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INVESTMENT PICK

LOW RISK / HIGH RETURN

HOLDING PERIOD – SIX MONTHS PLUS

AJANTA PHARMA

Present Price – Rs.236.90

Projected Price – Rs.275

Ajanta Pharmaceuticals Limited (APL) is a Mumbai based mid-sized pharmaceutical company. Its core therapeutic segments are: Nutraceutical, Cardiovascular, and Anti-microbial, Antitubercular, Ophthalmology, Diabetes, Dermatology, Gynecology and Ortho- Rheumatologic range. APL's manufacturing plants are replete with state-of-the-art equipment that follows all the cGMP laid down by WHO.

Ajanta has set up worldclass manufacturing facilities in India, Mauritius and Turkmenistan that are equipped with state-of-the-art infrastructure. APL manufactures and markets a number of OTC and ethical products, with a market spanning 50 countries across the world.

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.

APL has been catering to various voluntary organizations and governmental institutions like the UNICEF, UNHCR, Government Health Departments, Defence Services and Hospitals. Its subsidiary in Mauritius produces dosage forms like tablets, capsules and Injections. Besides existing products, research and development is in full swing to evolve new molecular structures and formulations in many therapeutical segments. It has demarcated the global market into six zones, India, South-East Asia, Africa, West Asia, Europe and Central Asia. It now plans to enter the lucrative US markets.

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.

APL is a strong player in Africa, Asia and LatAm. After gaining expertise in semiregulated 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.

The global life sciences manufacturing outsourcing opportunity is estimated at around US \$20 billion and is expected to reach US \$31 billion in 2010. India has emerged as a hub for global players due to the availability of world class facilities and quality products at competitive prices. In the R&D sector the value of the outsourced business is expected to be about US\$ 7 billion by 2011.

According to a McKinsey report, India will emerge as the 10th largest pharmaceutical market by 2015 overtaking Brazil, Mexico, South Korea and Turkey. From a market size of around US\$ 7 billion, the Indian pharmaceutical market is projected to grow to about US\$ 20 billion by 2015.

In fact, the incremental growth of US\$ 13 billion is likely to be the 3rd largest among all markets after US and China. According to Crisil Report, exports, which are expected to drive growth of Indian pharmaceutical market, are set to nearly treble over next 5 years.

FINANCIALS

ANNUAL RESULTS IN BRIEF

	(Rs crore)				
	Mar ' 10	Mar ' 09	Mar ' 08	Mar ' 07	Mar ' 06
Sales	381.67	319.48	291.69	247.17	212.37
Operating profit	71.22	59.74	45.93	36.08	28.90
Interest	19.8	22.3	15.9	11.56	11.6
Gross profit	53.42	39.09	31.61	25.15	18.5
Depreciation	19.76	13.15	6.97	6.78	6.19
Taxation	05.12	4.56	6.85	4.42	1.52
Net profit / loss	28.54	21.38	17.79	13.95	Oct.34
Equity capital	11.80	11.80	11.80	11.80	11.80
EPS (Rs)	24.19	18.12	15.8	11.83	8.76
OPM (%)	18.66	18.70	15.75	14.60	13.61
GPM (%)	13.95	12.18	10.81	10.15	8.49
NPM (%)	7.45	6.66	06.8	5.63	4.86

QUARTERLY RESULTS IN DETAILS

	(Rs crore)				
	Dec ' 10	Sep ' 10	Jun ' 10	Mar ' 10	Dec ' 09
Sales	120.51	112.51	98.29	107.89	94.66
Operating profit	22.79	20.92	17.86	20.93	17.40
Interest	3.46	4.35	4.35	3.85	4.29
Gross profit	20.2	16.93	13.71	17.71	13.40
Depreciation	6.22	5.90	05.12	6.18	4.78
Taxation	1.85	0.97	1.61	1.50	0.93
Net profit / loss	11.95	10.5	6.98	10.4	7.69
Equity capital	11.80	11.80	11.80	11.80	11.80
EPS (Rs)	10.13	8.52	5.92	8.51	6.52
OPM (%)	18.91	18.59	18.17	19.40	18.38
GPM (%)	16.52	15.00	13.92	16.32	14.11
NPM (%)	9.86	8.91	07.9	9.25	08.10

We expect Ajanta to report over Rs.565 cr for FY12 as topline and the estimated EPS could be in the region of Rs.54 plus. The current price discounts this by just 4.38 times leaving ample scope for appreciation.

Investment is advised in this scrip for a period of six months plus. Long term investment with a 12 months plus perspective can expect even higher returns.



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