

Estimate change



TP change

Rating change



Bloomberg	AJP IN
Equity Shares (m)	129
M.Cap.(INRb)/(USDb)	163.1 / 2
52-Week Range (INR)	1426 / 1062
1, 6, 12 Rel. Per (%)	0/3/2
12M Avg Val (INR M)	126

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	37.4	41.3	47.3
EBITDA	8.5	9.5	11.6
Adj. PAT	6.2	6.9	8.6
EBIT Margin (%)	19.1	19.7	21.6
Cons. Adj. EPS (INR)	49.2	54.9	68.1
EPS Gr. (%)	-10.0	11.5	24.2
BV/Sh. (INR)	267.8	309.1	359.9

Ratios

Net D:E	-0.3	-0.3	-0.4
RoE (%)	18.7	19.0	20.4
RoCE (%)	18.8	19.1	20.5
Payout (%)	24.7	24.7	25.5

Valuations

P/E (x)	26.3	23.6	19.0
EV/EBITDA (x)	19.0	16.7	13.0
Div. Yield (%)	0.9	1.0	1.3
FCF Yield (%)	3.8	2.1	5.3
EV/Sales (x)	4.3	3.8	3.2

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	66.1	66.1	70.5
DII	16.0	15.8	12.7
FII	10.0	10.1	8.6
Others	7.9	8.0	8.1

FII Includes depository receipts

CMP: INR1,296

TP: INR1,490 (+15%)

Buy

Disruption in Africa segment/higher opex drags earnings

Margin revival is the key for earnings growth over next 2-3 years

- Ajanta Pharma's (AJP) revenue was slightly lower than our estimate (2.8% miss). However, EBIDTA/PAT was considerably lower than estimate (9%/19% miss). Lower sales in Africa-branded exports and reduced operating leverage led to inferior performance for the quarter.
- We reduce our earnings estimate for FY24/FY25 by 10%/4%, factoring in a) gradual recovery in Africa-branded generics, given disruption in supplies to the Franco-Africa market, b) reduced pace of launches in US generics and c) increased opex. We value AJP at 22x 12M forward earnings to arrive at a TP of INR1,490.
- The performance of AJP in FY23 was affected by multiple factors, including increased raw material costs, freight costs, currency headwinds, and intensified price erosion in US generics. However, as most of these factors are expected to ease, and with the support of niche approvals, the outlook for AJP is expected to improve over FY24/FY25. We reiterate our BUY rating on the stock.

Product mix/reduced operating leverage hurts margins

- AJP 4QFY23 revenue was flat at INR8.8b (our est. INR9b). The YoY growth across domestic formulation (DF)/US was offset by Asia/Africa business. DF sale was up 17.1% YoY to INR2.9b (33% of sales). US generics sale were up 18% YoY to INR2b (22% of sales). Branded generics Asia sale was down 9.5% YoY to INR2.4b (23% of sales). Africa-branded generic and institutional sale was down 20% YoY to INR1.5b (17% of sales).
- Gross Margin contracted ~130bp YoY to 72.7% due to reduced share of Africa-branded generics business.
- Adjusting for forex loss of INR217m, EBITDA margin contracted ~580bp YoY to 19.4% (our est. 20.8%) due to higher employee cost (up 630bp YoY as percentage of sales), partly offset by lower other expenses (down 180bp YoY as percentage of sales).
- EBITDA declined 22%YoY to INR1.7b (our est. INR1.9b)
- Adj. PAT declined 26% YoY to INR1.2b (our est INR1.5b).
- In FY23, revenue grew 12% YoY to INR37.4b, while EBITDA/PAT declined 10% YoY each to INR8.5b/INR6.2b.

Highlights from the management commentary

- AJP expects mid-teens YoY growth in the branded generics segment for FY24.
- AJP guided for mid-single digit YoY growth in US generics for FY24.
- AJP expects to attain 74%-75% gross margin and 24-25% EBITDA margin in FY24.
- It is looking to file 6-8 ANDAs in FY24 in the US.
- The target action date for g-Chantix is expected to be in 2QFY24 in the US.
- The company has received approval for g-Vimovo in US generics and is currently in the process of launching it.
- Supply disruption due to pension reforms adversely affected business in the Africa segment. The gradual recovery is underway in this segment.

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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.

Consolidated - Quarterly performance

(INR m)

Y/E March	FY22				FY23E				FY22	FY23	FY23E	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	7,479	8,848	8,379	8,703	9,509	9,381	9,718	8,818	33,410	37,426	9,070	-2.8
YoY Change (%)	11.9	23.6	11.9	15.0	27.1	6.0	16.0	1.3	15.6	12.0	4.2	
Total Expenditure	5,278	6,220	5,983	6,505	6,992	7,318	7,555	7,107	23,986	28,971	7,185	
EBITDA	2,201	2,628	2,396	2,197	2,518	2,063	2,163	1,711	9,424	8,455	1,885	-9.2
YoY Change (%)	-1.4	-4.2	-0.9	-15.3	14.4	-21.5	-9.7	-22.1	-5.6	-10.3	-14.2	
Margins (%)	29.4	29.7	28.6	25.2	26.5	22.0	22.3	19.4	28.2	22.6	20.8	
Depreciation	309	315	317	312	318	327	333	330	1,253	1,308	340	
EBIT	1,892	2,313	2,079	1,886	2,200	1,736	1,830	1,381	8,171	7,147	1,544	-10.6
YoY Change (%)	-3.1	-6.0	-2.2	-17.6	16.2	-24.9	-12.0	-26.8	-7.4	-12.5	-18.1	
Interest	15	4	10	73	9	10	28	11	102	58	9	
Other Income	76	145	240	295	48	394	239	123	757	803	330	
PBT before EO expense	1,954	2,454	2,309	2,107	2,239	2,120	2,040	1,493	8,826	7,892	1,865	-20.0
Extra-Ord expense	-250	-150	0	131	20	90	357	-28	-269	-439	0	
PBT	2,204	2,604	2,309	1,977	2,219	2,030	1,683	1,521	9,095	7,453	1,865	-18.5
Tax	467	645	392	465	472	464	338	299	1,968	1,574	378	
Effective Rate (%)	21.2	24.8	17.0	23.5	21.3	22.9	20.1	19.7	21.6	21.1	20.3	
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	1,222	7,127	5,879	1,487	-17.8
Adj PAT	1,540	1,847	1,918	1,612	1,762	1,635	1,630	1,200	6,918	6,227	1,487	-19.4
YoY Change (%)	4.2	8.5	8.6	1.2	14.4	-11.4	-15.0	-25.6	5.8	-10.0	-7.7	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	FY22				FY23E				FY22	FY23	FY23E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
INRm											
Domestic formulations	2,290	2,480	2,560	2,450	2,790	3,140	2,940	2,870	9,781	11,740	2,619
YoY Change (%)	31.6	22.8	16.4	12.4	21.8	26.6	14.8	17.1	20.4	20.0	6.9
Asia	1,650	1,910	1,940	2,630	2,400	2,510	2,280	2,380	8,130	9,570	2,160
YoY Change (%)	2.5	6.1	(1.9)	49.4	45.5	31.4	17.5	(9.5)	13.7	17.7	(17.9)
Africa (branded + Insti)	1,790	2,250	2,030	1,860	2,450	1,790	1,760	1,490	7,930	7,490	1,979
YoY Change (%)	16.2	38.0	24.5	5.1	36.9	(20.4)	(13.3)	(19.9)	18.4	(5.5)	6.4
US	1,680	1,940	1,660	1,680	1,790	1,850	2,660	1,980	6,960	8,280	1,939
YoY Change (%)	12.8	26.0	3.1	(2.9)	6.5	(4.6)	60.2	17.9	9.3	19.0	15.4
Cost Break-up											
RM Cost (% of Sales)	23.0	26.2	22.6	26.0	26.3	27.7	26.7	27.3	24.5	27.0	26.9
Staff Cost (% of Sales)	21.1	18.1	19.4	19.0	19.2	19.8	19.8	25.4	19.3	21.0	18.5
R&D Expenses (% of Sales)	6.0	5.5	6.1	6.8	5.7	6.3	6.3	6.3	6.1	6.3	6.3
Other Cost (% of Sales)	26.5	26.0	29.5	29.7	28.0	30.5	31.2	27.9	27.9	29.4	31.2
Gross Margins(%)	77.0	73.8	77.4	74.0	73.7	72.3	73.3	72.7	75.5	73.0	73.1
EBITDA Margins(%)	29.4	29.7	28.6	25.2	26.5	22.0	22.3	19.4	28.2	22.6	20.8
EBIT Margins(%)	25.3	26.1	24.8	21.7	23.1	18.5	18.8	15.7	24.5	19.1	17.0
PBT Margins(%)	25.9	27.3	26.8	23.4	23.4	21.7	20.5	16.7	25.8	20.6	19.8
PAT Margins(%)	20.4	20.5	22.2	17.9	18.4	16.7	16.4	13.4	20.2	16.3	15.8

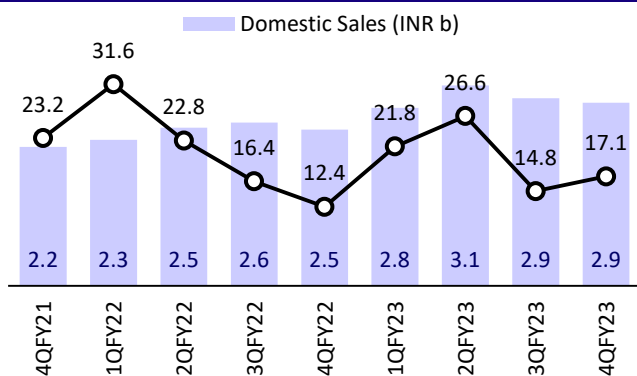


Other highlights from the management commentary

- The employee cost has been significantly higher for the quarter due to regrouping of selling expenses to employee expense.
- It has settled the litigation with respect to g-Topiramate.
- Overall, five products would be launched in FY24 in the US generics segment.
- It has launched eight new products in FY23 in branded generics Africa segment.
- The trade generics segment sales stood at INR420m for the quarter.
- In the DF segment, the company launched 23 products in FY23.
- AJP witnessed 8%/6%/3% YoY growth in volumes/price/new launches in DF FY23.
- On a high base of the past year, AJP witnessed a YoY decline in the Asia segment for 4QFY23.
- In the Asia segment, the company launched 38 products in FY23.

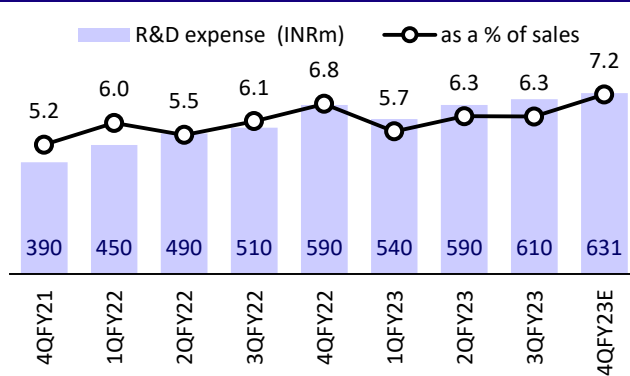
Key exhibits

Exhibit 1: DF sales up ~17% YoY in 4QFY23



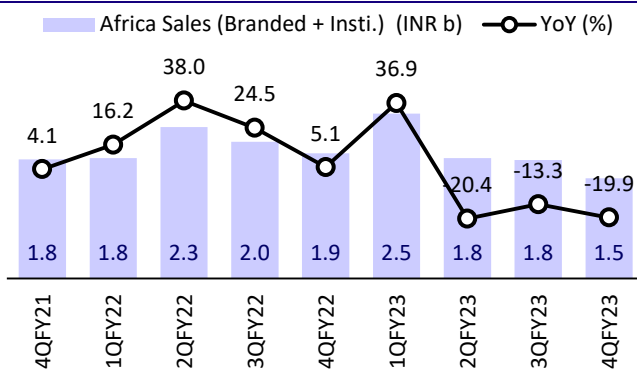
Source: MOFSL, Company

Exhibit 2: R&D spend at 7.2% as % of sales for 4QFY23



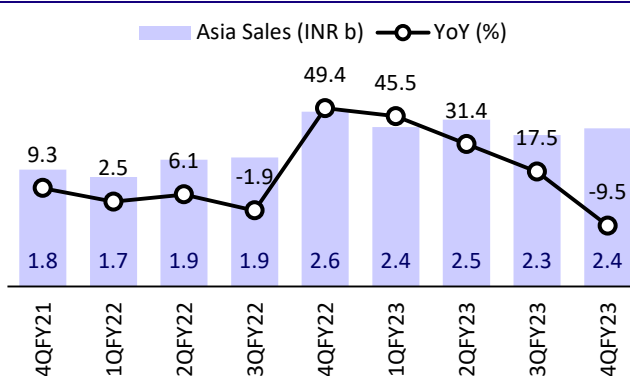
Source: MOFSL, Company

Exhibit 3: Africa sales (Branded + Institutional) declined ~20% YoY in 4QFY23



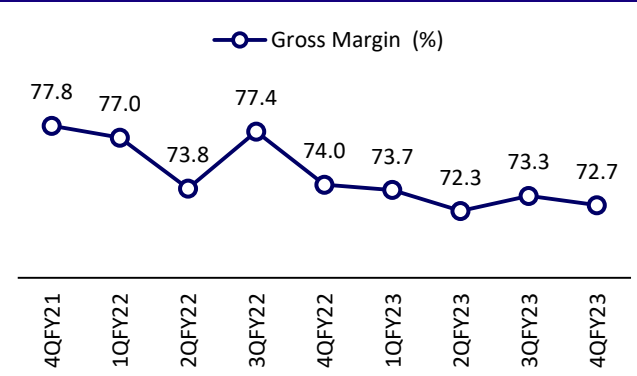
Source: MOFSL, Company

Exhibit 4: Asia sales declined ~9.5% YoY in 4QFY23



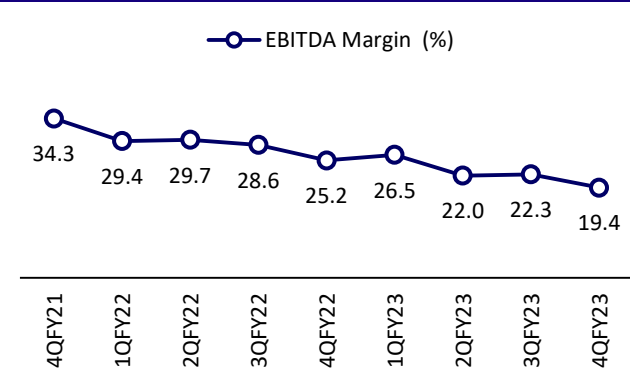
Source: MOFSL, Company

Exhibit 5: Gross margins contracted ~130bp YoY



Source: MOFSL, Company

Exhibit 6: EBITDA margin contracted ~580bp YoY due to higher operating expenses



Source: MOFSL, Company

Efforts required toward improving profitability

Branded generics to sustain industry outperformance

- In FY23, AJP's revenue grew 20% YoY to ~INR11.7b in DF. AJP outperformed the industry by ~800bp in FY23. It has demonstrated superior performance in pain management therapy at 33% sales CAGR over FY20-23.
- We expect AJP to deliver a 17% sales CAGR in DF over FY23-25, led by: 1) new launches, 2) robust volume off-take, and 3) inflation-linked price hikes
- African business declined 5.5% YoY to INR7.5b in FY23 due to supply disruption in 4QFY23. With gradual recovery and product introductions, we expect the African business to deliver 9% sales CAGR over FY23-25 to reach INR8.9b.
- In FY23, sales of branded generics in Asia grew at a strong rate of 18% YoY to INR9.6b. We expect AJP to deliver 14% sales CAGR to reach INR12b over FY23-25 on account of expansion in newer geographies and increased penetration in existing geographies.

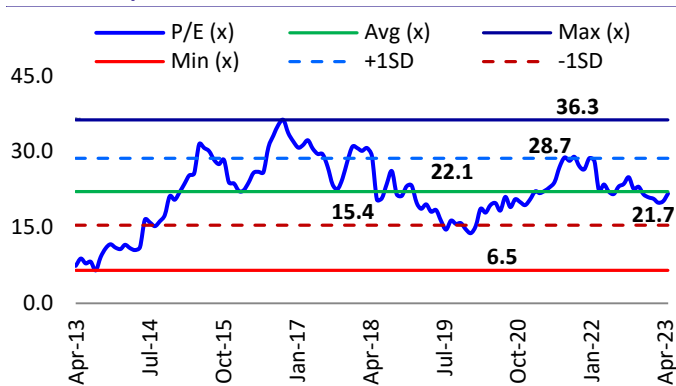
Reduced pace of filing may moderate US prospects; niche approval remains the key

- In FY23, US generics sales grew 10% YoY to USD102m. The market share gain and higher sales related to seasonality led AJP to deliver YoY growth in US generics segment in FY23.
- In FY23, AJP received 4 ANDA final approvals/1 tentative approval; and filed 5 ANDA with the US FDA. AJP awaits the USFDA approval of 21 ANDAs.
- With faster approvals and launches of new products with limited competition like g-Chantix, it would give a meaningful upside to AJP.
- We expect AJP to post 8% sales CAGR to INR9.7b over FY23-25.

Reiterate Buy

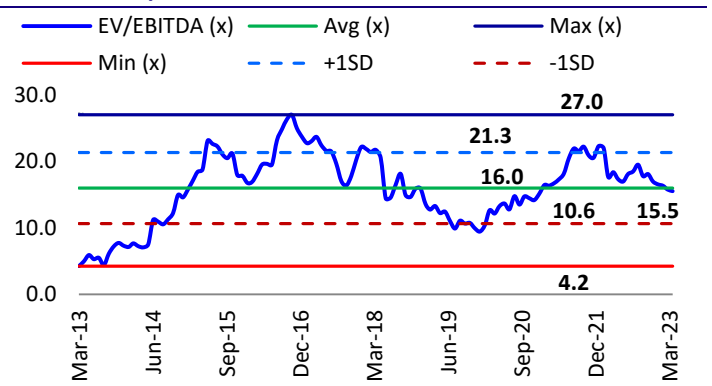
- We reduce our earnings estimate for FY24/FY25 by 10%/4% factoring a) gradual recovery in Africa-branded generics, given disruption in supplies to Franco-Africa market, b) reduced pace of launches in US generics and c) increased opex. We value AJP at 22x 12M forward earnings to arrive at a price target of INR1,490.
- While AJP had multiple factors (increased RM cost/freight cost, currency headwinds, and intensified price erosion in US generics) affecting FY23 performance. As most of these factors are easing, supported with niche approvals, we expect better outlook over FY24/FY25. We reiterate our BUY rating on the stock.

Exhibit 7: P/E chart



Source: MOFSL, Company, Bloomberg

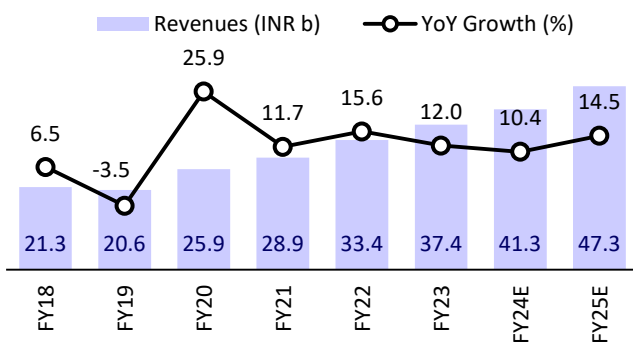
Exhibit 8: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

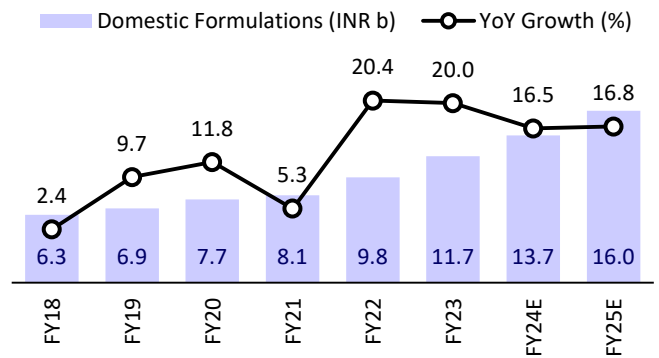
Story in charts

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



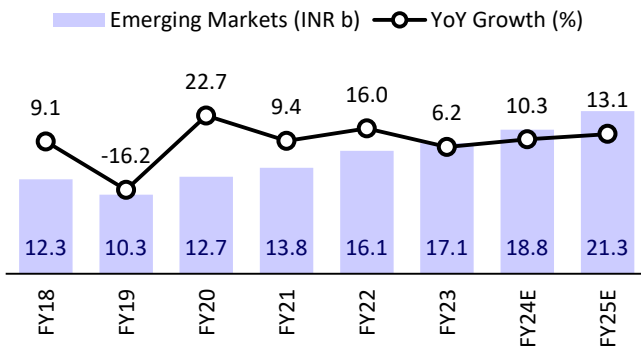
Source: Company, MOFSL

Exhibit 10: DF sales to report 17% CAGR over FY23-25



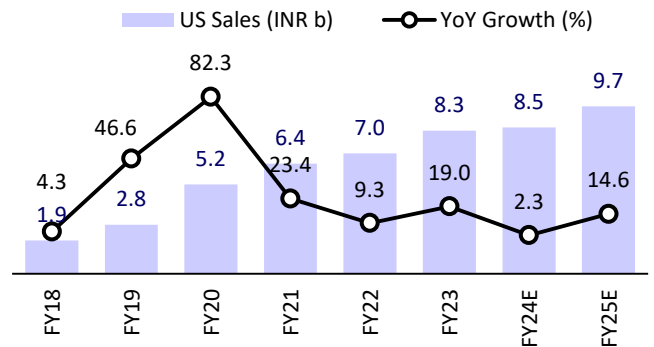
Source: Company, MOFSL

Exhibit 11: EM sales to clock 12% CAGR over FY23-25



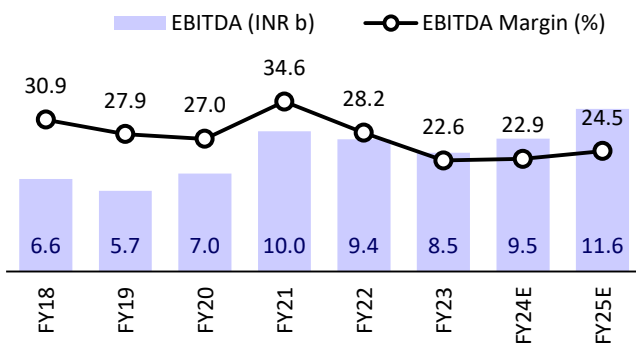
Source: Company, MOFSL

Exhibit 12: US sales to record 8.2% CAGR over FY23-25



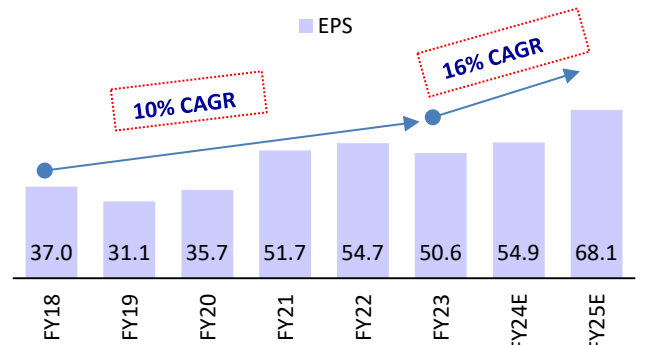
Source: Company, MOFSL

Exhibit 13: Expects 190bp margin expansion by FY25



Source: Company, MOFSL

Exhibit 14: Expects 16% earnings CAGR over FY23-25



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement									(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	20,016	21,309	20,554	25,879	28,897	33,410	37,426	41,317	47,313
Change (%)	14.4	6.5	-3.5	25.9	11.7	15.6	12.0	10.4	14.5
Total Expenditure	13,126	14,725	14,809	18,895	18,911	23,986	28,971	31,855	35,721
% of Sales	65.6	69.1	72.1	73.0	65.4	71.8	77.4	77.1	75.5
EBITDA	6,890	6,584	5,744	6,983	9,986	9,424	8,455	9,462	11,592
Margin (%)	34.4	30.9	27.9	27.0	34.6	28.2	22.6	22.9	24.5
Depreciation	612	596	721	957	1,161	1,253	1,308	1,337	1,364
EBIT	6,278	5,988	5,024	6,026	8,825	8,171	7,147	8,125	10,228
Int. and Finance Charges	35	4	12	119	83	102	58	52	52
Other Income	239	242	211	522	260	757	803	826	946
PBT bef. EO Exp.	6,482	6,226	5,223	6,429	9,002	8,826	7,892	8,899	11,122
EO Items	0	0	80	211	0	269	439	0	0
PBT after EO Exp.	6,482	6,226	5,143	6,640	9,002	9,095	7,453	8,899	11,122
Total Tax	1,413	1,539	1,273	1,963	2,463	1,968	1,574	1,958	2,502
Tax Rate (%)	21.8	24.7	24.8	29.6	27.4	21.6	21.1	22.0	22.5
Reported PAT	5,068	4,686	3,870	4,677	6,539	7,127	5,879	6,941	8,620
Adjusted PAT	5,068	4,686	3,930	4,522	6,539	6,916	6,225	6,941	8,620
Change (%)	21.9	-7.5	-16.1	15.1	44.6	5.8	-10.0	11.5	24.2
Margin (%)	25.3	22.0	19.1	17.5	22.6	20.7	16.6	16.8	18.2

Consolidated - Balance Sheet									(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	177	175	175	175	174	172	253	253	253
Total Reserves	15,500	20,237	22,277	25,813	29,782	32,472	33,627	38,854	45,276
Net Worth	15,677	20,412	22,452	25,989	29,956	32,644	33,880	39,107	45,529
Total Loans	10	11	7	7	16	19	15	15	15
Deferred Tax Liabilities	29	244	271	558	421	463	977	977	977
Capital Employed	15,716	20,667	22,730	26,553	30,393	33,125	34,872	40,098	46,520
Gross Block	8,949	14,172	16,152	20,045	21,896	22,857	24,012	26,438	28,123
Less: Accum. Deprn.	3,058	3,646	4,366	5,324	6,485	7,738	9,046	10,382	11,746
Net Fixed Assets	5,892	10,527	11,786	14,721	15,411	15,120	14,966	16,055	16,376
Capital WIP	3,393	613	2,613	1,319	1,082	1,529	2,095	1,169	984
Total Investments	1,909	2,044	888	476	517	707	5,465	5,465	5,465
Curr. Assets, Loans&Adv.	7,039	11,077	11,357	16,417	20,276	22,645	24,265	31,313	39,487
Inventory	2,110	3,506	4,357	4,957	7,665	7,911	8,156	10,037	11,548
Account Receivables	3,232	4,920	4,595	7,753	7,384	10,198	10,569	13,018	11,925
Cash and Bank Balance	713	932	1,005	2,053	2,096	2,118	3,309	5,796	13,193
Loans and Advances	985	1,719	1,400	1,655	3,131	2,418	2,231	2,463	2,820
Curr. Liability & Prov.	2,516	3,592	3,913	6,379	6,893	6,875	11,919	13,903	15,792
Account Payables	1,781	2,852	2,251	3,623	3,739	3,272	4,227	5,411	6,068
Other Current Liabilities	562	321	1,278	2,230	2,858	3,302	7,310	8,070	9,241
Provisions	173	419	384	526	296	301	382	422	483
Net Current Assets	4,524	7,485	7,444	10,038	13,383	15,770	12,346	17,410	23,696
Appl. of Funds	15,716	20,667	22,730	26,553	30,393	33,126	34,872	40,098	46,520

Financials and valuations

Ratios									
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)									
EPS	40.1	37.0	31.1	35.7	51.7	54.7	49.2	54.9	68.1
Cash EPS	44.9	41.8	36.8	43.3	60.9	64.6	59.6	65.4	78.9
BV/Share	123.9	161.4	177.5	205.4	236.8	258.1	267.8	309.1	359.9
DPS	9.0	0.0	6.3	9.0	6.6	6.4	11.5	13.6	17.4
Payout (%)	22.6	0.0	20.6	24.8	12.7	11.4	24.7	24.7	25.5
Valuation (x)									
P/E	32.3	35.0	41.7	36.3	25.1	23.7	26.3	23.6	19.0
Cash P/E	28.9	31.0	35.3	29.9	21.3	20.1	21.8	19.8	16.4
P/BV	10.5	8.0	7.3	6.3	5.5	5.0	4.8	4.2	3.6
EV/Sales	8.2	7.7	7.9	6.3	5.6	4.8	4.3	3.8	3.2
EV/EBITDA	23.7	24.8	28.4	23.2	16.2	17.2	19.0	16.7	13.0
Dividend Yield (%)	0.7	0.0	0.5	0.7	0.5	0.5	0.9	1.0	1.3
FCF per share	24.4	2.9	-1.9	15.6	34.5	33.3	48.8	27.1	68.8
Return Ratios (%)									
RoE	36.7	26.0	18.3	18.7	23.4	22.1	18.7	19.0	20.4
RoCE	35.9	26.0	18.4	19.0	23.6	22.3	18.8	19.1	20.5
RoIC	52.1	33.7	21.4	20.7	25.9	23.1	21.4	24.5	29.1
Working Capital Ratios									
Asset Turnover (x)	1.3	1.0	0.9	1.0	1.0	1.0	1.1	1.0	1.0
Inventory (Days)	38	60	77	66	97	86	80	89	89
Debtor (Days)	59	84	82	109	93	111	103	115	92
Creditor (Days)	32	49	40	51	47	36	41	48	47
Leverage Ratio (x)									
Net Debt/Equity	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.3	-0.4

Consolidated - Cash Flow Statement									(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	6,482	6,226	5,303	6,218	9,002	9,095	7,453	8,899	11,122
Depreciation	612	596	721	957	1,161	1,253	1,308	1,337	1,364
Interest & Finance Charges	35	-238	-199	-403	-177	-655	58	-775	-895
Direct Taxes Paid	-1,428	-1,539	-1,273	-1,963	-2,463	-1,968	-1,513	-1,958	-2,502
(Inc)/Dec in WC	285	-2,742	115	-1,548	-1,708	-2,427	665	-2,577	1,112
CF from Operations	5,986	2,302	4,667	3,262	5,815	5,298	7,971	4,926	10,201
Others	106	509	-922	1,306	169	323	-53	0	0
CF from Operating incl EO	6,092	2,811	3,745	4,568	5,983	5,620	7,918	4,926	10,201
(Inc)/Dec in FA	-3,002	-2,444	-3,979	-2,599	-1,614	-1,409	-1,745	-1,500	-1,500
Free Cash Flow	3,090	367	-234	1,969	4,369	4,212	6,173	3,426	8,701
(Pur)/Sale of Investments	-914	-135	1,155	413	-41	-190	-3,907	0	0
Others	85	17	596	-58	-1,169	857	56	826	946
CF from Investments	-3,831	-2,562	-2,228	-2,244	-2,824	-741	-5,596	-674	-554
Issue of Shares	0	-2	0	0	-2	-2	-14	0	0
Inc/(Dec) in Debt	-746	1	-5	1	9	3	-5	0	0
Interest Paid	-35	-4	-12	-119	-83	-102	-23	-52	-52
Dividend Paid	-1,287	b	-796	-1,159	-829	-816	-897	-1,715	-2,198
CF from Fin. Activity	-2,017	-1	-1,476	-1,683	-2,737	-4,790	-1,131	-1,766	-2,250
Inc/Dec of Cash	244	248	41	640	422	89	1,191	2,486	7,398
Opening Balance	414	658	906	952	1,592	2,014	2,103	3,295	5,781
Closing Balance	658	906	948	1,592	2,014	2,103	3,295	5,781	13,179
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	3,309	5,796	13,193

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Explanation of Investment Rating	
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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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