Initiating Coverage | 17 March 2017

Sector: Healthcare

Ajanta Pharma

Promising growth trajectory

Tushar Manudhane (Tushar.Manudhane@motilaloswal.com); +91 22 3010 2498

Sonal Bhutra (Sonal.Bhutra@motilaloswal.com); +91 22 3982 5558

Contents | Ajanta Pharma

*All prices as of 16 March 2017

Ajanta Pharma

BSE Sensex	S&P CNX
29,586	9,154

CMP: INR1,760 TP: INR2,028 (+15%) Buy

ajanta pharma limited

Stock Info

Bloomberg	AJP IN
Equity Shares (m)	88.5
52-Week Range (INR)	2,150/1,312
1, 6, 12 Rel. Per (%)	-6/-13/5
M.Cap. (INR b)	154
M.Cap. (USD b)	2.3
Avg. Val, INR m	179.0
Free float (%)	24.0

Financial Snapshot (INR b)

Y/E March	2017E	2018E	2019E
Sales	20.1	22.6	27.5
EBITDA	6.8	7.7	9.4
NP	5.0	5.6	7.0
EPS (INR)	56.0	63.8	79.6
EPS Gr. (%)	18.9	13.8	24.9
BV/Sh. (INR)	179.5	233.0	299.9
P/E (x)	30.6	26.9	21.5
P/BV (x)	9.6	7.4	5.7
EV/EBITDA (x)	22.2	19.4	15.6
EV/Sales (x)	7.5	6.6	5.3
RoE (%)	35.9	30.9	29.9
RoCE (%)	33.9	29.6	28.9

Shareholding pattern (%)

As On	Dec-16	Sep-16	Dec-15
Promoter	73.8	73.8	73.8
DII	2.0	2.3	4.0
FII	10.4	10.2	6.8
Others	13.8	13.7	15.4

FII Includes depository receipts

Ajanta Pharma

Key drivers intact for superior growth

Tushar Manudhane

+91 22 3010 2498

tushar.manudhane@motilaloswal.com

Please click here for Video Link

Promising growth trajectory

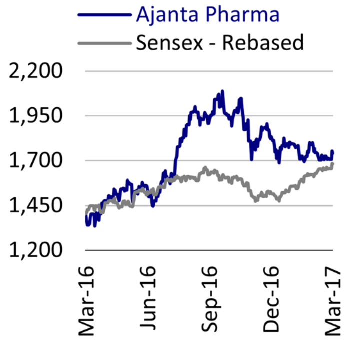
Key drivers intact for superior growth, despite aberration in short term

- **Ajanta Pharma (AJP) is a specialty pharmaceuticals company engaged in the development, manufacture and marketing of finished dosages. It started with repacking of products in 1973, and moved from OTC products to prescription-based products for the Indian market. It has established itself as a strong specialty player in the domestic market in Ophthalmology, Dermatology and Cardiology. In addition, it has strong presence in the international markets of Africa and Asia, and continues to build a strong foundation for the US market.**
- **We expect AJP to be on a high-growth path in the US market, led by a healthy product pipeline and annual filings of ~12-15 ANDAs over next 2-3 years, subject to subsequent approvals. From INR40m in FY15, US revenues are expected to reach INR1.9b by FY17.**
- **Over FY11-16, AJP delivered a phenomenal 30% CAGR in domestic formulations sales, as against industry CAGR of 14-15%. We believe that AJP's good pace of product launches, leading position in some products and improving MR efficiency should help it to outperform, despite industry growth lowering to 11-12%.**
- **AJP has made good strides in the Africa and Asia markets, is one of the leading companies in the anti-malaria business in East Africa, and has outperformed industry growth in branded generics in the Franco Africa and Asia regions. Although a brief pause is expected over the near term, we believe the long-term drivers remain intact to support sustainable growth.**
- **We expect AJP to deliver an 18% CAGR in sales and a 19% CAGR in earnings over FY17-20E, led by a 46% CAGR in US sales and a 20.4% CAGR in domestic formulations sales.**
- **We value AJP at a premium compared to P/E multiple of 20-21x for mid-cap pharma companies, at 25x FY19E earnings, on the back of its proven superior track record in terms of revenue growth and profitability. We also note that peers with a higher exposure to the US market are facing pricing pressure in the base business, with some also facing regulatory headwinds. AJP has a very low US base business and minimal regulatory risks over the medium term. We thus initiate coverage on AJP with a Buy rating and a target price of INR2,028.**

US business to be the driving force behind overall growth

- With product filings, manufacturing capacity and front end in place, we expect AJP to perform strongly in the US. It has cumulative ANDA filings of 32, with 14 of these awaiting approvals (including two para IV filings).
- Around 12-15 ANDAs are anticipated to be filed from FY18 on annualized basis. Given the reduction in the time required for approvals and the company's aggressive filings, we expect reasonable growth in US sales over next 3-4 years, subject to final approvals.

Stock Performance (1-year)



- We expect US sales CAGR FY17-20E of 46% to USD90m. Based on management's guidance, we have factored in average revenue of USD2-3m per ANDA per annum. Given AJP's performance in products like g-Zegerid and g-Abilify, there could be potential for garnering more than USD5-8m per ANDA in some products, which would further drive revenue growth.

Therapy-specific strategy to drive growth in domestic formulations

- AJP witnessed strong growth in the domestic formulations business, with a focus on Ophthalmology, Cardiology and Dermatology. The company has launched 130+ products, which are first to market in the domestic formulations space. Aggressive launches and improving MR productivity had led to superior growth for AJP until FY15. However, product-specific issues moderated growth in FY16.
- With smoothening of the base effect, we expect AJP to deliver 20.4% CAGR over FY16-20E. A healthy launch pipeline and increased prescription share in Ophthalmology, superior growth of base molecules in Cardiology, shift in market share mix from cosmetology to prescription-based treatment in Dermatology, and new product launches in the pain segment are likely to drive overall domestic formulations revenue growth for AJP over next 2-3 years.

We expect moderate growth in Africa and Asia

- After exhibiting robust growth in the anti-malaria business in Africa (partly on the back of loss of business by one competitor), we expect the base effect to kick in. Also, with a marginal increase in funding to procure anti-malaria drugs, we expect modest growth in anti-malaria sales over the medium term.
- Currency headwinds impacted the branded generics business in Anglo Africa and Asia. However, we expect a gradual recovery in these businesses.

Valuation

- In our view, the long-term growth is intact with a good revival expected from FY19, led by strong growth in US, better-than-industry growth in domestic formulations, and gradual revival in branded generics in Asia and Africa.
- AJP has enough levers in place to drive earnings growth over next 4-5 years. It has a proven superior track record in terms of revenue growth and profitability. We note that peers with higher exposure to the US market are facing pricing pressure in the base business; some peers are also facing regulatory headwinds. AJP has low US base business and minimal regulatory risks over the medium term. Also, after the 18.5% correction in the stock price since September 2016, we believe AJP offers an attractive investment opportunity. Consequently, we initiate coverage on AJP with a Buy rating and a target price of INR2,028.

Risks

- Delay in ANDA approvals would result in slower growth in the US business, impacting overall revenue growth. Lower-than-expected revenue from products post final approval in the US market would also impact overall revenue growth.
- Faster-than-expected re-entry of competitors in the anti-malaria business in Africa may lead to some market share loss.
- Delay in approvals from the DCGI/state governments for the domestic formulations business may affect the launch trajectory and thus sales.
- Late recovery in the economic environment may delay revival in the branded generics business in Asia.

AJP business transformation till date

1979 - First manufacturing facility set up at Chikalthana..
1983 - Facility set up in Paithan Aurangabad and has approvals from USFDA and WHO prequalification.
1996 - Set up in Mauritius, Goodland to cater the African markets and has been compliant with WHO cGMP guidelines.
2009 - Facility set up in Chitegaon to meet the requirements of Emerging markets.
2009 - Facility set up in Waluj, Aurangabad. This facility is AJP's API facility mainly for captive consumption.
2014 - Facility set up in Dahej, Gujarat. Specially constructed to cater requirements of USA, WHO and Emerging markets.
2017 - Facility set up in Guwahati, Assam to cater to Indian and emerging markets.

1992 - Entered the international market

Today
AJP has 354 product registrations in Asia market and therapeutic segments like Cardio, Pain, MED, GI, antibiotic, Derma, Anti Histamine
AJP has 1,183 product registrations in Africa- market and therapeutic segments like, Anti-malaria, Multivitamin, Cardio, antibiotic, Gynaec, MED, Pain

2007 - Set up R&D facility in Mumbai

Today
AJP has ~750 scientists working on innovative products for developing formulations The R&D expenditure has grown at CAGR of 42% over last 3 years. In FY 17, the R&D expenses as a % of sales would be close to 7%.

2010 - Entry in the Philippines market

Today
The Philippines market has focus therapy – Cardiology, pain and GI. AJP has delivered 28% CAGR compared to industry growth of 4-5% in FY11-16.

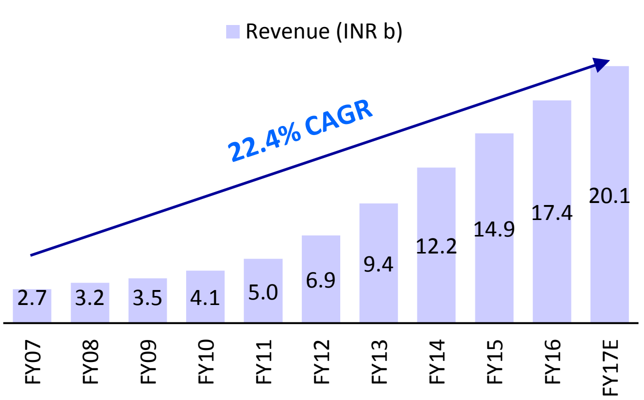
2013 - Entered the US market

Today
Total ANDAs filed till date – 32
Final approval received till date – 16
Intend to file 12 to 15 annually for next 2 to 3 year.
There has been a substantial growth in the US market in the past year at CAGR of 46%.

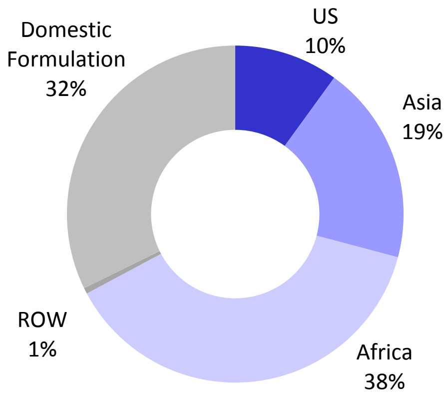
2020 E - The Company has come up with new facilities which will soon be operational. Having said that we expect the domestic business to grow at CAGR of 18.6% (FY17E –FY20E) and US business by 46.4% and launch of new products to be added to the vast pool of product range.

AJP story till date in charts

Exhibit 1: Robust revenue growth over FY07-17E

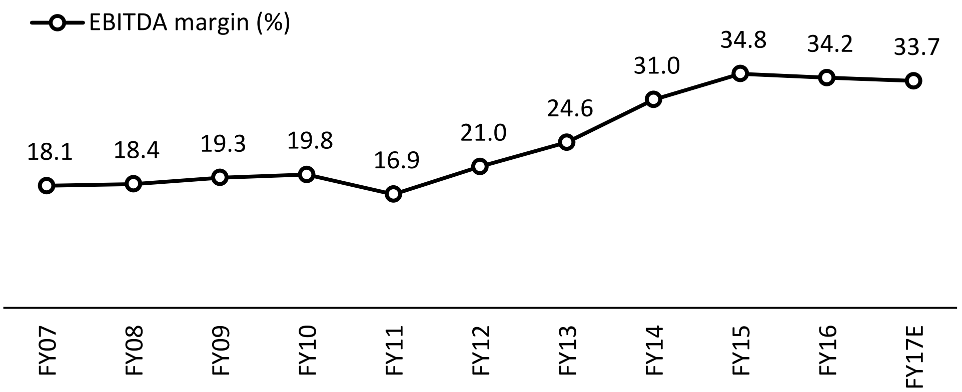


Revenue composition - FY17E



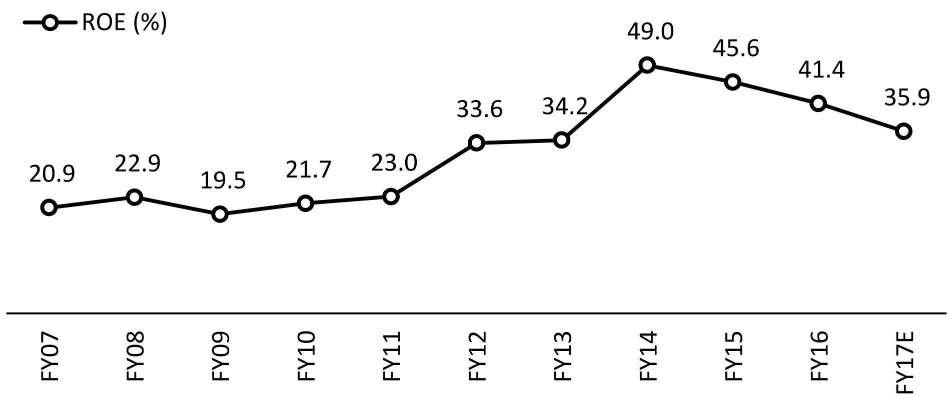
Source: MOSL, Company

Exhibit 2: 1,559bp increase in EBITDA margin over past 10 years



Source: MOSL, Company

Exhibit 3: Revenue growth, coupled with improved EBITDA margin, led to increase in RoE



Source: MOSL, Company

We expect US sales to remain on high-growth trajectory

g-Relpax to be interesting opportunity in FY18

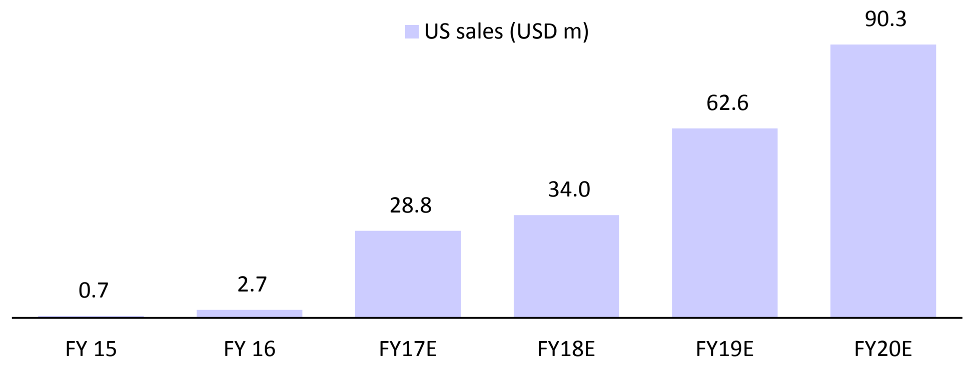
AJP has received tentative approvals for two products. However, as these are Para III filings, the USFDA's final approval and the launch for these products are expected after patent expiry.

The following products have tentative approvals:

- **g-Relpax (Eletriptan Hydrobromide)**: For the 12 months ended June 2016, Relpax had sales of USD250m. Besides AJP, at present Teva, Apotex and Mylan have tentative approvals for g-Relpax. The patent on Relpax will expire on 29 August 2017. AJP has para-III filing on this product. Based on tentative approvals and DMF filings, we expect 4-5 competitors for AJP. Assuming 70% price erosion and a 5-6 player market, we expect the company to gain ~USD15m (annualized) from this opportunity.
- **g-Viagra (Sildenafil Citrate)**: Currently, only Teva has final approval for this product, and it is expected to launch a generic version in December 2017. There are at least nine other generic manufacturers that have filed for g-Viagra. AJP has filed para III on the same. The patent would expire in April 2020. The current market size for this product is ~USD1.2b. Considering multiple generics, we expect 90% price erosion and 5% market share, resulting in annual sales of USD6m post patent expiry.

Based on approved products, we expect US revenues to be strong at USD29m in FY17 from USD2.7m in FY16. Considering 14 ANDAs pending for approval and four products yet to be commercialized, we expect growth from new launches to remain impressive in FY18 as well. However, increased competition in existing products, which has led to significant price erosion, may partially offset growth in US revenue in FY18. Accordingly, we expect US revenue to be USD34m for FY18.

Exhibit 4: We expect US sales CAGR of 46.4% over FY17-20E



Source: MOSL, Company

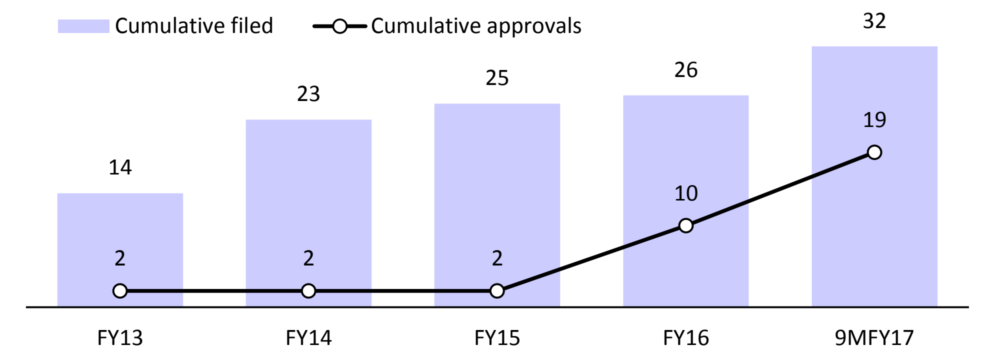
AJP – increasing filing pace over next 2-3 years

Management has guided for aggressive ANDA filings of ~12-15 products, which would be a mix of complex, para IV and vanilla filings from FY18. With a change in the review procedure at the USFDA (which has shortened the timeline for approvals), we expect FY19 and FY20 to see healthy launches, resulting in a sharp revival in US revenue for the company. We expect US sales CAGR of 46% over FY17-20E to USD90m. Based on management guidance, we have factored in average revenue of USD2-3m per ANDA per annum over next 2-3 years. Given AJP's performance in products like g-Zegerid and g-Abilify, there could be potential of garnering more than USD5-8m per ANDA, which would drive revenue growth further.

Reasonable market share gain in some products over next two years

Post product development, AJP started ANDA filings from FY13. In FY13, it filed 14 ANDAs, and cumulative filing at the end of 9MFY17 stood at 32. While product development and subsequent filing continue for future growth, AJP has started getting good business from approved products. Till date, AJP has 19 approvals and commercialized 12 products. From the commercialized products, it has been able to garner revenue to the tune of INR1.4b for 9MFY17.

Exhibit 5: Approval pace increased in FY16 and FY17



Source: Company, MOSL

There has been good scale-up in the US business from INR40m in FY15 to INR1.4b in 9MFY17 on the back of launches and superior execution, resulting in considerable market share accumulation in some products.

The major products driving revenue for AJP are g-Zegerid, g-Abilify, g-Axert and g-Risperdal.

Exhibit 6: Since launch in June 2016

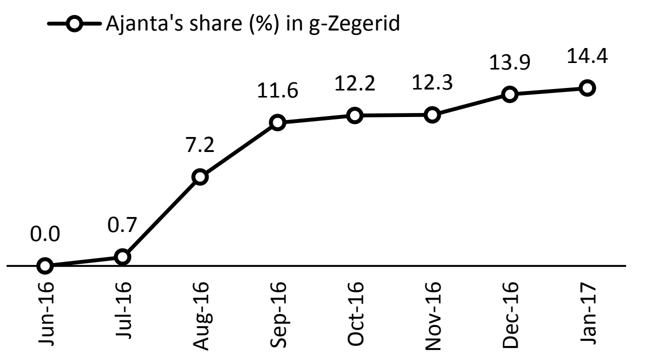


Exhibit 7: ...AJP has gained market share of 14% in g-Zegerid

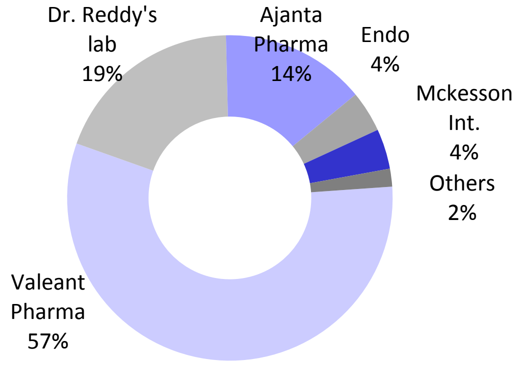


Exhibit 8: Despite delay in approval, superior execution ...

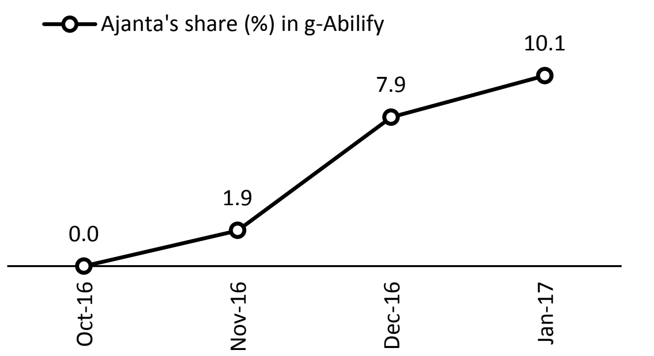


Exhibit 9: ...led to 10% market share in g-abilify

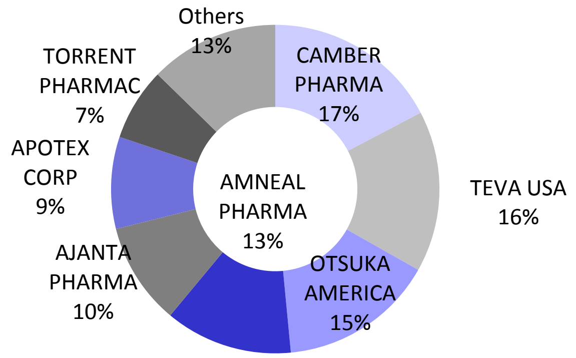


Exhibit 10: Since its launch in Jan-2015...

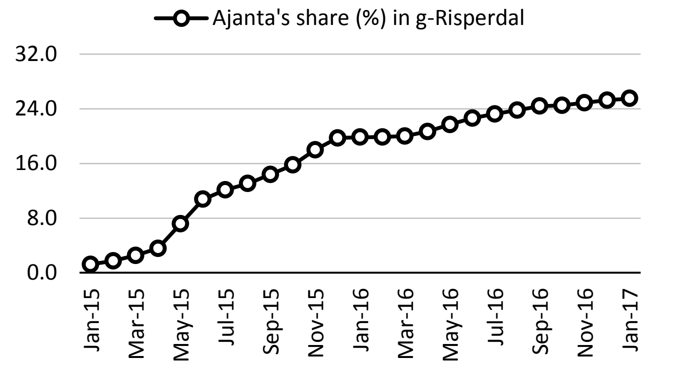


Exhibit 11: ...AJP has gained 26% market share in g-Risperdal

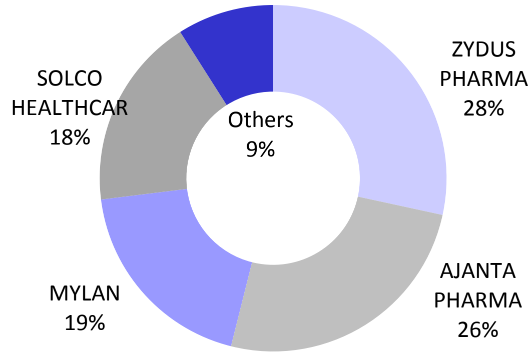
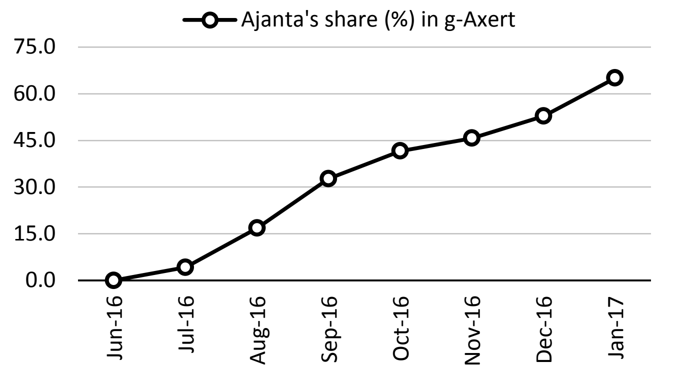
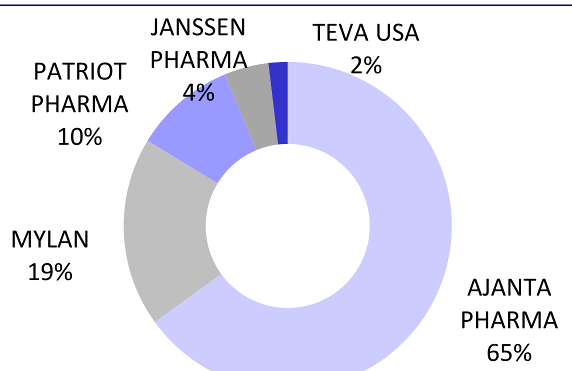


Exhibit 12: Since launch in Jun-2016...



Source: MOSL, Bloomberg

Exhibit 13: ...AJP has gained 65% market share in g-Axert



Source: MOSL, Bloomberg

Exhibit 14: Approved ANDA list

Generic Name	Brand Name	Date of Approval	No. of other companies having final approval
Duloxetine Hydrochloride	Cymbalta	6-Jan-17	16
Amlodipine And Olmesartan Medoxomil	Azor	28-Oct-16	35
Lansoprazole	Prevacid	14-Oct-16	12
Aripiprazole	Abilify Maintena Kit	12-Sep-16	12
Olanzapine	Zyprexa	30-Aug-16	14
Omeprazole And Sodium Bicarbonate	Zegerid	27-Jul-16	1
Omeprazole And Sodium Bicarbonate	Zegerid	15-Jul-16	6
Voriconazole	Vfend	24-May-16	10
Zolmitriptan	Zomig	20-May-16	10
Almotriptan Malate	Axert	3-Mar-16	2
Irbesartan	Avalide, Avapro	10-Dec-15	19
Memantine Hydrochloride	Namenda	30-Nov-15	18
Montelukast Sodium	Singulair	31-Jul-15	15
Risperidone	Risperdal	24-Aug-11	21
Levetiracetam	Keppra	14-Jun-11	26

Source: MOSL, Company

USFDA inspection update

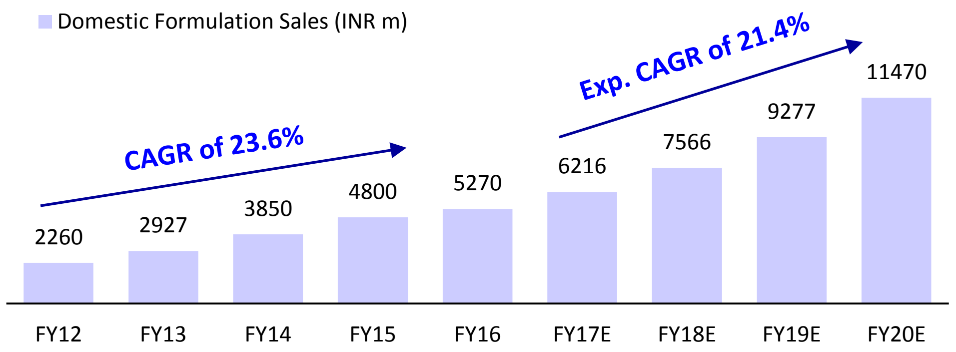
USFDA inspection history
Paithan formulation plant
- Re-inspected in Feb-17 and was issued with 1 observation
- Was re-inspected in Mar-15 and was issued 0 observations. Received EIR in Jul-15
- Was re-inspected in Sep-12 and was issued form 483 with 1 observation. Received EIR in Feb-13
- Was inspected in May-08 and had 0 observations. Received EIR in Aug-08

Source: MOSL, Company

Therapy-specific strategy to drive growth in domestic formulations

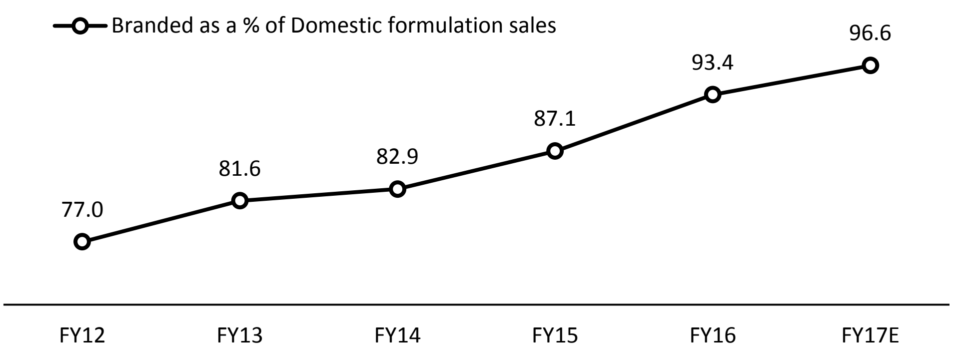
AJP has been able to consistently deliver growth better than the industry in its domestic formulation business for at least five years now. Revenue in the domestic formulations segment grew at a CAGR of 23.6% to INR5.3b in FY16. About 94% of its business is in branded generics space. The share of branded generics business has been rising consistently (at 93.4% at the end of FY16). With a further reduction in the institutional business and increased traction in branded sales, the share is expected to inch up toward 98% by FY17.

Exhibit 15: We expect AJP to continue to outperform industry



Source: MOSL, Company

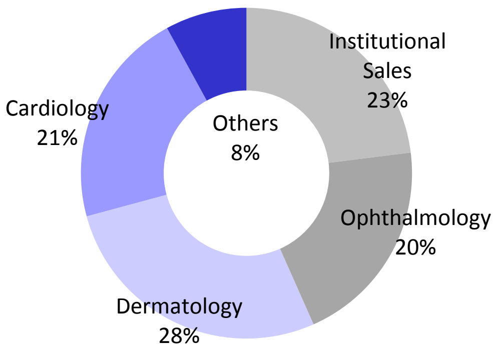
Exhibit 16: Share of branded generics to continue to rise (%)



Source: MOSL, Company

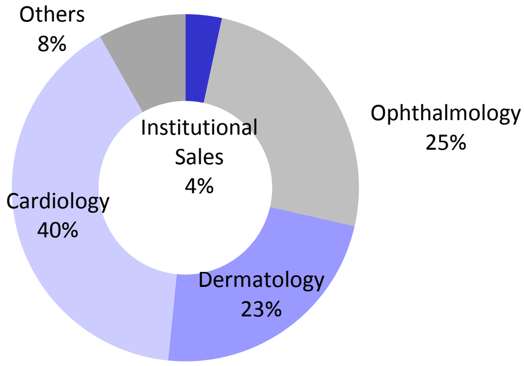
AJP had focused on three major therapies – ophthalmology, cardiology and dermatology. However, the proportion of these categories as a percentage of domestic formulation sales has changed, with the share of ophthalmology rising, of dermatology falling and of cardiology remaining same.

Exhibit 17: Better growth in cardiology…



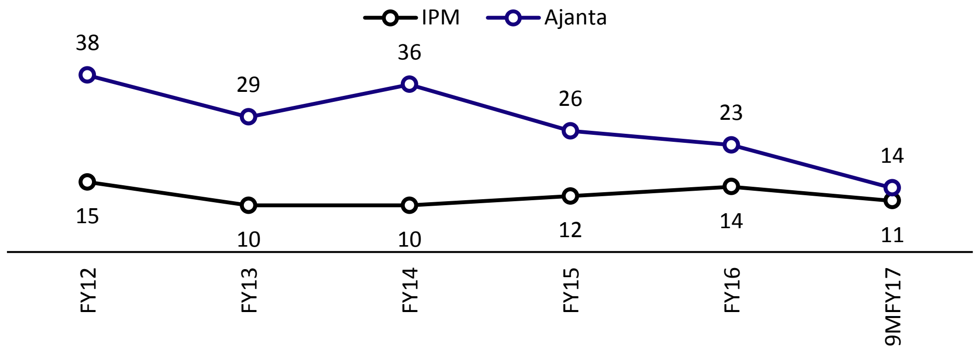
Source: MOSL, Bloomberg

Exhibit 18: … to lead to its higher share in overall domestic formulation segment



Source: MOSL, Bloomberg

Exhibit 19: AJP continues to outperform industry growth (%)



Note: Growth on MAT basis; Source: MOSL, Company

Although AJP has been doing better than the industry, there has been a downward trend in terms of YoY revenue growth, mainly attributed to product-related issues in dermatology and a considerable base in ophthalmology.

Ophthalmology: We expect AJP to grow better than industry on back of superior execution

Our channel check indicates that AJP has more MRs (~850-870) compared to peers like Allergen, Alcon and Sun Pharma (MR strength of about 380, 270 and 250, respectively).

Ophthalmology formed ~25% of branded formulation sales and grew by 22% on MAT ending December 2016 basis. The domestic ophthalmology market size is ~INR20b, where AJP has a market share of 7%, which is decent given the fragmented nature of the market. The key brands in the ophthalmology segment are Softdrops, Olopat and Apdrops. All the three brands are among the top 5 in their respective base molecule category, with a CAGR of 11.5%, 12.6% and 50%, respectively over the past three years. In case of Apdrops, over the past three years, AJP's CAGR has been better than the base molecule.

Exhibit 20: Apdrops had superior growth compared to that of base molecule as well as therapy

Key brands	January 2017						CAGR over 3 years			Base molecule
	Revenue (INR m)	Ajanta's growth (yoy, %)	Base molecule value growth (%)	Therapy growth (%)	Brand share in base molecule (%)	Base molecule contribution to therapy (%)	Ajanta	Base molecule	Therapy	
Soft Drops	180	5.8	4.9	8.9	5.6	16.1	11.5	13.1	11.4	Carboxy Methyl Cellulose
Olopat	100	1.7	12.8	8.9	22.7	2.2	12.6	14.9	11.4	Olopatadine Eye Drops
Apdrops	230	15.0	10.2	8.9	20.0	9.7	50.0	15.0	11.4	Moxifoloxacin + Ketorolac

Source: Industry, MOSL

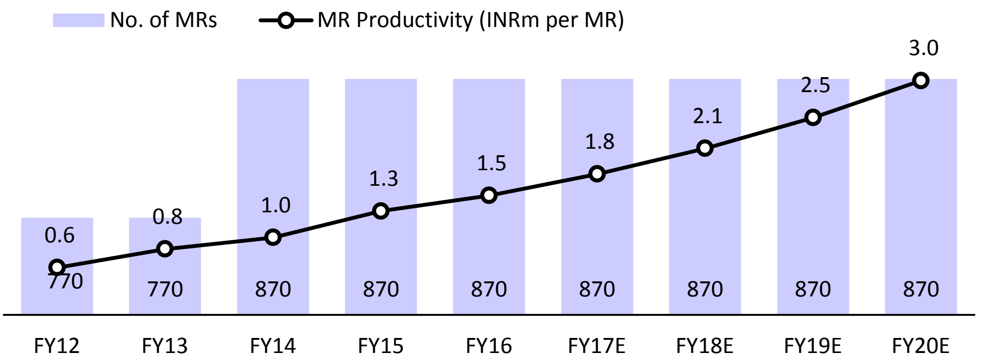
Exhibit 21: Top brands in Ophthalmology segment

Key brands	Base molecule	Remarks
Soft Drops	Carboxy Methyl Cellulose	❖ It is used to treat dry eye condition to create artificial tears. Though it is an old molecule, there is no substitute available.
Olopat	Olopatadine Eye Drops	❖ It is used to treat Allergic eye condition. Though it an old molecule there is no better substitute
Apdrops	Moxifoloxacin + Ketorolac	❖ Moxifloxcin is relatively new generation molecule. Available substitute are Tobramycin, gatifloxacin.

Source: Industry, MOSL

- According to our channel checks, overall superior growth of the ophthalmology portfolio is attributed to the higher number of ophthalmologists that the company deals with, as well as a considerable number of launches.
- The strategy implemented by MNC pharma companies like Allergen and Alcon has been to tap only tier 1 (top) ophthalmologists – the trend is of tier 2/3 ophthalmologists usually following prescriptions of tier 1 ophthalmologists, as per our industry channel checks. This categorization (tier 1/2/3) is based on the number of patients catered by the ophthalmologists (tier 1 ophthalmologists cater to the highest number of patients). On the other hand, AJP approaches ophthalmologists across tiers.
- AJP launched ~75-80 products in last 10 years, which is much higher than peers. Although the hit ratio of AJP might be lower, its strong launch trajectory drives overall revenue growth for AJP.

Exhibit 22: Increased share of prescription to improve productivity in Ophthalmology



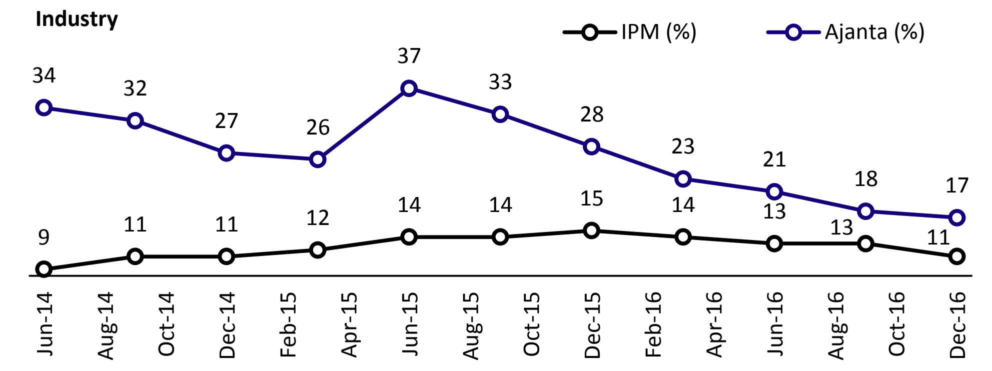
Source: Industry, MOSL

AJP has guided to maintain current MR strength over next 2-3 years. The company's MR productivity is expected to improve from INR0.6m per MR in FY12 to INR1.8m in

FY17. Despite this improvement, it is still relatively less than peers, implying enough scope for improvement.

Ophthalmology therapy growth is expected to be ~15% over next two years, led by volume growth due to changing lifestyle and price hike of 5-6%. We expect AJP to grow better than the industry at 18-19% over next 2-3 years on the back of aggressive launches and increased share of prescription from doctors.

Exhibit 23: AJP outperforms industry on aggressive launches and higher number of ophthalmologists

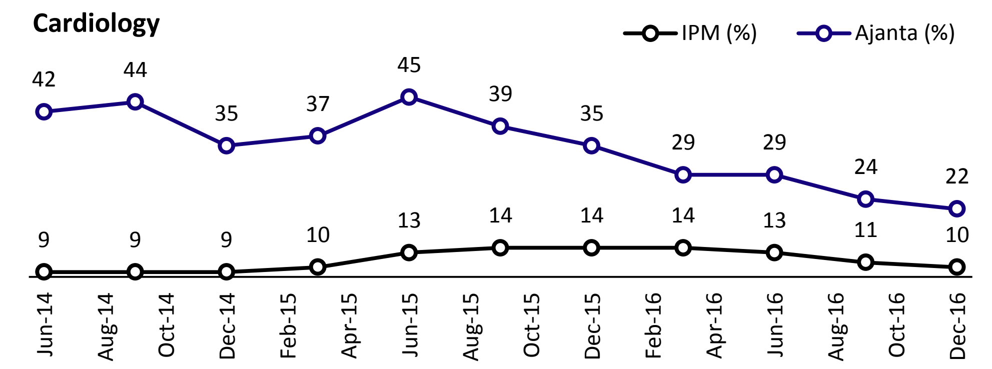


Note: Growth on MAT basis; Source: Company, MOSL

Cardiology: Better growth in base molecule to drive growth for AJP

AJP has grown fastest in terms of five-year CAGR in cardiology therapy. AJP sales grew at a CAGR of 43% over FY12-16 to INR2b. The key group brands driving growth in the cardiology segment are MetXL, Atorfit and Rosufit. This group constitutes about 75% of total cardiology sales for AJP.

Exhibit 24: Better timing and marketing effort led AJP to have higher growth than industry



Source: MOSL, Company

In MetXL, Atorfit and Rosufit group of brands, AJP has been able to record much faster growth than in base molecule. Specifically, in some molecules (which has Clopidogrel-based combination like Atorfit, Rosufit and Rosutar Gold), AJP has been ahead of competitors due to procedural delays for other companies. There was a notification in 2012-13 about requiring an approval for Clopidogrel by the DCGI before using it in a combination, which effectively meant conducting a clinical study to evaluate safety efficacy and tolerability of the combination drug. AJP had received an approval before the notification. However, it delayed the launch for peers by six months. This led good traction from this molecule for AJP. With many combinations of cardiovascular therapy under NLEM having an adverse impact on pricing, drying up of global pipeline of new molecules and the lengthened process of approval for new combinations, we expect volume growth (largely from existing monotherapies and combinations, and fewer new product launches) to drive cardiovascular therapy growth in India. Given the changing lifestyle resulting in an increase in the number of patient population, industry experts estimate cardiovascular therapy CAGR of 15-18% over next 2-3 years.

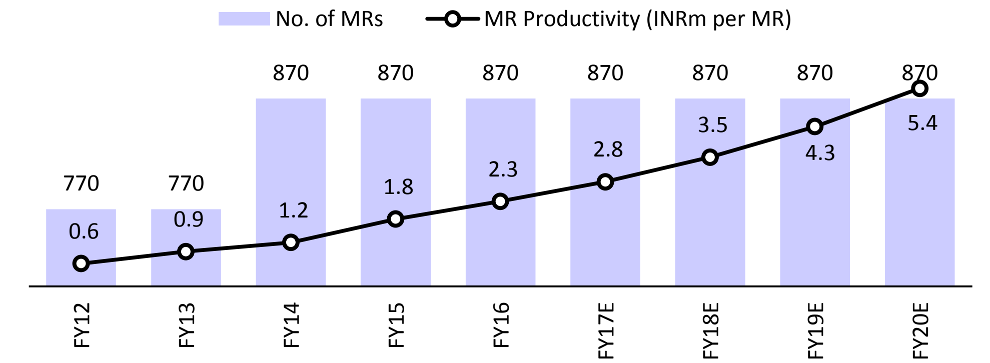
Exhibit 25: All key brands growing faster than base molecule as well as therapy (%)

Key brands	January 2017						CAGR over 3 years			Base molecule
	Revenue (INR m)	Ajanta's growth (YoY)	Base molecule value growth	Therapy growth	Brand share in base molecule	Base molecule contribution to therapy	Ajanta	Base molecule	Therapy	
Met XL	770	14.9	5.0	12.0	16.3	3.5	16.3	7.4	12.5	Metoprolol
Met XL AM	190	26.7	9.2	12.0	10.6	1.0	23.9	9.1	12.5	Metoprolol+Amlopodine
Atorfit CV	500	13.6	0.1	12.0	3.7	10.2	27.7	10.6	12.5	Atorvastatin + Clopidogrel
Rosufit CV	210	31.3	26.7	12.0	1.8	8.5	51.8	28.9	12.5	Rosuvastatin + Clopidogrel
Rosutor Gold	160	77.7	9.2	12.0	8.9	1.0	0.0	9.1	12.5	Aspirin + Rosuvastatin + Clopidogrel
Cinod	140	27.2	42.6	12.0	5.5	2.0	91.3	66.9	12.5	Cilnidipine

Source: Industry, MOSL

The number of MRs of AJP in cardiology therapy is ~870. Our channel check indicates that its MR strength is in line with peers. AJP has added ~100MRs in FY14, and since then has maintained this strength. AJP has guided for maintaining the same for next 2-3 years.

Exhibit 26: Higher traction in existing products to drive productivity in cardiology for AJP



Source: Industry, MOSL

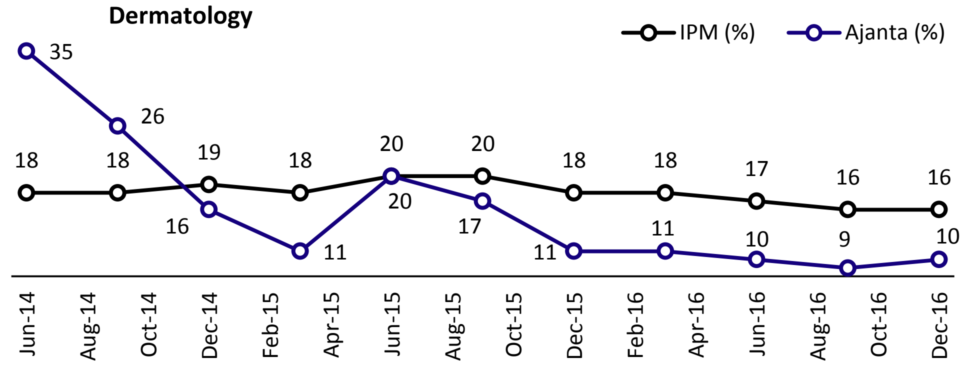
MR productivity improved from INR 0.6m per MR in FY12 to INR 2.3m in FY16; it is expected to be INR3.0m per MR in FY17. This is partly on account of better launch timing of products and partly due to better marketing effort.

We expect AJP to continue outperforming overall industry therapy growth as base molecule combinations in which AJP has presence are expected to grow at a superior rate, and also as the company continues to maintain its market share, have new product launches and better marketing effort.

Dermatology: New product launches and increased share in existing products to drive growth

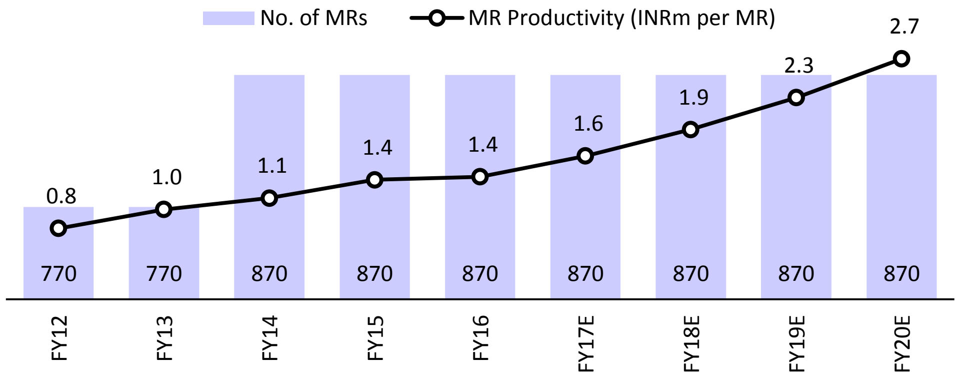
The dermatology segment formed 23% of domestic formulation sales in 9MFY17. AJP's dermatology segment growth was impacted due to a slowdown in sales of the Melacare range of products. Sales of the Melacare range of product (which form about 35-40% of the dermatology segment) were hit due to industry-wide stoppage of steroid-based Hydroquinone-Mometasone-Tretinoin drugs. As a result, AJP's dermatology therapy growth reduced to 2.5% YoY in FY16. With a new base now, AJP has started showing a recovery in growth and exhibited 16.8% YoY growth for 9MFY17.

Exhibit 27: Muted performance in Melacare brand led AJP to grow at lower rate than IPM



Note: Growth on MAT basis; Source: : Industry, MOSL

Exhibit 28: New products and increased share in existing ones to drive productivity



Source: Industry, MOSL

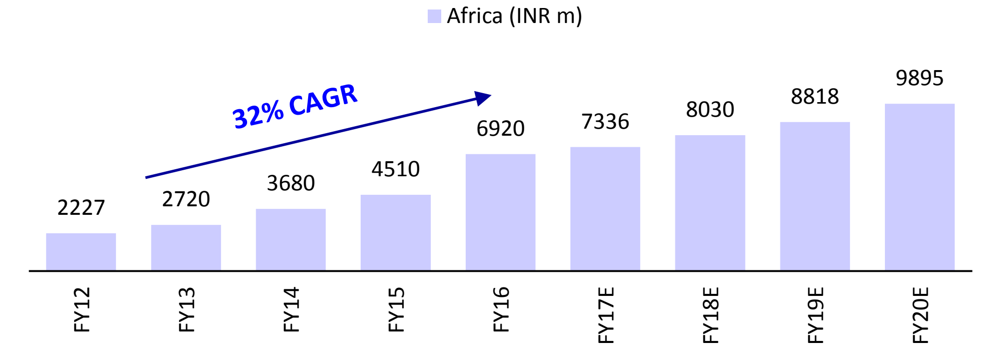
AJP has ~870 MRs in the dermatology segment. MR productivity has improved from INR0.8m per MR in FY12 to INR1.7m by FY17.

There is enough scope of innovation possible in derma treatment (which is currently at high cost) with a shift in the share of cosmetics to prescription-based treatment. Industry experts expect dermatology therapy CAGR of 18-19%. We expect AJP to grow in line with industry.

Base effect to impact growth in Africa business

AJP's Africa business revenue grew strongly to INR6.9b over FY12-16, led by a sharp 45% CAGR in its institutional anti-malaria business.

Exhibit 29: High base to result in moderate revenue growth over next 2-3 years



Source: MOSL, Company

The institutional anti-malaria business forms about 57% of the Africa business. Region-wise, AJP has institutional anti-malaria business in East Africa. Artemesinin-based artemether and Lumifrantine combination, and dispersible version of the same, are the major products supplied by AJP. Global fund and USAID are the major customers of AJP in the antimalarial business.

Growth in the antimalarial business was led by a healthy increase in procurement by global fund and a reasonable gain in market share with its competitor, Ipca Lab, losing business due to regulatory hurdles.

The tender for anti-malaria drugs for FY18 is expected to be awarded by global fund in the near term. As highlighted in the industry scenario below, the incidence of malaria-based patient pool has been reducing due to ease in availability of medicines. However, demand for medicine remains high and subject to availability of fund from government, public and private fund.

Industry scenario

As per the UNITAID report, the global market for antimalarial medicines is estimated to be 1.3b antimalarial treatment courses per year and is expected to grow to 1.4b treatments by 2018. Artemesinin-based combination therapy (ACT)-based treatment currently comprises roughly only one-third of this market, and its share is expected to increase going forward. Within ACT-based treatment, AL (Artemether-Lumifrantine) would continue to dominate the market over the medium term.

There are three major sources of funding health systems, prevention and treatment: government of endemic countries, global fund and USAID. Total funding for malaria control and elimination in 2015 was estimated at USD2.9b, having increased by USD0.06b since 2010. This total represents just 46% of the GTS 2020 milestone of USD6.4b on annualized basis.

Exhibit 30: Share of funding of Govt. of endemic countries

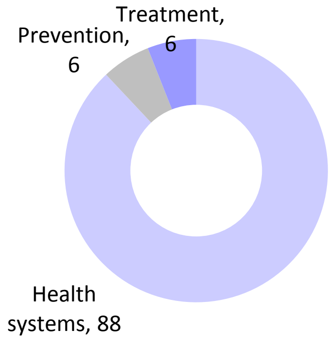


Exhibit 31: Share of funding of Global Fund

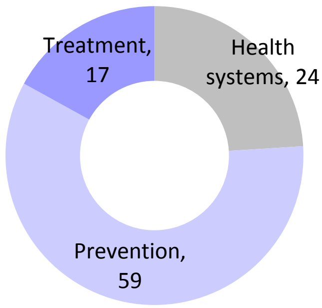
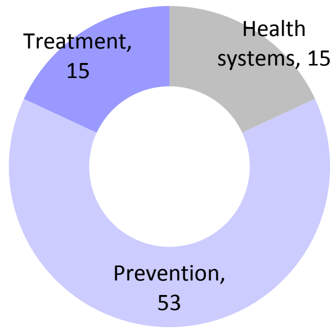


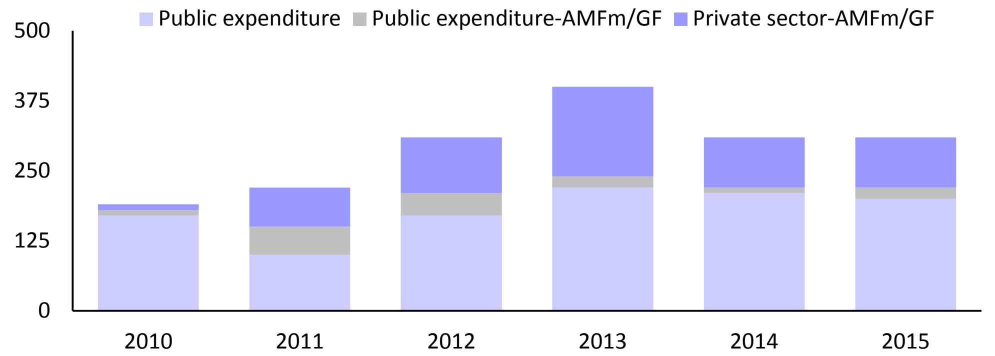
Exhibit 32: Share of funding of USAID PM



Source: Industry

Specifically, through global fund, the number of ACT procured from manufacturers increased from 187m in 2010 to a peak of 393m in 2013, but subsequently fell to 311m in 2015.

Exhibit 33: ACT treatment courses delivered (m)



Source: Industry, MOSL

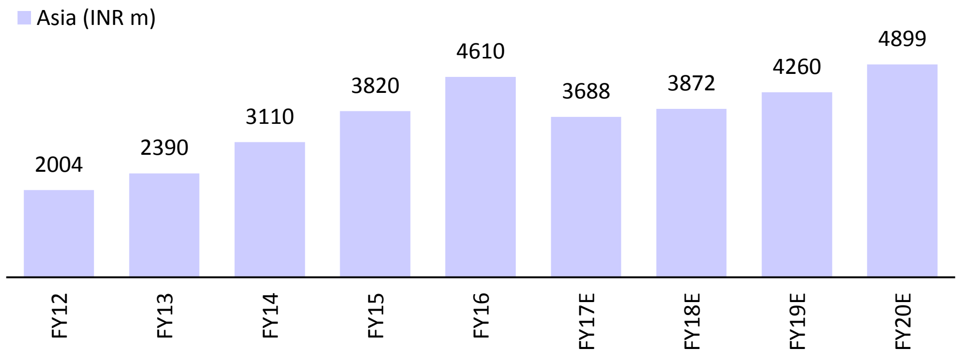
Industry experts suggest a marginal increase in funds available with global fund for procuring medicines to treat malaria in 2017. Thus, volume-based demand remains stable. Also, re-entry of Ipca Lab in tender to be awarded by global fund is subject to time taken by it to implement remediation measures and subsequent clearance by USFDA post re-inspection, as well as time taken by global fund to award the business. We assume loss of business to Ipca Lab to continue this year as well, as we anticipate it to take longer period to clear the regulatory issue. Thus, we expect anti-malaria tender business to remain stable for AJP in FY18.

Branded generics form remaining part of the Africa business. AJP has majority of branded generics business from West Africa. AJP has products in the antibiotic, anti-infective and CVS segments with 400 MRs driving branded business for AJP. AJP is fourth largest pharma company in terms of sales in franco Africa. AJP has exhibited 15% CAGR compared to industry growth of 5-7% in past five years. AJP has launched 30-40 products which were driving growth for the company. Eomic growth of countries like Nigeria, Algeria and Gabon is highly sensitive to oil prices. With stability in the economic scenario, management has guided for a gradual recovery in the branded generics business over the medium term.

We expect gradual revival in Asia business

AJP’s Asia sales reached INR4.6b (CAGR of 23.2% over FY12-16). The company focused on branded generics in ophthalmology, dermatology and cardiology in South East Asia and premium antibiotic and cardiology in Middle East Asia. There are about 350MRs driving the Asia business of AJP.

Exhibit 34: After YoY decline in FY17, we expect a slow pick-up in growth from FY18



Source: MOSL, Company

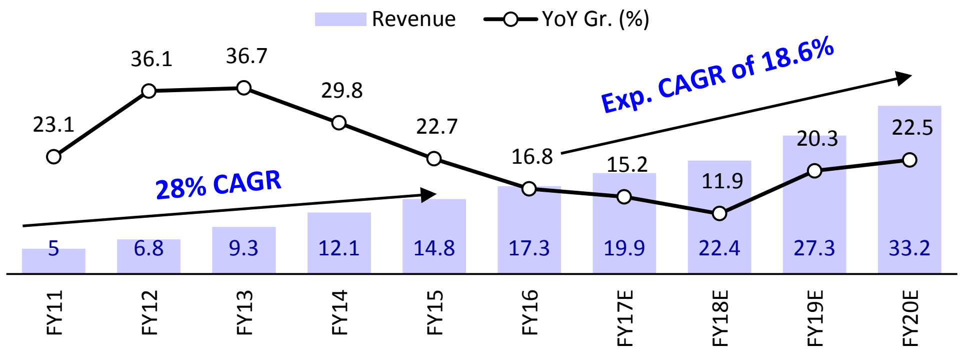
Specifically, in Phillipines, AJP is in top20 pharma companies and has exhibited fastest growth in that market. AJP has delivered CAGR of 28% over six years compared to industry growth of 4-5%. This is on the back of product launches and increased traction in existing products.

FY17 performance is expected to be muted on the back of currency headwinds and currency repatriation issues. With stability in currency and easing of repatriation issues, we expect a recovery in growth in Asia region going forward.

Strong performance over FY12-16, expect growth to pick up from FY19

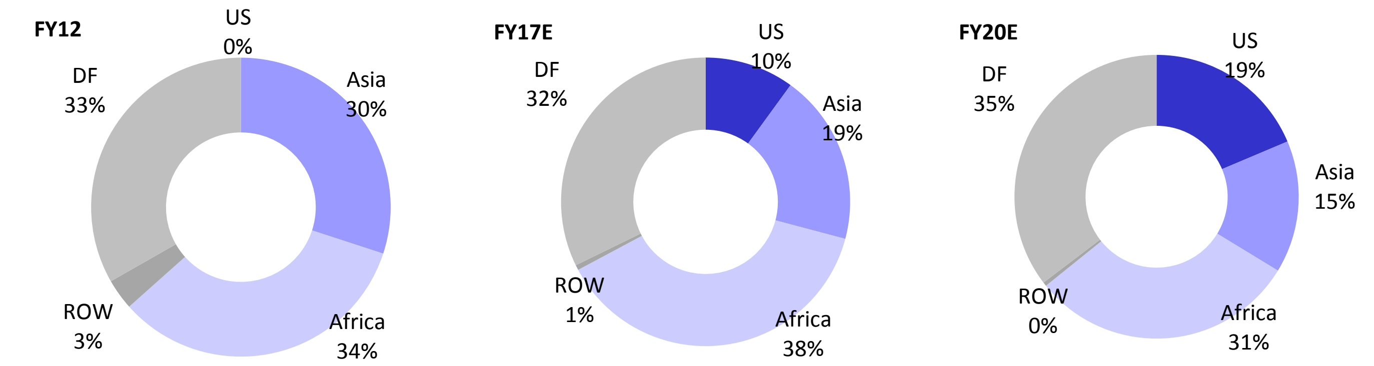
AJP delivered a commendable 28% CAGR in revenue over FY11-16 to INR17.3b, driven by both domestic formulations (CAGR of 25.5%) and exports (CAGR of 32%).

Exhibit 35: US and domestic formulations to drive revenue over FY17-20E



Source: MOSL, Company

Exhibit 36: Share of US revenue to increase from nil (FY12) to 19% (FY20E)



Source: Company, MOSL

With Africa and Asia as focus geographies for exports and cardiology, as well as dermatology and ophthalmology as the focus therapies in domestic formulations, AJP has made a considerable progress in both the segments. The proportion of domestic formulations and exports in total sales has remained stable over FY11-16.

Within exports, Africa sales grew at a CAGR of 33% (led by a strong institutional anti-malaria business) and Asia sales at a CAGR of 23.9%. Product launches in branded generics and a higher share in existing products led to strong growth in Asia.

YoY growth in overall revenue has been on a downtrend since FY14, largely due to product-specific issues in domestic formulations and currency headwinds in Asia.

We expect the growth rate to reach a trough in FY18, and expect a revival from FY19. This is on the back of strong growth in US sales and sustained outperformance in the domestic formulations market.

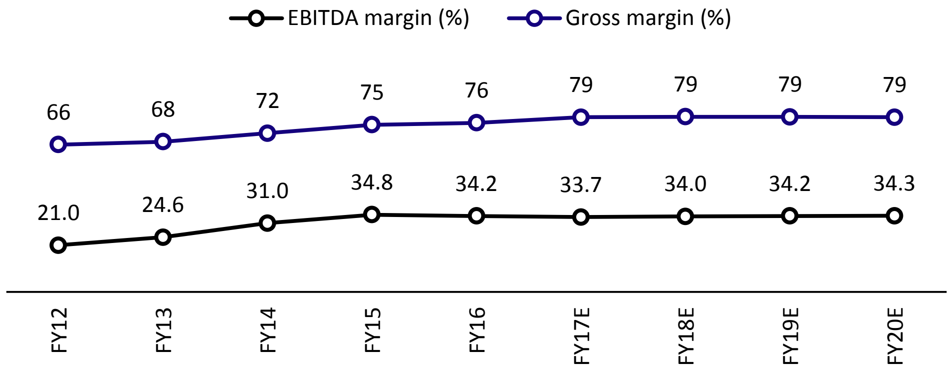
After exhibiting strong 53.4% YoY growth in FY16, we expect Africa sales to remain stable at a high base. With volume off-take in institutional anti-malaria business expected to increase marginally and low probability of intensification of competition, we expect the institutional anti-malaria business to remain stable. We expect branded generics business in Africa to record a CAGR of 15.5%, driving overall Africa sales CAGR to 10.5% over FY17E-19E.

We expect Asia sales growth to be the lowest in FY17E, and expect it to recover FY18 onward. With currency headwinds easing and forex availability improving, we expect a gradual improvement in the business scenario in Asia, leading to a 10% CAGR in Asia sales over FY17-20E.

Thus, we expect overall revenue to grow at a CAGR of 18.6%, from INR17.2b in FY16 to INR33.2b in FY20.

Gross margin expanded 991bp over FY12-16, led by a superior product mix. EBITDA margin expanded further by 1,285bp during the same period, aided by improved operating efficiency.

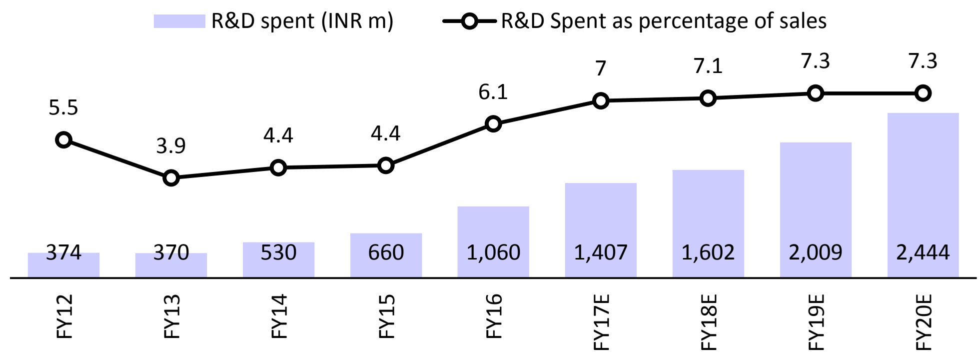
Exhibit 37: 1,285bp rise in EBITDA margin in FY12-16; expect it to be stable at higher levels



Source: MOSL, Company

With a new tender to be awarded in the Africa anti-malaria business, we expect margins of the Africa business to contract to some extent (as it is expected to be a three-year contract, we assume companies would bid at lower rates to get higher volumes). We expect the impact of margin contraction in the Africa segment to be offset by an increase in the share of higher-margin US business and a gradual improvement in Asia business. Thus, we expect gross and EBITDA margin to remain stable over next 2-3 years.

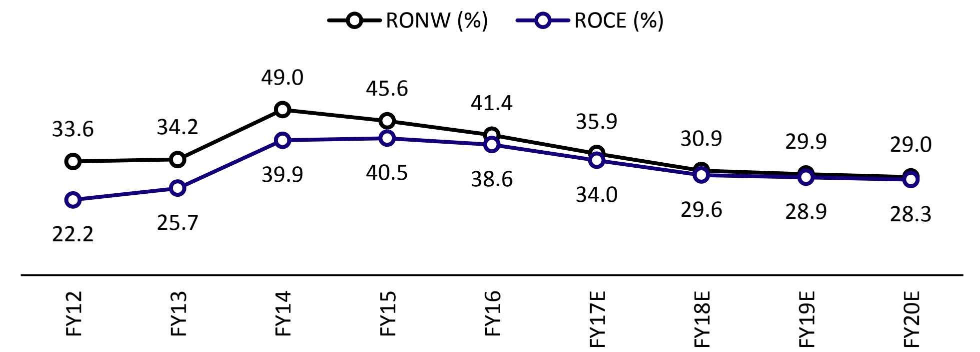
Exhibit 38: R&D spend as % of sales to remain stable over next 2-3 years



Source: MOSL, Company

AJP has been increasing R&D spend toward product development, largely for the US market. We expect this to increase at a CAGR of 22% to INR2.4b until FY20E. Although R&D spend is increasing on an absolute basis, it is expected to remain stable as % of sales at ~7-7.5%.

Exhibit 39: Ongoing capex to suppress return ratios over medium term



Source: MOSL, Company

AJP has been delivering a phenomenal return on capital employed over the past five years. After touching a peak of 32% in FY15, the return on capital employed has been declining, despite a 28.4% CAGR in earnings. This is largely on account of considerable capex allocation by AJP toward the US market, which is yet to get utilized optimally. With ongoing capex at Guwahati for building a formulations facility to cater to India and emerging markets, we expect the return on capital employed to remain stable over next 2-3 years.

- In our base case, we factor in revenue and PAT CAGR FY17-20E of 18% and 19% to INR33.4b and INR8.7b, respectively, led by increased business from the US and domestic formulations. We expect the EBITDA margin to remain stable as improved EBITDA margin from the US business may get offset by gradually contracting margin from the anti-malaria business of Africa.
- In our bear case, sales and PAT CAGR would reduce to 13% and 14%, led by lesser business from already approved products and delays in new approvals. Accordingly, FY19E EPS would be INR71.6, and the price target would be INR1,576, implying limited downside.

- In our bull case, sales and PAT CAGR would be 20.5% and 21.8% to INR35.1b and INR8.9b, respectively, led by increased business from approved products, resulting in strong business from the US market. Accordingly, FY19E EPS would be INR85.5, and the price target would be INR2,137, implying upside of 25% from current levels.

Exhibit 40: Sensitivity analysis

	Bear Case	Base Case	Bull Case
Revenue	25,427	27,516	30,052
EBITDA	8,518	9,410	10,067
EBITDA margin (%)	33.5	34.2	34.3
PBT	8,025	8,917	9,574
Tax rate (%)	21.0	21.0	21.0
PAT	6,340	7,044	7,563
EPS	71.6	79.6	85.5
Multiple	22.0	25.0	25.0
Target price	1,576	2,028	2,137
% Return	(8.0)	16.5	24.7

Valuation

- AJP has been a re-rating candidate over the past five years on back of its sustained outperformance versus industry in domestic formulations segment, healthy growth in exports and strong expansion in the EBITDA margin, which together led to an improvement in the return ratios. The P/E multiple increased from 10x 1-year forward earnings in FY13 to a peak of 35x in September 2016.
- The stock price has corrected 18% since September 2016, probably due to a decline in Asia sales and moderate growth in the Africa business in 9MFY17 (after growing at 21% and 54%, respectively, in FY16).
- We consider this to be aberration, and the long-term growth story is intact with a good recovery expected in growth FY19 onwards, led by strong growth in US sales, better-than-industry growth in domestic formulations, and gradual revival in growth in branded generics of the Asia and Africa segments. The high base of the Africa business and moderate growth in the anti-malaria business due to marginal increase in funding by global fund may affect overall growth in FY18. However, as the share of the high-growth US business rises and steady growth in domestic formulations continues, we expect a healthy recovery from FY19.
- There are enough levers in place to drive higher growth in earnings over next 4-5 years, proven superior track record in terms of revenue growth as well as profitability. Given the scenario, wherein, peers having considerable exposure to US market have pricing pressure on base business and some peers business stuck due to regulatory hurdle, AJP has very low base business and minimal regulatory risk over medium term. We thus value AJP at a premium to P/E multiple of 20-21x for mid-cap pharma companies, at 25x FY19 earnings. We thus initiate coverage on AJP with a **Buy** rating and a price target of INR2,028.

Key risks

- Delay in ANDA approvals would result in slower growth in the US business, impacting overall revenue growth. Lower-than-expected revenue from products post final approval in the US market would also impact overall revenue growth.
- Faster-than-expected re-entry of competitors in the anti-malaria business in Africa may lead to some market share loss.
- Delay in approvals from the DCGI/state governments for the domestic formulations business may affect the launch trajectory and thus sales.
- Late recovery in the economic environment may delay revival in the branded generics business in Asia.

Exhibit 41: Peer comparison (INR m)

	Sales			EBITDA margin (%)			PAT			P/E (x)			RoE (%)		
	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Ajanta	**20,101**	**22,563**	**27,516**	**33.7**	**34.0**	**34.2**	**4,957**	**5,639**	**7,044**	**30.6**	**26.9**	**21.5**	**35.9**	**30.9**	**29.9**
Alkem	60,046	69,056	81,713	18.3	18.4	19.0	9,487	10,251	11,959	24.9	23.0	19.7	24.4	22.0	21.7
Indoco	11,138	13,171	15,063	15.7	17.6	18.4	917	1,298	1,580	25.2	17.9	15.2	15.0	18.1	19.7
Natco	19,244	21,756	25,556	31.5	31.6	33.0	4,234	4,745	5,919	32.2	29.0	23.3	27.5	24.2	23.2
Unichem	15,753	18,203	21,244	13.1	14.8	15.8	1,233	1,722	2,211	20.6	14.7	11.5	12.0	14.9	15.8
Alembic	32,337	36,835	42,967	20.0	21.5	23.0	4,377	5,268	6,611	26.4	22.0	17.4	24.8	24.7	25.3
Torrent	59,458	69,120	80,136	23.9	26.0	27.0	9,608	12,912	15,799	23.4	17.4	14.7	26.0	29.2	29.6
Granules	14,336	16,762	24,012	20.5	21.0	22.0	1,593	1,995	2,907	18.7	16.2	11.2	19.9	16.6	18.4

About Ajanta Pharma

- Ajanta Pharma (AJP) is a specialty pharmaceuticals company engaged in the development, manufacture and marketing of finished dosages. It started with repacking of generic products in 1973, and moved from OTC products to prescription-based products for the Indian market.
- It has established itself as a strong specialty player in the domestic market in Ophthalmology, Dermatology and Cardiology.
- In addition, it has strong presence into the international markets of Africa and Asia, and continues to build a strong foundation for the US market.

Key personnel at AJP

Yogesh Agrawal – Managing Director

Mr Agrawal joined AJP in 1996 as management trainee and grew up the ranks to become Managing Director. He spearheads AJP's foray in regulated market and emerging international market. Under his leadership, AJP has transformed research and manufacturing capabilities, setting up state-of-art facilities that meet stringent regulatory requirements.

Rajesh Agrawal – Joint Managing Director

Mr Agrawal joined AJP in 1999 and transformed the domestic formulations business to be one of the best performing market for the company. His keen focus on new products and strategizing has made Ajanta a leading player in the segments of cardiology, dermatology and ophthalmology in a very short period. Most of the new product launches, being first of its kind in the Indian market, are credited to his business acumen. He has also replicated this success in the Philippines, where Ajanta Pharma Philippines features among the fastest growing companies in that country for over three years.

Financials and valuations

Income statement and balance sheet (INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E
Total Income from Operations	**6,855**	**9,369**	**12,160**	**14,852**	**17,429**	**20,101**	**22,563**	**27,516**	**33,485**
Change (%)	36.3	36.7	29.8	22.1	17.4	15.3	12.2	21.9	21.7
Raw Materials	2,300	3,026	3,455	3,654	4,138	4,261	4,738	5,806	7,099
Employees Cost	938	1,232	1,570	2,006	2,570	2,975	3,384	4,210	5,190
R&D expenses	374	370	530	660	1,060	1,407	1,602	2,009	2,444
Other Expenses	1,804	2,436	2,841	3,363	3,700	4,675	5,167	6,081	7,266
Total Expenditure	**5,416**	**7,064**	**8,396**	**9,683**	**11,468**	**13,319**	**14,892**	**18,105**	**21,999**
% of Sales	79.0	75.4	69.0	65.2	65.8	66.3	66.0	65.8	65.7
EBITDA	**1,439**	**2,305**	**3,764**	**5,169**	**5,961**	**6,782**	**7,672**	**9,410**	**11,485**
Margin (%)	21.0	24.6	31.0	34.8	34.2	33.7	34.0	34.2	34.3
Depreciation	319	342	439	516	451	568	710	832	954
EBIT	**1,120**	**1,964**	**3,325**	**4,652**	**5,511**	**6,214**	**6,961**	**8,578**	**10,531**
Int. and Finance Charges	154	191	87	59	49	58	47	46	46
Other Income	62	56	137	168	166	281	316	385	469
PBT bef. EO Exp.	**1,028**	**1,828**	**3,375**	**4,761**	**5,628**	**6,438**	**7,230**	**8,917**	**10,953**
EO Items	-37	0	0	-85	0	0	0	0	0
PBT after EO Exp.	**991**	**1,828**	**3,375**	**4,677**	**5,628**	**6,438**	**7,230**	**8,917**	**10,953**
Total Tax	137	647	960	1,462	1,460	1,481	1,591	1,873	2,191
Tax Rate (%)	13.8	35.4	28.4	31.3	25.9	23.0	22.0	21.0	20.0
Reported PAT	**854**	**1,182**	**2,415**	**3,215**	**4,168**	**4,957**	**5,639**	**7,044**	**8,763**
Adjusted PAT	**886**	**1,182**	**2,415**	**3,273**	**4,168**	**4,957**	**5,639**	**7,044**	**8,763**
Change (%)	85.8	33.4	104.4	35.5	27.3	18.9	13.8	24.9	24.4
Margin (%)	12.9	12.6	19.9	22.0	23.9	24.7	25.0	25.6	26.2

Consolidated - Balance Sheet

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E
Equity Share Capital	118	118	177	177	177	177	177	177	177
Total Reserves	2,862	3,816	5,756	8,234	11,544	15,698	20,436	26,346	33,670
Net Worth	**2,980**	**3,934**	**5,933**	**8,411**	**11,721**	**15,875**	**20,613**	**26,523**	**33,847**
Total Loans	1,996	1,248	1,305	724	929	929	929	929	929
Deferred Tax Liabilities	171	237	230	152	200	200	200	200	200
Capital Employed	**5,148**	**5,419**	**7,468**	**9,286**	**12,850**	**17,004**	**21,742**	**27,652**	**34,976**
Gross Block	3,780	4,385	4,903	5,499	7,242	10,560	13,514	16,475	19,467
Less: Accum. Deprn.	1,319	1,659	2,109	2,618	2,726	3,294	4,004	4,836	5,791
Net Fixed Assets	**2,461**	**2,726**	**2,794**	**2,881**	**4,516**	**7,266**	**9,510**	**11,638**	**13,676**
Capital WIP	25	125	936	1,702	2,398	1,880	1,826	1,865	1,873
Total Investments	**85**	**85**	**635**	**595**	**664**	**664**	**664**	**664**	**664**
Curr. Assets, Loans&Adv.	**3,917**	**4,247**	**5,130**	**6,286**	**7,237**	**9,473**	**12,292**	**16,587**	**22,533**
Inventory	1,678	1,476	1,554	1,590	2,046	2,376	2,657	3,230	3,924
Account Receivables	1,410	1,505	2,022	2,588	3,724	4,294	4,820	5,878	7,154
Cash and Bank Balance	115	462	604	1,368	550	1,744	3,627	6,030	9,692
Loans and Advances	714	804	949	740	918	1,058	1,188	1,449	1,763
Curr. Liability & Prov.	**1,341**	**1,763**	**2,026**	**2,177**	**1,965**	**2,279**	**2,550**	**3,102**	**3,770**
Account Payables	1,013	1,317	1,245	1,298	1,650	1,916	2,142	2,604	3,164
Other Current Liabilities	174	217	325	188	176	203	227	277	338
Provisions	154	229	455	691	139	161	180	220	268
Net Current Assets	**2,577**	**2,484**	**3,104**	**4,108**	**5,272**	**7,194**	**9,742**	**13,485**	**18,763**
Appl. of Funds	**5,148**	**5,419**	**7,468**	**9,286**	**12,850**	**17,004**	**21,742**	**27,652**	**34,976**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	FY03	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E
Basic (INR)										
EPS	**0.3**	**10.0**	**13.4**	**27.3**	**37.0**	**47.1**	**56.0**	**63.8**	**79.6**	**99.1**
Cash EPS	1.4	13.6	17.2	32.3	42.8	52.2	62.5	71.8	89.1	109.9
BV/Share	16.1	33.7	44.5	67.1	95.1	132.5	179.5	233.0	299.9	382.7
DPS	0.0	1.0	1.7	4.0	6.0	8.0	8.4	9.4	11.8	15.0
Payout (%)	0.0	12.0	14.5	17.0	18.2	18.4	16.2	16.0	16.1	16.4
Valuation (x)										
P/E					46.3	36.4	30.6	26.9	21.5	17.3
Cash P/E					40.0	32.8	27.4	23.9	19.2	15.6
P/BV					18.0	12.9	9.5	7.4	5.7	4.5
EV/Sales					10.2	8.7	7.5	6.6	5.3	4.3
EV/EBITDA					29.2	25.5	22.2	19.4	15.6	12.4
Dividend Yield (%)	0.0	0.1	0.1	0.2	0.3	0.5	0.5	0.5	0.7	0.9
FCF per share	0.6	1.2	14.8	2.8	19.9	3.4	20.1	28.4	36.2	52.9
Return Ratios (%)										
RoE	1.9	33.6	34.2	49.0	45.6	41.4	35.9	30.9	29.9	29.0
RoCE	9.4	22.2	25.7	39.9	40.5	38.6	34.0	29.6	28.9	28.3
RoIC	10.9	21.8	26.2	47.4	58.6	54.9	43.6	38.3	39.0	40.3
Working Capital Ratios										
Fixed Asset Turnover (x)	1.0	1.8	2.1	2.5	2.7	2.4	1.9	1.7	1.7	1.7
Asset Turnover (x)	0.5	1.3	1.7	1.6	1.6	1.4	1.2	1.0	1.0	1.0
Inventory (Days)	153	89	58	47	39	43	43	43	43	43
Debtor (Days)	115	75	59	61	64	78	78	78	78	78
Creditor (Days)	63	54	51	37	32	35	35	35	35	34
Leverage Ratio (x)										
Current Ratio	5.4	2.9	2.4	2.5	2.9	3.7	4.2	4.8	5.3	6.0
Interest Cover Ratio	1.2	7.3	10.3	38.1	78.6	112.7	107.9	146.9	184.6	226.6
Net Debt/Equity	0.8	0.6	0.2	0.0	-0.1	0.0	-0.1	-0.2	-0.2	-0.3

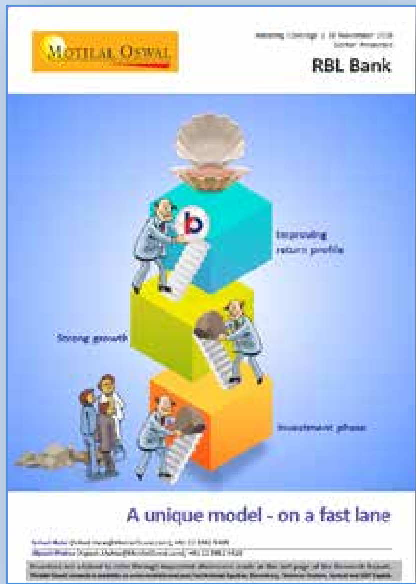
Consolidated - Cash Flow Statement **(INR million)**

Y/E March	FY03	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E
OP/(Loss) before Tax	15	910	1,635	3,299	4,560	5,474	6,438	7,230	8,917	10,953
Depreciation	99	319	342	439	516	451	568	710	832	954
Interest & Finance Charges	138	154	191	87	59	49	-224	-268	-339	-422
Direct Taxes Paid	3	-174	-331	0	-1,461	-1,614	-1,481	-1,591	-1,873	-2,191
(Inc)/Dec in WC	-185	-545	386	-1,683	-817	-1,235	-727	-666	-1,340	-1,616
CF from Operations	**70**	**663**	**2,223**	**2,142**	**2,858**	**3,125**	**4,574**	**5,415**	**6,198**	**7,678**
Others	45	41	120	-18	-64	139	0	0	0	0
CF from Operating incl EO	**115**	**704**	**2,343**	**2,124**	**2,794**	**3,264**	**4,574**	**5,415**	**6,198**	**7,678**
(Inc)/Dec in FA	-65	-598	-1,037	-1,878	-1,036	-2,962	-2,800	-2,900	-3,000	-3,000
Free Cash Flow	**50**	**105**	**1,306**	**246**	**1,759**	**302**	**1,774**	**2,515**	**3,198**	**4,678**
(Pur)/Sale of Investments	0	0	0	0	-45	-69	0	0	0	0
Others	0	23	87	97	102	135	281	316	385	469
CF from Investments	**-65**	**-576**	**-950**	**-1,781**	**-979**	**-2,896**	**-2,519**	**-2,584**	**-2,615**	**-2,531**
Inc/(Dec) in Debt	-26	90	-748	57	-581	206	0	0	0	0
Interest Paid	-133	-151	-195	-87	-60	-49	-58	-47	-46	-46
Dividend Paid	0	-68	-102	-171	-411	-1,343	-803	-901	-1,134	-1,439
CF from Fin. Activity	-160	-128	-1,045	-201	-1,052	-1,186	-861	-949	-1,180	-1,485
Inc/Dec of Cash	**-110**	**-1**	**348**	**142**	**764**	**-818**	**1,195**	**1,883**	**2,403**	**3,662**
Opening Balance	139	115	115	462	604	1,368	550	1,744	3,627	6,030
Closing Balance	**29**	**115**	**462**	**604**	**1,368**	**550**	**1,744**	**3,627**	**6,030**	**9,692**

NOTES

REPORT GALLERY

RECENT INITIATING COVERAGE REPORTS



Disclosures

This document has been prepared by Motilal Oswal Securities Limited (hereinafter referred to as Most) to provide information about the company (ies) and/sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies). This report is for personal information of the selected recipient/s and does not construe to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Motilal Oswal Securities Limited (hereinafter referred as MOSt) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

MOSt and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We and our affiliates have investment banking and other business relationships with a some companies covered by our Research Department. Our research professionals may provide input into our investment banking and other business selection processes. Investors should assume that MOSt and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may educate investors on investments in such business . The research professionals responsible for the preparation of this document may interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting information. Our research professionals are paid on twin parameters of performance & profitability of MOSt.
MOSt generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, MOSt generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoingamong other things, may give rise to real or potential conflicts of interest. MOSt and its affiliated company(ies), their directors and employees and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the affiliates of MOSt even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report Reports based on technical and derivative analysis center on studying charts company's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamental analysis. In addition MOST has different business segments / Divisions with independent research separated by Chinese walls catering to different set of customers having various objectives, risk profiles, investment horizon, etc, and therefore may at times have different contrary views on stocks sectors and markets.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt MOSt or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOSt or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOSt or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The information contained herein is based on publicly available data or other sources believed to be reliable. Any statements contained in this report attributed to a third party represent MOSt's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. This Report is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. While we would endeavor to update the information herein on reasonable basis, MOSt and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent MOSt and/or its affiliates from doing so. MOSt or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOSt or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

Most and it's associates may have managed or co-managed public offering of securities, may have received compensation for investment banking or merchant banking or brokerage services, may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.
Most and it's associates have not received any compensation or other benefits from the subject company or third party in connection with the research report.
Subject Company may have been a client of Most or its associates during twelve months preceding the date of distribution of the research report

MOSt and/or its affiliates and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report. To enhance transparency, MOSt has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Motilal Oswal Securities Limited is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000000412

Pending Regulatory inspections against Motilal Oswal Securities Limited:
SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudge violation of SEBI Regulations; MOSL replied to the Show Cause Notice whereby SEBI granted us an opportunity of Inspection of Documents. Since all the documents requested by us were not covered we have requested to SEBI vide our letter dated June 23, 2015 to provide pending list of documents for inspection.

List of associate companies of Motilal Oswal Securities Limited -Click here to access detailed report

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of MOSt research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Ajantata Pharma
Analyst ownership of the stock	No
Served as an officer, director or employee	No

A graph of daily closing prices of securities is available at www.nseindia.com and http://economictimes.indiatimes.com/markets/stocks/stock-quotes

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOSt& its group companies to registration or licensing requirements within such jurisdictions.

For Hong Kong: This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Kong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

For U.S

Motilal Oswal Securities Limited (MOSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the"1934 act") and under applicable state laws in the United States. In addition MOSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOSL, including the products and services described herein are not available to or intended for U.S. persons.

This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore
Motilal Oswal Capital Markets Singapore Pte Limited is acting as an exempt financial advisor under section 23(1)(f) of the Financial Advisers Act(FAA) read with regulation 17(1)(d) of the Financial Advisors Regulations and is a subsidiary of Motilal Oswal Securities Limited in India. This research is distributed in Singapore by Motilal Oswal Capital Markets Singapore Pte Limited and it is only directed in Singapore to accredited investors, as defined in the Financial Advisers Regulations and the Securities and Futures Act (Chapter 289), as amended from time to time.

In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:
Varun Kumar
Varun.kumar@motilaloswal.com
Contact : (+65) 68189232
Office Address:21 (Suite 31),16 CollyerQuay,Singapore 04931

MOTILAL OSWAL

Motilal Oswal Securities Ltd
Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025
Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com