

BUY

TP: Rs 2,585 | ▲ 16%

AJANTA PHARMA

Pharmaceuticals

03 May 2024

Strong margins; growth momentum to continue

- Strong quarter with EBITDA/PAT beat of 8% each, led by reduction in API prices, logistics costs and reduced intensity of US price erosion
- Full-year margins to sustain next year as well despite anticipation of increased logistics cost due to the Red Sea crisis
- Raise FY25/FY26 EBITDA estimates by 6%/9% and increase TP to Rs 2,585 based on an unchanged FY26E EV/EBITDA of 14x. Maintain BUY.

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Broad-based growth led by US business: AJP ended FY24 on a strong note with Q4 EBITDA/PAT beat of 8% each vs. Bloomberg consensus estimates. EBITDA/PAT grew 86%/66% YoY to Rs 2.8bn/2.0bn. Revenue was 2% ahead of consensus to Rs 10.5bn with double-digit growth seen across businesses. Management has highlighted that strong growth momentum will continue with mid-teen growth expected in the branded generics business, field force addition in international markets (+200 personnel) and new product launches.

Intensity of US price erosion stabilised; robust pipeline available in upcoming years: US business reported strong constant currency growth of 31% YoY to US\$ 31mn. Growth in the US business stemmed from reduced price erosion, tailwinds from increased product shortages, and market share gains. The company has 22 ANDAs awaiting USFDA approval and expects to launch six to eight products in FY25, leading to an overall growth guidance of mid-single digits for the US business.

Domestic business to continue outperformance over IPM: India growth of 14% YoY stemmed from market share gains and 15 new product launches with four first-to-market products. In secondary terms, AJP (+9.4%) outperformed IPM growth (+7.6%). The company expects to maintain 200-300bps outperformance over IPM for next year. Except for Cardiac (+4% vs. IPM 10%), AJP was ahead of IPM in core therapies of ophthalmic (12% vs. 9%), derma (17% vs. 6%) and pain (12% vs. 8%).

Margins to sustain despite expected escalation in logistics costs due to Red Sea crisis: AJP ended the quarter and full year with EBITDA margins of 26.4%/27.4% on the back of strong revenue growth, reduced intensity of US price erosion, and lower logistics costs. Though management expects escalation in logistics costs due to the ongoing Red Sea crisis, it has alluded to EBITDA margin guidance at similar levels to FY24 for next year as well.

Maintain BUY; raise TP to Rs 2,585: We have raised our FY25/FY26 EBITDA estimates 6%/9% and increased our TP to Rs 2,585 (from Rs 2,070) based on an unchanged FY26E EV/EBITDA of 14x. Maintain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AJP IN/Rs 2,234
Market cap	US\$ 3.4bn
Free float	31%
3M ADV	US\$ 3.0mn
52wk high/low	Rs 2,354/Rs 1,247
Promoter/FPI/DII	66%/10%/15%

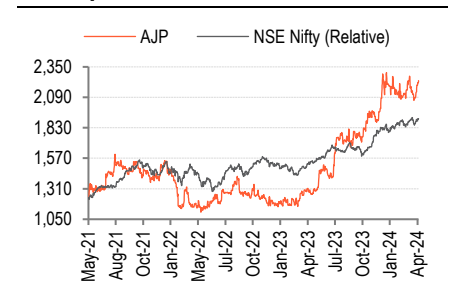
Source: NSE | Price as of 2 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	42,087	47,593	53,391
EBITDA (Rs mn)	11,719	13,060	14,918
Adj. net profit (Rs mn)	8,161	8,947	10,529
Adj. EPS (Rs)	64.6	70.8	83.3
Consensus EPS (Rs)	64.6	74.7	86.5
Adj. ROAE (%)	23.6	22.9	22.5
Adj. P/E (x)	34.6	31.5	26.8
EV/EBITDA (x)	23.9	21.5	18.7
Adj. EPS growth (%)	38.8	9.6	17.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q4FY23	QoQ (%)	FY24	FY23	YoY (%)
Net Sales	10,541	8,818	19.5	11,052	(4.6)	42,087	37,426	12.5
EBITDA	2,783	1,494	86.2	3,141	(11.4)	11,544	7,371	56.6
Depreciation	343	330	3.7	343	0.0	1,354	1,308	-
EBIT	2,441	1,164	109.6	2,798	(12.8)	10,190	6,063	-
Interest	15	11	35.4	25	(38.6)	72	58	-
Other Income	355	368	(3.6)	136	161.2	1,022	1,449	-
PBT	2,780	1,521	82.8	2,909	(4.4)	11,139	7,453	49.5
Less: Taxation	753	298	152.8	809	(6.9)	2,978	1,573	-
Less: Minority Interest	-	-	-	-	-	0	0	-
Recurring PAT	2,027	1,223	65.7	2,100	(3.5)	8,162	5,881	38.8
Exceptional items	0	0	-	0	-	0	0	-
Reported PAT	2,027	1,223	65.7	2,100	(3.5)	8,162	5,881	38.8
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	74.9	72.7	224	73.4	154	74.7	71.9	272
EBITDA Margin	26.4	16.9	946	28.4	(201)	27.4	19.7	773
Tax / PBT	27.1	19.6	-	27.8	-	26.7	21.1	-
NPM	19.2	13.9	536	19.0	23	19.4	15.7	-
EPS (Rs)	16.0	9.5	-	16.6	-	64.6	68.5	(5.7)

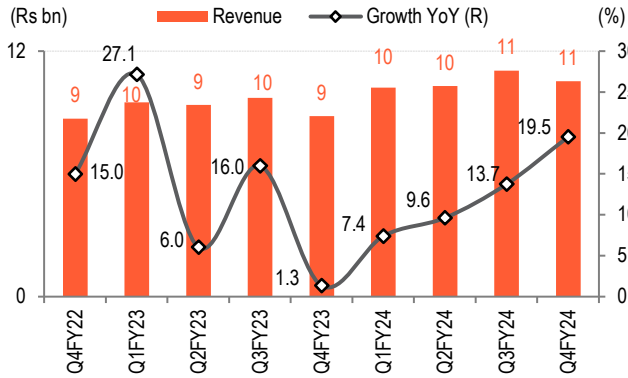
Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q4FY23	QoQ (%)	FY24	FY23	YoY (%)
Domestic Formulation	3,260	2,870	13.6	3,080	5.8	13,080	11,740	11.4
Exports Formulation	7,180	5,840	22.9	7,850	(8.5)	28,550	25,330	12.7
Africa	1,750	1,490	17.4	2,410	(27.4)	8,340	7,490	11.3
Asia	2,810	2,380	18.1	2,920	(3.8)	10,570	9,570	10.4
US	2,620	1,970	33.0	2,520	4.0	9,640	8,270	16.6
Other op Income	101	108	(7.1)	122	(17.1)	457	356	28.2
Revenues	10,541	8,818	19.5	11,052	(4.6)	42,087	37,426	12.5
INR/US\$	83	82	1.4	82	1.4	82	81	1.6
US in \$ terms (mn)	31	24	31.1	31	2	117	102	14.7

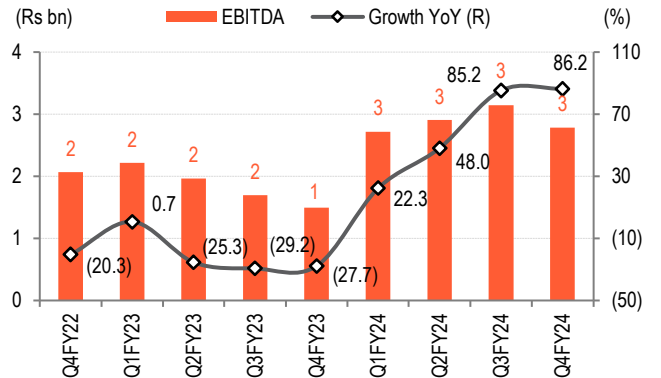
Source: Company, BOBCAPS Research

Fig 3 – Revenue



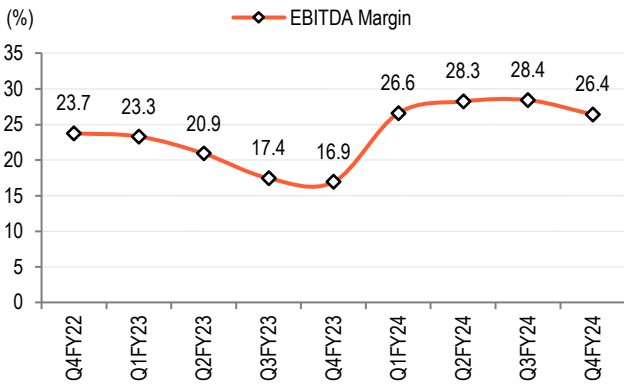
Source: Company, BOBCAPS Research

Fig 4 – EBITDA



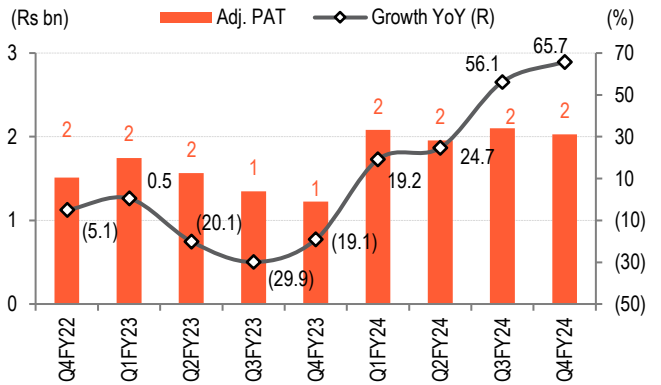
Source: Company, BOBCAPS Research

Fig 5 – EBITDA margin



Source: Company, BOBCAPS Research

Fig 6 – PAT



Source: Company, BOBCAPS Research

Earnings call takeaways

- **FY25 revenue growth:** Anticipated low teens growth for overall revenue, with mid-teens growth specifically for branded generics.
- **India:** Aiming to exceed Indian pharma market (IPM) growth by 200-300bps, supported by new product launches and an expanded field force. AJP grew by 9.4% according to IQVIA MAT Mar'24 data, outpacing IPM growth of 7.6%.
- AJP is the fourth largest in its covered market with four brands among the top 500 in the IPM.
- It has a total of 4,900 medical representatives, and plans to increase this by 3-5% mainly in Asia and Africa.
- **US market:** AJP plans to file 8-12 abbreviated new drug applications (ANDAs) annually for the next two to three years, with six to eight product launches expected in FY25.
- **Asia & Africa:** The company is optimistic about mid-teens growth in Asia and Africa, driven by new product launches, market share expansion, and field force productivity.
- **North America:** The region contributes 23% to AJP's total revenue, with growth attributed to reduced price erosion, increased product shortages, and lower active pharmaceutical ingredient (API) prices.

Margin and financial outlook

- **EBITDA margin:** AJP aims to maintain EBITDA margin at around 28% for FY25 with the potential for a slight improvement, of up to 100 bps if conditions are favourable.
- **Capital expenditure:** It estimates capex at between Rs 1.75bn and Rs 2.0bn for FY25.
- **Dividend:** FY24 dividend was Rs 6.42bn with a yield of 2.28%.

Product and portfolio development

- **ANDA filings:** The company has 53 approved ANDAs, two tentative approvals, and 22 ANDAs are awaiting US Food and Drug Administration approval.
- **India product launches:** 15 new products were launched in FY24, with trade generics revenue at Rs 1.61bn.
- **Asia & Africa product launches:** AJP launched 18 new products in FY24, with nine new products in Africa alone.

Valuation methodology

We expect AJP to post 13% revenue CAGR over FY25-FY26 aided by continued outperformance over IPM, recovery in the US and strong growth witnessed in recent quarters and management's optimistic outlook with the launch of new products and addition of field force in international markets.

Building in the margin recovery, healthy guidance and stabilising US price environment, we scale up our FY25/FY26 EBITDA estimates by 6%/9%. Thus, we raise our TP to Rs 2,585 (from Rs 2,070) based on an unchanged FY26E EV/EBITDA of 14x. We reiterate our BUY rating on the stock.

Fig 7 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	47.6	53.4	47.2	52.6	0.8	1.6
EBITDA	13.1	14.9	12.3	13.6	6.6	9.3
EBITDA margin (%)	27.4	27.9	26.0	26.0	149bps	199bps
EPS (Rs)	70.8	83.3	71.1	81.9	(0.4)	1.7

Source: BOBCAPS Research

Fig 8 – Key assumptions

Revenue (Rs bn)	FY24	FY25E	FY26E
India Formulation	13.1	14.9	16.8
Africa	8.3	9.3	10.2
Asia	10.6	11.8	13.3
US	9.6	10.8	12.2
Other Operating Income	0.0	0.0	0.0

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	3.4	2,234	2,585	BUY
Alembic Pharma	ALPM IN	2.4	995	970	HOLD
Aurobindo Pharma	ARBP IN	8.2	1,156	1,100	HOLD
Cipla	CIPLA IN	13.9	1,420	1,576	BUY
Divi's Labs	DIVI IN	12.8	3,965	3,000	SELL
Dr Reddy's Labs	DRRD IN	12.7	6,288	5,900	HOLD
Eris Lifesciences	ERIS IN	1.5	890	955	BUY
Glenmark Life Sciences	GLS IN	1.3	841	790	HOLD
Laurus Labs	LAURUS IN	2.9	450	305	SELL
Lupin	LPC IN	9.1	1,648	1,560	HOLD
Sun Pharma	SUNP IN	44.3	1,519	1,550	HOLD

Source: BOBCAPS Research, NSE | Price as of 2 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	33,410	37,426	42,087	47,593	53,391
EBITDA	9,293	7,832	11,719	13,060	14,918
Depreciation	1,253	1,308	1,354	1,490	1,612
EBIT	8,040	6,524	10,365	11,569	13,306
Net interest inc./(exp.)	(102)	(58)	(72)	(21)	(21)
Other inc./(exp.)	1,157	986	846	381	754
Exceptional items	0	0	0	0	0
EBT	9,095	7,452	11,139	11,930	14,038
Income taxes	1,968	1,573	2,978	2,982	3,510
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	7,127	5,879	8,161	8,947	10,529
Adjustments	0	0	0	0	0
Adjusted net profit	7,127	5,879	8,161	8,947	10,529

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	3,272	4,228	4,632	5,216	5,851
Other current liabilities	3,070	6,967	4,068	4,283	4,805
Provisions	301	382	573	648	727
Debt funds	250	356	353	353	353
Other liabilities	0	0	0	0	0
Equity capital	172	253	253	253	253
Reserves & surplus	32,935	33,637	35,161	42,319	50,742
Shareholders' fund	33,107	33,889	35,414	42,572	50,995
Total liab. and equities	40,000	45,823	44,962	52,994	62,653
Cash and cash eq.	2,118	3,333	1,282	5,938	12,060
Accounts receivables	10,198	10,569	12,468	13,039	14,628
Inventories	7,911	8,156	8,284	10,431	11,702
Other current assets	1,656	1,429	2,231	2,380	2,670
Investments	1,554	5,354	3,486	3,486	3,486
Net fixed assets	14,946	14,887	14,645	15,155	15,543
CWIP	1,529	2,095	2,565	2,565	2,565
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	44,962	52,994	62,653

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	5,590	11,789	4,454	8,467	10,249
Capital expenditures	(895)	(811)	(1,600)	(2,000)	(2,000)
Change in investments	292	(3,800)	1,867	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(603)	(4,611)	267	(2,000)	(2,000)
Equities issued/Others	(2)	81	0	0	0
Debt raised/repaid	53	106	(4)	0	0
Interest expenses	(102)	(58)	(72)	(21)	(21)
Dividends paid	(816)	(884)	(1,632)	(1,789)	(2,106)
Other financing cash flows	(4,098)	(5,207)	(4,987)	0	0
Cash flow from financing	(4,965)	(5,963)	(6,695)	(1,811)	(2,127)
Chg in cash & cash eq.	22	1,215	(1,973)	4,656	6,122
Closing cash & cash eq.	2,118	3,333	1,360	5,938	12,060

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	83.0	46.5	64.6	70.8	83.3
Adjusted EPS	83.0	46.5	64.6	70.8	83.3
Dividend per share	9.5	7.0	12.9	14.2	16.7
Book value per share	377.5	386.4	403.8	485.4	581.5

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	8.4	7.5	6.6	5.9	5.2
EV/EBITDA	30.2	35.8	23.9	21.5	18.7
Adjusted P/E	26.9	48.0	34.6	31.5	26.8
P/BV	5.9	5.8	5.5	4.6	3.8

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	78.4	78.9	73.3	75.0	75.0
Interest burden (PBT/EBIT)	113.1	114.2	107.5	103.1	105.5
EBIT margin (EBIT/Revenue)	24.1	17.4	24.6	24.3	24.9
Asset turnover (Rev./Avg TA)	26.1	27.7	30.1	30.3	28.4
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	22.5	17.6	23.6	22.9	22.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	15.6	12.0	12.5	13.1	12.2
EBITDA	(8.8)	(15.7)	49.6	11.4	14.2
Adjusted EPS	7.2	(43.9)	38.8	9.6	17.7
Profitability & Return ratios (%)					
EBITDA margin	27.8	20.9	27.8	27.4	27.9
EBIT margin	24.1	17.4	24.6	24.3	24.9
Adjusted profit margin	21.3	15.7	19.4	18.8	19.7
Adjusted ROAE	22.5	17.6	23.6	22.9	22.5
ROCE	28.8	22.2	32.0	30.4	29.8
Working capital days (days)					
Receivables	111	103	108	100	100
Inventory	86	80	72	80	80
Payables	36	41	40	40	40
Ratios (x)					
Gross asset turnover	1.6	1.7	1.8	1.9	1.9
Current ratio	3.3	2.0	2.6	3.1	3.6
Net interest coverage ratio	78.8	111.7	143.8	546.6	628.6
Adjusted debt/equity	(0.1)	(0.1)	0.0	(0.1)	(0.2)

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

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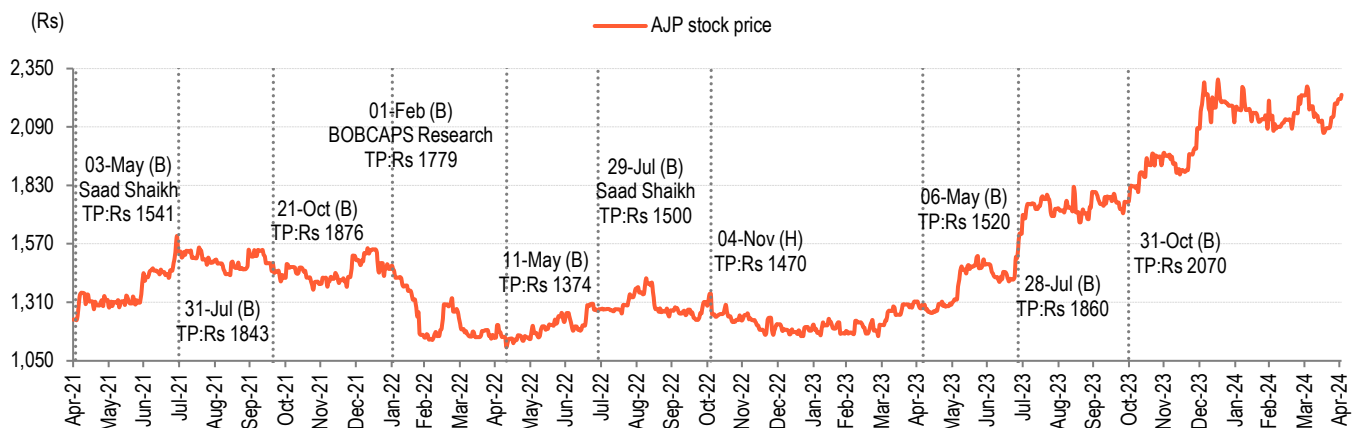
HOLD – Expected return from -6% to +15%

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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