

## Ajanta Pharma

BUY

Choice

Ajanta Pharma Ltd. reported earnings were above our estimates. Revenue at INR 11,449mn (+12.1% YoY and +8.6% QoQ) came on the back of robust performance in India and African Branded business. EBITDA margin grew by 228bps YoY and 245bps QoQ at 28.9% attributed to the combined benefits of reduction in API prices, decline in logistic costs, and stabilization in US Price erosion. The management expects consolidated low teens top-line growth in FY25, driven by branded generic and India business.

- India Branded Generic Business:** In Q1FY25, the India business grew by 10.7% YoY and 8.3% QoQ to INR 3,530mn, the growth was driven by increased volume, increase in the price, and new product launches during the quarter. During the quarter, the trade generic business managed a revenue of INR 410mn vs INR 360mn in Q1FY24. The company expects to continue to outperform the Indian business by 200-300bps over the IPM growth. The growth from new product launches was 1.3x more than the IPM growth. The IPM growth is expected to be around 8-9%. It focuses on four specialty therapies in India through which FY25 growth will be driven by the fastest growth in derma followed by ophthal and cardio.
- US Business:** During the quarter, the U.S. market had a revenue of INR 2,280mn (+7% YoY / -12.6% QoQ), driven by normalization in the price erosion. The company will file 8-12 ANDAs every year. The price erosion in the US is expected to be around 8-10% and the business is expected to grow in mid-single digit in FY25.
- Branded Generic:** During the quarter, the Branded Generic market had a revenue of INR 5,070mn (+22.8% YoY/+28.7% QoQ). The consolidated gross margin improvement during the quarter was majorly driven by higher contributions from the branded generic business. It is expected to grow in the mid-teens in FY25, which will be driven by increasing the market share, increasing the field force, and new product launches.
- Margin Profile:** The gross margin saw an improvement of 128bps YoY and 169bps QoQ to 76.6%, and the EBITDA margin grew by 228bps YoY and 245bps QoQ at 28.9% attributed to the combined benefits of reduction in API prices, decline in logistic costs, and stabilization in US Price erosion. There was a one-time charge of INR30 crores in employee expenses due to a change in the policy of gratuity being paid to employees. The management expects gross margin and EBITDA margin to be in a similar range, i.e., 75-76% & 29% respectively.

**Outlook and Valuation:** The company's growth story is based on factors including the mid-teen growth in the branded generic segment, higher than IPM growth in the domestic business, normalization in the price erosion, new product launch to drive the US growth at mid-single digit, and increase in the field force which going forward will increase the efficiency. We expect FY23-26E Revenue /EBITDA /PAT CAGR of 13.5% /27.7% /28.4%. We value the stock based on FY26E EPS to arrive at a target price of INR 2,758 (valuing at 28x) and maintain our **BUY** rating on the stock.

## Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E
Revenue (INR Mn.)	33,410	37,426	42,017	47,685	54,702
Gross Profit (INR Mn.)	25,087	26,922	31,344	35,930	41,591
EBITDA (INR Mn.)	9,293	7,832	11,448	13,900	16,318
EBITDA Margin (%)	27.8	20.9	27.2	20.4	17.4
EPS (INR)	55.4	46.5	61.7	82.6	98.5

Source: Company, CEBPL

July 31, 2024

CMP (Rs)	2,524
Target Price (Rs)	2,758
Potential Upside (%)	9.2

## Company Info

BB Code	AJP IN EQUITY
ISIN	INE031B01049
Face Value (Rs.)	2
52 Week High (Rs.)	2,576
52 Week Low (Rs.)	1,625
Mkt Cap (Rs bn.)	317.8
Mkt Cap (\$ bn.)	3.8
Shares o/s (Mn.)/F.Float (%)	126.4/34
TTM EPS (Rs)	67.6
EPS FY26E (Rs)	98.5

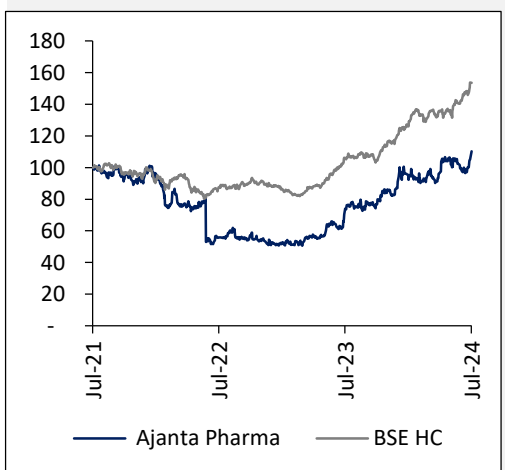
## Shareholding Pattern (%)

	Jun-24	Mar-24	Dec-23
Promoters	66.27	66.22	66.22
FII's	8.36	8.54	9.11
DII's	17.41	17.48	16.67
Public	7.95	7.76	8.00

## Relative Performance (%)

YTD	3Y	2Y	1Y
BSE Healthcare	53.5	75.3	44.8
Ajanta Pharma	10.3	97.5	48.8

## Rebased Price Performance



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### Quarterly performance

Rs. In Mn.	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenue	11,449	10,210	12.1	10,541	8.6
Cost of Goods Sold	2,679	2,519	6.3	2,644	1.3
Gross Margin (%)	76.6	75.3	127.6	74.9	168.7 bps
Employee Expenses	2,838	2,132	33.1	2,335	21.5
EBITDA	3,304	2,713	21.8	2,783	18.7
EBITDA Margin (%)	28.9	26.6	228.1	26.4	244.9 bps
Depreciation	340	332	2.4	343	(0.8)
EBIT	2,964	2,381	24.5	2,441	21.4
Interest	7	9	(14.1)	15	(52.3)
PBT	3,221	2,690	19.7	2,780	15.9
Tax	764	609	25.3	753	1.4
PAT	2,458	2,081	18.1	2,027	21.2
PAT Margin (%)	21.5	20.4	108.3	19.2	223.4 bps
EPS	19.5	16.5	18.1	16.0	21.2

Source: Company, CEBPL

### Geographical Performance

Rs. In Mn.	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
India	3,530	3,190	10.7	3,260	8.3
% of sales	30.8	31.2		30.9	
North America	2,280	2,130	7.0	2,610	(12.6)
% of sales	19.9	20.9		24.8	
African Branded generic	2,300	1,590	44.7	1,130	103.5
% of sales	20.1	15.6		10.7	
Asia Branded generic	2,770	2,540	9.1	2,810	(1.4)
% of sales	24.2	24.9		26.7	
African Institution	420	650	(35.4)	610	(31.1)
% of sales	3.7	6.4		5.8	
Other	149	110	35.0	121	23.1
% of sales	1.3	1.1		1.1	
Total Sales	11,449	10,210	12.1	10,541	8.6

Source: Company, CEBPL

### CEBPL Estimates vs Actual

Rs. In Mn.	Actual	CEBPL Estimates	% Change
Sales	11,449	11,272	1.6
EBITDA	3,304	2,996	10.3
EBITDA Margin (%)	28.9	26.6	227.1
PAT	2,458	2,162	13.7
EPS	19.5	17.1	13.7

Source: Company, CEBPL

### Changes in Estimate for FY25E & FY26E

Income Statement (INR Mn.)	FY25E			FY26E		
	New	Previous	Change	New	Previous	Change
Net sales	47,685	47,289	0.8	54,702	53,832	1.6
EBITDA	13,900	13,357	4.1	16,318	15,750	3.6
EBITDA margin(%)	29.1	28.2	90	29.8	29.3	57
PAT	10,435	10,054	3.8	12,444	12,135	2.5
EPS	82.6	79.6	3.8	98.5	96.0	2.5

Source: Company, CEBPL

## Management Call - Highlights

### Branded Generics (Asia & Africa):

- In Asia, revenue growth was 9% YoY, and the company launched 7 new products during the quarter.
- In Africa, there was a healthy growth of 45% due to low sales in Q1 FY24, and 2 new products were launched.
- The company is actively ramping up its presence in Central Asia, filing product dossiers with approvals expected in 12-18 months.

### US Generics:

- Growth is in line with the guidance of mid-single digits as most launches are skewed towards Q4 FY25.
- Filed 2 ANDAs, received 3 final approvals, and launched 2 ANDAs.
- There are 46 products on the shelf and 20 awaiting approval.

### Africa Institutional:

- Sharp degrowth due to the preponement of fuel supplies procurement in Q4 FY24.
- Business remains unpredictable due to reliance on the procurement agency schedule.

### India Business:

- Continues to outpace IPM by 130 bps, with Ajanta growing at 8.9% as per IQVIA MAT June 2024.
- This trend extends to most therapeutic segments, consistently outpacing the segment.
- Cardiology grew at 15% against IPM at 12%; however, on an MAT basis, the company lags due to the price impact on one of the major products.
- The company continues to be the 4th largest in IPM in all therapeutic segments as per IQVIA MAT June 2024.
- Cardio contributed 38%, Ophthalmology 31%, and Dermatology 23% to India business, with the remaining 8% coming from Pain.
- Subdued growth in the cardio segment is due to one of the largest brands, MetXL, coming under further price reduction by NLM last year, impacting the company until Mar-24. However, no major challenges are seen, and the segment has bounced back.

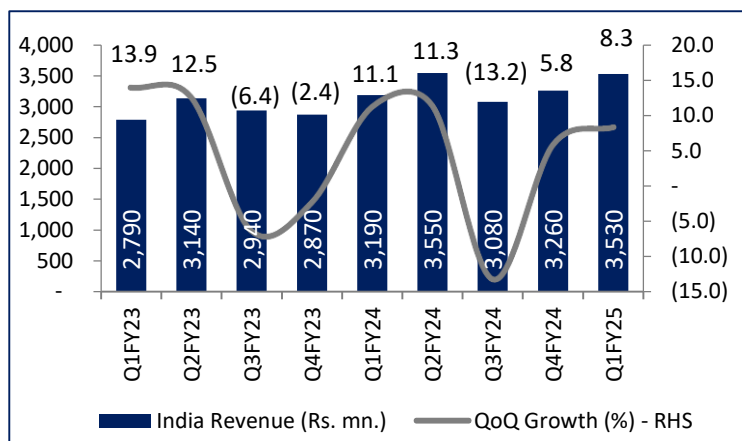
### Other:

- The company has hedged 6 months of sales and is monitoring currency views going forward.
- Capacity utilization stands at 60-65% across plants.

### Outlook:

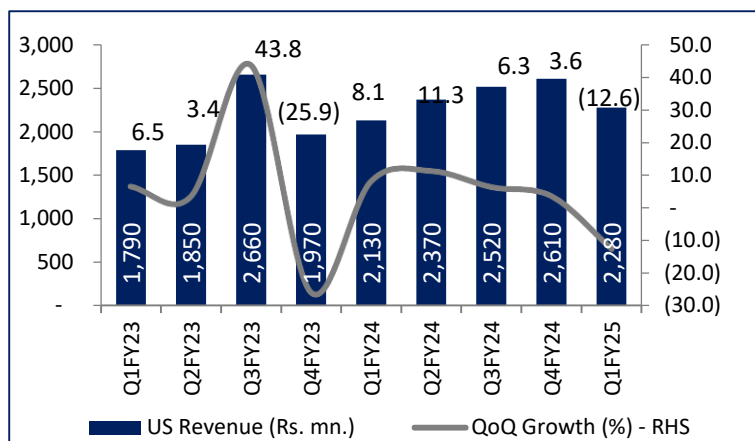
- Management is confident of sustaining growth momentum and driving continued growth in the coming quarters.
- Overall revenue is expected to grow in the low teens, backed by mid-teen growth in branded generics in Asia and Africa, mid-single-digit growth in the USA, and degrowth in African institutional business.
- Gross margin is expected to remain in a similar range with a 50-100 bps improvement.
- R&D expenditure to be at 5% of sales.
- EBITDA margin to remain in a similar range.
- Capex, including maintenance capex, to be at INR 1750 mn.
- US growth in FY26 is expected to be in double digits.

India Sales (Rs. mn) and QoQ Growth (%)



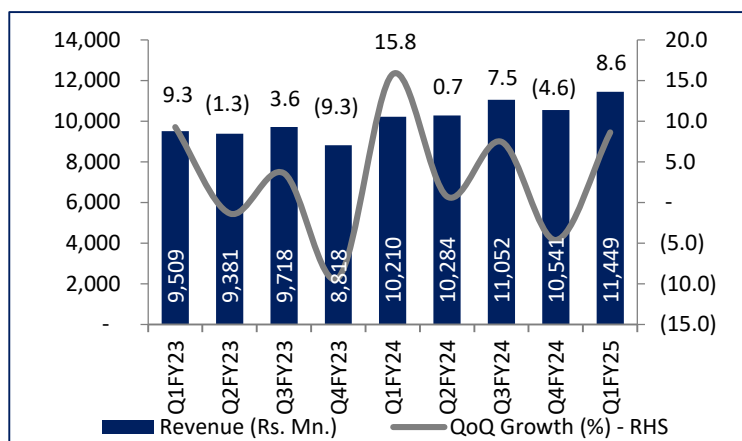
Source: Company, CEBPL

US market Sales (Rs. mn) and QoQ Growth (%)



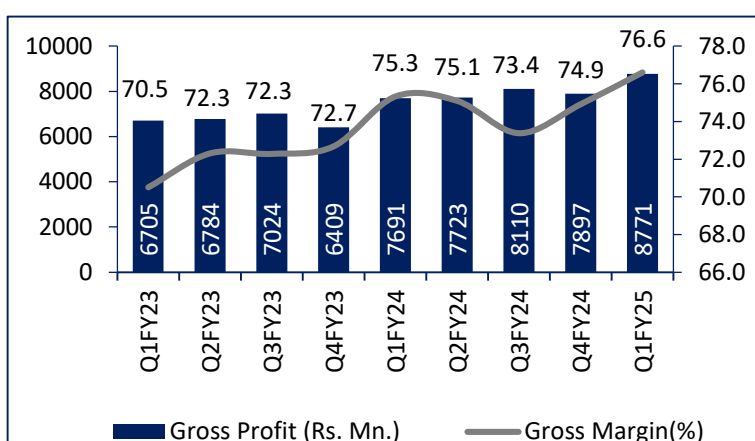
Source: Company, CEBPL

Revenue (Rs. mn) and QoQ Growth (%)



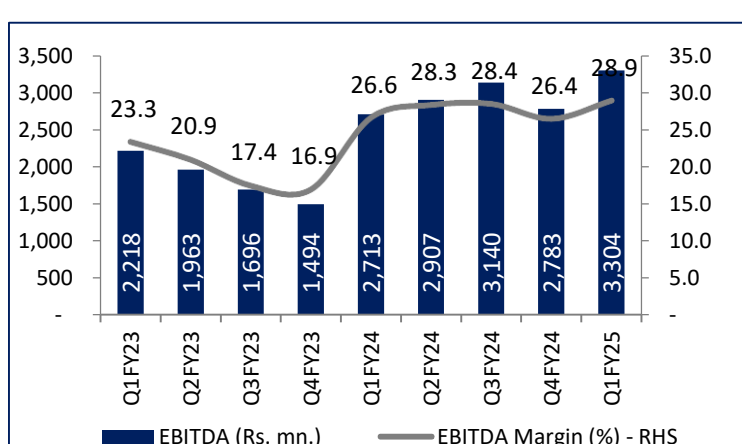
Source: Company, CEBPL

Gross profit (Rs. mn) and Margin (%)



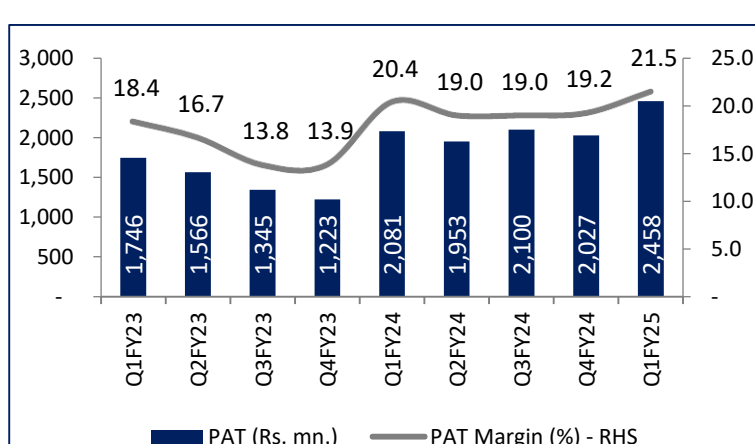
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



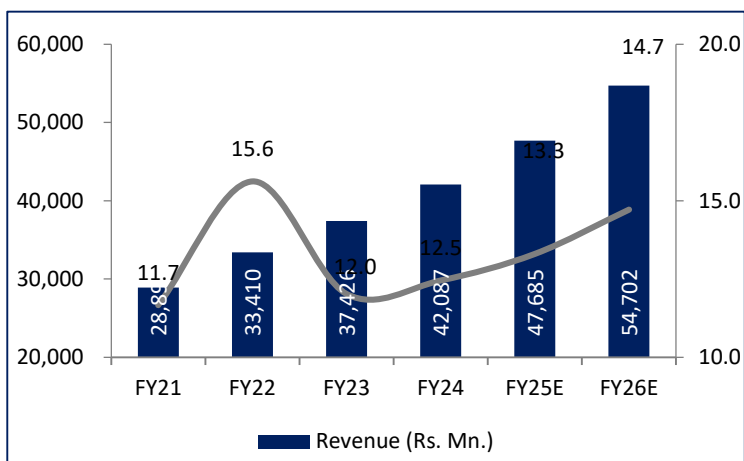
Source: Company, CEBPL

PAT (Rs. mn) and Margin (%)



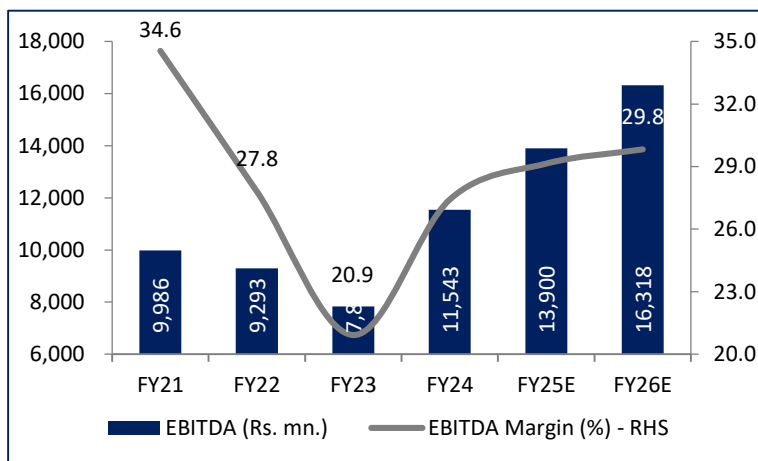
Source: Company, CEBPL

Revenue (Rs. mn) and YoY Growth (%)



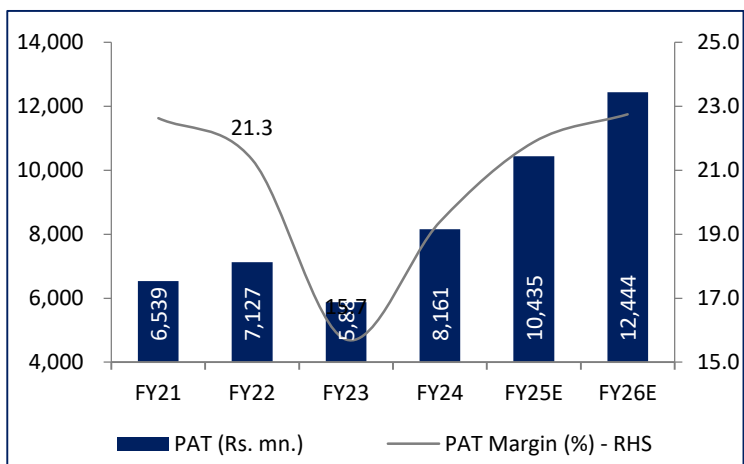
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



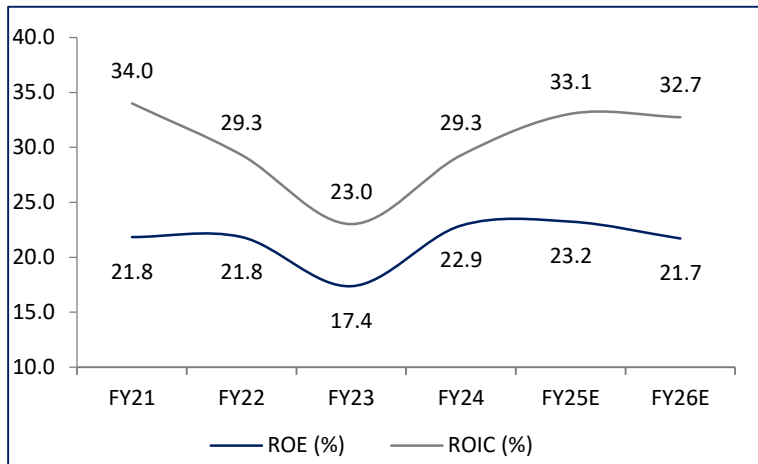
Source: Company, CEBPL

PAT (Rs. mn) and Margin (%)



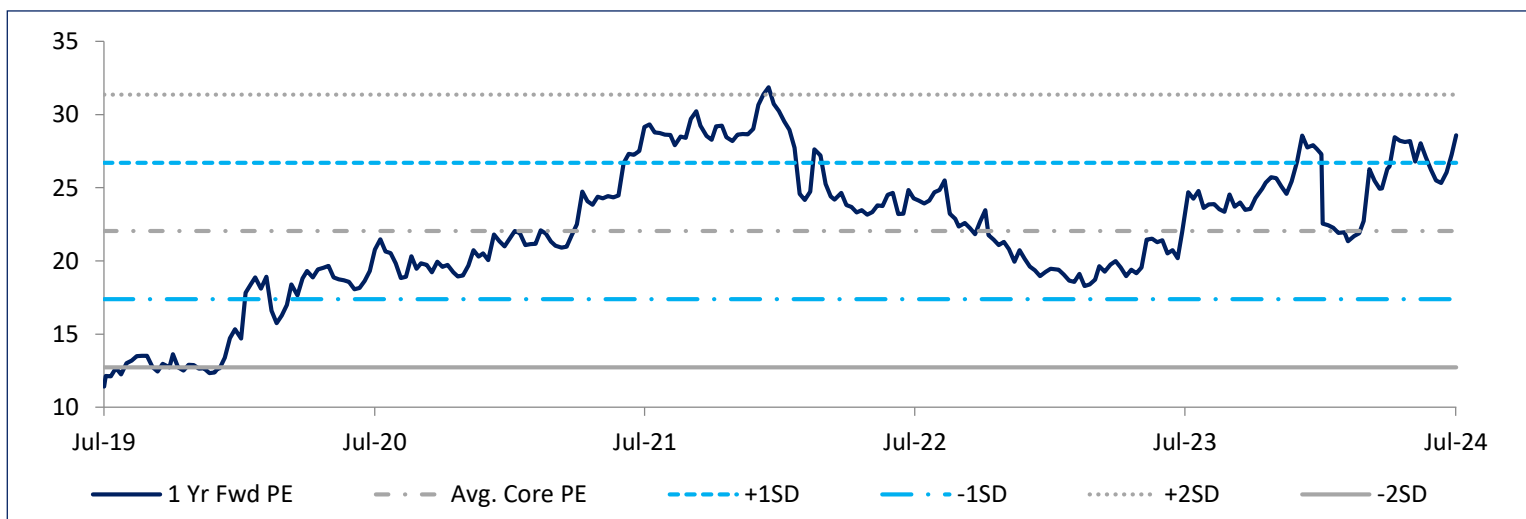
Source: Company, CEBPL

ROE (%) and ROIC (%)



Source: Company, CEBPL

1 year forward PE (x)



Source: Company, CEBPL

## Income statement (Consolidated in INR Mn.)

Particulars (Rs. In Mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	33,410	37,426	42,087	47,685	54,702
Gross profit	25,087	26,922	31,421	35,930	41,591
EBITDA	9,293	7,832	11,543	13,900	16,318
Depreciation	1,253	1,308	1,354	1,437	1,401
EBIT	8,040	6,524	10,189	12,463	14,917
Other income	1,157	986	1,022	1,287	1,477
Interest expense	102	58	72	20	20
PBT	9,095	7,452	11,138	13,730	16,374
Reported PAT	7,127	5,880	8,161	10,435	12,444
EPS (INR)	55.4	46.5	64.6	82.6	98.5

Source: Company, CEBPL

## Balance sheet (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E
Net worth	32,644	33,880	35,674	44,907	57,352
Borrowings	250	355	353	333	328
Trade Payables	3,272	4,228	4,632	4,964	5,695
Other non-current liabilities	1,253	1,256	1,523	1,557	1,709
Other current liabilities	3,138	7,073	4,203	3,929	4,879
<b>Total Net Worth &amp; liabilities</b>	<b>40,556</b>	<b>46,790</b>	<b>46,384</b>	<b>55,691</b>	<b>69,962</b>
Net Block	14,243	14,078	13,841	14,154	14,453
Capital WIP	1,529	2,095	2,565	1,800	1,700
Goodwill & intangible assets	90	78	147	147	147
Investments	1,554	5,354	3,486	7,339	12,767
Trade Receivables	10,198	10,569	12,468	13,718	16,486
Cash & Cash equivalents	2,118	3,309	1,308	4,485	6,724
Other non-current assets	1,714	1,949	2,337	1,995	1,713
Other current assets	9,110	9,359	10,233	12,053	15,972
<b>Total Assets</b>	<b>40,556</b>	<b>46,790</b>	<b>46,384</b>	<b>55,691</b>	<b>69,962</b>

Source: Company, CEBPL

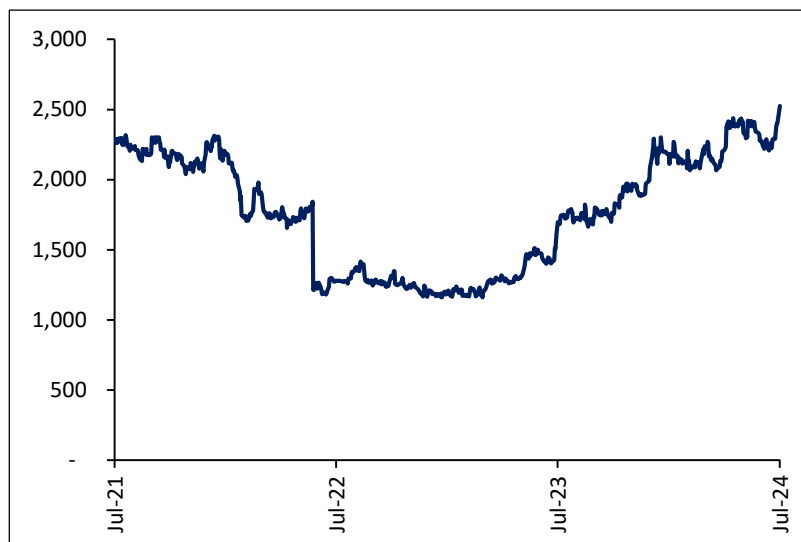
Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
CFO	5,617	7,918	7,851	9,130	10,268
CFI	(741)	(5,841)	380	(4,838)	(7,029)
CFF	(4,597)	(1,078)	(10,511)	(2,052)	(1,000)

Source: Company, CEBPL

<b>Growth Ratios (%)</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>
Revenues	15.6	12.0	12.5	13.3	14.7
Gross Profit	11.8	7.3	16.7	14.3	15.8
EBITDA	(6.9)	(15.7)	47.4	20.4	17.4
EBIT	(8.9)	(18.9)	56.2	22.3	19.7
PBT	1.0	(18.1)	49.5	23.3	19.3
PAT	9.0	(17.5)	38.8	27.9	19.3
<b>Margins (%)</b>	-	-	-	-	-
Gross Profit	75.1	71.9	74.7	75.3	76.0
EBITDA	27.8	20.9	27.4	29.1	29.8
EBIT	24.1	17.4	24.2	26.1	27.3
PBT	27.2	19.9	26.5	28.8	29.9
Tax rate	21.6	21.1	26.7	24.0	24.0
PAT	21.3	15.7	19.4	21.9	22.7
<b>Profitability (%)</b>	-	-	-	-	-
ROE	21.8	17.4	22.9	23.2	21.7
ROIC	29.3	23.0	29.3	33.1	32.7
ROCE	17.6	12.6	17.6	18.7	17.8
<b>Financial leverage (x)</b>	-	-	-	-	-
Pre-tax OCF/EBITDA	0.8	1.2	0.9	0.9	0.9
OCF / Net profit	0.8	1.3	1.0	0.9	0.8
EV/EBITDA	16.1	28.0	24.3	22.6	19.1
<b>Earnings</b>	-	-	-	-	-
EPS	55.4	46.5	64.6	82.6	98.5
Shares outstanding	128.6	126.4	126.4	126.4	126.4
<b>Working Capital (x)</b>	-	-	-	-	-
Inventory days	86	80	72	75	80
Receivable days	111	103	108	105	110
Creditor days	36	41	40	38	38
Working Capital	162	141	140	142	152

Source: Company, CEBPL

## Historical recommendations and target price: Ajanta Pharma



### Ajanta Pharma Ltd.

1.	20-10-2021	OUTPERFORM,	Target Price Rs.2,583
2.	29-10-2021	ADD,	Target Price Rs.2,219
3.	31-01-2022	ADD,	Target Price Rs.2,452
4.	10-05-2022	ADD,	Target Price Rs.1,874
5.	29-07-2022	ADD,	Target Price Rs.1,447
6.	04-11-2022	ADD,	Target Price Rs.1,426
7.	01-02-2023	NEUTRAL,	Target Price Rs.1,240
8.	07-05-2023	ADD,	Target Price Rs.1,412
9.	28-07-2023	ADD,	Target Price Rs.1,730
10.	01-11-2023	ADD,	Target Price Rs.1,943
11.	02-02-2024	ADD,	Target Price Rs.2,340
12.	03-05-2024	BUY,	Target Price Rs.2,676
13.	31-07-2024	BUY,	Target Price Rs.2,758

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<b>BUY</b>	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
<b>REDUCE</b>	The security expected to show downside or upside returns by 0% to 5% over the next 12 months
<b>SELL</b>	The security expected to show Below 0% next 12 months

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