

Ajanta Pharma

Estimate change



TP change



Rating change



CMP: INR1,763

TP: INR2,030 (+15%)

Buy

India/US drive earnings

Marketing spend to increase in the near term

- Ajanta Pharma (AJP) delivered in-line 2QFY24 earnings. The operating profit margin has been on a sharp revival trend with 630bp/70bp improvement on YoY/QoQ basis. Healthy performance in domestic formulation (DF), US, and branded Africa markets, coupled with favourable cost factors, is driving better profitability for AJP.
- We maintain our earnings estimate for FY24/FY25. We value AJP at 25x 12M forward earnings to arrive at a price target of INR2,030.
- We remain positive on AJP on the back of sustained better-than-industry growth in the branded generics segment and steady US sales despite price erosion in base portfolio. We reiterate our BUY rating on the stock.

Product mix/better operating leverage led superior margins YoY

- AJP's 2QFY24 revenues grew 9.6% YoY to INR10.3b (in line), led by growth across branded generics segment of India, US, and Africa, partially offset by challenges in the Asian business. US generic sale was up 28% YoY to INR2.4b (21% of sales). Domestic formulation (DF) sale was up 13.1% YoY to INR3.6b (35% of sales). Africa branded generic and institutional sale was up 8.8% YoY to INR1.9b (19% of sales). Branded generics Asia sale was down 8.4% YoY to INR2.3b, (22% of sales).
- Gross Margin expanded ~280bp YoY to 75.1%, due to a change in product mix and reduced raw material cost.
- EBITDA margin expanded by ~630bp YoY to 28.3% (our est. 26.3%), driven by better gross margins and lower 'other expenses' (down 530bp YoY as % of sales), partly offset by higher employee cost (up ~180bp YoY as % of sales).
- EBITDA grew 41% YoY to INR2.9b (our est. INR2.7b).
- Adjusting for the Forex gain of INR128m, Adj. PAT grew 14% YoY to INR1.9b (in line).
- For 1HFY24, Revenue/EBITDA/PAT grew 8%/25%/14% YoY to INR20.5b/INR5.7b/INR3.9b.

Highlights from the management commentary

- AJP guided for low teens YoY revenue growth in branded generics markets of Asia/Africa markets.
- AJP indicated US sales run-rate to be stable for 2HFY24 (INR4.5b in 1HFY24).
- AJP guided for EBITDA margin to be 26% for FY24.
- AJP launched 10 products, including 4 products which are first to launch in DF market.
- AJP witnessed high single-digit price erosion in US base portfolio.
- Reduced international logistics cost led lower other expenses for 2QFY24. However, increased marketing expenses would keep opex at a higher level in 2HFY24.

Bloomberg	AJP IN
Equity Shares (m)	127
M.Cap.(INRb)/(USDb)	222 / 2.7
52-Week Range (INR)	1904 / 1122
1, 6, 12 Rel. Per (%)	1/29/30
12M Avg Val (INR M)	229

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	37.4	41.4	47.3
EBITDA	8.5	11.0	13.0
Adj. PAT	6.2	7.8	9.3
EBIT Margin (%)	19.1	23.3	24.5
Cons. Adj. EPS (INR)	49.2	61.4	73.3
EPS Gr. (%)	-10.0	24.7	19.4
BV/Sh. (INR)	267.8	312.3	366.9

Ratios

Net D:E	-0.3	-0.3	-0.4
RoE (%)	18.7	21.2	21.6
RoCE (%)	18.8	21.2	21.7
Payout (%)	24.7	23.3	25.5

Valuations

P/E (x)	35.9	28.8	24.1
EV/EBITDA (x)	26.0	19.6	16.3
Div. Yield (%)	0.7	0.8	1.1
FCF Yield (%)	3.3	2.9	3.6
EV/Sales (x)	5.9	5.2	4.5

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	66.2	66.2	70.5
DII	15.6	15.8	13.1
FII	10.0	10.2	8.2
Others	8.2	7.8	8.2

FII Includes depository receipts

Consol. - Quarterly perf.

(INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Net Sales	9,509	9,381	9,718	8,818	10,210	10,284	10,484	10,381	37,426	41,359	10,435	-1.4
YoY Change (%)	27.1	6.0	16.0	1.3	7.4	9.6	7.9	17.7	12.0	10.5	11.2	
Total Expenditure	6,992	7,318	7,555	7,107	7,397	7,378	7,748	7,836	28,972	30,358	7,690	
EBITDA	2,518	2,063	2,162	1,711	2,813	2,907	2,736	2,545	8,454	11,002	2,744	5.9
YoY Change (%)	14.4	-21.5	-9.7	-22.1	11.7	40.9	26.5	48.8	-10.3	30.1	33.0	
Margins (%)	26.5	22.0	22.3	19.4	27.6	28.3	26.1	24.5	22.6	26.6	26.3	
Depreciation	318	327	333	330	332	337	342	353	1,308	1,364	338	
EBIT	2,200	1,736	1,829	1,381	2,482	2,570	2,394	2,192	7,146	9,637	2,406	6.8
YoY Change (%)	16.2	-24.9	-12.0	-26.8	12.8	48.0	30.9	58.7	-12.5	34.9	38.6	
Margins (%)	23.1	18.5	18.8	15.7	24.3	25.0	22.8	21.1	19.1	23.3	23.1	8.3
Interest	9	10	28	11	9	23	13	7	58	52	14	
Other Income	48	394	239	123	121	85	95	113	803	414	135	
PBT before EO expense	2,239	2,120	2,040	1,493	2,594	2,631	2,476	2,298	7,892	9,999	2,527	4.1
Extra-Ord expense	20	90	357	-28	97	128	0	0	-439	225	0	
PBT	2,219	2,030	1,683	1,521	2,691	2,759	2,476	2,298	7,453	10,224	2,527	9.2
Tax	472	464	338	299	609	806	520	361	1,574	2,297	594	
Effective Rate (%)	21.3	22.9	20.1	19.7	22.6	29.2	21.0	15.7	21.1	22.5	23.5	
MI & P/L of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0	
Reported PAT	1,746	1,566	1,345	1,222	2,082	1,953	1,956	1,937	5,879	7,927	1,933	1.0
Adj PAT	1,762	1,635	1,630	1,200	2,007	1,862	1,956	1,937	6,227	7,762	1,933	-3.7
YoY Change (%)	14.4	-11.4	-15.0	-25.6	13.9	13.9	20.0	61.4	-10.0	24.7	18.2	
Margins (%)	18.4	16.7	16.4	13.4	19.4	18.0	18.5	18.5	16.3	18.6	18.3	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E
INRm	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE
Domestic formulations	2,790	3,140	2,940	2,870	3,192	3,550	3,412	3,273	11,740	13,427	3,503
YoY Change (%)	21.8	26.6	14.8	17.1	14.4	13.1	16.0	14.1	20.0	14.4	11.6
Asia	2,400	2,510	2,280	2,380	2,540	2,300	2,599	2,609	9,570	10,049	2,686
YoY Change (%)	45.5	31.4	17.5	(9.5)	5.8	(8.4)	14.0	9.6	17.7	5.0	7.0
Africa (branded + Insti)	2,450	1,790	1,760	1,490	2,240	1,947	1,977	1,974	7,490	8,139	2,165
YoY Change (%)	36.9	(20.4)	(13.3)	(19.9)	(8.6)	8.8	12.4	32.5	(5.5)	8.7	20.9
US	1,790	1,850	2,660	1,980	2,130	2,370	2,341	2,333	8,280	9,174	2,091
YoY Change (%)	6.5	(4.6)	60.2	17.9	19.0	28.1	(12.0)	17.8	19.0	10.8	13.0
Cost Break-up											
RM Cost (% of Sales)	26.3	27.7	26.7	27.3	24.7	24.9	25.0	25.4	27.0	25.0	27.2
Staff Cost (% of Sales)	19.2	19.8	19.8	25.4	20.9	21.6	21.4	21.7	21.0	21.4	18.8
R&D Expenses (% of Sales)	5.7	6.3	6.3	7.2	5.4	4.9	0.0	0.0	6.3	6.0	0.0
Other Cost (% of Sales)	28.0	30.5	31.2	27.9	26.9	25.2	27.5	28.4	29.4	27.0	30.0
Gross Margins(%)	73.7	72.3	73.3	72.7	75.3	75.1	75.0	74.6	73.0	75.0	72.8
EBITDA Margins(%)	26.5	22.0	22.3	19.4	27.6	28.3	26.1	24.5	22.6	26.6	24.0
EBIT Margins(%)	23.1	18.5	18.8	15.7	24.3	25.0	22.8	21.1	19.1	23.3	20.8
PBT Margins(%)	23.4	21.7	20.5	16.7	25.1	25.4	23.4	21.9	20.6	23.9	22.0
PAT Margins(%)	18.4	16.7	16.4	13.4	19.4	18.0	18.5	18.2	16.3	18.4	16.8

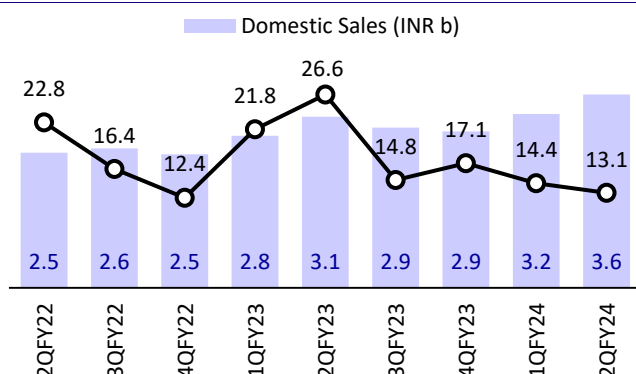


Other highlights from the management commentary

- AJP launched 2 ANDAs in 1HFY24 and intends to launch 3-4 ANDAs in the remaining FY24
- In the DF segment, AJP achieved a YoY growth of 6%/5%/3% in volume/price/new launches for 2QFY24.
- The ETR would be 25% for FY24.
- AJP garnered INR450m in the trade generics segment for the quarter.
- Capex for 1HFY24 was INR460m and AJP guided for INR1.5b capex for FY24.

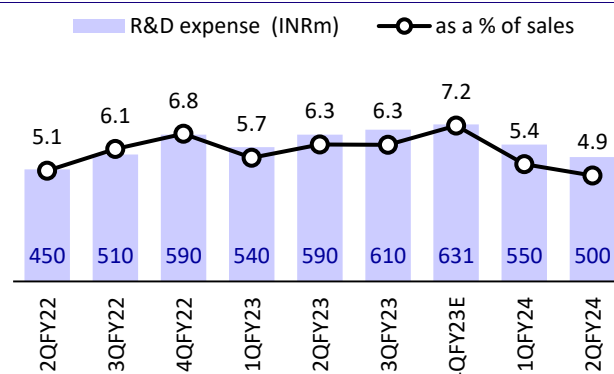
Key exhibits

Exhibit 1: DF sales up ~13% YoY in 2QFY24



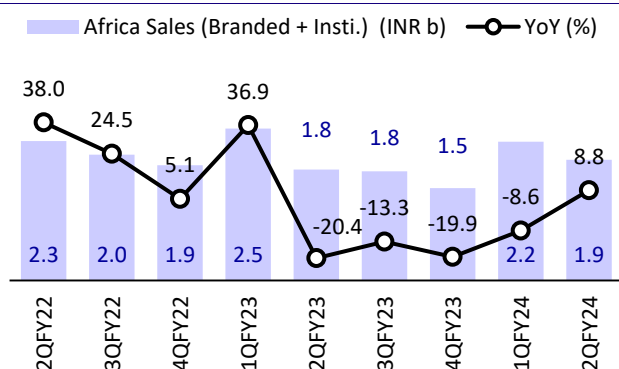
Source: MOFSL, Company

Exhibit 2: R&D spend at 5% of sales for 2QFY24



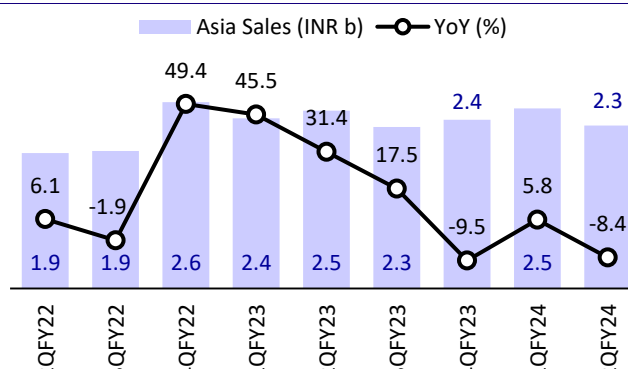
Source: MOFSL, Company

Exhibit 3: Africa sales (Branded + Institutional) up ~9% YoY in 2QFY24



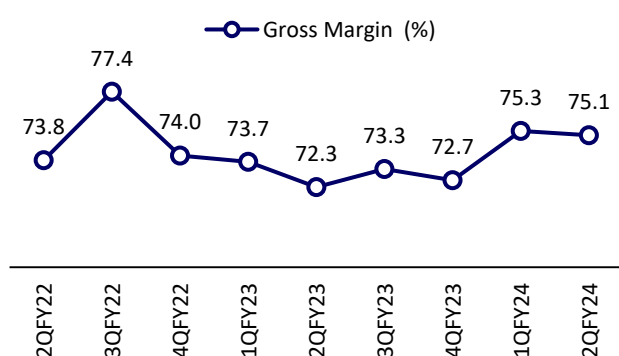
Source: MOFSL, Company

Exhibit 4: Asia sales declined ~8.4% YoY



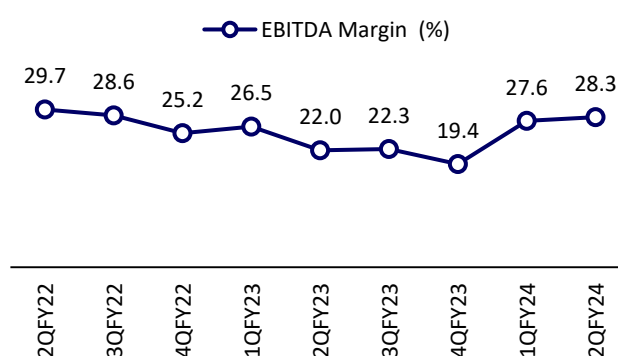
Source: MOFSL, Company

Exhibit 5: Gross margins expanded ~280bp YoY



Source: MOFSL, Company

Exhibit 6: EBITDA margin expanded ~630bp YoY



Source: MOFSL, Company

Efforts on track to outperform industry at controlled cost

Branded generics – well-positioned to sustain better-than-industry growth

- In 1H FY24, AJP's revenue grew 14% YoY to ~INR6.7b in the DF segment, due to new launches, market share gains, and improved MR productivity.
- AJP outperformed the industry by ~400bp in MAT Sept'23 due to double-digit growth in all the key therapies.
- We expect AJP to deliver a 15% sales CAGR in the DF segment over FY23-25.
- The African business remained stable YoY at INR4.2b in 1H FY24, primarily due to supply disruption that normalized from Jun'23. Given the improved conditions and a favorable market outlook, we anticipate the Africa business to outperform the industry, aiming for a sales CAGR of 10% over FY23-25 to reach INR9b.
- By prioritizing chronic therapies and expanding into emerging markets to bolster its current market presence, AJP is poised for significant growth. We expect AJP to register a 10% sales CAGR in Asia, reaching INR11.5b over FY23-25.

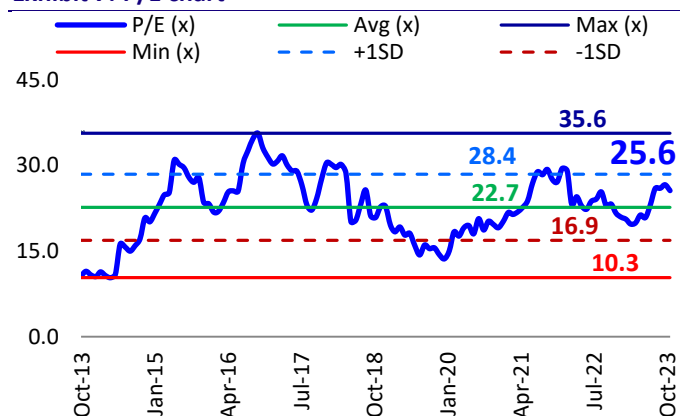
Market share gains/new launches to drive growth in the US

- In 1H FY24, US generics sales grew 15% YoY to ~USD55m due to market share gains, lower intensity of price erosion, and new launches.
- In 1H FY24, AJP filed 5 ANDAs and received 6 ANDA approvals. It plans to file 3-4 ANDAs during the rest of the year.
- AJP expects to launch g-Chantix in 4Q FY24/1Q FY25.
- We expect AJP to post 13% sales CAGR to INR10.5b over FY23-25.

Reiterate BUY

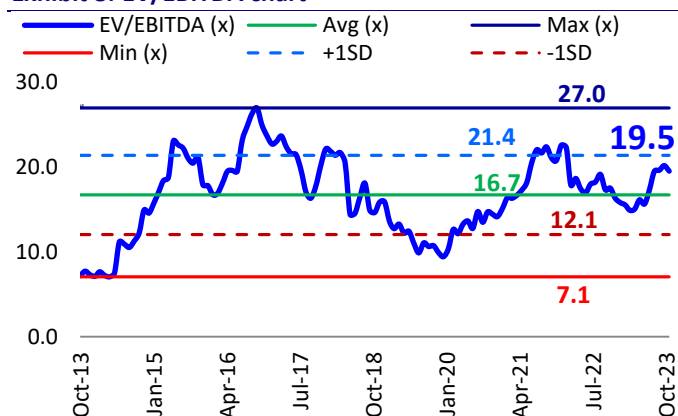
- We maintain our earnings estimate for FY24/FY25. We value AJP at 25x 12M forward earnings to arrive at a price target of INR2,030.
- We remain positive on AJP on the back of sustained better-than-industry growth in the branded generics segment and steady US sales despite price erosion in base portfolio. We reiterate our BUY rating on the stock.

Exhibit 7: P/E chart



Source: MOFSL, Company, Bloomberg

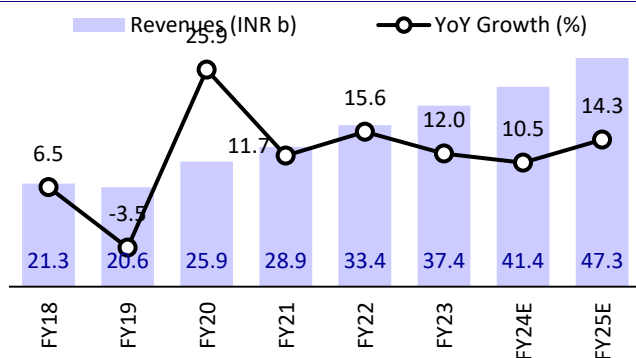
Exhibit 8: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

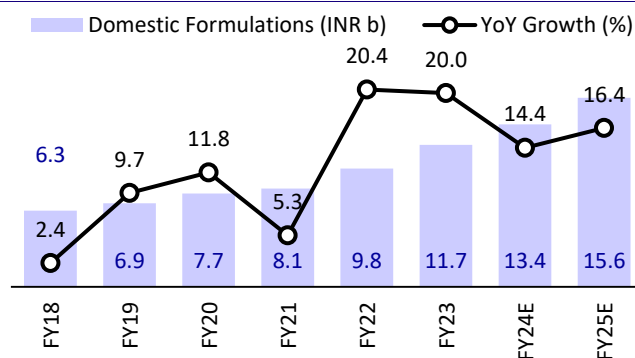
Story in charts

Exhibit 9: Total sales to post 12.4% CAGR over FY23-25



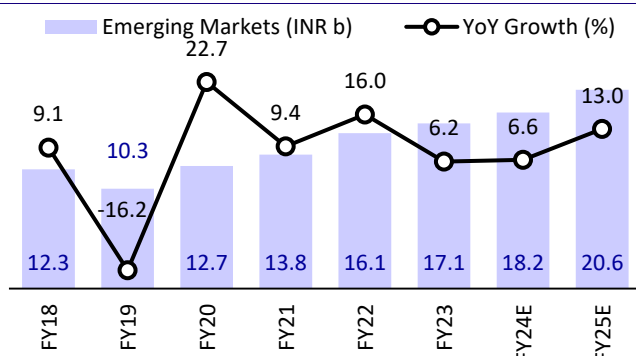
Source: Company, MOFSL

Exhibit 10: DF sales to report 15.4% CAGR over FY23-25



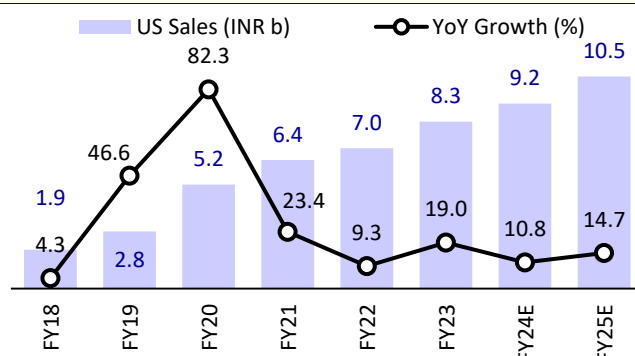
Source: Company, MOFSL

Exhibit 11: EM sales to clock 9.8% CAGR over FY23-25



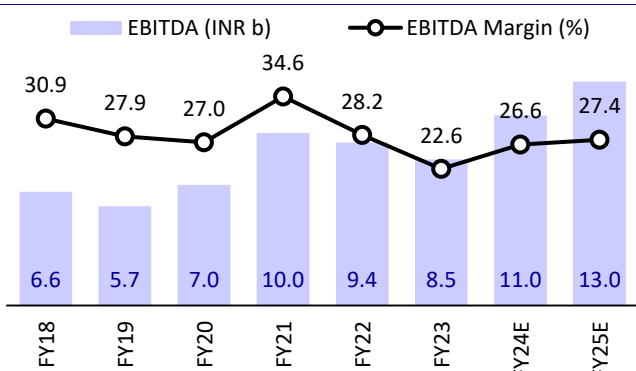
Source: Company, MOFSL

Exhibit 12: The US sales to record 12.7% CAGR over FY23-25



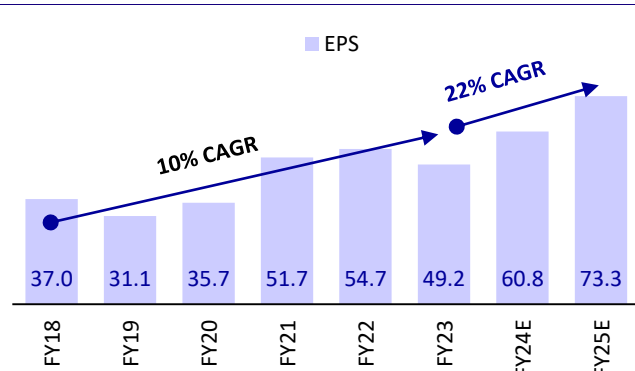
Source: Company, MOFSL

Exhibit 13: Expects 480bp margin expansion by FY25



Source: Company, MOFSL

Exhibit 14: Expects 22% earnings CAGR over FY23-25



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement						(INR m)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	20,554	25,879	28,897	33,410	37,426	41,359	47,288
Change (%)	-3.5	25.9	11.7	15.6	12.0	10.5	14.3
Total Expenditure	14,809	18,895	18,911	23,986	28,972	30,358	34,331
% of Sales	72.1	73.0	65.4	71.8	77.4	73.4	72.6
EBITDA	5,744	6,983	9,986	9,424	8,454	11,002	12,957
Margin (%)	27.9	27.0	34.6	28.2	22.6	26.6	27.4
Depreciation	721	957	1,161	1,253	1,308	1,364	1,369
EBIT	5,024	6,026	8,825	8,171	7,146	9,637	11,588
Int. and Finance Charges	12	119	83	102	58	52	52
Other Income	211	522	260	757	803	414	473
PBT bef. EO Exp.	5,223	6,429	9,002	8,826	7,892	9,999	12,009
EO Items	80	211	0	269	439	-225	0
PBT after EO Exp.	5,143	6,640	9,002	9,095	7,453	10,224	12,009
Total Tax	1,273	1,963	2,463	1,968	1,574	2,297	2,738
Tax Rate (%)	24.8	29.6	27.4	21.6	21.1	22.5	22.8
Reported PAT	3,870	4,677	6,539	7,127	5,879	7,927	9,271
Adjusted PAT	3,930	4,522	6,539	6,916	6,225	7,762	9,271
Change (%)	-16.1	15.1	44.6	5.8	-10.0	24.7	19.4
Margin (%)	19.1	17.5	22.6	20.7	16.6	18.8	19.6

Consolidated - Balance Sheet						(INR m)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	175	175	174	172	253	253	253
Total Reserves	22,277	25,813	29,782	32,472	33,627	39,258	46,164
Net Worth	22,452	25,989	29,956	32,644	33,880	39,511	46,417
Total Loans	7	7	16	19	15	15	15
Deferred Tax Liabilities	271	558	421	463	977	977	977
Capital Employed	22,730	26,553	30,393	33,125	34,872	40,502	47,408
Gross Block	16,152	20,045	21,896	22,857	24,012	26,513	28,258
Less: Accum. Deprn.	4,366	5,324	6,485	7,738	9,046	10,410	11,779
Net Fixed Assets	11,786	14,721	15,411	15,120	14,966	16,103	16,479
Capital WIP	2,613	1,319	1,082	1,529	2,095	1,244	999
Total Investments	888	476	517	707	5,465	5,465	5,465
Curr. Assets, Loans&Adv.	11,357	16,417	20,276	22,645	24,265	30,766	39,547
Inventory	4,357	4,957	7,665	7,911	8,156	9,066	10,534
Account Receivables	4,595	7,753	7,384	10,198	10,569	11,898	13,992
Cash and Bank Balance	1,005	2,053	2,096	2,118	3,309	7,337	12,202
Loans and Advances	1,400	1,655	3,131	2,418	2,231	2,465	2,819
Curr. Liability & Prov.	3,913	6,379	6,893	6,875	11,919	13,075	15,080
Account Payables	2,251	3,623	3,739	3,272	4,227	4,574	5,361
Other Current Liabilities	1,278	2,230	2,858	3,302	7,310	8,078	9,236
Provisions	384	526	296	301	382	422	483
Net Current Assets	7,444	10,038	13,383	15,770	12,346	17,691	24,467
Appl. of Funds	22,730	26,553	30,393	33,126	34,872	40,502	47,408

E: MOFSL Estimates

Financials and valuations

Ratios							
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)							
EPS	31.1	35.7	51.7	54.7	49.2	61.4	73.3
Cash EPS	36.8	43.3	60.9	64.6	59.5	72.1	84.1
BV/Share	177.5	205.4	236.8	258.1	267.8	312.3	366.9
DPS	6.3	9.0	6.6	6.4	11.5	14.6	18.7
Payout (%)	20.6	24.8	12.7	11.4	24.7	23.3	25.5
Valuation (x)							
P/E	56.8	49.4	34.1	32.3	35.9	28.8	24.1
Cash P/E	48.0	40.8	29.0	27.3	29.6	24.5	21.0
P/BV	9.9	8.6	7.5	6.8	6.6	5.7	4.8
EV/Sales	10.8	8.5	7.7	6.6	5.9	5.2	4.5
EV/EBITDA	38.7	31.7	22.2	23.5	26.0	19.6	16.3
Dividend Yield (%)	0.4	0.5	0.4	0.4	0.7	0.8	1.1
FCF per share	-1.9	15.6	34.5	33.3	48.8	43.6	53.8
Return Ratios (%)							
RoE	18.3	18.7	23.4	22.1	18.7	21.2	21.6
RoCE	18.4	19.0	23.6	22.3	18.8	21.2	21.7
RoIC	21.4	20.7	25.9	23.1	21.4	29.6	32.4
Working Capital Ratios							
Asset Turnover (x)	0.9	1.0	1.0	1.0	1.1	1.0	1.0
Inventory (Days)	77	66	97	86	80	80	81
Debtor (Days)	82	109	93	111	103	105	108
Creditor (Days)	40	51	47	36	41	40	41
Leverage Ratio (x)							
Net Debt/Equity	-0.1	-0.1	-0.1	-0.1	-0.3	-0.3	-0.4
Consolidated - Cash Flow Statement							
						(INR m)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	5,303	6,218	9,002	9,095	7,453	9,774	12,009
Depreciation	721	957	1,161	1,253	1,308	1,364	1,369
Interest & Finance Charges	-199	-403	-177	-655	58	-362	-421
Direct Taxes Paid	-1,273	-1,963	-2,463	-1,968	-1,513	-2,297	-2,738
(Inc)/Dec in WC	115	-1,548	-1,708	-2,427	665	-1,317	-1,911
CF from Operations	4,667	3,262	5,815	5,298	7,971	7,162	8,308
Others	-922	1,306	169	323	-53	0	0
CF from Operating incl EO	3,745	4,568	5,983	5,620	7,918	7,162	8,308
(Inc)/Dec in FA	-3,979	-2,599	-1,614	-1,409	-1,745	-1,650	-1,500
Free Cash Flow	-234	1,969	4,369	4,212	6,173	5,512	6,808
(Pur)/Sale of Investments	1,155	413	-41	-190	-3,907	0	0
Others	596	-58	-1,169	857	56	414	473
CF from Investments	-2,228	-2,244	-2,824	-741	-5,596	-1,236	-1,027
Issue of Shares	0	0	-2	-2	-14	0	0
Inc/(Dec) in Debt	-5	1	9	3	-5	0	0
Interest Paid	-12	-119	-83	-102	-23	-52	-52
Dividend Paid	-796	-1,159	-829	-816	-897	-1,847	-2,364
Others	-664	-405	-1,832	-3,873	-192	0	0
CF from Fin. Activity	-1,476	-1,683	-2,737	-4,790	-1,131	-1,899	-2,416
Inc/Dec of Cash	41	640	422	89	1,191	4,027	4,865
Opening Balance	906	952	1,592	2,014	2,103	3,295	7,322
Closing Balance	948	1,592	2,014	2,103	3,295	7,322	12,187
Unrealised loss / (gain) on forex	4	432	82	14	14	14	14
Total Cash & Cash Eq	1,005	2,053	2,096	2,118	3,309	7,337	12,202

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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