

CMP: ₹ 2385

Target: ₹ 2875(21%)

Target Period: 12 months

BUY

May 3, 2024

Well-rounded growth across segments...

About the stock: Ajanta Pharma is a focused player in branded generics, which constitutes ~71% of overall sales, spread across geographies including India.

- As of FY24, overall exports: domestic formulations ratio was at 68:32
- Among exports, Asia accounts for ~37% of export formulations, Africa 20% and the US ~34%. The company also participates in anti-malarial tenders in Africa (included in Africa)

Investment Rationale:

- Strong Q4FY24- Branded business continues to deliver- Revenues grew ~20% YoY to ~Rs 1042 crore driven by India branded, Asia branded and Africa branded which grew 16% / 18% / 13% respectively. Other businesses such as US and Africa tender also grew 32% and 25% respectively. On the operational front, EBITDA came in at ~Rs 278 crore, up~86% YoY on a lower base with margins at 26.4%. PAT during the quarter was at ~Rs 203 crore, up 66% YoY. Branded businesses in India, Asia and Africa were driven by new launches and market share gains in existing products. So was the case with US generics.
- Good recovery in FY24; Guidance for FY25 also upbeat – After a subdued FY23, which saw profitability being impacted by raw material availability issues, logistical challenges etc. the company has registered good revenue growth and strong margins in most part of FY24. The company has guided for low teen growth in FY25 to be driven by 10-11% India growth, mid-teen growth in Asia / Africa and high single digit growth in US. EBITDA margins guidance is around 28%.
- Robust CFO generation continues; 4th buyback in four years- With ~70% contribution coming from the branded generics, Ajanta continues to deliver robust CFO. Add to this, the yearly capex run rate is slated to stay at just Rs 150- 200 crore as the company has ample capacities sufficient to cater to the requirements of the next 2-3 years. Thus, the company remains a strong FCF generator. It has also announced 4th buyback (in three years) at Rs 2770 per share in FY25. This is on the back of third buyback and ~78% of dividend payout in FY24. This suggests that the company does not want to indulge into an aggressive capex there by compromising margins and return ratios and just happy to return access cash to the shareholders.

Rating and Target price

- Our target price is ₹ 2875 based on 35x FY26E EPS of 82.1. We believe the premium valuation is justified given the consistency in earnings and FCF.

Key Financial Summary

Key Financials (₹ Crore)	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24	FY25E	FY26E	2 year CAGR (FY24-26E)
Revenues	2889.7	3341.0	3742.6	13.1	4208.7	4674.5	5189.2	11.0
EBITDA	998.6	929.3	783.3	4.7	1154.4	1297.9	1504.9	14.2
EBITDA margins (%)	34.6	27.8	20.9		27.4	27.8	29.0	
Net Profit	653.9	712.7	588.0	7.9	816.2	877.5	1025.7	12.1
EPS (₹)	51.1	55.7	46.5		64.6	70.3	82.1	
PE (x)	46.7	42.8	51.3		36.9	33.9	29.0	
EV to EBITDA (x)	30.2	32.5	37.9		26.0	22.7	19.2	
RoCE (%)	29.0	27.0	21.3		31.1	30.0	30.1	
ROE (%)	21.8	21.8	17.4		22.9	22.8	22.8	



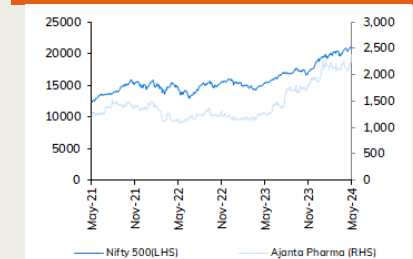
Particulars

Particular	Amount
Market Capitalisation	₹ 30694 crore
Debt (FY24)	₹ 1 crore
Cash (FY24)	₹ 129 crore
EV	₹ 30566 crore
52 week H/L	2540/1246
Equity capital	₹ 25.0 crore
Face value	₹ 2

Shareholding pattern

(In %)	Jun-23	Sep-23	Dec-23	Mar-23
Promoter	66.2	66.2	66.2	66.2
Fils	10.2	10.0	9.1	8.5
Dils	15.4	15.6	16.7	17.5
Others	8.2	8.2	8.0	7.8

Price Chart



Key risks

- (i) Unforeseen pressure on EBITDA margins
- (ii) Risk and lumpiness associated with non-branded businesses.

Research Analyst

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Exhibit 1: Quarterly Summary

(₹ crore)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q3FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Total Operating Income	756.8	748.0	884.8	837.9	870.3	950.9	938.1	971.8	881.8	1021.0	1105.2	1105.2	1054.1	19.5	-4.6
Raw Material Expenses	167.9	171.7	232.2	189.1	239.3	280.4	259.8	269.3	240.9	251.9	294.2	294.2	264.4	9.7	-10.1
% of Revenue	22.2	22.9	26.2	22.6	27.5	29.5	27.7	27.7	27.3	24.7	26.6	26.6	25.1	-224 bps	-154 bps
Gross Profit	588.9	576.3	652.6	648.9	631.0	670.5	678.4	702.4	640.9	769.1	811.0	811.0	789.7	23.2	-2.6
GPM (%)	77.8	77.1	73.8	77.4	72.5	70.5	72.3	72.3	72.7	75.3	73.4	73.4	74.9	224 bps	154 bps
Employee Expenses	145.8	158.0	160.1	162.2	165.5	182.9	186.1	192.4	223.6	213.2	231.4	231.4	233.5	4.4	0.9
% of Revenue	19.3	21.1	18.1	19.4	19.0	19.2	19.8	19.8	25.4	20.9	20.9	20.9	22.2	-321 bps	122 bps
Other Expenditure	183.8	198.1	229.7	247.1	258.8	265.8	295.9	340.5	267.9	284.6	265.6	265.6	277.9	3.7	4.6
% of Revenue	24.3	26.5	26.0	29.5	29.7	28.0	31.5	35.0	30.4	27.9	24.0	24.0	26.4	-402 bps	233 bps
Total Expenditure	497.4	527.8	622.0	598.3	663.6	729.2	741.8	802.2	732.5	749.7	791.1	791.1	775.8	5.9	-1.9
% of Revenue	65.7	70.6	70.3	71.4	76.3	76.7	79.1	82.6	83.1	73.4	71.6	71.6	73.6	-947 bps	201 bps
EBITDA	259.4	220.2	262.8	239.6	206.7	221.8	196.3	169.6	149.4	271.3	314.1	314.1	278.3	86.3	-11.4
EBITDA Margin (%)	34.3	29.4	29.7	28.6	23.7	23.3	20.9	17.4	16.9	26.6	28.4	28.4	26.4	947 bps	-201 bps
Other Income	2.5	32.6	29.5	24.0	29.5	32.8	40.4	34.9	36.8	31.8	13.6	13.6	35.5	-3.6	161.2
Interest	2.6	1.5	0.4	1.0	7.3	0.9	1.0	2.8	1.1	0.9	2.5	2.5	1.5	35.4	-38.6
Depreciation	30.6	30.9	31.5	31.7	31.2	31.8	32.7	33.3	33.0	33.2	34.3	34.3	34.3	3.7	0.0
PBT	228.8	220.5	260.4	230.9	197.7	221.9	203.0	168.3	152.1	269.0	290.9	290.9	278.0	82.9	-4.4
Total Tax	69.5	46.7	64.5	39.2	46.5	47.2	46.4	33.8	29.8	60.9	80.9	80.9	75.3	152.8	-6.9
Tax rate (%)	30.4	21.2	24.8	17.0	23.5	21.3	22.9	20.1	19.6	22.6	27.8	27.8	27.1	749 bps	-71 bps
PAT	159.3	173.8	195.9	191.8	151.2	174.6	156.6	134.5	122.3	208.1	210.0	210.0	202.7	65.8	-3.5
PAT Margin (%)	21.0	23.2	22.1	22.9	17.4	18.4	16.7	13.8	13.9	20.4	19.0	19.0	19.2	537 bps	23 bps

Source: Company, ICICI Direct Research

Q4FY24 Conference call highlights

India Business-

- India branded growth was driven by volume growth, price hikes and new launches. The company launched 15 products in India during FY24, including 14 first-time launches.
- India main therapy break-up- CVS 38%, Ophthalmic- 31%, Dermatology- 22%, Pain- 9%,
- CVS growth muted of 4% during the quarter due to ~18% price erosion in MET XL. Ex- MET XL growth was ~14%
- The company expects good launch momentum especially in Derma in FY25.
- Current MR strength stands around ~3000.
- India branded growth guidance- 200/300 bps higher than the IPM growth, i.e. around 10-11%.
- Trade Generics accounted for ₹ 41 crore to India business. Main therapies pushed via trade generics- anti-infectives, GI, pain management among others

Asia / Africa branded-

- Asia includes 10 countries encompassing Middle East, South East and Central Asian regions. The company Launched 18 products in Asia in FY24. Africa includes 20 countries. The company launched 9 products in Africa in FY24.
- Total MR strength in Asia+ Africa- 2000 (mainly in Africa)
- Growth guidance – mid teen growth to be driven by new launches.

US –

- Growth was driven by softening of price erosion, opportunities stemming from shortages etc.
- The company filed 6 ANDAs received 6 ANDA final approvals. Out of 53 final ANDA approvals, it has commercialized 44 products. Another 22 ANDAs are awaiting USFDA approval.
- For FY25, 8-12 filings and 6 launches have been planned.
- US base business price erosion was around 8-10%
- FY25 growth guidance- high single digit growth.

Other points-

- FY25 guidance- EBITDA margins – 28%. Capex- ₹ 150-200 core. Tax Rate- ~27-28%.
- Buyback- purchase of 10,28,881 equity shares at a price of ₹ 2,770 per equity share, constituting 0.82% of the total paid-up equity share capital

Financial Tables

Exhibit 3: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Total Operating Income	3,742.6	4,208.7	4,674.5	5,189.2
Growth (%)	12.0	12.5	11.1	11.0
Raw Material Expenses	1,050.4	1,066.6	1,168.6	1,297.3
Gross Profit	2,692.2	3,142.1	3,505.8	3,891.9
Gross Profit Margins (%)	71.9	74.7	75.0	75.0
Employee Expenses	785.1	900.3	993.0	1,089.7
Other Expenditure	1,123.9	1,087.4	1,215.0	1,297.3
Total Operating Expenditure	2,959.4	3,054.3	3,376.6	3,684.3
EBITDA	783.3	1,154.4	1,297.9	1,504.9
Growth (%)	-15.7	47.4	12.4	15.9
Interest	5.8	7.2	6.1	6.1
Depreciation	130.8	135.4	147.2	157.4
Other Income	98.6	102.2	57.5	63.8
PBT before Exceptional Item	745.3	1,113.9	1,202.0	1,405.1
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	745.3	1,113.9	1,202.0	1,405.1
Total Tax	157.3	297.8	324.5	379.4
PAT before MI	588.0	816.2	877.5	1,025.7
PAT	588.0	816.2	877.5	1,025.7
Growth (%)	-17.5	38.8	7.5	16.9
EPS (Adjusted)	46.5	64.6	70.3	82.1
Other income as % of (Cash+investment)	11%	21%	5%	4%

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Profit/(Loss) after taxation	588.0	801.8	877.5	1,025.7	
Add: Depreciation & Amortiza	130.8	135.4	147.2	157.4	
Net Increase in Current Assets	-3.5	-229.4	310.2	-198.1	
Net Increase in Current Liabilit	70.1	129.6	-38.4	54.6	
Others	0.5	-52.4	6.1	6.1	
CF from Operating activities	785.9	785.1	1,302.6	1,045.8	
(Purchase)/Sale of Fixed Asset	-173.8	-139.0	-200.0	-150.0	
Investments	-385.8	204.4	200.0	0.0	
Others	0.0	0.2	137.8	3.4	
CF from Investing activities	-559.6	65.6	137.8	-146.6	
(inc)/Dec in Loan	-0.5	0.1	0.0	0.0	
Dividend & Dividend tax	-89.7	-642.2	-312.3	-374.7	
Other	-18.0	-409.0	-291.4	-6.1	
CF from Financing activities	-108.2	-1,051.1	-603.7	-380.8	
Net Cash Flow	118.1	-200.4	836.7	518.4	
Cash and Cash Equivalent	211.8	329.9	129.5	966.2	
Cash	329.9	129.5	966.2	1,484.6	
Free Cash Flow	612.1	646.0	1,102.6	895.8	
FCF Yield	2%	2%	4%	3%	

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Equity Capital	25.3	25.3	25.0	25.0	
Reserve and Surplus	3,362.7	3,542.1	3,822.3	4,473.3	
Total Shareholders funds	3,388.0	3,567.4	3,847.3	4,498.3	
Total Debt	1.4	1.5	1.5	1.5	
Deferred Tax Liability	87.3	108.5	110.7	112.9	
Long-Term Provisions	24.2	39.5	40.3	41.1	
Other Non Current Liabilities	28.6	27.2	27.8	28.3	
Source of Funds	3,529.5	3,744.1	4,027.5	4,682.2	
Gross Block - Fixed Assets	2,333.0	2,451.2	2,601.2	2,701.2	
Accumulated Depreciation	836.6	972.0	1,119.2	1,276.7	
Net Block	1,496.4	1,479.2	1,482.0	1,424.5	
Capital WIP	209.5	256.5	306.5	356.5	
Fixed Assets	1,705.9	1,735.6	1,788.4	1,781.0	
Investments	535.4	348.6	148.6	148.6	
Other non-Current Assets	114.0	143.8	9.6	9.8	
Inventory	815.0	828.4	288.2	319.9	
Debtors	1,056.9	1,246.8	1,472.8	1,634.9	
Other Current Assets	111.5	205.5	209.7	213.8	
Cash	329.9	129.5	966.2	1,484.6	
Total Current Assets	2,313.3	2,410.2	2,936.8	3,653.3	
Creditors	422.8	463.2	416.2	462.1	
Provisions	14.0	17.8	18.1	18.5	
Other Current Liabilities	702.3	413.3	421.6	430.0	
Total Current Liabilities	1,139.1	894.3	855.9	910.5	
Net Current Assets	1,174.2	1,516.0	2,080.9	2,742.7	
Application of Funds	3,529.5	3,744.1	4,027.5	4,682.2	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
Reported EPS	46.5	64.6	70.3	82.1
Cash EPS	49.8	24.3	57.0	64.7
BV per share	268.0	282.2	308.0	360.2
Cash per Share	26.1	10.2	77.4	118.9
Dividend per share	7.1	51.0	25.0	30.0
Operating Ratios (%)				
Gross Profit Margins	71.9	74.7	75.0	75.0
EBITDA margins	20.9	27.4	27.8	29.0
PAT Margins	15.7	19.4	18.8	19.8
Cash Conversion Cycle	36	21	75	75
Fixed Asset Turnover	2.2	2.4	2.6	2.9
EBITDA conversion Rate	100.3	68.0	100.4	69.5
Return Ratios (%)				
RoE	17.4	22.9	22.8	22.8
RoCE	21.3	31.1	30.0	30.1
RoIC	26.3	35.2	43.8	49.7
Valuation Ratios (x)				
P/E	51.3	36.9	33.9	29.0
EV / EBITDA	37.9	26.0	22.7	19.2
EV / Net Sales	7.9	7.1	6.3	5.6
Market Cap / Sales	8.2	7.3	6.5	5.9
Price to Book Value	8.9	8.5	7.7	6.6
Solvency Ratios				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.7	2.6	2.3	2.4
Quick Ratio	1.0	1.6	2.0	2.0
Inventory days	79	72	90	90
Debtor days	103	108	115	115
Creditor days	147	159	130	130

Source: Company, ICICI Direct Research

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