

Ajanta Pharma

Estimate change 

TP change 

Rating change 

CMP: INR2,174

TP: INR2,515 (+15%)

Buy

Asia/Africa drive earnings

Growth to revive in India over the near term

- Ajanta Pharma (AJP) delivered better-than-expected 3QFY24 performance, led by strong growth in the Asia and Africa region. Domestic formulation (DF) exhibited muted growth, due to addition of a brand under National list of Essential medicine (NLEM). AJP would end FY24 on a strong recovery in profitability compared to that in FY23.
- We raise our earnings estimate by 9%/6%/3% for FY24/FY25/FY26, factoring a) better-than-industry growth in the branded generics market, b) improved traction in institutional anti-malaria business and c) controlled opex. We value AJP at 26x 12M forward earnings to arrive at a price target of INR2,515.
- We expect 18% earnings CAGR, led by 15% sales CAGR in the branded generics market of DF/Asia/ Africa and 60bp margin expansion. We remain positive on AJP, on the back of a) new launches and market share gain driving superior growth in DF/Asia/Africa compared to the industry, b) better MR productivity in DF, and c) potential for M&A-led growth utilizing surplus cash. We reiterate our BUY rating on the stock.

Improved operating leverage led strong margin expansion on YoY basis

- AJP 3QFY24 sales grew 14% to INR11b (our est: INR10.3b). Africa-branded generic and institutional sale was up 37% YoY to INR2.4b (22% of sales). Branded generics Asia sale was up 28% YoY to INR2.9b, (26% of sales). Domestic formulation (DF) sale was up 5% YoY to INR3b (28% of sales). US generic sale declined 5% YoY to INR2.5b (23% of sales).
- Gross margin was stable YoY at 73.4%.
- However, EBITDA margin expanded ~690bp YoY to 29.1% (our est. 26.1%) due to lower other expenses (down 790bp YoY as percentage of sales), partly offset by higher employee cost (+110bp YoY as % of sales).
- EBITDA grew 49% YoY to INR3.2b (our est. INR2.7b).
- Adjusting for the forex impact of INR35m, Adj. PAT grew at lower rate of 30% YoY to INR2.1b (our est. INR1.9b), due to lower other income and higher tax.
- For 9MFY24, Revenue/EBITDA/PAT grew 10%/33%/19% YoY to INR31.5b/INR9b/INR6b.

Highlights from the management commentary

- AJP guided for gross margin to sustain at 75%. AJP upped its EBITDA margin guidance to 27%+-1% for FY24.
- AJP guided for low teens/mid-to-high single digit YoY growth in Asia/Africa branded generics market for FY24.
- AJP intends to file 8/10-12 ANDAs in FY24/FY25.
- The price/volume/new launches YoY growth for AJP was 3.9%/4%/3.7% vs 4.3%/2.6%/3% for IPM for 12M ending Dec'23.
- Other expenses may increase 7% QoQ due to Red-sea issue and higher marketing spend in the branded generics market.

	AJP IN
Bloomberg	
Equity Shares (m)	127
M.Cap.(INRb)/(USDb)	273.8 / 3.3
52-Week Range (INR)	2355 / 1122
1, 6, 12 Rel. Per (%)	4/18/57
12M Avg Val (INR M)	278

Financials & Valuations (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	42.1	49.0	55.9
EBITDA	11.9	13.9	16.1
Adj. PAT	8.4	10.0	11.7
EBIT Margin (%)	25.0	25.6	26.2
Cons. Adj. EPS (INR)	66.5	79.1	92.1
EPS Gr. (%)	35.1	18.9	16.5
BV/Sh. (INR)	316.4	375.3	444.0

Ratios

Net D:E	-0.3	-0.4	-0.5
RoE (%)	22.8	22.9	22.5
RoCE (%)	22.9	23.0	22.6
Payout (%)	23.6	25.5	25.5

Valuations

P/E (x)	32.8	27.6	23.7
EV/EBITDA (x)	22.6	18.9	15.8
Div. Yield (%)	0.7	0.9	1.1
FCF Yield (%)	3.2	3.8	5.9
EV/Sales (x)	6.4	5.4	4.5

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	66.2	66.2	66.1
DII	16.7	15.6	15.8
FII	9.1	10.0	10.1
Others	8.0	7.8	8.0

FII Includes depository receipts

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Consol. - Quarterly perf.

(INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	9,509	9,381	9,718	8,818	10,210	10,284	11,052	10,600	37,426	42,146	10,292	7.4
YoY Change (%)	27.1	6.0	16.0	1.3	7.4	9.6	13.7	20.2	12.0	12.6	5.9	
Total Expenditure	6,992	7,318	7,555	7,107	7,397	7,378	7,835	7,652	28,972	30,261	7,606	
EBITDA	2,518	2,063	2,162	1,711	2,813	2,907	3,217	2,949	8,454	11,885	2,686	19.7
YoY Change (%)	14.4	-21.5	-9.7	-22.1	11.7	40.9	48.7	72.3	-10.3	40.6	24.2	
Margins (%)	26.5	22.0	22.3	19.4	27.6	28.3	29.1	27.8	22.6	28.2	26.1	
Depreciation	318	327	333	330	332	337	343	353	1,308	1,364	342	
EBIT	2,200	1,736	1,829	1,381	2,482	2,570	2,874	2,596	7,146	10,521	2,344	22.6
YoY Change (%)	16.2	-24.9	-12.0	-26.8	12.8	48.0	57.1	88.0	-12.5	47.2	28.1	
Margins (%)	23.1	18.5	18.8	15.7	24.3	25.0	26.0	24.5	19.1	25.0	22.8	14.2
Interest	9	10	28	11	9	23	25	18	58	75	13	
Other Income	48	394	239	123	121	85	95	121	803	421	95	
PBT before EO expense	2,239	2,120	2,040	1,493	2,594	2,631	2,944	2,699	7,892	10,868	2,426	21.3
Extra-Ord expense	20	90	357	-28	97	128	35	0	-439	190	0	
PBT	2,219	2,030	1,683	1,521	2,691	2,759	2,909	2,698	7,453	11,057	2,426	19.9
Tax	472	464	338	299	609	806	809	285	1,574	2,509	509	
Effective Rate (%)	21.3	22.9	20.1	19.7	22.6	29.2	27.8	10.6	21.1	22.7	21.0	
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	2,100	2,413	5,879	8,548	1,917	9.6
Adj PAT	1,762	1,635	1,630	1,200	2,007	1,862	2,125	2,416	6,227	8,410	1,917	10.9
YoY Change (%)	14.4	-11.4	-15.0	-25.6	13.9	13.9	30.4	101.4	-10.0	35.1	17.6	
Margins (%)	18.4	16.7	16.4	13.4	19.4	18.0	19.1	22.5	16.3	19.8	18.5	

Key performance Indicators (Consolidated)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
INRm											
Domestic formulations	2,790	3,140	2,940	2,870	3,190	3,550	3,080	3,298	11,740	13,118	3,302
YoY Change (%)	21.8	26.6	14.8	17.1	14.3	13.1	4.8	14.9	20.0	11.7	12.3
Asia	2,400	2,510	2,280	2,380	2,540	2,300	2,920	2,576	9,570	10,336	2,531
YoY Change (%)	45.5	31.4	17.5	(9.5)	5.8	(8.4)	28.1	8.2	17.7	8.0	11.0
Africa (branded + Insti)	2,450	1,790	1,760	1,490	2,240	1,947	2,410	1,998	7,490	8,595	1,963
YoY Change (%)	36.9	(20.4)	(13.3)	(19.9)	(8.6)	8.8	36.9	34.1	(5.5)	14.7	11.5
US	1,790	1,850	2,660	1,980	2,130	2,370	2,520	2,507	8,280	9,527	2,341
YoY Change (%)	6.5	(4.6)	60.2	17.9	19.0	28.1	(5.3)	26.6	19.0	15.1	(12.0)
Cost Break-up											
RM Cost (% of Sales)	26.3	27.7	26.7	27.3	24.7	24.9	26.6	24.5	27.0	25.2	25.0
Staff Cost (% of Sales)	19.2	19.8	19.8	25.4	20.9	21.6	20.9	22.2	21.0	21.4	21.4
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	23.3	25.5	29.4	25.2	27.5
Gross Margins(%)	73.7	72.3	73.3	72.7	75.3	75.1	73.4	75.5	73.0	74.8	75.0
EBITDA Margins(%)	26.5	22.0	22.3	19.4	27.6	28.3	29.1	27.8	22.6	28.2	26.1
EBIT Margins(%)	23.1	18.5	18.8	15.7	24.3	25.0	26.0	24.5	19.1	25.0	22.8
PBT Margins(%)	23.4	21.7	20.5	16.7	25.1	25.4	26.4	25.2	20.6	25.5	23.4
PAT Margins(%)	18.4	16.7	16.4	13.4	19.4	18.0	19.1	22.5	16.3	19.8	18.5

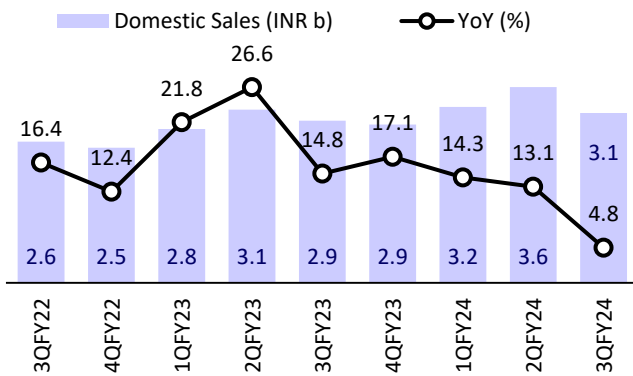


Other highlights from the management commentary

- About 12% of AJP's portfolio in the DF segment is under NLEM.
- AJP launched 15/5 products in 9MFY24 in Asia/Africa branded generics market
- AJP would be launching one product in the US generics market in 4QFY24.
- The YoY growth in the cardiology segment within DF space was lower, primarily due to the inclusion of one brand under NLEM.

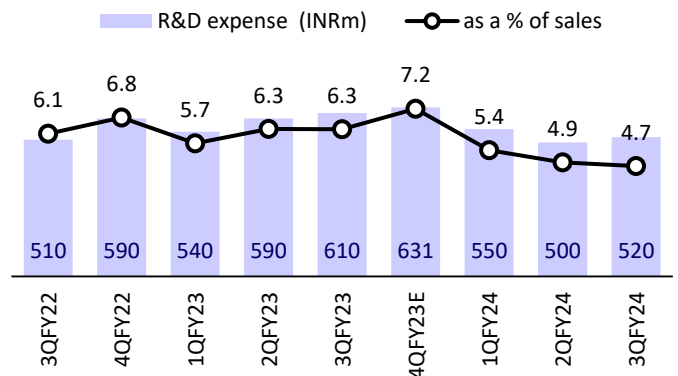
Key exhibits

Exhibit 1: DF sales up ~5% YoY in 3QFY24



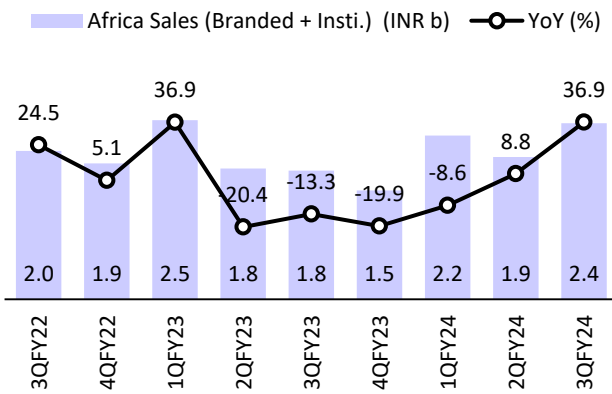
Source: MOFSL, Company

Exhibit 2: R&D spend at ~5% of sales for 3QFY24



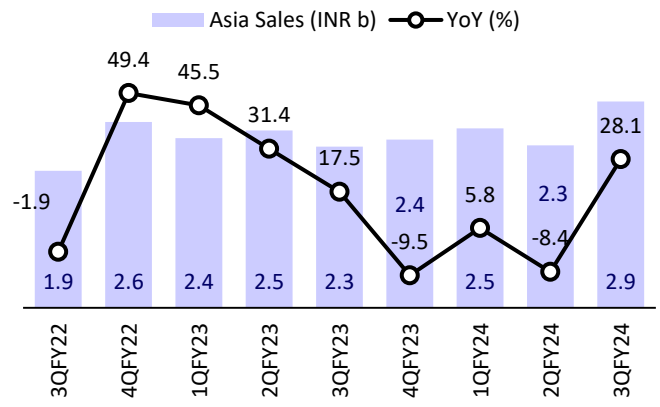
Source: MOFSL, Company

Exhibit 3: Africa sales (Branded + Institutional) up ~37% YoY in 3QFY24



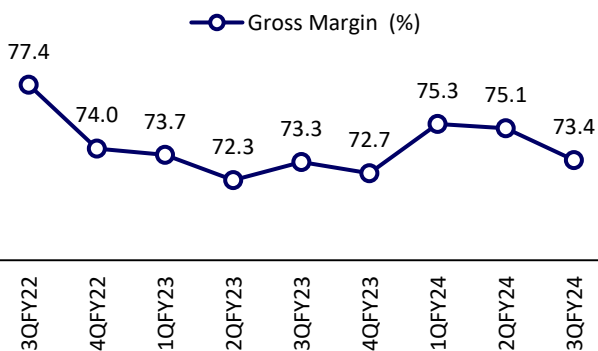
Source: MOFSL, Company

Exhibit 4: Asia sales grew 28% YoY in 3QFY24



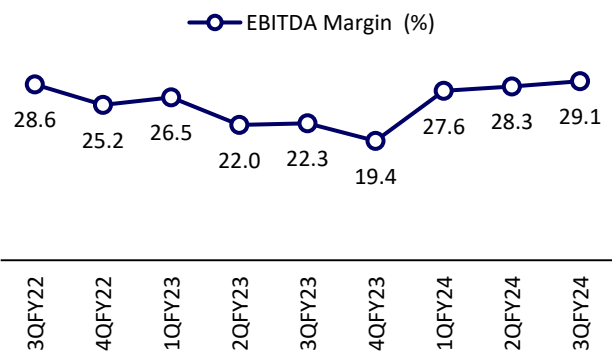
Source: MOFSL, Company

Exhibit 5: Gross margins stable YoY



Source: MOFSL, Company

Exhibit 6: EBITDA margin expanded ~690bp YoY



Source: MOFSL, Company

Well-placed to outperform the industry

Robust outperformance to drive growth in Branded Generics segment

- In 9MFY24, AJP's DF revenue grew 10% YoY to ~INR8.6b. This growth was due to increased traction in base portfolio, price increase, new launches, and improved MR productivity.
- As per IQVIA, in MAT Dec'23, AJP outperformed the industry by ~200bp. This was led by robust outperformance in derma/pain/ophthalmology by 400bp/1100bp/700bp vs. IPM. However, this was offset by cardiac therapy, which underperformed IPM by 400bp.
- Over FY24-26, we expect AJP to deliver 14% sales CAGR in the DF segment.
- In 9MFY24, the African branded generic business grew 3% YoY at INR4.7b. This growth was led by new launches, partly offset by slowdown in the overall market. It launched five products in 9MFY24. With recovery in Africa post inventory stabilization and new introductions, we expect the Africa business to post sales CAGR of 10% to reach INR10.6b over FY24-26.
- Moreover, in Asia, AJP is enhancing its market presence by prioritizing chronic therapies and expanding into emerging markets. We expect AJP to register a 15% sales CAGR in Asia, reaching INR13.6b over FY24-26.

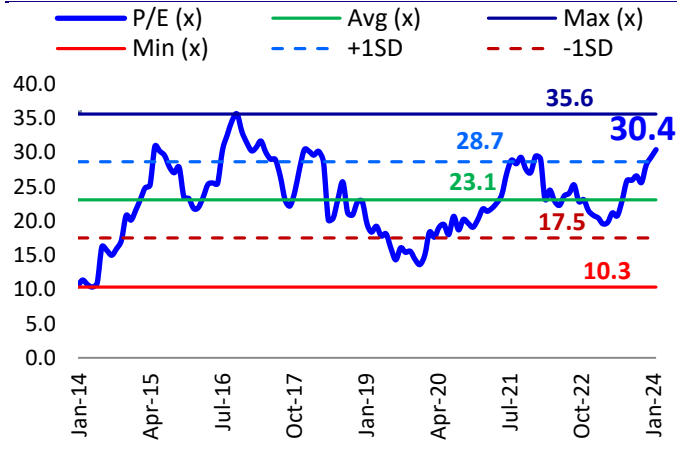
US to grow on the back of new launches/increase in market share

- In 9MFY24, US generics sales grew 11% YoY to INR7b (~USD86m), benefiting from favorable currency movements and market share gains.
- In 9MFY24, AJP filed six ANDAs and plans to file about two ANDAs in 4QFY24. Moreover, it received six final approvals and launched four ANDAs in 9MFY24, and expects to launch one more product in 4QFY24. It has 22 ANDAs awaiting approval with the USFDA.
- AJP expects to launch g-Chantix in 1QFY25.
- We expect AJP to post 18% sales CAGR to INR13.3b over FY24-26.

Reiterate BUY

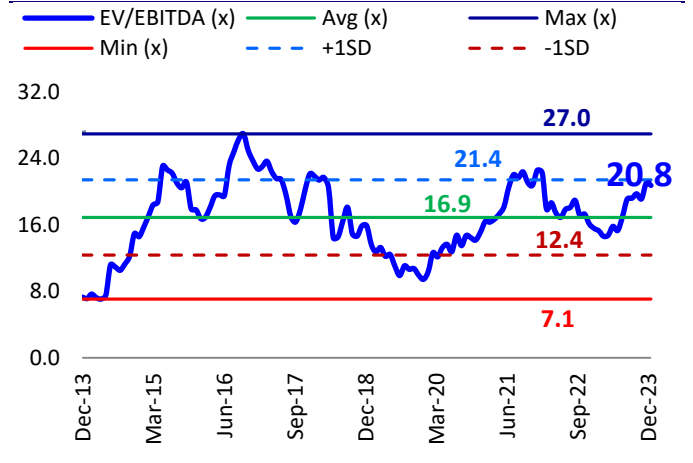
- We raise our earnings estimate by 9%/6%/3% for FY24/FY25/FY26 factoring a) better-than-industry growth in the branded generics market, b) improved traction in institutional anti-malaria business and c) controlled opex. We value AJP at 26x 12M forward earnings to arrive at a price target of INR2,515.
- We expect 18% earnings CAGR, led by 15% sales CAGR in the branded generics market of DF/Asia/ Africa and 60bp margin expansion. We remain positive on AJP, on the back of a) new launches and market share gain driving superior growth in DF/Asia/Africa compared to industry, b) better MR productivity in DF, c) potential for M&A-led growth utilizing surplus cash. We reiterate our BUY rating on the stock.

Exhibit 7: P/E chart



Source: MOFSL, Company, Bloomberg

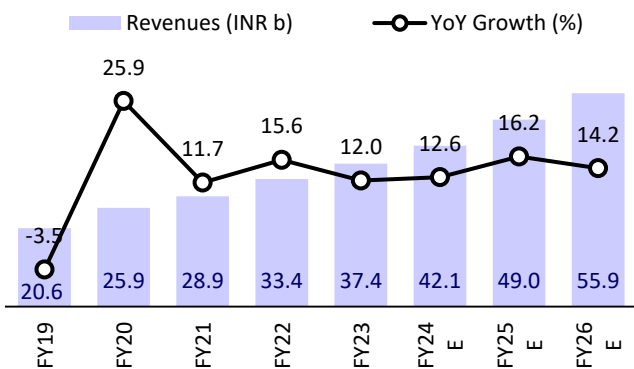
Exhibit 8: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

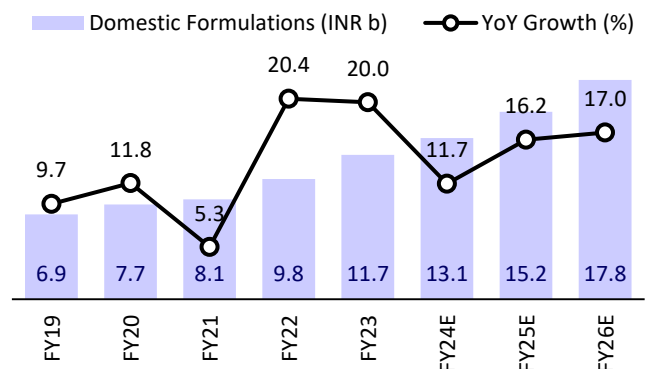
Story in charts

Exhibit 9: Total sales to post 15% CAGR over FY24-26



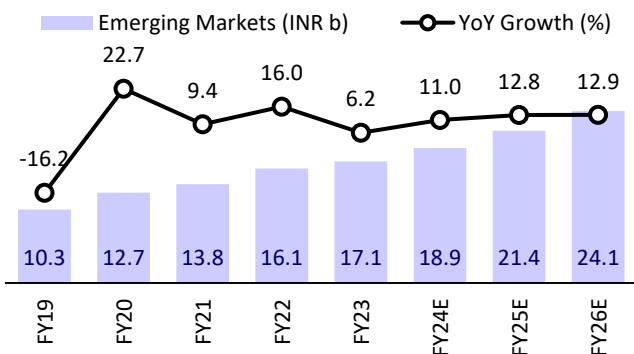
Source: Company, MOFSL

Exhibit 10: DF sales to report 16.6% CAGR over FY24-26



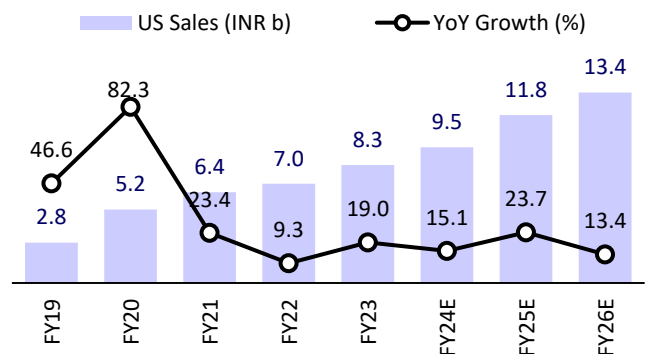
Source: Company, MOFSL

Exhibit 11: EM sales to clock 13% CAGR over FY24-26



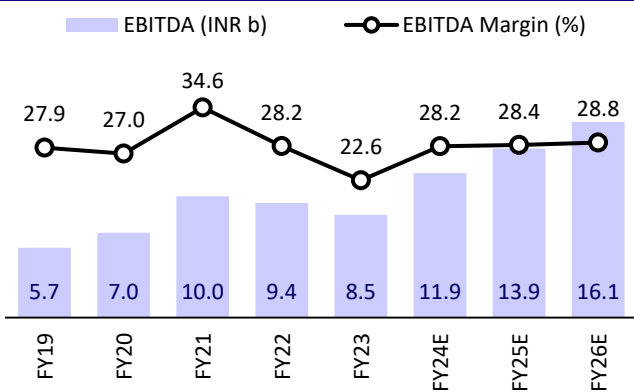
Source: Company, MOFSL

Exhibit 12: The US sales to record 18% CAGR over FY24-26



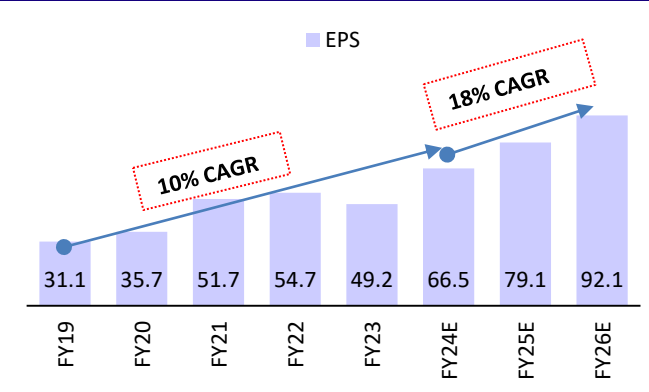
Source: Company, MOFSL

Exhibit 13: Expects 60bp margin expansion over FY24-26



Source: Company, MOFSL

Exhibit 14: Expects 18% earnings CAGR over FY24-26



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INRm)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	20,554	25,879	28,897	33,410	37,426	42,146	48,976	55,912
Change (%)	-3.5	25.9	11.7	15.6	12.0	12.6	16.2	14.2
Raw Materials	3,835	6,557	6,451	8,192	10,107	10,621	12,293	13,978
Employees Cost	4,307	4,856	5,483	6,458	7,851	9,019	10,040	11,182
R&D expenses	1,760	1,640	1,390	2,040	2,370	2,529	2,939	3,187
Other Expenses	4,908	5,842	5,588	7,296	8,644	8,092	9,795	11,462
Total Expenditure	14,809	18,895	18,911	23,986	28,972	30,261	35,067	39,810
% of Sales	72.1	73.0	65.4	71.8	77.4	71.8	71.6	71.2
EBITDA	5,744	6,983	9,986	9,424	8,454	11,885	13,909	16,103
Margin (%)	27.9	27.0	34.6	28.2	22.6	28.2	28.4	28.8
Depreciation	721	957	1,161	1,253	1,308	1,364	1,369	1,452
EBIT	5,024	6,026	8,825	8,171	7,146	10,521	12,540	14,651
Int. and Finance Charges	12	119	83	102	58	75	75	75
Other Income	211	522	260	757	803	421	490	559
PBT bef. EO Exp.	5,223	6,429	9,002	8,826	7,892	10,868	12,955	15,135
EO Items	80	211	0	269	439	-190	0	0
PBT after EO Exp.	5,143	6,640	9,002	9,095	7,453	11,057	12,955	15,135
Total Tax	1,273	1,963	2,463	1,968	1,574	2,509	2,954	3,481
Tax Rate (%)	24.8	29.6	27.4	21.6	21.1	22.7	22.8	23.0
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	3,870	4,677	6,539	7,127	5,879	8,548	10,001	11,654
Adjusted PAT	3,930	4,522	6,539	6,916	6,225	8,410	10,001	11,654
Change (%)	-16.1	15.1	44.6	5.8	-10.0	35.1	18.9	16.5
Margin (%)	19.1	17.5	22.6	20.7	16.6	20.0	20.4	20.8

Consolidated - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	175	175	174	172	253	253	253	253
Total Reserves	22,277	25,813	29,782	32,472	33,627	39,778	47,229	55,911
Net Worth	22,452	25,989	29,956	32,644	33,880	40,031	47,482	56,164
Total Loans	7	7	16	19	15	15	15	15
Deferred Tax Liabilities	271	558	421	463	977	977	977	977
Capital Employed	22,730	26,553	30,393	33,125	34,872	41,022	48,473	57,155
Gross Block	16,152	20,045	21,896	22,857	24,012	26,513	28,258	29,807
Less: Accum. Deprn.	4,366	5,324	6,485	7,738	9,046	10,410	11,779	13,231
Net Fixed Assets	11,786	14,721	15,411	15,120	14,966	16,103	16,479	16,576
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	2,613	1,319	1,082	1,529	2,095	1,244	999	950
Total Investments	888	476	517	707	5,465	5,465	5,465	5,465
Curr. Assets, Loans&Adv.	11,357	16,417	20,276	22,645	24,265	31,433	41,073	51,873
Inventory	4,357	4,957	7,665	7,911	8,156	9,037	10,760	12,870
Account Receivables	4,595	7,753	7,384	10,198	10,569	12,124	14,492	14,093
Cash and Bank Balance	1,005	2,053	2,096	2,118	3,309	7,760	12,902	21,577
Loans and Advances	1,400	1,655	3,131	2,418	2,231	2,512	2,920	3,333
Curr. Liability & Prov.	3,913	6,379	6,893	6,875	11,919	13,222	15,542	17,708
Account Payables	2,251	3,623	3,739	3,272	4,227	4,560	5,476	6,217
Other Current Liabilities	1,278	2,230	2,858	3,302	7,310	8,232	9,566	10,921
Provisions	384	526	296	301	382	430	500	571
Net Current Assets	7,444	10,038	13,383	15,770	12,346	18,211	25,531	34,165
Appl. of Funds	22,730	26,553	30,393	33,126	34,872	41,022	48,473	57,155

Financials and valuations

Ratios								
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	31.1	35.7	51.7	54.7	49.2	66.5	79.1	92.1
Cash EPS	36.8	43.3	60.9	64.6	59.5	77.3	89.9	103.6
BV/Share	177.5	205.4	236.8	258.1	267.8	316.4	375.3	444.0
DPS	6.3	9.0	6.6	6.4	11.5	15.9	20.2	23.5
Payout (%)	20.6	24.8	12.7	11.4	24.7	23.6	25.5	25.5
Valuation (x)								
P/E	70.2	61.0	42.2	39.9	44.3	32.8	27.6	23.7
Cash P/E	59.3	50.3	35.8	33.8	36.6	28.2	24.3	21.0
P/BV	12.3	10.6	9.2	8.4	8.1	6.9	5.8	4.9
EV/Sales	13.4	10.6	9.5	8.2	7.3	6.4	5.4	4.5
EV/EBITDA	47.8	39.2	27.4	29.0	32.2	22.6	18.9	15.8
Dividend Yield (%)	0.3	0.4	0.3	0.3	0.5	0.7	0.9	1.1
FCF per share	-1.9	15.6	34.5	33.3	48.8	48.4	57.5	88.2
Return Ratios (%)								
RoE	18.3	18.7	23.4	22.1	18.7	22.8	22.9	22.5
RoCE	18.4	19.0	23.6	22.3	18.8	22.9	23.0	22.6
RoIC	21.4	20.7	25.9	23.1	21.4	32.2	34.8	38.7
Working Capital Ratios								
Inventory (Days)	77	66	97	86	80	78	80	84
Debtor (Days)	82	109	93	111	103	105	108	92
Creditor (Days)	40	51	47	36	41	39	41	41
Leverage Ratio (x)								
Net Debt/Equity	-0.1	-0.1	-0.1	-0.1	-0.3	-0.3	-0.4	-0.5

Consolidated - Cash Flow Statement								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	5,303	6,218	9,002	9,095	7,453	10,678	12,955	15,135
Depreciation	721	957	1,161	1,253	1,308	1,364	1,369	1,452
Interest & Finance Charges	-199	-403	-177	-655	58	-346	-415	-484
Direct Taxes Paid	-1,273	-1,963	-2,463	-1,968	-1,513	-2,509	-2,954	-3,481
(Inc)/Dec in WC	115	-1,548	-1,708	-2,427	665	-1,414	-2,178	42
CF from Operations	4,667	3,262	5,815	5,298	7,971	7,772	8,778	12,663
Others	-922	1,306	169	323	-53	0	0	0
CF from Operating incl EO	3,745	4,568	5,983	5,620	7,918	7,772	8,778	12,663
(Inc)/Dec in FA	-3,979	-2,599	-1,614	-1,409	-1,745	-1,650	-1,500	-1,500
Free Cash Flow	-234	1,969	4,369	4,212	6,173	6,122	7,278	11,163
(Pur)/Sale of Investments	1,155	413	-41	-190	-3,907	0	0	0
Others	596	-58	-1,169	857	56	421	490	559
CF from Investments	-2,228	-2,244	-2,824	-741	-5,596	-1,229	-1,010	-941
Issue of Shares	0	0	-2	-2	-14	0	0	0
Inc/(Dec) in Debt	-5	1	9	3	-5	0	0	0
Interest Paid	-12	-119	-83	-102	-23	-75	-75	-75
Dividend Paid	-796	-1,159	-829	-816	-897	-2,018	-2,550	-2,972
Others	-664	-405	-1,832	-3,873	-192	0	0	0
CF from Fin. Activity	-1,476	-1,683	-2,737	-4,790	-1,131	-2,093	-2,625	-3,047
Inc/Dec of Cash	41	640	422	89	1,191	4,450	5,142	8,676
Opening Balance	906	952	1,592	2,014	2,103	3,295	7,745	12,887
Closing Balance	948	1,592	2,014	2,103	3,295	7,745	12,887	21,563
Unrealised loss / (gain) on forex	4	432	82	14	14	14	14	14
Total Cash & Cash Eq	1,005	2,053	2,096	2,118	3,309	7,760	12,902	21,577

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SELL	< - 10%
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UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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