6 August 2012

Ajanta Pharma

Rating: **Buy**
Target Price: ₹961
Share Price: ₹758

Scaling up well; we initiate coverage with a Buy

A properly-focused segment-wise approach in its home market and expansion in other emerging markets offer Ajanta Pharma prospects of a strong, 19.7%, CAGR in revenue over FY12-15. The short-term pressure on its balance sheet was due to substantial capacity expansion, which should ensure future growth momentum. We initiate coverage with a Buy, and a target of ₹961.

- **Focused domestic business.** With its clearly-defined focus on merely the ophthalmology, dermatology and cardiac segments, Ajanta's domestic formulations revenue has grown to ₹2.3bn in FY12. After establishing itself in these segments, it has now begun focusing on the ENT, gastro-enterology and orthopaedic segments to hold to the momentum with a 19.5% expected CAGR in revenue over FY12-15.

- **Scaling up export formulations.** Ajanta had cautiously approached the scaling up of exports and initially established itself in Asia and Africa, with a little business in Latin America. Its U.S. business would kick in from 2HFY13 as it has now received two approvals. We expect a 20.3% CAGR in export revenue over FY12-15.

- **Improving financials.** We estimate a 19.7% CAGR in revenue and 15.7% in adjusted net profit over FY12-15. The lower net profit is because of the increased tax rate and commercialization of fresh capacity in FY15, which would significantly raise depreciation and interest costs. Nevertheless, we expect a 21.7% CAGR in net profit over FY12-14.

- **Valuation.** The stock trades at attractive valuations of 9.2x FY13e and 7.5x FY14e earnings. We value it at a target of ₹961, based on 10x Dec'13 earnings. **Risks:** pricing pressure in domestic markets and currency fluctuation.

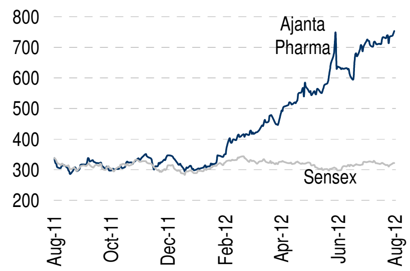
Key financials (YE Mar)	FY11	FY12	FY13e	FY14e	FY15e
Sales (₹m)	4,988	6,774	8,212	9,740	11,623
Net profit (₹m)	428	803	969	1,189	1,243
EPS (₹)	36.3	68.1	82.2	100.8	105.3
Growth (%)	24.9	87.7	20.7	22.6	4.5
PE (x)	20.9	11.2	9.2	7.5	7.2
EV/EBITDA (x)	12.0	7.7	7.2	7.1	5.6
P/B (x)	3.9	3.0	2.4	1.9	1.5
RoE (%)	20.7	30.5	28.5	27.5	23.1
RoCE (%)	14.3	20.2	17.2	14.5	12.8
Dividend yield (%)	0.7	1.0	1.3	1.6	1.7
Net gearing (%)	83.3	67.0	91.7	113.6	82.9

Source: Company, Anand Rathi Research

Key data	AJP IN / AJPH.BO
52-week high / low	₹804 / ₹255
Sensex / Nifty	17198 / 5215
3-m average volume	US$2.2m
Market cap	₹8.9bn / US$0.16bn
Shares outstanding	11.79m

Shareholding pattern (%)	Jun '12	Mar '12	Dec '11
Promoters	71.84	70.13	68.92
- of which, Pledged	6.54	6.69	2.48
Free Float	28.16	29.87	31.08
- Foreign Institutions	1.29	0.59	0
- Domestic Institutions	0.00	0.01	0.02
- Public	26.87	29.27	31.06

Relative price performance



Source: Bloomberg

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Net revenues	4,988	6,774	8,212	9,740	11,623
Revenue growth (%)	21.9	35.8	21.2	18.6	19.3
- Op. expenses	4,091	5,367	6,512	7,711	9,185
EBIDTA	**897**	**1,407**	**1,701**	**2,029**	**2,438**
EBITDA margin (%)	18.0	20.8	20.7	20.8	21.0
- Interest expenses	180	154	157	188	304
- Depreciation	247	319	345	371	599
+ Other income	6	12	13	16	19
- Tax	57	138	242	297	311
Effective tax rate (%)	10	15	20	20	20
Reported PAT	507	773	969	1,189	1,243
+/- Extraordinary items	88	-37	0	0	0
+/- Minority interest	0	0	0	0	0
Adjusted PAT	428	803	969	1,189	1,243
Adj. FDEPS (₹/share)	36.3	68.1	82.2	100.8	105.3
Adj. FDEPS growth (%)	24.9	87.7	20.7	22.6	4.5

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Share capital	118	118	118	118	118
Reserves & surplus	2,170	2,862	3,697	4,719	5,789
Net worth	2,288	2,980	3,815	4,837	5,907
Minority interest	0	0	0	0	0
Total debt	1,906	1,996	3,496	5,496	4,896
Def. tax liab. (net)	109	171	171	171	171
Capital employed	**4,304**	**5,148**	**7,482**	**10,505**	**10,974**
Net fixed assets	2,312	2,982	4,844	7,588	7,430
Investments	85	85	85	85	85
- of which, Liquid	0	0	0	0	0
Net working capital	1,759	1,966	2,384	2,826	3,371
Cash and bank balance	148	115	169	6	89
Capital deployed	**4,304**	**5,148**	**7,482**	**10,505**	**10,974**
Net debt	1759	1882	3328	5491	4807
WC days	110.2	102.9	110.6	111.7	111.4
Book value (₹/sh)	194.0	252.7	323.4	410.1	500.7

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
PAT	564	833	969	1,189	1,243
+ Non-cash items	304	380	345	371	599
Cash profit	868	1,214	1,315	1,559	1,842
- Incr./(decr.) in WC	(35)	482	428	453	558
Operating cash-flow	903	732	886	1,106	1,284
- Capex	408	502	2,100	3,000	300
Free cash-flow	495	230	(1,214)	(1,894)	984
- Dividend	68	102	135	166	173
+ Equity raised	0	0	1	2	3
+ Debt raised	(373)	90	1,500	2,000	(600)
- Investments	(0)	0	0	0	0
- Misc. items	54	218			
Net cash-flow	(0)	(0)	152	(58)	214
+ Op. cash & bank bal.	148	115	115	169	6
Cl. cash & bank bal.	148	115	169	6	89

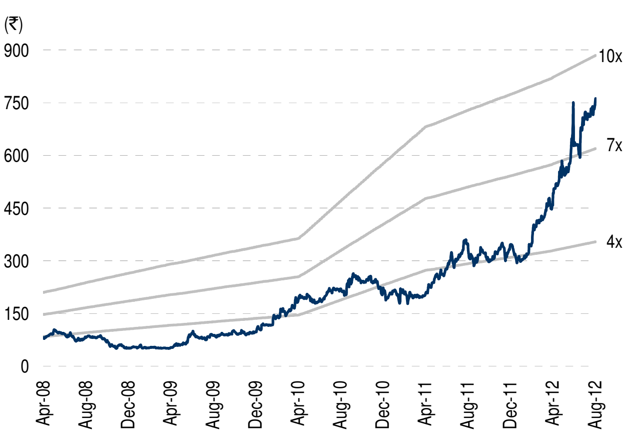
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹758

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
P/E (x)	20.9	11.2	9.2	7.5	7.2
P/B (x)	3.9	3.0	2.4	1.9	1.5
EV/EBITDA (x)	12.0	7.7	7.2	7.1	5.6
RoE (%)	20.7	30.5	28.5	27.5	23.1
RoCE (%)	14.3	20.2	17.2	14.5	12.8
Dividend yield (%)	0.7	1.0	1.3	1.6	1.7
Dividend payout (%)	13.8	11.0	12.0	12.0	12.0
Asset turnover (x)	2.2	2.8	2.4	1.8	1.7
Net debt/equity (x)	0.8	0.7	0.9	1.1	0.8
Net debt/EBITDA (x)	2.0	1.3	2.0	2.7	2.0
Net debt/op. CF (x)	1.9	2.6	3.8	5.0	3.7
Interest coverage (x)	3.6	7.1	8.6	8.8	6.1
P/CEPS (x)	13.2	7.9	6.8	5.7	4.9
EV/ sales (x)	2.2	1.6	1.5	1.5	1.2
M-cap/sales (x)	1.8	1.3	1.1	0.9	0.8

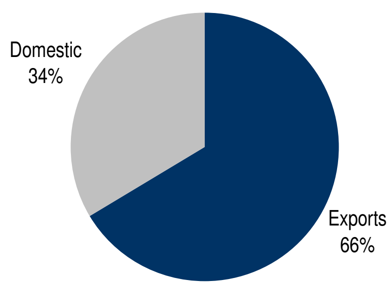
Source: Company, Anand Rathi Research

Fig 5 – Valuation chart (P/E)



Source: Bloomberg, Anand Rathi Research

Fig 6 – Share of revenue, by segment (FY12)



Source: Company

Investment Argument and Valuation

A properly-focussed segment-wise approach in its home market and expansion in other emerging markets raise Ajanta Pharma's prospects of a strong, 19.7%, CAGR in revenue over FY12-15. The short-term pressure on its balance sheet was due to substantial capacity expansion, which should ensure future growth momentum. We initiate coverage with a Buy, and a target of ₹961.

Focus on high-growth segments in India

A mid-cap pharmaceutical company completely focusing on emerging markets and high-growth segments, now preparing for regulated market entry

With its clear focus on just the ophthalmology, dermatology and cardiac segments, Ajanta's domestic-formulations business has grown its revenues in FY12 to ₹2.3bn. After establishing itself in the above-mentioned segments, it is now focusing on the ENT, gastroenterology and orthopaedic segments to hold to its growth momentum with a 19.5% expected CAGR in revenue over FY12-15. It is one of the low to mid-sized Indian companies in the high-margin domestic formulations. Though a late entrant and despite stiff competition because of the generic nature of the market, Ajanta created an entry barrier by building brands, and improved its ranking.

The market in its key categories is growing at about 20%, well above the average industry growth rate. Ajanta has selectively focused on the ophthalmology, cardiac and dermatology sub-segments instead of merely launching products in various sub-segments. This strategy helped it maintain its growth momentum, gain decent market share in therapeutic sub-segments and hold to its profit margins.

Scaling up export formulations

The company has cautiously approached scaling up exports and initially established a foothold in Asia and Africa with a little business in Latin America. Its U.S. business would kick in from 2QFY13 since it has now received two approvals. We expect a 20.3% CAGR in export revenue over FY12-15. Most of its sales go to the semi-structured markets of Asia, Africa and the Latin America region. Its formulations plant has been approved by authorities in these countries. Its four subsidiaries have registered over a thousand products in these regions and are in the process of filing a similar number of products in the next few years. It is setting up another plant to cater to growing demand from these and other emerging markets.

Further, it has approval for its plant from the US FDA and the UK MHRA. To begin with, it has in place approval for two ANDAs, with seven pending. It plans to enter the U.S. market in 2HFY13 with the launch of risperidone. It plans to step up its filings in these regulated markets in the next few years. It is setting up another plant to cater to growing demand from these regulated markets. It will continue with its backward-integration strategy for regulated markets as well. Though it has been a late entrant, it has major plans to raise the proportion of revenue from structured markets.

Improving financials

We estimate a 19.7% CAGR in revenue and 15.7% in adjusted PAT over FY12-15. The lower net-profit growth stems from a rise in the tax rate and commercialisation of fresh capacity in FY15. This should significantly increase depreciation and interest costs though we yet expect a 21.7% CAGR in net profit over FY12-14. We expect the EBITDA margin over FY12-15 to hold at ~20-21%. Return ratios have improved significantly in FY12. As the company plans to step up its capex to prepare for the next level of growth in emerging and regulated markets, we expect the return ratios to soften.

Valuations

The stock trades at attractive valuations of 9.2x FY13e and 7.5x FY14e earnings. We value it at ₹961, based on 10x Dec'13 earnings. To reflect the comparatively better financials and on its successful US market entry, we expect a re-rating. This would be sustained in the mid-term as the company invests for the next growth phase.

Risks

- Delay in its U.S. market entry
- Currency fluctuations
- High debt-to-equity till FY14.

Properly-focused domestic business

With its clear focus on merely the ophthalmology, dermatology and cardiac sub-segments, Ajanta's domestic-formulations revenue has grown to ₹2.3bn in FY12. After establishing itself in these segments, it has now begun focusing on the ENT, gastroenterology and orthopaedic sub-segments to hold to the momentum with a 17.3% CAGR in revenue expected over FY12-15.

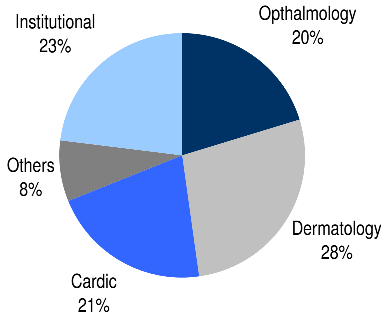
Business model

Ajanta Pharma is one of the small to mid-sized Indian companies in the high-margin domestic-formulations business. The market in its key segments is growing at about 20%, well above the average industry growth. Its key therapeutic areas are the ophthalmology, dermatology and cardiology sub-segments. It has now started focusing on ENT, gastroenterology and orthopaedics. It has successfully developed sustained-release, controlled-release, extended-release, oral dosage forms, ointments, eye drops and a combination product range mainly for emerging markets.

It is prominent in the home market in ophthalmology and dermatology. Some of its brands are leaders in their sub-therapeutic segments. It is also expanding into gastrointestinals and musculo-skeletals through introducing innovative products. Its clear therapeutic focus has gained for itself a healthy product range. It also has a significant global presence in the male erectile dysfunction (MED) segment through its key brand 'KAMAGRA' and an equal stronghold in the anti-malarial segment through 'ARTEFAN', where it was the first branded generic to be WHO pre-qualified..

Developed several branded generics to monetize growth opportunities in focused high-growth segments

Fig 7 – Segment-wise proportion of domestic revenue (FY12)



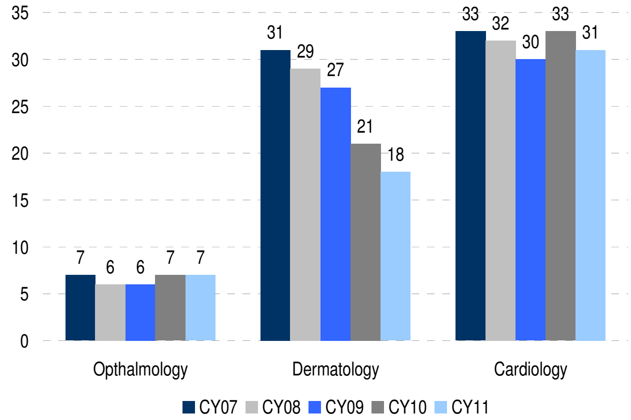
Source: Company

High-growth segments to lead outperformance

Ajanta's key therapeutic areas, ophthalmology, dermatology and cardiology, account for over two-thirds of its domestic-formulation sales. After establishing itself in these segments, it has now begun focusing on ENT, gastroenterology and orthopaedia to hold to the growth momentum. Its brands Vertizac, Olopat and Lidocam (ENT), Feburic, Thiofenac, Duranzo (orthopaedia), Choltran, Macrogol, Lafutax, Ilapro and Palozac (gastroenterology) were the first such molecules in the Indian market.

Further, it has maintained its growth momentum along with an improved ranking in the industry. It is now in the top-10 in ophthalmology; it has also consistently improved its ranking in the cardiac segment, which is highly competitive. In dermatology, in the past five years Ajanta's ranking has improved from 31 to 18.

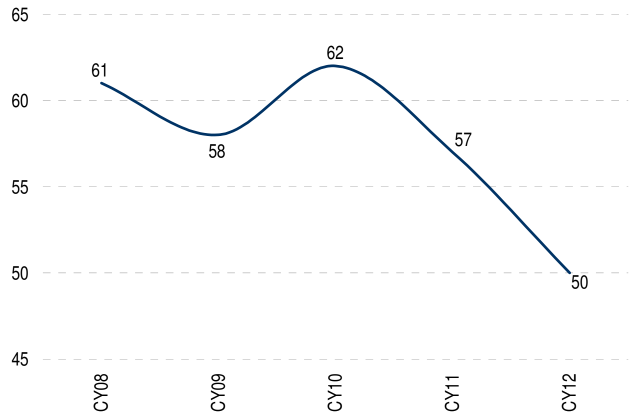
Fig 8 – Ajanta's ranking in key therapeutic areas



Source: Company, IMS ORG

Led by strong growth in these key therapeutic areas and by an improved ranking, Ajanta's overall ranking in the domestic pharmaceutical sector has improved from 61 in CY08 to 50 in CY12. This shows that it has grown much faster than growth in the sector. It has a field force of over 2,000, likely to be maintained in the near future. In FY12, it launched 25 products; 13 were the first to be launched in the country. In segments in which it operates (due to high growth), it is likely to register a sustainable revenue growth momentum in the next 2-3 years.

Fig 9 – Enters the top-50 list in Indian pharma

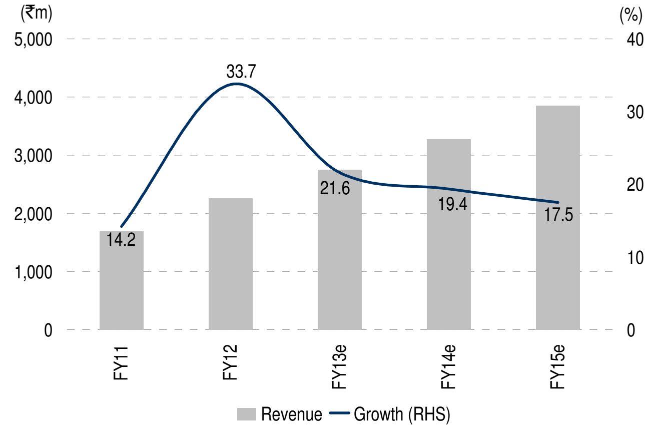


Source: Company, IMS ORG

Expect a 19.5% CAGR in domestic revenue

We expect Ajanta to report a 19.5% CAGR in domestic revenue over FY12-15 on the base of an 18.7% CAGR over FY09-12. The growth would be primarily driven by a 24.2% CAGR in branded-formulations revenue at home. We assume flat revenue from the institutional segment. Branded-formulations growth would be driven by a ~24% CAGR each in dermatology and cardiology, an 18.7% CAGR in ophthalmology and 36.4% in 'others' on account of the low base.

Fig 10 – Domestic revenue growth trend



Source: Company, Anand Rathi Research

Scaling up exports formulations

Ajanta Pharma has cautiously approached scaling up exports. It initially established itself in Asia and Africa with a little business in Latin America. Its four subsidiaries have registered over a 1,000 products in these regions and are in the process of filing a similar number in the next few years. Its subsidiary in the Philippines turned the corner in FY12. The U.S. business would kick in from 2HFY13 as two approvals have already been received. It plans to set up two plants, one each for structured and semi-structured markets. We expect a 20.3% CAGR in export revenue over FY12-15.

Well set for exports

With the necessary regulatory approvals for its manufacturing plants, regulatory filings for its products and ready capacity, Ajanta Pharma is poised to capture growth opportunities in brand-named generics in semi-structured markets. It began its overseas expansion in the late '90s and now markets products in over 30 countries. Its plant at Paithan, Maharashtra, India, has approvals from regulatory bodies such as the US FDA, the UK-MHRA, the health authorities of Brazil and Colombia, and WHO, Geneva (for pre-qualification). It has approvals for 1,500 registrations, with ~1,300 pending /seeking approval. In regulated markets, it has made nine ANDA filings and has received approvals for two in the U.S. We believe that such an extensive product range would enable it to sustain its growth momentum in semi-structured markets and repeat that in structured markets.

Sufficient product filings in place to capture future growth opportunities

Fig 11 – Status of regulatory approvals

Geography	Products approved
Africa	260
South East Asia	298
Middle East Asia	650
Central Asia	180
Latin America	110
USA	2

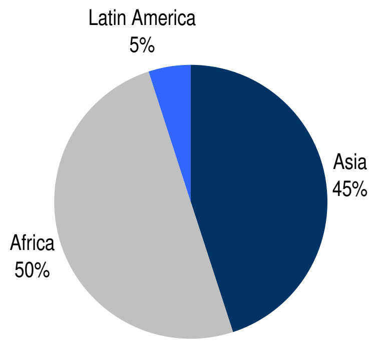
Source: Company

Well established in semi-structured markets,

Ajanta's overseas-market revenues have grown faster over FY09-12, chiefly due to its focus on semi-structured international markets and shifting of capacities towards exports instead of concentrating only on domestic sales. However, as huge opportunities open up in the next few years because of patent expiries of block-buster products, it has begun focusing on the U.S. and Europe for further growth. We believe that its growth rate would be sanguine in coming years, led by geographic expansion to West Asia (the Middle East) and the CIS, and by introducing products in existing markets. We expect a 20% CAGR in revenue from the semi-structured markets.

It has about 1,500 product registrations in semi-structured markets and is in the process of seeking another 1,300. It has a significant global operations in the male erectile dysfunction (MED) segment through its key brand 'KAMAGRA' and equally strong operations in the anti-malarial segment through 'ARTEFAN', the first brand-named generic to secure WHO pre-qualification. To augment capacity for future growth, it plans to set up another plant in Gujarat dedicated to semi-regulated markets.

Fig 12 – Export revenue breakdown, area-wise (FY12)



Source: Company

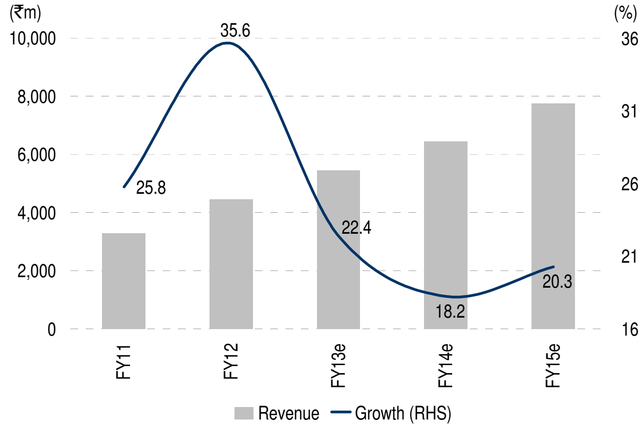
Entering regulated markets

Ajanta Pharma has received two ANDA approvals so far and has seven pending approval from the US FDA. In the next couple of years it plans to increase the pace of filing ANDAs. It plans to enter the U.S. markets in 2HFY13 with its risperidone launch. We expect revenue from structured markets to come at US$1.5m, US$2.5m and US$5m in respectively FY13, FY14 and FY15.

Export revenue to record a 20.3% CAGR

We expect a 20.3% CAGR in revenue over FY12-15, led by a 21.6% CAGR in Asia and 26.6% CAGR in Latin America (following strong industry growth in these markets that would drive volumes) and by a robust pipeline of products for future launches. We estimate a 15.7% CAGR in revenue from Africa led by brand-named generics and flat revenue from artemether lumafantrine. Sales to the U.S. would bring in further revenue of 1.5—3% of exports over this period.

Fig 13 – Export revenue growth trend



Source: Company, Anand Rathi Research

Financials

We estimate a 19.7% CAGR in revenue and 15.7% in adjusted net profit for Ajanta over FY12-15. Its quicker entry into the U.K. markets would provide some upside to our estimates. We expect the EBITDA margin over FY12-15 to hold at ~20-21%. Return ratios have improved significantly in FY12. As the company plans to step up its capex to prepare for the next level of growth in emerging and regulated markets, we expect the return ratios to soften.

Steady revenue growth expected

Ajanta Pharma's revenue growth momentum is likely to be steady, led by overseas product launches, penetration into recent sub-segments in India and greater productivity of the new field force. We estimate a 19.7% CAGR in revenue over FY12-15, driven by a 20.3% CAGR in exports and 19.5% in its domestic business. We have factored in a marginal contribution from its entry into the U.S. markets led by gradual product filings/ approvals. However, approval for supplies to the U.K. could further boost our estimates. We expect the base effect to soften growth over FY13-14.

Fig 14 – Revenue breakdown (₹m)

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Domestic	**1,690**	**2,260**	**2,748**	**3,280**	**3,854**
% growth	*14.2*	*33.7*	*21.6*	*19.4*	*17.5*
Branded Formulations	1,300	1,740	2,228	2,760	3,334
% growth	*17.1*	*33.8*	*28.0*	*23.9*	*20.8*
Opthalmology	370	460	552	651	769
Dermatology	460	620	806	1,008	1,209
Cardiac	350	480	600	750	900
Others	120	180	270	351	456
Institutional sales	390	520	520	520	520
% growth	*5.4*	*33.3*	-	-	-
Exports	**3,284**	**4,454**	**5,450**	**6,444**	**7,750**
% growth	*25.8*	*35.6*	*22.4*	*18.2*	*20.3*
Asia	1,576	2,004	2,505	3,006	3,608
Africa	1,642	2,227	2,577	2,936	3,451
Latin America	66	223	289	376	452
US	-	-	78	125	240
Total Sales	**4,974**	**6,714**	**8,198**	**9,724**	**11,604**

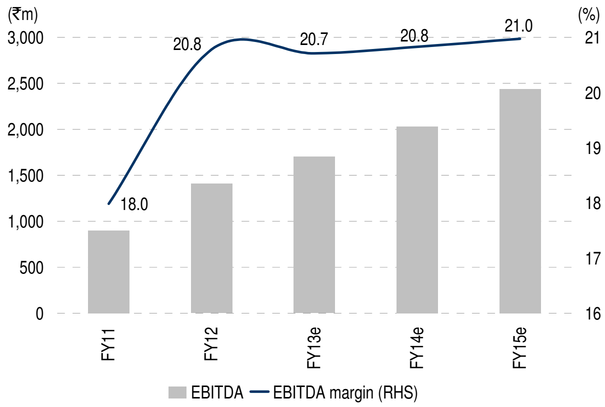
Source: Company, Anand Rathi Research

Net profit CAGR of 15.7% over FY12-15

We expect Ajanta Pharma to register only a 15.7% CAGR in net profit over FY12-15, to ₹1.2bn, lower than the 19.7% CAGR in revenue, due to the rise in interest and depreciation expenses in FY15. We expect the EBITDA margin to come at ~20-21% because of the focus on high-growth segments and a small addition to the field force. Our estimates show a slight decline in the EBITDA margin in FY13-14 due to the rise in cost of material. Completion of its expansions in FY15 would drive additional benefits, post-FY15. We assume a tax rate of 20% over FY13-15, in line with the MAT rate but higher than CY11's effective 15.2%. We have considered an increase in interest and depreciation costs in FY15, according to the capex/ funding plans.

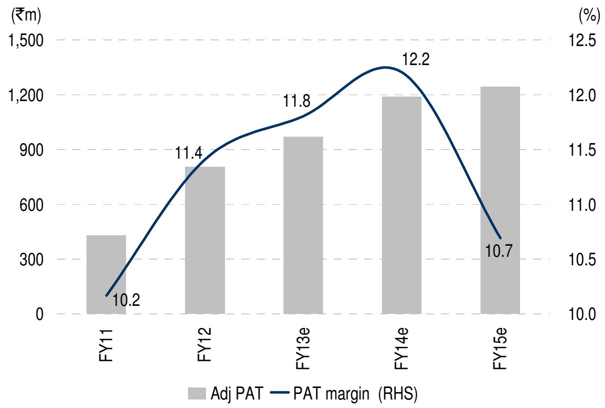
The EBITDA margin improved to ~21%, in line with its peers

Fig 15 – EBITDA trend



Source: Company, Anand Rathi Research

Fig 16 – Net profit trend

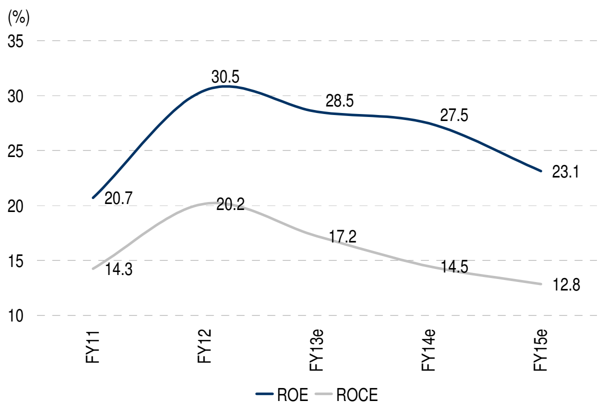


Source: Company, Anand Rathi Research

Return ratios to ease in the short term

We expect return ratios to ease in the short term because of revenue growth slower than the highs seen in past years and of planned capacity expansion, funded by debt and internal accruals, and bringing in benefits only from FY15. This additional capacity would drive benefits beyond the estimated period, leading to a gradual expansion in return ratios. We expect the RoE to slip from 30.5% in FY12 to 23.1% in FY15 and the RoCE from 20.2% to 12.8%. However, any surprise in revenue growth would offer some upward potential to our return-ratio estimates.

Fig 17 – Return-ratio trend

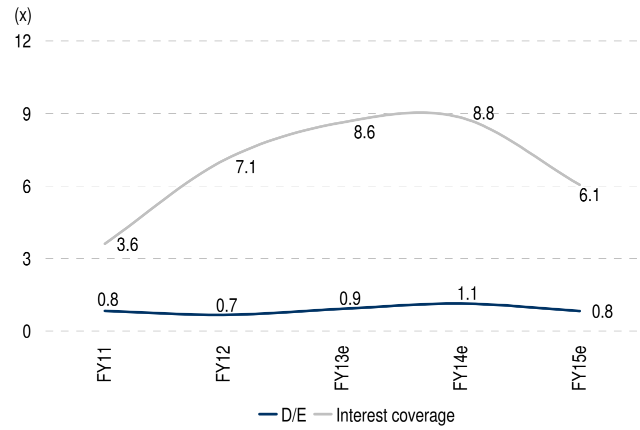


Source: Company, Anand Rathi Research

Intermediate capex to impact leverage ratios

With a D/E of 0.7x and an interest-coverage ratio of 7.1x, the FY12 financial leverage improved. We expect the FY14 D/E to rise to 1.1x in FY14 and the interest-coverage ratio to improve to 8.6x in FY13 but then to decline to 6.1x in FY15, with a CAGR of ~20.1% in EBITDA over FY12-15.

Fig 18 – Leverage ratios



Source: Company, Anand Rathi Research

Fig 19 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Revenues	**4,988**	**6,774**	**8,212**	**9,740**	**11,623**
Growth in revenues (%)	*21.9*	*35.8*	*21.2*	*18.6*	*19.3*
Raw materials	1,726	2,138	2,628	3,117	3,777
% of Sales	*34.6*	*31.6*	*32.0*	*32.0*	*32.5*
Personnel expenses	637	851	1,035	1,227	1,424
% of Sales	*12.8*	*12.6*	*12.6*	*12.6*	*12.3*
Selling and other expenses	1,728	2,378	2,849	3,367	3,984
% of Sales	*34.6*	*35.1*	*34.7*	*34.6*	*34.3*
EBITDA	**897**	**1,407**	**1,701**	**2,029**	**2,438**
EBITDA Margin	*18.0*	*20.8*	*20.7*	*20.8*	*21.0*
Depreciation	247	319	345	371	599
PBIT	**650**	**1,089**	**1,356**	**1,658**	**1,839**
Interest expenses	180	154	157	188	304
PBIT from operations	**469**	**934**	**1,198**	**1,470**	**1,535**
Other non operating income	6	12	13	16	19
PBT before extra-ordinary items	476	947	1,212	1,486	1,553
Extra-ordinary income/ (expenses)	88	(37)	-	-	-
PBT	**564**	**910**	**1,212**	**1,486**	**1,553**
Provision for tax	57	138	242	297	311
Effective tax rate	*10.1*	*15.2*	*20.0*	*20.0*	*20.0*
PAT	**507**	**772**	**969**	**1,189**	**1,243**
Minority Interest	-	-	-	-	-
PAT after minority interest	**507**	**772**	**969**	**1,189**	**1,243**
Adjusted PAT	**428**	**803**	**969**	**1,189**	**1,243**
Growth in PAT (%)	*25.9*	*87.7*	*20.7*	*22.6*	*4.5*
PAT margin	*8.6*	*11.9*	*11.8*	*12.2*	*10.7*

Source: Company, Anand Rathi Research

Fig 20 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Shareholders' funds	2,288	2,980	3,815	4,837	5,907
Share capital	118	118	118	118	118
Reserves & Surplus	2,170	2,862	3,697	4,719	5,789
Non-current liabilities	**756**	**1,006**	**2,516**	**4,527**	**3,941**
Long term borrowings	596	761	2,261	4,261	3,661
Deferred tax liabilities	109	171	171	171	171
Other Long term liabilities	25	25	25	25	25
Long term provisions	27	49	60	71	84
Current Liabilities	**2,177**	**2,502**	**2,771**	**3,053**	**3,399**
Short term borrowings	1,087	953	953	953	953
Trade payables	712	1,013	1,229	1,456	1,734
Other current liabilities	296	431	462	494	533
Short term provisions	82	105	127	150	179
Total liabilities	**5,222**	**6,488**	**9,102**	**12,417**	**13,247**
Non current assets	**2,766**	**3,091**	**4,954**	**7,698**	**7,539**
Fixed assets	**2,312**	**2,486**	**4,241**	**6,870**	**6,571**
Tangible assets	2,134	2,319	2,573	2,703	5,428
Intangible assets	7	143	143	143	143
Capital WIP	172	25	1,525	4,025	1,000
Non current investments	85	85	85	85	85
Long term loans & advances	335	507	615	730	871
Other non-current assets	33	13	13	13	13
Current Assets	**2,456**	**3,397**	**4,148**	**4,720**	**5,708**
Inventories	1,131	1,678	2,036	2,411	2,872
Trade receivables	1,040	1,410	1,709	2,027	2,419
Cash & Bank balances	115	115	169	6	89
Short term loans & advances	169	187	226	268	320
Other current assets	0	7	7	7	7
Total Assets	**5,222**	**6,488**	**9,102**	**12,417**	**13,247**

Source: Company, Anand Rathi Research

Fig 21 – Cash-flow statement (₹m)

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Cash flow from operating activities					
Profit before tax	564	910	1,212	1,486	1,553
Depreciation	247	319	345	371	599
Interest expenses	180	154	157	188	304
Operating profit before working capital change	**991**	**1,383**	**1,714**	**2,044**	**2,456**
Working capital adjustment	35	(482)	(428)	(453)	(558)
Gross cash generated from operations	**1,026**	**901**	**1,286**	**1,591**	**1,898**
Direct taxes paid	(0)	(76)	(242)	(297)	(311)
Cash generated from operations	**1,026**	**824**	**1,043**	**1,294**	**1,588**
Cash flow from investing activities					
Capex	(408)	(502)	(2,100)	(3,000)	(300)
Investment	-	-	-	-	-
Cash generated from investment activities	**(408)**	**(502)**	**(2,100)**	**(3,000)**	**(300)**
Cash flow from financing activities					
Proceeds from share capital and premium					
Borrowings/ (Repayments)	(373)	90	1,500	2,000	(600)
Interest paid	(180)	(154)	(157)	(188)	(304)
Dividend paid	(68)	(102)	(135)	(166)	(173)
Cash generated from financing activities	**(621)**	**(166)**	**1,208**	**1,646**	**(1,077)**
Others	2	(157)	(97)	(103)	(127)
Net cash increase/ (decrease)	**(1)**	**(1)**	**54**	**(163)**	**84**

Source: Company, Anand Rathi Research

Fig 22 – Ratio @ ₹758

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Margin Ratios (%)					
EBITDA Margin	18.0	20.8	20.7	20.8	21.0
PBIT Margin	13.0	16.1	16.5	17.0	15.8
PBT Margin	11.3	13.4	14.8	15.3	13.4
PAT Margin	8.6	11.9	11.8	12.2	10.7
Growth Ratios (%)					
Revenues	21.9	35.8	21.2	18.6	19.3
EBITDA	14.2	56.9	20.8	19.3	20.2
Net Profit	25.9	87.7	20.7	22.6	4.5
Return Ratios (%)					
ROCE	14.3	20.2	17.2	14.5	12.8
ROIC	14.1	18.6	15.0	12.8	13.6
ROE	20.7	30.5	28.5	27.5	23.1
Turnover Ratios (x)					
Asset turnover ratio (x)	2.2	2.8	2.4	1.8	1.7
Working capital cycle (days)	110	103	111	112	111
Average collection period (days)	73	66	69	70	70
Average payment period (days)	67	59	63	64	63
Inventory holding (days)	104	96	104	105	105
Per share (₹)					
EPS	36.3	68.1	82.2	100.8	105.3
CEPS	57.7	95.8	111.4	132.2	156.2
Book Value	194.0	252.7	323.4	410.1	500.7
Solvency ratios					
Debt/ Equity	0.8	0.7	0.9	1.1	0.8
Interest coverage	3.6	7.1	8.6	8.8	6.1
Net Debt/ EBITDA	2.0	1.3	2.0	2.7	2.0
Valuation parameters (x)					
P/E	20.9	11.2	9.2	7.5	7.2
P/BV	3.9	3.0	2.4	1.9	1.5
EV/ EBITDA	12.0	7.7	7.2	7.1	5.6
EV/ Sales	2.2	1.6	1.5	1.5	1.2
M-Cap/ Sales	1.8	1.3	1.1	0.9	0.8

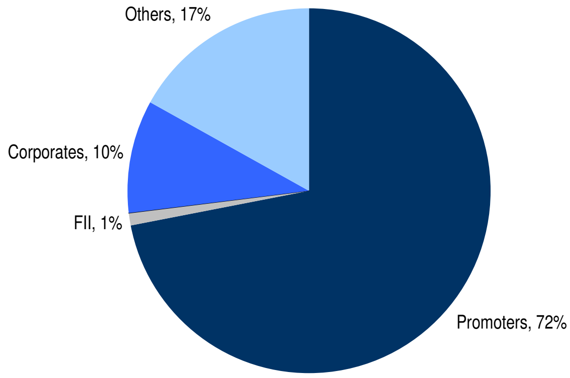
Source: Company, Anand Rathi Research

Company Background & Management

Beginning operations in 1973, the Mumbai-headquartered fully-integrated Ajanta Pharma in 1979 launched its flagship OTC brand, the paediatric product Pinkoo Gripe Water. In the early nineties, it launched Thirty Plus and began exports to the CIS. In 1997, it entered the prescription-drug market with its first patented product Carofit and focused on marketing in specialty segments. In FY08 it set up the ADVENT R&D centre in Mumbai with a team of 200. Its Paithan, Maharashtra, formulations plant obtained approval from the U.S. FDA in FY09 and from the U.K. MHRA in Aug '11. Today, it has over 1,400 products registered in more than 30 countries.

Ajanta Pharma operates five state-of-the-art manufacturing plants; four in India, one in Mauritius. One of the former, at Paithan, Maharashtra, has been approved by the U.S. FDA, the U.K. MHRA and the health authorities of Brazil and Colombia, and holds a WHO pre-qualification for one of its products. Its products cover ophthalmology, dermatology and cardiology. It has filed product registrations in semi-structured markets, including 221 in Africa, 416 in South-east and Central Asia, 590 in West Asia (the Middle East) and 95 in Latin America.

Fig 23 – Shareholding pattern



Source: BSE

Fig 24 – Key management

Name	Position	Profile
Mannalal B. Agrawal	Chairman	Founder-promoter-director; an industrialist of repute, with over four decades of business experience
Purushottam B. Agrawal	Vice-chairman	Founder-promoter-director. A pharmacy graduate. More than three decades of experience in the pharmaceutical sector
Madhusudan B. Agrawal	Vice-chairman	Founder-promoter-director. A science graduate. Business development head since company's inception. Spearheaded overseas expansion
Yogesh M. Agrawal	Managing director	Management graduate from Johnson & Wales University, the USA, and responsible for the unprecedented growth in the last seven years. Transformed Ajanta Pharma into a focused specialty-product company
Dr. Anil Kumar	Non-executive, independent director	Eminent Mumbai cardiologist. Practising medicine in Bombay Hospital and Sir JJ Hospital

Source: Company

Appendix 1

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