

Muted quarter

1st February 2019

CMP: Rs.981
Target Rs 1000
Recommendation Neutral

Stock Info

BSE Group	A
BSE Code	532331
NSE Symbol	AJANTPHARMA
Bloomberg	AJP.IN
Reuters	AJPH.BO
BSE Sensex	36,257
NSE Nifty	10,831

Market Info

Market Capital	Rs. 8,984cr
Equity Capital	Rs.17.69 cr
6M Avg. Trading Vol.	375,215
52 Wk High/ Low	1468/897
Face Value	Rs.2

Shareholding Pattern (%)	(Dec 2018)
Promoters	70.47
Domestic Institutions	9.60
Foreign Institutions	10.13
Public & Others	9.80

Price Vs Sensex Chart



Q3FY19 Highlights:

- Ajanta Pharma (AJP) reported revenues of Rs 485 crore down by 17% YoY, largely due to lower exports, which were down by 27% YoY to Rs 304 crore (64% of sales). The decline was offset to some extent by 9% YoY growth in domestic formulation (36% of sales) to Rs 174 Crore.
- EBITDA margin contracted at higher rate of 990bp YoY on higher employee cost/other expenses, up 700bp/145bp YoY (as % of sales). Absolute EBITDA declined 46% YoY to Rs 107 crore.
- PAT decline of 55% YoY to Rs 67 Crore due to higher depreciation and tax rate.
- This quarter was a bit challenging for the company which was the result of pipeline filling in the corresponding quarter of the previous year which got normalized. The quarter also saw a significant drop in the anti-malarial business due to changing conditions of this business segment.
- The board of directors of Ajanta Pharma approved buyback of 769,230 equity shares representing 5.22 per cent of total equity at a price of Rs 1,300 per share through a tender offer.

Key commentary from management

Guidance: Management has guided FY19 to be negative 3-4%. FY20 is expected to see a recovery as new capacities start to operate optimally. Management has guided EBITDA margin to be in the range of 26-27% for FY19.

India: Management remains confident of growing faster than the IPM and attaining mid-teens growth in FY19. Growth will be led by new launches and higher market share gains in key therapies such as derma, cardiac, and ophthalmic.

Asia: Management guided mid-teens growth in Asian markets in FY19, largely driven by contributions from the Philippines and Iraq. Growth will be driven by new launches as well as improved productivity.

US: The US business de grew by 7% YoY. Management has guided for 10-12 filings and 3-4 launches in FY19. On price erosion, management indicated that the pricing is stabilizing and it should regain normalcy probably in the next 3-4 quarters. Ajanta remains upbeat about attaining ~25% EBITDA margin in the US over the next two years.

Tax rate: Tax rate is guided at 24-25% for FY19 and is expected to fall to ~20% in FY20/21 after optimization of facilities at Dahej and Guwahati.

Outlook & Valuation:

Ajanta is growing at faster pace than the industry in domestic market. Ajanta's domestic portfolio compromise 95% branded generics which is concern going ahead, due to implementation of Ayushman bharat scheme. Branded business of Asia and Africa are expected to grow on account of strong demand. Crude dependent economies had led to the decline in Asian business. As crude has revived, these countries are expected to grow and bring back the Asian business to its previous growth rate. However, margins are affected as Ajanta pharma is in an investment phase. Revenue from this investment is expected to affect the topline in FY20. We have assigned a PE of 20x to our FY20E EPS of Rs 50 and have arrived at a Target Price of Rs 1000 with a **Neutral** rating on the stock.

Financial Snapshot:

Y/E March (Rs. In Crore)	FY18	FY19E	FY20E
Net Revenue	2,131	2,024	2,276
Growth %	6%	-5%	12%
EBIDTA	651	549	612
EBIDTA Margin	31%	27%	27%
Net Profit	469	376	440
Growth %	-8%	-20%	17%
EPS	54	43	50
P/E	19	24	20
ROE	23%	16%	16%

Quarterly Update:

Particulars (Rs. Cr)	Q3FY19	Q2FY19	Q3 FY 18	QoQ	YoY
Revenue	485	544	587	-11%	-17%
COGS	82	94	88	-13%	-6%
Employee cost	113	106	95	7%	18%
Other expenses	167	176	184	-5%	-9%
EBITDA	107	166	198	-35%	-46%
EBITDA Margin	22%	31%	34%		
Depreciation	19	17	15	7%	25%
EBIT	89	149	183	-40%	-51%
EBIT Margin	18%	27%	31%		
Interest	0.09	0.13	0.14	-31%	-36%
Other Income	4	15	15	-71%	-71%
PBT	93	164	198	-43%	-53%
Tax paid	26	38	50	-32%	-48%
Effective tax rate%	28%	23%	25%		
Net Profit	67	125	147	-47%	-55%
EPS	8	14	17	-47%	-55%

Profit & Loss Statement			
Particulars (Rs. In Crore)	FY18	FY19E	FY20E
Revenue	2131	2024	2276
Employee costs	376	425	501
Operation and other expenses	697	658	728
Total Operating Expenses	1539	1553	1750
EBIDTA	651	549	612
EBIDTA Margin	31%	27%	27%
Depreciation	60	78	85
EBIT	592	471	527
Interest	0.4	0.4	0.4
Other Income	31	31	31
PBT	623	502	558
Tax	154	125	117
PAT	469	376	440
Growth (%)	-8%	-20%	17%
EPS	54	43	50

Cash Flow Statement			
Particulars (Rs. In Crore)	FY18	FY19E	FY20E
Profit Before taxes	623	502	558
Add:- Depreciation	60	78	85
Change in Working Capital	-259	-142	-142
Cash generated from operations	425	437	501
Taxes paid	140	125	117
Net cash flow from operating activities	285	312	384
Purchase of fixed assets	-263	-300	-250
Others	2	100	0
Net cash flow from investing activities	-260	-200	-250
Dividend paid, including dividend tax	0	-90	-90
Other	-0.4	-0.4	-0.4
Net cash used in financing activities	-1	-91	-91
Net Cash Flow	24	21	43
Opening Cash balance	66	90	111
Closing Cash balance	90	111	154

Balance Sheet			
Particulars (Rs. In Crore)	FY18	FY19E	FY20E
Shareholder's funds			
Share Capital	17.69	16.09	16.09
Reserves & Surplus	2,024	2,320	2,681
Total	2,041	2,336	2,697
Total Non Current Liabilities	61	68	68
Total Current Liabilities	346	297	292
Total Liabilities	2,449	2,702	3,057
Net Block	1,053	1,463	1,610
Capital Work-in-Progress	61	88	97
Other Non Current Assets	66	66	66
Total Non Current Assets	1,225	1,655	2,087
Cash and bank balance	90	11	53
Total Current Assets	1,224	1,047	970
Total Assets	2,449	2,702	3,057

Key ratios			
Particulars	FY18	FY19E	FY20E
EPS	54	43	50
Book Value	230	263	304
DPS		7	7
Payout %	0%	19%	24%
Dividend Yield %	0%	1%	1%
P/E	19	24	20
EBIDTA Margin	31%	27%	27%
PBT Margin	29%	25%	24%
PAT Margin	22%	19%	19%
Debt/Equity	0.20	0.16	0.13
Current Ratio	3.5	3.5	3.3
ROE	23%	16%	16%

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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