YES SECURITIES
INSTITUTIONAL EQUITIES

July 15, 2024

Company Report | Sector: Pharmaceuticals

Ajanta Pharma

Export growth, margin uptick remains key drivers

We capture and expand the key highlights of our recent conversation with Ajanta Pharma in this update. Domestic growth is being driven by dermatology as was the case in FY24 while Met XL continues to weigh on cardiac sales. We reckon the top cardiac brand would deliver only 2-3% volume growth as price hike is limited in current year. About 25% of new launches in domestic business continue to be of the first to market kind, as in the past which augurs well for profitability. Branded exports should get a boost in FY25 driven by near doubling of MR count to 1,700 and sustained new product introductions. US commentary remains largely unchanged with 8-12 filings and approvals being back ended. Overall, remain positive and do not see any need to tweak estimates; believe positive margin surprise may be possible if branded exports growth runs ahead of estimated 15-17% (on back of two tepid years). Our ADD rating stays based on unchanged 30x FY26 EPS.

India – derma continues to show strength, Met XL weighs on cardiac

Our interaction with the company suggests dermatology continues to be the fastest growing therapy in Q1 followed by ophthalmology, pain and cardiac at the tail end. Met XL, which pulled down cardiac business in FY24, is likely to see just 2-3% growth as price hike is now subject to NLEM. Albeit we emphasize key points such as continued support from 1) new product share of revenues being 40% higher than corresponding IPM number and 2) slightly better volumes which should result in consistent 10-11% growth in the domestic business. First to market launches have been maintained at ~25% in last 3 years which should augur well for domestic profitability. Additionally, a reshuffling of competition in ophthalmology (due to entrance of JB Chem) has so far not resulted in any market share loss which is important as we understand Ajanta has had a high overlap with the underlying portfolio of erstwhile competitor. Trade generics continues to build up and is even present in chronic segment as price hikes on prescription brands imply non promoted ones gain advantage.

Branded exports – acceleration seen after tepid show of past 2 years

Branded business – Asia and Africa cumulative sales over last 2 years have been lagging overall revenues for reasons which have been fairly well understood. Importantly, company has doubled the MR count from 800 to 1700 in these markets which should drive the acceleration to an estimated ~14% cagr over FY24-26. While freight would be an important component driving profitability (as Iraq is a key market that has been affected by Red Sea crisis earlier in 2024), we reckon there has been no additional costs to what has been already factored in the outlook.

US – no major approval thus far in FY25, base business key to growth

A look at April to July data shows no major approval has been forthcoming which implies base business volumes would assume significance in driving growth. Company looks to file 8-12 ANDAs which would be better than FY24's 7 filings. With most of the approvals likely to come in H2, we expect US business to clock about mid to high single digit growth in the current fiscal. A slightly higher filing rate would augur well for next fiscal even as we keep any eye on approved but settled products like Oxcarbazepine XR (going off patent in April' 27, launch date not clear).

Inching towards ~30% margin in FY26; possible growth surprise in branded exports can act as a boost

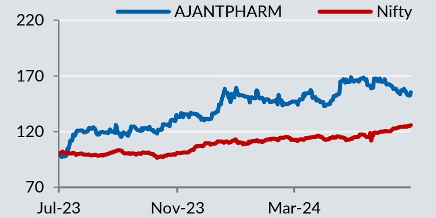
Ajanta reiterated its outlook of heathy growth in domestic market and boost from branded exports which should help create operating leverage on back of 8-9% rise in opex. Any faster growth in Asia/Africa could lead to an even better margin prognosis not currently captured in our numbers; we reiterate our ADD rating based on 30x FY26 EPS with unchanged TP Rs2,550.

Reco	:	**ADD**
CMP	:	Rs 2,263
Target Price	:	Rs 2,550
Potential Return	:	+13%

Stock data (as on July 15, 2024)

Nifty	24,607
52 Week h/l (Rs)	2540 / 1375
Market cap (Rs/USD mn)	274984 / 3291
Outstanding Shares (mn)	125
6m Avg t/o (Rs mn):	299
Div yield (%):	0.3
Bloomberg code:	AJP IN
NSE code:	AJANTPHARM

Stock performance



	1M	3M	1Y
Absolute return	-5.7%	5.9%	55.3%

Shareholding pattern (As of Jun'24 end)

Promoter	66.2%
FII+DII	25.6%
Others	8.2%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	2,550	2,550

Δ in earnings estimates

	FY25e	FY26e
EPS (New)	73.8	84.8
EPS (Old)	73.8	84.8
% change	-	-

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Net Revenue	42,090	46,751	51,487
YoY Growth	12.5	11.1	10.1
EBIDTA	11,722	13,531	15,356
YoY Growth	46.2	15.4	13.5
PAT	8,165	9,319	10,713
YoY Growth	38.9	14.1	15.0
ROE	22.4	24.4	23.7
EPS	64.6	73.8	84.8
P/E	35.0	30.7	26.7
BV	282.3	321.6	394.5
EV/EBITDA	24.1	20.5	17.6

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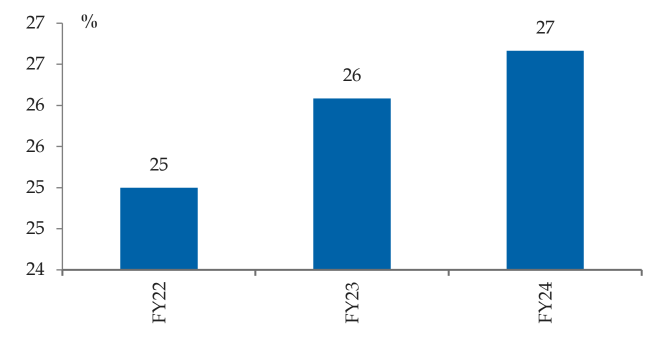
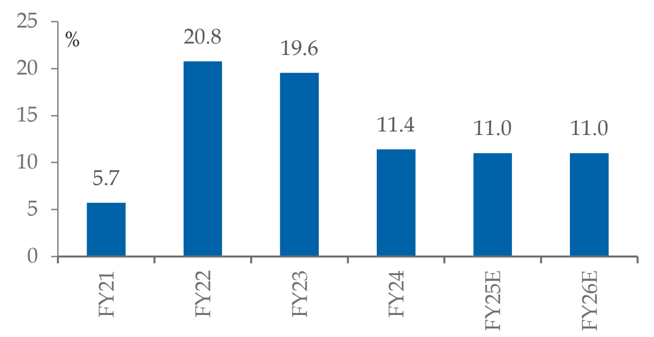
STORY IN CHARTS

Exhibit 1: India - share of first to market launches at ~25%



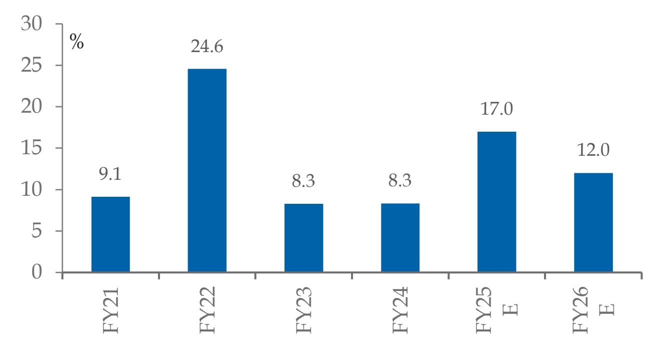
Source: Company, YES Sec

Exhibit 2: Domestic growth in low double-digit YoY



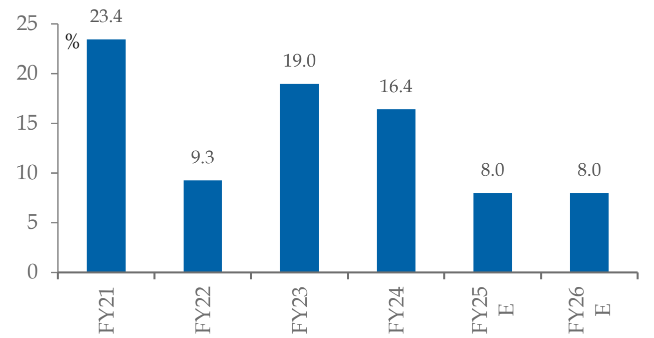
Source: Company, YES Sec

Exhibit 3: Branded exports – acceleration over FY24-26



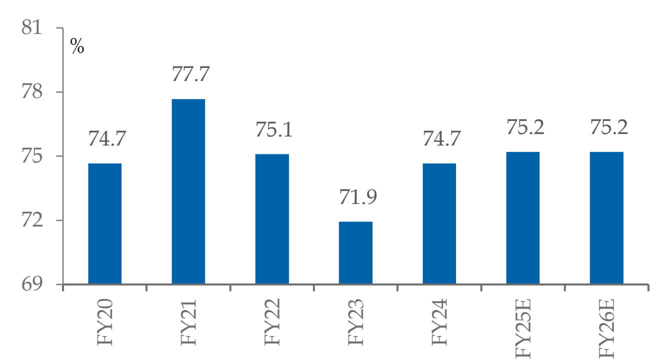
Source: Company, YES Sec

Exhibit 4: US - steady growth driven by base business



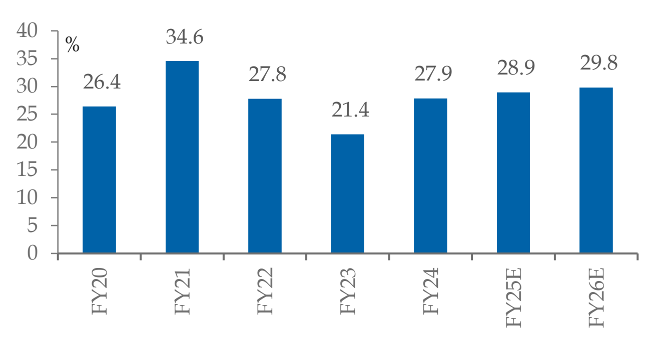
Source: Company, YES Sec

Exhibit 5: Gross margin seen at around historic range



Source: Company, YES Sec

Exhibit 6: Margin at 30% with scope for further upside



Source: Company, YES Sec

Highlights of company interaction

Below we share key highlights of our interaction with the company:

- Freight cost is an issue but already covered in Q4 call and impact in Q1 is not incremental to that flagged off earlier
- Domestic growth could be around 11% in Q1 driven by dermatology, ophthalmology, pain and cardiac in that order; Met XL growth would be just volumes as price hike is restricted due to flat WPI
- Ranking in cardiac remains intact despite Met XL not growing in FY24
- Not seeing any pressure in ophthalmic business due to reshuffling of competitors (JB Chem now vs Novartis earlier); in the covered market, Ajanta is top ranked company
- Trade generics – even chronic products have seen offtake as price hikes over past few years have made competing non promoted brands attractive
- Branded exports to return mid-teens growth in FY25 though not evenly spread out across quarters
- Have made efforts for new product introductions in Asia and Africa and benefit would be seen in current year
- US – not seeing any major change in price erosion and expect approvals to come in second half
- R&D as % of sales to remain around 5% but might go up on absolute basis as also a catch up from slightly lower level in previous year
- No major capex lined up as have adequate capacities for domestic and export markets in the near term
- Reiterate that gross margin and EBIDTA have some room to expand YoY on back of benign cost structure and operating leverage in the range of 100bps
- Institutional business to decline by 15% in current fiscal based on the orderbook visibility as funding environment has become uncertain

FINANCIALS

Exhibit 7: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	172	253	253	251	251
Reserves	32,472	33,627	35,421	40,388	49,597
Net worth	**32,644**	**33,880**	**35,674**	**40,639**	**49,847**
Debt	420	540	668	668	668
Deferred tax liab (net)	1,019	977	1,085	1,085	1,085
Total liabilities	**34,082**	**35,397**	**37,426**	**42,391**	**51,600**
Fixed Asset	16,564	17,059	17,356	17,786	17,826
Investments	791	423	374	374	374
Net Working Capital	**16,171**	**16,947**	**18,352**	**22,887**	**32,056**
Inventories	7,911	8,150	8,284	9,201	10,133
Sundry debtors	10,198	10,569	12,468	13,849	15,252
Cash	3,334	8,418	4,603	7,021	14,582
Other current assets	1,199	1,203	1,949	2,338	2,574
Sundry creditors	(3,272)	(4,228)	(4,632)	(5,145)	(5,666)
Other CL	(3,199)	(7,165)	(4,321)	(4,377)	(4,819)
Def tax assets	556	968	1,345	1,345	1,345
Total Assets	**34,082**	**35,397**	**37,426**	**42,391**	**51,600**

Exhibit 8: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	33,410	37,426	42,090	46,751	51,487
Operating profit	**9,293**	**8,020**	**11,722**	**13,531**	**15,356**
Depreciation	(1,253)	(1,308)	(1,354)	(1,370)	(1,461)
Interest expense	(102)	(58)	(72)	(68)	(68)
Other income	427	326	459	500	650
Profit before tax	**8,365**	**6,980**	**10,755**	**12,593**	**14,476**
Taxes	(1,968)	(1,573)	(2,978)	(3,274)	(3,764)
Adj. profit	**6,397**	**5,407**	**7,778**	**9,319**	**10,713**
Exceptional items	730	473	387	-	-
Net profit	**7,127**	**5,879**	**8,165**	**9,319**	**10,713**

Exhibit 9: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Profit before tax	8,365	6,980	10,755	12,593	14,476
Depreciation	1,253	1,308	1,354	1,370	1,461
Def tax assets (net)	43	(454)	(269)	-	-
Tax paid	(1,968)	(1,573)	(2,978)	(3,274)	(3,764)
Working capital ∆	(2,900)	4,308	(5,219)	(2,117)	(1,609)
Other operating items	730	473	387	-	-
Operating cashflow	5,522	11,041	4,031	8,571	10,565
Capital expenditure	(1,414)	(1,803)	(1,651)	(1,800)	(1,500)
Free cash flow	**4,109**	**9,239**	**2,379**	**6,771**	**9,065**
Equity raised	(3,893)	(3,759)	73	(2,850)	-
Investments	(185)	368	50	-	-
Debt financing/disposal	(3)	121	127	-	-
Dividends paid	(546)	(884)	(6,444)	(1,504)	(1,504)
Net ∆ in cash	**(519)**	**5,084**	**(3,815)**	**2,418**	**7,561**

Exhibit 10: Du Pont Analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	0.76	0.77	0.72	0.74	0.74
Interest burden (x)	0.99	0.99	0.99	0.99	1.00
EBIT margin (x)	0.25	0.19	0.26	0.27	0.28
Asset turnover (x)	0.86	0.87	0.93	0.98	0.93
Financial leverage (x)	1.23	1.29	1.31	1.25	1.23
RoE (%)	**20.4**	**16.3**	**22.4**	**24.4**	**23.7**

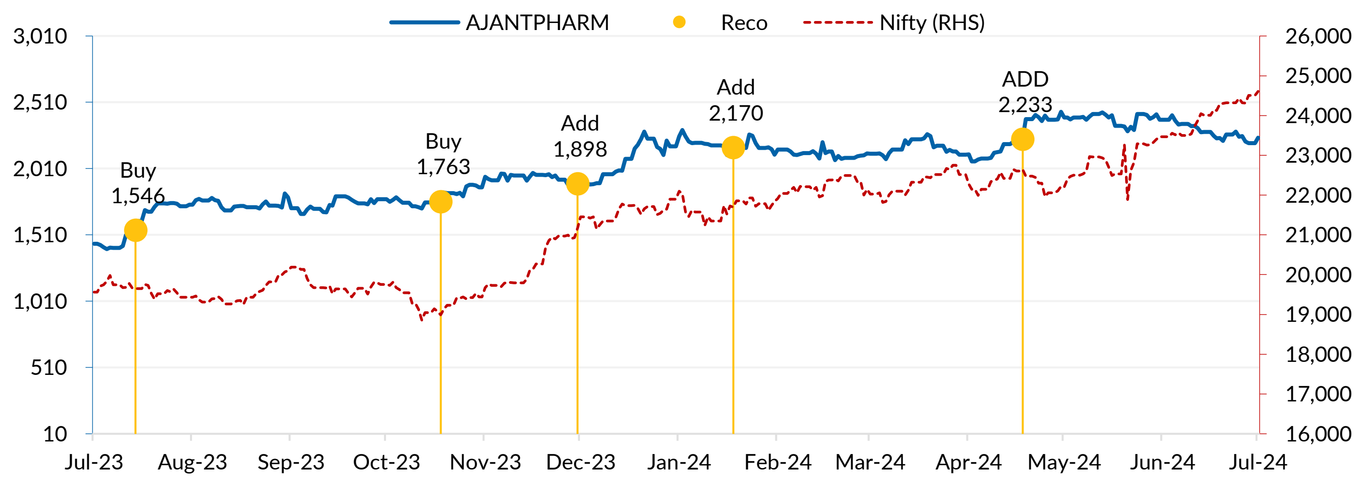
Exhibit 11: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Revenue growth	15.6	12.0	12.5	11.1	10.1
Op profit growth	(6.9)	(13.7)	46.2	15.4	13.5
EBIT growth	(6.8)	(16.9)	53.8	16.9	14.9
Net profit growth	9.0	(17.5)	38.9	14.1	15.0
Profitability ratios (%)					
OPM	27.8	21.4	27.9	28.9	29.8
EBIT margin	25.3	18.8	25.7	27.1	28.2
Net profit margin	19.1	14.4	18.5	19.9	20.8
RoCE	25.9	20.3	29.7	31.7	30.9
RoNW	20.4	16.3	22.4	24.4	23.7
RoA	16.6	12.6	17.1	19.5	19.2

Ajanta Pharma

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Per share ratios					
EPS	83.0	46.5	64.6	74.4	85.5
Dividend per share	6.4	7.0	51.0	12.0	12.0
Cash EPS	89.1	53.1	72.3	85.3	97.1
Book value per share	380.2	268.1	282.3	324.3	397.8
Valuation ratios (x)					
P/E	40.1	48.6	35.0	30.7	26.7
P/BV	13.1	8.4	8.0	7.0	5.7
M Cap/Sales	8.7	7.6	6.8	6.1	5.5
EV/EBIDTA	31.0	34.7	24.1	20.5	17.6
Payout (%)					
Tax payout	23.5	22.5	27.7	26.0	26.0
Dividend payout	7.7	15.0	78.9	16.1	14.0
Liquidity ratios					
Debtor days	111	103	108	108	108
Inventory days	86	79	72	72	72
Creditor days	36	41	40	40	40
Leverage ratios					
Interest coverage	83.0	120.5	150.2	185.5	213.1
Net debt / equity	(0.1)	(0.2)	(0.1)	(0.2)	(0.3)
Net debt / op. profit	(0.3)	(1.0)	(0.3)	(0.5)	(0.9)

Recommendation Tracker



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ADD: Upside between 10% to 20% over 12 months

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