

ap / *ajanta pharma limited*



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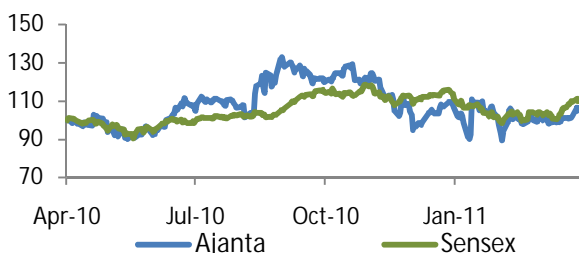
Initiating Coverage

Ajanta Pharma Ltd

Recommendation	BUY
CMP (08 April 2011)	Rs. 209
Target Price	Rs. 295
Sector	Pharmaceuticals

Stock Details	
BSE Code	532331
NSE Code	AJANTPHARM
Bloomberg Code	AJP IN
Market Cap (Rs cr)	247
Free Float (%)	33.2
52- wk HI/Lo (Rs)	274/172
Avg. volume BSE (Quarterly)	55,298
Face Value (Rs)	10.0
Dividend (FY 10)	35 %
Shares o/s (Crs)	1.2

Relative Performance	1Mth	3Mth	1Yr
Ajanta	6%	-1%	5%
Sensex	7%	-1%	10%



Shareholding Pattern as on 31/12/2010

Promoters Holding	66.8%
Institutional (Incl. FII)	0.1%
Corporate Bodies	7.4%
Public & others	25.7%

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Company Overview

Ajanta Pharmaceuticals Limited (APL) is a Mumbai based mid-sized pharmaceutical company. It has strong research focus with 250 plus scientists at their R&D center "Advent" and spends 5% of sales on R&D. Ajanta Pharma deals mainly in branded products business with presence in niche therapeutic segments like Ophthalmology, Dermatology, and Cardiology.

Investment Rationale

- **Consistent Growth on Back of Brands:** Ajanta Pharma's sale has grown at CAGR of 15.5% for last five years with bottom-line growing at much faster pace at 28.1% CAGR. The success can be attributed to the strategy of targeting niche segments with strong brands.
- **New Therapeutic Segment:** After achieving a remarkable size in the focused therapeutic segments, Ajanta Pharma is expanding its reach by targeting new therapeutic segments -Gastroenterology, Orthopedic, Respiratory and Nephrology.
- **Entry in World's Largest Market - US:** APL is a strong player in Africa, Asia and LatAm. Now the company is targeting world's largest generic market (market size of ~\$34 bn) - US for its next phase of growth.
- **Strong Financials:** Ajanta reported ROE of 19.9% in FY10 up from 12.0% in FY06. We further expected ROE to improve to 23.4% in FY12. The company is trading at 4.3x P/E as against the expected growth in PAT of 31% in FY12E. We expect the mismatch to correct in future.

Valuation & Recommendation

We believe branded centric pharmaceutical company with strong R&D capabilities like Ajanta Pharma should command higher multiple and expect it to get re-rated. We have assigned 6x multiple which is still 45% discount to average P/E of 11x of its compared peers. Based on our EPS of Rs. 49.1 for FY12E and a target multiple of 6x we arrive at target price of Rs. 295. We recommend "BUY" on Ajanta Pharma Limited with a target price of Rs. 295 indicating a potential upside of 41%.

Year	Net Sales (Rs cr)	Growth (%)	EBITDA (Rs cr)	Margin (%)	PAT (Rs cr)	Margin (%)	EPS (Rs)	PE (x)	ROE (%)
FY09A	349.3	12.9%	65.1	18.6%	25.4	7.3%	21.6	9.7	17.4
FY10A	407.7	16.7%	77.1	18.9%	34.0	8.3%	28.8	7.3	19.9
FY11E	479.9	17.7%	90.7	18.9%	44.2	9.2%	37.5	5.6	21.7
FY12E	554.9	15.6%	105.4	19.0%	57.9	10.4%	49.1	4.3	23.4

Investment Rationale

Consistent Growth On Back of Brands

Ajanta Pharma has grown at CAGR of 15.5% for last five years despite the financial meltdown which happened in global markets in FY09. In fact the company was able to grow its bottom-line at much faster pace at CAGR of 28.1% during the same period. The success can be attributed to the strategy of targeting niche segments with strong brands. APL recognizes the value of brands in the pharmaceutical market and has chosen to be a small but reputed player.

Ajanta is a focus player with presence in limited but attractive therapeutic segments namely Ophthalmology, Dermatology, and Cardiology. Over the years it has made a strong foothold in the selected segments and is now in position to command premium. Ajanta has identified the importance of R&D for long term sustainability quite early. Hence the company has made continuous investments in R&D. The main focus area for the company is New Drug Delivery System (NDDS) and new combinations. APL has a full-fledged R&D center in Mumbai - Advent with strength of 250+ scientists. 1380 product registrations in different markets and over 1029 more waiting in pipeline is an example of its strong capabilities in R&D field. Albeit APL is mid-sized company but its consistent R&D spend at more than 5% of sales is as comparable as large players in the industry.

Brand	Generic Name	Sub Therapeutic Segment	IMS Ranking
Ophthalmology			
Olopat*	Olopatidine	Anti-Allergic	1
Unibrom*	Bromfenac	Anti-Inflammatory	1
Diflucor*	Difluprednate	Corticosteroid	1
Zaha*	Azithromycin	Anti-Infective	1
Nepaflam*	Nepafenac	Anti-Inflammatory	2
Dermatology			
Melacare [#]	Hydroquinone + Tretinoin + Mometasone Cream	Demelanizing Agents	1
Vaniza [#]	Polysiloxane + Silicon Dioxide Gel	Anti Scar	2
Cardiology			
Atorfit CV [#]	Atorvastatin + Clopidogrel	Statin Plus Anti Athrosclerotic Combination	1
Met XL [#]	Metoprolol Succinate	Anti Hypertensive	3

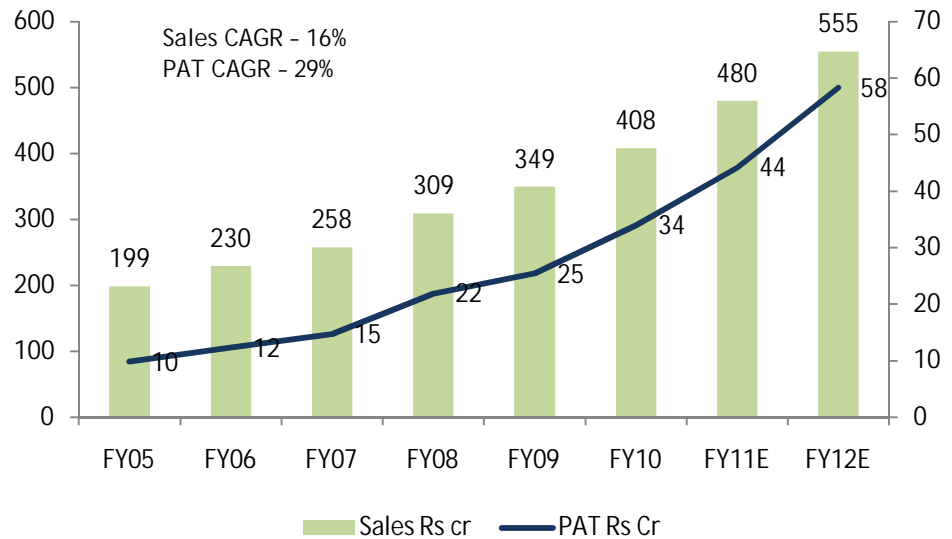
*IMS Sept 2010,

IMS Oct 2010

Source: Company data, Nirmal Bang Research

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Source: Company data, Nirmal Bang Research

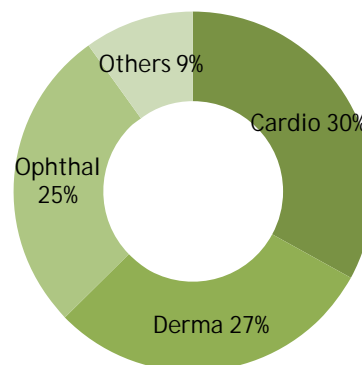
New Therapeutic Segment

After achieving a remarkable size in the focused therapeutic segments, Ajanta Pharma is expanding its reach by targeting new therapeutic segments - Gastroenterology, Orthopedic, Respiratory and Nephrology. The company entered these segments in late FY11. To further strengthen its position in these segments and to penetrate deeper in domestic market, the company is expanding its field force by more than 40% from current 2100 to 3000 in 1HFY12.

Ajanta's current business model is tilted towards exports which contributes 60% of the total revenues. Once these new therapeutic segments start contributing and expanding reach in domestic market we believe that the company's exports-domestic mix would be moderated at 50:50

Therapeutic Break Up

FY10 Domestic Revenues
- Rs 115 cr



Source: Company data, Nirmal Bang Research

Entry in World's Largest Market - US

APL is a strong player in Africa, Asia and LatAm. After gaining expertise in semi-regulated markets the company is now targeting world's largest generic market (market size of ~\$34 bn) - US for its next phase of growth. Ajanta Pharma has filed two ANDAs in FY10 from its USFDA approved facility at Paithan and expects approvals to come in 2HFY12. We believe that business from US would be a major push for Ajanta's future growth however meaningful revenues from US would only come from FY13.

Management expects to file five ANDAs annually from FY12 further driving momentum to the expansion plans of the company.

Increasing Capacities and Backward Integration

In the last three years APL has invested aggressively in its capacities. The company has invested around Rs 158 cr to expand its formulations capacities and to integrate backward. APL has acquired a formulations facility in Aurangabad to cater to semi-regulated markets.

In FY10 Ajanta Pharma has set up an API facility for captive use. Besides quality and cost benefits the integration provides privacy to the company for new innovations.

Management has indicated that the increased capacities are enough to take care of growth for next two-three years hence doesn't need any major capex for next two years and just needs to spend maintenance capex of around Rs 10-15 cr.

Strong Financials

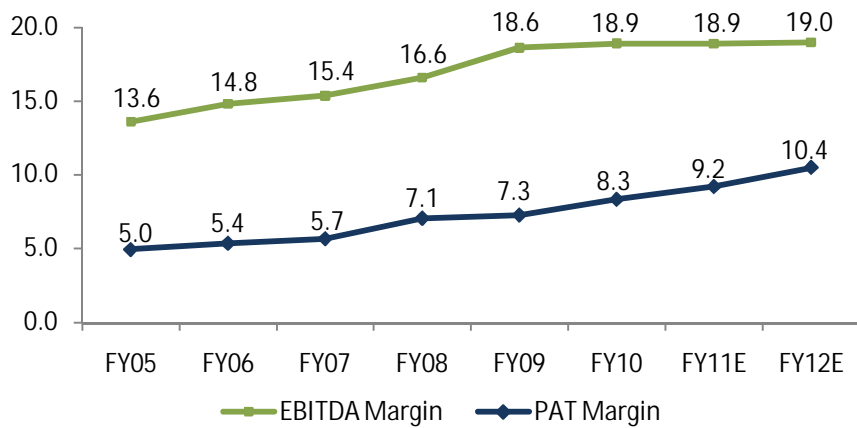
- Low capex in future: After the CIS incident (the company had done JVs in Russia but due to political unrest in 1999-2000 business prospects died in the region. As a result APL had to book loss of around Rs 80 cr inclusive of debtors and investments) the company has become over cautious in its operations and gives lots of importance to due diligence of the new projects. Although it has done aggressive capex in last three years but these investments were well-planned and strategic in nature like backward integration and capacity enhancement.

For future APL doesn't require capex for at least next two years and would incur only maintenance capex. Management feels that it might need an additional formulations facility in FY13 and would spend accordingly.

- Healthy cash flow enabling the company to repay debt and improve return ratios: The Company has taken debt to partly fund the expansion plans which has skewed the debt-to-equity ratio of the company to 1.6x at the end of FY09 from 0.9x in FY06. With revenue stream started from new plants the company is in comfortable zone to gradually repay its debt and hence reduce its interest cost burden. As on 31st March 10 the company had Rs 203 cr as debt (on standalone basis) which got reduced to Rs 179 cr as on 30th Sept 10 and is expected further to decline to Rs 160 cr by FY11 end. We expect the debt-to-equity ratio to improve to 0.7x by FY12E end.

We are expecting improvement in return ratios of the company on account of increased profitability. APL has made aggressive capex in the past and doesn't

need heavy investments for next two years. In addition the company would be enjoying the profits on its investments. All these factors would help the company generating healthy cash flows with which company would repay its debt thereby reducing the interest cost for the company. Ajanta reported ROE of 19.9% in FY10, up from 12.0% in FY06. We further expected it to increase to 23.4% in FY12E. The company is trading at 4.3x P/E as against the expected growth in PAT of 31% in FY12E. The fact can be visible from the higher growth in PAT as compared to EBITDA. We believe the huge mismatch between P/E multiple and PAT growth is unjustified and should be corrected in future.



Source: Nirmal Bang Research

- Consistently paying dividend:** APL has been handsomely rewarding its shareholders since last five years. It is consistently increasing its dividend % from 15% in 2006 to 35% in FY10. Considering the relatively small size of the company it has strong return ratios of 20% ROE (FY10). We believe the company has come long way from being considered as a FMCG company marketing Pinku Gripe Water and 30 plus tablets. Today these products are not even 1% company's total revenues. APL has long back made the transition from being a FMCG company to specialized Pharma. The company has wide range of brands backed by strong R&D capabilities but still due to past legacy it is getting very low multiple. We feel the time has come when market should give the company due weight-age to its branded business and realistic multiple.
- Working Capital:** Working capital cycle of the company is improving over the years. FY10 was extraordinary good for the company in terms of working capital cycle because of certain one-time events happened during the year. Learning from economic meltdown which happened in FY09, APL has tightened its belt and did some serious restructuring in its debtor's days. As a result debtor's day reduced suddenly to 85 days as compared to 102 days in FY09. Increased awareness of its brands in domestic markets also helped the company in reducing its debtor's days. Creditor's days have also jumped to 171 days in FY10 from 129 days in FY09. The reason cited by the management

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is that they got a fairly large order towards the end of FY10 which skewed the overall creditor's ratio. The situation is expected to continue in FY11. We have factored in 165 creditor's days in FY11 and 160 days in FY12.

Strong Manufacturing Capabilities

APL has five state-of-art manufacturing facilities - four Formulations and one API in addition with a R&D facility

Type	Products	Location	Approvals
Formulations	Tablets, Capsules & Powders	Paithan	USFDA, WHO, ANVISA, MOH, INVIMA
Formulations	Liquid & Oral Solids	Chikalthana	WHO
Formulations	Tablets, Capsules, Oral Jelly & Ointments	Chitegaon	WHO
Formulations	Tablets, Capsules, Ampoules & Vials	Mauritius	WHO, MOH
API	Various products of different scale of volumes	Waluj	-
R&D - Advent	Formulations and API	Mumbai	Dept of Science & Industrial Research

Source: Company data, Nirmal Bang Research

Risks and Concerns

- **Currency Fluctuations:** Ajanta Pharma derives ~60% of its revenues from exports. Any adverse currency movements would impact the financials of company and our estimates.
- **Regulatory:** Every country has its own set of rules and regulations. The company has to comply with them stringently. Any error could cause a major blow to the revenues of the company.

Company Overview

Ajanta Pharma is a mid-sized Mumbai based pharmaceutical company, managed by well experienced Agrawal Family. Ajanta Pharma is a focused player targeting only branded products in niche therapeutic segments. Ajanta Pharma is a specialty pharmaceutical company engaged in the development, manufacture and commercialization of pharmaceutical products.

It has strong research focus with 250 plus scientists at their R&D center "Advent" and spends 5% of sales on R&D. As a result, APL is able to innovate quality products consistently. Ajanta Pharma deals mainly in branded products business with presence in niche therapeutic segments like Ophthalmology, Dermatology, and Cardiology. The strategy gives an edge to the company in terms of specialization and margin stability. APL has wide range of products for its targeted segments with 80+ products in domestic market and more than 170 products in international markets.

Ajanta Pharma has three subsidiaries - US, Philippines and Mauritius. In FY10 Mauritius reported net profit of around Rs 6cr. Philippines is expected to be net profit positive in FY12. US Subsidiary is inactive now. Once the company gets the approval for ANDA the US subsidiary will start contributing to the company's revenues.

Peer Comparison

We have taken two companies for comparison with Ajanta Pharma. Dishman Pharma is mainly engaged in CRAMS business and is still getting as high as 11x multiple whereas Indoco Remedies is of same size of Ajanta Pharma and is getting a multiple of 10x. We believe that Ajanta Pharma should command equal multiple if not higher considering its superior business model and strong financials.

Particulars	Sales	EBITDA Margin	EPS	Price	Mcap	EV	PE	EV/S	EV/ EBITDA	P/BV
Consolidated	(Rs in Cr)	(%)	(Rs)	(Rs)	(Rs in Cr)	(Rs in Cr)	(x)	(x)	(x)	(x)
Dishman Pharma	912	18.2	9.0	101	815	1,544	11.3	1.7	9.3	1.3
Indoco Remedies	495	15.8	42.6	460	565	631	10.8	1.3	8.1	1.8
Average	703	17.0			690	1,088	11.0	1.5	8.7	1.6
Ajanta Pharma	480	18.9	37.5	209	247	440	5.6	0.9	5.7	1.3

P/L are FY11 estimated and B/S FY10 actual

Source: Bloomberg, Nirmal Bang Research

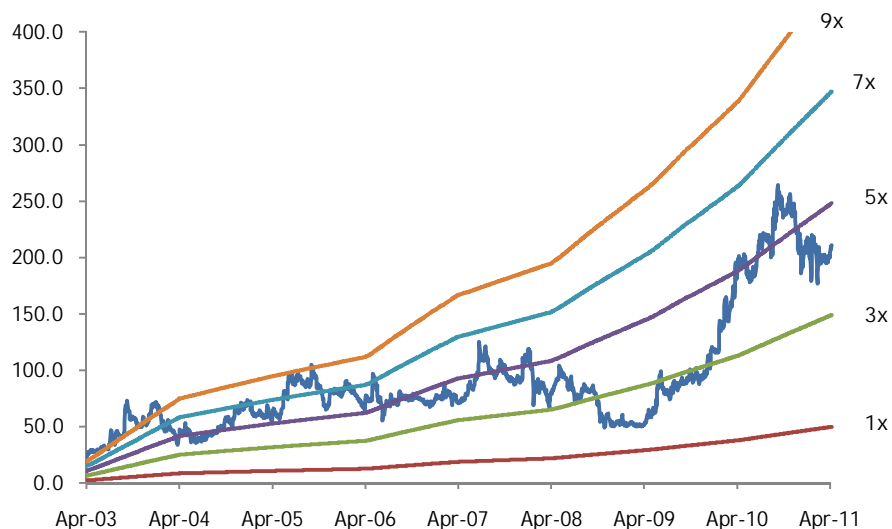
Valuation and Outlook

We believe that APL has laid the foundation for future growth. With its niche specialty focus it has made a noteworthy presence in emerging markets. With entry in world's largest generic market, deeper penetration in domestic markets and addition of new therapeutic segments under its umbrella we expect Ajanta Pharma to ride on the high growth wave. To sustain it in future the company has made substantial investments to increase its capacity and field force.

We expect APL's net revenues to grow at CAGR of 16.7% during FY11-12 with bottom-line growing at higher pace at 30.5% CAGR during the same period. We expect the company to earn an EPS of Rs. 37.5 in FY11E and Rs. 49.1 in FY12E. At the CMP of Rs. 209, APL is trading at a PE of 5.6x FY11E and 4.3x FY12E EPS which we believe dearth cheap considering the revenue visibility of the company.

We believe branded centric pharmaceutical company with strong R&D capabilities like Ajanta Pharma should command higher multiple and expect it to get re-rated. We have assigned 6x multiple which is still 45% discount to average P/E of 11x of its compared peers. Based on our EPS of Rs. 49.1 for FY12E and a target multiple of 6x we arrive at target price of Rs. 295. We recommend "BUY" on Ajanta Pharma Limited with a target price of Rs. 295 indicating a potential upside of 41%.

One year forward P/E Chart



Source: Nirmal Bang Research

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Financials - Consolidated

P&L (Rs. Cr)	FY09A	FY10A	FY11E	FY12E
Net Sales	349.3	407.7	479.9	554.9
% change	12.9%	16.7%	17.7%	15.6%
EBITDA	65.1	77.1	90.7	105.4
EBITDA margin	18.6%	18.9%	18.9%	19.0%
Depn & Amort	14.2	20.7	25.9	26.7
Operating income	50.9	56.4	64.8	78.7
Interest	23.6	20.2	16.2	14.2
Other Income	2.5	2.5	2.5	2.5
PBT	29.8	38.8	51.1	66.9
Tax	4.4	4.8	6.9	9.0
MI & EO	0.0	0.0	0.0	0.0
PAT	25.4	34.0	44.2	57.9
PAT margin (%)	7.3%	8.3%	9.2%	10.4%
Sh o/s - Diluted	1.2	1.2	1.2	1.2
Adj EPS	21.6	28.8	37.5	49.1
Cash EPS	33.6	46.4	59.4	71.8

Qtrly-Stdalone (Rs Cr)	Mar.10	Jun.10	Sept.10	Dec.10
Revenue	107.9	98.3	112.5	120.5
EBITDA	20.9	17.9	20.9	22.8
Dep & Amorz	6.2	5.1	5.9	6.2
Op Income	14.8	12.7	15.0	16.6
Interest	3.8	4.4	4.4	3.5
Other Inc.	0.6	0.2	0.4	0.7
PBT	11.5	8.6	11.0	13.8
Tax	1.5	1.6	1.0	1.8
EO	0.0	0.0	0.0	0.0
PAT	10.0	7.0	10.1	11.9
EPS (Rs.)	8.5	5.9	8.5	10.1

Performance Ratio	FY09A	FY10A	FY11E	FY12E
EBITDA margin (%)	18.6%	18.9%	18.9%	19.0%
EBIT margin (%)	14.6%	13.8%	13.5%	14.2%
PAT margin (%)	7.3%	8.3%	9.2%	10.4%
ROE (%)	17.4%	19.9%	21.7%	23.4%
ROCE (%)	12.7%	12.5%	13.7%	15.8%

Valuation Ratio	FY09A	FY10A	FY11E	FY12E
Price Earnings (x)	9.7	7.3	5.6	4.3
Price/BV (x)	1.3	1.1	0.9	0.8
EV / Sales	1.4	1.1	0.9	0.8
EV / EBITDA	7.5	6.0	4.9	4.0

Balance Sheet (Rs Cr)	FY09A	FY10A	FY11E	FY12E
Share Capital	11.8	11.8	11.8	11.8
Reserves & Surplus	145.3	173.1	211.1	260.2
Minority	0.0	0.0	0.0	0.0
Net Worth	184.9	222.9	272.0	333.0
Net Deferred Tax Liab	0.6	5.3	5.3	5.3
Total Loans	250.2	228.0	203.0	178.0
Total Liabilities	407.9	418.2	431.1	455.2

Net Fixed Assets	138.3	168.5	204.6	187.8
Capital WIP	55.2	47.0	0.0	0.0
Investments	8.5	8.5	8.5	8.5
Cash & Bank	8.1	14.8	5.1	6.3
Debtors & Other CA	249.2	256.3	297.6	346.6
CL & P	51.3	76.9	84.6	93.9
Net CA	257.3	271.2	302.7	352.9
Total Assets	407.9	418.2	431.1	455.2

Cash Flow (Rs. Cr)	FY09A	FY10A	FY11E	FY12E
Operating Cash Flow				
Op CF before tax	65.1	77.1	90.7	105.4
Change in WC	-29.2	16.6	-33.6	-39.7
Tax	-4.4	-4.8	-6.9	-9.0
CF from Operation	31.5	89.0	50.2	56.7
Investing Activities				
Capex	-82.2	-41.9	-15.0	-10.0
Oth Inc & Investments	2.5	2.5	2.5	2.5
CF from Investing	-79.7	-39.4	-12.5	-7.5
Financing				
Dividend Paid	-3.4	-4.8	-6.2	-8.8
Share Capital	0.0	0.0	0.0	0.0
Loans & Others	53.9	-38.1	-41.2	-39.2
CF from Financing	50.4	-42.9	-47.4	-48.0
Net Chg. in Cash	2.3	6.8	-9.7	1.2
Cash at beginning	5.8	8.1	14.8	5.1
Cash at end	8.1	14.8	5.1	6.3

Per Share Data	FY09A	FY10A	FY11E	FY12E
Adj EPS	21.6	28.8	37.5	49.1
BV per share	133.2	156.8	189.0	230.6
Cash per share	6.8	12.6	4.3	5.3
Dividend per share	2.5	3.5	4.5	6.4

Note

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