

February 02, 2023

RESULT REPORT Q3 FY23 | Sector: Pharmaceuticals & Healthcare

Ajanta Pharma

One-off mars margin; BUY thesis intact

Result Synopsis

Ajanta reported a big miss on margin at ~17% vs expectation of 24% and guidance of 24-26% in H2 FY23. Revenues were better than expected as surge in Tamiflu sales in US led to ~Rs800-850mn of additional revenues offset by weaker Africa branded sales (-13% YoY) due to currency. Other expenses included Rs370mn of forex loss and Rs160mn of additional freight expenses due to use of air freight for supplying flu products. Adjusted for these, margin would have been in 23% ball park and closer to guided range.

Our thoughts on the wide gap between reported and guided margin leads us to believe the delta is explained by 1) Excess Rs800mn of US sales which was a surprise and corresponding need to incur air freight to supply flu drugs 2) Adverse mix as US share jumped to 27% of sales vs 19% in the past thereby suppressing potential gross margin improvement. Hence, we reckon probability of achieving 25% + margin in FY24 may not be far-fetched given that freight + forex loss is non-recurring in nature and some COGS benefit may be presumed after an elevated year of high input costs. We cut FY23 and FY24 forecast by 10-13% on back of margin cuts in the range of 250-400bps. Albeit, we do not think Ajanta has lost any structural ability to generate 25% margin and view last 4 quarters as an aberration. Moreover, growth expectation in domestic business (+12%) and branded exports remain intact and with the hiring of 50% MRs (to 1200) creates better visibility on faster branded exports growth in FY24/25. While near term (Q4) outlook might be suppressed, we remain confident on underlying better margin trajectory next fiscal. Our BUY stays based on 25x FY24 EPS with revised TP Rs1,400 (earlier Rs1,575) with scope for further gains as execution on domestic and branded exports unfolds. Additionally, our US sales do not include Chantix which would represent further upside.

Result Highlights

Revenues ahead of estimate with 16% growth YoY led by India -13% YoY, Asia - 17% YoY and a surprise US up 66% YoY on back of Tamiflu boost.

Margin were a big disappointment at 17% and big miss on guided 24-26% range for H2 FY23

One-offs included Rs160mn in freight cost and Rs370mn in forex loss booked in other expenses leading to a cumulative >500bps margin impact in Q3

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	9,718	9,103	9,325	6.8	4.2	Huge margin miss on one-offs, US surge in sales affecting mix and forex loss in other expenses
EBITDA	1,696	2,265	2,237	-25.1	-24.2	
EBITDA Margin (%)	17.4	24.9	24.0	-743 bps	-654 bps	
Adjusted PAT	1,345	1,789	1,718	-24.8	-21.7	

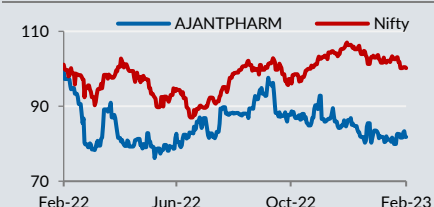
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 1,184
Target Price	: Rs 1,400
Potential Return	: +18%

Stock data (as on Feb 01, 2023)

Nifty	17,616
52 Week h/l (Rs)	1509 / 1062
Market cap (Rs/USD mn)	155006 / 1897
Outstanding Shares (mn)	128
6m Avg t/o (Rs mn):	115
Div yield (%):	0.5
Bloomberg code:	AJP IN
NSE code:	AJANTPHARM

Stock performance



	1M	3M	1Y
Absolute return	-1.7%	-11.9%	-17.5%

Shareholding pattern (As of Dec '22 end)

Promoter	66.1%
FII+DII	25.9%
Others	8.0%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,400	1,575

Δ in earnings estimates

	FY23e	FY24e	FY25e
EPS (New)	47.1	56.0	74.9
EPS (Old)	52.2	64.4	-
% change	-9.8%	-13.0%	-

Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
Revenue	38,060	41,934	47,656
YoY Growth	13.9	10.2	13.6
EBIDTA	8,089	10,517	13,446
YoY Growth	-13.0	30.0	27.9
PAT	6,055	7,200	9,629
YoY Growth	(15.0)	18.9	33.7
ROE	15.9	18.1	19.8
EPS	47.1	56.0	74.9
P/E	25.1	21.1	15.8
BV	295.2	344.7	413.1
EV/EBITDA	18.2	13.6	10.2

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Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	y/y (%)	q/q (%)
Revenue	8,379	8,703	9,509	9,381	9,718	16.0	3.6
Expenditure	5,983	6,636	7,292	7,418	8,022	34.1	8.2
- RM	1,891	2,393	2,804	2,598	2,693	42.5	3.7
- Staff Cost	1,622	1,655	1,829	1,861	1,924	18.6	3.4
- Other Cost	2,471	2,588	2,658	2,959	3,405	37.8	15.1
Operating Profit	2,396	2,067	2,218	1,963	1,696	(29.2)	(13.6)
OPM(%)	28.6	23.8	23.3	20.9	17.4	-1115 bps	-348 bps
Other Income	240	295	328	404	349	45	(13)
Depreciation	317	312	318	327	333	5	2
Interest	10	73	9	10	28	199	187
PBT	2,309	1,977	2,219	2,030	1,683	(27.1)	(17.1)
Tax	392	465	472	464	338	(13.6)	(27.1)
PAT	1,918	1,512	1,746	1,566	1,345	(29.9)	(14.1)

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Guidance

- FY24 guidance of 25%+ margin; 28% margin appears a bit far now
- India growth – early to low teens
- Downgrading Q4 FY23 margin guidance to 20-21%
- About 1.5% of COGS is recoverable next year
- ETR – About 20% in FY23
- Capex – Rs1.5bn for FY23 including maintenance capex

Quarterly highlights

- Flu season has almost come to an end; aided US business in Q3
- Chantix – hopeful of a launch next fiscal and still remains a work in progress product
- Price erosion has cooled off to mid to high single digit
- Very careful of spends incurred on US
- India – broad based growth with traction across cardio and ophthal matching market growth. Volumes is 6% compared to challenge in wider market
- 12% of domestic business under NLEM; companies who have more business under NLEM may be impacted due to decline in prices
- More than 70% of brands in domestic business – Ajanta would be in top 5
- Pledged share would be 50% lower compared to pre stake sale
- Also were in race to acquire Curatio but left due to valuation
- Many of products are in mature stage so not possible to take price increases; recorded 6% price hike vs IPM number of 5%

Africa and Asia branded

- Africa growth impacted by 6% INR appreciation; in cc growth is 9%. Assuming Euro stays at 88, growth should come back.
- Franco Africa is a bigger contributor to growth compared to Anglo Africa
- Outperforming Africa marker on growth per IQVIA numbers
- Launched 30 new products across geographies
- Most aggressive expansion in MR count in Asia and Africa branded business in history
- Typically, MRs start performing in second year and blossom in 3rd year
- Putting more thrust on Anglo and central Africa and have also registered lot of new products in these markets

Margin

- Expect EBIDTA to improve as Q3 was impacted by one-offs – freight (200bps), unrealized hedged loss (100bps), COGS (200bps) and stick to 25% + guidance in FY24
- COGS at 28% of sales in line with Q2; forex has impacted COGS to sales by 200bps and expect Q4 COGS to sales at 26%
- Staff expenses – increased team size and ramped up international MR count by 50% in both Asia and Africa branded and done so in 9m FY23
- Other expenses include Rs370mn of forex loss
- Freight costs – additional expenses of Rs160mn as pushed flu products through air to US during flu season
- Branded generic – additional selling expenses of 100bps and benefit reflected in better branded generic growth

FINANCIALS

Exhibit 3: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	174	172	257	257	257
Reserves	29,782	32,472	37,692	44,056	52,850
Net worth	29,956	32,644	37,949	44,313	53,107
Debt	423	420	420	420	420
Deferred tax liab (net)	922	1,019	1,019	1,019	1,019
Total liabilities	31,301	34,082	39,387	45,752	54,545
Fixed Asset	16,404	16,564	16,809	17,458	17,997
Investments	606	791	791	791	791
Net Working Capital	13,790	16,171	21,231	26,947	35,202
Inventories	7,665	7,911	9,012	9,929	11,284
Sundry debtors	7,384	10,198	11,617	12,800	14,547
Cash	3,853	3,334	5,155	9,200	14,988
Other current assets	1,374	1,199	1,903	2,097	2,383
Sundry creditors	(3,739)	(3,272)	(3,727)	(4,106)	(4,667)
Other CL	(2,748)	(3,199)	(2,729)	(2,973)	(3,333)
Def tax assets	501	556	556	556	556
Total Assets	31,301	34,082	39,387	45,752	54,545

Source: Company, YES Sec

Exhibit 4: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	28,897	33,410	38,060	41,934	47,656
Operating profit	9,986	9,293	8,089	10,517	13,446
Depreciation	(1,161)	(1,253)	(1,255)	(1,351)	(1,461)
Interest expense	(83)	(102)	(140)	(140)	(140)
Other income	260	427	500	500	500
Profit before tax	9,002	8,365	7,194	9,525	12,345
Taxes	(2,463)	(1,968)	(1,583)	(2,096)	(2,716)
Adj. profit	6,539	6,397	5,611	7,430	9,629
Exceptional items	-	730	444	-	-
Net profit	6,539	7,127	6,055	7,430	9,629

Source: Company, YES Sec

Exhibit 5: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	9,002	8,365	7,194	9,525	12,345
Depreciation	1,161	1,253	1,255	1,351	1,461
Def tax assets (net)	(73)	43	-	-	-
Tax paid	(2,463)	(1,968)	(1,583)	(2,096)	(2,716)
Working capital Δ	(2,306)	(2,900)	(3,239)	(1,670)	(2,467)
Other operating items	-	730	444	-	-
Operating cashflow	5,321	5,522	4,071	7,111	8,623
Capital expenditure	(1,618)	(1,414)	(1,500)	(2,000)	(2,000)
Free cash flow	3,702	4,109	2,571	5,111	6,623
Equity raised	(2,018)	(3,893)	85	(230)	0
Investments	(37)	(185)	-	-	-
Debt financing/disposal	98	(3)	-	-	-
Dividends paid	(553)	(546)	(836)	(836)	(836)
Net Δ in cash	1,192	(519)	1,821	4,045	5,788

Source: Company, YES Sec

Exhibit 6: Du-pont analysis

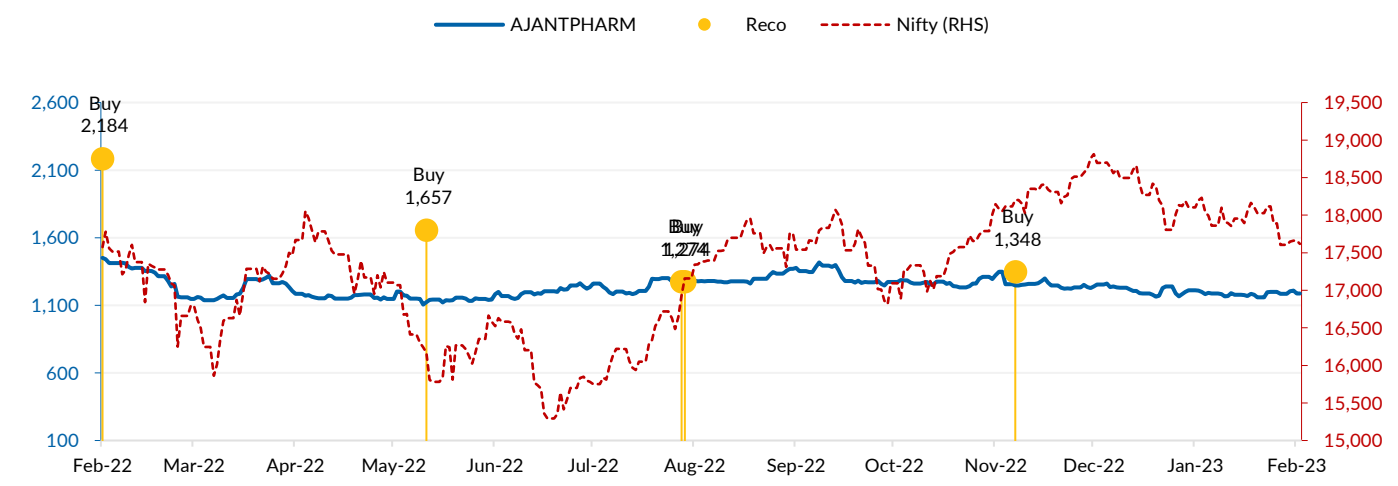
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Tax burden (x)	0.73	0.76	0.78	0.78	0.78
Interest burden (x)	0.99	0.99	0.98	0.99	0.99
EBIT margin (x)	0.31	0.25	0.19	0.23	0.26
Asset turnover (x)	0.82	0.86	0.89	0.86	0.83
Financial leverage (x)	1.25	1.23	1.21	1.19	1.17
RoE (%)	23.4	20.4	15.9	18.1	19.8

Exhibit 7: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)					
Revenue growth	11.7	15.6	13.9	10.2	13.6
Op profit growth	46.1	(6.9)	(13.0)	30.0	27.9
EBIT growth	33.6	(6.8)	(13.4)	31.8	29.2
Net profit growth	39.8	9.0	(15.0)	22.7	29.6
Profitability ratios (%)					
OPM	34.6	27.8	21.3	25.1	28.2
EBIT margin	31.4	25.3	19.3	23.0	26.2
Net profit margin	22.6	19.1	14.7	17.7	20.2
RoCE	31.1	25.9	20.0	22.7	24.9

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
RoNW	23.4	20.4	15.9	18.1	19.8
RoA	18.6	16.6	13.2	15.2	16.9
Per share ratios					
EPS	75.2	83.0	47.1	57.8	74.9
Dividend per share	6.4	6.4	6.5	6.5	6.5
Cash EPS	88.6	89.1	53.4	68.3	86.3
Book value per share	344.5	380.2	295.2	344.7	413.1
Valuation ratios					
P/E	34.9	32.0	25.1	21.1	15.8
P/CEPS	7.6	7.0	4.0	3.4	2.9
P/B	5.3	4.6	4.0	3.6	3.2
EV/EBIDTA	15.1	16.1	18.2	13.6	10.2
Payout (%)					
Dividend payout	27.4	23.5	22.0	22.0	22.0
Tax payout	8.5	7.7	13.8	11.2	8.7
Liquidity ratios					
Debtor days	93	111	111	111	111
Inventory days	97	86	86	86	86
Creditor days	47	36	36	36	36

Recommendation Tracker



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