Ajanta Pharma

02 May 2024

Strong growth in Branded markets

RESULT UPDATE

Sector: Pharmaceuticals **Rating: HOLD**

CMP: Rs 2,233 **Target Price: Rs 2,235**

Stock Info

Sensex/Nifty	74,611/22,648
Bloomberg	AJP IN
Equity shares	126mn
52-wk High/Low	Rs 2,355/1,240
Face value	Rs 2
M-Cap	Rs 281bn/ USD 3.4bn

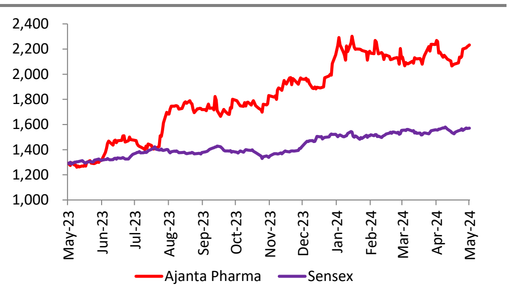
Financial Snapshot (Rs mn)

Y/E March	FY24	FY25E	FY26E
Sales	42,087	45,444	50,144
Gross profit	31,421	34,083	37,608
Gross Margin %	74.7	75.0	75.0
EBITDA	11,544	12,477	13,802
Margin %	27.4	27.5	27.5
PAT	8,162	9,513	10,823
EPS	64.8	75.6	86.0
DPS(Rs)	15.4	17.0	18.7
ROE(%)	23.5	24.2	22.9
P/E(x)	34.4	29.6	26.0
EV/EBITDA (x)	24.6	22.1	19.4

Shareholding pattern (%)

	Sept-23	Dec-23	Mar-24
Promoter	66.21	66.21	66.21
–Pledged	12.43	12.33	12.26
FII	9.99	9.11	8.54
DII	15.59	16.67	17.49
Others	8.21	8.01	7.76

Stock Performance (1-year)



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Ajanta Pharma (AJP IN) Q4FY24 Revenue and EBITDA were above expectations, led by strong growth in Africa Institutional sales, which reported 23% YoY growth and better than expected gross margins (due to softening of API prices). Growth in branded markets was strong and in-line with our expectations. Asia, Africa, and India sales grew by 18%, 13% and 14% respectively on a YoY basis. Branded market sales growth is expected to be on a similar trajectory in FY25E. The US revenue, which grew 16% on a YoY basis, should slow down in FY25 (mid-single digit growth expected). Price erosion is expected to be in the high single digit to low double-digit range, while new approvals should offset the decline on account of price erosion. In Asia, the company has built a strong portfolio with chronic segment, contributing 75% of sales. Ajanta will add sales force to strengthen their presence and fortify their brand in these markets. We revise our forecasts on Ajanta pharma to incorporate higher growth in branded markets. Based on our revised forecasts we expect Ajanta Pharma to deliver a Revenue / EBTIDA / PAT CAGR of 9.2% / 9.3% / 15.2% over FY24-FY26E. We revise our target PE multiple to 26x and recommend a hold on Ajanta at CMP with a revised PT of Rs. 2,235. The revised multiple is to account for the growing contribution of branded markets to the overall mix. Branded markets' contribution is expected to reach 75% of sales in FY26E from 71% currently.

4QFY24 earnings highlights

AJP reported 4QFY24 revenue of Rs 10.54bn, up 19.5% YoY but down 4.6% QoQ. EBITDA stood at Rs 2.78bn, up 86.3% YoY but down 11.4% QoQ. EBITDA margin stood at 26.4%, up 947 bps YoY but down 201 bps QoQ. PAT stood at Rs 2.03bn, up 65.8% YoY but down 3.5% QoQ. PAT margin stood at 19.2%, up 537 bps YoY and flat QoQ.

India business recorded sales of Rs 3.26bn, up 13.6% YoY and 5.8% QoQ. As per secondary data (IQVIA MAT March 2024), AJPs growth was at 9.4% vs 7.6% growth of IPM, The higher than IPM growth was mainly due to volume growth (around 2 times the IPM) followed by new launches (1.4 times to IPM).Amongst therapeutics segments, Cardiology growth was sluggish (4% vs 10%), whereas other segments have shown healthy growth- Ophthalmology (12% vs 9%), Dermatology (17% vs 6%), Pain Management (12% vs 8%). The chronic share contribution was at 65% of the Domestic business.

Asia business sales at Rs 2.81bn, has shown a healthy uptick of 18% YoY but was down 3.8% QoQ. This business now contributes ~27% to the total revenue.

US business sales at Rs 2.61bn, have shown a healthy growth of 32.5% YoY and 3.6% QoQ. During the financial year the company has received 6 ANDA and files another 7 ANDAs. The company has a total of 44 commercial products in their shelf in the USA.

Africa business recorded sales of Rs 1.74bn, up ~17% YoY but down 27.8% QoQ. **Africa branded generics** business recorded sales of Rs 1.13bn, up 13% YoY but down by 27% QoQ while the **Institution tender** business recorded sales of Rs 0.61bn, up 24.5% YoY but down 29% QoQ. The institutional tender business of AJP is a little fluctuating in nature depending on the procurement of aid agencies.

4QFY24 earnings call highlights

- **The US:** The US reported exceptional performance this year on account of softening of price erosion, drug shortage, reduced logistics cost and ease in API prices. Price erosion in US is expected to be in high single to low double-digit range. For FY25 the company aims to file 8-12 ANDAs and plan to launch 5-6 products, most of these launches would be skewed towards the second half of FY25. Both their manufacturing at Paithan and Dahej catering to the US have cleared USFDA inspection with zero observations.

- **India** business has shown good sales performance on the back of increased volumes, price increase and new product launches. AJP launched 15 new products including 4 first movers. The company has added ~200 new MRs in the last few months, the toral MR count as of 31st March 2024 is ~3,000 MRs.

- **Guidance:**

  - ✓ AJP expects FY25 revenue growth to be in the low teens, with branded generics segments growing at mid-teens level.

  - ✓ For India the growth expectations would be high single digit to low double digit. Management believes to deliver ~200-300bps higher than IPM growth rate.

  - ✓ US business is expected to deliver mid to high-single digit growth rate.

  - ✓ The company expects the Gross margin and EBITDA margin to be in the similar range of ~75% and ~27% respectively. There could be an improvement of about 100bps in EBITDA based on the way freight rates and API prices move.

  - ✓ R&D expenses are expected to be around 5% of sales.

- The company has incurred ~Rs. 1.6bn of **capex** in FY24. Capex including maintenance capex for FY25 is estimated to be around Rs. 1.75bn to 2.0bn.

- The **Red Sea impact** has caused an increase in transit time by 2-3 weeks, this may lead to a slight increase in other expenses.

- **Income tax** – FY25 expected to be in the same level as FY24 or might improve by 100bps.

- The company has a total of ~4,900 **MRs**, of which ~2,000 are of international markets, bulk of which are from Africa. The company plans to increase the MR count by 200 people (mostly in international markets).

- **Buyback:** The board has approved the buyback of its equity share at Rs. 2,770 per share with total payout of Rs. 3.51 bn including tax.

Exhibit 1: Quarterly Performance

Particulars (Rs mn)	Q4FY23	Q3FY24	Q4FY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Revenues	**8,818**	**11,052**	**10,541**	**19.5**	**(4.6)**	**37,426**	**42,087**	**12.5**
Cost of Revenues	2,409	2,942	2,644	9.7	(10.1)	10,504	10,666	1.5
% of revenue	27.3	26.6	25.1	(224) bps	(154) bps	28.1	25.3	(272) bps
Staff Costs	2,236	2,314	2,335	4.4	0.9	7,851	9,003	14.7
% of revenue	25.4	20.9	22.2	(321) bps	122 bps	21.0	21.4	41 bps
Other expense	2,679	2,656	2,779	3.7	4.6	11,701	10,874	(7.1)
% of revenue	30.4	24.0	26.4	(402) bps	233 bps	31.3	25.8	(543) bps
EBITDA	**1,494**	**3,141**	**2,783**	**86.3**	**(11.4)**	**7,370**	**11,544**	**56.6**
EBITDA margin (%)	**16.9**	**28.4**	**26.4**	**947 bps**	**(201) bps**	**19.7**	**27.4**	**774 bps**
Other income	368	136	355	(3.6)	161.2	1,449	1,022	(29.5)
Interest costs	11	25	15	35.4	(38.6)	58	72	23.5
Depreciation	330	343	343	3.7	(0.0)	1,308	1,354	3.5
Profit before income tax	1,521	2,909	2,780	82.9	(4.4)	7,453	11,139	49.5
Income tax expense	298	809	753	152.8	(6.9)	1,573	2,978	89.3
Tax rate (%)	19.6	27.8	27.1	749 bps	(71) bps	21.1	26.7	563 bps
Profit for the period	**1,223**	**2,100**	**2,027**	**65.8**	**(3.5)**	**5,880**	**8,162**	**38.8**
Profit Margin	**13.9**	**19.0**	**19.2**	**537 bps**	**23 bps**	**15.7**	**19.4**	**368 bps**

Source: Company, Systematix Institutional Research

Exhibit 2: Revenue Break-up

Particulars (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY	QoQ
Domestic	**2,450**	**2,790**	**3,140**	**2,940**	**2,870**	**3,190**	**3,550**	**3,080**	**3,260**	**13.6**	**5.8**
Export	**6,170**	**6,640**	**6,150**	**6,700**	**5,840**	**6,910**	**6,610**	**7,850**	**7,160**	**22.6**	**(8.8)**
Asia	2,630	2,400	2,510	2,280	2,380	2,540	2,300	2,920	2,810	18.1	(3.8)
US	1,680	1,790	1,850	2,660	1,970	2,130	2,370	2,520	2,610	32.5	3.6
Africa	1,860	2,450	1,790	1,760	1,490	2,240	1,940	2,410	1,740	16.8	(27.8)
Rx	1,360	1,680	1,460	1,450	1,000	1,590	1,570	1,550	1,130	13.0	(27.1)
Tender	500	770	330	310	490	650	370	860	610	24.5	(29.1)
Total Revenue	**8,620**	**9,430**	**9,290**	**9,640**	**8,710**	**10,100**	**10,160**	**10,930**	**10,420**	**19.6**	**(4.7)**

Source: Company, Systematix Institutional Research

Exhibit 3: Revenue Mix

Particulars (%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Domestic	**28.4**	**29.6**	**33.8**	**30.5**	**33.0**	**31.6**	**34.9**	**28.2**	**31.3**
Export	**71.6**	**70.4**	**66.2**	**69.5**	**67.0**	**68.4**	**65.1**	**71.8**	**68.7**
Asia	30.5	25.5	27.0	23.7	27.3	25.1	22.6	26.7	27.0
US	19.5	19.0	19.9	27.6	22.6	21.1	23.3	23.1	25.0
Africa	21.6	26.0	19.3	18.3	17.1	22.2	19.1	22.0	16.7
Rx	15.8	17.8	15.7	15.0	11.5	15.7	15.5	14.2	10.8
Tender	5.8	8.2	3.6	3.2	5.6	6.4	3.6	7.9	5.9

Source: Company, Systematix Institutional Research

Exhibit 4: QoQ Growth

Particulars (%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Domestic	**(4.3)**	**13.9**	**12.5**	**(6.4)**	**(2.4)**	**11.1**	**11.3**	**(13.2)**	**5.8**
Export	**9.6**	**7.6**	**(7.4)**	**8.9**	**(12.8)**	**18.3**	**(4.3)**	**18.8**	**(8.8)**
Asia	35.6	(8.7)	4.6	(9.2)	4.4	6.7	(9.4)	27.0	(3.8)
US	1.2	6.5	3.4	43.8	(25.9)	8.1	11.3	6.3	3.6
Africa	(8.4)	31.7	(26.9)	(1.7)	(15.3)	50.3	(13.4)	24.2	(27.8)
Rx	(18.6)	23.5	(13.1)	(0.7)	(31.0)	59.0	(1.3)	(1.3)	(27.1)
Tender	38.9	54.0	(57.1)	(6.1)	58.1	32.7	(43.1)	132.4	(29.1)
Total Revenue	**5.3**	**9.4**	**(1.5)**	**3.8**	**(9.6)**	**16.0**	**0.6**	**7.6**	**(4.7)**

Source: Company, Systematix Institutional Research

Exhibit 5: YoY Growth

Particulars (%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Domestic	**12.4**	**21.8**	**26.6**	**14.8**	**17.1**	**14.3**	**13.1**	**4.8**	**13.6**
Export	**17.3**	**30.2**	**0.8**	**19.0**	**(5.3)**	**4.1**	**7.5**	**17.2**	**22.6**
Asia	48.6	45.5	31.4	17.5	(9.5)	5.8	(8.4)	28.1	18.1
US	(2.9)	6.5	(4.6)	60.2	17.3	19.0	28.1	(5.3)	32.5
Africa	5.7	38.4	(20.4)	(13.3)	(19.9)	(8.6)	8.4	36.9	16.8
Rx	41.7	36.6	(8.2)	(13.2)	(26.5)	(5.4)	7.5	6.9	13.0
Tender	(37.5)	42.6	(50.0)	(13.9)	(2.0)	(15.6)	12.1	177.4	24.5
Total Revenue	**15.9**	**27.6**	**8.3**	**17.7**	**1.0**	**7.1**	**9.4**	**13.4**	**19.6**

Source: Company, Systematix Institutional Research

Exhibit 6: Margin Summary

Particulars (%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Gross Margin	72.5	70.5	72.3	72.3	72.7	75.3	75.1	73.4	74.9
EBITDA Margin	23.7	23.3	20.9	17.4	16.9	26.6	28.3	28.4	26.4
EBIT Margin	20.2	20.0	17.4	14.0	13.2	23.3	25.0	25.3	23.2
PAT Margin	17.4	18.4	16.7	13.8	13.9	20.4	19.0	19.0	19.2

Source: Company, Systematix Institutional Research

Exhibit 7: Change in estimates

Particulars (Rs mn)	New estimates		Old estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net sales	42,087	45,444	41,883	45,911	0.5	(1.0)
EBITDA	11,544	12,477	11,512	12,391	0.3	0.7
Margin (%)	27.4	27.5	27.5	27.0	(7) bps	46 bps
PAT	8,162	9,513	7,918	9,438	3.1	0.8
Margin (%)	19.4	20.9	18.9	20.6	49 bps	33 bps
EPS	64.8	75.6	61.8	73.7	4.9	2.5

Source: Systematix Institutional Research

Exhibit 8: Actual vs Estimates

Particulars (Rs mn)	Actuals	Systematix	Var(%)	Cons.	Var(%)
Net sales	10,541	10,155	*3.8*	10,340	*1.9*
EBITDA	2,783	2,663	*4.5*	2,497	*11.5*
Margin (%)	26.4	26.2	*18 bps*	24.1	*226 bps*
PAT	2,027	1,721	*17.8*	1,867	*8.6*
Margin (%)	19.2	16.9	*228 bps*	18.1	*118 bps*

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net Revenues	**33,410**	**37,426**	**42,087**	**45,444**	**50,144**
YoY gr. (%)	15.6	12.0	12.5	8.0	10.3
Cost of Goods Sold	8,323	10,504	10,666	11,361	12,536
Gross Profit	25,087	26,922	31,421	34,083	37,608
Margin (%)	75.1	71.9	74.7	75.0	75.0
Employee Cost	6,458	7,851	9,003	9,904	10,894
Other Expenses	9,336	11,701	10,874	11,702	12,912
EBITDA	**9,293**	**7,370**	**11,544**	**12,477**	**13,802**
YoY gr. (%)	-6.9	-20.7	56.6	8.1	10.6
Margin (%)	27.8	19.7	27.4	27.5	27.5
Depre & Amortization	1,253	1,308	1,354	1,354	1,354
EBIT	**8,040**	**6,062**	**10,190**	**11,123**	**12,448**
Margin (%)	24.1	16.2	24.2	24.5	24.8
Net Interest	102	58	72	72	72
Other Income	1,157	1,449	1,022	991	1,325
Profit Before Tax	**9,095**	**7,453**	**11,139**	**12,042**	**13,700**
Margin (%)	2.7	2.7	2.7	3.7	3.7
Total Tax	1,968	1,573	2,978	2,529	2,877
Effective tax rate (%)	21.6	21.1	26.7	21.0	21.0
Profit after tax	**7,127**	**5,880**	**8,162**	**9,513**	**10,823**
EPS	55.6	45.9	64.8	75.6	86.0
YoY gr. (%)	9.0	-17.5	41.2	16.6	13.8

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	172	253	253	253	253
Reserves & Surplus	32,472	33,627	35,421	42,795	51,265
Net Worth	**32,643**	**33,880**	**35,674**	**43,048**	**51,518**
Short term debt	3,015	6,694	3,700	3,700	3,700
Long term debt	16	13	0	0	0
Trade payables	3,272	4,228	4,632	5,049	5,572
Other Provisions	301	382	573	573	573
Other liabilities	1,308	1,594	1,805	1,805	1,805
Total Liabilities	**40,556**	**46,790**	**46,384**	**54,176**	**63,168**
Net block	14,243	14,078	13,841	13,604	13,367
CWIP	1,529	2,095	2,565	2,565	2,565
Other Non-current asset	90	78	147	147	147
Investments	2,049	2,200	2,522	2,522	2,522
Cash and Cash Equivalents	2,064	3,298	1,295	9,518	16,621
Debtors	10,198	10,569	12,468	11,613	12,815
Inventories	7,911	8,156	8,284	8,944	9,869
Other current asset	2,472	6,316	5,262	5,262	5,262
Total Assets	**40,556**	**46,790**	**46,384**	**54,175**	**63,168**

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	9,095	7,453	11,139	12,042	13,700
Depreciation	1,253	1,308	1,354	1,354	1,354
Interest	102	58	72	72	72
Others	-438	-53	-596	-991	-1,325
Working capital	-2,004	665	-998	612	-1,604
Direct tax	-2,391	-1,513	-3,121	-2,529	-2,877
Net cash from Op. activities	**5,617**	**7,918**	**7,851**	**10,560**	**9,321**
Net Capital expenditures	-1,488	-1,745	-1,524	-1,117	-1,117
Others	747	-3,851	2,178	0	0
Net Cash from Invt. activities	**-741**	**-5,596**	**654**	**-1,117**	**-1,117**
Issue of share cap. / premium	-	-	-	-	-
Debt changes	2	-5	1	0	0
Dividend paid	-822	-897	-6,422	-2,139	-2,353
Others	-3,777	-177	-4,090	-72	-72
Net cash from Fin. activities	**-4597**	**-1079**	**-10511**	**-2211**	**-2425**
Net change in cash	**279**	**1,243**	**-2,006**	**7,232**	**5,779**

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
Per Share(Rs)					
EPS	55.6	45.9	64.8	75.6	86.0
CEPS	65.4	56.1	75.6	86.3	96.7
BVPS	254.8	264.4	283.3	341.9	409.1
DPS	18.7	14.0	15.4	17.0	18.7
Return Ratio(%)					
RoCE	27.1	19.7	28.0	28.1	27.0
RoE	22.8	17.7	23.5	24.2	22.9
Balance Sheet					
Net Debt : Equity (x)	0.0	0.1	0.1	-0.1	-0.3
Net Working Capital (Days)	186	199	180	162	159
Valuation(x)					
PER	40.1	48.6	34.4	29.6	26.0
EV/EBITDA	30.9	39.3	24.6	22.1	19.4
EV/Sales	8.6	7.7	6.7	6.1	5.3

Source: Company, Systematix Institutional Research

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