AJANTA PHARMA LTD.

August 21, 2012

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Ajanta Pharma Ltd (APL) is a dominant player in Opthalmology, Cardiology and Dermatology as many of its brands are amongst top 5 performers in their respective segments. Many of the company's products are first of its kind and are leading in their sub therapeutic segments. Its geographic spread, sound R&D and manufacturing excellence make it a unique player in the industry.

Investor's Rationale

- APL has continued to register the impressive performance during Q1FY13 after reporting the stellar growth in the year ended March 2012. It posted a whopping 56.3% increase in net profit at ₹195.8 million and a robust increase of 35.5% in net sales at ₹1,740.5 million for Q1FY13. The company's impressive performance is testimony of its strategies being firmly rooted in ground realities of the dynamic market place.

- In order to augment the growth, APL is adding manufacturing capacities which will be funded through internal accruals and debt. The company is planning to invest ₹4.0 billion in next two years for setting up two separate manufacturing facilities - one for regulated markets and other for domestic and emerging export markets.

- APL's strong presence in niche therapeutic segment including cardiology, dermatology & ophthalmology would aid its growth. With the consistent efforts on R&D, the company has 1,467 product registrations in hand and 1,252 products under registrations in different countries. Further, it has 7 ANDAs under review with USFDA and received 2 ANDAs approval which have market opportunity of $2.5-3.0 million for FY13E and FY14E.

- APL is expanding aggressively into the regulated market of the US to garner the benefits of top drugs going off patent. The management expects to file 5-6 ANDA's during the current financial year in the US market. We expect higher revenues from the US market will set new benchmarks in the growth trajectory of the company.

- The ₹9 billion APL has grown its consolidated revenues at a CAGR of 22% during the past 10 years with its focus on Asia, Africa, Middle East & Latin America. We expect that APL will maintain this pace in revenues over the next years, backed by higher revenues from US and other geographies supported by additional capacities.

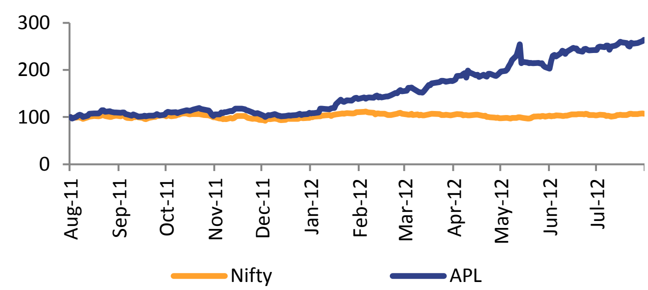
Market Data

Rating	BUY
CMP (₹)	388
Target (₹)	504
Potential Upside	~30%
Duration	Long Term
52 week H/L (₹)	402.0/140.5
All time High (₹)	402.0
Decline from 52WH (%)	3.5
Rise from 52WL (%)	176.1
Beta	0.9
Mkt. Cap (₹ bn)	9.1
Enterprise Value (₹ bn)	10.7

Fiscal Year Ended

	FY11A	FY12A	FY13E	FY14E
Revenue (₹mn)	4,988.3	6,774.0	8,196.5	9,835.8
Net Profit(₹mn)	507.1	772.7	953.0	1,164.3
Share Capital	118.0	118.0	118.0	118.0
EPS (₹)	21.5	32.8	40.4	49.4
P/E (x)	18.0	11.8	9.6	7.9
P/BV (x)	4.0	3.1	2.4	1.9
EV/EBITDA (x)	11.9	7.6	7.1	6.4
ROE (%)	22.2	25.9	24.8	23.7
ROCE (%)	12.4	16.8	15.4	15.0

One year Price Chart



Shareholding Pattern	Jun'12	Mar'12	Diff.
Promoters	71.8	70.1	1.7
FII	1.3	0.6	0.7
DII	-	-	-
Others	26.9	29.3	(2.4)

A ₹9 billion specialty pharmaceutical company

Ajanta Pharma consciously focuses in the therapeutic areas of anti-malarial, cardiology, dermatology, gastroenterology, musculoskeletal, ophthalmology and respiratory.

Ajanta Pharma Ltd is a specialty pharmaceutical company engaged in the development, manufacture and commercialization of pharmaceutical products. It employs over 3,500 people worldwide and its products are sold in over 30 countries. APL operates with 5 state-of-the art manufacturing facilities that produce high quality pharmaceutical products with R&D centre at Kandivali Mumbai, with more than 200 scientists working for formulation development. The company consciously focuses on commercializing unique generic products and pioneering synergistic combination products in the therapeutic areas of anti-malarial, cardiology, dermatology, gastroenterology, musculoskeletal, ophthalmology and respiratory. Many of company's products are first of its kind and are leading in their sub therapeutic segments. APL also engages in contract research for leading multinational pharmaceutical companies to expand its revenue base.

APL operates 5 state-of-the-art manufacturing facilities; 4 within India and 1 in Mauritius.

Ajanta Pharma operates 5 state-of-the-art manufacturing facilities; 4 within India and 1 in Mauritius. One of these, located at Paithan, India is approved by the USFDA, UK MHRA, health authorities of Brazil and Colombia and also holds a WHO pre-qualification for one of its products. These modern manufacturing sites provide with a high level of flexibility, thus ensuring efficient and timely delivery of products to patients and clinicians worldwide. Committed to quality, the company uses proprietary technology and synergistic manufacturing platforms to produce high quality products efficiently. The company's manufacturing capabilities include a comprehensive range of dosage formulations of allopathic drugs including tablets, capsules, ointments, injections and powders. Its worldwide manufacturing operations have a long-standing commitment to operational excellence and continuous improvement. Further, to cater the growing marketing needs, the company is in the process of expanding its facilities and doing capacity enhancements in the existing plants.

With subsidiaries in USA, Mauritius, Vietnam and Philippines, APL has also established a strong marketing set-up that is supplemented by a wide distribution network in many international markets.

Major brands targeting key therapeutic diseases

Therapy	Products
Anti-Malarials	(Artefan – Artemether & Lumefentrine)
Cardiology	(Met XL – Metoprolol Succinate)
Dermatology	(Melacare – Hydroquinone,Tretinoin, Mometasone)
Gastroenterology	(Lafutax – Lafutidine)
Musculoskeletal	(Feburic – Febuxostat)
Ophthalmology	(Unibrom – Bromfenac)

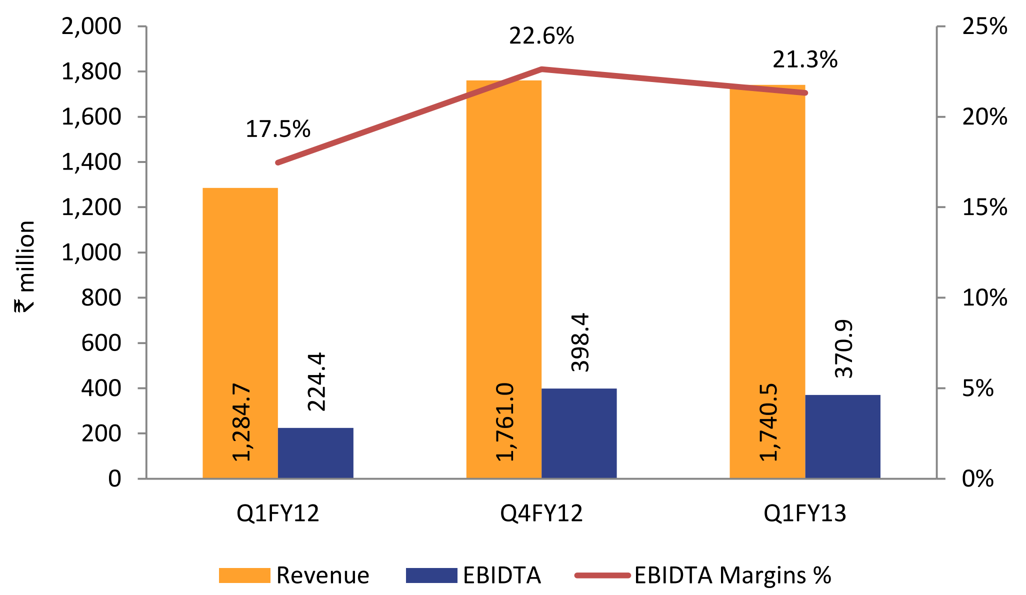
Robust Q1FY13 performance led by impressive top-line growth

APL posted a whopping 56.3% increase in net profit at ₹195.8 million and a robust increase of 35.5% in net sales at ₹1,740.5 million for Q1FY13

APL has continued to register the impressive growth in both top line and bottom line during the first quarter ended June 2012 after reporting the stellar growth in the year ended March 2012. During Q1FY13, the company's topline grew impressively by 35.5% YoY to ₹1,740.5 million against ₹1,284.7 million during the corresponding quarter last year, backed by increase in sales from new & previous product launches. EBITDA came at ₹370.9 million, increase of 65.3% in Q1FY13 against ₹224.4 million during Q1FY12. EBITDA margin has inclined from 17.5% in Q1FY12 to 21.3% in Q1FY13, aided by weak rupee and lower cost of materials. However, Q1FY13 interest expense rose sharply to ₹159.5 million from ₹28.1 million YoY due to inclusion of forex loss on foreign currency borrowings. Besides, increase in other income from ₹5.7 million to ₹97.6 million of the company improved the PAT margins by 150 basis points to 11.2% in Q1FY13 from 9.7% in Q1FY12. The resultant net profit stood at ₹195.8 million, resulting into an increase of 56.3%, as against ₹125.3 million in the corresponding period last year. EPS for Q1FY13 stood at ₹8.3 compared to ₹5.3 in the corresponding quarter of the last year.

Its Ophthalmology, Dermatology and Cardiology segments has continued to perform well and launched 3-4 new products during this quarter. Moreover, the company is targeting to launch 2 new products each quarter in addition with line extensions. Further, APL had not launched the 2 products during the quarter for which it has received ANDA approvals from the USFDA. Now, they are expected to be launched in Q2FY13 and the market opportunity for these two products is $2.5-3.0 million for FY13E and FY14E.

Trend in Revenue, EBIDTA and EBIDTA Margins %



Robust FY12 performance

During F12, APL has reported impressive consolidated revenue growth of 34% at ₹6,836.2 million and net profit growth of 52% at ₹772.7 million. Performance of the Mauritius subsidiary had been excellent and the step down subsidiary in Philippines has also been able to improve its performance substantially making profit for the first time. Its US and UK subsidiaries continue to assist in regulatory work for product registrations in those countries. Further, JV in Turkmenistan continues to be under performing and the company is exploring options to exit this JV.

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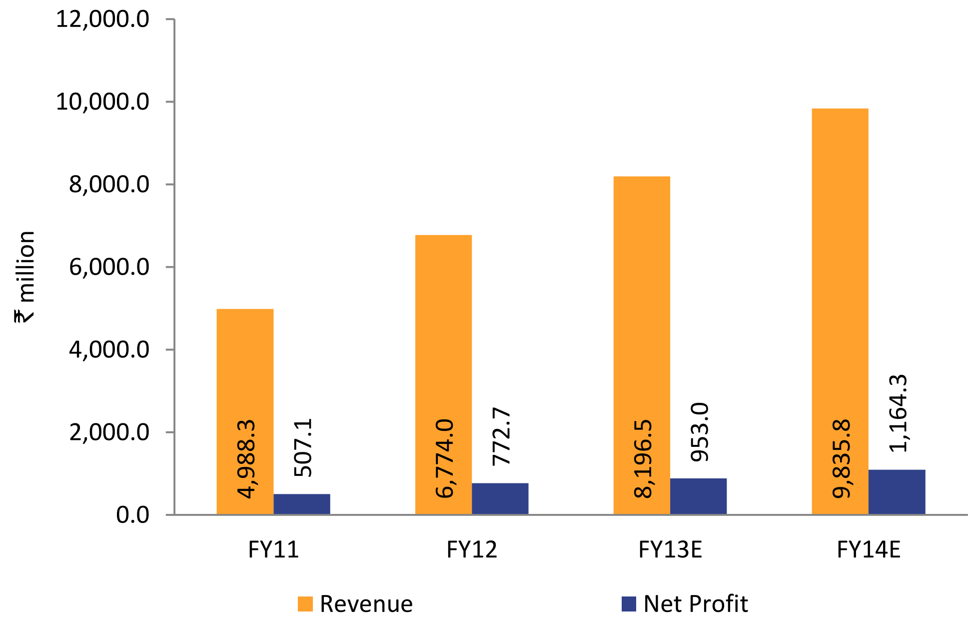
In the last 10 years, APL's consolidated performance remains impressive as it reported CAGR of 22% in revenues and 46% in net profit. The significant growth by the company is mainly due to focus on launching products in niche therapeutic segments. It consistently spends towards R&D to augment the growth and is successful in launching various products which are among the top 10 in their respective segments. With the consistent efforts on R&D, APL launched 24 new products in domestic market and filed 330 new products registration dossiers in emerging markets. Further, it has successfully scaled up 6 APIs and transferred to plant and development of 5 new APIs in pipeline. As on March 2012, the company has 1,467 product registrations in hand and 1,252 products under registrations in different countries. The company's mainly focus area remains the New Drug Delivery System (NDDS) and new combinations.

Revenue CAGR of ~20.5% during FY12-14E



Capacity expansion to reap benefits in coming years

Currently, APL has 4 manufacturing facilities in India, 3 for formulations and 1 for APIs. Another formulation manufacturing facility is located in Mauritius through its 100% subsidiary. One of the manufacturing facilities in India is approved by USFDA, UKMHRA, WHO Geneva (pre-qualification) and many more health authorities of countries from emerging markets. The company has done significant capacity expansion in the past few years to expand its formulations capacities and to set up the API facility for backward integration. It has acquired a formulations facility near Aurangabad to cater the rest of the world markets and set up an API facility for captive use. This helps the company to achieve benefits of integration which results in lower cost and better quality.

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Further, the company is planning to invest ₹4.0 billion in next two years for setting up two separate manufacturing facilities - one for regulated markets at SEZ Dahej and other for domestic and emerging export markets. The capacity expansion will cater the demand for coming years as forecasted. It is also continuously upgrading the facilities to carry out balancing /debottlenecking in different sections to optimize existing capacities.

At present, the field force of the company is over 3,500 worldwide & planning to recruit more employees after expansion to cope up with increase in supply from the recent and planned capacity additions which we expect to add significantly to its earnings.

Strong presence in domestic market under niche therapeutic segment

APL has a strong foothold in the domestic formulations industry with strong presence in key therapeutic segments including Ophthalmology, Dermatology and Cardiology. Many of the company's products are first of its kind and are leading in their sub therapeutic segments. With the ability to build large brands in growing categories, the company has been placed amongst the Top 50 Pharma companies in the Indian market (IMS ORG MAT March 2012).

APL's domestic business is expected to grow at 15-18% over the next 2-3 years which will be fueled by new products launches, line extensions and therapy extensions per year.

Over the years, APL has reduced it's focused towards tender based contracts which helped in improving the margins. Earlier, the company had sold its over-the-counter energizer brand '30-Plus' to Dabur, in line with the strategy to become a specialty prescription company. Currently, its domestic market business contributes 37% of the total sales, of which, around 70-75% of sales are prescription based and the rest are tender based.

The company continues to launch new products in the market in different therapeutic segments. During FY12, the new product launches were 25 out of which 13 were first time in the country. We expect 15-18% growth in domestic region over the next 2-3 years which will be fueled by new products launches, line extensions and therapy extensions per year.

Niche therapeutic segment to aid growth

APL has a presence in niche therapeutic segment with focus on R&D activities. The company enjoys a leadership in domestic market under niche therapeutic segments like cardiology, dermatology & ophthalmology. It also has a significant global presence in the Male Erectile Dysfunction (MED) segment through its key brand 'KAMAGRA' and equally strong equity in anti-malarial segment through 'ARTEFAN' where it was the first branded generic to get WHO pre-qualified. Further, it is also making dominance in new segments of Orthopaedic, Gastro, Nephrology, ENT and Respiratory. Many of its products continue to enjoy leadership position in their sub segments and it exports its products to more than 30 countries and established strong brand equity in these markets.

APL enjoys a leadership in domestic market under niche therapeutic segments like cardiology, dermatology & ophthalmology.

Under its key therapeutic segments, the company has some popular brands in its portfolio including Olopat, MET-XL, Diflucor, & kamagra. The company is consistently putting efforts to restore momentum in its core business of formulation through persistent R&D efforts. It employed over 200 scientists and is consistently spending more than 6% of its revenues towards R&D. Higher R&D spends will also give an edge to the company to come up with new and improved products and make their dominance in niche therapeutic segment.

Geographical diversification provides huge growth potential

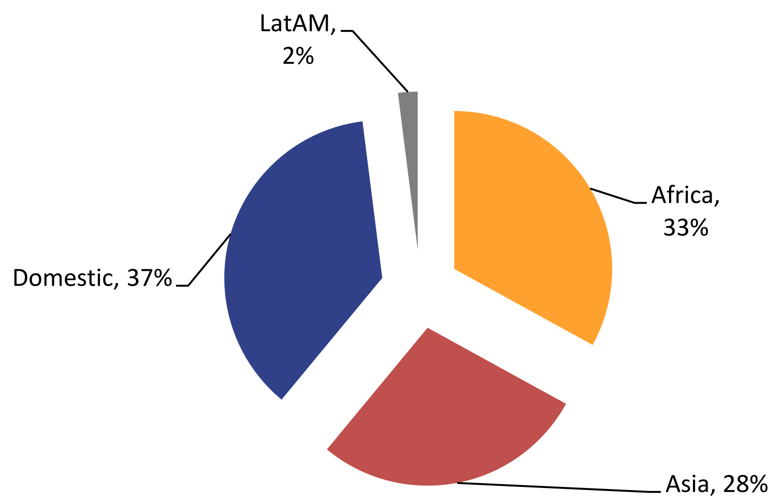
During FY12, exports business contributed 63% of the total sales from emerging markets of Asia, Middle East, Africa and Latin America. The customized product basket for each country

Strong presence in the continents of Asia, Middle East, Africa and Latin America provide APL a huge growth potential.

catering to its unique requirements helps the APL in taking leadership position in different sub-therapeutic segments in these markets. The company sells anti-malarial products and specialty range of products in African markets, cardiology, ophthalmology & dermatology products in South East Asian markets, and cuff syrup dosages for Latin American market.

Strong presence in the continents of Asia, Middle East, Africa and Latin America gives APL an advantage in terms of market spread and huge growth potential. We expect margins in exports segment to remain intact as the company has deliberately reduced its focus on tender business in Africa.

Geography-wise revenue concentration (in %)



Building strong product portfolio in the US market to expand market size and support growth

APL expects to launch 2 ANDAs in Q2FY13E and filing 5-6 ANDA's during the current financial year in the US market.

APL is expanding aggressively into the regulated market of the US to garner the benefits of top drugs going off patent. The company strategically forayed into the regulated market after establishing and gaining expertise in the emerging markets of Asia and Africa. It has received 2 ANDA approvals from USFDA with another 7 awaiting approval. The launch of 2 approved ANDAs in Q2FY13E will boost the revenues of the company significantly.

The company has become one of the few selected companies from India to have the product approved in the US market. APL expects the approval for other ANDAs during the year. Further, the management expects to file 5-6 ANDA's during the current financial year in the US market. The company is taking appropriate and calibrated steps to take advantage from the opportunity in US (more than $89 billion drugs going off patent in US in next few years). We expect foraying into the US market will set new benchmarks in the growth trajectory of the company as it will add to its revenues and improved margins.

Balance Sheet (Consolidated)

(₹million)	FY11A	FY12A	FY13E	FY14E
Share Capital	118.0	118.0	118.0	118.0
Reserve and surplus	2,170.3	2,862.3	3,726.9	4,802.7
Net Worth	**2,288.3**	**2,980.3**	**3,844.8**	**4,920.7**
Non-Current Liabilities	756.4	1,005.9	1,864.1	2,514.1
Current Liabilities	2,177.0	2,501.9	2,944.3	3,394.3
Capital Employed	**5,221.7**	**6,488.1**	**8,653.2**	**10,829.0**
Fixed assets	2,765.8	3,091.4	4,373.3	5,607.6
Current Assets	2,455.9	3,396.7	4,279.9	5,221.4
Capital Deployed	**5,221.7**	**6,488.1**	**8,653.2**	**10,829.0**

Profit & Loss Account (Consolidated)

(₹million)	FY11A	FY12A	FY13E	FY14E
Net Sales	**4,988.3**	**6,774.0**	**8,196.5**	**9,835.8**
Expenses	4,091.3	5,366.6	6,483.4	7,770.3
EBITDA	897.0	1,407.4	1,713.1	2,065.5
EBITDA Margin %	*18.0*	*20.8*	*20.9*	*21.0*
Depreciation	247.5	318.7	382.4	436.0
EBIT	**649.5**	**1,088.7**	**1,330.6**	**1,629.5**
Other income	94.5	62.2	150.2	150.2
Interest	180.2	241.3	289.6	324.4
Profit Before Tax	**563.9**	**909.6**	**1,191.2**	**1,455.4**
Tax	56.7	136.9	238.2	291.1
Profit After Tax	**507.1**	**772.7**	**953.0**	**1,164.3**
NPM %	*10.2*	*11.4*	*11.6*	*11.8*

Key Ratios

	FY11A	FY12A	FY13E	FY14E
EBITDA Margin (%)	18.0	20.8	20.9	21.0
EBIT Margin (%)	13.0	16.1	16.2	16.6
NPM (%)	10.2	11.4	11.6	11.8
ROCE (%)	12.4	16.8	15.4	15.0
ROE (%)	22.2	25.9	24.8	23.7
EPS (₹)	21.5	32.8	40.4	49.4
P/E (x)	18.0	11.8	9.6	7.9
BVPS (₹)	97.0	126.3	163.0	208.6
P/BVPS (x)	4.0	3.1	2.4	1.9
EV/Operating Income (x)	2.1	1.6	1.5	1.3
EV/EBITDA (x)	11.9	7.6	7.1	6.4
EV/EBIT (x)	16.5	9.9	9.2	8.1

Valuation and view

Despite being a marginal player in the domestic pharmaceutical business, APL has demonstrated its ability to come up with differentiated products in fast growing therapeutic categories and this strategy would help in brand building. Moreover, the company has continued its robust performance during Q1FY13, with sales growing robustly 35.5% YoY and net profit by impressive 56.3% YoY. Further, additional manufacturing capacities and opportunities in the US market will augment the growth in coming years. Considering, the above aspects we recommend 'Buy' on Ajanta Pharma Ltd. At the current market price of ₹388, the stock is trading at a P/E of 9.6x on FY'13E EPS of ₹40.4 and 7.9x on FY'14E EPS of ₹49.4.

Indbank Merchant Banking Services Ltd.
I Floor, Khiviraj Complex I,
No.480, Anna Salai, Nandanam, Chennai 600035
Telephone No: 044 – 24313094 - 97
Fax No: 044 – 24313093
www.indbankonline.com