Management Discussion and Analysis

Economic Overview and Outlook

As a result of the COVID-19 pandemic, the global economy is projected by IMF to contract by 3% in 2020, much worse than during the 2008–09 financial crisis. In a baseline scenario - which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound — the global economy is projected to grow by 5.8% in 2021 as economic activity normalizes, helped by policy support. The risks for even more severe outcomes, however, are substantial.

Growth of Emerging Market and Developing Economies is estimated to contract by 1% in 2020 and bounce back to 6.6% in 2021. India is expected to register 1.9% growth in 2020 and 7.4% in 2021.

Effective policies are essential to forestall the possibility of worse outcomes. Necessary measures to reduce contagion and protect lives are important investments for long-term human and economic health.

Pharmaceutical Sector Overview

The pharmaceutical industry is one of the world's fastest growing industries and among the biggest contributors to the world economy. It plays a unique role in improving the lives of patients. Its role has become far more critical amidst the fight against COVID -19 pandemic.

Invoice Spending and Growth

According to the IQVIA Institute paper published in March 2020, global invoice spending has steadily increased from 2014 –2019 with a 5-year CAGR of 4.7% to reach USD 1.2 trillion in 2019. The spending growth is consistent with the increased global use of medicine and is expected to register 3-6% CAGR to USD 1.6 trillion by 2024.

	2019 Spending US $ Bn	2014-2019 CAGR	2024 Spending US$ Bn	2020-2024 CAGR
Developed	822	3.8%	985-1015	2-5%
Pharmerging	358	7.0%	475-505	5-8%
Rest of the World	71	4.8%	85-95	2-5%
Global	**1251**	**4.7%**	**1570-1600**	**3-6%**

Exhibit-1 Source: IQVIA March 2020 Report "Global Medicine Spending and Usage Trends"

Developed Markets

Developed markets grew at a CAGR of 3.8% in the last 5 years to USD 821.6 billion in 2019. This is now expected to grow to USD 985 billion – 1 trillion by 2024, at a CAGR of 2-5%.

As per IQVIA, USA's share in global invoice spending is projected to increase to USD 605-635 billion in 2024 from USD 510 billion in 2019. This will be at a CAGR of 3 - 6% as compared with 4.3% CAGR in the previous 5 years.

Pharmerging Markets

This market grew at 7% CAGR in the last 5 years to USD 357.7 billion. It is now estimated to reach USD 475 – 505 billion in 2024, registering CAGR of 5-8%.

	2019 Spending US $ Bn	2014-2019 CAGR	2024 Spending US $ Bn	2020-2024 CAGR
China	142	6.7%	165-195	5-8%
Brazil	34	9.9%	45-49	6-9%
India	22	9.5%	31-35	8-11%
Russian Federation	15	8.4%	23-27	8-11%
Others (Tier3)	145	6.2%	195-225	5-8%
Total Pharmerging	**358**	**7.0%**	**475-505**	**5-8%**

Exhibit-2 Source: IQVIA March 2020 Report "Global Medicine Spending and Usage Trends"

Most emerging market growth has been driven by access expansions, leading to greater volume use and adoption of more novel therapies. These include specialty medicines, which are projected to contribute more to spending than in previous periods. However, most of the products used in these countries are non-original products, which aids in keeping spending low despite expanding volume. As a result, projections suggest most countries will have slower growth than historical CAGRs.

USD1.2 trillion

Global pharma invoice spending in 2019, significant contributor to world economy

As per the IQVIA, in 2019, the Indian Pharmaceutical Market (IPM) stood at about USD 22 billion, growing at 9.5% CAGR for 2014-19, at the back of volume, price and new launches. The IPM, earlier considered immune to economic downturns, seems to be now defying the trend and has slowed down in tandem with the broader economy. Analysis of IPM's growth drivers indicates slowdown coming from various external forces. Growth from product introduction has reduced substantially as the regulator is more careful with new combination drugs. Frequent regulatory interventions have also added to the woes.

Rest of the World markets grew by 5-year CAGR of 4.8% to USD 71 billion in 2019. This is now estimated to reach USD 85-95 billion by 2024.

Company Overview

Ajanta Pharma is a specialty pharmaceutical formulation company engaged in the development, manufacture and marketing of quality finished dosages. The Company has a well-diversified and de-risked business model with over 70% of business coming from a wide range of branded generic products in over 30 countries in Asia (including India) and Africa. The balance 30% is contributed by generics business in USA and anti-malaria institutional business in Africa.

Our strategy to invest in different markets and geographies in a sustained manner has made our business model quite resilient. We have also built competitive edge in each of the markets by identifying unmet needs and offering customized products. It is this edge that provides us continuous growth.

Performance Highlights

Following analysis and discussion is based on the consolidated financials of the company for the financial year 2020. It covers different business verticals as well as the consolidated financial position as a whole.

India Business

Ajanta Pharma's India business continued to perform well steered by strong focus on high growth specialty segments. Total sales from India business stood at ₹ 769 cr. against ₹ 690 cr. in the previous year.

As per IMS MAT March 2020, the Company outgrew Indian Pharmaceutical Market (IPM) recording 13% growth compared to 11% for the industry, maintaining its healthy track record for last 5 years, as described in Exhibit-3. Company has also improved its ranking in IPM to 30th against 31st last year.

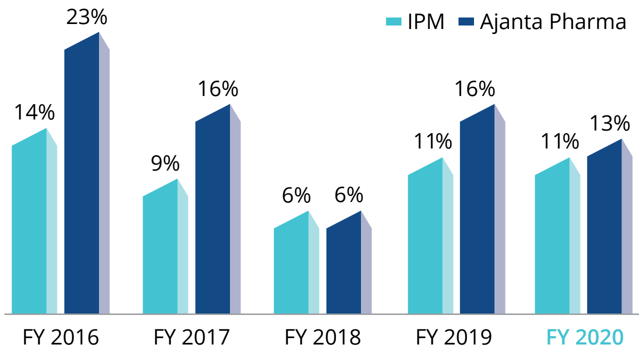

Exhibit-3 Source: Company and IQVIA

The Company continues to strengthen product portfolio through new launches, many of them being first-to-market products, offering significant patient benefits. Apart from new launches, many of the Company's existing products continue to grow their market share.

International business

Total sales from international business for FY 2020 stood at ₹ 1,790 cr. against ₹ 1,324 cr. in the previous year, a growth of 35%. It was primarily backed by robust growth of 82% in the US market and strong growth in branded generics at 27% in Asia and 14% in Africa.

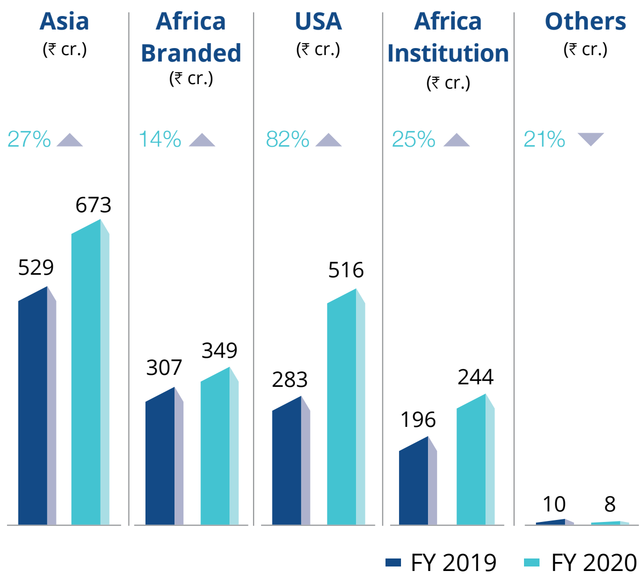

Exhibit-4 Source: Company

Our strategy to invest in different markets and geographies in a sustained manner has made our business model quite resilient

As explained in Exhibit 4 and Exhibit 5, company's exports revenues are contributed by well-diversified markets, avoiding over dependence on any single market.

Export Sales FY20

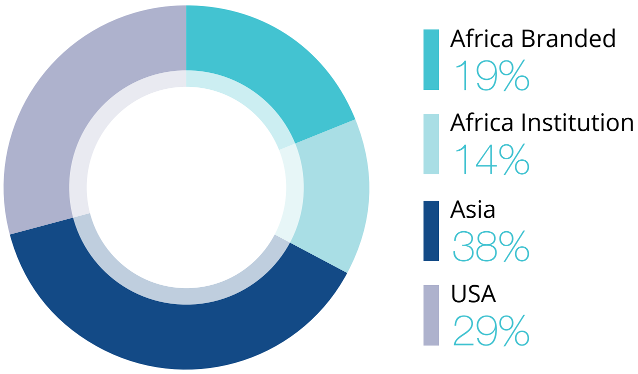

Exhibit-5 Source: Company

Operational and Financial Performance

It was a year of rebound after small de-growth in the previous year. Our strategy to remain focused on our core markets for growth and investing in the US market has helped us reclaim our growth.

₹ Cr.	FY 2020	*%	FY 2019	*%	% Annual Growth
Export	1,790	69%	1,324	64%	35%
Domestic	769	30%	690	34%	11%
Other Op. Income	29	1%	41	2%	(29%)
Revenue from Operations	**2,588**		**2,055**		**26%**
EBITDA	683	26%	558	27%	22%
PBT	664	26%	514	25%	29%
PAT	**468**	**18%**	**387**	**19%**	**21%**
Total Comprehensive Income	473	18%	384	19%	23%

* - % to Revenue from Operations
Exhibit-6: Source Company

Profit and Loss Statement

Revenue from operations

Revenue from operations stood at ₹ 2,588 cr. in FY 2020 against ₹ 2,055 cr. in FY 2019, registering growth of 26%. The US generic business saw a major pull after 7 products were launched in FY 2020, and annualised sales for products launched during H2 FY 2019 were received.

Material costs

Material cost has seen a major shift during the year, moving from 19% in FY 2019 to 25% in FY 2020, a jump of 600 basis points. This was mainly on account of US business increasing its share in the total revenue and increase in some of the raw material prices. We expect the cost to remain on the same lines in the future.

Employee expenses

Personnel expenses came down by about 200 basis points to 19% this year from 21% last year on the back of faster growth of revenue from operations. Total cost stood at ₹ 486 cr. for FY 2020 as against ₹ 431 cr. in FY 2019. The increase in absolute amount was on account of addition of teams at new plant locations of Pithampur and Guwahati, apart from annual increments provided for the year.

Other expenses

Other expenses stood at ₹ 763 cr. in FY 2020 (29% of revenue from operations) as against ₹ 675 cr. in FY 2019 (33% of revenue from operations), a 400 basis point improvement over previous year. We were able to further improve efficiency in operations with manufacturing, marketing, distribution, R&D and administrative expenses being monitored closely in the face of challenges. R&D cost dropped to 6% of revenue from operations in FY 2020. In absolute amount, it stood at ₹ 164 cr. in FY 2020 against ₹ 176 cr. in FY 2019. Effective steps are being taken to economise on all costs, without impacting the business objectives.

Exceptional item

Pursuant to a fire incident on 31 August 2019 at Guwahati plant, certain property, plant and equipment and inventory were damaged. The Company lodged insurance claim for the damages and the net loss of ₹ 3.92 cr. after adjusting insurance claim receivable has been presented under exceptional item.

Operating Profit Margin

EBITDA in FY 2020 stood at ₹ 683 cr., a 22% growth over previous year and 26% of revenue from operations, as against ₹ 558 cr. in FY 2019, being 27% of operating revenue. Going forward, as the manufacturing capacity utilisation improves for the newly set up facilities, we expect these margins to further improve over a period of time.

Net Profit Margin

Profit After Tax was at ₹ 468 cr. against ₹ 387 cr., a growth of 21% over previous year. Net margins stood at 18% in FY 2020 against 19% in FY 2019.

Return on Net Worth

Return on Net Worth saw an improvement of 100 basis points at 19% in FY 2020 against 18% in FY 2019.

Balance Sheet

Non-current assets

We have added another ₹ 230 cr. in property plant and equipment (including CWIP), in line with our plans to build world-class infrastructure for meeting the future growth requirement. This includes a green field manufacturing facility at Pithampur in Madhya Pradesh and commencement of oral solid section at Guwahati apart from maintenance capex at existing facilities. The non-current assets have gone up to ₹ 1,677 cr. in FY 2020 against ₹ 1,516 cr. in FY 2019.

Current assets

Current Assets came up to ₹ 1,642 cr. in FY 2020 from ₹ 1,180 cr. in FY 2019 mainly because of increase in trade receivables. Trade Receivable saw a major jump against last year in terms of number of days to sales, where it increased to 111 days in FY 2020 from 83 days in FY 2019 on the back of growing US operations. The absolute amount stood at ₹ 775 cr. in FY 2020 against ₹ 459 cr. in FY 2019.

Inventories in terms of number of days to sales, has improved to 71 days in FY 2020 from 79 days in FY 2019. In absolute amount, it has increased to ₹ 496 cr. in FY 2020 against ₹ 436 cr. in FY 2019.

Current Ratio for FY 2020 stood at 2.7 against 3.1 in FY 2019.

Shareholders' funds

Shareholders' funds increased to ₹ 2,599 cr. in FY 2020 from ₹ 2,245 cr. in FY 2019. Earnings per share stood at ₹ 54 in FY 2020 from ₹ 44 in FY 2019.

During the year, Company returned ₹ 116 cr. of shareholders' fund to its shareholders through dividend.

Non-current liabilities

Increase in deferred tax and lease liabilities for ₹ 34 cr. have taken non-current liabilities to ₹ 114 cr. in FY 2020 from ₹ 73 cr. in FY 2019.

Current liabilities

Trade payables for increased US business resulted in higher current liability at ₹ 606 cr. in FY 2020 against ₹ 378 cr. in FY 2019.

The year ahead seems challenging due to the prevalent COVID 19 situation and require a tremendous response on costs. Efficient operations, cost optimization and delivery automation will be the key focus areas going into the next year. We also anticipate our working capital to increase, but our strong balance sheet combined with a focus on cash conservation provides us the confidence that we will emerge stronger and better.

Consolidated Cash Flow

Company had a healthy cash flow during FY 2020, the snapshot of this is in Exhibit 7.

With our major capex cycle coming to conclusion with all major greenfield projects getting completed, we expect the free cash flows to improve in coming years.

₹ cr.

Particulars	FY 2020	FY 2019
Opening Cash and Cash Equivalents	95	91
Cash flows from:		
a) Operating Activities	457	374
b) Investing Activities	(224)	(223)
a) Financing Activities	(129)	(147)
Effect of exchange rate changes	3	0
Closing Cash and Cash Equivalents	**202**	**95**

Exhibit-7: Source Company

Empowered Team

Your Company's Human Resource Development efforts aim to make Ajanta a preferred place to work. This is being achieved through various initiatives including skill development, personality enhancement, passionate leisure pursuits and employee engagement through internal communications to foster happiness at work.

Ajanta Pharma has a diverse talent pool of over 7000+ Ajantaites. The Company acknowledges the indispensable role of Ajantaites in driving continued success.

Talent management at Ajanta means having most skilled and engaged Ajantaites delivering their best in their current roles while getting ready for higher responsibilities.

Making Ajanta a **preferred place** to work

Risk Management

While we are writing this report, we are in the midst of COVID-19 pandemic. There is high level of uncertainty about the duration of the lockdown and the time required for things to get normal. The extent to which COVID-19 pandemic will impact the operations and financial results is dependent on the future developments, which are highly uncertain. This is a major risk in the immediate future and its long term impact needs to be assessed.

Your Company has been proactive in terms of managing risks in an organised manner. A review of the risk management policy is carried out Annually by the Risk Management Committee and the Board of Directors so as to ensure that new risks which might arise or the impact of existing risks which might have increased are identified and a proper strategy is put in place for mitigating such risks.

During the year, major risks identified and their mitigation plan are enumerated hereunder:

Regulatory Risk

Pharmaceutical industry is a highly regulated segment with many local and overseas agencies monitoring it. The regulatory framework covers entire spectrum of activities like, development and approval of product, approval of manufacturing facilities, etc. Hence, the regulatory risk is one of the significant risks identified by the management. Company has implemented detailed Standard Operating Procedure (SOP) for every important activity, has a strong quality assurance function (QA), robust IT framework for compliance, monitoring and documentation, etc. for mitigating the regulatory risks.

Competition & Price Control Risk

Being a global pharmaceutical player, selling branded generic and generic formulations across the globe, competition and price pressures are common risk in all markets. Company has a strong mitigation mechanism for this risk with the strategy to launch differentiated high-value products meant for specialty segments and first-to-file products having latest off-patent molecules. Further, we keep improving operational efficiencies to rationalize costs.

Forex Risk

About 70% of the company's turnover comes from exports and hence, foreign currency risk is one of the important risks it has to manage on continuous basis, some of them being adverse sharp movement in local/overseas currency rates. Company has a Forex policy and forex risk management committee in place to manage forex exposure. It manages forex risk with hedging about 50% of its foreign currency exposures with plain vanilla forwards.

Financial Risk

Tax uncertainty and debtor default could have adverse financial impact. Credit risk is the risk that a counter party does not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The mitigation plan includes dealing mainly with stockists, distributors and customers who have been transacting with the group for long periods and credit limits established for all customers based on rating criteria.

Data Security Risk

Data security breach can result in increased internal and external security threats, leading to business disruption, reputational damages and litigations. An elaborate mitigation plan is in place including access restrictions, firewalls, backups and documented antivirus policy.

Economic & Political Environment Risk

Company's operations span across the globe having diverse political and economic environments. Any adverse change like political instability leading to policy uncertainty, tariff/ trade wars, economic sanctions, leading to weakening of Global economy may impact company's business. Company continuously evaluates political and economic scenario across the globe and restricts overall exposure to identified countries, in terms of sales and invested capital.

Internal Controls and Adequacy

Your Company has implemented an Internal Financial Control (IFC) framework to ensure proper internal controls over financial reporting. Internal Controls safeguard Company's assets against loss from unauthorised use and ensures reliability of financial reporting. It is also designed for effectiveness and efficiency of operations, compliance or regulations backed by strong audit framework at all the locations. A well-defined system of internal audit is in place so as to independently review and strengthen these internal controls. The Audit Committee of the Company reviews the reports of the internal auditors quarterly and recommends steps for further improvement of the internal controls.

Cautionary Statement

Statements in the Management Discussion and Analysis describing the Company's objective, projections, estimates, expectations may be forward-looking statements. Actual results may differ materially from those expressed or implied due to various risks and uncertainties. Important factors that could make a difference to the Company's operations include economic and political condition in India and in the countries in which the Company operates, volatility in currency rates, changes in government regulations and policies, tax laws, statutes and other incidental factors. The Company does not undertake to update these statements.