

Ajanta Pharma

Estimate change

TP change

Rating change



	AJP IN
Bloomberg	
Equity Shares (m)	88
M.Cap.(INRb)/(USD\$b)	141.5 / 1.8
52-Week Range (INR)	2420 / 1632
1, 6, 12 Rel. Per (%)	4/-13/-27
12M Avg Val (INR M)	178

Financials & Valuations (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	33.4	36.4	41.3
EBITDA	9.4	9.9	11.7
Adj. PAT	6.9	7.2	8.6
EBIT Margin (%)	24.5	23.4	25.0
Cons. Adj. EPS (INR)	78.2	81.1	97.5
EPS Gr. (%)	5.8	3.6	20.2
BV/Sh. (INR)	369.1	430.1	503.5

Ratios

Net D:E	-0.1	-0.2	-0.3
RoE (%)	22.1	20.3	20.9
RoCE (%)	22.3	20.4	20.9
Payout (%)	24.7	24.7	24.7

Valuations

P/E (x)	21.1	20.4	17.0
EV/EBITDA (x)	15.3	14.1	11.6
Div. Yield (%)	1.2	1.2	1.5
FCF Yield (%)	2.9	3.7	4.0
EV/Sales (x)	4.3	3.8	3.3

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	70.5	70.3	70.3
DII	12.7	12.6	12.6
FII	8.6	9.0	8.4
Others	8.1	8.1	8.7

FII Includes depository receipts

CMP: INR1,657

TP: INR2,080 (+26%)

Buy

Focus towards outperformance in branded generics segment ANDA filing pace to strengthen in FY23E

- Ajanta Pharma (AJP) posted in-line 4QFY22. Superior show in Asia/domestic formulation (DF)/Africa (branded generics) was offset by increased competition in the US generics market and incremental cost pressures.
- We have cut our FY23E/FY24E EPS by 6%/7%, respectively, to factor in increased raw material/supply chain costs, higher price erosion in the US generics and muted institutional anti-malaria sales. We value AJP at 22x 12M forward earnings to arrive at our TP of INR2,080.
- We believe AJP will sustain outperformance in the branded generics segment of DF/Africa/Asia aided by new launches, market share gains in existing products and price hikes to some extent. While the near-term outlook would be subdued, the higher pace of filings/approvals would improve the growth prospects in the US generics segment. **Maintain BUY.**

Opex increase outweighs revenue growth for the quarter

- AJP's 4QFY22 revenue was up 15% YoY to INR8.7b (our est. of INR8b), led by growth across the branded generics segment in Asia and Africa.
- Branded generics Asia sales rose 49% YoY to INR2.6b (31% of sales), while Africa branded generics grew 40% YoY to INR1.4b (16% of sales). DF sales grew 12% YoY to INR2.5b (~28% of sales), while the US generics sales dipped 3% YoY to INR1.7b (19% of sales). Institutional anti-malaria sales were down 38% YoY to INR500m (6% of sales).
- There was a one-time impact at 1.5% of sales on gross margin (GM) due to write-back of flu-related products. Adjusting for the same, GM contracted 380bp YoY to 74%.
- EBITDA margin contracted at a higher rate by 910bp YoY to 25.2% (our est. at 27.4%) largely due to lower operating leverage with other expenses rising 540bp YoY as a % of sales.
- EBITDA declined 15% YoY to INR2.2b (our est. at INR2.2b).
- R&D expense for the quarter stood at INR590m (7% of sales).
- However, PAT grew slightly at 1% YoY to INR1.6b (estimate: INR1.5b) due to higher other income and lower tax rate.
- Sales/PAT grew 16%/6% to INR33.4b/INR7b, respectively, while EBITDA declined 5.6% to INR9.4b in FY22.

Highlights from the management commentary

- AJP has a target to file at-least 10-12 ANDAs for FY23 in the US.
- AJP indicated DF segment to grow mid-teens on a YoY basis for FY23E.
- Management guided for a mid-to-high teens growth in branded generics in Asia/Africa.
- Management guided for 27-28% EBITDA margin for FY23E.
- Management indicated institutional anti-malaria sales to be flat YoY in FY23.
- AJP witnessed 18% YoY price erosion in the US generics segment.
- Chantix ANDA of AJP is still under review with the USFDA.

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Consol. - Quarterly perf.

(INR m)

Y/E March	FY21				FY22				FY21	FY22	FY22E	v/s Est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	6,682	7,159	7,487	7,568	7,479	8,848	8,379	8,703	28,897	33,410	7,996	8.8
YoY Change (%)	9.2	11.4	15.0	11.0	11.9	23.6	11.9	15.0	11.7	15.6	5.6	
Total Expenditure	4,450	4,417	5,071	4,974	5,278	6,220	5,983	6,505	18,911	23,986	5,803	
EBITDA	2,232	2,743	2,417	2,594	2,201	2,628	2,396	2,197	9,986	9,424	2,193	0.2
YoY Change (%)	32.6	54.4	30.0	56.0	-1.4	-4.2	-0.9	-15.3	43.0	-5.6	-15.5	
Margins (%)	33.4	38.3	32.3	34.3	29.4	29.7	28.6	25.2	34.6	28.2	27.4	
Depreciation	280	283	291	306	309	315	317	312	1,161	1,253	333	
EBIT	1,952	2,459	2,125	2,288	1,892	2,313	2,079	1,886	8,825	8,171	1,860	1.4
YoY Change (%)	34.1	59.3	30.9	63.1	-3.1	-6.0	-2.2	-17.6	46.4	-7.4	-18.7	
Interest	16	15	26	26	15	4	10	73	83	102	19	
Other Income	131	49	55	25	76	145	240	295	260	757	127	
PBT before EO expense	2,067	2,492	2,155	2,288	1,954	2,454	2,309	2,107	9,002	8,826	1,968	7.1
Extra-Ord expense	0	0	0	0	-250	-150	0	131	0	-269	0	
PBT	2,067	2,492	2,155	2,288	2,204	2,604	2,309	1,977	9,002	9,095	1,968	0.5
Tax	589	790	388	695	467	645	392	465	2,463	1,968	468	
Effective Rate (%)	28.5	31.7	18.0	30.4	21.2	24.8	17.0	23.5	27.4	21.6	23.8	
MI & P/L of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0	
Reported PAT	1,478	1,702	1,766	1,593	1,737	1,959	1,918	1,512	6,539	7,127	1,500	0.8
Adj PAT	1,478	1,702	1,766	1,593	1,540	1,847	1,918	1,612	6,539	6,918	1,500	7.5
YoY Change (%)	28.9	45.3	63.9	41.4	4.2	8.5	8.6	1.2	44.6	5.8	-5.8	

Key performance Indicators (Consolidated)

Y/E March	FY21				FY22E				FY21	FY22	FY22E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
INR m											
Domestic formulations	1,740	2,020	2,200	2,180	2,290	2,480	2,560	2,450	8,125	9,780	2,184
YoY Change (%)	(10.3)	(0.5)	12.8	23.2	31.6	22.8	16.4	12.4	5.7	20.4	0.2
Asia	1,610	1,800	1,978	1,760	1,650	1,910	1,940	2,630	7,148	8,130	1,934
YoY Change (%)	27.8	(0.6)	25.2	9.3	2.5	6.1	(1.9)	49.4	6.2	13.7	9.9
Africa (branded + Insti)	1,700	1,630	1,630	1,770	1,790	2,250	2,030	1,860	6,700	7,930	2,083
YoY Change (%)	(1.7)	5.8	26.4	4.1	16.2	38.0	24.5	5.1	13.0	18.4	17.7
US	1,490	1,540	1,610	1,730	1,680	1,940	1,660	1,680	6,370	6,960	1,535
YoY Change (%)	46.1	38.7	1.3	21.0	12.8	26.0	3.1	(2.9)	23.4	9.3	(11.3)
Cost Break-up											
RM Cost (% of Sales)	22.9	21.7	22.5	22.2	23.0	26.2	22.6	26.0	22.3	24.5	22.4
Staff Cost (% of Sales)	20.3	18.2	18.2	19.3	21.1	18.1	19.4	19.0	19.0	19.3	20.9
R&D Expenses (% of Sales)	4.6	4.1	5.3	5.2	6.0	5.5	6.1	5.5	4.8	6.1	5.5
Other Cost (% of Sales)	23.4	21.8	27.0	24.3	26.5	26.0	29.5	29.7	24.1	27.9	29.3
Gross Margins (%)	77.1	78.3	77.5	77.8	77.0	73.8	77.4	74.0	77.7	75.5	77.6
EBITDA Margins (%)	33.4	38.3	32.3	34.3	29.4	29.7	28.6	25.2	34.6	28.2	27.4
EBIT Margins (%)	29.2	34.4	28.4	30.2	25.3	26.1	24.8	21.7	30.5	24.5	23.3
PBT Margins (%)	30.3	34.6	28.6	30.1	25.9	27.3	26.8	23.4	30.9	25.8	24.2
PAT Margins (%)	21.7	23.6	23.4	21.0	20.4	20.5	22.2	17.9	22.4	20.2	18.5

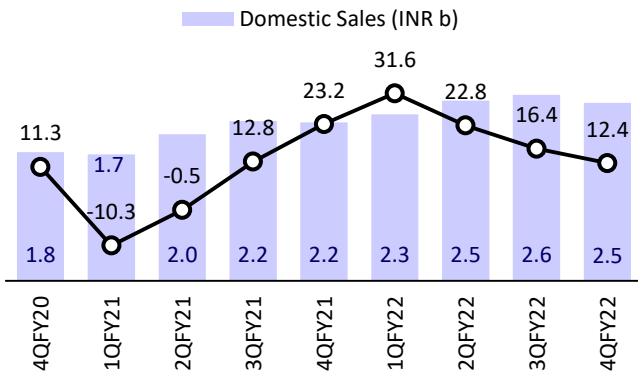


Other highlights from the management interaction

- There was further 1.5% of sales impact on GM due to price erosion in the US generics segment.
- AJP had eight ANDA filings, three ANDA approvals and three launches in FY22.
- ~55% of the R&D cost is associated with ANDA pipeline build-up for the US generics segment.
- AJP launched 16 products (including four first to market) in DF segment in FY22.
- AJP guided for capex of INR2b in FY23E.
- The working capital increase is largely due to higher sales in the US generics segment.

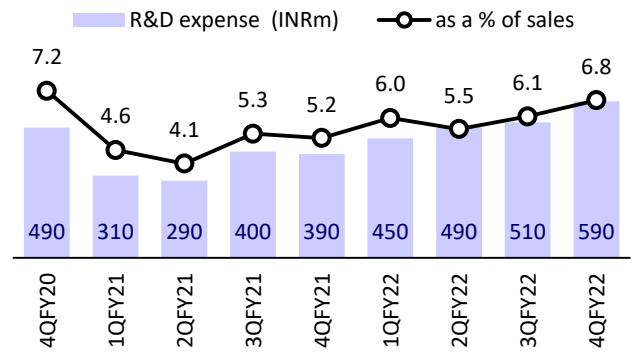
Key exhibits

Exhibit 1: DF sales up ~12% YoY in 4QFY22



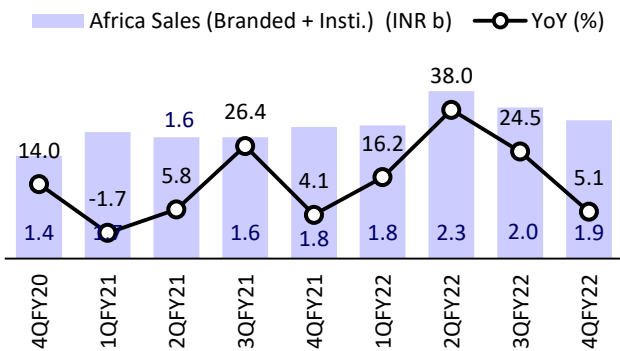
Source: MOFSL, Company

Exhibit 2: R&D as a % of sales up 160bp YoY to 6.8%



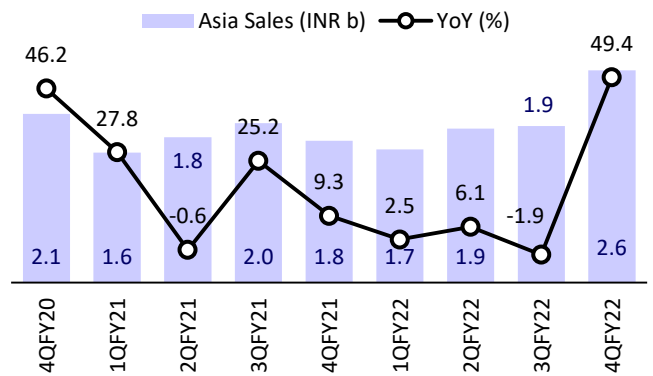
Source: MOFSL, Company

Exhibit 3: Africa sales (Branded + Institutional) up 5% YoY



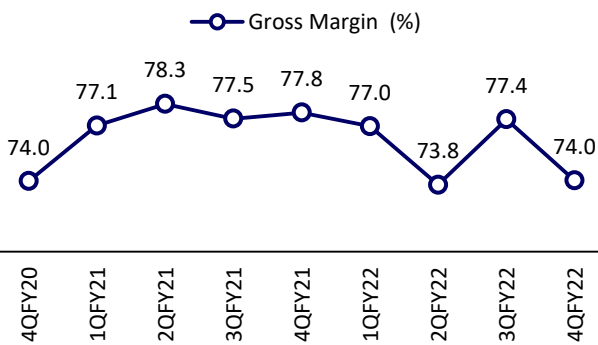
Source: MOFSL, Company

Exhibit 4: Asia sales rise 49% YoY



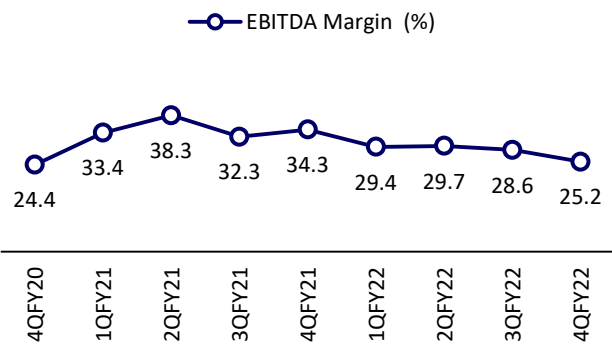
Source: MOFSL, Company

Exhibit 5: Higher RM costs/price erosion drags gross margin



Source: MOFSL, Company

Exhibit 6: EBITDA margin falls 910bp YoY



Source: MOFSL, Company

Branded Generics segment

Branded formulation market growth remains strong

- AJP posted a robust revenue growth (+20% YoY) of INR9.8b in DF in FY22 and outperformed the domestic market by 710bp on a 12-month basis ended Mar'22, as per AWACS. It demonstrated considerable outperformance against IPM across its major therapies.

- We expect AJP to deliver 13% sales CAGR in DF over FY22-24, led by: a) specialty launches including first to market, b) price hikes across portfolio including NLEM and c) market share gains in existing products.
- AJP has 200+ products in branded generics segment of Asia/Africa supported by own field force. AJP delivered 14% YoY/42% YoY sales growth in branded Asia/Africa segment in FY22, respectively. Based on strong brand franchise, favorable pricing, and new launches we expect 13% sales CAGR in branded generics segment of Asia/Africa over FY22-24.

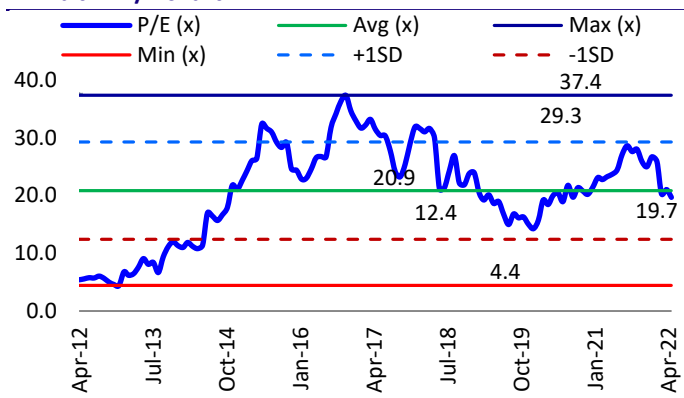
Resumption of USFDA inspections a boon for AJP

- US sales grew 9% YoY to INR7b in FY22. Despite, price erosion of 18% YoY in FY22, AJP has exhibited growth on the back of three ANDA launches and market share gains in existing products.
- AJP has filed eight products in FY22 and has targeted 10-12 fillings on a yearly basis.
- Certain product approvals are hinged on successful USFDA inspection outcome.
- Based on the above factors, we expect AJP to garner moderate 8% sales CAGR (INR8.9b) over FY22-24.

Expect 12% PAT CAGR over FY22-24

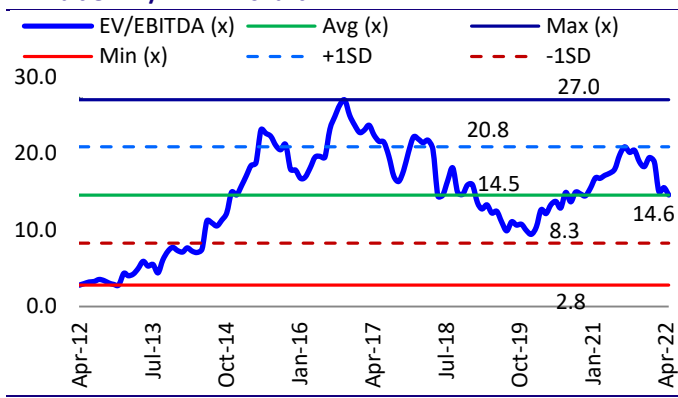
- We lower our FY23E/FY24E EPS estimate by 6%/7% to factor in: a) high pricing pressure in the US, and b) procurement challenges weighing on margins.
- We expect 12% earnings CAGR, led by revenue CAGR of 13% each in DF/Asia branded markets, 10% in overall Africa market, with slight improvement in EBITDA margin.
- We value AJP at 22x 12M forward earnings to arrive at our TP of INR2,080. We remain positive on AJP on the back of a better-than-industry performance in the branded generics segment of DF/Africa/Asia and a robust ANDA pipeline in the US market. **We maintain our BUY rating on the stock.**

Exhibit 7: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 8: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Financials and valuations

Consolidated Income Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total income from Operations	17,494	20,016	21,309	20,554	25,879	28,897	33,410	36,435	41,253
Change (%)	17.8	14.4	6.5	-3.5	25.9	11.7	15.6	9.1	13.2
Total Expenditure	11,623	13,126	14,725	14,809	18,895	18,911	23,986	26,561	29,578
As a percentage of Sales	66.4	65.6	69.1	72.1	73.0	65.4	71.8	72.9	71.7
EBITDA	5,871	6,890	6,584	5,744	6,983	9,986	9,424	9,874	11,675
Margin (%)	33.6	34.4	30.9	27.9	27.0	34.6	28.2	27.1	28.3
Depreciation	444	612	596	721	957	1,161	1,253	1,342	1,377
EBIT	5,426	6,278	5,988	5,024	6,026	8,825	8,171	8,532	10,298
Int. and Finance Charges	49	35	4	12	119	83	102	47	37
Other Income	212	239	242	211	522	260	757	825	934
PBT bef. EO Exp.	5,589	6,482	6,226	5,223	6,429	9,002	8,826	9,310	11,195
EO Items	0	0	0	80	211	0	269	0	0
PBT after EO Exp.	5,589	6,482	6,226	5,143	6,640	9,002	9,095	9,310	11,195
Total Tax	1,433	1,413	1,539	1,273	1,963	2,463	1,968	2,141	2,575
Tax Rate (%)	25.6	21.8	24.7	24.8	29.6	27.4	21.6	23.0	23.0
Reported PAT	4,156	5,068	4,686	3,870	4,677	6,539	7,127	7,169	8,620
Adjusted PAT	4,156	5,068	4,686	3,930	4,522	6,539	6,918	7,169	8,620
Change (%)	31.7	21.9	-7.5	-16.1	15.1	44.6	5.8	3.6	20.2
Margin (%)	23.8	25.3	22.0	19.1	17.5	22.6	20.7	19.7	20.9

Consolidated Balance Sheet

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	177	177	175	175	175	174	172	172	172
Total Reserves	11,732	15,500	20,237	22,277	25,813	29,782	32,472	37,870	44,361
Net Worth	11,909	15,677	20,412	22,452	25,989	29,956	32,644	38,042	44,533
Total Loans	814	10	11	7	7	16	19	19	19
Deferred Tax Liabilities	107	29	244	271	558	421	463	463	463
Capital Employed	12,829	15,716	20,667	22,730	26,553	30,393	33,125	38,524	45,014
Gross Block	7,157	8,949	14,172	16,152	20,045	21,896	22,857	25,080	26,875
Less: Accum. Deprn.	2,650	3,058	3,646	4,366	5,324	6,485	7,738	9,080	10,456
Net Fixed Assets	4,507	5,892	10,527	11,786	14,721	15,411	15,120	16,001	16,418
Capital WIP	2,398	3,393	613	2,613	1,319	1,082	1,529	1,306	1,011
Total Investments	860	1,909	2,044	888	476	517	707	707	707
Curr. Assets, Loans, and Adv.	7,028	7,039	11,077	11,357	16,417	20,276	22,645	29,169	36,351
Inventory	2,046	2,110	3,506	4,357	4,957	7,665	7,911	8,732	9,319
Account Receivables	3,724	3,232	4,920	4,595	7,753	7,384	10,198	11,280	12,998
Cash and Bank Balance	434	713	932	1,005	2,053	2,096	2,118	6,520	11,049
Loans and Advances	825	985	1,719	1,400	1,655	3,131	2,418	2,637	2,986
Curr. Liability and Prov.	1,965	2,516	3,592	3,913	6,379	6,893	6,875	8,659	9,473
Account Payables	1,650	1,781	2,852	2,251	3,623	3,739	3,272	4,730	5,024
Other Current Liabilities	176	562	321	1,278	2,230	2,858	3,302	3,600	4,077
Provisions	139	173	419	384	526	296	301	329	372
Net Current Assets	5,063	4,524	7,485	7,444	10,038	13,383	15,770	20,510	26,878
Appl. of Funds	12,829	15,716	20,667	22,730	26,553	30,393	33,125	38,524	45,014

Financials and valuations

Ratios	(INR m)								
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)									
EPS	47.0	57.3	53.0	44.4	51.1	73.9	78.2	81.1	97.5
Cash EPS	52.0	64.2	59.7	52.6	61.9	87.1	92.4	96.2	113.0
BV/Share	134.6	177.2	230.8	253.8	293.8	338.7	369.1	430.1	503.5
DPS	13.9	12.9	0.0	9.0	8.6	14.4	19.9	20.0	24.1
Payout (%)	29.6	22.6	0.0	20.5	16.3	19.5	24.7	24.7	24.7
Valuation (x)									
P/E	35.2	28.8	31.2	37.2	32.3	22.3	21.1	20.4	17.0
Cash P/E	31.8	25.7	27.7	31.4	26.7	19.0	17.9	17.2	14.6
P/BV	12.3	9.3	7.2	6.5	5.6	4.9	4.5	3.8	3.3
EV/Sales	8.4	7.3	6.8	7.1	5.6	5.0	4.3	3.8	3.3
EV/EBITDA	25.0	21.1	22.1	25.3	20.6	14.4	15.3	14.1	11.6
Dividend Yield (%)	0.8	0.8	0.0	0.5	0.5	0.9	1.2	1.2	1.5
FCF per share	3.2	34.9	4.2	-2.7	22.3	49.4	47.6	61.0	65.1
Return Ratios (%)									
RoE	40.9	36.7	26.0	18.3	18.7	23.4	22.1	20.3	20.9
RoCE	38.4	35.9	26.0	18.4	19.0	23.6	22.3	20.4	20.9
RoIC	54.7	52.1	33.7	21.4	20.7	25.9	23.1	22.4	25.5
Working Capital Ratios									
Asset Turnover (x)	1.4	1.3	1.0	0.9	1.0	1.0	1.0	0.9	0.9
Inventory (Days)	43	38	60	77	66	97	86	87	82
Debtor (Days)	78	59	84	82	109	93	111	113	115
Creditor (Days)	34	32	49	40	51	47	36	47	44
Leverage Ratio (x)									
Net Debt/Equity ratio	0.0	-0.2	-0.1	-0.1	-0.1	-0.09	-0.09	-0.2	-0.3

Consolidated Cash Flow Statement	(INR m)								
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	5,589	6,482	6,226	5,303	6,218	9,002	9,095	9,310	11,195
Depreciation	444	612	596	721	957	1,161	1,253	1,342	1,377
Interest and Finance Charges	49	35	-238	-199	-403	-177	-655	-779	-897
Direct Taxes Paid	-1,615	-1,428	-1,539	-1,273	-1,963	-2,463	-1,968	-2,141	-2,575
(Inc.)/Dec. in WC	-1,243	285	-2,742	115	-1,548	-1,708	-2,427	-338	-1,839
CF from Operations	3,224	5,986	2,302	4,667	3,262	5,815	5,298	7,395	7,260
Others	37	106	509	-922	1,306	169	323	0	0
CF from Operations incl. EO	3,261	6,092	2,811	3,745	4,568	5,983	5,620	7,395	7,260
(Inc.)/Dec. in FA	-2,975	-3,002	-2,444	-3,979	-2,599	-1,614	-1,409	-2,000	-1,500
Free Cash Flow	287	3,090	367	-234	1,969	4,369	4,212	5,395	5,760
(Pur.)/Sale of Investments	-36	-914	-135	1,155	413	-41	-190	0	0
Others	920	85	17	596	-58	-1,169	857	825	934
CF from Investments	-2,091	-3,831	-2,562	-2,228	-2,244	-2,824	-741	-1,175	-566
Inc./Dec. in Debt	218	-746	1	-5	1	9	3	0	0
Interest Paid	-49	-35	-4	-12	-119	-83	-102	-47	-37
Dividend Paid	-1,342	-1,287	b	-792	-762	-1,275	-1,760	-1,771	-2,129
Others	0	50	4	-664	-405	-1,832	-2,929	0	0
CF from Fin. Activity	-1,173	-2,017	-1	-1,472	-1,286	-3,183	-4,790	-1,817	-2,167
Inc./Dec. in Cash	-3	244	248	45	1,037	-24	89	4,403	4,528
Opening Balance	417	414	658	906	952	1,989	1,965	2,054	6,457
Closing Balance	414	658	906	952	1,989	1,965	2,054	6,457	10,985
Term Deposit with Banks	20	54	29	54	29		64	64	64
Total Cash and Cash Eq.	434	713	932	1,005	2,053	2,096	2,118	6,520	11,049

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
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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