

RESEARCH**AJANTA PHARMA | TARGET: Rs 2,528 | -10% | SELL**

No incremental triggers; valuation expensive

SUMMARY**AJANTA PHARMA**

- 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

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AJANTA PHARMA

Pharmaceuticals

11 December 2024

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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%

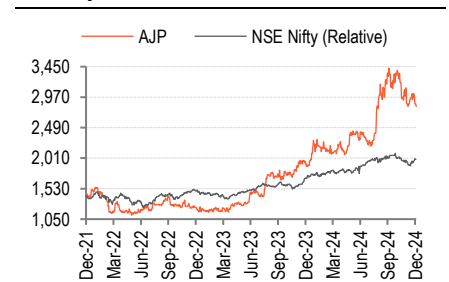
Source: NSE | Price as of 10 Dec 2024

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



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BUY – Expected return >+15%

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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