

Ajanta Pharma

Estimate change

TP change

Rating change



CMP: INR1,184

TP: INR1,410 (+19%)

Buy

Product mix/lower operating leverage dent profitability

Seasonality drives US sales

- Ajanta Pharma (AJP) delivered in-line earnings in 3QFY23, adjusted for a translational forex loss. The superior execution in the US generics and branded generics markets of India (DF) and Asia was offset to some extent by a moderation in Africa (branded as well as institutional).
- We trim our earnings estimate by 2%/2%/1.3% for FY23/FY24/FY25 to factor in 1) field force expansion in Asia/Africa, 2) a prolonged period of higher raw material and freight costs, and 3) delays in ANDA approvals.
- We continue to value AJP at 22x 12M forward earnings to arrive at a TP of INR1,410. While AJP may end FY23 with an earnings decline, it continues to build the ANDA pipeline for the US market, launch products aggressively in the branded generics market and expand MR strength to support growth. The cost pressure is likely to moderate in the medium term. Accordingly, we expect a 15% earnings CAGR over FY23-25. We maintain BUY on the stock.

Second consecutive quarter of YoY earnings decline

- AJP's 3QFY23 revenue rose 16% YoY to INR9.7b (Our est. INR9.2b; cons est. INR9.3b), led by growth in the branded generics segment of India/Asia and the US. US generic sales grew 61% YoY to INR2.7b (27% of sales).
- Branded generics Asia sales rose 18% YoY to INR2.3b, (23% of sales). DF sales increased 15% YoY to INR2.9b (30% of sales). Africa branded generic sales were down 13% YoY at INR1.5b (15% of sales). Institutional anti-malaria sales fell 15% YoY to INR310m (3% of sales).
- Adjusting for the adverse currency impact (1% of sales), gross margin fell ~410bp YoY to 73.3%, due to pricing headwinds in the US and high RM costs.
- Adjusting for a forex MTM loss of INR370m, EBITDA margin contracted by ~630bp YoY to 22.3% (our est. 23.5%; cons. est. 24%) due to lower GM and operating leverage (employee/other costs +~40bp/170bp YoY as % of sales).
- EBITDA declined by 10%YoY to INR2.2b (our est. INR2.2b; cons est. INR2.2b).
- Adj. PAT fell 10% YoY to INR1.7b (our est. INR1.7b; cons est. INR1.7b).
- In 9MFY23, revenue grew 16% YoY to INR28.6b, while EBITDA/PAT declined 7%/3% YoY to INR6.7b/INR5b.

Highlights from the management commentary

- AJP has guided for 21-22%/25% EBITDA margin in FY23/FY24. EBITDA margin is expected to revive on better sales growth and easing cost pressure.
- AJP has guided for low-teens YoY growth in DF sales in FY24.
- AJP continued to see mid-to-high single digit price erosion in US generics.
- US generics sales growth (60% YoY) in 3QFY23 was mainly driven by products related to the Flu season, which AJP does not expect to recur over the near to medium term.

	AJP IN
Bloomberg	
Equity Shares (m)	129
M.Cap.(INRb)/(USDb)	151.7 / 1.9
52-Week Range (INR)	1495 / 1062
1, 6, 12 Rel. Per (%)	1/-9/-19
12M Avg Val (INR M)	135

Financials & Valuations (INR b)

Y/E MARCH	FY23E	FY24E	FY25E
Sales	37.6	41.8	47.7
EBITDA	8.7	10.3	12.0
Adj. PAT	6.7	7.7	8.9
EBIT Margin (%)	19.6	21.3	22.3
Cons. Adj. EPS (INR)	51.7	59.5	69.0
EPS Gr. (%)	-3.7	14.9	16.0
BV/Sh. (INR)	290.4	335.2	386.6

Ratios

Net D:E	-0.2	-0.2	-0.3
RoE (%)	19.0	19.0	19.1
RoCE (%)	19.1	19.1	19.2
Payout (%)	24.7	24.7	25.5

Valuations

P/E (x)	22.9	19.9	17.2
EV/EBITDA (x)	17.0	14.0	11.3
Div. Yield (%)	1.0	1.2	1.5
FCF Yield (%)	2.2	3.2	5.2
EV/Sales (x)	3.9	3.4	2.9

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	66.1	70.5	70.3
DII	15.4	13.1	12.6
FII	10.5	8.2	9.0
Others	8.0	8.2	8.1

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.

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

Consol. - Quarterly perf.

(INR m)

Y/E March	FY22				FY23E				FY22	FY23E	FY23E	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	7,479	8,848	8,379	8,703	9,509	9,381	9,718	9,036	33,410	37,644	9,222	5.4
YoY Change (%)	11.9	23.6	11.9	15.0	27.1	6.0	16.0	3.8	15.6	12.7	10.1	
Total Expenditure	5,278	6,220	5,983	6,505	6,992	7,318	7,555	7,084	23,986	28,948	7,055	
EBITDA	2,201	2,628	2,396	2,197	2,518	2,063	2,163	1,952	9,424	8,696	2,167	-0.2
YoY Change (%)	-1.4	-4.2	-0.9	-15.3	14.4	-21.5	-9.7	-11.2	-5.6	-7.7	-9.5	
Margins (%)	29.4	29.7	28.6	25.2	26.5	22.0	22.3	21.6	28.2	23.1	23.5	
Depreciation	309	315	317	312	318	327	333	340	1,253	1,318	330	
EBIT	1,892	2,313	2,079	1,886	2,200	1,736	1,830	1,612	8,171	7,378	1,837	-0.4
YoY Change (%)	-3.1	-6.0	-2.2	-17.6	16.2	-24.9	-12.0	-14.5	-7.4	-9.7	-11.6	
Interest	15	4	10	73	9	10	28	9	102	56	13	
Other Income	76	145	240	295	48	404	349	329	757	1,129	350	
PBT before EO expense	1,954	2,454	2,309	2,107	2,239	2,130	2,150	1,932	8,826	8,451	2,174	-1.1
Extra-Ord expense	-250	-150	0	131	20	100	467	0	-269	587	0	
PBT	2,204	2,604	2,309	1,977	2,219	2,030	1,683	1,932	9,095	7,864	2,174	-22.6
Tax	467	645	392	465	472	464	338	392	1,968	1,667	500	
Effective Rate (%)	21.2	24.8	17.0	23.5	21.3	22.9	20.1	20.3	21.6	21.2	23.0	
MI & P/L of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0	
Reported PAT	1,737	1,959	1,918	1,512	1,746	1,566	1,345	1,540	7,127	6,197	1,674	-19.7
Adj PAT	1,540	1,847	1,918	1,612	1,762	1,643	1,718	1,540	6,918	6,663	1,674	2.6
YoY Change (%)	4.2	8.5	8.6	1.2	14.4	-11.0	-10.4	-4.5	5.8	-3.7	-12.7	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	FY22				FY23E				FY22	FY23E	FY23E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
INRm											
Domestic formulations	2,290	2,480	2,560	2,450	2,790	3,140	2,940	2,688	9,781	11,558	2,766
YoY Change (%)	31.6	22.8	16.4	12.4	21.8	26.6	14.8	9.7	20.4	18.2	11.5
Asia	1,650	1,910	1,940	2,630	2,400	2,510	2,280	2,160	8,130	9,350	2,330
YoY Change (%)	2.5	6.1	(1.9)	49.4	45.5	31.4	17.5	(17.9)	13.7	15.0	22.0
Africa (branded + Insti)	1,790	2,250	2,030	1,860	2,450	1,790	1,760	1,876	7,930	7,876	2,117
YoY Change (%)	16.2	38.0	24.5	5.1	36.9	(20.4)	(13.3)	0.9	18.4	(0.7)	(5.9)
US	1,680	1,940	1,660	1,680	1,790	1,850	2,660	1,939	6,960	8,239	1,843
YoY Change (%)	12.8	26.0	3.1	(2.9)	6.5	(4.6)	60.2	15.4	9.3	18.4	(5.0)
Cost Break-up											
RM Cost (% of Sales)	23.0	26.2	22.6	26.0	26.3	27.7	26.7	26.9	24.5	26.9	26.1
Staff Cost (% of Sales)	21.1	18.1	19.4	19.0	19.2	19.8	19.8	18.5	19.3	19.8	19.4
R&D Expenses (% of Sales)	6.0	5.5	6.1	6.8	5.7	6.0	6.1	6.3	6.1	6.2	6.0
Other Cost (% of Sales)	26.5	26.0	29.5	29.7	28.0	30.5	31.2	31.2	27.9	30.2	29.5
Gross Margins(%)	77.0	73.8	77.4	74.0	73.7	72.3	73.3	73.1	75.5	73.1	73.9
EBITDA Margins(%)	29.4	29.7	28.6	25.2	26.5	22.0	22.3	21.6	28.2	23.1	25.0
EBIT Margins(%)	25.3	26.1	24.8	21.7	23.1	18.5	18.8	17.8	24.5	19.6	21.4
PBT Margins(%)	25.9	27.3	26.8	23.4	23.4	21.8	21.4	20.6	25.8	21.8	23.0
PAT Margins(%)	20.4	20.5	22.2	17.9	18.4	16.8	17.1	16.4	20.2	17.2	17.8

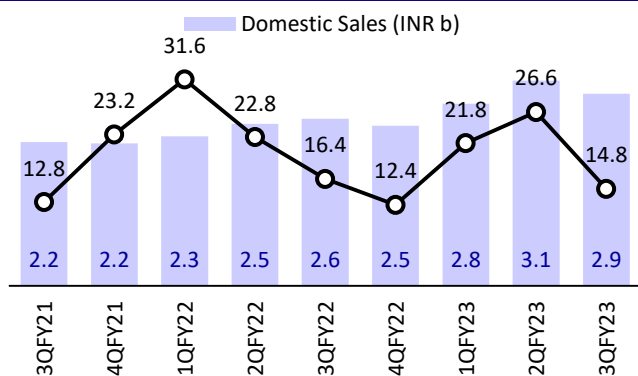


Other highlights from the management interaction

- There has been a 50% increase in the field force of branded generics export markets of Asia/Africa.
- AJP remains confident to outperform the Asia/Africa branded generics segment on the back of new launches and market share gains in existing products.
- AJP filed 4 ANDAs and received 1 approval in 3QFY23. It expects an accelerated pace in approvals in coming quarters.
- It launched 21 products in the DF segment in 9MFY23, with 6 being first to file.
- Capacity utilization is about 55-60% and, thus, capex requirement would be minimal over the medium term.

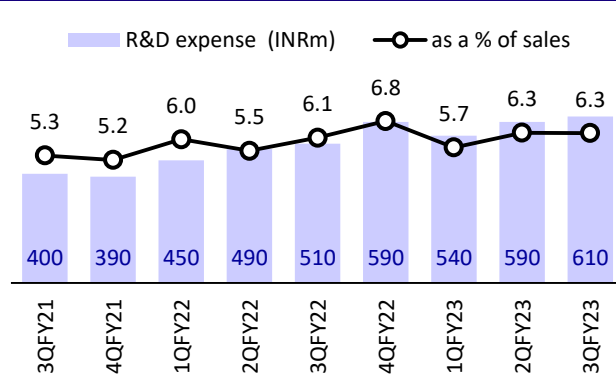
Key exhibits

Exhibit 1: DF sales up ~15% YoY in 3QFY23



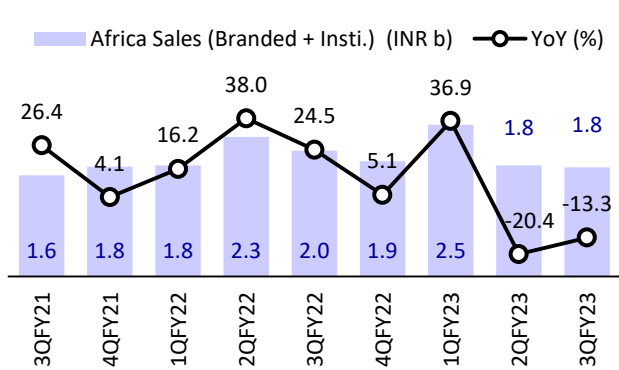
Source: MOFSL, Company

Exhibit 2: R&D spend at 6% as % of sales for 3QFY23



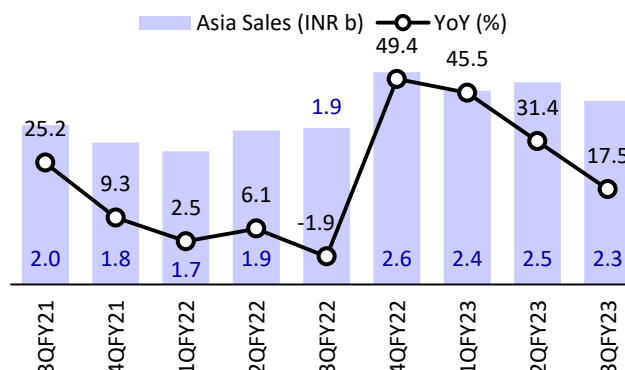
Source: MOFSL, Company

Exhibit 3: Africa sales (Branded + Institutional) declined ~13% YoY in 3QFY23



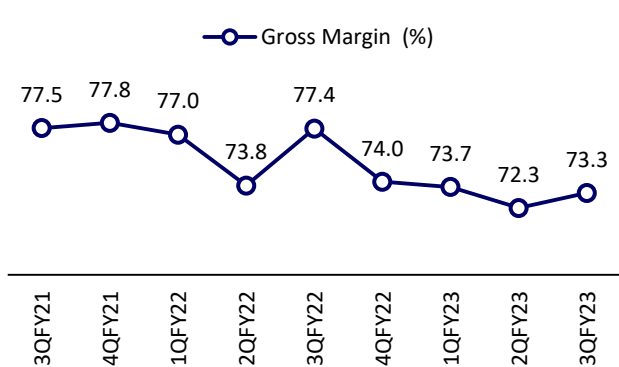
Source: MOFSL, Company

Exhibit 4: Asia sales increased by ~18% YoY in 3QFY23



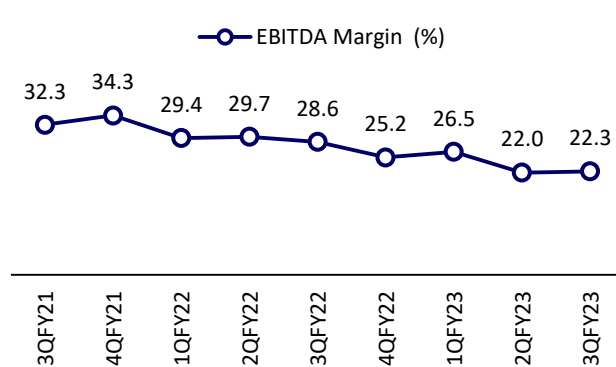
Source: MOFSL, Company

Exhibit 5: Gross margins contracted ~410bp YoY



Source: MOFSL, Company

Exhibit 6: EBITDA margin contracted by ~630bp YoY due to higher operating expenses



Source: MOFSL, Company

Improvement in sales growth to boost margins

Branded generics on robust growth path

- In 9MFY23, AJP’s revenue grew 21% YoY to ~INR9b in DF. AJP outperformed the industry by ~800bp on a 12-month basis ending in Dec’22, as per AWACS. It demonstrated outperformance across its major therapies of cardiac/derma/pain by 500bp/2000bp/800bp on a 12-month basis ending in Dec’22.
- The launch pace remains aggressive, including new-to-market products as well.
- We expect AJP to deliver a 16% sales CAGR in DF over FY23-25, led by: 1) new launches, 2) robust volume off-take, and 3) price hikes across the portfolio.
- In 9MFY23, sales of branded generics in Asia grew at a strong rate of 31% YoY to INR7.2b, while in Africa, sales declined by 1% YoY to INR6b. We expect AJP to deliver a 14%/11% sales CAGR to INR12b/INR9.6b for Asia/Africa businesses over FY23-25 on account of increasing reach/penetration.

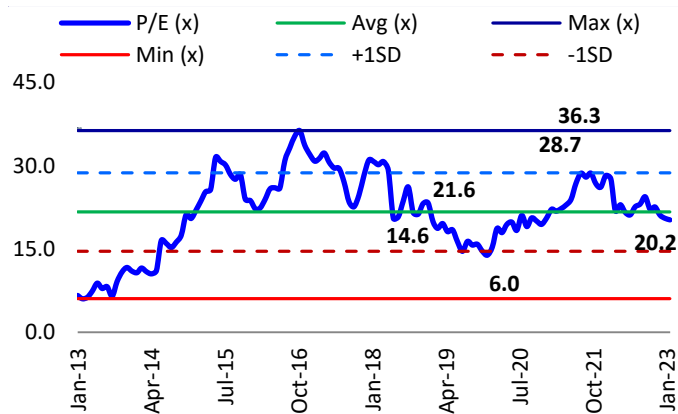
Accelerated ANDA approvals – Key to better US sales outlook

- In 9MFY23, US generics sales grew 19% YoY to INR6.3b. AJP has been able to maintain the US sales run rate despite price erosion and a lack of launches.
- During 9MFY23, AJP received 1 ANDA final approval; 1 tentative approval; and filed 4 ANDA with the US FDA. AJP awaits the USFDA approval of 22 ANDAs.
- Annually, AJP launches around 8-10 products on average and targets to file 10-12 ANDAs.
- Moreover, AJP expects faster approval of ANDAs in the near to medium term.
- Likewise, we expect AJP to post a 9% sales CAGR to INR9.7b over FY22-24.

Expect 15% PAT CAGR over FY23-25

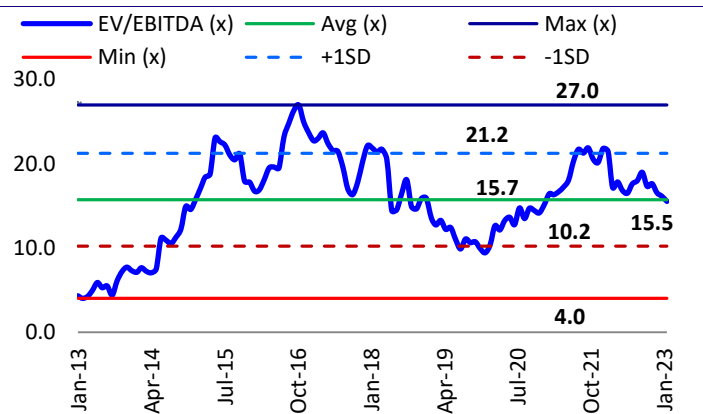
- We lower our earnings estimates by 2%/2%/1.3% for FY23/FY24/FY25 to factor in 1) field force expansion in Asia/Africa, 2) a prolonged period of higher raw material and freight costs, and 3) delays in ANDA approvals.
- We continue to value AJP at 22x 12M forward earnings to arrive at a TP of INR1,410. While AJP may end FY23 with an earnings decline, it continues to build the ANDA pipeline for the US market, launch products aggressively in the branded generics market and expand MR strength to support growth. The cost pressure is expected to moderate in the medium term. Accordingly, we expect a 15% earnings CAGR over FY23-25. We maintain BUY 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	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Income from Operations	20,016	21,309	20,554	25,879	28,897	33,410	37,644	41,771	47,712
Change (%)	14.4	6.5	-3.5	25.9	11.7	15.6	12.7	11.0	14.2
Total Expenditure	13,126	14,725	14,809	18,895	18,911	23,986	28,948	31,496	35,688
% of Sales	65.6	69.1	72.1	73.0	65.4	71.8	76.9	75.4	74.8
EBITDA	6,890	6,584	5,744	6,983	9,986	9,424	8,696	10,276	12,023
Margin (%)	34.4	30.9	27.9	27.0	34.6	28.2	23.1	24.6	25.2
Depreciation	612	596	721	957	1,161	1,253	1,318	1,377	1,383
EBIT	6,278	5,988	5,024	6,026	8,825	8,171	7,378	8,899	10,641
Int. and Finance Charges	35	4	12	119	83	102	56	37	37
Other Income	239	242	211	522	260	757	1,129	1,149	1,241
PBT bef. EO Exp.	6,482	6,226	5,223	6,429	9,002	8,826	8,451	10,010	11,844
EO Items	0	0	80	211	0	269	-587	0	0
PBT after EO Exp.	6,482	6,226	5,143	6,640	9,002	9,095	7,864	10,010	11,844
Total Tax	1,413	1,539	1,273	1,963	2,463	1,968	1,667	2,352	2,961
Tax Rate (%)	21.8	24.7	24.8	29.6	27.4	21.6	21.2	23.5	25.0
Reported PAT	5,068	4,686	3,870	4,677	6,539	7,127	6,197	7,658	8,883
Adjusted PAT	5,068	4,686	3,930	4,522	6,539	6,918	6,663	7,658	8,883
Change (%)	21.9	-7.5	-16.1	15.1	44.6	5.8	-3.7	14.9	16.0
Margin (%)	25.3	22.0	19.1	17.5	22.6	20.7	17.7	18.3	18.6

Consolidated - Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	177	175	175	175	174	172	258	258	258
Total Reserves	15,500	20,237	22,277	25,813	29,782	32,472	37,138	42,904	49,522
Net Worth	15,677	20,412	22,452	25,989	29,956	32,644	37,395	43,162	49,779
Total Loans	10	11	7	7	16	19	19	19	19
Deferred Tax Liabilities	29	244	271	558	421	463	463	463	463
Capital Employed	15,716	20,667	22,730	26,553	30,393	33,125	37,877	43,643	50,261
Gross Block	8,949	14,172	16,152	20,045	21,896	22,857	25,080	26,875	28,434
Less: Accum. Deprn.	3,058	3,646	4,366	5,324	6,485	7,738	9,056	10,433	11,815
Net Fixed Assets	5,892	10,527	11,786	14,721	15,411	15,120	16,024	16,442	16,618
Capital WIP	3,393	613	2,613	1,319	1,082	1,529	1,306	1,011	952
Total Investments	1,909	2,044	888	476	517	707	707	707	707
Curr. Assets, Loans&Adv.	7,039	11,077	11,357	16,417	20,276	22,645	29,055	35,338	43,191
Inventory	2,110	3,506	4,357	4,957	7,665	7,911	9,517	9,923	11,538
Account Receivables	3,232	4,920	4,595	7,753	7,384	10,198	11,654	13,161	12,026
Cash and Bank Balance	713	932	1,005	2,053	2,096	2,118	5,159	9,231	16,175
Loans and Advances	985	1,719	1,400	1,655	3,131	2,418	2,724	3,023	3,453
Curr. Liability & Prov.	2,516	3,592	3,913	6,379	6,893	6,875	9,215	9,854	11,207
Account Payables	1,781	2,852	2,251	3,623	3,739	3,272	5,155	5,350	6,062
Other Current Liabilities	562	321	1,278	2,230	2,858	3,302	3,720	4,128	4,715
Provisions	173	419	384	526	296	301	339	377	430
Net Current Assets	4,524	7,485	7,444	10,038	13,383	15,770	19,840	25,483	31,984
Appl. of Funds	15,716	20,667	22,730	26,553	30,393	33,126	37,877	43,643	50,261

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)									
EPS	39.4	36.4	30.5	35.1	50.8	53.7	51.7	59.5	69.0
Cash EPS	44.1	41.0	36.1	42.5	59.8	63.5	62.0	70.2	79.7
BV/Share	121.7	158.5	174.4	201.8	232.6	253.5	290.4	335.2	386.6
DPS	8.9	0.0	6.2	8.8	6.4	6.3	11.9	14.7	17.6
Payout (%)	22.6	0.0	20.6	24.8	12.7	11.4	24.7	24.7	25.5
Valuation (x)									
P/E	30.1	32.6	38.8	33.7	23.3	22.1	22.9	19.9	17.2
Cash P/E	26.9	28.9	32.8	27.9	19.8	18.7	19.1	16.9	14.9
P/BV	9.7	7.5	6.8	5.9	5.1	4.7	4.1	3.5	3.1
EV/Sales	7.6	7.1	7.4	5.8	5.2	4.5	3.9	3.4	2.9
EV/EBITDA	22.0	23.0	26.4	21.6	15.1	16.0	17.0	14.0	11.3
Dividend Yield (%)	0.7	0.0	0.5	0.7	0.5	0.5	1.0	1.2	1.5
FCF per share	24.0	2.9	-1.8	15.3	33.9	32.7	26.5	37.7	62.2
Return Ratios (%)									
RoE	36.7	26.0	18.3	18.7	23.4	22.1	19.0	19.0	19.1
RoCE	35.9	26.0	18.4	19.0	23.6	22.3	19.1	19.1	19.2
RoIC	52.1	33.7	21.4	20.7	25.9	23.1	19.5	21.5	24.5
Working Capital Ratios									
Asset Turnover (x)	1.3	1.0	0.9	1.0	1.0	1.0	1.0	1.0	0.9
Inventory (Days)	38	60	77	66	97	86	92	87	88
Debtor (Days)	59	84	82	109	93	111	113	115	92
Creditor (Days)	32	49	40	51	47	36	50	47	46
Leverage Ratio (x)									
Net Debt/Equity	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.3

Consolidated - Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
(INR m)									
OP/(Loss) before Tax	6,482	6,226	5,303	6,218	9,002	9,095	7,864	10,010	11,844
Depreciation	612	596	721	957	1,161	1,253	1,318	1,377	1,383
Interest & Finance Charges	35	-238	-199	-403	-177	-655	-1,073	-1,111	-1,203
Direct Taxes Paid	-1,428	-1,539	-1,273	-1,963	-2,463	-1,968	-1,667	-2,352	-2,961
(Inc)/Dec in WC	285	-2,742	115	-1,548	-1,708	-2,427	-1,029	-1,572	443
CF from Operations	5,986	2,302	4,667	3,262	5,815	5,298	5,413	6,352	9,506
Others	106	509	-922	1,306	169	323	0	0	0
CF from Operating incl EO	6,092	2,811	3,745	4,568	5,983	5,620	5,413	6,352	9,506
(Inc)/Dec in FA	-3,002	-2,444	-3,979	-2,599	-1,614	-1,409	-2,000	-1,500	-1,500
Free Cash Flow	3,090	367	-234	1,969	4,369	4,212	3,413	4,852	8,006
(Pur)/Sale of Investments	-914	-135	1,155	413	-41	-190	0	0	0
Others	85	17	596	-58	-1,169	857	1,129	1,149	1,241
CF from Investments	-3,831	-2,562	-2,228	-2,244	-2,824	-741	-871	-351	-259
Issue of Shares	0	-2	0	0	-2	-2	86	0	0
Inc/(Dec) in Debt	-746	1	-5	1	9	3	0	0	0
Interest Paid	-35	-4	-12	-119	-83	-102	-56	-37	-37
Dividend Paid	-1,287	b	-796	-1,159	-829	-816	-1,531	-1,891	-2,265
Others	50	4	-664	-405	-1,832	-3,873	0	0	0
CF from Fin. Activity	-2,017	-1	-1,476	-1,683	-2,737	-4,790	-1,501	-1,929	-2,303
Inc/Dec of Cash	244	248	41	640	422	89	3,041	4,072	6,944
Opening Balance	414	658	906	952	1,592	2,014	2,103	5,145	9,216
Closing Balance	658	906	948	1,592	2,014	2,103	5,145	9,216	16,160
Unrealised loss / (gain) on forex		0	4	432	82	14	14	14	14
Total Cash & Cash Eq	713	932	1,005	2,053	2,096	2,118	5,159	9,231	16,175

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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