

May 08, 2023

RESULT REPORT Q4 FY23 | Sector: Pharmaceuticals & Healthcare

Ajanta Pharma

Margin recovery expectation intact

Result Synopsis

Ajanta Pharma reported a largely inline quarter – slight miss on margin can be traced to lower than expected sales in branded Africa due to protests in Franco Africa. Overall, margin came at ~19% vs guided range of 20-21% coupled with revenue decline across US due to ebbing of flu season, 17% YoY growth in domestic business and sharp 26% decline in Africa branded business.

Post Q3 result following a wide miss on margin we had commented Ajanta's ability to report 24-25% margin is not structurally damaged. Considering logistic and input costs, reiterate that FY24 margin guidance of 25% does not look far-fetched as 350-400bps gain can accrue from lower input costs and freight expenses. Indeed, even in FY24, gross margin factored at ~73-74% is still at lower end of last few years as US pricing pressure would still create drag. Growth at 12% in FY23 (though tepid in Q4) is still within expected range especially as US ex of flu gains and currency is still struggling for growth. We have presumed flat US business in FY24 and ~14% growth in branded business of India & Asia/Africa (not much change from earlier estimate). Albeit, our margin assumption gets a leg down as now bump up R&D to 6% of sales vs earlier 5% based on Q4 guidance. We continue with our belief Ajanta remains a 10-12% growth company with high likelihood of margin reversal in current year. Roll over to FY25 estimate and retain BUY based on unchanged 25x PE on a ~10% reduced FY25 EPS forecast (on ~200bps lower OPM assumption) and revised TP Rs1,700 (earlier Rs1,400).

Result Highlights

Revenues flat YoY vs expectation of 6% YoY growth. India and US were in line while Africa branded disappointed with lowest sales since Q4 FY21

US sales declined as flu sales ebbed QoQ; India sales up 17% YoY

Margin at 19.4% just shy of guided range of 20-21%; lower branded Africa sales resulted from protests in Franco Africa region which now seems to be stabilizing per management commentary.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	8,818	9,254	-	-4.7	-	Slight miss on margin vs guided range; revenue impacted by loss of sales in Africa branded business
EBITDA	1,711	1,828	-	-6.4	-	
EBITDA Margin (%)	19.4	19.8	-	-35 bps	-	
Adjusted PAT	1,194	1,410	-	-15.3	-	

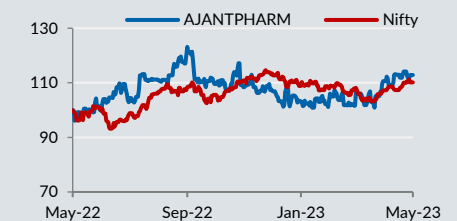
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 1,296
Target Price	: Rs 1,700
Potential Return	: +31%

Stock data (as on May 05, 2023)

Nifty	18,069
52 Week h/l (Rs)	1428 / 1062
Market cap (Rs/USD mn)	163494 / 2000
Outstanding Shares (mn)	126
6m Avg t/o (Rs mn):	108
Div yield (%):	0.5
Bloomberg code:	AJP IN
NSE code:	AJANTPHARM

Stock performance



	1M	3M	1Y
Absolute return	2.1%	6.4%	12.9%

Shareholding pattern (As of Mar '23 end)

Promoter	66.1%
FII+DII	26.0%
Others	7.9%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,700	1,400

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	57.0	67.6
EPS (Old)	64.4	74.9
% change	-11.5%	-9.8%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	37,426	41,133	46,330
YoY Growth	12.0	9.9	12.6
EBIDTA	8,020	9,795	12,181
YoY Growth	-13.7	22.1	24.4
PAT	5,879	7,200	8,536
YoY Growth	(17.5)	22.5	18.6
ROE	16.3	18.3	19.4
EPS	46.5	57.0	67.6
P/E	27.8	22.7	19.2
BV	268.1	318.1	378.7
EV/EBITDA	19.4	15.9	12.4

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Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	y/y (%)	q/q (%)
Revenue	8,703	9,509	9,381	9,718	8,818	1.3	(9.3)
Expenditure	6,636	7,292	7,418	7,652	7,108	7.1	(7.1)
- RM	2,393	2,804	2,598	2,693	2,409	0.7	(10.6)
- Staff Cost	1,655	1,829	1,861	1,924	2,236	35.1	16.2
- Other Cost	2,588	2,658	2,959	3,035	2,462	(4.8)	(18.9)
Operating Profit	2,067	2,218	1,963	2,065	1,711	(17.2)	(17.2)
OPM(%)	23.8	23.3	20.9	21.3	19.4	-435 bps	-185 bps
Other Income	53	328	404	77	123	134	59
Depreciation	312	318	327	333	330	6	(1)
Interest	73	9	10	28	11	(85)	(60)
PBT	1,735	2,219	2,030	1,781	1,492	(14.0)	(16.2)
Tax	465	472	464	338	298	(35.9)	(11.9)
PAT	1,270	1,746	1,566	1,443	1,194	(5.9)	(17.2)
Exceptional	242	-	-	(98)	28	-	-
MI	-	-	-	-	-	-	-
Reported PAT	1,512	1,746	1,566	1,345	1,223	(19.1)	(9.1)

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Guidance

- FY24 should see benefit of COGS (including reversal of Euro INR appreciation in FY23) and logistic cost of 200bps each taking margin to 25%
- FY24 capex of Rs2bn including maintenance capex
- R&D cost to remain at similar % to sales as FY23
- Increase of branded sales in mid-teens in FY24 and US at mid-single digit 5-6% and institutional business to be flat YoY
- India growth of low double digit vs expected 8-9% IPM growth in FY24

Quarterly highlights

- French protests had an impact in Franco Africa which led to lower sales – some of it can be recouped in Q1 but some could be lost permanently
- Price erosion stabilized and now at single digit in the portfolio
- Staff cost up on back of some recruitment; logistic cost is back to normal level. Most of the cost related to MR addition is done and should see staff cost rise in small steps
- With improvement in working capital, cash conversion ratio was ~99%
- Regrouped ~Rs270mn worth of incentives from other exp to personnel cost which was hitherto classified as marketing expenses
- Expect 1.5x-2x growth in Africa branded business and market is growing in low double digit
- Looking to launch 5 products in current year in US; have not seen any significant approval in our portfolio products barring exceptions
- Increase in NLEM portfolio by 11% and this has partly offset the impact of 18% price decline in recently included product in NLEM
- Feb and Mar saw sharp decline in freight expenses
- India – vol growth of 8%, price growth 6% and new launches 3%
- US – Chantix goal date of Q2 FY24. To launch Vimovo in Q1 FY24. Settled litigation on Topiramate
- MR strength – 2800 in India and 1300 in export markets
- Expect staff/sales of ~21% similar to FY23
- Trade generics at Rs400mn in Q4 and is EBIDTA +ve and scaled up to Rs1.5bn. Portfolio is more skewed towards chronic vs acute for rest of trade generics industry. Aim is to grow at low double digit

FINANCIALS

Exhibit 3: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	174	172	253	253	253
Reserves	29,782	32,472	33,627	39,943	47,595
Net worth	29,956	32,644	33,880	40,195	47,847
Debt	423	420	540	540	540
Deferred tax liab (net)	922	1,019	977	977	977
Total liabilities	31,301	34,082	35,397	41,713	49,365
Fixed Asset	16,404	16,564	17,059	17,722	18,276
Investments	606	791	423	423	423
Net Working Capital	13,790	16,171	16,947	22,600	29,698
Inventories	7,665	7,911	8,150	8,958	10,089
Sundry debtors	7,384	10,198	10,569	11,616	13,083
Cash	3,853	3,334	8,418	8,048	13,308
Other current assets	1,374	1,199	1,203	1,645	1,853
Sundry creditors	(3,739)	(3,272)	(4,228)	(4,646)	(5,234)
Other CL	(2,748)	(3,199)	(7,165)	(3,020)	(3,402)
Def tax assets	501	556	968	968	968
Total Assets	31,301	34,082	35,397	41,713	49,365

Source: Company, YES Sec

Exhibit 4: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	28,897	33,410	37,426	41,133	46,330
Operating profit	9,986	9,293	8,020	9,795	12,181
Depreciation	(1,161)	(1,253)	(1,308)	(1,337)	(1,447)
Interest expense	(83)	(102)	(58)	(140)	(140)
Other income	260	427	326	350	350
Profit before tax	9,002	8,365	6,980	8,668	10,944
Taxes	(2,463)	(1,968)	(1,573)	(1,907)	(2,408)
Adj. profit	6,539	6,397	5,407	6,761	8,536
Exceptional items	-	730	473	-	-
Net profit	6,539	7,127	5,879	6,761	8,536

Source: Company, YES Sec

Exhibit 5: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	9,002	8,365	6,980	8,668	10,944
Depreciation	1,161	1,253	1,308	1,337	1,447
Def tax assets (net)	(73)	43	(454)	-	-
Tax paid	(2,463)	(1,968)	(1,573)	(1,907)	(2,408)
Working capital Δ	(2,306)	(2,900)	4,308	(6,022)	(1,839)
Other operating items	-	730	473	-	-
Operating cashflow	5,321	5,522	11,041	2,076	8,144
Capital expenditure	(1,618)	(1,414)	(1,803)	(2,000)	(2,000)
Free cash flow	3,702	4,109	9,239	76	6,144
Equity raised	(2,018)	(3,893)	(3,759)	439	0
Investments	(37)	(185)	368	-	-
Debt financing/disposal	98	(3)	121	-	-
Dividends paid	(553)	(546)	(884)	(884)	(884)
Net Δ in cash	1,192	(519)	5,084	(370)	5,260

Source: Company, YES Sec

Exhibit 6: Du-pont analysis

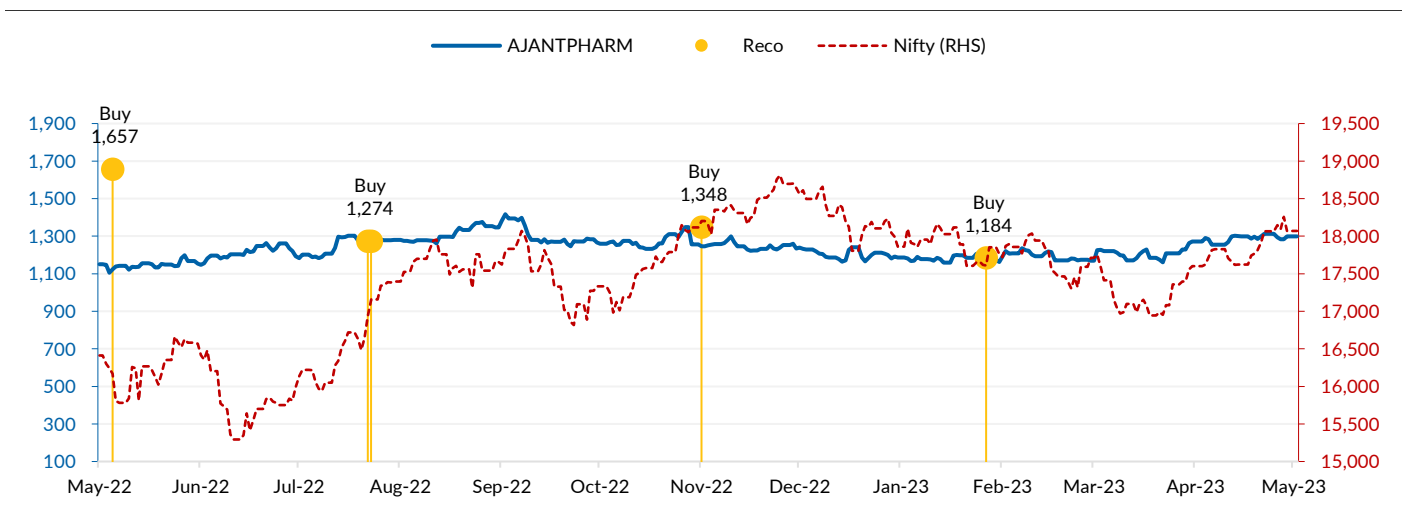
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	0.73	0.76	0.77	0.78	0.78
Interest burden (x)	0.99	0.99	0.99	0.98	0.99
EBIT margin (x)	0.31	0.25	0.19	0.21	0.24
Asset turnover (x)	0.82	0.86	0.87	0.87	0.88
Financial leverage (x)	1.25	1.23	1.29	1.27	1.20
RoE (%)	23.4	20.4	16.3	18.3	19.4

Exhibit 7: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Revenue growth	11.7	15.6	12.0	9.9	12.6
Op profit growth	46.1	(6.9)	(13.7)	22.1	24.4
EBIT growth	33.6	(6.8)	(16.9)	25.2	25.8
Net profit growth	39.8	9.0	(17.5)	15.0	26.3
Profitability ratios (%)					
OPM	34.6	27.8	21.4	23.8	26.3
EBIT margin	31.4	25.3	18.8	21.4	23.9
Net profit margin	22.6	19.1	14.4	16.4	18.4
RoCE	31.1	25.9	20.3	22.8	24.3

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
RoNW	23.4	20.4	16.3	18.3	19.4
RoA	18.6	16.6	12.6	14.3	16.2
Per share ratios					
EPS	75.2	83.0	46.5	53.5	67.6
Dividend per share	6.4	6.4	7.0	7.0	7.0
Cash EPS	88.6	89.1	53.1	64.1	79.0
Book value per share	344.5	380.2	268.1	318.1	378.7
Valuation ratios					
P/E	37.6	34.5	27.8	22.7	19.2
P/CEPS	8.2	7.5	4.8	4.1	3.4
P/B	5.8	5.0	4.4	4.0	3.5
EV/EBIDTA	16.6	17.6	19.4	15.9	12.4
Payout (%)					
Dividend payout	27.4	23.5	22.5	22.0	22.0
Tax payout	8.5	7.7	15.0	13.1	10.4
Liquidity ratios					
Debtor days	93	111	103	103	103
Inventory days	97	86	79	79	79
Creditor days	47	36	41	41	41

Recommendation Tracker



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