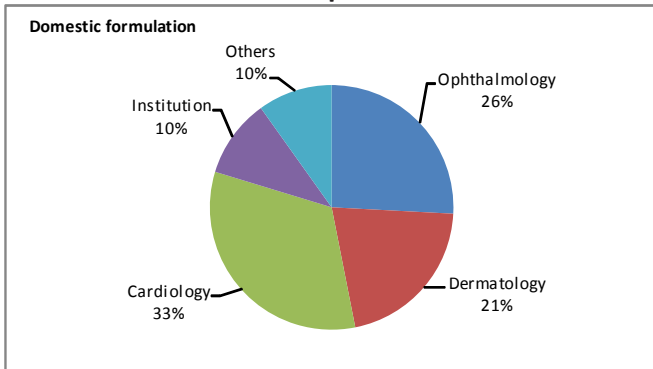
	Q2FY15	Q2FY14	bps	Q1FY15	bps	H1FY15	H1FY14	bps
Gross margins (%)	70.8	65.7	514	71.4	(59)	71.1	65.5	554
EBITDA margin (%)	31.6	27.7	386	29.6	202	30.7	25.2	544
Net Margin (%)	23.4	20.4	294	20.9	250	22.2	17.7	458
Material cost/Net Sales (%)	29.2	34.3	(514)	28.6	59	28.9	34.5	(554)
Employee Cost/ Net Sales (%)	13.4	13.8	(35)	15.3	(181)	14.3	14.6	(37)
Other Expenditure/ Net Sales (%)	25.8	24.2	163	26.6	(80)	26.2	25.7	47
Tax Rate (%)	30.8	29.8	103	30.9	(0)	30.8	31.0	(20)

Sales Breakdown

	Q2FY15	Q2FY14	y-o-y (%)	Q1FY15	Q-o-Q(%)	H1FY15	H1FY14	y-o-y (%)
Domestic formulation	1,152	960	20.0	1,208	(4.6)	2360	1,900	24.2
- Ophthalmology	300	221	35.9	310	(3.2)	610	437	39.6
- Dermatology	260	211	23.1	320	(18.8)	580	474	22.3
- Cardiology	360	259	38.9	370	(2.7)	730	494	47.7
- Others	100	77	30.2	100	-	200	143	40.3
- Institution	120	192	(37.5)	100	20.0	220	352	(37.5)
Emerging market	2,160	1,708	26.5	1,600	35.0	3760	2,868	31.1
- Africa	1,120	905	23.7	920	21.7	2040	1,532	33.2
- Asia	1,010	752	34.4	650	55.4	1660	1,250	32.8
- Latam	30	51	(41.5)	30	-	60	86	(30.3)
Total	3,312	2,708	22.3	2,808	17.9	6120	4,861	25.9

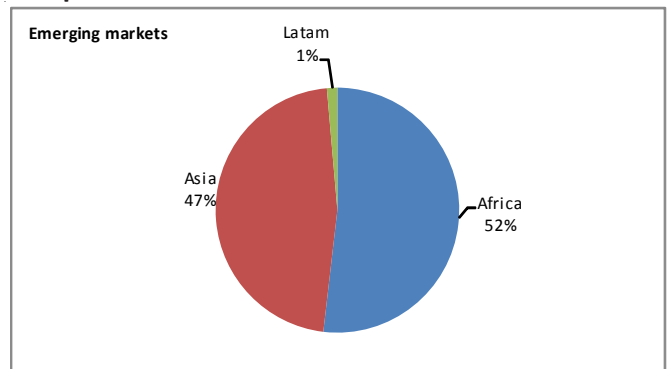
Source: Company Filings; IndiaNivesh Research

Therapeutic category-wise composition of domestic formulation sales for the quarter



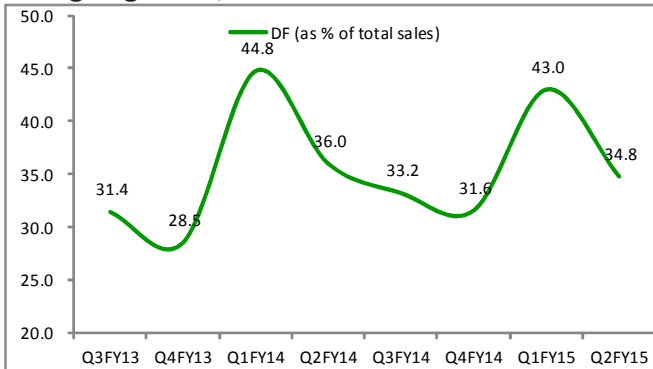
Source: Company Filings; IndiaNivesh Research

Region-wise composition of emerging market sales for the quarter



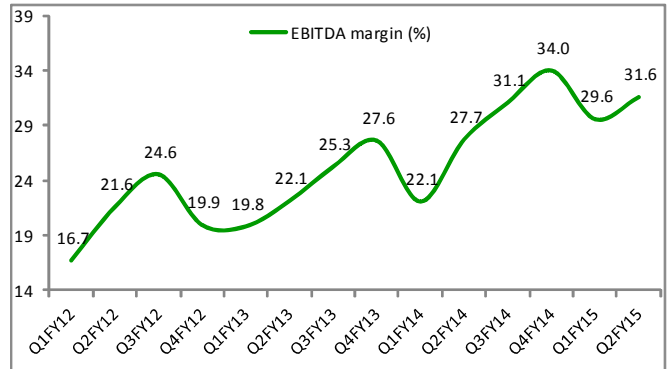
Source: Company Filings; IndiaNivesh Research

Though the proportion of DF sales in total sales has been going down, it remains the focus area for AJP



Source: Company Filings; IndiaNivesh Research

EBITDA margin remains on uptrend



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	4,111	4,858
Employee cost	938	1,232	1,570	1,853	2,174
Other expenses	2,117	2,806	3,371	3,762	4,446
EBITDA	1,298	2,138	3,387	4,208	4,989
Growth %	44.6%	64.8%	58.4%	24.2%	18.6%
EBITDA Margin %	19.5%	23.2%	28.7%	30.2%	30.3%
Depreciation	319	342	439	468	630
EBIT	979	1,796	2,948	3,740	4,359
EBIT Margin %	14.4%	18.8%	27.7%	29.7%	29.6%
Other Income	135	129	409	482	569
Interest	154	191	87	85	60
PBT	960	1,734	3,270	4,137	4,869
Tax	137	647	960	1,365	1,607
Effective tax rate %	14.3%	37.3%	29.4%	33.0%	33.0%
Extraordinary items	(50)	34	29	-	-
Minority Interest	-	-	-	-	-
Adjusted PAT	823	1,087	2,310	2,772	3,262
Growth%	62.3%	32.1%	112.5%	20.0%	17.7%
PAT margin %	12.4%	11.8%	19.6%	19.9%	19.8%
Reported PAT	773	1,121	2,339	2,772	3,262
Growth%	62.3%	32.1%	112.5%	20.0%	17.7%

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	8,251	11,122
	2,980	3,934	5,933	8,428	11,298
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	1,482	1,751
Other current liabilities	431	194	476	226	151
Short term Provisions	105	199	427	427	279
	2,502	2,223	2,754	2,740	2,786
Total	6,488	7,182	9,494	12,074	14,390
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	1,378	2,377
Loans & Advances	187	240	464	418	494
Other current Assets	7	7	6	6	6
	3,397	3,690	5,201	6,577	8,419
Total	6,488	7,182	9,494	12,074	14,390

Cash Flow

Y E March (Rs m)	FY12	FY13	FY14E	FY15E	FY16E
PBT	910	1,768	3,270	4,137	4,869
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)	(616)	(913)
Tax	(174)	(331)	(937)	(1,365)	(1,607)
Cash flow from operations	766	2,360	2,124	2,709	3,038
Capital expenditure	(493)	(912)	(1,348)	(1,672)	(988)
Free Cash Flow	273	1,448	776	1,037	2,050
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)	(277)	(391)
Inc from other investments					
Cash flow from Financing	(275)	(1,045)	(201)	(262)	(1,051)
Net change in cash	47	262	45	775	999
Cash at the beginning of the year	36	115	462	604	1,378
Adjusted cash	32	85	97		
Cash at the end of the year	115	462	604	1,378	2,377

Key ratios

Y E March	FY12	FY13	FY14	FY15E	FY16E
Adj EPS (Rs)	23.3	30.8	65.4	78.4	92.3
Cash EPS (Rs)	32.3	40.4	77.8	91.7	110.1
DPS (Rs)	1.9	2.9	10.0	7.8	11.1
BVPS	84	111	168	238	320
ROCE	12.9%	15.7%	21.9%	20.8%	20.3%
ROE	27.6%	27.6%	38.9%	32.9%	28.9%
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)	81.3	61.5	29.0	24.1	20.5
P/BV (x)	22.4	17.0	11.3	7.9	5.9
P/CEPS (x)	58.6	46.8	24.3	20.6	17.2
EV/EBITDA (x)	52.8	31.7	19.9	15.9	13.1
Dividend Yield %	0.1%	0.2%	0.5%	0.4%	0.6%
m cap/sales (x)	10.1	7.3	5.7	4.8	4.1
net debt/equity (x)	0.6	0.3	0.2	0.1	0.1
net debt/ebitda (x)	1.3	0.4	0.2	0.0	-0.4

Source: Company Filings; IndiaNivesh Research