

SELL
 TP: Rs 2,736 | ▼ 6%

AJANTA PHARMA

Pharmaceuticals

29 October 2024

Lower growth forecast in multiple geographies

- **Mixed quarter with revenue/EBITDA beat of 4%/3%; however, PAT reported 1% and EBITDA margin was 30bps lower than our estimate**
 Branded Africa business lower; US growth guided for low single digit. India to grow at 9-10% for FY25, EBITDAM to sustain at ~28% in FY25
- **We maintain SELL and TP of Rs 2,736 due to AJP’s concentrated portfolio approach leading to lower EBITDA margin than the industry**

Foram Parekh

research@bobcaps.in

EBITDA margin at 5-quarter low: AJP reported a mixed Q2 where revenue/EBITDA grew by 15%/7% (4%/3% above our estimates vs. 5%/-6% Bloomberg consensus estimates) and PAT grew by 14% (1% below our and Bloomberg estimates). Sales was driven by 20% growth in the branded generic market (76% of sales). However, due to a 40% QoQ surge in SG&A expense (contribution surging to 25% vs 19% in 1QFY25), EBITDA margin declined by 300bps QoQ and 200bps YoY to 26%.

Domestic business to marginally outperform IPM: The India business grew by 9% (32% of sales) driven by 3% contribution from new product launches, 1.2% volume gain and 5.3% price hikes. During 2Q, AJP hired 200 MRs, totaling 3,200 MRs, which is expected to drive higher sales. We expect the India business to grow by 10% in FY25 to Rs 14.4bn driven by (1) new product launches, (2) MR productivity, (3) volume growth surpassing IPM growth.

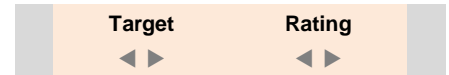
US to remain softer in H2FY25E: The US business sales declined 2% YoY to Rs 2.3bn due to the lack of new product launches. During H1FY25, AJP filed four ANDAs and launched two products in Q2. we expect AJP to launch four to six products in FY25. Due to fewer filings, we forecast growth of 6% to Rs 10bn in FY25 from the US market.

Africa business growth to normalise in H2FY25: During the quarter, the branded generic segment in Africa grew by 36% YoY and 40% in H1FY25. Growth was driven by lower sales in Q4FY24, which spilled into Q1FY25, and resulted in higher sales in H1FY25. However, we expect growth to normalise to 12-15% in FY25.

Margins to remain around 28%: AJP has lowered its Africa business guidance, while the India business will sustain growth at 9-10%. Given elevated SG&A cost likely sustaining, we expect EBITDA margin to remain at around 28% in H2FY25.

Maintain SELL and TP of Rs 2,736: Due to lower EBITDAM, and no YoY increase in margin on an FY basis, we ascribe a P/E of 31x to arrive at a TP of Rs 2,736.

Key changes



| | |
|------------------|-------------------|
| Ticker/Price | AJP IN/Rs 2,923 |
| Market cap | US\$ 4.4bn |
| Free float | 31% |
| 3M ADV | US\$ 7.8mn |
| 52wk high/low | Rs 3,485/Rs 1,704 |
| Promoter/FPI/DII | 66%/10%/15% |

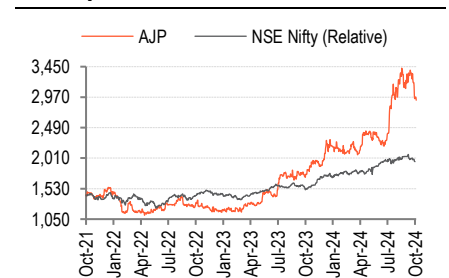
Source: NSE | Price as of 28 Oct 2024

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) | 45.2 | 40.5 | 35.6 |
| EV/EBITDA (x) | 31.3 | 27.7 | 24.5 |
| Adj. EPS growth (%) | 38.8 | 11.8 | 13.7 |

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

- **FY25 revenue growth:** Anticipated mid-teens growth for branded generics, while low single digit growth for the US market.
- **India:** India is expected to grow by 9-10% in FY25. During Q2FY25, AJP grew by 9.6% outpacing Indian Pharma Market (IPM) growth of 7.7%.
- AJP launched 11 products in H1FY25, four of which enjoy First to File (FtF) status in the country.
- AJP is the fourth largest in its covered markets and top 10 in all four therapies present.
- The company hired 200 MRs during the quarter and its total MR count stands at 3,200. It plans to increase this by 3-5% mainly in Asia and Africa.
- Trade Generics contributes ~10% of domestic sales and the contribution will be 10-12% of total sales.
- **US:** AJP filed four ANDAs and received approval for four ANDAs and launched two products in the US market. AJP has 46 products available on the shelf and 22 ANDAs awaiting approval with the USFDA.
- **Emerging Markets:** The company is optimistic about mid-teens growth in Asia and Africa, driven by new product launches, and market share and field force expansion.
- **ETR** is expected to be around 24%.
- **Dividend:** AJP reported interim dividend of Rs 28 per share, a total payout of Rs 7.01bn and 90% from the CFO.
- **R&D:** expected to be 5% of total sales.
- **Growth Driver:** The company has multiple growth drivers: (1) very strong and rich product pipeline under approval in various countries, as well as under development in R&D, (2) entering newer therapy, (3) field force expansion in the international market, and (4) entering newer markets.
- **EBITDA Margin:** AJP aims to maintain EBITDA margin at around 28% for FY25 with the potential for a slight improvement of up to 100bps if conditions are favourable. Till FY27, AJP expects steady improvement in EBITDA margin.

Fig 1 – Quarterly financial highlights

| (Rs mn) | Q2FY25 | Q2FY24 | YoY (%) | Q1FY25 | QoQ (%) | FY24 | FY23 | YoY (%) |
|-------------------------|---------------|---------------|--------------|---------------|--------------|---------------|---------------|--------------|
| Net Sales | 11,866 | 10,284 | 15.4 | 11,449 | 3.6 | 42,087 | 37,426 | 12.5 |
| EBITDA | 3,112 | 2,907 | 7.1 | 3,304 | (5.8) | 11,544 | 7,371 | 56.6 |
| Depreciation | 344 | 337 | 2.0 | 340 | 1.2 | 1,354 | 1,308 | |
| EBIT | 2,768 | 2,570 | 7.7 | 2,964 | (6.6) | 10,190 | 6,063 | |
| Interest | 6 | 23 | (74.3) | 7 | (17.5) | 72 | 58 | |
| Other Income | 195 | 213 | (8.7) | 265 | (26.4) | 1,022 | 1,449 | |
| PBT | 2,957 | 2,759 | 7.1 | 3,221 | (8.2) | 11,139 | 7,453 | 49.5 |
| Less: Taxation | 738 | 806 | (8.5) | 764 | (3.4) | 2,978 | 1,573 | |
| Less: Minority Interest | | | | | | 0 | 0 | |
| Recurring PAT | 2,219 | 1,953 | 13.6 | 2,458 | (9.7) | 8,162 | 5,881 | 38.8 |
| Exceptional items | 0 | 0 | | 0 | | 0 | 0 | |
| Reported PAT | 2,219 | 1,953 | 13.6 | 2,458 | (9.7) | 8,162 | 5,881 | 38.8 |
| Key Ratios (%) | | | (bps) | | (bps) | | | (bps) |
| Gross Margin | 77.9 | 75.1 | 285 | 76.6 | 134 | 74.7 | 71.9 | 272 |
| EBITDA Margin | 26.2 | 28.3 | (204) | 28.9 | (263) | 27.4 | 19.7 | 773 |
| Tax / PBT | 24.9 | 29.2 | | 23.7 | | 26.7 | 21.1 | |
| NPM | 18.7 | 19.0 | (29) | 21.5 | (277) | 19.4 | 15.7 | |
| EPS (Rs) | 17.6 | 15.2 | | 19.5 | | 64.6 | 68.5 | (5.7) |

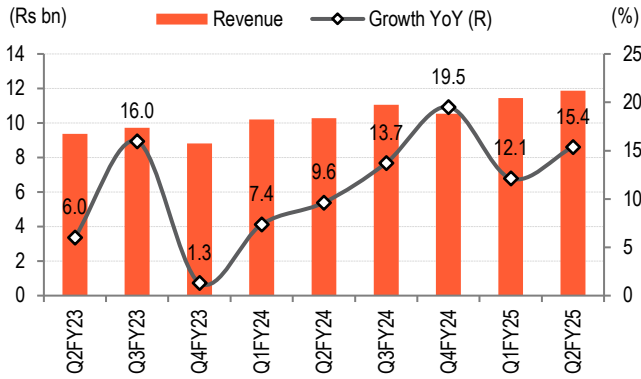
Source: Company, BOBCAPS Research

Fig 2 – Revenue breakdown

| (Rs mn) | Q2FY25 | Q2FY24 | YoY (%) | Q1FY25 | QoQ (%) | FY24 | FY23 |
|----------------------|---------------|---------------|-------------|---------------|------------|---------------|---------------|
| Domestic Formulation | 3,860 | 3,550 | 8.7 | 3,530 | 9.3 | 13,080 | 11,740 |
| Exports Formulation | 7,840 | 6,610 | 18.6 | 7,770 | 0.9 | 28,550 | 25,330 |
| Africa | 2,560 | 1,940 | 32.0 | 2,720 | (5.9) | 8,340 | 7,490 |
| Asia | 2,960 | 2,300 | 28.7 | 2,770 | 6.9 | 10,570 | 9,570 |
| US | 2,320 | 2,370 | (2.1) | 2,280 | 1.8 | 9,640 | 8,270 |
| Other op Income | 160 | 124 | 28.6 | 149 | 7.2 | 457 | 356 |
| Revenues | 11,860 | 10,284 | 15.3 | 11,449 | 3.6 | 42,087 | 37,426 |

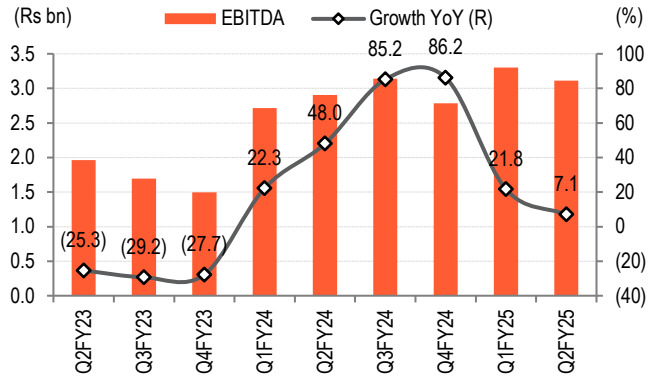
Source: Company, BOBCAPS Research

Fig 3 – Sales increased due to higher growth in branded generic sales



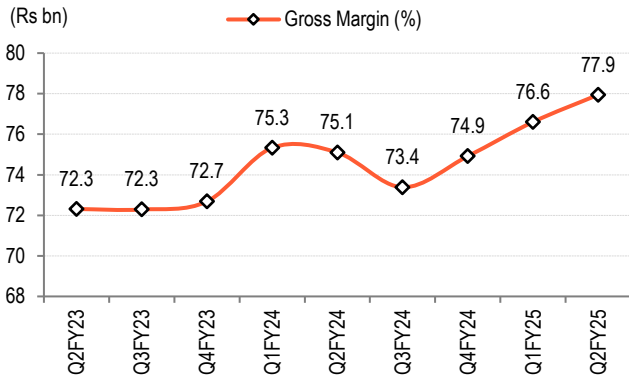
Source: Company, BOBCAPS Research

Fig 4 – Growth impacted due to higher SG&A expense



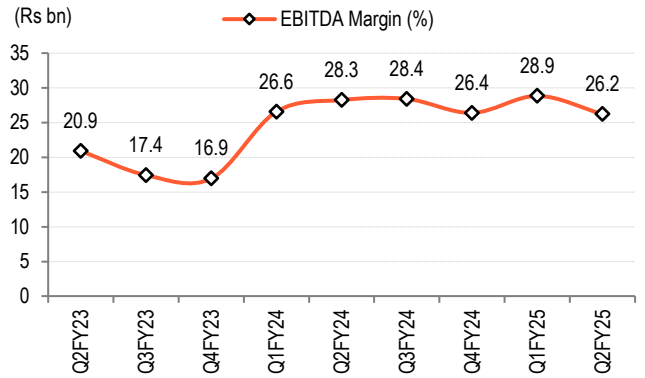
Source: Company, BOBCAPS Research

Fig 5 – Margins increased due to higher product mix



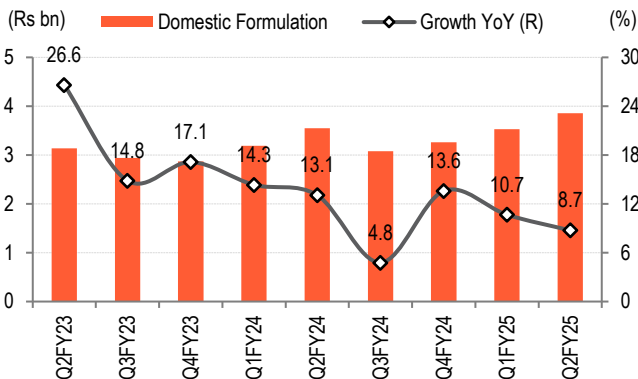
Source: Company, BOBCAPS Research

Fig 6 – EBITDA margin lower due to higher other expenses



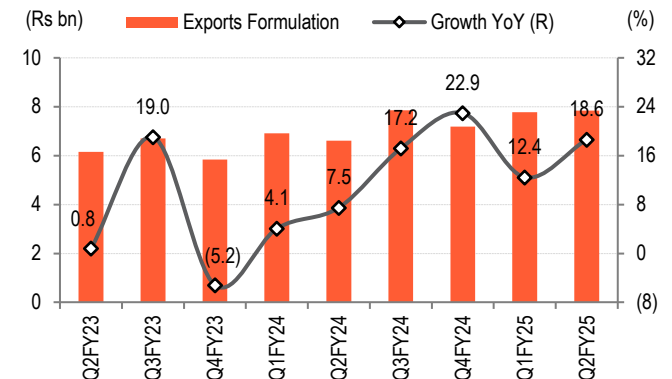
Source: Company, BOBCAPS Research

Fig 7 – Domestic sales growth driven by new product launches



Source: Company, BOBCAPS Research

Fig 8 – Exports growth driven by Asia + Africa branded markets



Source: Company, BOBCAPS Research

Valuation methodology

AJP's Q2 earnings were mixed – revenue and EBITDA beat our estimates, but PAT was below our estimate. The branded generics markets of India, Asia and Africa, comprising 75% of AJP's portfolio, continue to grow in double digits. In the domestic region, the company's portfolio concentrates on four therapies – Cardiology, Ophthalmology, Pain Management and Dermatology. AJP intends to diversify into a fifth therapy in 12-18 months, mainly in the Chronic segment which is again a competitive segment.

We maintain SELL on AJP as the stock is trading 20% higher than its domestic peer average of 28x P/E on Sep'26. Given its limited presence in therapies in the domestic market and lower margin profile compared to close peers like Torrent Pharma with an over 32% margin profile, we value the stock at 31x P/E on Sep'26 to yield a TP of Rs 2,736.

Fig 9 – Revised estimates

| (Rs mn) | Revised | | | | Old | | | Change (%) | | |
|-------------------|---------|--------|--------|--------|--------|--------|--------|------------|--------|--------|
| | FY24 | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E |
| Sales | 42,087 | 46,565 | 51,636 | 56,583 | 47,593 | 52,699 | 57,687 | (2.2) | (2.0) | (1.9) |
| EBITDA | 11,719 | 13,243 | 14,944 | 16,658 | 13,060 | 14,197 | 15,397 | 1.4 | 5.3 | 8.2 |
| EBITDA margin (%) | 27.8 | 28.4 | 28.9 | 29.4 | 27.4 | 26.9 | 26.7 | 100bps | 200bps | 275bps |
| EPS (Rs) | 65 | 72 | 82 | 92 | 71 | 78 | 86 | 1.6 | 4.8 | 7.7 |

Source: Company, BOBCAPS Research

Fig 10 – 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 | 9.8 | 8.7 | 7.9 | 7.1 | 6.4 |
| EV/EBITDA | 46.9 | 31.3 | 27.7 | 24.5 | 21.9 |
| Adjusted P/E | 62.8 | 45.2 | 40.5 | 35.6 | 31.7 |
| P/BV | 7.6 | 7.2 | 6.0 | 5.0 | 4.2 |

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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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

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CIN: **U65999MH1996GOI098009**



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BUY – Expected return >+15%

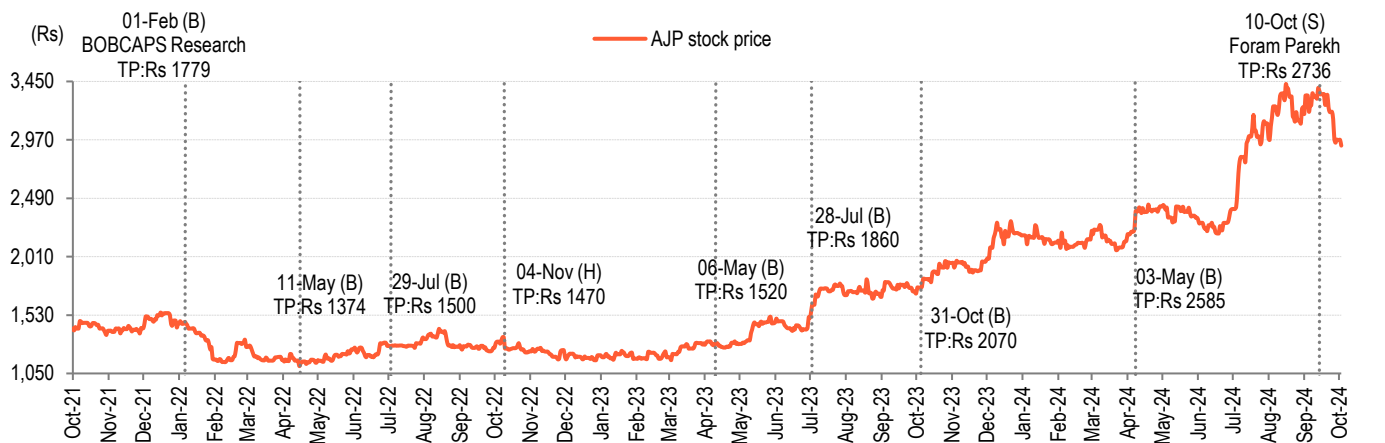
HOLD – Expected return from -6% to +15%

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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