

October 31, 2023

**RESULT REPORT Q2 FY24** | Sector: Pharmaceuticals & Healthcare

# Ajanta Pharma

## Earnings certainty to sustain multiples

### Result Synopsis

Ajanta management alluded to higher other expenses and marginal rise in R&D spending in H2 though margin performance YTD results in 1% raise in margin guidance. Growth outlook remains unchanged for domestic business even as cardiac growth recovers post NLEM impact on MetXL. Branded exports might be tad weaker as Asia business remained under pressure; albeit company expects to H2 recovery with low teens growth. US surprised on the upside and with similar sales expectations, this warrants an increase in our FY24 US growth to 8-9% vs flat earlier (on back of strong flu season in Q3 last year which may not be repeated). Broadly, we reckon there is not much change to growth expectation while we push up margin by ~100bps in FY24 resulting in +7% change to FY24 EPS with no major change to FY25 numbers. We raise target PE to 28x (from 26x earlier) which is a slight premium to historic mean of 26x as margin outlook appears particularly steady and also to narrow some of the valuation gap with other domestic plays like JB Chem (at 30x FY25 PE). Believe stock returns might be linked to EBIDTA/PAT growth with little likelihood of PE rerating. Our revised TP is Rs2,020 (earlier Rs1,850) and retain Ajanta as a preferred pick with potential of steady returns.

### Result Highlights

Revenues up 9.6% YoY driven by strong performance across domestic and US businesses

India revenues up 13% YoY, largely in line, driven by strong performance in ophthalmology (+18%), derma (+20%) and pain (+21%) while cardiac lagged market growth at 9%

Mixed showing in other branded markets with growth in Africa offset by decline in Asia; US up 11% QoQ vs flat expectation

Margin at 28% beat estimate on lower expenses YoY and QoQ adjusted for forex loss; R&D too lower at Rs500mn vs Rs550mn in Q2 last year

Healthy topline and margin beat drive ~25% YoY rise in PAT

### Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	10,284	10,772	10,549	-4.5	-2.5	Margin surprise on back of lower other expenses while growth in line
EBITDA	2,907	2,830	2,968	2.7	-2.1	
EBITDA Margin (%)	28.3	26.3	28.1	199 bps	12 bps	
Adjusted PAT	1,953	2,183	1,960	-10.5	-0.3	

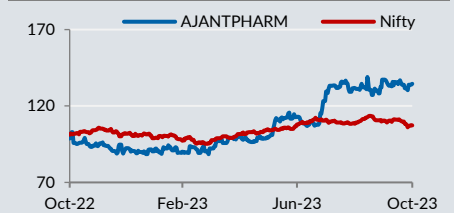
Source: Company, YES Sec

Reco	: <b>BUY</b>
CMP	: Rs 1,763
Target Price	: Rs 2,020
Potential Return	: +14%

### Stock data (as on October 31, 2023)

Nifty	19,080
52 Week h/l (Rs)	1904 / 1122
Market cap (Rs/USD mn)	220894 / 2654
Outstanding Shares (mn)	126
6m Avg t/o (Rs mn):	257
Div yield (%):	0.4
Bloomberg code:	AJP IN
NSE code:	AJANTPHARM

### Stock performance



	1M	3M	1Y
Absolute return	-2.0%	3.9%	36.2%

### Shareholding pattern (As of Sep '23 end)

Promoter	66.2%
FII+DII	25.6%
Others	8.2%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	2,020	1,850

### Δ in earnings estimates

	FY24e	FY25e
EPS (New)	61.2	71.9
EPS (Old)	57.0	70.6
% change	7.4%	1.8%

### Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	37,426	41,461	46,639
YoY Growth	12.0	10.8	12.5
EBIDTA	8,020	11,037	13,248
YoY Growth	-13.7	37.6	20.0
PAT	5,879	7,738	9,081
YoY Growth	(17.5)	31.6	17.4
ROE	16.3	20.1	20.3
EPS	46.5	61.2	71.9
P/E	37.9	28.8	24.5
BV	268.1	322.4	387.3
EV/EBITDA	26.8	19.5	15.8

### BHAVESH GANDHI

Lead Analyst

bhaves.gandhi@ysil.in



## Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	y/y (%)	q/q (%)
<b>Revenue</b>	9,381	9,718	8,818	10,210	10,284	9.6	0.7
Expenditure	7,418	7,652	7,108	7,497	7,378	(0.5)	(1.6)
- RM	2,189	2,297	2,116	2,123	2,091	(4.5)	(1.5)
- Purchase of goods	408	396	293	396	470	15.1	18.5
- Staff Cost	1,861	1,924	2,236	2,132	2,223	19.4	4.2
- Other Cost	2,959	3,035	2,462	2,846	2,594	(12.3)	(8.9)
<b>Operating Profit</b>	1,963	2,065	1,711	2,713	2,907	48.0	7.1
<b>OPM(%)</b>	20.9	21.3	19.4	26.6	28.3	733 bps	169 bps
Other Income	404	77	123	318	213	(47)	(33)
Depreciation	327	333	330	332	337	3	2
Interest	10	28	11	9	23	136.4	175.3
<b>PBT</b>	2,030	1,781	1,492	2,690	2,759	35.9	2.6
Tax	464	338	298	609	806	73.8	32.4
<b>PAT</b>	1,566	1,443	1,194	2,081	1,953	24.7	(6.2)
Exceptional	-	98	(28)	-	-	-	-
<b>MI</b>	-	-	-	-	-	-	-
<b>Reported PAT</b>	1,566	1,541	1,166	2,081	1,953	24.7	(6.2)

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

### Outlook

- Higher expenses would limit margin improvement in H2; revise margin guidance to 26% vs 25% earlier
- Low teens growth in domestic business in FY24. Low teens growth in Asia branded in next few quarters. Africa seeing revival and optimistic about low teens growth for the full year

### Other highlights

- Good part of Asia growth is coming from chronic which is a high quality business; local players like United Labs in Philippines control 12% of market and are strong competitors
- Have rationalised some costs in R&D so should go up by little in H2. 5-6% range for FY24 and FY25
- US sales to be similar in H2. To launch 3 products in second half. Fill rate is one of the highest in the industry
- Chantix – approval expected in Q4 FY24 or Q1 FY25
- Filing of 8 products each in next 2 years
- 10 new products launched in India in H1 and most of these are in cardiovascular + few in derma and 1 in ophthalmic
- Over next 2 years, hope to make diabetes sales meaningful and launches are inline with those of other players – combination of SGLT2, DPP4s and Metformin
- Despite NLEM reduction, MetXL saw strong volumes which led to healthy growth
- MR productivity has shown marked improvement
- Trade generics grew 15% to Rs450mn in H1
- Other expenses - Rs200mn reduction in international freight cost vs Q2 last year
- Expect higher marketing and R&D expenses in H2
- FY24 ETR at about 25%
- Capex of Rs240mn in H1 and Rs1.5bn for FY24
- Good reduction in inventory days while receivables were stable
- Operating Cash conversion of 70% and PAT to fcf conversion of 90%
- Utilization of 60-65% across plants; still comfortably placed for 2 years before start thinking of fresh capex

## FINANCIALS

### Exhibit 3: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	174	172	253	253	253
Reserves	29,782	32,472	33,627	40,480	48,677
Net worth	29,956	32,644	33,880	40,733	48,930
Debt	423	420	540	540	540
Deferred tax liab (net)	922	1,019	977	977	977
<b>Total liabilities</b>	<b>31,301</b>	<b>34,082</b>	<b>35,397</b>	<b>42,251</b>	<b>50,447</b>
Fixed Asset	16,404	16,564	17,059	17,629	18,080
Investments	606	791	423	423	423
Net Working Capital	13,790	16,171	16,947	23,230	30,977
Inventories	7,665	7,911	8,150	9,029	10,157
Sundry debtors	7,384	10,198	10,569	11,708	13,171
Cash	3,853	3,334	8,418	8,562	14,477
Other current assets	1,374	1,199	1,203	1,658	1,866
Sundry creditors	(3,739)	(3,272)	(4,228)	(4,683)	(5,268)
Other CL	(2,748)	(3,199)	(7,165)	(3,045)	(3,425)
Def tax assets	501	556	968	968	968
<b>Total Assets</b>	<b>31,301</b>	<b>34,082</b>	<b>35,397</b>	<b>42,251</b>	<b>50,447</b>

Source: Company, YES Sec

### Exhibit 4: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	28,897	33,410	37,426	41,461	46,639
Operating profit	9,986	9,293	8,020	11,037	13,248
Depreciation	(1,161)	(1,253)	(1,308)	(1,430)	(1,550)
Interest expense	(83)	(102)	(58)	(140)	(140)
Other income	260	427	326	550	550
Profit before tax	9,002	8,365	6,980	10,017	12,108
Taxes	(2,463)	(1,968)	(1,573)	(2,504)	(3,027)
Adj. profit	6,539	6,397	5,407	7,513	9,081
Exceptional items	-	730	473	225	-
Net profit	6,539	7,127	5,879	7,738	9,081

Source: Company, YES Sec

## Exhibit 5: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	9,002	8,365	6,980	10,017	12,108
Depreciation	1,161	1,253	1,308	1,430	1,550
Def tax assets (net)	(73)	43	(454)	-	-
Tax paid	(2,463)	(1,968)	(1,573)	(2,504)	(3,027)
Working capital Δ	(2,306)	(2,900)	4,308	(6,138)	(1,832)
Other operating items	-	730	473	225	-
Operating cashflow	5,321	5,522	11,041	3,029	8,799
Capital expenditure	(1,618)	(1,414)	(1,803)	(2,000)	(2,000)
Free cash flow	3,702	4,109	9,239	1,029	6,799
Equity raised	(2,018)	(3,893)	(3,759)	(0)	0
Investments	(37)	(185)	368	-	-
Debt financing/disposal	98	(3)	121	-	-
Dividends paid	(553)	(546)	(884)	(884)	(884)
Net Δ in cash	1,192	(519)	5,084	145	5,914

Source: Company, YES Sec

## Exhibit 6: Du-pont analysis

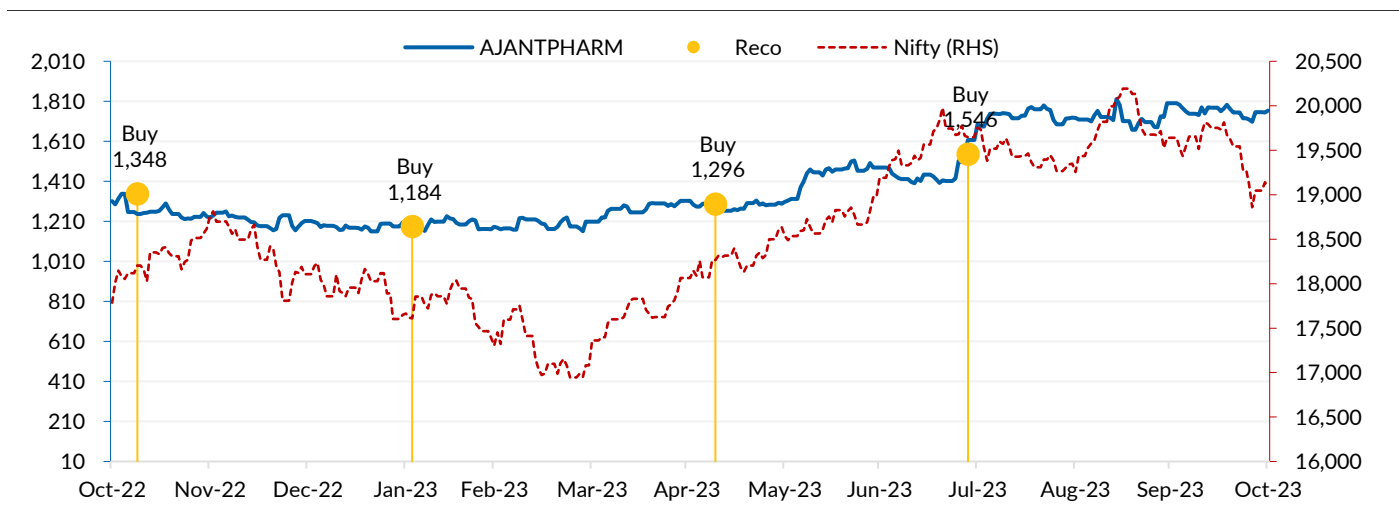
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	0.73	0.76	0.77	0.75	0.75
Interest burden (x)	0.99	0.99	0.99	0.99	0.99
EBIT margin (x)	0.31	0.25	0.19	0.24	0.26
Asset turnover (x)	0.82	0.86	0.87	0.87	0.87
Financial leverage (x)	1.25	1.23	1.29	1.27	1.20
RoE (%)	23.4	20.4	16.3	20.1	20.3

## Exhibit 7: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
<b>Growth matrix (%)</b>					
Revenue growth	11.7	15.6	12.0	10.8	12.5
Op profit growth	46.1	(6.9)	(13.7)	37.6	20.0
EBIT growth	33.6	(6.8)	(16.9)	44.3	20.6
Net profit growth	39.8	9.0	(17.5)	31.6	17.4
<b>Profitability ratios (%)</b>					
OPM	34.6	27.8	21.4	26.6	28.4
EBIT margin	31.4	25.3	18.8	24.5	26.3
Net profit margin	22.6	19.1	14.4	18.1	19.5
RoCE	31.1	25.9	20.3	26.2	26.4

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
RoNW	23.4	20.4	16.3	20.1	20.3
RoA	18.6	16.6	12.6	15.8	16.9
<b>Per share ratios</b>					
EPS	75.2	83.0	46.5	61.2	71.9
Dividend per share	6.4	6.4	7.0	7.0	7.0
Cash EPS	88.6	89.1	53.1	70.8	84.1
Book value per share	344.5	380.2	268.1	322.4	387.3
<b>Valuation ratios</b>					
P/E	34.1	31.3	37.9	28.8	24.5
P/CEPS	11.2	10.2	6.6	5.5	4.6
P/B	8.0	6.8	6.0	5.4	4.8
EV/EBIDTA	22.7	24.1	26.8	19.5	15.8
<b>Payout (%)</b>					
Dividend payout	27.4	23.5	22.5	25.0	25.0
Tax payout	8.5	7.7	15.0	11.4	9.7
<b>Liquidity ratios</b>					
Debtor days	93	111	103	103	103
Inventory days	97	86	79	79	79
Creditor days	47	36	41	41	41

## Recommendation Tracker



## DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all

jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

YES Securities (India) Limited distributes research and engages in other approved or allowable activities with respect to U.S. Institutional Investors through SEC 15a-6 rules and regulations under an exclusive chaperone arrangement with Brasil Plural Securities LLC. The views and sentiments expressed in this research report and any findings thereof accurately reflect YES Securities (India) Limited analyst's truthful views about the subject securities and or issuers discussed herein. YES Securities (India) Limited is not registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is not a member of the Securities Investor Protection Corporation ("SIPC"). Brasil Plural Securities LLC is registered as a broker-dealer under the Exchange Act and is a member of SIPC. For questions or additional information, please contact Gil Aikins (gil.aikins@brasilplural.com) or call +1 212 388 5600.

This Research Report is the product of YES Securities (India) Limited. YES Securities (India) Limited is the employer of the research analyst(s) who has prepared the research report. YES Securities (India) Limited is the employer of the YES Securities (India) Limited Representative who is responsible for the report, are responsible for the content of the YES Securities (India) Limited Research Report; any material conflicts of interest of YES Securities (India) Limited in relation to the issuer(s) or securities discussed in the YES Securities (India) Limited Research Report. This YES Securities (India) Limited Research Report is distributed in the United States through Brasil Plural Securities LLC (BPS). The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and is/ are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account. This report is intended for distribution by YES Securities (India) Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity. Transactions in securities discussed in this research report should be effected through Brasil Plural Securities LLC (BPS) or another U.S. registered broker dealer/Entity as informed by YES Securities (India) Limited from time to time.

### YES Securities (India) Limited

**Registered Address:** 2<sup>nd</sup> Floor, North Side, YES BANK House, Off Western Express Highway, Santacruz East, Mumbai - 400 055, Maharashtra, India.

**Correspondence Address:** 4<sup>th</sup> Floor, AFL House, Lok Bharti Complex, Marol Maroshi Road, Andheri East, Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@ysil.in  
Website: www.yesinvest.in

**Registration Nos.:** CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | CDSL & NSDL: IN-DP-653-2021 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code - 94338.

**Details of Compliance Officer:** Name: Aditya Goenka,  
**Email id:** compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

**Grievances Redressal Cell:** customer.service@ysil.in/igc@ysil.in

## DISCLOSURE OF INTEREST

Name of the Research Analyst : Bhavesh Gandhi

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

## RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

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

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

## ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.