

BUY

TP: Rs 2,070 | ▲ 17%

AJANTA PHARMA

Pharmaceuticals

31 October 2023

Buoyant margins but higher tax weighs on PAT

- Strong Q2 gross/EBITDA margins at 75%/28% drove a 7% EBITDA beat, though higher tax pulled PAT 2% below consensus
- Management optimistic of 26% EBITDA margin in FY24 vs. 25% guided earlier; we raise our full-year EBITDA forecast by 6%
- Our TP stands revised to Rs 2,070 (vs. Rs 1,860) as we increase our target FY25E EV/EBITDA to 14x (vs. 12.5x); maintain BUY

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Broad-based growth led by US and India: AJP reported 10% YoY revenue growth in Q2FY24 to Rs 10.3bn, coming in 2% below consensus estimates. Except Asia, which declined 8% YoY, all other geographies fared well, with the US (+28%) and India (+13%) in the lead. Asia business was impacted due to the spillover of business to Q3 and management expects low-to-mid-teens growth in FY24. India growth was primarily steered by volume gains, followed by pricing and new introductions. The company introduced 10 products, including 4 first to market, during the quarter. India business was also fuelled by productivity improvements.

EBITDA margin guidance raised to 26%: AJP's Q2 gross margin expanded 280bps YoY on account of lower API prices as well as moderating price erosion. Further, cost-saving measures and a return of logistics costs to pre-Covid levels supported EBITDA margin expansion of 730bps YoY to 28.3%, driving a 7% EBITDA beat over consensus. Historically, Q2 has been the company's strongest quarter and management now expects to exit FY24 with margins of 26% (vs. 25% earlier). A higher tax rate of 29.2% (vs. 23% each in Q1FY24/Q2FY23) and lower other income negated the EBITDA beat, pulling PAT 2% below consensus at Rs 1.9bn (+25% YoY).

Earnings call highlights: (1) The US demand environment is improving and price erosion is easing. AJP expects the US revenue run-rate to be in line with Q2. Capital allocation priorities remain intact and the company plans to continue with 8-10 filings a year in the US. (2) R&D is guided to remain at 5-6% of revenue in FY24 and beyond. (3) Higher tax in Q2 stemmed from higher profitability and dividend received from the subsidiary; management expects an FY25 tax rate of ~25%. (4) Asia/Africa branded businesses are guided to deliver low-to-mid-teens growth in FY24.

Maintain BUY, TP revised to Rs 2,070: We scale up our FY24 EBITDA estimate by 6% to build in the H1 margin recovery, healthy guidance and stabilising US price environment. For these reasons, we also raise our target FY25E EV/EBITDA multiple to 14x (vs. 12.5x) – a 10% discount to the stock's 5Y average. Our TP thus rises to Rs 2,070 (from Rs 1,860) and we reiterate BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AJP IN/Rs 1,763
Market cap	US\$ 2.7bn
Free float	31%
3M ADV	US\$ 4.3mn
52wk high/low	Rs 1,904/Rs 1,132
Promoter/FPI/DII	66%/10%/15%

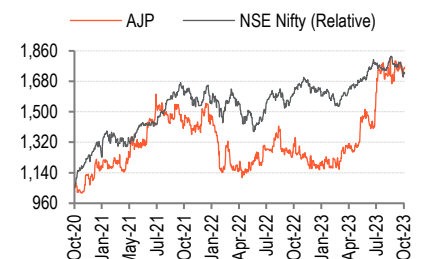
Source: NSE | Price as of 31 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	37,426	41,897	47,205
EBITDA (Rs mn)	7,832	11,042	12,252
Adj. net profit (Rs mn)	5,879	8,008	8,986
Adj. EPS (Rs)	46.5	63.4	71.1
Consensus EPS (Rs)	46.5	61.5	72.4
Adj. ROAE (%)	17.6	21.6	20.5
Adj. P/E (x)	37.9	27.8	24.8
EV/EBITDA (x)	28.2	20.0	17.9
Adj. EPS growth (%)	(43.9)	36.2	12.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

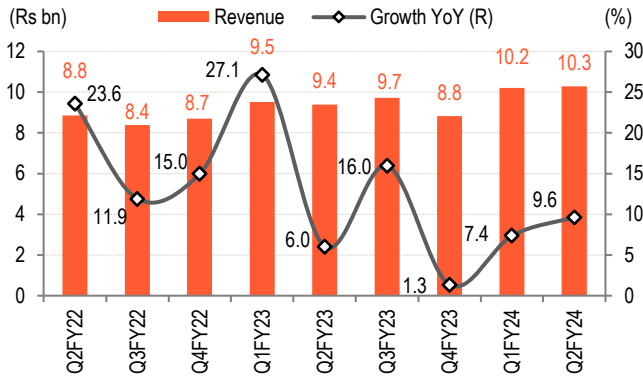
(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H2FY23	YoY (%)
Net Sales	10,284	9,381	9.6	10,210	0.7	20,495	18,890	8.5
EBITDA	2,907	1,963	48.0	2,713	7.1	5,620	4,181	34.4
Depreciation	337	327	3.1	332	1.6	669	645	-
EBIT	2,570	1,636	57.0	2,381	7.9	4,951	3,536	40.0
Interest	23	10	136.4	9	175.3	32	19	-
Other Income	213	404	(47.1)	318	(32.8)	531	731	-
PBT	2,759	2,030	35.9	2,690	2.6	5,450	4,249	28.3
Less: Taxation	806	464	73.8	609	32.4	(1,416)	(936)	-
Less: Minority Interest	-	-	-	-	-	-	-	-
Recurring PAT	1,953	1,566	24.7	2,081	(6.2)	4,034	3,312	21.8
Exceptional items	0	0		0		0	0	
Reported PAT	1,953	1,566	24.7	2,081	(6.2)	4,034	3,312	21.8
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	75.1	72.3	279	75.3	(23)	75.2	71.4	381
EBITDA Margin	28.3	20.9	733	26.6	169	27.4	22.1	529
Tax / PBT	29.2	22.9	-	22.6	-	(26.0)	(22.0)	-
NPM	19.0	16.7	230	20.4	(139)	19.7	17.5	-
EPS (Rs)	15.5	12.2	-	16.5	-	31.9	25.8	-

Fig 2 – Revenue mix

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H2FY23	YoY (%)
Domestic Formulation	3,550	3,140	13.1	3,190	11.3	6,740	5,930	13.7
Exports Formulation	6,610	6,150	7.5	6,910	(4.3)	13,520	12,790	5.7
Africa	1,940	1,790	8.4	2,240	(13.4)	4,180	4,240	(1.4)
Asia	2,300	2,510	(8.4)	2,540	(9.4)	4,840	4,910	(1.4)
US	2,370	1,850	28.1	2,130	11.3	4,500	3,640	23.6
Other op Income	124	91	36.7	110	12.7	235	170	37.9
Revenues	10,284	9,381	9.6	10,210	0.7	20,495	18,890	8.5
USDINR	82	81	1.1	82	0.0	82	80	2.5
US revenue (US\$ mn)	29	23	26.7	26	11	55	45	20.6

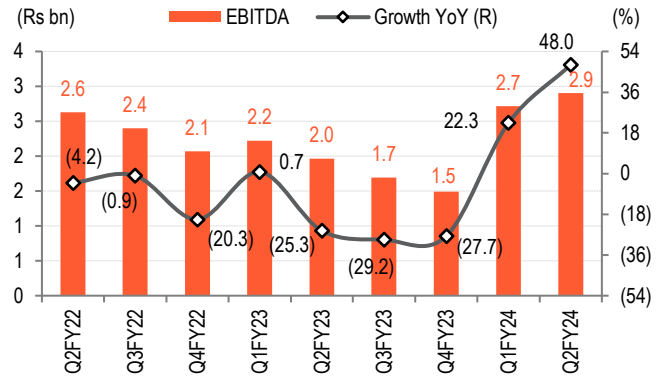
Source: Company, BOBCAPS Research

Fig 3 – Revenue



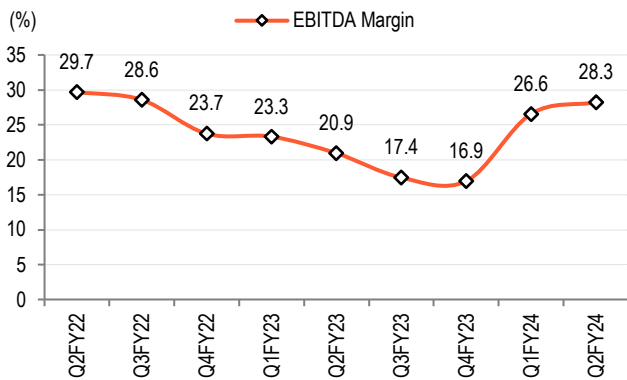
Source: Company, BOBCAPS Research

Fig 4 – EBITDA



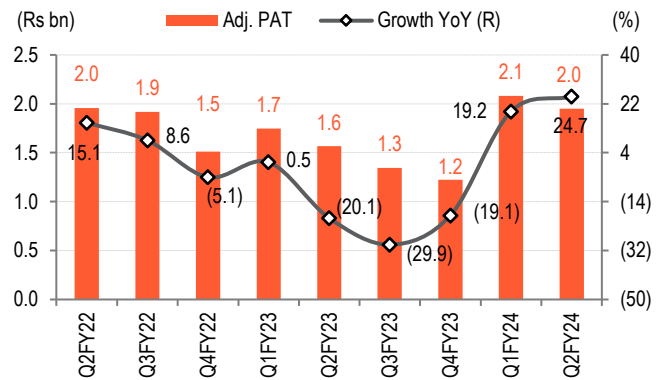
Source: Company, BOBCAPS Research

Fig 5 – EBITDA margin



Source: Company, BOBCAPS Research

Fig 6 – Adj. 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 also ROW sales as supply chain constraints affecting Africa operations normalise, and mid-teens growth in Asia/Africa branded sales as per guidance.

To build in the margin recovery during H1FY24, healthy guidance and stabilising US price environment, we scale up our FY24 EBITDA estimate by 6% which takes our earnings CAGR forecast to 24% over FY23-FY25. We also raise our target FY25E EV/EBITDA multiple to 14x (vs. 12.5x) – a 10% discount to the stock's five-year average. Our TP thus rises to Rs 2,070 (from Rs 1,860) and we reiterate BUY.

Fig 7 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	41.9	47.2	52.6	41.8	47.1	NA	0.2	0.2	NA
EBITDA	11.0	12.3	13.6	10.4	12.2	NA	6.3	0.2	NA
EBITDA margin (%)	26.4	26.0	26.0	24.9	26.0	NA	150bps	0bps	NA
EPS (Rs)	63.4	71.1	81.9	60.6	70.8	NA	4.6	0.5	NA

Source: BOBCAPS Research

Fig 8 – Key assumptions

Revenue (Rs bn)	FY23A	FY24E	FY25E	FY26E
India Formulation	11.7	13.2	15.1	17.0
Africa	7.5	8.4	9.0	9.8
Asia	9.6	10.5	11.6	12.7
US	8.3	9.3	10.7	12.2
Other operating income	0.3	0.6	0.8	0.9

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
- supply chain constraints in Africa.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	2.7	1,763	2,070	BUY
Alkem Labs	ALKEM IN	5.4	3,722	3,300	SELL
Aurobindo Pharma	ARBP IN	6.1	850	880	HOLD
Cipla	CIPLA IN	11.8	1,200	1,360	BUY
Divi's Labs	DIVI IN	10.9	3,388	3,200	HOLD
Dr Reddy's Labs	DRRD IN	10.9	5,368	5,500	HOLD
Eris Lifesciences	ERIS IN	1.4	860	955	BUY
Glenmark Life Sciences	GLS IN	0.9	625	620	HOLD
Laurus Labs	LAURUS IN	2.4	362	340	HOLD
Lupin	LPC IN	6.2	1,128	800	SELL
Sun Pharma	SUNP IN	31.8	1,089	1,160	HOLD

Source: BOBCAPS Research, NSE | Price as of 31 Oct 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)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	33,410	37,426	41,897	47,205	52,573
EBITDA	9,293	7,832	11,042	12,252	13,645
Depreciation	1,253	1,308	1,370	1,475	1,565
EBIT	8,040	6,524	9,672	10,777	12,080
Net interest inc./(exp.)	(102)	(58)	(43)	(21)	(21)
Other inc./(exp.)	1,157	986	1,049	766	1,203
Exceptional items	0	0	0	0	0
EBT	9,095	7,452	10,678	11,521	13,262
Income taxes	1,968	1,573	2,669	2,535	2,918
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	7,127	5,879	8,008	8,986	10,344
Adjustments	0	0	0	0	0
Adjusted net profit	7,127	5,879	8,008	8,986	10,344

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	3,272	4,228	4,592	5,173	5,761
Other current liabilities	3,070	6,967	3,771	4,248	4,732
Provisions	301	382	427	481	536
Debt funds	250	356	356	356	356
Other liabilities	0	0	0	0	0
Equity capital	172	253	253	253	253
Reserves & surplus	32,935	33,637	40,043	47,233	55,508
Shareholders' fund	33,107	33,889	40,296	47,485	55,760
Total liab. and equities	40,000	45,823	49,365	57,667	67,068
Cash and cash eq.	2,118	3,387	4,216	9,684	16,308
Accounts receivables	10,198	10,569	10,331	11,639	12,963
Inventories	7,911	8,156	9,757	10,993	12,243
Other current assets	1,656	1,375	2,095	2,360	2,629
Investments	1,554	5,354	5,354	5,354	5,354
Net fixed assets	14,946	14,887	15,517	15,542	15,477
CWIP	1,529	2,095	2,095	2,095	2,095
Intangible assets	90	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	40,000	45,823	49,365	57,667	67,068

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	5,590	11,842	4,552	8,786	10,214
Capital expenditures	(895)	(811)	(2,000)	(1,500)	(1,500)
Change in investments	292	(3,800)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(603)	(4,611)	(2,000)	(1,500)	(1,500)
Equities issued/Others	(2)	81	0	0	0
Debt raised/repaid	53	106	0	0	0
Interest expenses	(102)	(58)	(43)	(21)	(21)
Dividends paid	(816)	(884)	(1,602)	(1,797)	(2,069)
Other financing cash flows	(4,098)	(5,207)	0	0	0
Cash flow from financing	(4,965)	(5,963)	(1,644)	(1,819)	(2,090)
Chg in cash & cash eq.	22	1,269	907	5,467	6,624
Closing cash & cash eq.	2,118	3,387	4,294	9,684	16,308

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	83.0	46.5	63.4	71.1	81.9
Adjusted EPS	83.0	46.5	63.4	71.1	81.9
Dividend per share	9.5	7.0	12.7	14.2	16.4
Book value per share	377.5	386.4	459.5	541.5	635.8

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	6.6	5.9	5.3	4.6	4.1
EV/EBITDA	23.8	28.2	20.0	17.9	15.8
Adjusted P/E	21.2	37.9	27.8	24.8	21.5
P/BV	4.7	4.6	3.8	3.3	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	78.4	78.9	75.0	78.0	78.0
Interest burden (PBT/EBIT)	113.1	114.2	110.4	106.9	109.8
EBIT margin (EBIT/Revenue)	24.1	17.4	23.1	22.8	23.0
Asset turnover (Rev./Avg TA)	26.1	27.7	28.0	26.7	25.3
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	22.5	17.6	21.6	20.5	20.0

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	15.6	12.0	11.9	12.7	11.4
EBITDA	(8.8)	(15.7)	41.0	11.0	11.4
Adjusted EPS	7.2	(43.9)	36.2	12.2	15.1
Profitability & Return ratios (%)					
EBITDA margin	27.8	20.9	26.4	26.0	26.0
EBIT margin	24.1	17.4	23.1	22.8	23.0
Adjusted profit margin	21.3	15.7	19.1	19.0	19.7
Adjusted ROAE	22.5	17.6	21.6	20.5	20.0
ROCE	28.8	22.2	28.6	26.1	25.6
Working capital days (days)					
Receivables	111	103	90	90	90
Inventory	86	80	85	85	85
Payables	36	41	40	40	40
Ratios (x)					
Gross asset turnover	1.6	1.7	1.8	1.9	2.0
Current ratio	3.3	2.0	3.0	3.5	4.0
Net interest coverage ratio	78.8	111.7	226.2	504.1	565.1
Adjusted debt/equity	(0.1)	(0.1)	(0.1)	(0.2)	(0.3)

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

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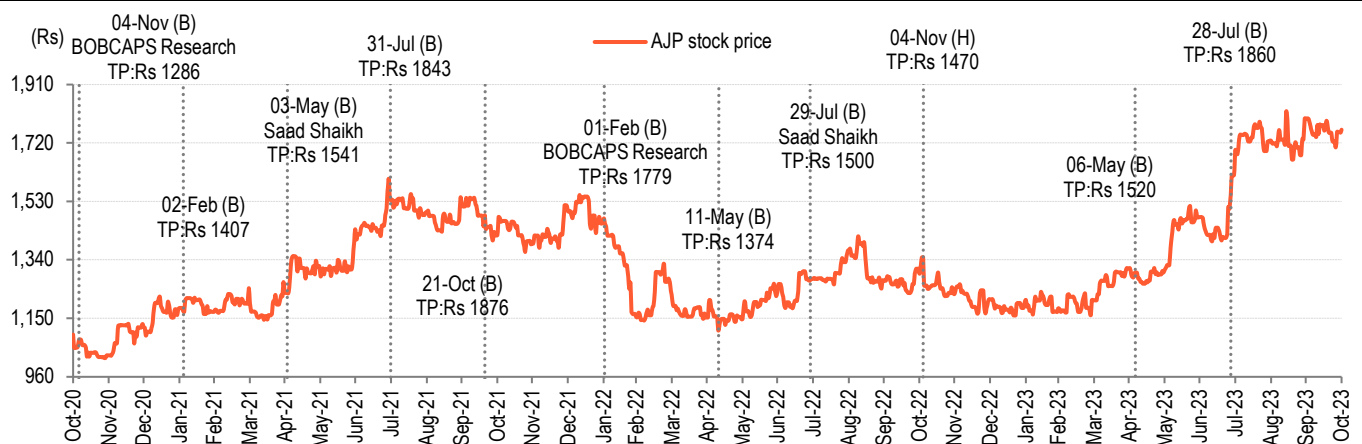
HOLD – Expected return from -6% to +15%

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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