

BUY

TP: Rs 1,860 | ▲ 15%

AJANTA PHARMA

Pharmaceuticals

28 July 2023

Q1 beat sparked by sharp margin recovery

- Strong Q1 beat with EBITDA/PAT of Rs 2.7bn/Rs 2.1bn coming in 17%/39% ahead of consensus due to margin recovery
- EBITDA margin rebounded to 26.6% (+325bps YoY) on softer API prices and reduction in logistics costs; FY24 guidance at 24-26%
- TP raised to Rs 1,860 (vs. Rs 1,520) on 7-9% higher EBITDA estimates for FY24/FY25 and a 12.5x (vs. 11x) EV/EBITDA multiple; retain BUY

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Domestic branded formulations and US business aid revenue growth: AJP delivered a strong Q1FY24 performance with revenue up 7% YoY to Rs 10.2bn and EBITDA/PAT rising 22%/19% YoY to Rs 2.7bn/Rs 2.1bn, beating consensus by 17%/39%. India business increased 14% YoY (11% QoQ) led by market-beating growth in therapies such as cardiology (13% YoY vs. segment growth of 11%), ophthalmology (15% vs. 12%), dermatology (21% vs. 8%).

Reduced US price erosion; stabilising Euro key positives: AJP recorded healthy growth of 8% QoQ CC to US\$ 26mn in the US business, with price erosion slowing from double digits to single digits. Management expects mid-single-digit growth in the US business for FY24 with the planned launch of 4-5 products. Africa business (-9% YoY) saw supply disruptions but is recovering and could also see benefits from euro appreciation against the rupee. Asia business increased just 6% YoY (+7% QoQ), but management expects growth in the mid-teens for FY24.

Margin recovery, guidance healthy: After a sub-20% EBITDA margin in Q3 and Q4 of FY23, AJP posted a rebound to 26.6% in Q1 on the back of gross margin recovery to 75.3% (+480bps YoY). This recovery was aided by softening API prices (~200bps benefit), an appreciating euro, and stabilising price erosion in the US market. EBITDA margin further benefited from a reduction in international logistics cost. Management expects an FY24 gross margin of ~75% and EBITDA margin in the range of 24-26%.

Earnings call highlights: (1) AJP plans to incur ~Rs 2bn in capex for FY24. (2) R&D is guided to hold at 6% of revenue for the fiscal year. (3) Chantix could be launched in Q4FY24 or Q1FY25.

Maintain BUY, TP raised to Rs 1,860: We increase our FY24-FY25 EBITDA estimates by considering the Q1 margin recovery and healthy guidance, in addition to a stabilising pricing environment in the US. We also raise our target FY25E EV/EBITDA multiple to 12.5x – a 15% discount to the stock’s 5Y average – and accordingly move to a new TP of Rs 1,860 (from Rs 1,520). BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AJP IN/Rs 1,616
Market cap	US\$ 2.5bn
Free float	31%
3M ADV	US\$ 3.4mn
52wk high/low	Rs 1,735/Rs 1,112
Promoter/FPI/DII	66%/10%/15%

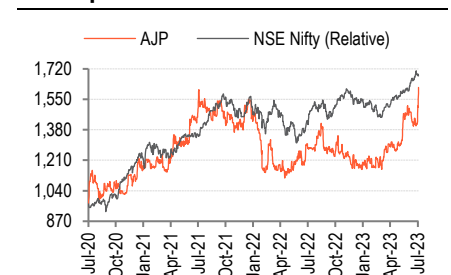
Source: NSE | Price as of 28 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	37,426	41,804	47,096
EBITDA (Rs mn)	7,832	10,390	12,223
Adj. net profit (Rs mn)	5,879	7,661	8,949
Adj. EPS (Rs)	46.5	60.6	70.8
Consensus EPS (Rs)	46.5	58.8	70.2
Adj. ROAE (%)	17.6	20.7	20.5
Adj. P/E (x)	34.7	26.6	22.8
EV/EBITDA (x)	25.8	19.4	16.4
Adj. EPS growth (%)	(43.9)	30.3	16.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Net Sales	10,210	9,509	7.4	8,818	15.8	37,426	33,410	12.0
EBITDA	2,713	2,218	22.3	1,494	81.6	7,371	9,293	(20.7)
Depreciation	332	318	4.4	330	0.5	1,308	1,253	-
EBIT	2,381	1,900	25.4	1,164	104.6	6,063	8,040	-
Interest	9	9	(3.4)	11	(24.8)	58	102	-
Other Income	318	328	(3.1)	368	(13.8)	1,449	1,157	-
PBT	2,690	2,219	21.3	1,521	76.9	7,453	9,095	(18.0)
Less: Taxation	609	472	29.0	298	104.4	1,573	1,968	-
Less: Minority Interest	-	-	-	-	-	0	0	-
Recurring PAT	2,081	1,746	19.2	1,223	70.1	5,881	7,127	(17.5)
Exceptional items	0	0	-	0	-	0	0	-
Reported PAT	2,081	1,746	19.2	1,223	70.1	5,881	7,127	(17.5)
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	75.3	70.5	482	72.7	265	71.9	75.1	(315)
EBITDA Margin	26.6	23.3	325	16.9	963	19.7	27.8	(812)
Tax / PBT	22.6	21.3	-	19.6	-	21.1	21.6	-
NPM	20.4	18.4	202	13.9	651	15.7	21.3	-
EPS (Rs)	23.9	13.6	-	9.7	-	46.5	83.0	-

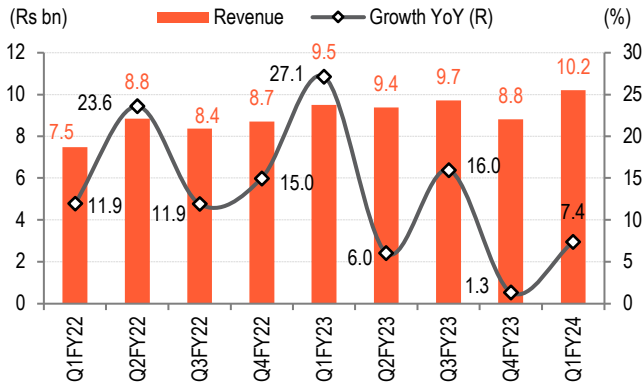
Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22
Domestic Formulation	2,790	2,790	0.0	2,870	(2.8)	11,740	9,780
Exports Formulation	6,910	6,640	4.1	5,840	18.3	25,330	23,000
Africa	2,240	2,450	(8.6)	1,490	50.3	7,490	7,910
Asia	2,540	2,400	5.8	2,380	6.7	9,570	8,120
US	2,130	1,790	19.0	1,970	8.1	8,270	6,960
Other op Income	510	79	543.6	108	370.8	356	630
Revenues	10,210	9,509	7.4	8,818	15.8	37,426	33,410
USDINR	82	79	4.0	82	0.0	81	75
US Revenue (US\$ mn)	26	23	14.4	24	8	102	93

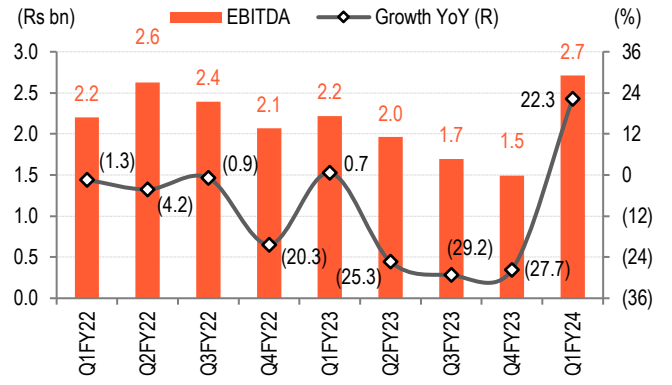
Source: Company, BOBCAPS Research

Fig 3 – Revenue



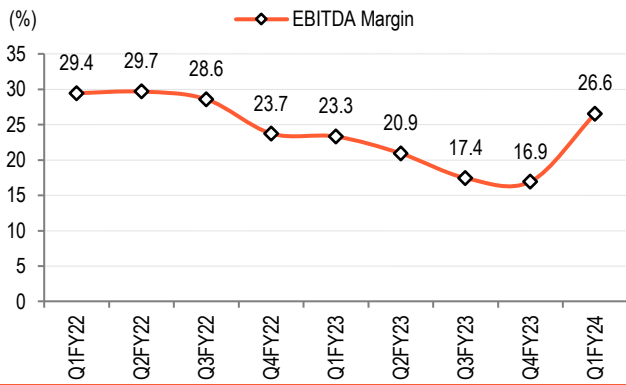
Source: Company, BOBCAPS Research

Fig 4 – EBITDA



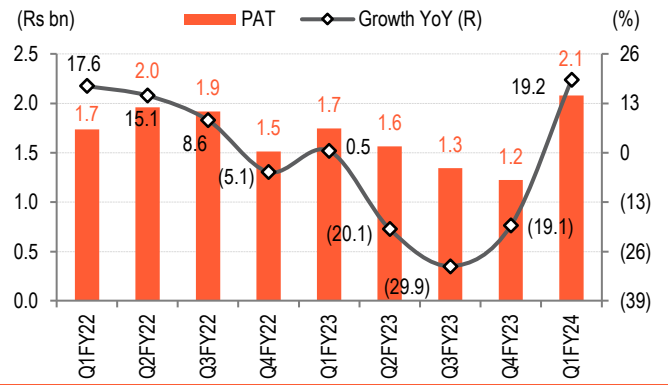
Source: Company, BOBCAPS Research

Fig 5 – EBITDA margin



Source: Company, BOBCAPS Research

Fig 6 – PAT



Source: Company, BOBCAPS Research

Valuation methodology

We expect AJP to post a 12% revenue CAGR over FY23-FY25 aided by continued momentum in India business, recovery in US and ROW sales as supply chain constraints affecting Africa operations normalise, and mid-teens growth in Asia branded sales.

In light of the Q1 margin recovery, healthy FY24 guidance and stabilising US pricing environment, we increase our FY24-FY25 EBITDA estimates by 7-9%. This takes our earnings CAGR forecast over FY23-FY25 to 23%. We also raise our target FY25E EV/EBITDA multiple to 12.5x – a 15% discount to the stock's five-year average – and accordingly move to a new TP of Rs 1,860 (from Rs 1,520). BUY.

Fig 7 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	41.8	47.1	41.6	45.2	0.4	4.2
EBITDA	10.4	12.2	9.7	11.2	6.8	8.8
EBITDA margin (%)	24.9	26.0	23.4	24.9	150bps	110bps
EPS (Rs)	60.6	70.8	56.2	64.3	7.9	10.1

Source: BOBCAPS Research

Fig 8 – Key assumptions

Revenue (Rs bn)	FY23A	FY24E	FY25E
India Formulation	11.7	13.2	15.1
Africa	7.5	8.4	9.0
Asia	9.6	10.5	11.6
US	8.3	9.2	10.6
OOI	0.3	0.6	0.8

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- higher raw material and freight costs,
- price erosion in the US business,
- adverse USFDA observations affecting new launches in the US,
- INR appreciation vs. the EUR, and
- persisting supply chain constraints in Africa.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	2.5	1,616	1,860	BUY
Alembic Pharma	ALPM IN	1.9	777	615	HOLD
Alkem Labs	ALKEM IN	5.8	3,996	3,000	SELL
Cipla	CIPLA IN	11.6	1,178	1,250	BUY
Divi's Labs	DIVI IN	12.1	3,739	3,200	HOLD
Dr Reddy's Labs	DRRD IN	11.3	5,583	4,900	HOLD
Eris Lifesciences	ERIS IN	1.3	775	800	BUY
Glenmark Life Sciences	GLS IN	1.0	660	620	HOLD
Laurus Labs	LAURUS IN	2.2	338	340	HOLD
Lupin	LPC IN	5.4	974	700	HOLD

Source: BOBCAPS Research, NSE | Price as of 28 Jul 2023

Glossary

Glossary of Abbreviations			
ANDA	Abbreviated New Drug Application	MR	Marketing Representatives
API	Active Pharmaceutical Ingredient	NLEM	National List of Essential Medicines
CDMO	Contract Development and Manufacturing Operations	OTC	Over the Counter
CMO	Contract Manufacturing Organisations		

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	28,897	33,410	37,426	41,804	47,096
EBITDA	10,192	9,293	7,832	10,390	12,223
Depreciation	1,161	1,253	1,308	1,370	1,475
EBIT	9,031	8,040	6,524	9,020	10,749
Net interest inc./(exp.)	(83)	(102)	(58)	(21)	(21)
Other inc./(exp.)	251	1,157	986	699	746
Exceptional items	0	0	0	0	0
EBT	9,199	9,095	7,452	9,698	11,473
Income taxes	2,463	1,968	1,573	2,037	2,524
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	6,736	7,127	5,879	7,661	8,949
Adjustments	0	0	0	0	0
Adjusted net profit	6,736	7,127	5,879	7,661	8,949

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	3,739	3,272	4,228	4,581	5,161
Other current liabilities	2,677	3,070	6,967	3,762	4,239
Provisions	296	301	382	426	480
Debt funds	198	250	356	356	356
Other liabilities	0	0	0	0	0
Equity capital	174	172	253	253	253
Reserves & surplus	30,203	32,935	33,637	39,766	46,925
Shareholders' fund	30,377	33,107	33,889	40,019	47,178
Total liab. and equities	37,286	40,000	45,823	49,067	57,337
Cash and cash eq.	2,096	2,118	3,387	3,969	9,411
Accounts receivables	7,384	10,198	10,569	10,308	11,613
Inventories	7,665	7,911	8,156	9,735	10,968
Other current assets	1,891	1,656	1,375	2,090	2,355
Investments	1,846	1,554	5,354	5,354	5,354
Net fixed assets	15,214	14,946	14,887	15,517	15,542
CWIP	1,082	1,529	2,095	2,095	2,095
Intangible assets	108	90	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	37,286	40,000	45,823	49,067	57,337

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	5,971	5,590	11,842	4,213	8,754
Capital expenditures	(728)	(895)	(811)	(2,000)	(1,500)
Change in investments	(1,051)	292	(3,800)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,780)	(603)	(4,611)	(2,000)	(1,500)
Equities issued/Others	(2)	(2)	81	0	0
Debt raised/repaid	(238)	53	106	0	0
Interest expenses	(83)	(102)	(58)	(21)	(21)
Dividends paid	(826)	(816)	(884)	(1,532)	(1,790)
Other financing cash flows	(2,997)	(4,098)	(5,207)	0	0
Cash flow from financing	(4,145)	(4,965)	(5,963)	(1,554)	(1,811)
Chg in cash & cash eq.	47	22	1,269	660	5,442
Closing cash & cash eq.	2,096	2,118	3,387	4,046	9,411

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	76.8	83.0	46.5	60.6	70.8
Adjusted EPS	77.5	83.0	46.5	60.6	70.8
Dividend per share	9.5	9.5	7.0	12.1	14.2
Book value per share	346.4	377.5	386.4	456.3	537.9

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	7.0	6.1	5.4	4.8	4.3
EV/EBITDA	19.9	21.8	25.8	19.4	16.4
Adjusted P/E	20.9	19.5	34.7	26.6	22.8
P/BV	4.7	4.3	4.2	3.5	3.0

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	73.2	78.4	78.9	79.0	78.0
Interest burden (PBT/EBIT)	101.9	113.1	114.2	107.5	106.7
EBIT margin (EBIT/Revenue)	31.3	24.1	17.4	21.6	22.8
Asset turnover (Rev./Avg TA)	25.1	26.1	27.7	28.0	26.8
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	23.7	22.5	17.6	20.7	20.5

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	11.7	15.6	12.0	11.7	12.7
EBITDA	49.1	(8.8)	(15.7)	32.7	17.6
Adjusted EPS	44.0	7.2	(43.9)	30.3	16.8
Profitability & Return ratios (%)					
EBITDA margin	35.3	27.8	20.9	24.9	26.0
EBIT margin	31.3	24.1	17.4	21.6	22.8
Adjusted profit margin	23.3	21.3	15.7	18.3	19.0
Adjusted ROAE	23.7	22.5	17.6	20.7	20.5
ROCE	32.2	28.8	22.2	26.1	26.2
Working capital days (days)					
Receivables	93	111	103	90	90
Inventory	97	86	80	85	85
Payables	47	36	41	40	40
Ratios (x)					
Gross asset turnover	1.4	1.6	1.7	1.8	1.9
Current ratio	2.8	3.3	2.0	3.0	3.5
Net interest coverage ratio	109.2	78.8	111.7	421.9	502.8
Adjusted debt/equity	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

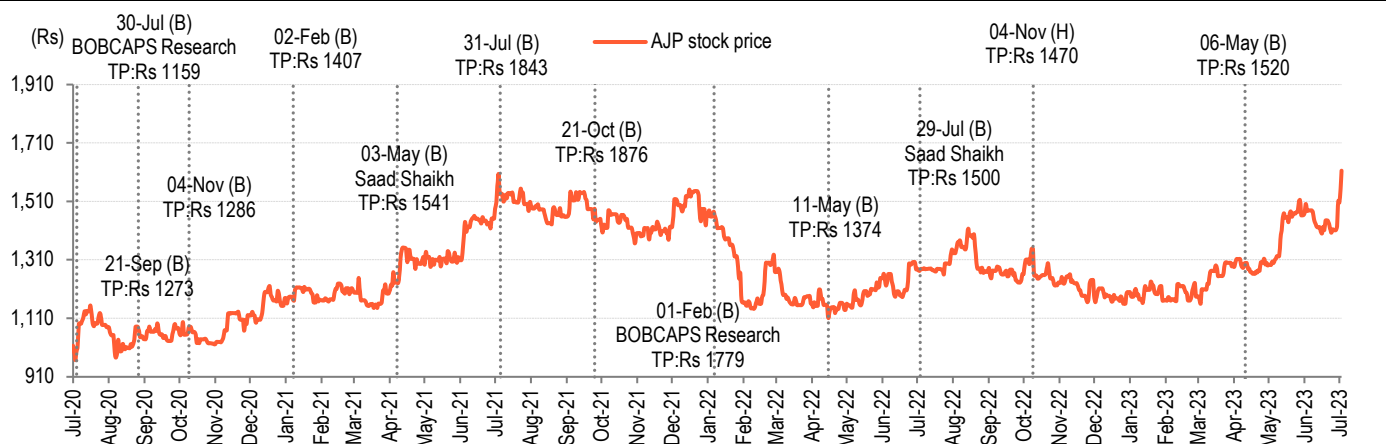
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): AJANTA PHARMA (AJP IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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