2 May 2024

4QFY24 Results Update | Sector: Healthcare

Ajanta Pharma

Estimate change	⬇
TP change	⬆
Rating change	⬌

Bloomberg	AJP IN
Equity Shares (m)	127
M.Cap.(INRb)/(USDb)	281.3 / 3.4
52-Week Range (INR)	2355 / 1230
1, 6, 12 Rel. Per (%)	-2/4/48
12M Avg Val (INR M)	313

Financials & Valuations (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	42.1	47.1	53.4
EBITDA	11.7	13.7	15.6
Adj. PAT	7.9	9.4	10.8
EBIT Margin (%)	24.6	26.2	26.7
Cons. Adj. EPS (INR)	62.3	74.4	85.4
EPS Gr. (%)	26.6	19.5	14.8
BV/Sh. (INR)	282.0	337.4	401.0
Ratios			
Net D:E	-0.1	-0.2	-0.3
RoE (%)	22.7	24.0	23.1
RoCE (%)	22.8	24.1	23.2
Payout (%)	24.7	25.5	25.5
Valuations			
P/E (x)	35.9	30.0	26.2
EV/EBITDA (x)	24.0	20.2	17.3
Div. Yield (%)	0.7	0.8	1.0
FCF Yield (%)	2.3	2.4	2.7
EV/Sales (x)	6.7	5.9	5.1

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	66.2	66.2	66.1
DII	16.7	15.6	15.8
FII	9.1	10.0	10.1
Others	8.0	7.8	8.0

FII Includes depository receipts

CMP: INR2,234 TP: INR2,565 (+15%) Buy

Higher opex leads to EBITDA/PAT miss

Aims to consistently outperform the industry in branded generics

- Ajanta Pharma (AJP) delivered in-line sales in 4QFY24. However, EBITDA/PAT came in lower than our expectations, due to higher opex and higher tax outgo. AJP continued to outperform the industry in domestic formulation (DF) and Asia market. The performance is expected to improve in the Africa branded generics market going forward.
- We cut our estimates by 6%/7% for FY25/FY26, factoring in a) moderation in US growth prospects, b) higher logistics costs due to ongoing geopolitical tension, and c) a higher tax rate. We value AJP at 27x 12M forward earnings to arrive at a TP of INR2,565.
- We expect a 17% earnings CAGR over FY24-26, backed by a 12%/15% sales CAGR in DF/Asia segment and a 150bp margin expansion. With new launches, MR addition and increased market share in existing products, AJP remains in good stead to outperform in the branded generics market (70% of FY24 sales). AJP continues to build the ANDA pipeline for the US market and implement efforts toward consistent compliance. Maintain BUY.

Product mix/operating leverage drive margins YoY

- 4QFY24 revenue grew 20% to INR10.5b (our est: INR10.6b), led by growth across all key business.
- US generics sales grew 32% YoY to INR2.6b (25% of sales). Asia branded generics sales rose 18% YoY to INR2.8b (27% of sales). Africa branded generics and institutional sales increased 17% YoY to INR1.7b (17% of sales). DF sales grew 14% YoY to INR3.3b (31% of sales).
- Gross margin expanded 220bp YoY to 74.9% due to low raw material costs.
- EBITDA margin expanded at a higher rate of ~700bp YoY to 26.4% (our est. 28.6%) due to lower employee costs and other expenses (down 320bp/160bp YoY as % of sales).
- Consequently, EBITDA grew 63% YoY to INR2.8b (our est. INR3b).
- Adjusting for the forex impact of INR197m, adj. PAT grew 57% YoY to INR1.9b (our est. INR2.2b).
- FY24 revenue/EBITDA/PAT grew 13%/39%/27% YoY to INR42.1b/INR11.7b/ INR7.9b.
- For FY24, CFO was INR7.8b with EBITDA-to-CFO conversion of 67%.

Highlights from the management commentary

- AJP guided for low-teens YoY growth in revenue for FY25. Particularly, US generics revenue is expected to grow in mid-single digits YoY in FY25.
- The company expects to outperform IPM by 200-300bp in FY25.
- It aims to sustain EBITDA margin at 28% in FY25.
- AJP plans to file 8-12 ANDAs and launch 6 ANDAs in US generics in FY25.
- The company expects price erosion to be stable and sustain at 8-10% levels in the US generics segment.

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Consol. - Quarterly perf. (INR m)

Y/E March	FY23				FY24E				FY23	FY24	FY24E	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	**9,509**	**9,381**	**9,718**	**8,818**	**10,210**	**10,284**	**11,052**	**10,541**	**37,426**	**42,087**	**10,621**	**-0.8**
YoY Change (%)	27.1	6.0	16.0	1.3	7.4	9.6	13.7	19.5	12.0	12.5	20.4	
Total Expenditure	6,992	7,318	7,555	7,107	7,397	7,378	7,835	7,758	28,972	30,368	7,582	
EBITDA	**2,518**	**2,063**	**2,162**	**1,711**	**2,813**	**2,907**	**3,217**	**2,783**	**8,454**	**11,719**	**3,039**	**-8.4**
YoY Change (%)	14.4	-21.5	-9.7	-22.1	11.7	40.9	48.7	62.7	-10.3	38.6	77.6	
Margins (%)	26.5	22.0	22.3	19.4	27.6	28.3	29.1	26.4	22.6	27.8	28.6	
Depreciation	318	327	333	330	332	337	343	343	1,308	1,354	353	
EBIT	**2,200**	**1,736**	**1,829**	**1,381**	**2,482**	**2,570**	**2,874**	**2,441**	**7,146**	**10,365**	**2,686**	**-9.1**
YoY Change (%)	16.2	-24.9	-12.0	-26.8	12.8	48.0	57.1	76.7	-12.5	45.0	94.5	
Margins (%)	23.1	18.5	18.8	15.7	24.3	25.0	26.0	23.2	19.1	24.6	25.3	-8.4
Interest	9	10	28	11	9	23	25	15	58	72	18	
Other Income	48	394	239	123	121	85	95	158	803	459	79	
PBT before EO expense	**2,239**	**2,120**	**2,040**	**1,493**	**2,594**	**2,631**	**2,944**	**2,584**	**7,892**	**10,752**	**2,747**	**-5.9**
Extra-Ord expense	20	90	357	-28	97	128	-35	197	-439	387	0	
PBT	**2,219**	**2,030**	**1,683**	**1,521**	**2,691**	**2,759**	**2,909**	**2,780**	**7,453**	**11,139**	**2,746**	**1.2**
Tax	472	464	338	299	609	806	809	753	1,574	2,978	564	
Effective Rate (%)	21.3	22.9	20.1	19.7	22.6	29.2	27.8	27.1	21.1	26.7	20.5	
Reported PAT	**1,746**	**1,566**	**1,345**	**1,222**	**2,082**	**1,953**	**2,100**	**2,027**	**5,879**	**8,162**	**2,182**	**-7.1**
Adj PAT	**1,762**	**1,635**	**1,630**	**1,200**	**2,007**	**1,862**	**2,125**	**1,884**	**6,227**	**7,878**	**2,182**	**-13.7**
YoY Change (%)	14.4	-11.4	-15.0	-25.6	13.9	13.9	30.4	57.1	-10.0	26.5	81.9	
Margins (%)	18.4	16.7	16.4	13.4	19.4	18.0	19.1	17.6	16.3	18.5	20.4	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	FY23				FY24E				FY23	FY24	FY24E
INRm	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
Domestic formulations	2,790	3,140	2,940	2,870	3,190	3,550	3,080	3,260	11,740	13,080	3,207
YoY Change (%)	21.8	26.6	14.8	17.1	14.3	13.1	4.8	13.6	20.0	11.4	11.7
Asia	2,400	2,510	2,280	2,380	2,540	2,300	2,920	2,810	9,570	10,570	2,576
YoY Change (%)	45.5	31.4	17.5	(9.5)	5.8	(8.4)	28.1	18.1	17.7	10.4	8.2
Africa (branded + Insti)	2,450	1,790	1,760	1,490	2,240	1,947	2,410	1,740	7,490	8,347	2,109
YoY Change (%)	36.9	(20.4)	(13.3)	(19.9)	(8.6)	8.8	36.9	16.8	(5.5)	11.4	41.6
US	1,790	1,850	2,660	1,980	2,130	2,370	2,520	2,610	8,280	9,640	2,507
YoY Change (%)	6.5	(4.6)	60.2	17.9	19.0	28.1	(5.3)	31.8	19.0	16.4	26.6
Cost Break-up											
RM Cost (% of Sales)	26.3	27.7	26.7	27.3	24.7	24.9	26.6	25.1	27.0	25.3	24.5
Staff Cost (% of Sales)	19.2	19.8	19.8	25.4	20.9	21.6	20.9	22.2	21.0	21.4	22.2
R&D Expenses (% of Sales)	5.7	6.3	6.3	7.2	5.4	4.9	4.7	4.7	6.3	4.9	0.0
Other Cost (% of Sales)	28.0	30.5	31.2	27.9	26.9	25.2	23.3	26.4	29.4	25.4	24.7
Gross Margins(%)	73.7	72.3	73.3	72.7	75.3	75.1	73.4	74.9	73.0	74.7	75.5
EBITDA Margins(%)	26.5	22.0	22.3	19.4	27.6	28.3	29.1	26.4	22.6	27.8	28.6
EBIT Margins(%)	23.1	18.5	18.8	15.7	24.3	25.0	26.0	23.2	19.1	24.6	25.3
PBT Margins(%)	23.4	21.7	20.5	16.7	25.1	25.4	26.4	24.1	20.6	25.3	25.7
PAT Margins(%)	18.4	16.7	16.4	13.4	19.4	18.0	19.1	17.6	16.3	18.5	20.4

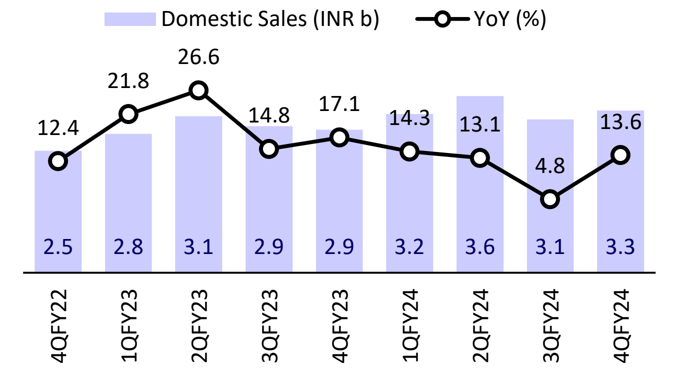
Other highlights from the management commentary

- AJP launched 15 products, with four of them being new-to-market products.
- The company witnessed 2x growth in volume and 1.4x growth in new launches compared to the industry in FY24.
- Cardiology therapy growth was low at 4% YoY compared to IPM YoY growth of 10% in FY24 due to significant price reductions in MET XL.
- Asia segment growth was supported by 18 new launches and superior execution. A part of this portfolio is under the chronic category, providing higher visibility for growth prospects.
- Early off-take led to higher business in institutional anti-malaria segment in 4Q.

- CFO was INR7.8b for FY24.
- The effective tax rate (ETR) is expected to be same as that in FY24.
- R&D expenses would be 5% of sales in FY25.
- Capex for FY25 to be INR1.75-INR2b, including maintenance capex.

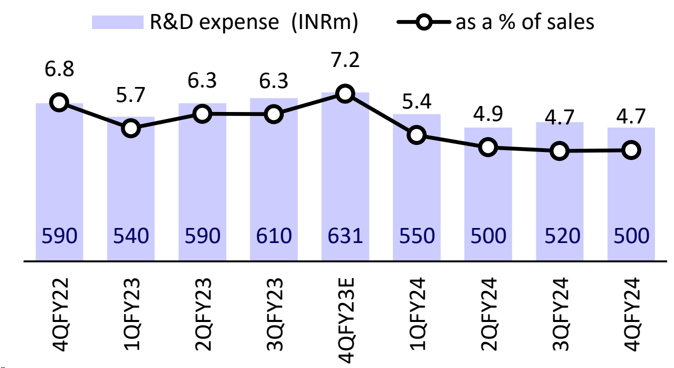
Key exhibits

Exhibit 1: DF sales up ~14% YoY in 4QFY24



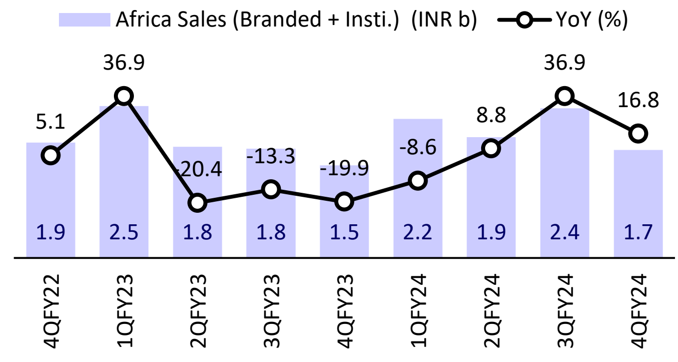
Source: MOFSL, Company

Exhibit 2: R&D spending at ~5% of sales for 4QFY24



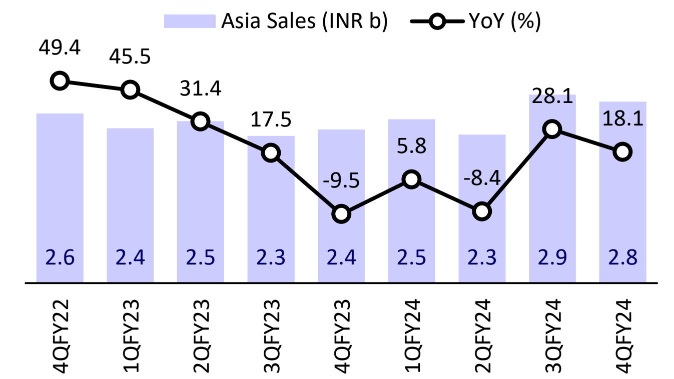
Source: MOFSL, Company

Exhibit 3: Africa sales (Branded + Institutional) up ~17% YoY in 4QFY24



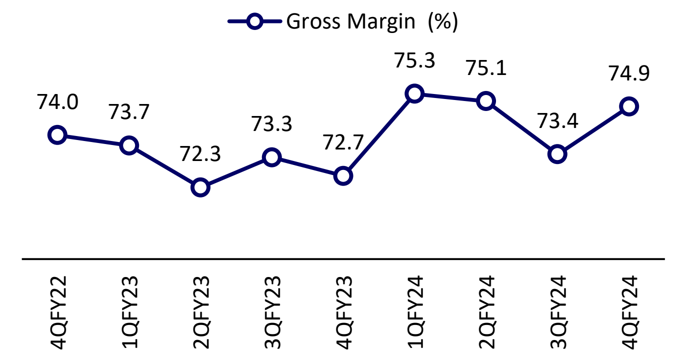
Source: MOFSL, Company

Exhibit 4: Asia sales grew 18% YoY in 4QFY24



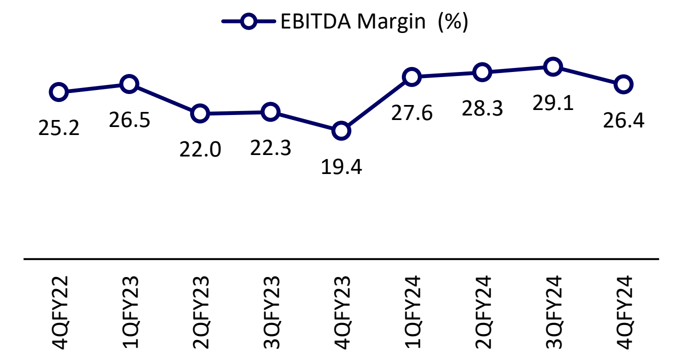
Source: MOFSL, Company

Exhibit 5: Gross margins expanded 220bp YoY in 4QFY24



Source: MOFSL, Company

Exhibit 6: EBITDA margin expanded ~700bp YoY in 4QFY24



Source: MOFSL, Company

Well-placed to outperform the industry

Branded generics growth to be driven by superior execution

- In FY24, AJP's DF revenue grew 11.4% YoY to ~INR13b, driven by superior volume growth, new launches, market share gain in the existing products, and improved MR productivity.
- In MAT Mar'24, AJP outperformed the industry by ~180bp, led by robust outperformance in derma/pain/ophthalmology by 11%/4%/3% vs. IPM. However, this was offset by cardiac therapy, which underperformed IPM by 6%.
- Over FY24-26, we expect AJP to deliver a 14% sales CAGR in the DF segment.
- In FY24, the African branded generics business grew modestly at 5% YoY to INR5.8b. A slowdown at the industry level and inventory build-up impacted the performance of the Africa branded generics segment. With a recovery in Africa after inventory stabilization and new introductions, we expect the Africa business to post a sales CAGR of 11% to reach INR10.2b over FY24-26.
- Moreover, in Asia, AJP is enhancing its market presence by prioritizing chronic therapies and expanding into emerging markets supported by 18 new launches. We expect AJP to register a 15% sales CAGR in Asia, reaching INR13.9b over FY24–26.

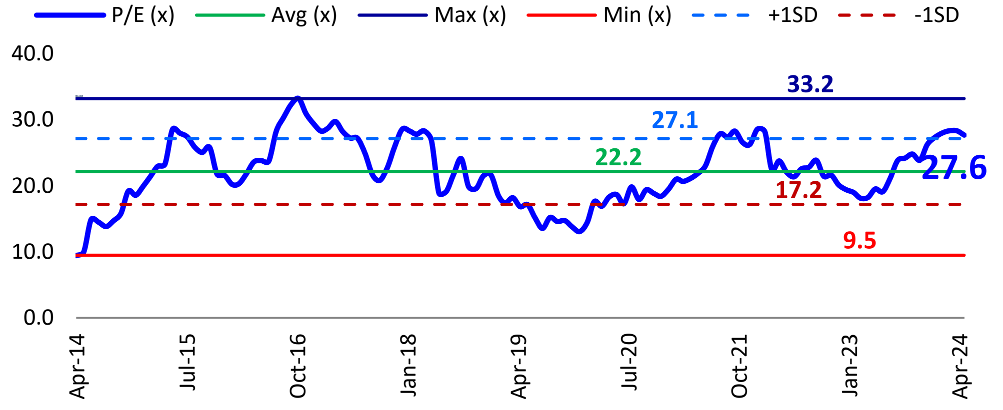
US growth to be led by new launches/tapering price erosion

- In FY24, US generics sales grew 16.4% YoY to INR9.6b (~USD118m), benefiting from favorable currency movements, market share gains and reduced intensity of price erosion.
- In FY24, AJP filed seven ANDAs and plans to file about 8-12 ANDAs in FY25. Moreover, it received six final approvals and launched four ANDAs in FY24, and expects to launch six more products in FY25. It has 22 ANDAs awaiting approval from the USFDA.
- We expect AJP to post an 11% sales CAGR to INR11.9b over FY24-26.

Valuation and view: Reiterate BUY

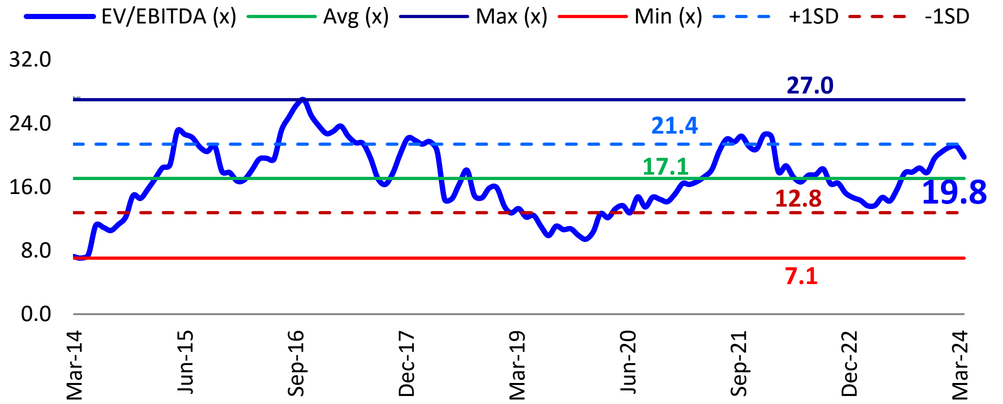
- We cut our estimates by 6%/7% for FY25/FY26, factoring in a) moderation in US growth prospects, b) higher logistics costs due to ongoing geopolitical tension, and c) a higher tax rate. We value AJP at 27x 12M forward earnings to arrive at a TP of INR2,565.
- We expect a 17% earnings CAGR over FY24-26, backed by a 12%/15% sales CAGR in DF/Asia segment and a 150bp margin expansion. With new launches, MR addition and increased market share in existing products, AJP remains in good stead to outperform in the branded generics market (70% of FY24 sales). AJP continues to build the ANDA pipeline for the US market and implement efforts toward consistent compliance. Maintain BUY.

Exhibit 7: P/E chart



Source: MOFSL, Company, Bloomberg

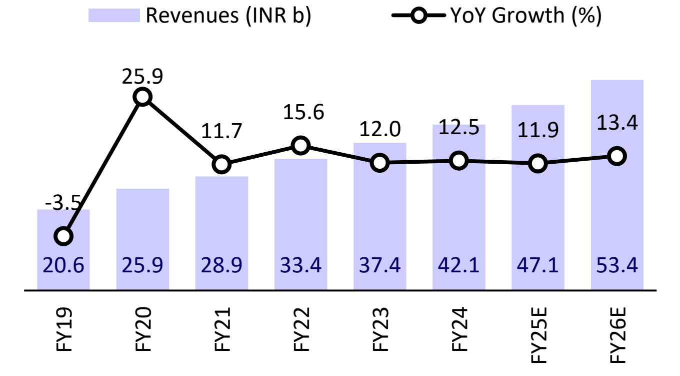
Exhibit 8: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

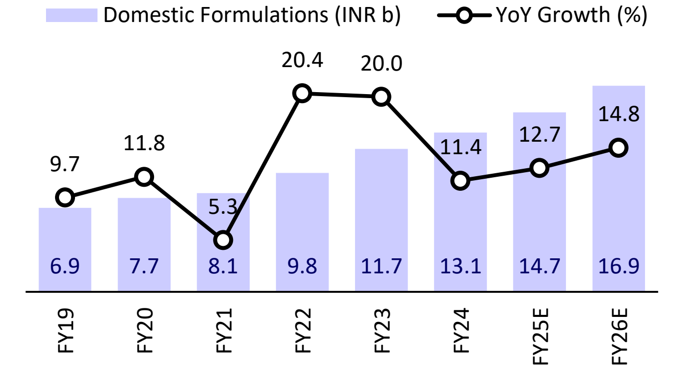
Story in charts

Exhibit 9: Total sales to post 13% CAGR over FY24-26



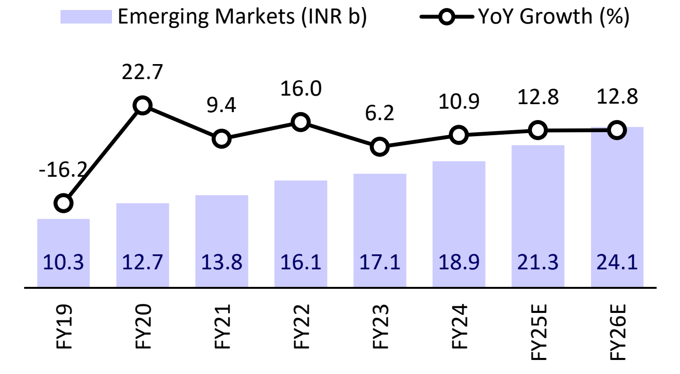
Source: Company, MOFSL

Exhibit 10: DF sales to report 14% CAGR over FY24-26



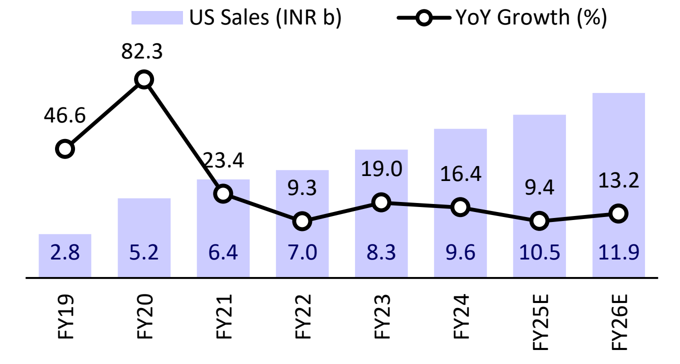
Source: Company, MOFSL

Exhibit 11: EM sales to clock 13% CAGR over FY24-26



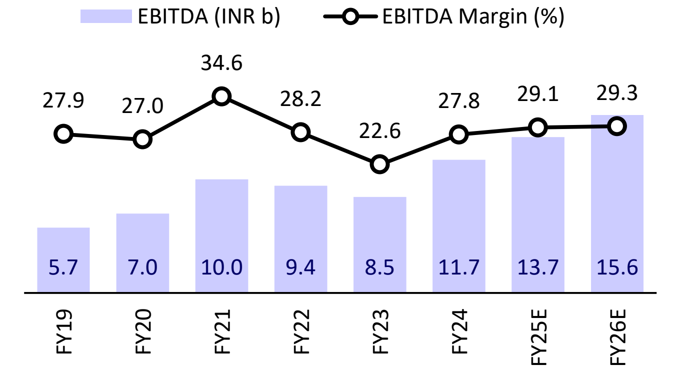
Source: Company, MOFSL

Exhibit 12: US sales to record 11% CAGR over FY24-26



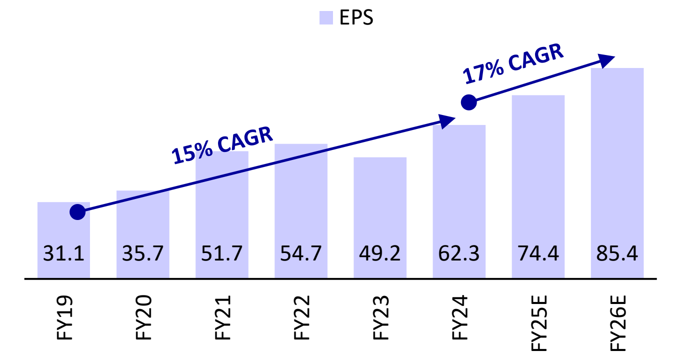
Source: Company, MOFSL

Exhibit 13: Expects 150bp margin expansion over FY24-26



Source: Company, MOFSL

Exhibit 14: Expects 17% earnings CAGR over FY24-26



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement								(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Total Income from Operations	**20,554**	**25,879**	**28,897**	**33,410**	**37,426**	**42,087**	**47,083**	**53,410**
Change (%)	-3.5	25.9	11.7	15.6	12.0	12.5	11.9	13.4
Total Expenditure	**14,809**	**18,895**	**18,911**	**23,986**	**28,972**	**30,368**	**33,382**	**37,761**
% of Sales	72.1	73.0	65.4	71.8	77.4	72.2	70.9	70.7
EBITDA	**5,744**	**6,983**	**9,986**	**9,424**	**8,454**	**11,719**	**13,701**	**15,649**
Margin (%)	27.9	27.0	34.6	28.2	22.6	27.8	29.1	29.3
Depreciation	721	957	1,161	1,253	1,308	1,354	1,383	1,415
EBIT	**5,024**	**6,026**	**8,825**	**8,171**	**7,146**	**10,365**	**12,318**	**14,234**
Int. and Finance Charges	12	119	83	102	58	72	72	72
Other Income	211	522	260	757	803	459	471	534
PBT bef. EO Exp.	**5,223**	**6,429**	**9,002**	**8,826**	**7,892**	**10,752**	**12,717**	**14,696**
EO Items	80	211	0	269	439	387	0	0
PBT after EO Exp.	**5,143**	**6,640**	**9,002**	**9,095**	**7,453**	**11,139**	**12,717**	**14,696**
Total Tax	1,273	1,963	2,463	1,968	1,574	2,978	3,306	3,895
Tax Rate (%)	24.8	29.6	27.4	21.6	21.1	26.7	26.0	26.5
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	**3,870**	**4,677**	**6,539**	**7,127**	**5,879**	**8,162**	**9,411**	**10,802**
Adjusted PAT	**3,930**	**4,522**	**6,539**	**6,916**	**6,225**	**7,878**	**9,411**	**10,802**
Change (%)	-16.1	15.1	44.6	5.8	-10.0	26.6	19.5	14.8
Margin (%)	19.1	17.5	22.6	20.7	16.6	18.7	20.0	20.2

Consolidated - Balance Sheet								(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Equity Share Capital	175	175	174	172	253	253	253	253
Total Reserves	22,277	25,813	29,782	32,472	33,627	35,421	42,432	50,479
Net Worth	**22,452**	**25,989**	**29,956**	**32,644**	**33,880**	**35,674**	**42,685**	**50,732**
Total Loans	7	7	16	19	15	15	15	15
Deferred Tax Liabilities	271	558	421	463	977	1,085	1,085	1,085
Capital Employed	**22,730**	**26,553**	**30,393**	**33,125**	**34,872**	**36,773**	**43,784**	**51,831**
Gross Block	16,152	20,045	21,896	22,857	24,012	25,191	27,993	29,753
Less: Accum. Deprn.	4,366	5,324	6,485	7,738	9,046	10,400	11,782	13,197
Net Fixed Assets	**11,786**	**14,721**	**15,411**	**15,120**	**14,966**	**14,792**	**16,211**	**16,556**
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	2,613	1,319	1,082	1,529	2,095	2,565	1,263	1,003
Total Investments	**888**	**476**	**517**	**707**	**5,465**	**3,580**	**3,580**	**3,580**
Curr. Assets, Loans&Adv.	**11,357**	**16,417**	**20,276**	**22,645**	**24,265**	**25,448**	**33,513**	**42,908**
Inventory	4,357	4,957	7,665	7,911	8,156	8,284	9,603	11,070
Account Receivables	4,595	7,753	7,384	10,198	10,569	12,468	14,060	16,096
Cash and Bank Balance	1,005	2,053	2,096	2,118	3,309	1,308	6,060	11,443
Loans and Advances	1,400	1,655	3,131	2,418	2,231	3,388	3,790	4,299
Curr. Liability & Prov.	**3,913**	**6,379**	**6,893**	**6,875**	**11,919**	**9,611**	**10,782**	**12,215**
Account Payables	2,251	3,623	3,739	3,272	4,227	4,633	5,213	5,897
Other Current Liabilities	1,278	2,230	2,858	3,302	7,310	4,405	4,928	5,591
Provisions	384	526	296	301	382	573	641	727
Net Current Assets	**7,444**	**10,038**	**13,383**	**15,770**	**12,346**	**15,836**	**22,731**	**30,693**
Appl. of Funds	**22,730**	**26,553**	**30,393**	**33,126**	**34,872**	**36,773**	**43,784**	**51,831**

E: MOFSL Estimates

Financials and valuations

Ratios								
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Basic (INR)								
EPS	**31.1**	**35.7**	**51.7**	**54.7**	**49.2**	**62.3**	**74.4**	**85.4**
Cash EPS	36.8	43.3	60.9	64.6	59.5	73.0	85.3	96.6
BV/Share	177.5	205.4	236.8	258.1	267.8	282.0	337.4	401.0
DPS	6.3	9.0	6.6	6.4	11.5	15.9	19.0	21.8
Payout (%)	20.6	24.8	12.7	11.4	24.7	24.7	25.5	25.5
Valuation (x)								
P/E	71.9	62.5	43.2	40.8	45.4	35.9	30.0	26.2
Cash P/E	60.7	51.6	36.7	34.6	37.5	30.6	26.2	23.1
P/BV	12.6	10.9	9.4	8.7	8.3	7.9	6.6	5.6
EV/Sales	13.7	10.8	9.7	8.4	7.5	6.7	5.9	5.1
EV/EBITDA	49.0	40.2	28.1	29.8	33.0	24.0	20.2	17.3
Dividend Yield (%)	0.3	0.4	0.3	0.3	0.5	0.7	0.8	1.0
FCF per share	-1.9	15.6	34.5	33.3	48.8	51.1	53.4	60.7
Return Ratios (%)								
RoE	18.3	18.7	23.4	22.1	18.7	22.7	24.0	23.1
RoCE	18.4	19.0	23.6	22.3	18.8	22.8	24.1	23.2
RoIC	21.4	20.7	25.9	23.1	21.4	28.5	29.3	30.5
Working Capital Ratios								
Inventory (Days)	77	66	97	86	80	72	74	76
Debtor (Days)	82	109	93	111	103	108	109	110
Creditor (Days)	40	51	47	36	41	40	40	40
Leverage Ratio (x)								
Net Debt/Equity	-0.1	-0.1	-0.1	-0.1	-0.3	-0.1	-0.2	-0.3

Consolidated - Cash Flow Statement								(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
OP/(Loss) before Tax	5,303	6,218	9,002	9,095	7,453	11,139	12,717	14,696
Depreciation	721	957	1,161	1,253	1,308	1,354	1,383	1,415
Interest & Finance Charges	-199	-403	-177	-655	58	72	-399	-462
Direct Taxes Paid	-1,273	-1,963	-2,463	-1,968	-1,513	-3,121	-3,306	-3,895
(Inc)/Dec in WC	115	-1,548	-1,708	-2,427	665	-998	-2,141	-2,579
CF from Operations	**4,667**	**3,262**	**5,815**	**5,298**	**7,971**	**8,446**	**8,253**	**9,175**
Others	-922	1,306	169	323	-53	-596	0	0
CF from Operating incl EO	**3,745**	**4,568**	**5,983**	**5,620**	**7,918**	**7,851**	**8,253**	**9,175**
(Inc)/Dec in FA	-3,979	-2,599	-1,614	-1,409	-1,745	-1,390	-1,500	-1,500
Free Cash Flow	**-234**	**1,969**	**4,369**	**4,212**	**6,173**	**6,460**	**6,753**	**7,675**
(Pur)/Sale of Investments	1,155	413	-41	-190	-3,907	1,774	0	0
Others	596	-58	-1,169	857	56	270	471	534
CF from Investments	**-2,228**	**-2,244**	**-2,824**	**-741**	**-5,596**	**654**	**-1,029**	**-966**
Issue of Shares	0	0	-2	-2	-14	0	0	0
Inc/(Dec) in Debt	-5	1	9	3	-5	1	0	0
Interest Paid	-12	-119	-83	-102	-23	-35	-72	-72
Dividend Paid	-796	-1,159	-829	-816	-897	-6,422	-2,400	-2,754
CF from Fin. Activity	**-1,476**	**-1,683**	**-2,737**	**-4,790**	**-1,131**	**-10,511**	**-2,472**	**-2,826**
Inc/Dec of Cash	**41**	**640**	**422**	**89**	**1,191**	**-2,006**	**4,752**	**5,383**
Opening Balance	906	952	1,592	2,014	2,103	3,295	1,288	6,041
Closing Balance	**948**	**1,592**	**2,014**	**2,103**	**3,295**	**1,288**	**6,041**	**11,423**
Unrealised loss / (gain) on forex	4	432	82	14	14	19	19	19
Total Cash & Cash Eq	**1,005**	**2,053**	**2,096**	**2,118**	**3,309**	**1,307**	**6,060**	**11,443**

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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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