

Minor misses

30 January 2025

Ajanta Pharma's (AJP IN) Q3FY25 revenue, EBITDA and PAT came in 8-11% below our estimates. Lumpiness in the Africa branded business and erosion in the anti-malarial tender business in Africa were the reasons for the miss. India business did well with growth at 12% YoY. Growth in the US business remained in low single-digit as guided earlier. EBITDA margin has stabilized at ~28%. Expect gradual improvement hereon. We lower our FY25E-27E core earnings estimates by 4-7%. So, we lower our TP from INR 3,209 to INR 2,930. With low-teen growth in the branded businesses and pick up in US business growth next year, AJP could remain a steady compounder – Retain Accumulate.

Lumpiness in branded business: The branded business in Africa grew 12% YoY (in EURO), but was down 17-20% versus Q1 and Q2 levels. The management attributed this to the lumpiness associated with the complicated logistics involved in the distribution in that market. The underlying retail sales remain smooth. Asia branded business grew 11% YoY, broadly as expected. In the medium term, we expect growth to average to low double-digits in constant currency in both the businesses.

Political concerns over the malaria tender business: Revenue from anti-malarial tender business in Africa declined 62% YoY to USD 4mn in Q3FY25. Uncertainties around the new political administration in the US have casted clouds over the funding for these procurement tenders. To that extent, the future of this business is uncertain.

Domestic business recovers; entering new segments: The growth in the domestic business at 12% came in as expected, recovering from the low 8.7% growth in Q2. AJP outperformed the overall market. We continue to believe that AJP can grow faster than the market, led by its superior specialty portfolio. AJP has entered two new therapeutic segments – Gynaecology and Nephrology – in the domestic market, hiring ~200 sales representatives.

US to pick up in FY26: US revenue was up ~3% YoY. The management has guided for pick-up in launch momentum and consequent growth pick-up in FY26. The launches in FY26 could include 2-3 limited competition products.

Retain Accumulate with a lower TP of INR 2,930: We lower our FY25E-27E core earnings estimates by 4-7%. AJP trades at 33.2x FY26E core P/E. We lower our TP from INR 3,209 to INR 2,930, which is 33x FY27E core P/E plus cash per share – Retain Accumulate.

Geopolitical disruptions to the business and a spike in raw material and freight costs are key risks to our call. Continued muted growth in the domestic market could also be a risk.

Rating: [Accumulate](#)

Target Price: [INR 2,930](#)

Upside: [10%](#)

CMP: [INR 2,674](#)

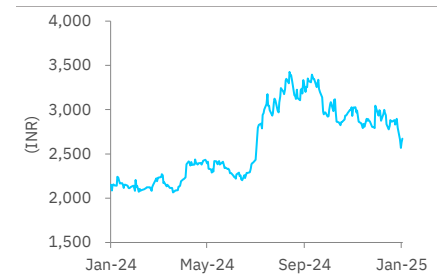
As on 30 January 2025

Key data

Bloomberg	AJP IN
Reuters Code	AJPH.NS
Shares outstanding (mn)	125
Market cap (INR bn/USD mn)	334/3856
Enterprise Value (INR bn/USD mn)	327/3775
Avg daily volume 3M (INR mn/USD mn)	434/5
52 week high/low	3486/1998
Free float (%)	34

Note: as on 30 January 2025; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q4	Q1	Q2	Q3
	FY24	FY25	FY25	FY25
Promoter	66.2	66.3	66.3	66.3
% Pledged	12.3	11.6	11.2	11.2
FII	8.5	8.4	9.1	9.3
DII	17.7	17.4	17.2	17.1
Others	7.6	7.9	7.4	7.3

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(4.5)	(6.5)	8.0
Ajanta Pharma	(10.8)	5.7	26.7
NSE Mid-cap	(6.4)	(10.1)	10.3
NSE Small-cap	(10.0)	(13.8)	5.7

Key Financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR mn)	37,426	42,087	46,101	51,390	57,132
YoY (%)	12.0	12.5	9.5	11.5	11.2
EBITDA (INR mn)	8,021	11,719	12,929	14,574	16,372
EBITDA margin (%)	21.4	27.8	28.0	28.4	28.7
Adj PAT (INR mn)	5,880	8,162	9,141	10,369	11,525
YoY (%)	(17.5)	38.8	12.0	13.4	11.1
Fully DEPS (INR)	45.8	64.8	73.2	83.0	92.2
RoE (%)	18.0	24.1	25.6	29.1	29.0
RoCE (%)	20.6	30.6	32.3	36.8	37.3
P/E (x)	58.4	41.3	36.5	32.2	29.0
EV/EBITDA (x)	41.0	28.0	25.4	22.5	20.1

Note: Pricing as on 30 January 2025; Source: Company, Elara Securities Estimate

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Financials (YE March)

Income Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	37,426	42,087	46,101	51,390	57,132
EBITDA	8,021	11,719	12,929	14,574	16,372
Add:- Non operating Income	798	846	722	722	722
OPBITDA	8,819	12,565	13,652	15,296	17,094
Less :- Depreciation & Amortization	1,308	1,354	1,403	1,446	1,521
EBIT	7,511	11,211	12,248	13,850	15,573
Less:- Interest Expenses	58	72	207	207	207
PBT	7,453	11,139	12,042	13,643	15,366
Less :- Taxes	1,573	2,978	2,900	3,274	3,842
Reported PAT	5,880	8,162	9,141	10,369	11,525
Adjusted PAT	5,880	8,162	9,141	10,369	11,525
Balance Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Shareholder's Equity	33,880	35,674	35,660	39,785	45,065
Borrowings	14	15	15	15	15
Other Non-current Liabilities	1,505	1,753	1,753	1,753	1,753
Total Liabilities	35,399	37,441	37,428	41,553	46,833
Net Fixed Assets	16,173	16,406	16,903	17,831	19,279
Intangibles and Goodwill	886	951	951	951	951
Investments	251	186	186	186	186
Cash and Cash Equivalents	8,412	4,608	2,250	3,610	5,447
Net Working Capital	8,449	13,758	15,607	17,442	19,438
Other Non-current Assets	1,228	1,533	1,533	1,533	1,533
Total Assets	35,399	37,441	37,428	41,553	46,833
Cash Flow Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash profit adjusted for non cash items	7,253	8,848	10,029	11,299	12,530
Add/Less : Working Capital Changes	665	(998)	(1,848)	(1,836)	(1,996)
Operating Cash Flow	7,918	7,851	8,181	9,464	10,534
Less:- Capex	(1,649)	(1,390)	(1,900)	(2,375)	(2,969)
Free Cash Flow	6,268	6,460	6,281	7,089	7,565
Financing Cash Flow	(1,193)	(10,264)	(8,639)	(5,729)	(5,729)
Net change in Cash	5,075	(3,804)	(2,358)	1,360	1,837
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Income Statement Ratios (%)					
Revenue Growth	12.0	12.5	9.5	11.5	11.2
EBITDA Growth	(13.7)	46.1	10.3	12.7	12.3
PAT Growth	(17.5)	38.8	12.0	13.4	11.1
EBITDA Margin	21.4	27.8	28.0	28.4	28.7
Net Margin	15.7	19.4	19.8	20.2	20.2
Return & Liquidity Ratios					
Net Debt/Equity (x)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
ROE (%)	18.0	24.1	25.6	29.1	29.0
ROCE (%)	20.6	30.6	32.3	36.8	37.3
Per Share data & Valuation Ratios					
Diluted EPS (INR/Share)	45.8	64.8	73.2	83.0	92.2
EPS Growth (%)	(17.5)	41.5	12.9	13.4	11.1
DPS (INR/Share)	7.0	51.0	50.0	50.0	50.0
P/E Ratio (x)	58.4	41.3	36.5	32.2	29.0
EV/EBITDA (x)	41.0	28.0	25.4	22.5	20.1
EV/Sales (x)	8.8	7.8	7.1	6.4	5.7
Price/Book (x)	9.9	9.4	9.4	8.5	7.5
Dividend Yield (%)	0.3	1.9	1.9	1.9	1.9

Note: Pricing as on 30 January 2025; Source: Company, Elara Securities Estimate

Quarterly financials

YE Mar (INR mn)	Q3FY25	Q3FY24	YoY(%)	Q2FY25	QoQ (%)	FY24	FY23	YoY(%)
Net sales	11,461	11,052	3.7	11,866	(3.4)	42,087	37,426	12.5
Gross profit	8,883	8,110	9.5	9,250	(4.0)	31,421	26,922	16.7
Gross margins (%)	77.5	73.4	412.4	77.9	(44.2)	74.7	71.9	272.4
EBITDA	3,208	3,141	2.2	3,368	(4.7)	11,719	8,021	46.1
EBITDA margins (%)	28.0	28.4	(42.6)	28.4	(39.2)	27.8	21.4	641.6
Other income	304	136	124.0	(62)	(593.4)	846	798	6.0
Interest	79	25	217.7	60	31.4	72	58	23.5
Depreciation	360	343	5.0	344	4.6	1,354	1,308	3.5
PBT	3,074	2,909	5.7	2,902	5.9	11,139	7,453	49.5
Tax	745	809	(7.9)	738	1.0	2,978	1,573	89.3
Tax rate (%)	24.2	27.8	(356.3)	25.4	(117.4)	26.7	21.1	562.8
PAT	2,329	2,100	10.9	2,165	7.6	8,162	5,880	38.8
Adjusted net income	2,329	2,100	10.9	2,165	7.6	7,542	5,250	43.7
NPM (%)	20.3	19.0	131.4	18.2	207.6	17.9	14.0	389.2

Source: Company, Elara Securities Research

Exhibit 1: Valuations

(INR)	FY23	FY24	FY25E	FY26E	FY27E
Core EPS	40.9	59.9	68.8	78.6	87.9
Core EPS growth (%)	(15.6)	46.4	14.9	14.3	11.8
Cash per share	65.5	36.6	18.0	28.9	43.6
Current core P/E (x)	64.5	44.1	38.4	33.6	30.0
Core ROIC (%)	22.9	40.7	37.1	39.3	41.0

Source: Company, Elara Securities Estimate

Conference call highlights
Quarterly highlights

- ▶ Revenue from operations reached INR 11.5bn in Q3FY25, reflecting a 4% increase from INR 11.1bn in Q3FY24.
- ▶ Gross margin improved by 200bps to 77% over nine months, driven by a higher contribution from the branded generics segment.
- ▶ Personnel costs in Q3 amounted to INR 2.65bn, marking a 15% increase due to the expansion of medical representatives in India.
- ▶ EBITDA stood at INR 3.21bn, up 2% from INR 3.1bn, with an EBITDA margin of 28% for the quarter.
- ▶ R&D expenses for the quarter were INR 530mn, compared with INR 520mn in Q3FY24, representing 5% of revenue.
- ▶ Cashflow from operations (CFO) reached INR 9.85bn, with an EBITDA to CFO conversion of 102% for 9MFY25.
- ▶ Free cashflow (FCF) for 9MFY25 amounted to INR 6.8bn, with an FCF to PAT conversion of 97%.
- ▶ ROCE stood at 35%, while RONW was at 26%.
- ▶ Branded generics accounted for 74% of total sales, generating INR 8.3bn in revenue with 10% growth during the quarter.
- ▶ The branded generics business contributed 44% to sales in Asia and Africa.
- ▶ The quarter included a forex loss of INR 140mn under other expenses, while other income comprised a forex gain of INR 180mn.
- ▶ Capex for 9MFY25 totaled INR 1.8bn.
- ▶ Inventory levels stood at 71 days, compared with 73 days previously, while trade receivables improved to 86 days from 109 days, and payables decreased to 66 days from 85 days.

India business

- ▶ Regional sales reached INR 3.45bn in Q3FY25, reflecting a 12% increase from INR 3.1bn in Q3FY24.
- ▶ According to IQVIA MAT December 2024, AJP grew by 11%, outpacing the IPM growth rate of 8%, primarily driven by volume expansion. Therapeutic segment growth was as follows: Cardiology at 11% (versus segment growth of 12%), Ophthalmology at 6% (versus 4%), Dermatology at 16% (versus 10%), and Pain Management at 11% (versus 7%).
- ▶ AJP introduced two new specializations – Gynaecology and Neurology – in Q3FY25.
- ▶ In these two specializations, 12 new products were launched in Q3FY25.
- ▶ AJP added 250 medical representatives (MRs) in the quarter, with >200 allocated to the newly launched Gynaecology and Neurology segments. The total MR count now stands at 3,450. In 9MFY25, ~450 MRs were added.
- ▶ Trade generics sales stood at INR 430mn in Q3FY25.
- ▶ A total of 26 new products were launched in 9MFY25, including eight first-to-market products.
- ▶ AJP's top 10 brands contributed 56% to total sales.
- ▶ In India's branded sales, Cardiology contributed 38%, followed by Ophthalmology at 30%, Dermatology at 23%, and Pain Management at 9% in Q3.

Asia markets

- ▶ AJP operates across the Middle East, South-East Asia, and Central Asia, covering ~10 countries in Asia.
- ▶ Sales in the region reached INR 3.2bn in Q3FY25, reflecting an 8% increase from INR 2.9bn in Q3FY24.
- ▶ Nine new products were launched in the quarter, bringing the total to 22 new products introduced in the region in the past nine months.
- ▶ AJP holds a market share of 2-5% in the region, with strong presence in the ophthalmic and dermatology segments.
- ▶ New products contribute ~2.5-3% to AJP's overall growth.

Africa branded business

- ▶ Sales in the region reached INR 1.7bn in Q3FY25, reflecting a 12% rise from INR 1.6bn in Q3FY24.
- ▶ Seven new products were launched in the region in the quarter, bringing the total to 10 new products introduced in the past nine months in Africa.

Africa Institutional business

- ▶ This segment accounted for 3% of total revenue, primarily consisting of antimalarial products.
- ▶ Sales in Q3 stood at INR 0.33bn, compared with INR 860mn, reflecting a 61% decline. The YoY decline was driven by reduced purchases from global funds.

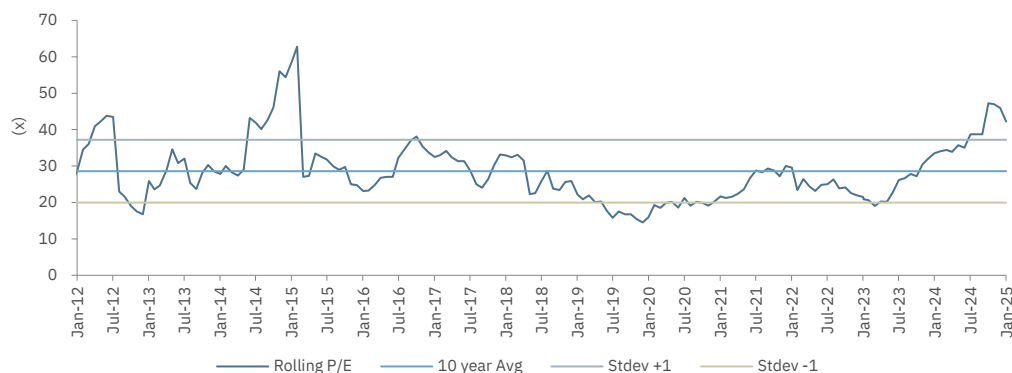
US business

- ▶ Sales in the region reached INR 2.6bn in Q3FY25, reflecting a 4% rise from INR 2.5bn in Q3FY24, and contributing 21% to the company's total revenue.
- ▶ During the nine-month period, AJP received five final ANDA approvals and filed four new ANDAs. Out of 51 final ANDA approvals, 48 have been commercialized.
- ▶ Five new products were launched during 9MFY25.
- ▶ The management indicated that the impact of the US flu season will be reflected in Q4FY25.
- ▶ No new product launches are planned for Q4FY25, while six to eight new launches are expected in FY26 for the region.

Guidance

- ▶ Gross margin is expected to remain in the range of 77-78% for FY25.
- ▶ Employee costs will increase in Q4FY25 due to the addition of 250 MRs in Q3FY25.
- ▶ SG&A expenses for Q4FY25 will be in line with Q3FY25.
- ▶ R&D expenses are projected to be ~5% of sales for FY25.
- ▶ Other expenses in Q4FY25 will remain similar to Q3FY25 levels.
- ▶ EBITDA margin is anticipated to be ~28% ±1% for FY25.
- ▶ The effective tax rate (ETR) is expected to be ~24% for FY25 and FY26, with higher ETR projected for FY27.
- ▶ Capex for FY25 is estimated at INR 2.25bn.
- ▶ Marketing expenses will gradually increase in the coming quarters due to the launch of new specializations in Q3FY25.
- ▶ Management is confident of achieving double-digit growth in the US generics business in FY26, supported by 2-3 products with limited competition, while FY25 is expected to see mid-single-digit growth.
- ▶ The branded generics segment is expected to grow at mid-teen rate for FY25 and beyond.
- ▶ AJP plans to enter the CNS segment in the Asian market by Q1FY26, while Gynecology will be introduced in international markets in Q3FY26.
- ▶ The domestic business is projected to grow at 12-13% in FY25.

Exhibit 2: AJP is trading above 1st standard deviation



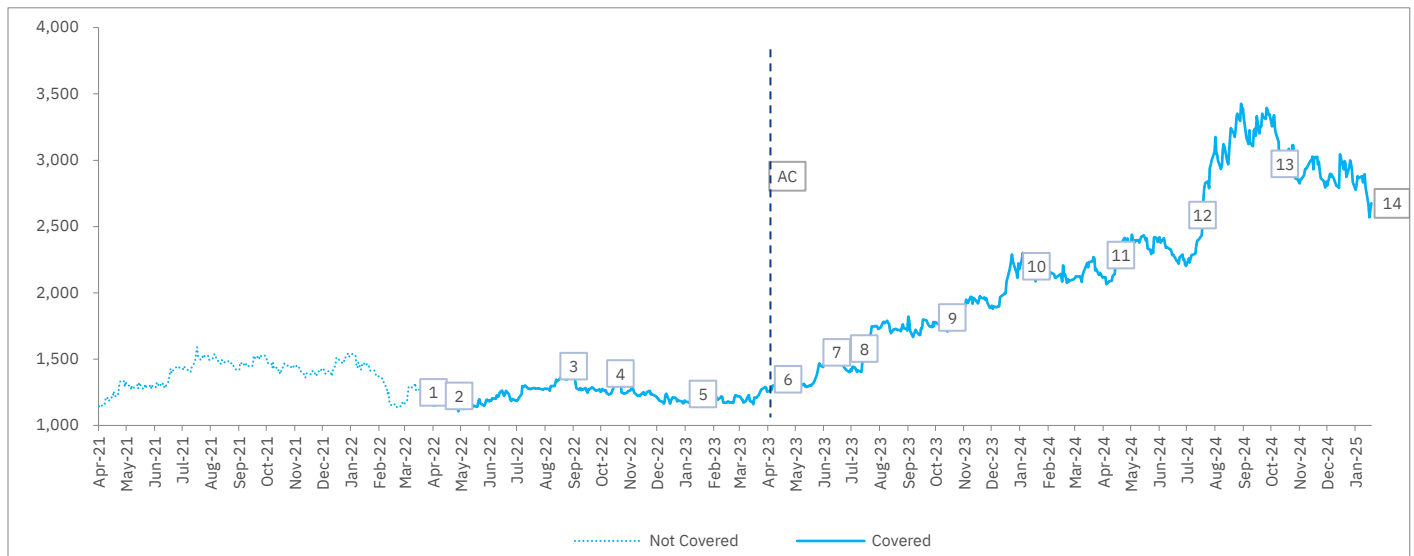
Source: Bloomberg, Company, Elara Securities Estimate

Exhibit 3: Change in estimates

(INR mn)	Earlier			Revised			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	48,044	53,178	58,956	46,101	51,390	57,132	(4.0)	(3.4)	(3.1)
EBITDA	13,869	15,510	17,416	12,929	14,574	16,372	(6.8)	(6.0)	(6.0)
PAT	9,758	10,924	12,297	9,141	10,369	11,525	(6.3)	(5.1)	(6.3)
EPS (INR)	78.1	87.4	98.4	73.2	83.0	92.2	(6.3)	(5.1)	(6.3)
TP (INR)		3,209			2,930			(8.7)	

Source: Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
5	1-Feb-2023	Buy	INR 1,530	INR 1,178
6	5-May-2023	Buy	INR 1,530	INR 1,298
7	27-Jun-2023	Accumulate	INR 1,652	INR 1,505
8	27-Jul-2023	Accumulate	INR 1,755	INR 1,553
9	31-Oct-2023	Accumulate	INR 1,894	INR 1,763
10	31-Jan-2024	Reduce	INR 2,114	INR 2,174
11	2-May-2024	Reduce	INR 2,283	INR 2,234
12	30-Jul-2024	Accumulate	INR 2,812	INR 2,531
13	28-Oct-2024	Accumulate	INR 3,209	INR 2,923
14	30-Jan-2025	Accumulate	INR 2,930	INR 2,674

AC=Analyst change

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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