

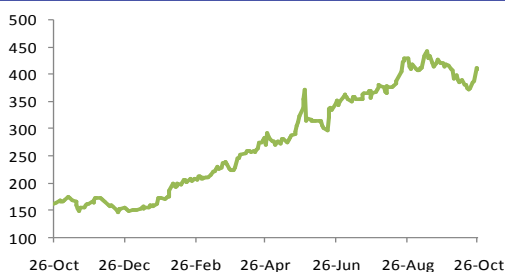
Ajanta Pharma Ltd.

Recommendation	HOLD
CMP (26/10/2012)	Rs. 411
Target Price	Rs. 441
Sector	Pharmaceuticals

Stock Details

BSE Code	532331
NSE Code	AJANTPHARM
Bloomberg Code	AJP IN
Market Cap (Rs cr)	962
Free Float (%)	27.3
52- wk HI/Lo (Rs)	505/146
Avg. volume BSE (Quarterly)	14,130
Face Value (Rs)	5.0
Dividend (FY 12)	75%
Shares o/s (Cr)	2.35

Relative Performance	1Mth	3Mth	1Yr
Ajanta	-2.3%	15.2%	154.7%
Sensex	0.1%	11.9%	7.7%

Shareholding Pattern 30th Sept 12

Promoters Holding	72.7
Institutional (Incl. FII)	1.3
Corporate Bodies	9.6
Public & others	16.4

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Year Consolidated	Sales (Rs cr)	Growth (%)	EBITDA (Rs cr)	Margin (%)	PAT (Rs cr)	Margin (%)	EPS (Rs)	P/E (x)	RoE (%)
FY 11A	498.8	21.9%	89.7	18.0%	50.7	10.2%	21.5	19.1	24.5
FY 12A	677.4	35.8%	140.7	20.8%	77.3	11.4%	32.8	12.5	29.3
FY 13E	826.4	22.0%	172.7	20.9%	88.5	10.7%	37.5	11.0	26.3
FY 14E	983.4	19.0%	206.0	21.0%	104.0	10.6%	44.1	9.3	24.8

Results better than expectations; Tax plays spoilsport!

Ajanta Pharma reported slightly higher than expected results in Q2FY13. Sales grew by 37.9% YoY and 7.1% QoQ at Rs 186.4 cr. EBITDA margin improved by 600 bps YoY and 260 bps QoQ to 23.2%. PAT margins rose 290 bps YoY and 50 bps QoQ to 11.7%.

Key Highlights

- Sales grew by 37.9% YoY mainly on account of volume growth and aided by weakening rupee
- Exports contribution for the quarter was higher at 65% as compared to 51% in Q1FY13 with exports growth outperforming the domestic market growth
- EBITDA margin rose significantly to 23.2% led by operating leverage and lower cost of materials
- Other Expenses includes net forex loss of Rs 0.16 cr as compared to loss of Rs 5.96 cr in Q2FY12
- Tax rate for the quarter was significantly higher at 29.7% on account of the company having exhausted its past tax credits. It will now fall under full tax bracket from FY13E onwards. For the full year we have assumed tax rate of 28% (earlier 20%)
- Despite higher tax rate for the quarter, PAT grew 84.8% yoy and 11.7% qoq. PAT margin rose 290 bps yoy and 50 bps qoq

Valuation & Recommendation

We are rolling forward our target price to FY14 projections. Accounting for higher tax rate in FY13E & FY14E, and assigning a higher multiple of 10x to FY14E EPS of Rs 44.1 on account of continued outperformance by the company, we arrive at a target price of Rs 441. At the CMP, the stock offers a potential upside of 7.3%. Hence, we recommend to 'HOLD' the stock.

Ajanta Pharma Ltd.

Operational Efficiency was the key highlight of the quarter

Standalone (Rs cr)	Q2FY13	Q1FY13	qoq	Q2FY12	yoy
Net sales	186.4	174.1	7.1	135.1	37.9
Cost of Materials	60.3	65.1	-7.4	47.1	27.9
Staff cost	27.5	25.6	7.2	20.0	37.6
Other Exps	55.4	47.5	16.8	44.8	23.7
Total Expenses	143.2	138.2	3.6	111.9	27.9
EBITDA	43.2	35.8	20.6	23.2	86.0
<i>margins</i>	<i>23.2%</i>	<i>20.6%</i>		<i>17.2%</i>	
Depreciation	7.9	7.8	1.3	7.6	3.3
EBIT	35.3	28.0	25.9	15.6	126.5
Interest	4.6	5.2	-12.7	3.4	33.0
Other income	0.4	0.3	27.6	0.3	32.1
PBT	31.1	23.1	34.6	12.4	150.1
Tax	9.3	3.5	161.3	0.6	1416.4
<i>Tax rate</i>	<i>29.7%</i>	<i>15.3%</i>		<i>4.9%</i>	
PAT	21.9	19.6	11.7	11.8	84.8
Equity Capital	11.8	11.8		11.8	
FV	5.0	5.0		5.0	
EPS	9.3	8.3	11.7	5.0	84.8

Change in estimates

We have revised downwards our expected FY13E and FY14E PAT by 7.2% and 8.9% respectively to account for higher effective tax rate since the company has fully exhausted its past tax credits.

We have assumed a tax rate of 28% in FY13E and FY14E (earlier 20%)

Consolidated	FY13E			FY14E			
	Rs Cr	New	Old	% change	New	Old	% change
Sales	826.4	826.4	826.4	0.0%	983.4	983.4	0.0%
PAT	88.5	95.4	95.4	-7.2%	104.0	114.1	-8.9%

Highlights for the quarter

- APL launched 3 products in the domestic market during the quarter in the Cardio/Ophthalmology/Derma/GI segments
- Of the two ANDAs, one ANDA (Risperidone) has been launched in US in agreement with Breckenridge Pharmaceutical Inc and for the second ANDA (Leviticetam), APL is looking to tie-up with an alternative distributor, and the product is likely to be launched in Q3. Both products combined are an opportunity of \$2 mn in FY13E
- NPPP impact: APL should see minimal impact on revenues (~1.5%) as the company is more into specialities and not into bulk or acute and gets significant revenue from exports (over 50%); also majority of their drugs are combinations, which are not likely to be impacted if the 1% market share pricing formula is accepted by the Cabinet

Ajanta Pharma Ltd.

Financials (consolidated)

P&L (Rs. Cr)	FY11A	FY12	FY13E	FY14E
Net Sales	498.8	677.4	826.4	983.4
% change	21.9%	35.8%	22.0%	19.0%
EBITDA	89.7	140.7	172.7	206.0
EBITDA margin	18.0%	20.8%	20.9%	21.0%
Depn & Amort	24.7	31.9	37.2	43.0
Operating income	65.0	108.9	135.5	163.0
Interest	17.8	15.4	21.6	27.6
Other Income	9.5	6.2	9.0	9.0
PBT	56.4	91.0	122.9	144.4
Tax	5.7	13.7	34.4	40.4
MI & EO	0.0	0.0	0.0	0.0
PAT	50.7	77.3	88.5	104.0
PAT margin (%)	10.2%	11.4%	10.7%	10.6%
Sh o/s - Diluted	2.4	2.4	2.4	2.4
Adj EPS	21.5	32.8	37.5	44.1
Cash EPS	32.0	46.3	53.3	62.3
Qtrly-Stdalone	Dec.11	Mar.12	Jun.12	Sept.12
Revenue	164.2	176.1	174.1	186.4
EBITDA	40.1	39.8	35.8	43.2
Dep & Amorz	8.2	8.2	7.8	7.9
Op Income	32.0	31.6	28.0	35.3
Interest	10.7	-1.7	5.2	4.6
Other Inc.	1.2	-2.0	0.3	0.4
PBT	22.5	31.2	23.1	31.1
Tax	4.0	7.7	3.5	9.3
EO	0.0	0.0	0.0	0.0
PAT	18.5	23.6	19.6	21.9
EPS (Rs.)	7.8	10.0	8.3	9.3
Performance Ratio	FY11A	FY12	FY13E	FY14E
EBITDA margin (%)	18.0%	20.8%	20.9%	21.0%
EBIT margin (%)	13.0%	16.1%	16.4%	16.6%
PAT margin (%)	10.2%	11.4%	10.7%	10.6%
ROE (%)	24.5%	29.3%	26.3%	24.8%
ROCE (%)	15.7%	19.1%	16.4%	13.9%
Valuation Ratio	FY11A	FY12	FY13E	FY14E
Price Earnings (x)	19.1	12.5	11.0	9.3
Price/BV (x)	1.8	1.4	1.1	0.9
EV / Sales	2.3	1.7	1.6	1.5
EV / EBITDA	12.8	8.2	7.6	7.2

Balance Sheet (Rs Cr)	FY11A	FY12	FY13E	FY14E
Share Capital	11.8	11.8	11.8	11.8
Reserves & Surplus	217.0	286.2	362.4	451.8
Minority	0.0	0.0	0.0	0.0
Net Worth	228.8	298.0	374.2	463.6
Net Deferred Tax Liab	10.9	17.1	20.6	25.6
Total Loans	190.6	199.6	359.6	539.6
Total Liabilities	430.4	514.8	754.4	1028.8
Net Fixed Assets	214.0	267.0	269.8	266.8
Capital WIP	17.2	0.0	180.0	400.0
Investments	8.5	8.5	8.5	8.5
Cash & Bank	14.8	11.5	14.6	15.5
Debtors & Other CA	260.4	343.2	416.1	492.5
CL & P	91.8	134.1	158.8	185.8
Net CA	282.5	391.7	455.0	539.4
Total Assets	430.4	514.8	754.4	1028.8
Cash Flow (Rs. Cr)	FY11A	FY12	FY13E	FY14E
Operating Cash Flow				
Op CF before tax	89.5	132.0	172.7	206.0
Change in WC	0.2	-74.8	-35.4	-56.5
Tax	-5.7	-13.7	-34.4	-40.4
CF from Operation	84.1	43.6	102.9	109.1
Investing Activities				
Capex	-40.8	-67.6	-220.0	-260.0
Oth Inc & Investments	9.5	6.2	9.0	9.0
CF from Investing	-31.3	-61.4	-211.0	-251.0
Financing				
Dividend Paid	-6.8	-10.4	-12.4	-14.6
Share Capital	0.0	0.0	0.0	0.0
Loans & Others	-46.0	24.9	123.7	157.4
CF from Financing	-52.8	14.5	111.2	142.8
Net Chg. in Cash	-0.1	-3.3	3.1	0.9
Cash at beginning	14.8	14.8	11.5	14.6
Cash at end	14.8	11.5	14.6	15.5
Per Share Data	FY11A	FY12	FY13E	FY14E
Adj EPS	21.5	32.8	37.5	44.1
BV per share	97.0	126.3	158.6	196.5
Cash per share	6.3	4.9	6.2	6.6
Dividend per share	2.5	3.8	4.5	5.3

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