

Brief Overview

CMP (INR) (25-02-2020)	1418
Target (INR)	1758
Upside(%)	24%
Recommendation	Strong Buy

BSE Code	532331
NSE Code	AJANTPHARM
Reuters Ticker	AJPH.BO
Bloomberg Ticker	AJP IN

Stock Scan

Market cap (INR Cr.)	12377
Outstanding Shares (Cr.)	8.73
Face Value (INR)	2
Dividend Yield(%)	0.63
TTM P/E (x)	28.96
Industry P/E (x)	24.16
Beta vs. Sensex	0.1289
52 Week High/ Low (INR)	1485/840
Avg. Daily Vol. (NSE)/1 yr.	234016

Shareholding Pattern (%)

	Jun-2019	Sep-2019	Dec-2019
Promoters	46.85	46.85	46.85
Institutions	0	0	0
Non-institutions	53.15	53.15	53.15

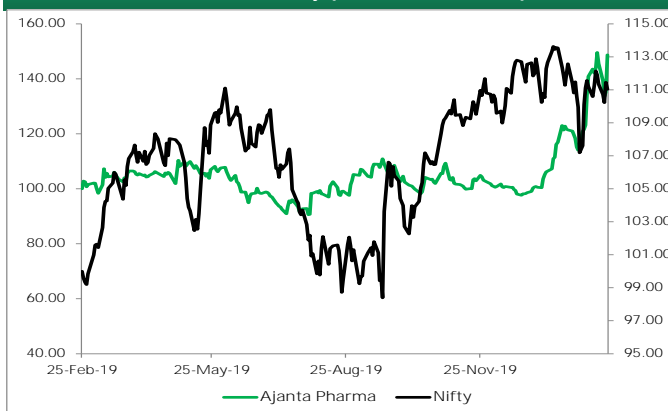
Research Analyst
Anik Mitra
Anik.mitra@smifs.com

Company Overview

Ajanta Pharma (AJP) is a specialty pharmaceutical company engaged in development, manufacturing and marketing of finished dosages. The company has manufacturing facilities at Dahej, Aurangabad, Guwahati, Pithampura, Walnuj and Mauritius. The company has designed customized basket of products for various markets. The branded generic business of the company is spread in India and more than 30 emerging countries across South East Asia, Middle East, Africa, CIS. In India it caters 4 therapeutic areas; Cardiology, Ophthalmology, Dermatology and Pain management. The company is building its presence in US with select product portfolio. The company participates in Anti-malarial Institutional tender business in Africa.

Outlook & Valuation

On the basis of improved growth visibility across different geographies, sustained outperformance in the domestic business, commissioning of new plants to cater expected higher demand and robust R&D pipeline we are assigning a multiple of 19.3x to the FY22E EPS INR91.3 to arrive at a **Target Price of INR1758**.

Stock vs. Nifty (Relative Returns)


Source: NSE

Investment Rationale

- US continues to be a driver of growth:** The company is steadily building its presence in US with select product portfolio, which includes complex technology products to get the competitive advantage in the market. US business of the company grew 46% during FY19. and contributed almost 14% to the topline. During Q1FY20, Q2FY20 and Q3FY20 US business growth jumped 67%, 41% and 141% YoY respectively. During first 9 months US revenue contributed 19.5% to its topline.
- Series of new product launch is driving growth:** AJP has launched 22-25 products in India with ~40% being first to market. In past 9 months the company has launched around 10 new products and increased market share gain in existing products. The company is targeting 10-12 product filing every year. In the latest quarter the company received USFDA approval for Sildenafil Citrate, Montelukast Sodium, Zolmitriptan, Captopril, Valganciclovir Hydrochloride. Series of new product launch is likely to boost topline of the company with access to various therapeutic areas.
- New Facilities are coming on stream to cater higher demand:** Guwahati ophthalmic drug manufacturing facility is expected to commence operation from Q1FY21. Pithampura facility is expected to commence commercial operation in Q4FY20.

Financial Performance at a glance (Consolidated)

Particulars (INR Cr)	FY18	FY19	FY20E	FY21E	FY22E
Revenue	2130.9	2055.4	2523.3	2989.7	3624.2
Growth(%)	6.5%	-3.5%	22.8%	18.5%	21.2%
EBITDA	658.4	566.4	674.3	855.0	1123.0
EBITDA Margin(%)	30.9%	27.6%	26.7%	28.6%	31.0%
PAT	468.6	387.0	464.1	598.0	797.0
PAT Margin(%)	29.2%	25.0%	24.6%	26.7%	29.4%
EPS	53.68	44.33	53.17	68.49	91.29
P/E	26.41	31.98	26.67	20.70	15.53
BVPS	233.83	257.18	299.07	347.01	406.35
P/BV	6.06	5.51	4.74	4.09	3.49
ROE	23.0%	17.2%	17.8%	19.7%	22.5%
ROCE	22.1%	16.6%	17.1%	19.0%	21.7%

Source: Company data, SMIFS Research

Investment Rationale

- **EBITDA Margin expansion is likely in coming quarters :** Dahej, the dedicated facility for USA as well as other emerging markets, was in the process of product registrations for these markets during FY19. The First product for US market from this facility was dispatched in October 2018, almost 18 months after commencement of commercial production. Till then, the facility was mostly carrying out validations. It impacted EBITDA margin for FY 2019. During FY19 EBITDA Margin of the company stood at 27.6%. During Q1FY20, Q2FY20 and Q3FY20 EBITDA margin stood at 27.5%, 27.6% and 28.6% YoY respectively. The management expects with new product approvals in US, expenses would be absorbed, Higher volume will help accretion of EBITDA. The management has guided for around 27-28% EBITDA Margin in FY20 and another 100 bps improvement of the same during FY21E. Construction work on Ophthalmic facility at Guwahati and greenfield manufacturing facility for oral solid at Pithampura will continue to put pressure on EBITDA Margin. However, this burden is likely to be normalized in coming two years.
- **Corona Virus not likely to impact in Q4FY20:** China is a major source of raw material for most of the Indian pharma companies. Due to Corona Virus outbreak raw material supply chain has been impacted resulting increase in the raw material prices. The company has another three to three and half months of inventory which would protect them against raw material price rise. However, it will impact the gross margin of the company if the raw material price remains elevated beyond the mentioned period.
- **Revival in Anti malarial business expected:** The anti malarial Institutional business of the company fell 49% during FY19. The contribution of this business has also contracted from 18% of the topline during FY18 to 9.5% of the topline during FY19. According to the management the Institutional business is lumpy in nature & the future of this vertical is uncertain. However, during Q1FY20 and Q2FY20 the company registered 50% and 60% YoY growth due to large order execution and low base . The company has new regime anti malarial product in the pipeline. We are expecting revival of the anti malarial business in next couple of years with launch of this product.
- **Strong R&D pipeline:** The company is well focused in its R&D. They spent 9% of the total revenue after R&D during FY18 as well as during FY19. It relies on constant filing of new product with regulator backed by strong R&D pipeline. During FY19 the company filed 13 ANDA . The management of the company targets 10-12 new filings every year.

Income Statement (Consolidated)

Particulars (in INR Crore)	Quarter Ended (consolidated)					9 month ended		
	Q3FY20	Q3 FY19	YoY %	Q2FY20	QoQ %	9MFY20	9MFY19	YoY
Income from Operations	651.21	485.11	34.2%	642.76	1.3%	1905.91	1540.21	23.7%
Excise duty expense	0.00	0.00	N/A	0.00	N/A	0.00	0.00	N/A
Net Income from Operations	651.21	485.11	34.2%	642.76	1.3%	1905.91	1540.21	23.7%
Other Income	14.64	4.41	232.0%	13.22	10.7%	35.50	19.45	82.5%
Total Income	665.85	489.52	36.0%	655.98	1.5%	1941.41	1559.66	24.5%
Cost of materials consumed	138.34	81.97	68.8%	124.28	11.3%	386.80	265.02	46.0%
Change in Inventories	30.75	15.92	93.2%	42.20	-27.1%	91.31	12.93	606.2%
Employee Benefit & Payment to Contr	120.38	112.78	6.7%	117.41	2.5%	356.11	323.31	10.1%
Other Expenses	175.77	167.13	5.2%	181.23	-3.0%	539.70	499.60	8.0%
Total Expenses	465.24	377.80	23.1%	465.12	0.0%	1373.92	1100.86	24.8%
EBITDA (excl. O.I)	185.97	107.31	73.3%	177.64	4.7%	531.99	439.35	21.1%
EBITDA margin (%)	28.6%	22.1%	644bps	27.6%	92bps	27.9%	28.5%	-61bps
Depreciation & amortization	23.6	18.67	26.4%	23.3	1.3%	69.68	53.33	30.7%
EBIT	162.37	88.64	83.2%	154.34	5.2%	462.31	386.02	19.8%
EBIT Margin (%)	24.9%	18.3%	666bps	24.0%	92bps	24.3%	25.1%	-81bps
Interest cost	1.57	0.09	1644.4%	4.93	-68.2%	8.29	0.39	2025.6%
Exceptional Item	-0.34	0.00	N/A	-1.07	-68.2%	-1.41	0.00	N/A
Profit before tax	175.10	92.96	88.4%	161.56	8.4%	488.11	405.08	20.5%
PBT margin (%)	26.3%	19.0%	731bps	24.6%	167bps	25.1%	26.0%	-83bps
Tax	67.55	26.06	159.2%	45.2	49.4%	149.57	107.00	39.8%
Effective Tax rate	39%	28%	1054bps	28%	1060bps	31%	26%	423bps
Profit after tax	107.55	66.90	60.8%	116.36	-7.6%	338.54	298.08	13.6%
PAT margin (%)	16.2%	13.7%	249bps	17.7%	-159bps	17.4%	19.1%	-167bps
EPS	12.32	7.66	60.8%	13.33	-7.6%	38.78	34.14	13.6%

Q3FY20 result analysis & Concall Highlights

Q3FY20 result analysis: During Q3FY20 topline of the company grew 34% YoY at INR651 cr. Revenue growth was mainly led by India business which grew 12% YoY, Africa branded generic business which grew 25% YoY, Asia branded generic business which grew 31% YoY.

Africa branded generic business grew 19%, -10% and 25% YoY in last three quarters in FY20. Total Emerging market branded generic business grew 6%, 16% and 28% YoY during Q1, Q2 and Q3FY20 respectively.

US branded generic business registered phenomenal growth of 67%, 41% and 141% YoY during first three quarters in FY20.

Africa anti malarial Institutional business registered 2% de-growth YoY during Q3FY20 after steep jump in revenue by 50% & 60% YoY during first two quarters of FY20. Gross Margin of the company fell 600 bps YoY at 74% due to higher raw material expenses.

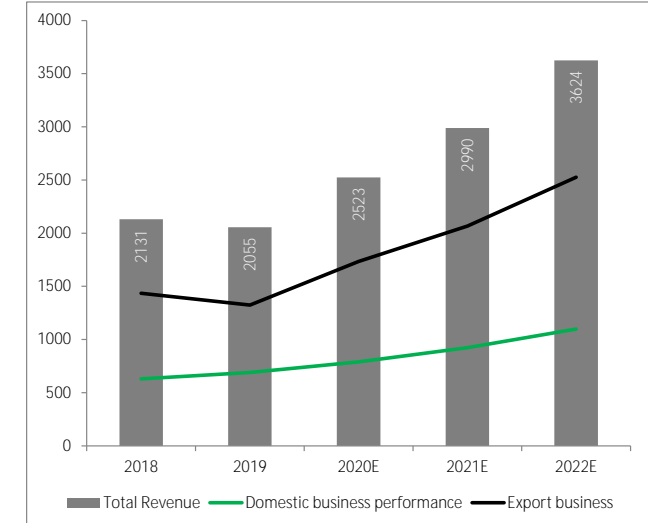
EBITDA of the company jumped by 73%, YoY at INR186 cr. EBITDA Margin expanded 650 bps at 28.6%.

Net profit of the company jumped 61% YoY at INR107.6 cr. Net profit margin expanded by 270 bps at 16.5%.

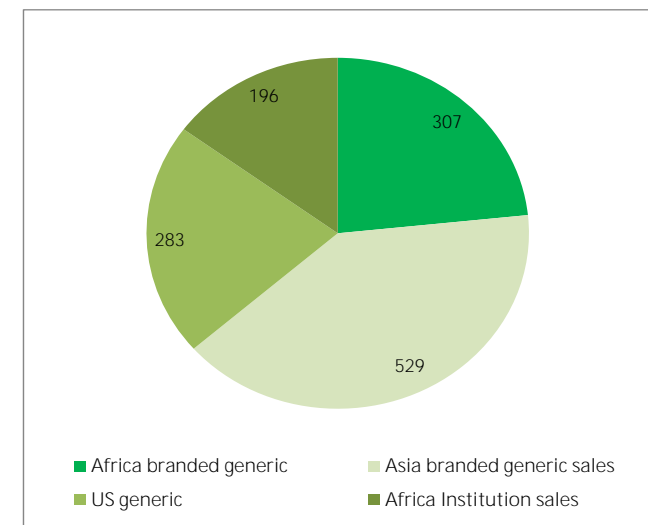
Q3FY20 Concall Highlights:

- The institutional anti-malaria business surpassed the management guidance on the back of recently procured new orders.
- The company has launched 22-25 products in India, among around 40% is first to market. The management guided for 25% revenue growth in US backed by new launches & market share gain.
- The management guided that EBITDA margin would be in the range of 27-28% in FY20 and another 100 bps improvement in FY21.
- Ophthalmic facility at Guwahati has commenced commercial operation. Pithampura facility is expected to commence operation in Q4FY20.
- In 9MFY20, Capex of the company stood at INR225 cr. Capex for FY21E would be INR200 cr.
- Corona Virus impact is not going to hurt margin in Q4 as the company has sufficient inventory to cover this quarter. But if the raw material prices continues to remain elevated, it would impact margin.

Annual Domestic & Export Revenue



Geography wise Export revenue FY19



Valuation

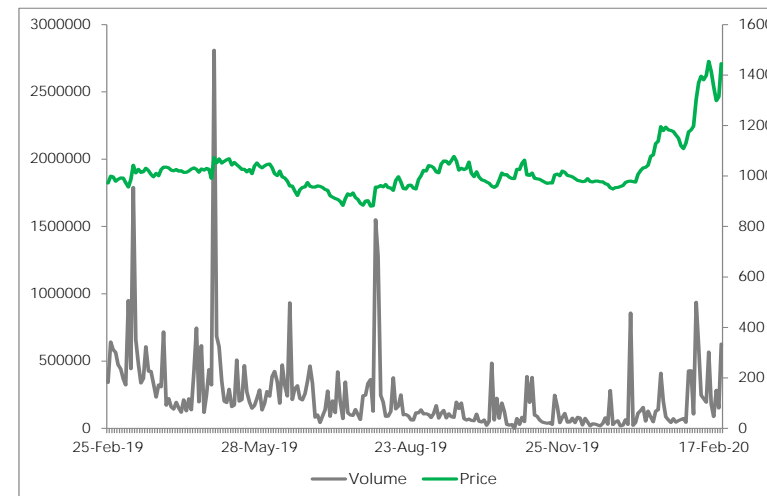
The steep jump in US revenue, traction in the branded generic business, consistent performance in the domestic market and presence in various geographies across US, Asia, Africa, CIS countries led to strong topline growth of the company. Operational efficiency & smart cost management helped the company to outperform at the EBITDA level.

On the basis of improved growth visibility across different geographies, sustained outperformance in the domestic business, commissioning of new plants to cater higher demand and robust R&D pipeline, we are assigning a multiple of 19x to the FY22E EPS INR91.3 to arrive at a **Target Price of INR1758**.

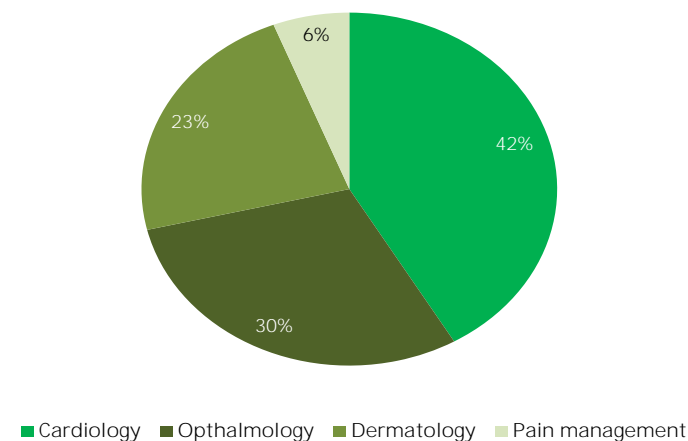
Risk

- Institutional anti-malarial business contributes around 18% to the topline during FY18 but compressed to 9.5% in FY19. Although there are signs of revival in Q1FY20 & Q2FY20 backed by Order inflow, but the risk due to the uncertainty and lumpy nature of the business is unavoidable.
- Stringent Regulatory practice is a risk for the drug manufacturers catering regulated markets. Ajanta Pharma is emphasizing to increase its presence in US. Hence, the risk of any adverse regulatory action can't be eliminated at any point of time.
- China is a major source of Raw material for most of the drug manufacturers. Corona Virus issue pushed the Raw material prices higher. Although the company has enough inventory to cover Q4FY20, but beyond the period mentioned, if the price continues to remain elevated, it would hit the margin of the company.

Price Volume Data



Therapy wise contribution in India



Disclaimer

Analyst Certification:

I, Anik Mitra Research Analyst of Stewart & Mackertich Wealth Management Limited (in short “Stewart & Mackertich/ the Company”), authors and the names subscribed to this Research Report, hereby certify that all of the views expressed in this Research Report accurately reflect our views about the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this Research Report. It is also confirmed that I the above mentioned Research Analyst of this Research Report have not received any compensation from the subject companies mentioned in the Research Report in the preceding twelve months and do not serve as an officer, director or employee of the subject companies mentioned in the Research Report.

Terms & Conditions and Other Disclosures:

Stewart & Mackertich Wealth Management Ltd is engaged in the business of Stock Broking, Depository Services, Portfolio Management and Distribution of Financial Products. Stewart & Mackertich Wealth Management Ltd Limited is a registered as Research Analyst Entity with Security & Exchange Board of India (SEBI) with Registration Number – INH300001474.

Stewart & Mackertich and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Stewart & Mackertich generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this Research Report have been prepared by Stewart & Mackertich and are subject to change without any notice. The Research Report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Stewart & Mackertich Wealth Management Ltd. While we would endeavor to update the information herein on a reasonable basis, Stewart & Mackertich is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Stewart & Mackertich from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or policies of Stewart & Mackertich Wealth, in circumstances where Stewart & Mackertich might be acting in an advisory capacity to this company, or in certain other circumstances.

Disclaimer

This Research Report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This Research Report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this Research Report at the same time. Stewart & Mackertich will not treat recipients as customers by virtue of their receiving this Research Report.

Nothing in this Research Report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this Research Report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Stewart & Mackertich accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this Research Report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

Since associates of Stewart & Mackertich are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this Research Report.

Stewart & Mackertich or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the Research Report as of the last day of the month preceding the publication of the Research Report.

Stewart & Mackertich encourages independence in Research Report preparation and strives to minimize conflict in preparation of Research Report. Accordingly, neither Stewart & Mackertich and their Associates nor the Research Analysts and their relatives have any material conflict of interest at the time of publication of this Research Report or at the time of the Public Appearance, if any.

Stewart & Mackertich or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

Stewart & Mackertich or its associates might have received any compensation from the companies mentioned in the Research Report during the period preceding twelve months from the date of this Research Report for services in respect of managing or co-managing public offerings, corporate finance, investment banking, brokerage services or other advisory service in a merger or specific transaction from the subject company.

Disclaimer

Stewart & Mackertich or its associates might have received any compensation for products or services other than investment banking or brokerage services from the subject companies mentioned in the Research Report in the past twelve months.

Stewart & Mackertich or its associates or its Research Analysts did not receive any compensation or other benefits whatsoever from the subject companies mentioned in the Research Report or third party in connection with preparation of the Research Report.

Compensation of Research Analysts is not based on any specific Investment Banking or Brokerage Service Transactions.

The Research Analysts might have served as an officer, director or employee of the subject company.

Neither the Research Analysts nor Stewart & Mackertich have been engaged in market making activity for the companies mentioned in the Research Report.

Stewart & Mackertich may have issued other Research Reports that are inconsistent with and reach different conclusion from the information presented in this Research Report.

Stewart & Mackertich submit' s that no material disciplinary action has been taken on the Company by any Regulatory Authority impacting Equity Research Analysis activities.

This Research Report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Stewart & Mackertich and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

For queries related to compliance of the report, please contact: -

Sudipto Datta, Compliance Officer

Stewart & Mackertich Wealth Management Ltd.

Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No.: +91 33 4011 5414 /91 33 6634 5414