

Ajanta Pharma

BSE SENSEX
29,788

S&P CNX
9,237



CMP: INR1,741

TP: INR2,028 (+16%)

Buy

Continues to perform well on regulatory front

US business story, anti-malaria base business intact

- AJP's Dahej facility has successfully cleared its first USFDA inspection, implying minimal regulatory risk in the medium term.
- We expect institutional anti-malaria sales to be similar to FY16 based on stable funding to Global fund and low probability of re-entry of Ipcda in CY17.
- In FY17, AJP grew at 14.2%, outperforming the 10.1% growth in the domestic formulations market. We remain positive on the stock. Buy.

Dahej facility successfully clears first USFDA inspection

USFDA inspected AJP's Dahej facility over April 3-7, 2017. This was the first USFDA inspection of this facility. AJP has filed one ANDA from this facility, which triggered the inspection. USFDA issued 0 (zero) Form 483 observations at the end of the inspection. This implies minimal regulatory compliance risk for AJP over the medium term. Approval of the ANDA would depend on further USFDA review. We expect the time period for the review to be 12-15 months. AJP's Paithan facility was also recently inspected and USFDA had issued one observation. We believe this observation to be minor in nature. With both formulations facilities successfully clearing USFDA inspection in the recent past, we believe AJP is well-placed on the regulatory front. Several of its peers are facing regulatory hurdles, which is impacting their business.

We expect share in Global Fund's anti-malaria procurements to remain intact

Given the scenario wherein funding to Global fund is stable compared to past year and continuing regulatory hurdle for Ipcda lab, we expect similar volume of institutional anti-malaria business to AJP for CY17. There is high probability that there could be rollover of CY16 tender, implying pricing would also be similar to last year. Thus, we expect, value-wise, the institutional anti-malaria business to remain intact for AJP for CY17.

Continues to grow faster than domestic formulations (DF) industry

According to AIOCD, AJP grew at 14.2% compared to industry growth of 10.1% for FY17. With new product launches, increased traction in existing products and minimal impact of pricing cuts by NPPA, AJP continues to consistently outperform the industry. In addition to ophthalmology, cardiology and dermatology, AJP has started getting good traction in the pain segment as well.

Remain positive; reiterate Buy

We remain positive on AJP due to healthy pipeline and aggressive filing pace for next 2-3 years in the US market, sustained outperformance in the domestic formulations (DF) market and stable base in the Africa market. We expect 19% CAGR in earnings over FY17-20, led by a 46% CAGR in US sales and a 20.4% CAGR in DF sales. We value AJP at 25x FY19E EPS to arrive at a price target of INR2,028. Buy.

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Stock Info

Bloomberg	AJP IN
Equity Shares (m)	88.5
52-Week Range (INR)	2150/1400
1, 6, 12 Rel. Per (%)	-1/-17/-1
M.Cap. (INR b)	153.9
M.Cap. (USD b)	2.3
Avg Val, INRm	295
Free float (%)	26.2

Financials Snapshot (INR b)

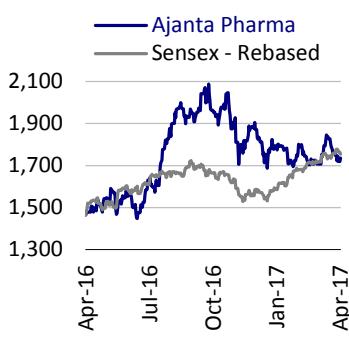
Y/E Mar	2017E	2018E	2019E
Sales	20.1	22.6	27.5
EBITDA	6.8	7.7	9.4
NP	5.0	5.6	7.0
EPS (Rs)	56.0	63.8	79.6
EPS Gr. (%)	18.9	13.8	24.9
BV/Share (Rs)	179.5	233.0	299.9
RoE (%)	35.9	30.9	29.9
RoCE (%)	34.0	29.6	28.9
P/E (x)	31.0	27.3	21.8
P/BV (x)	9.7	7.5	5.8

Shareholding pattern (%)

As On	Dec-16	Sep-16	Dec-15
Promoter	73.8	73.8	73.8
DII	2.0	2.2	1.8
FII	10.4	10.2	8.9
Others	13.8	13.8	15.5

FII Includes depository receipts

Stock Performance (1-year)



Financials and Valuations

Consolidated - Income Statement								(INR Million)
Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E
Total Income from Operations	9,369	12,160	14,852	17,429	20,101	22,563	27,516	33,485
Change (%)	36.7	29.8	22.1	17.4	15.3	12.2	21.9	21.7
Total Expenditure	7,064	8,396	9,683	11,468	13,319	14,892	18,105	21,999
% of Sales	75.4	69.0	65.2	65.8	66.3	66.0	65.8	65.7
EBITDA	2,305	3,764	5,169	5,961	6,782	7,672	9,410	11,485
Margin (%)	24.6	31.0	34.8	34.2	33.7	34.0	34.2	34.3
Depreciation	342	439	516	451	568	710	832	954
EBIT	1,964	3,325	4,652	5,511	6,214	6,961	8,578	10,531
Int. and Finance Charges	191	87	59	49	58	47	46	46
Other Income	56	137	168	166	281	316	385	469
PBT bef. EO Exp.	1,828	3,375	4,761	5,628	6,438	7,230	8,917	10,953
EO Items	0	0	-85	0	0	0	0	0
PBT after EO Exp.	1,828	3,375	4,677	5,628	6,438	7,230	8,917	10,953
Total Tax	647	960	1,462	1,460	1,481	1,591	1,873	2,191
Tax Rate (%)	35.4	28.4	31.3	25.9	23.0	22.0	21.0	20.0
Reported PAT	1,182	2,415	3,215	4,168	4,957	5,639	7,044	8,763
Adjusted PAT	1,182	2,415	3,273	4,168	4,957	5,639	7,044	8,763
Change (%)	33.4	104.4	35.5	27.3	18.9	13.8	24.9	24.4
Margin (%)	12.6	19.9	22.0	23.9	24.7	25.0	25.6	26.2

Consolidated - Balance Sheet								(INR Million)
Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E
Equity Share Capital	118	177	177	177	177	177	177	177
Total Reserves	3,816	5,756	8,234	11,544	15,698	20,436	26,346	33,670
Net Worth	3,934	5,933	8,411	11,721	15,875	20,613	26,523	33,847
Total Loans	1,248	1,305	724	929	929	929	929	929
Deferred Tax Liabilities	237	230	152	200	200	200	200	200
Capital Employed	5,419	7,468	9,286	12,850	17,004	21,742	27,653	34,976
Gross Block	4,385	4,903	5,499	7,242	10,560	13,514	16,475	19,467
Less: Accum. Deprn.	1,659	2,109	2,618	2,726	3,294	4,004	4,836	5,791
Net Fixed Assets	2,726	2,794	2,881	4,516	7,266	9,510	11,638	13,676
Capital WIP	125	936	1,702	2,398	1,880	1,826	1,865	1,873
Total Investments	85	635	595	664	664	664	664	664
Curr. Assets, Loans&Adv.	4,247	5,130	6,286	7,237	9,473	12,292	16,587	22,533
Inventory	1,476	1,554	1,590	2,046	2,376	2,657	3,230	3,924
Account Receivables	1,505	2,022	2,588	3,724	4,294	4,820	5,878	7,154
Cash and Bank Balance	462	604	1,368	550	1,745	3,627	6,030	9,692
Loans and Advances	804	949	740	918	1,058	1,188	1,449	1,763
Curr. Liability & Prov.	1,763	2,026	2,177	1,965	2,279	2,550	3,102	3,770
Account Payables	1,317	1,245	1,298	1,650	1,916	2,142	2,604	3,164
Other Current Liabilities	217	325	188	176	203	227	277	338
Provisions	229	455	691	139	161	180	220	268
Net Current Assets	2,484	3,104	4,108	5,272	7,194	9,742	13,485	18,763
Appl. of Funds	5,419	7,468	9,286	12,850	17,004	21,742	27,653	34,976

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E
Basic (INR)								
EPS	13.4	27.3	37.0	47.1	56.0	63.8	79.6	99.1
Cash EPS	17.2	32.3	42.8	52.2	62.5	71.8	89.1	109.9
BV/Share	44.5	67.1	95.1	132.5	179.5	233.0	299.9	382.7
DPS	1.7	4.0	6.0	8.0	8.4	9.4	11.8	15.0
Payout (%)	14.5	17.0	18.2	18.4	16.2	16.0	16.1	16.4
Valuation (x)								
P/E		47.0	36.9	31.0	27.3	21.8	17.6	
Cash P/E		40.6	33.3	27.9	24.2	19.5	15.8	
P/BV		18.3	13.1	9.7	7.5	5.8	4.5	
EV/Sales		10.3	8.9	7.6	6.7	5.4	4.3	
EV/EBITDA		29.7	25.9	22.6	19.7	15.8	12.6	
Dividend Yield (%)		0.3	0.5	0.5	0.5	0.7	0.9	
FCF per share		19.9	3.4	20.1	28.4	36.2	52.9	
Return Ratios (%)								
RoE	34.2	49.0	45.6	41.4	35.9	30.9	29.9	29.0
RoCE	25.7	39.9	40.5	38.6	34.0	29.6	28.9	28.3
RoIC	26.2	47.4	58.6	54.9	43.6	38.3	39.0	40.3
Working Capital Ratios								
Asset Turnover (x)	1.7	1.6	1.6	1.4	1.2	1.0	1.0	1.0
Inventory (Days)	58	47	39	43	43	43	43	43
Debtor (Days)	59	61	64	78	78	78	78	78
Creditor (Days)	51	37	32	35	35	35	35	34
Leverage Ratio (x)								
Net Debt/Equity	0.2	0.0	-0.1	0.0	-0.1	-0.2	-0.2	-0.3

Consolidated - Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E	(INR Million) FY20E
OP/(Loss) before Tax	1,635	3,299	4,560	5,474	6,438	7,230	8,917	10,953
Depreciation	342	439	516	451	568	710	832	954
Interest & Finance Charges	191	87	59	49	-224	-268	-339	-422
Direct Taxes Paid	-331	-937	-1,461	-1,614	-1,481	-1,591	-1,873	-2,191
(Inc)/Dec in WC	386	-745	-817	-1,235	-727	-666	-1,340	-1,616
CF from Operations	2,223	2,142	2,858	3,125	4,574	5,415	6,198	7,678
Others	120	-18	-64	139	0	0	0	0
CF from Operating incl EO	2,343	2,124	2,794	3,264	4,574	5,415	6,198	7,678
(Inc)/Dec in FA	-1,037	-1,878	-1,036	-2,962	-2,800	-2,900	-3,000	-3,000
Free Cash Flow	1,306	246	1,759	302	1,774	2,515	3,198	4,678
(Pur)/Sale of Investments	0	0	-45	-69	0	0	0	0
Others	87	97	102	135	281	316	385	469
CF from Investments	-950	-1,781	-979	-2,896	-2,519	-2,584	-2,615	-2,531
Inc/(Dec) in Debt	-748	57	-581	206	0	0	0	0
Interest Paid	-195	-87	-60	-49	-58	-47	-46	-46
Dividend Paid	-102	-171	-411	-1,343	-803	-901	-1,134	-1,439
CF from Fin. Activity	-1,045	-201	-1,052	-1,186	-861	-949	-1,180	-1,485
Inc/Dec of Cash	348	142	764	-818	1,195	1,883	2,403	3,662
Opening Balance	115	462	604	1,368	550	1,745	3,627	6,030
Closing Balance	462	604	1,368	550	1,745	3,627	6,030	9,692

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Ajanta Pharma

- No
- No

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