

SELL

TP: Rs 2,528 | ▼ 10%

AJANTA PHARMA

Pharmaceuticals

11 December 2024

No incremental triggers; valuation expensive

- At our virtual conference AJP said it is not looking to venture into newer therapies in India in the next 1-2 years due to hefty valuations
- EBITDA margin to hover at ~29% till FY27E, lower than the domestic-focused industry average of above 30%
- We cut our ascribed P/E to 29x (from 31x) on Sep'24 roll forward, due to lack of incremental triggers, to arrive at a TP of Rs 2,528. Maintain SELL

Foram Parekh

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No expansion into newer therapies for 1-2 years in India: At our virtual Pharma Day conference on 3 Dec, management said it would not venture into newer therapies for one to two years as against the earlier guidance it would look to diversify into newer therapies especially in the Chronic side in the domestic region. So, in the near term, AJP will have a presence in just five therapies, Pain Management, Cardiology, Ophthalmology, Dermatology and Anti Diabetes. Of the five therapies, AJP's sales growth in Cardiology was 9% vs IPM's 11%, whereas Pain Management outperformed IPM growth by a mere 200bps to 10% in 2QFY25.

IPM growth to fall to high single digit from double digits: AJP's India sales (~32% contribution) which earlier grew by 11-14% is expected to grow by 9-10% as IPM growth currently falls to 7-9% from 12-15% earlier primarily due to lower volume growth to 2-3%, 5-7% earlier, and price hikes of ~5% vs double digits earlier.

R&D expense to remain lower than industry average: We believe AJP's R&D contribution of ~4.5%, or Rs 5.7bn, is lower than the industry average of ~7-9%. Of that, only 50-52% of AJP's R&D goes towards the US while the rest is earmarked for the branded generics business. Due to lower R&D spends in the US region, AJP launched only two products in the US in H1FY25, hence we believe the region will grow at 5-6% compared to industry peers at 18-20%.

EBITDA margin to be lower than industry peers: As management expects 73% of the branded generics business to grow at 12-15% till FY25E and US (22% of sales) to grow in the mid-single digits, we believe EBITDA margin will continue to hover around similar levels (2QFY25 at 26%). Despite being a specialty player, margins are lower than the industry average margin of above 30%. We believe that by FY27 AJP will clock EBITDA margin of 29.4% from 27.8% in FY24.

Valuation outlook: As AJP does not plan to diversify into newer therapies in the India region in the next one to two years and its EBITDA margin is lower than that of domestic-focused pharma companies, we maintain SELL on AJP and lower our ascribed P/E to 29x (from 31x) on Sep'26 to yield a TP of Rs 2,528 from Rs 2,736.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	AJP IN/Rs 2,824
Market cap	US\$ 4.2bn
Free float	31%
3M ADV	US\$ 4.8mn
52wk high/low	Rs 3,485/Rs 1,850
Promoter/FPI/DII	66%/10%/15%

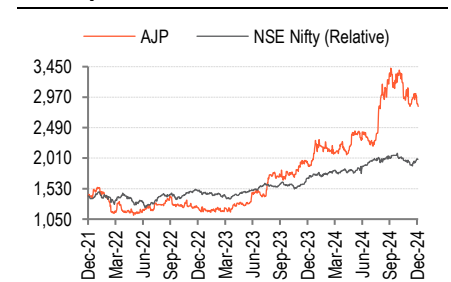
Source: NSE | Price as of 10 Dec 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	42,087	46,565	51,636
EBITDA (Rs mn)	11,719	13,243	14,944
Adj. net profit (Rs mn)	8,161	9,128	10,380
Adj. EPS (Rs)	64.6	72.2	82.2
Consensus EPS (Rs)	64.6	74.7	86.5
Adj. ROAE (%)	23.6	23.4	22.1
Adj. P/E (x)	43.7	39.1	34.4
EV/EBITDA (x)	30.2	26.8	23.7
Adj. EPS growth (%)	38.8	11.8	13.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Key takeaways from Pharma Day

Branded generics

AJP is a specialty company whose focus is on the branded generics business. It has three verticals spread across India, Africa and Asia, contributing 73% of annual sales currently.

The company expects the branded generics business to grow in the low teens in FY25 and the contribution to the branded generic market to increase by 25-50bps annually.

India segments: AJP is present in five therapeutic segments where Cardiovascular is the largest therapy for the company, followed by Ophthalmology, Dermatology, Pain Management, and Anti Diabetic.

India region growth: The company expects the Indian Pharmaceuticals Market (IPM) to grow by about 7-8% for FY25, whereas AJP expects to grow by 10-15%.

MR count: The company has 3,200 medical representatives (MRs) in the domestic region and expects to hire another 300 MRs in FY25. At present, AJP has 1,800 MRs based in Asia and Africa. This increased from 950 MRs in FY22.

Asia and Africa: Both geographies currently contribute ~45% of AJP's total sales. The business is spread across 30 countries in Asia and Africa.

Revenue growth: The company expects Asia and Africa to grow more than the India region due to aggressive MR hiring. It maintains its guidance of the Asia and Africa regions growing by ~15%.

Therapies coverage: AJP has wider therapies coverage and is present in ten therapies in the ROW market, including Gastro and Respiratory, compared to a presence in five therapies in India.

US: The region contributes 22% of sales. AJP expects to file eight to ten ANDAs (Abbreviated New Drug Application) and launch seven to eight new products every year.

Revenue guidance: The company expects the US to grow in the mid-single digit in FY25, but in the low double digits from FY26 driven by new product launches.

Africa Institution: Africa contributes 5% of annual sales. AJP expects this business to remain flattish at current levels of US\$ 22mn-23mn.

Capex: AJP does not envisage a larger capex for FY25. It expects to incur capex of Rs 1.5bn in FY25.

Margins: The company expects gross margin to sustain at ~77%, while EBITDA margin can sustain at 28%+/-1%.

Valuation methodology

AJP does not intend to diversify into newer therapies in the next one to two years as it is not willing to pay a hefty valuation for inorganic activities. AJP is primarily an India-focused company (32% of sales contribution) and we expect IPM growth to normalise to 7-9% vs 12-15% earlier. The Indian market has become very competitive and AJP with a presence in only five therapies will not be able to report higher growth. The branded generics markets of India, Asia and Africa, comprising 73% of AJP's portfolio, is expected to grow by double digits. We expect AJP's EBITDA margin to remain around 29% till FY27E, which we feel is lower than the industry average of above 30%.

We maintain SELL on AJP as the company has no plans to increase inorganic activity or raise its R&D spend for innovative products. Given its limited presence in therapies in the domestic market and lower margin profile compared to close peers like Torrent Pharma (Not Rated; TRP) with an over 32% margin profile, we ascribe a lower multiple of 29x P/E (earlier 31x) on Sep'26 to yield a TP of Rs 2,528 from Rs 2,736.

Fig 1 – Key assumptions

(Rs mn)	FY24	FY25E	FY26E	FY27E
Sales	42,087	46,565	51,636	56,583
EBITDA	11,719	13,243	14,944	16,658
PAT	8,161	9,128	10,380	11,646
EPS (Rs)	64.59	72.24	82.15	92.17
EBITDA margin (%)	27.8	28.4	28.9	29.4
PAT margin (%)	19.4	19.6	20.1	20.6

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- lower raw material and freight costs,
- stable or lower price erosion in the US business,
- no USFDA observations leading to swift new launches in the US,
- rupee depreciation, and
- no supply chain constraints in Africa.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	37,426	42,087	46,565	51,636	56,583
EBITDA	7,832	11,719	13,243	14,944	16,658
Depreciation	1,308	1,354	1,451	1,573	1,695
EBIT	6,524	10,365	11,792	13,370	14,963
Net interest inc./(exp.)	(58)	(72)	(21)	(30)	(35)
Other inc./(exp.)	986	846	400	500	600
Exceptional items	0	0	0	0	0
EBT	7,452	11,139	12,171	13,840	15,528
Income taxes	1,573	2,978	3,043	3,460	3,882
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	5,879	8,161	9,128	10,380	11,646
Adjustments	0	0	0	0	0
Adjusted net profit	5,879	8,161	9,128	10,380	11,646

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	4,228	4,632	5,103	5,659	6,201
Other current liabilities	6,967	4,068	4,191	4,647	5,092
Provisions	382	573	634	703	770
Debt funds	356	353	353	353	353
Other liabilities	0	0	0	0	0
Equity capital	253	253	253	253	253
Reserves & surplus	33,637	35,161	42,464	50,768	60,085
Shareholders' fund	33,889	35,414	42,717	51,021	60,337
Total liab. and equities	45,823	45,039	52,997	62,382	72,754
Cash and cash eq.	3,333	1,360	4,547	6,668	10,663
Accounts receivables	10,569	12,468	14,671	16,976	19,378
Inventories	8,156	8,284	10,206	13,439	15,502
Other current assets	1,429	2,231	2,328	2,582	2,829
Investments	5,354	3,486	3,486	4,532	5,892
Net fixed assets	14,887	14,645	15,194	15,621	15,925
CWIP	2,095	2,565	2,565	2,565	2,565
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	45,823	45,039	52,997	62,382	72,754

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	11,789	4,454	7,034	7,273	9,719
Capital expenditures	(811)	(962)	(2,000)	(2,000)	(2,000)
Change in investments	(3,800)	1,867	0	(1,046)	(1,360)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(4,611)	906	(2,000)	(3,046)	(3,360)
Equities issued/Others	81	0	0	0	0
Debt raised/repaid	106	(4)	0	0	0
Interest expenses	(58)	(72)	(21)	(30)	(35)
Dividends paid	(884)	(1,632)	(1,826)	(2,076)	(2,329)
Other financing cash flows	(5,207)	(5,625)	0	0	0
Cash flow from financing	(5,963)	(7,333)	(1,847)	(2,106)	(2,364)
Chg in cash & cash eq.	1,215	(1,973)	3,187	2,121	3,996
Closing cash & cash eq.	3,333	1,360	4,547	6,668	10,663

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	46.5	64.6	72.2	82.2	92.2
Adjusted EPS	46.5	64.6	72.2	82.2	92.2
Dividend per share	7.0	12.9	14.4	16.4	18.4
Book value per share	386.4	403.8	487.1	581.8	688.0

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	9.5	8.4	7.6	6.9	6.2
EV/EBITDA	45.3	30.2	26.8	23.7	21.1
Adjusted P/E	60.7	43.7	39.1	34.4	30.6
P/BV	7.3	7.0	5.8	4.9	4.1

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	78.9	73.3	75.0	75.0	75.0
Interest burden (PBT/EBIT)	114.2	107.5	103.2	103.5	103.8
EBIT margin (EBIT/Revenue)	17.4	24.6	25.3	25.9	26.4
Asset turnover (Rev./Avg TA)	27.7	30.1	29.5	27.3	25.2
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	17.6	23.6	23.4	22.1	20.9

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	12.0	12.5	10.6	10.9	9.6
EBITDA	(15.7)	49.6	13.0	12.8	11.5
Adjusted EPS	(43.9)	38.8	11.8	13.7	12.2
Profitability & Return ratios (%)					
EBITDA margin	20.9	27.8	28.4	28.9	29.4
EBIT margin	17.4	24.6	25.3	25.9	26.4
Adjusted profit margin	15.7	19.4	19.6	20.1	20.6
Adjusted ROAE	17.6	23.6	23.4	22.1	20.9
ROCE	22.2	32.0	30.9	29.4	27.8
Working capital days (days)					
Receivables	103	108	115	120	125
Inventory	80	72	80	95	100
Payables	41	40	40	40	40
Ratios (x)					
Gross asset turnover	1.7	1.8	1.9	1.9	2.0
Current ratio	2.0	2.6	3.2	3.6	4.0
Net interest coverage ratio	111.7	143.8	557.1	445.7	427.5
Adjusted debt/equity	(0.1)	0.0	(0.1)	(0.1)	(0.2)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

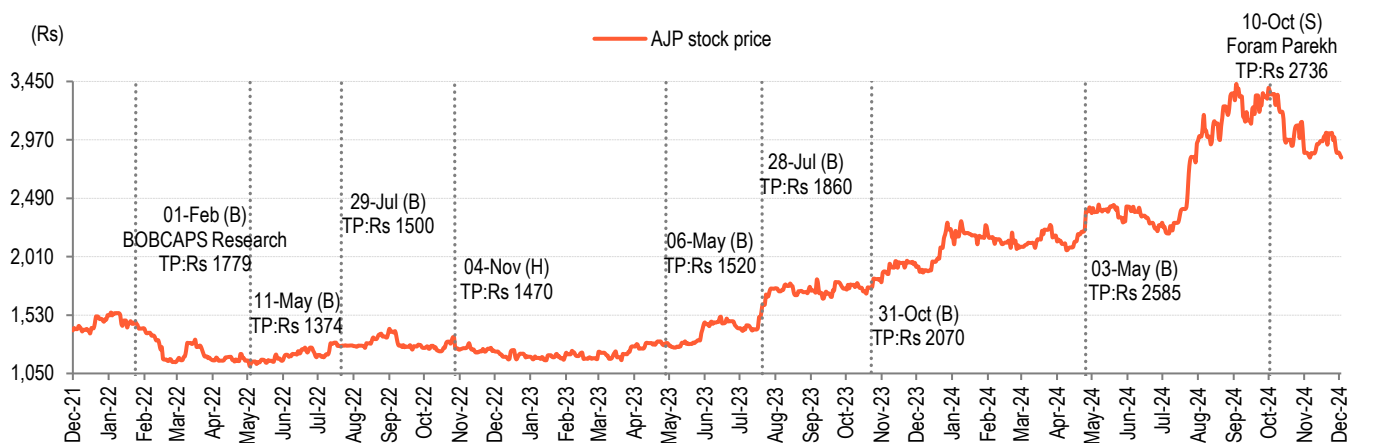
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): AJANTA PHARMA (AJP IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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