

Ajanta Pharma

Estimate change



TP change



Rating change



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Bloomberg	AJP IN
Equity Shares (m)	127
M.Cap.(INRb)/(USDb)	194.7 / 2.4
52-Week Range (INR)	1573 / 1115
1, 6, 12 Rel. Per (%)	-1/19/3
12M Avg Val (INR M)	135

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	37.4	42.1	48.2
EBITDA	8.5	10.8	12.7
Adj. PAT	6.2	7.7	9.5
EBIT Margin (%)	19.1	22.4	23.4
Cons. Adj. EPS (INR)	49.2	60.7	74.7
EPS Gr. (%)	-10.0	23.3	23.2
BV/Sh. (INR)	267.8	312.8	368.5

Ratios

Net D:E	-0.3	-0.3	-0.4
RoE (%)	18.7	20.9	21.9
RoCE (%)	18.8	21.0	22.0
Payout (%)	24.7	24.1	25.5

Valuations

P/E (x)	31.5	25.5	20.7
EV/EBITDA (x)	22.8	17.5	14.5
Div. Yield (%)	0.7	1.0	1.2
FCF Yield (%)	3.3	2.9	3.3
EV/Sales (x)	5.2	4.5	3.8

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	66.2	66.1	70.5
DII	15.8	16.0	12.9
FII	10.2	10.0	8.3
Others	7.8	7.9	8.3

FII Includes depository receipts

CMP: INR1,546

TP: INR1,800 (+16%)

Buy

On track to outperform the industry in branded generics

Favorable US outlook to also support better profitability

- Ajanta Pharma (AJP) posted in-line sales with better-than-expected profitability in 1QFY24. AJP benefited from lower raw material cost/freight cost in 1QFY24 and expects the same to sustain over the near-to-medium term.
- We raise our earnings estimates for FY24/FY25 by 7.5% each factoring in: a) the lower intensity of price erosion in the US generics segment, b) superior execution in branded generics segment and c) lower operational cost. We value AJP at 22x 12M forward earnings to arrive at our TP of INR1,800.
- We expect 23% earnings CAGR over FY23-25, led by 15% sales CAGR in Domestic Formulation (DF)/Asia and 13% sales CAGR in the US segment, supported by 370bp margin expansion. Considering the earnings outlook and attractive valuation, **we reiterate our BUY rating on the stock.**

Superior product mix/lower RM cost offset by higher opex YoY

- AJP's 1QFY24 revenue grew 7.4% YoY to INR10.2b (our est. INR10b), led by growth across DF and the US, offset by the African business. DF sales rose 14.4% YoY to INR3.2b (31% of sales). The US generic sales grew 19% YoY to INR2b (21% of sales). Asia sales rose 6% YoY to INR2.5b, (25% of sales). Africa branded generic and institutional sales declined 8.6% YoY to INR2.4b (22% of sales) during the quarter.
- Gross margin expanded ~170bp YoY to 75.3% due to a change in product mix and lower raw material cost.
- Adjusting for forex loss of INR100m, EBITDA margin expanded ~110bp YoY to 27.6% (our est. 23.2%) due to better gross margin and lower other expenses (-110bp YoY as a % of sales) partly offset by higher employee cost (+~170bp YoY as % of sales) in 1QFY24.
- EBITDA grew 12% YoY to INR2.8b (our est. INR2.3b).
- Adj. PAT grew 13.9% YoY to INR2.0b (our est. INR1.6b) in 1QFY24.

Highlights from the management commentary

- While AJP achieved 27.6% EBITDA margin in 1QFY24, it maintained its margin guidance of 25% (+/- 1%) for FY24.
- Management indicated price erosion at high-single digit compared to earlier double-digit rate in the US generics segment.
- AJP guided for mid-teens YoY growth in branded generics segment for FY24.
- Management indicated mid-single digit YoY growth in the US sales for FY24. This is excluding any potential benefit from g-Chantix.
- It expects to launch 4-5 products in the US generics in FY24.
- It guided for a capex of INR2b for FY24.
- AJP guided that the R&D expenditure would be 6% of sales for FY24.

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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.

Consol. - Quarterly performance

(INR m)

Y/E March	FY23E				FY24E				FY23	FY24E	FY24E	vs Est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	9,509	9,381	9,718	8,818	10,210	10,435	10,549	10,931	37,426	42,125	10,073	1.4
YoY Change (%)	27.1	6.0	16.0	1.3	7.4	11.2	8.6	24.0	12.0	12.6	5.9	
Total Expenditure	6,992	7,318	7,555	7,107	7,397	7,690	7,912	8,342	28,972	31,341	7,736	
EBITDA	2,518	2,063	2,162	1,711	2,813	2,744	2,637	2,589	8,454	10,784	2,337	20.4
YoY Change (%)	14.4	-21.5	-9.7	-22.1	11.7	33.0	22.0	51.3	-10.3	27.6	-7.2	
Margins (%)	26.5	22.0	22.3	19.4	27.6	26.3	25.0	23.7	22.6	25.6	23.2	
Depreciation	318	327	333	330	332	338	342	357	1,308	1,369	335	
EBIT	2,200	1,736	1,829	1,381	2,482	2,406	2,295	2,232	7,146	9,415	2,002	24.0
YoY Change (%)	16.2	-24.9	-12.0	-26.8	12.8	38.6	25.5	61.6	-12.5	31.7	-9.0	
Margins (%)	23.1	18.5	18.8	15.7	24.3	23.1	21.8	20.4	19.1	22.4	19.9	22.3
Interest	9	10	28	11	9	14	13	16	58	52	12	
Other Income	48	394	239	123	121	135	145	147	803	548	150	
PBT before EO expense	2,239	2,120	2,040	1,493	2,594	2,527	2,427	2,363	7,892	9,911	2,140	21.2
Extra-Ord expense	20	90	357	-28	-97	0	0	0	-439	97	0	
PBT	2,219	2,030	1,683	1,521	2,691	2,527	2,427	2,363	7,453	10,008	2,140	25.7
Tax	472	464	338	299	609	594	570	484	1,574	2,302	503	
Effective Rate (%)	21.3	22.9	20.1	19.7	22.6	23.5	23.5	20.5	21.1	23.0	23.5	
MI & P/L of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0	
Reported PAT	1,746	1,566	1,345	1,222	2,082	1,933	1,857	1,879	5,879	7,706	1,637	27.1
Adj PAT	1,762	1,635	1,630	1,200	2,007	1,933	1,857	1,879	6,227	7,632	1,637	22.6
YoY Change (%)	14.4	-11.4	-15.0	-25.6	13.9	18.2	13.9	56.6	-10.0	22.6	-7.1	
Margins (%)	18.4	16.7	16.4	13.4	19.4	18.3	17.4	17.0	16.3	17.9	16.0	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E
INR m	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE
Domestic formulations	2,790	3,140	2,940	2,870	3,192	3,417	3,472	3,346	11,740	13,427	3,222
YoY Change (%)	21.8	26.6	14.8	17.1	14.4	8.8	18.1	16.6	20.0	14.4	15.5
Asia	2,400	2,510	2,280	2,380	2,540	2,686	2,690	2,898	9,570	10,814	2,448
YoY Change (%)	45.5	31.4	17.5	(9.5)	5.8	7.0	18.0	21.8	17.7	13.0	2.0
Africa (branded + Insti)	2,450	1,790	1,760	1,490	2,240	2,092	2,050	1,757	7,490	8,139	2,231
YoY Change (%)	36.9	(20.4)	(13.3)	(19.9)	(8.6)	16.8	16.5	17.9	(5.5)	8.7	(8.9)
US	1,790	1,850	2,660	1,980	2,130	2,091	2,181	2,772	8,280	9,174	2,023
YoY Change (%)	6.5	(4.6)	60.2	17.9	19.0	13.0	(18.0)	40.0	19.0	10.8	13.0
Cost Break-up											
RM Cost (% of Sales)	26.3	27.7	26.7	27.3	24.7	25.3	25.0	25.0	27.0	25.0	27.1
Staff Cost (% of Sales)	19.2	19.8	19.8	25.4	20.9	21.0	21.0	22.7	21.0	21.4	19.2
R&D Expenses (% of Sales)	5.7	6.3	6.3	7.2	5.4	0.0	0.0	0.0	6.3	6.0	0.0
Other Cost (% of Sales)	28.0	30.5	31.2	27.9	26.9	27.4	29.0	28.6	29.4	28.0	30.5
Gross Margins(%)	73.7	72.3	73.3	72.7	75.3	74.7	75.0	75.0	73.0	75.0	72.9
EBITDA Margins(%)	26.5	22.0	22.3	19.4	27.6	26.3	25.0	23.7	22.6	25.6	23.2
EBIT Margins(%)	23.1	18.5	18.8	15.7	24.3	23.1	21.8	20.4	19.1	22.4	19.9
PBT Margins(%)	23.4	21.7	20.5	16.7	25.1	23.9	22.7	21.3	20.6	23.2	20.9
PAT Margins(%)	18.4	16.7	16.4	13.4	19.4	18.3	17.4	17.0	16.3	18.0	16.0



Other highlights from the management commentary

- There is a benefit to the tune of 200bp as a % of sales due to lower RM cost
- Freight cost is now at pre-Covid levels at 4% of sales vs. 6% in FY23.
- It launched three products in DF and two in Asia segment during the quarter.
- AJP is expected to launch g-Chantix in 4QFY24/1QFY25 subject to regulatory approval.

- The company expects a revenue run-rate ~INR2.1b for the next three quarters in the US generics segment.
- With improved sales outlook and stable MR count, its productivity is expected to improve going forward.

Key exhibits

Exhibit 1: DF sales up ~14.4% YoY in 1QFY24

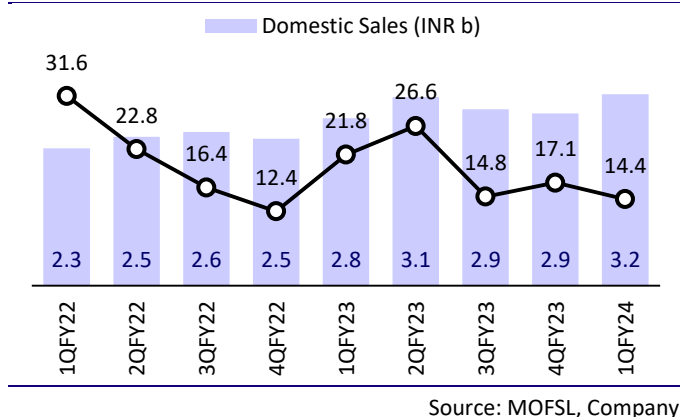


Exhibit 2: R&D spend at 5.4% of sales for 1QFY24

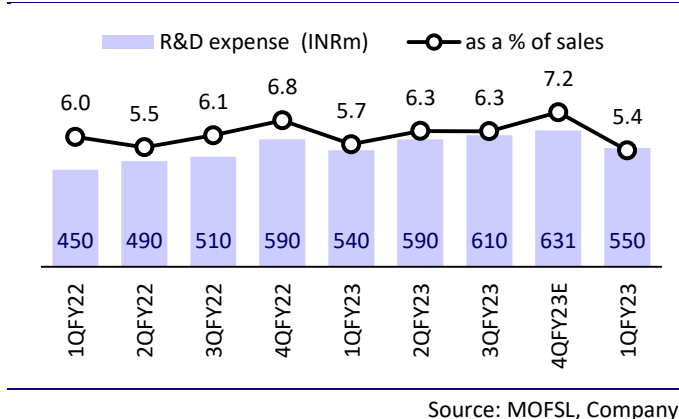


Exhibit 3: Africa sales (Branded + Institutional) declined ~9% YoY in 1QFY24

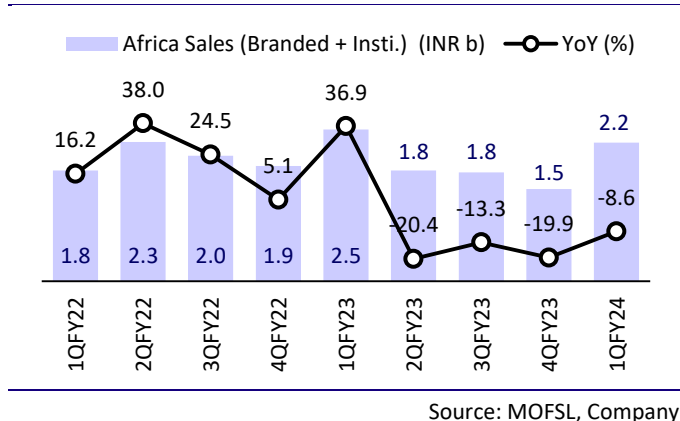


Exhibit 4: Asia sales up ~6% YoY

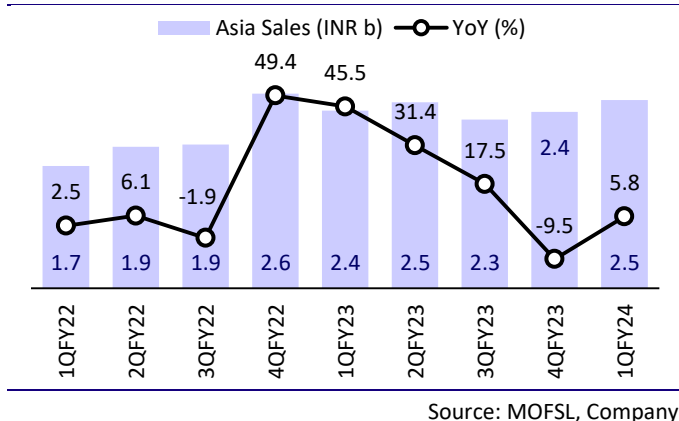


Exhibit 5: Gross margins expanded ~170bp YoY

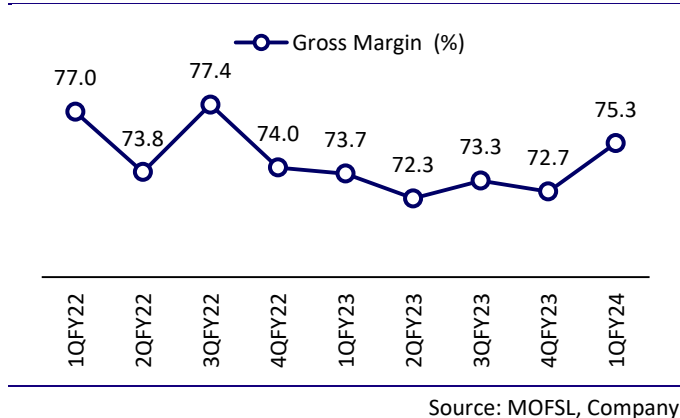
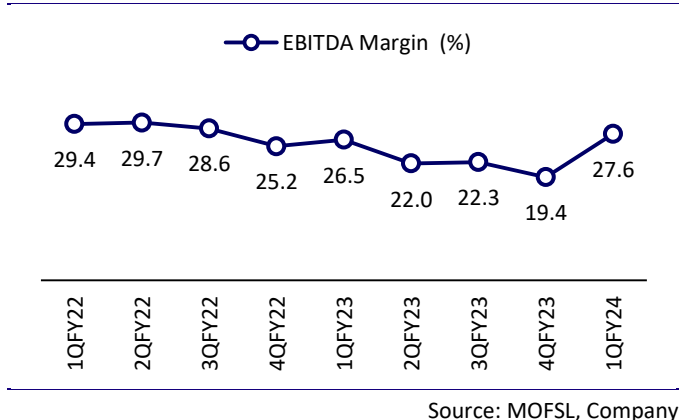


Exhibit 6: EBITDA margin expanded ~110bp YoY



Recovery in the US/Africa to improve profitability

Outperformance of DF/scale up in Asia/revival of African business to fuel growth

- In 1QFY24, AJP's revenue grew 14.4% YoY to ~INR3.2b in DF. AJP outperformed the industry by ~400bp in 1QFY24 due strong performance in its key therapies Pain/Derma/ Ophthal (22%/21%/15% YoY growth vs 12%/8%/12% YoY at industry level).
- We expect AJP to deliver a 15% sales CAGR in DF over FY23-25, led by: 1) new launches, 2) robust volume off-take, 3) inflation-linked price hikes and 4) improvement in MR productivity.
- The African business declined 8.6% YoY to INR2.2b in 1QFY24 due to supply disruption. However, there is normalization of supply from Jun'23; we expect the African business to deliver 10% sales CAGR over FY23-25 to reach INR9b.
- We expect AJP to deliver 14% sales CAGR in Asia to reach INR12.4b over FY23-25 on account of strengthening its presence in the existing market, expansion in newer geographies, and new launches.

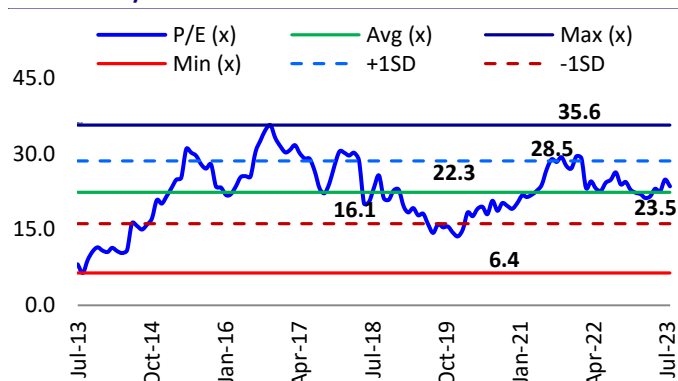
Niche approvals/market share gains to drive growth in the US

- In 1QFY24, US generics sales grew 19% YoY to ~USD26m due to market share gains, lower intensity of price erosion and new launches.
- In 1QFY24, AJP filed three ANDAs and received three ANDA approvals. It plans to file five ANDAs during rest of the year.
- AJP has no further queries from the USFDA on g-Chantix.
- We expect AJP to post 13% sales CAGR to INR10.5b over FY23-25.

Reiterate BUY

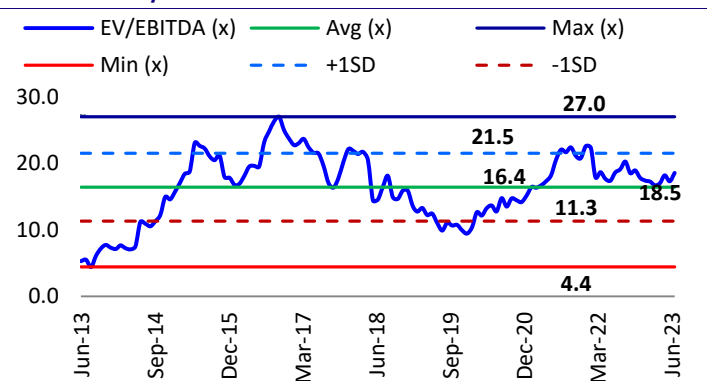
- We raise our earnings estimates for FY24/FY25 by 7.5% each factoring in: a) the lower intensity of price erosion in the US generics segment, b) superior execution in branded generics segment and c) lower operational cost. We value AJP at 22x 12M forward earnings to arrive at our TP of INR1,800.
- We expect 23% earnings CAGR over FY23-25, led by 15% sales CAGR in Domestic Formulation (DF)/Asia and 13% sales CAGR in the US segment, supported by 370bp margin expansion. Considering the earnings outlook and attractive valuation, **we reiterate our BUY rating on the stock.**

Exhibit 7: P/E chart



Source: MOFSL, Company, Bloomberg

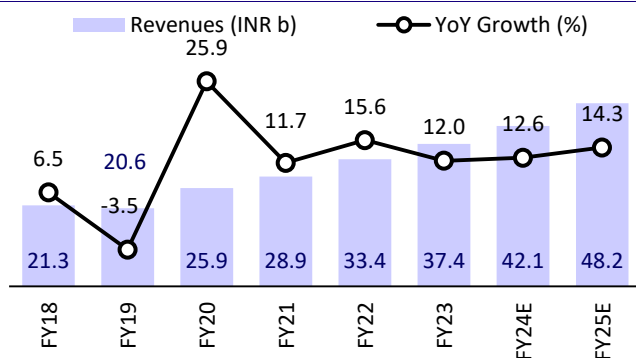
Exhibit 8: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

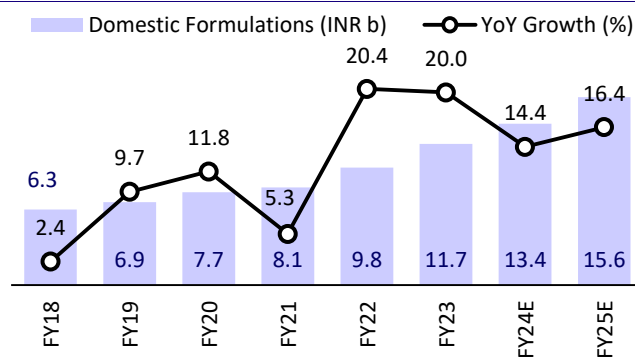
Story in charts

Exhibit 9: Total sales to post 13.4% CAGR over FY23-25



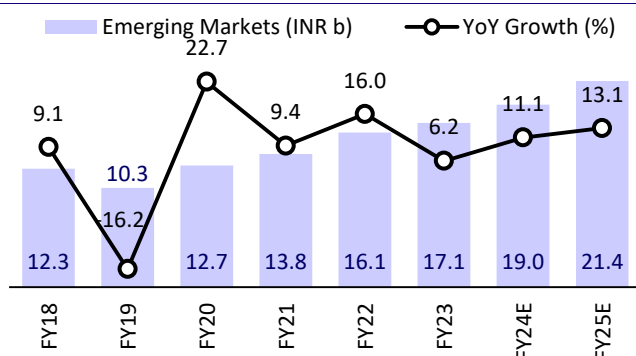
Source: Company, MOFSL

Exhibit 10: DF sales to report 15.4% CAGR over FY23-25



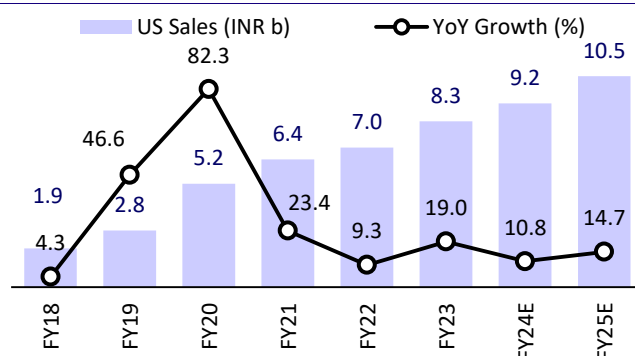
Source: Company, MOFSL

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



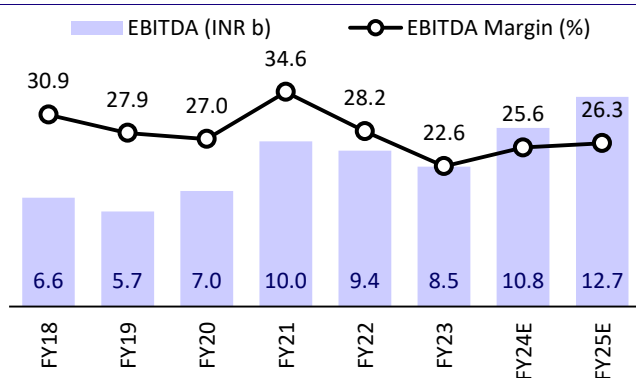
Source: Company, MOFSL

Exhibit 12: The US sales to record 12.7% CAGR over FY23-25



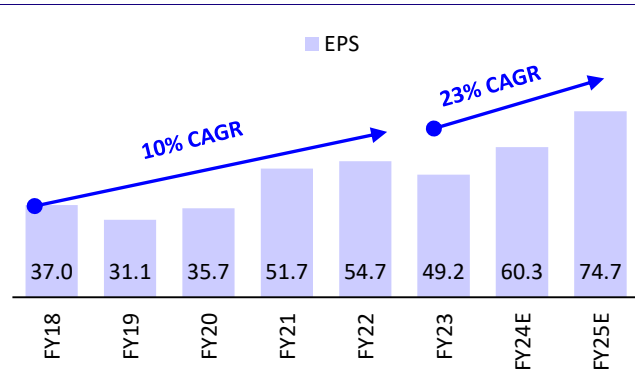
Source: Company, MOFSL

Exhibit 13: Expects 370bp margin expansion by FY25



Source: Company, MOFSL

Exhibit 14: Expects 23% 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	42,125	48,164
Change (%)	14.4	6.5	-3.5	25.9	11.7	15.6	12.0	12.6	14.3
Total Expenditure	13,126	14,725	14,809	18,895	18,911	23,986	28,972	31,341	35,497
% of Sales	65.6	69.1	72.1	73.0	65.4	71.8	77.4	74.4	73.7
EBITDA	6,890	6,584	5,744	6,983	9,986	9,424	8,454	10,784	12,667
Margin (%)	34.4	30.9	27.9	27.0	34.6	28.2	22.6	25.6	26.3
Depreciation	612	596	721	957	1,161	1,253	1,308	1,369	1,382
EBIT	6,278	5,988	5,024	6,026	8,825	8,171	7,146	9,415	11,286
Int. and Finance Charges	35	4	12	119	83	102	58	52	52
Other Income	239	242	211	522	260	757	803	548	963
PBT bef. EO Exp.	6,482	6,226	5,223	6,429	9,002	8,826	7,892	9,911	12,197
EO Items	0	0	80	211	0	269	439	-97	0
PBT after EO Exp.	6,482	6,226	5,143	6,640	9,002	9,095	7,453	10,008	12,197
Total Tax	1,413	1,539	1,273	1,963	2,463	1,968	1,574	2,302	2,744
Tax Rate (%)	21.8	24.7	24.8	29.6	27.4	21.6	21.1	23.0	22.5
Reported PAT	5,068	4,686	3,870	4,677	6,539	7,127	5,879	7,706	9,453
Adjusted PAT	5,068	4,686	3,930	4,522	6,539	6,916	6,225	7,632	9,453
Change (%)	21.9	-7.5	-16.1	15.1	44.6	5.8	-10.0	22.6	23.9
Margin (%)	25.3	22.0	19.1	17.5	22.6	20.7	16.6	18.1	19.6

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	39,317	46,360
Net Worth	15,677	20,412	22,452	25,989	29,956	32,644	33,880	39,570	46,613
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	40,562	47,604
Gross Block	8,949	14,172	16,152	20,045	21,896	22,857	24,012	26,688	28,573
Less: Accum. Deprn.	3,058	3,646	4,366	5,324	6,485	7,738	9,046	10,414	11,796
Net Fixed Assets	5,892	10,527	11,786	14,721	15,411	15,120	14,966	16,273	16,777
Capital WIP	3,393	613	2,613	1,319	1,082	1,529	2,095	1,419	1,034
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	31,387	40,258
Inventory	2,110	3,506	4,357	4,957	7,665	7,911	8,156	9,359	10,892
Account Receivables	3,232	4,920	4,595	7,753	7,384	10,198	10,569	12,118	14,251
Cash and Bank Balance	713	932	1,005	2,053	2,096	2,118	3,309	7,398	12,243
Loans and Advances	985	1,719	1,400	1,655	3,131	2,418	2,231	2,511	2,871
Curr. Liability & Prov.	2,516	3,592	3,913	6,379	6,893	6,875	11,919	13,981	15,929
Account Payables	1,781	2,852	2,251	3,623	3,739	3,272	4,227	5,324	6,030
Other Current Liabilities	562	321	1,278	2,230	2,858	3,302	7,310	8,228	9,407
Provisions	173	419	384	526	296	301	382	430	492
Net Current Assets	4,524	7,485	7,444	10,038	13,383	15,770	12,346	17,405	24,329
Appl. of Funds	15,716	20,667	22,730	26,553	30,393	33,126	34,872	40,561	47,604

E: MOFSL Estimates

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	60.7	74.7
Cash EPS	44.9	41.8	36.8	43.3	60.9	64.6	59.5	71.5	85.6
BV/Share	123.9	161.4	177.5	205.4	236.8	258.1	267.8	312.8	368.5
DPS	9.0	0.0	6.3	9.0	6.6	6.4	11.5	14.8	19.1
Payout (%)	22.6	0.0	20.6	24.8	12.7	11.4	24.7	24.1	25.5
Valuation (x)									
P/E	38.7	41.8	49.9	43.4	30.0	28.4	31.5	25.5	20.7
Cash P/E	34.5	37.1	42.2	35.8	25.5	24.0	26.0	21.7	18.1
P/BV	12.5	9.6	8.7	7.5	6.5	6.0	5.8	5.0	4.2
EV/Sales	9.8	9.2	9.5	7.5	6.7	5.8	5.2	4.5	3.8
EV/EBITDA	28.4	29.6	34.0	27.8	19.4	20.6	22.8	17.5	14.5
Dividend Yield (%)	0.6	0.0	0.4	0.6	0.4	0.4	0.7	1.0	1.2
FCF per share	24.4	2.9	-1.9	15.6	34.5	33.3	48.8	43.2	50.1
Return Ratios (%)									
RoE	36.7	26.0	18.3	18.7	23.4	22.1	18.7	20.9	21.9
RoCE	35.9	26.0	18.4	19.0	23.6	22.3	18.8	21.0	22.0
RoIC	52.1	33.7	21.4	20.7	25.9	23.1	21.4	29.0	31.7
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	81	83
Debtor (Days)	59	84	82	109	93	111	103	105	108
Creditor (Days)	32	49	40	51	47	36	41	46	46
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	9,814	12,197
Depreciation	612	596	721	957	1,161	1,253	1,308	1,369	1,382
Interest & Finance Charges	35	-238	-199	-403	-177	-655	58	-496	-912
Direct Taxes Paid	-1,428	-1,539	-1,273	-1,963	-2,463	-1,968	-1,513	-2,257	-2,744
(Inc)/Dec in WC	285	-2,742	115	-1,548	-1,708	-2,427	665	-970	-2,079
CF from Operations	5,986	2,302	4,667	3,262	5,815	5,298	7,971	7,460	7,844
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	7,460	7,844
(Inc)/Dec in FA	-3,002	-2,444	-3,979	-2,599	-1,614	-1,409	-1,745	-2,000	-1,500
Free Cash Flow	3,090	367	-234	1,969	4,369	4,212	6,173	5,460	6,344
(Pur)/Sale of Investments	-914	-135	1,155	413	-41	-190	-3,907	0	0
Others	85	17	596	-58	-1,169	857	56	548	963
CF from Investments	-3,831	-2,562	-2,228	-2,244	-2,824	-741	-5,596	-1,452	-537
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	-1,867	-2,411
Others	50	4	-664	-405	-1,832	-3,873	-192	0	0
CF from Fin. Activity	-2,017	-1	-1,476	-1,683	-2,737	-4,790	-1,131	-1,918	-2,462
Inc/Dec of Cash	244	248	41	640	422	89	1,191	4,089	4,845
Opening Balance	414	658	906	952	1,592	2,014	2,103	3,295	7,384
Closing Balance	658	906	948	1,592	2,014	2,103	3,295	7,384	12,229
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	7,398	12,243

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NOTES

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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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