

India

ADD (no change)

Consensus ratings*: Buy 15 Hold 1 Sell 2

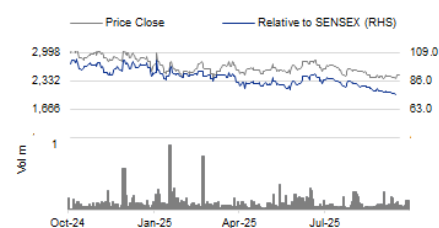
Current price: Rs2,539
 Target price:  Rs3,100
 Previous target: Rs3,100
 Up/downside: 22.1%
 InCred Research / Consensus: 6.7%

Reuters: AJPH.NS
 Bloomberg: AJP IN
 Market cap: US\$3,574m
 Rs317,262m
 Average daily turnover: US\$3.5m
 Rs313.2m
 Current shares o/s: 125.4m
 Free float: 33.8%

*Source: Bloomberg

Key changes in this note

- FY26F/27F EPS revised by -2/-3%, respectively.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.7	(5.8)	(17.7)
Relative (%)	2.2	(9.6)	(21.9)

Major shareholders

	% held
Promoters	66.2
UTI MF	3.7
Nippon MF	3.2

Ajanta Pharma Ltd

Focus on growth over profitability

- The 2QFY26 performance was in line with estimate but missed on the margin front. Margin to be 27% (+/-1%) in FY26F, with an improvement likely in FY27F.
- The US business is likely to post robust growth (+20%) in FY26F. India biz to outperform IPM by at least 20-25%. Africa to see double-digit FY27F growth.
- Our FY26F/27F EPS estimates revised by -2%/-3%, respectively. Maintain ADD rating on the stock with an unchanged target price of Rs3,100.

In-line 2QFY26 growth; disappointment on margin front

Ajanta Pharma's 2QFY26 performance was steady (14% YoY growth in line with our estimate). However, there was disappointment on the margin front at 24.2% (300bp/260bp lower than our/Bloomberg consensus estimates, respectively) because of lower gross margin (135bp/220bp lower YoY/QoQ), higher employee costs (up 21% YoY), R&D spending (up 11% YoY) and ex-forex loss in the case of other expenses. India business grew by ~12% YoY; however, the cardiology segment continued to underperform the market. As per IQVIA, India growth was 10% vs. IPM growth of 8%. Volume growth was twice the IPM whereas new launches were 39% higher. Company aims to outperform the IPM by at least 20-25% in FY26F. Management has given guidance of 77% gross margin for FY26F (with a 100bp possible variation on either side) and has maintained FY26F margin guidance of 27% (with a 100bp possible variation on either side) – factoring in margin pressure resulting from higher R&D spending (20bp impact), field force addition and higher sales and distribution expenses. We expect margin improvement in FY27F.

US business delivers robust growth

The US business grew by 9% QoQ (US\$39m) in 2Q led by new launches (done in 1HFY26) and market share gains in certain products. The current revenue run-rate is likely to continue for the rest of the quarters in FY26F driven by new launches (including Fluvoxamine ER tablets and Oxcarbazepine having the potential to reach a decent size in FY26F), and three-to-four new product launches spread over FY26F. While the African pharmaceutical market is likely to witness moderate growth in FY26F (high base effect), management is optimistic of achieving double-digit growth in FY27F.

Other highlights

a) Current strength of medical representatives (MRs) is 5,680, of which 3,600 are for the domestic market and 2,080 for the export market. b) Looking to add 200 MRs over FY26F-27F in the domestic market and 10%/7-8% in the export market in FY26F/27F.

Maintain ADD rating with an unchanged target price of Rs3,100

Our FY26F/27F EPS estimates have been revised by -2%/-3%, respectively. Ajanta Pharma's large, diversified presence in the branded generics markets of India, Asia and Africa (~70% of revenue) provides revenue stability/visibility and mitigates business risks. We maintain ADD rating on the stock with an unchanged target price of Rs3,100. Downside risk: Slowdown in the branded generics market.

Financial Summary	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue (Rsm)	37,426	42,088	46,481	53,077	58,635
Operating EBITDA (Rsm)	7,833	11,720	12,595	14,354	16,793
Net Profit (Rsm)	5,880	8,163	9,204	10,552	12,272
Core EPS (Rs)	46.9	65.1	73.4	84.2	97.9
Core EPS Growth	(17.5%)	38.8%	12.8%	14.6%	16.3%
FD Core P/E (x)	54.14	39.00	34.58	30.17	25.94
DPS (Rs)	6.7	51.0	55.8	50.0	50.0
Dividend Yield	0.26%	2.01%	2.20%	1.97%	1.97%
EV/EBITDA (x)	39.51	26.72	25.13	21.83	18.38
P/FCFE (x)	22.44	22.24	15.93	14.80	14.48
Net Gearing	(25.3%)	(13.8%)	(4.6%)	(12.2%)	(20.4%)
P/BV (x)	9.40	8.92	8.40	7.68	6.71
ROE	17.7%	23.5%	25.0%	26.6%	27.6%
% Change In Core EPS Estimates				(2.18%)	(2.64%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Figure 1: Financial summary

(Rs m)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	Y-o-Y (%)	Q-o-Q (%)
Revenue	10,284	11,052	10,541	11,449	11,866	11,461	11,704	13,027	13,537	14%	4%
Consumption of raw materials	2,561	2,941	2,644	2,679	2,617	2,578	2,834	2,759	3,168	21%	15%
as % of sales	24.9%	26.6%	25.1%	23.4%	22.1%	22.5%	24.2%	21.2%	23.4%		
Employee costs	2,223	2,314	2,335	2,838	2,610	2,652	2,798	3,029	3,170	21%	5%
as % of sales	21.6%	20.9%	22.2%	24.8%	22.0%	23.1%	23.9%	23.3%	23.4%		
Other expenditure	2094	2136	2279	2119	2958	2493	2471	3165	3291	11%	4%
as % of sales	20.4%	19.3%	21.6%	18.5%	24.9%	21.8%	21.1%	24.3%	24.3%		
EBITDA	2,907	3,142	2,783	3,304	3,112	3,208	2,972	3,514	3,278	5%	-7%
Margins (%)	28.3%	28.4%	26.4%	28.9%	26.2%	28.0%	25.4%	27.0%	24.2%		
Depreciation	337	343	343	340	344	360	398	413	430		
Other Income	213	136	355	265	195	304	181	263	593		
Interest	23	25	15	7	60	79	61	53	34		
PBT	2,759	2,910	2,780	3,221	2,902	3,074	2,694	3,311	3,408	17%	3%
Total tax	806	809	753	764	738	745	442	758	806		
Tax rate (%)	29.2%	27.8%	27.1%	23.7%	25.4%	24.2%	16.4%	22.9%	23.7%		
PAT before MI	1,953	2,101	2,027	2,458	2,165	2,329	2,253	2,553	2,602	20%	2%
Minority interest (MI)	0	0	0	0	0	0	0	0	0		
Adj. PAT before extraordinary items	1,953	2,101	2,027	2,458	2,165	2,329	2,253	2,553	2,602	20%	2%
Extraordinary expenses	0	0	0	0	0	0	0	0	0		
Reported PAT	1,953	2,101	2,027	2,458	2,165	2,329	2,253	2,553	2,602	20%	2%
No. of shares	125.9	125.9	125.9	125.9	125.9	125.9	125.9	125.9	125.9		
EPS	15.5	16.6	16.0	19.5	17.3	18.6	18.0	20.4	20.8		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(Rs m)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)											
Gross	75%	73%	75%	77%	78%	78%	76%	79%	77%	-135	-222
EBITDA	28%	28%	26%	29%	26%	28%	25%	27%	24%	-201	-276
Adj. PAT	19%	19%	19%	21%	18%	20%	19%	20%	19%	98	-38
Effective tax rate	29%	28%	27%	24%	25%	24%	16%	23%	24%	-176	77

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	Y-o-Y (%)	Q-o-Q (%)
US formulations -INR	2,370	2,520	2,610	2,280	2,320	2,630	3,250	3,100	3,440	48%	11%
% total revenue	23.0%	22.8%	24.8%	19.9%	19.6%	22.9%	27.8%	23.8%	25.4%		
Africa - institutional	370	860	610	420	430	330	280	380	320	-26%	-16%
% total revenue	3.6%	7.8%	5.8%	3.7%	3.6%	2.9%	2.4%	2.9%	2.4%		
Africa - total / branded	1,570	1,550	1,130	2,300	2,130	1,730	1,330	2,280	2,210	4%	-3%
% total revenue	15.3%	14.0%	10.7%	20.1%	17.9%	15.1%	11.4%	17.5%	16.3%		
Asia	2,510	2,920	2,810	2,770	2,960	3,160	3,030	3,040	3,100	5%	2%
% total revenue	24.4%	26.4%	26.7%	24.2%	24.9%	27.6%	25.9%	23.3%	22.9%		
India	3,550	3,080	3,260	3,530	3,860	3,450	3,690	4,090	4,320	12%	6%
% total revenue	34.5%	27.9%	30.9%	30.8%	32.5%	30.1%	31.5%	31.4%	31.9%		
Total revenue	10,284	11,052	10,541	11,449	11,866	11,461	11,704	13,027	13,537	14%	4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates (Rs m)

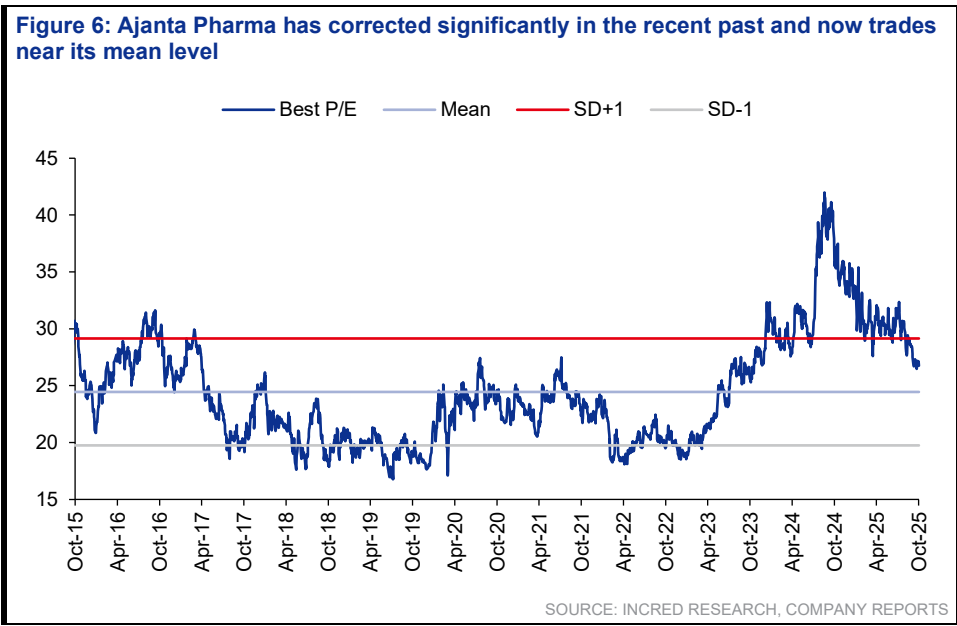
	Actuals	Incared Estimates	Variance (%)	BB Estimates	Variance (%)
Revenue	13,537	13,531	0.0	13,304	1.8
EBITDA	3,278	3,682	-11.0	3,569	-8.1
Margin (%)	24.2	27.2		26.8	
PAT	2,602	2,673	-2.7	2,573	1.1

SOURCE: INCRED RESEARCH, COMPANY REPORTS

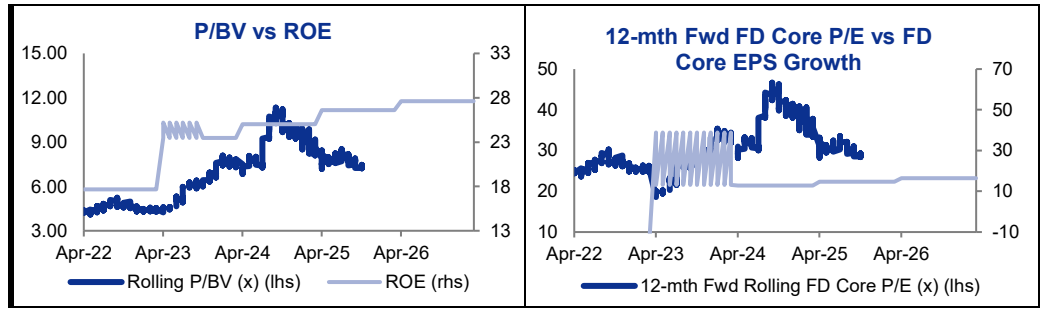
Figure 5: Our revised earnings estimates (Rs m)

	FY26F			FY27F		
	Old	New	% change	Old	New	% change
Revenue	52,828	53,077	0.5	58,353	58,635	0.5
EBITDA	14,639	14,354	(1.9)	16,985	16,793	(1.1)
Margin	27.7	27.0		29.1	28.6	
PAT	10,787	10,552	(2.2)	12,605	12,272	(2.6)
EPS	86.1	84.2	(2.2)	100.6	97.9	(2.6)

SOURCE: INCRED RESEARCH, COMPANY REPORTS



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Net Revenues	37,426	42,088	46,481	53,077	58,635
Gross Profit	26,922	31,422	35,774	41,028	45,560
Operating EBITDA	7,833	11,720	12,595	14,354	16,793
Depreciation And Amortisation	(1,308)	(1,354)	(1,441)	(1,700)	(1,755)
Operating EBIT	6,525	10,366	11,154	12,654	15,038
Financial Income/(Expense)	(58)	(72)	(207)	(150)	(100)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	986	846	945	1,200	1,000
Profit Before Tax (pre-EI)	7,453	11,140	11,892	13,704	15,938
Exceptional Items					
Pre-tax Profit	7,453	11,140	11,892	13,704	15,938
Taxation	(1,573)	(2,978)	(2,688)	(3,152)	(3,666)
Exceptional Income - post-tax					
Profit After Tax	5,880	8,163	9,204	10,552	12,272
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	5,880	8,163	9,204	10,552	12,272
Recurring Net Profit	5,880	8,163	9,204	10,552	12,272
Fully Diluted Recurring Net Profit	5,880	8,163	9,204	10,552	12,272

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
EBITDA	7,833	11,720	12,595	14,354	16,793
Cash Flow from Invt. & Assoc.					
Change In Working Capital	575	(998)	1,789	1,049	(1,136)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(490)	(2,872)	(2,812)	(3,152)	(3,666)
Net Interest (Paid)/Received	(58)	(72)	(207)	(150)	(100)
Tax Paid	(1,418)	(3,645)	(3,550)	(4,202)	(4,566)
Cashflow From Operations	7,918	7,851	11,572	12,251	11,991
Capex	(1,649)	(1,390)	(3,168)	(3,000)	(2,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	6,268	6,460	8,405	9,251	9,991
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	(14)	(9)			
Shares Repurchased					
Dividends Paid	(897)	(6,422)	(3,494)	(6,995)	(6,268)
Preferred Dividends					
Other Financing Cashflow	(4,114)	(2,036)	(4,438)	1,050	900
Cash Flow From Financing	(5,025)	(8,466)	(7,932)	(5,945)	(5,368)
Total Cash Generated	1,243	(2,006)	473	3,306	4,624
Free Cashflow To Equity	14,186	14,311	19,977	21,501	21,982
Free Cashflow To Firm	14,245	14,383	20,184	21,651	22,082

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Cash And Equivalents	8,586	4,948	1,762	5,068	9,692
Total Debtors	10,569	12,468	11,827	13,269	14,072
Inventories	8,156	8,284	9,039	10,615	11,141
Total Other Current Assets	1,029	1,609	5,802	2,654	3,518
Total Current Assets	28,340	27,309	28,430	31,607	38,423
Fixed Assets	16,982	17,210	18,918	20,218	20,463
Total Investments	251	186			
Intangible Assets	78	147	465	465	465
Total Other Non-Current Assets	1,140	1,533	2,336	2,336	2,336
Total Non-current Assets	18,450	19,075	21,719	23,019	23,264
Short-term Debt	2	15	26	26	26
Current Portion of Long-Term Debt					
Total Creditors	4,228	4,632	4,542	4,955	5,697
Other Current Liabilities	7,163	4,306	5,393	5,899	6,214
Total Current Liabilities	11,393	8,933	9,961	10,880	11,937
Total Long-term Debt	13				
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,505	1,758	2,286	2,286	2,286
Total Non-current Liabilities	1,518	1,758	2,286	2,286	2,286
Total Provisions					
Total Liabilities	12,910	10,710	12,247	13,166	14,223
Shareholders Equity	33,880	35,674	37,903	41,460	47,465
Minority Interests					
Total Equity	33,880	35,674	37,903	41,460	47,465

Key Ratios

	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue Growth	12.0%	12.5%	10.4%	14.2%	10.5%
Operating EBITDA Growth	(15.7%)	49.6%	7.5%	14.0%	17.0%
Operating EBITDA Margin	20.9%	27.8%	27.1%	27.0%	28.6%
Net Cash Per Share (Rs)	68.38	39.35	13.85	40.23	77.11
BVPS (Rs)	270.28	284.59	302.38	330.76	378.66
Gross Interest Cover	111.72	143.78	53.81	84.36	150.38
Effective Tax Rate	21.1%	26.7%	22.6%	23.0%	23.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	101.27	99.89	95.39	86.29	85.10
Inventory Days	279.15	281.32	295.24	297.70	303.65
Accounts Payables Days	130.30	151.60	156.36	143.86	148.67
ROIC (%)	18.4%	24.0%	21.7%	24.5%	28.1%
ROCE (%)	19.6%	29.8%	30.3%	31.9%	33.8%
Return On Average Assets	13.6%	17.6%	19.4%	20.4%	21.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.