

Ajanta Pharma

Strong show

Ajanta delivered solid Q4 with revenue/EBITDA growth of 11%/71% YoY amidst challenging environment. While revenues came in line, strong recovery in India (+23% YoY) and continued growth in the US (+21% YoY) was encouraging. EBITDA margin improved to 34.3% (+200bps QoQ) driven by higher gross margin and lower other expenses. We expect margin to stabilize around ~31%+ levels in FY22 (vs. 26%/34% in FY20/21) as other expenses normalise. With conclusion of major capex and steady growth in key markets, operating leverage benefit is expected to drive ~13% earnings CAGR over FY21-23e and core ROCE expansion to 28% in FY23 (from ~17%/25% in FY20/21). Maintain BUY. Revised TP of INR2,225/sh.

- Robust quarter:** Revenue at INR7.6bn grew by +11% YoY as strong growth in India (+23% YoY), US (+7% QoQ, +19% YoY) and Africa Institutional biz (+86% YoY) offset muted growth in EMs (-10% YoY, supply disruption). Gross margin improved to 78% (+386bps YoY, +34bps QoQ) driven by favorable product mix and product recall exp in the base. Other expenses declined to 24% (-850bps YoY, -273bps QoQ) due to lower R&D and operating leverage benefits. In absolute terms, it normalised to ~INR1.8bn from ~INR1.5bn in 1HFY21. EBITDA margin improved to 34.3% (+1,208bps YoY, +200bps QoQ) led by higher gross margins and lower other expenses.
- Strong recovery in India, outperformance continues:** Ajanta's India revenue grew by 23%+ YoY vs. ~6% growth in IPM. As per AIOCD, cardiac, ophthal and pain significantly outperformed the therapy average by 11%, 13% and 17% respectively. With a continued recovery in domestic market, we expect India business to grow at ~13% CAGR over FY21-23e.
- EM business to bounce back in coming quarters:** Asia business declined by ~16% YoY and Africa branded business grew by ~2% YoY impacted by supply disruption. Ajanta expects growth to normalize in the coming quarters and aims to sustain its outperformance compared to industry growth. We expect EM business to grow at 11%+ CAGR over FY21-23e driven by steady performance in Philippines (40% of Asia revenues), new launches and volume growth in Asia, stable outlook in Africa (branded business to grow in high single digit, institutional business to remain flat).
- Key call takeaways:** a) India – 21 new launches in FY21 (incl. 5 first-to-market), MR productivity in ophthal is among the best, scope to improve in cardiac and derma exists; b) US – aims to file 10-12 ANDAs per year, pipeline mainly consists of OSDs, price erosion has normalised; c) operating costs to inch up moderately, R&D to be ~6% of sales; d) Capex: INR2.5bn for FY22, INR150-200bn for FY23; e) extent of outsourcing has reduced for domestic business as production shifted to Guwahati.
- Maintain BUY, risks:** Our TP of INR2,225/sh is based on 23x FY23e EPS, in line with its 5-year historical average. **Key risks:** Expansion of NLEM list, lower growth in EMs, delay in US approvals, and currency volatility in EMs.

Financial Summary

	4Q FY21	4Q FY20	YoY (%)	3Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Net Sales	7,568	6,820	11.0	7,487	1.1	25,879	28,897	32,535	36,478
EBITDA	2,594	1,513	71.4	2,417	7.3	6,833	9,986	10,211	11,860
EBITDA Margin	34.3	22.2	1,208	32.3	200	26.4	34.6	31.4	32.5
APAT	1,593	1,310	21.6	1,766	(9.8)	4,705	6,539	6,983	8,372
Diluted EPS (INR)	18.4	14.8	361	20.4	(9.8)	53.9	75.3	80.7	96.8
P/E (x)						34.1	24.5	22.8	19.0
EV/ EBITDA (x)						23.2	15.6	14.9	12.3
Core-RoCE (%)						17.3	25.2	24.4	28.1

Source: Company, HSIE Research

BUY

CMP (as on 30 Apr 2021)	INR 1,840
Target Price	INR 2,225
NIFTY	14,631

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,250	INR 2,225
EPS %	FY22E 0%	FY23E -1%

KEY STOCK DATA

Bloomberg code	AJP IN
No. of Shares (mn)	87
MCap (INR bn) / (\$ mn)	159/2,140
6m avg traded value (INR mn)	261
52 Week high / low	INR 1,932/1,330

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.2	17.0	23.7
Relative (%)	(1.2)	(6.2)	(20.9)

SHAREHOLDING PATTERN (%)

	Mar-21	Dec-20
Promoters	70.34	70.34
FIs & Local MFs	11.86	11.72
FPIs	8.37	7.90
Public & Others	9.43	10.04
Pledged Shares	10.90	10.67

Source : BSE

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Disclosure:

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