

CMP: ₹ 2580

Target: ₹ 3165(22%)

Target Period: 12 months

BUY

July 31, 2024

Branded business continue to deliver...

About the stock: Ajanta Pharma is a focused player in branded generics, which constitutes ~76% of overall sales, spread across geographies including India.

- As of Q1FY25, overall exports: domestic formulations ratio was at 69:31
- Among exports, Asia accounts for ~25% of export formulations, Africa ~24% and the US ~20%. The company also participates in anti-malarial tenders in Africa (included in Africa)

Investment Rationale:

- Strong Q1FY25—Revenues grew ~12% YoY to ~₹ 1145 crore driven by Africa branded, India branded and Asia branded which grew 45% / 11% / 9% to ₹ 230 crore, ₹ 353 crore and ₹ 277 crore, respectively. Other businesses such as US grew 7% YoY to ₹ 228 crore whereas Africa tender de-grew 35% to ₹ 42 crore. On the operational front, EBITDA grew 22% YoY to ~₹ 330 crore margins at 28.9% driven by strong GPM performance (up 128 bps to 76.6%) PAT during the quarter was at ~₹ 249 crore, up 18% YoY.
- Guidance more or less maintained with slight uptick in margins – Branded businesses in India, Asia and Africa were driven by new launches and market share gains in existing products. US growth was slightly tepid but in line with the guidance and is expected to pick up. 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 28-29% based on GPM guidance of 76-77%.
- Robust CFO generation continues; 4th buyback in four years- With ~75% 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 ₹ 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 ₹ 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 ₹ 3165 based on 37x FY26E EPS of 85.6. 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	4623.2	5135.8	10.5
EBITDA	998.6	929.3	783.3	4.7	1154.4	1310.2	1489.4	13.6
EBITDA margins (%)	34.6	27.8	20.9		27.4	28.3	29.0	
Net Profit	653.9	712.7	588.0	7.9	816.2	935.7	1068.8	14.4
EPS (₹)	51.1	55.7	46.5		64.6	74.9	85.6	
PE (x)	46.7	42.8	51.3		36.9	31.8	27.9	
EV to EBITDA (x)	30.2	32.5	37.9		26.0	22.4	19.3	
RoCE (%)	29.0	27.0	21.3		31.1	31.1	30.4	
ROE (%)	21.8	21.8	17.4		22.9	24.0	23.2	



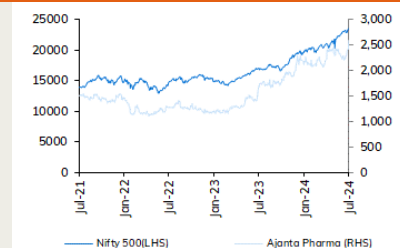
Particulars

Particular	Amount
Market Capitalisation	₹ 33024 crore
Debt (FY24)	₹ 1 crore
Cash (FY24)	₹ 129 crore
EV	₹ 32896 crore
52 week H/L	2540/1246
Equity capital	₹ 25.0 crore
Face value	₹ 2

Shareholding pattern

(in %)	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	66.2	66.2	66.2	66.3
FIs	10.0	9.1	8.5	8.4
DIs	15.6	16.7	17.5	17.4
Others	8.2	8.0	7.8	8.0

Price Chart



Key risks

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

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Shubh Mehta
shubh.mehta@icicisecurities.com

Exhibit 1: Quarterly Summary

(₹ crore)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q3FY23	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Total Operating Income	748.0	884.8	837.9	870.3	950.9	938.1	971.8	881.8	1021.0	971.8	1105.2	1054.1	1144.9	12.1	8.6
Raw Material Expenses	171.7	232.2	189.1	239.3	280.4	259.8	269.3	240.9	251.9	269.3	294.2	264.4	267.9	6.3	1.3
% of Revenue	22.9	26.2	22.6	27.5	29.5	27.7	27.7	27.3	24.7	27.7	26.6	25.1	23.4	-128 bps	-169 bps
Gross Profit	576.3	652.6	648.9	631.0	670.5	678.4	702.4	640.9	769.1	702.4	811.0	789.7	877.1	14.0	11.1
GPM (%)	77.1	73.8	77.4	72.5	70.5	72.3	72.3	72.7	75.3	72.3	73.4	74.9	76.6	128 bps	169 bps
Employee Expenses	158.0	160.1	162.2	165.5	182.9	186.1	192.4	223.6	213.2	192.4	231.4	233.5	283.8	33.1	21.5
% of Revenue	21.1	18.1	19.4	19.0	19.2	19.8	19.8	25.4	20.9	19.8	20.9	22.2	24.8	390 bps	263 bps
Other Expenditure	198.1	229.7	247.1	258.8	265.8	295.9	340.5	267.9	284.6	340.5	265.6	277.9	262.9	-7.6	-5.4
% of Revenue	26.5	26.0	29.5	29.7	28.0	31.5	35.0	30.4	27.9	35.0	24.0	26.4	23.0	-491 bps	-340 bps
Total Expenditure	527.8	622.0	598.3	663.6	729.2	741.8	802.2	732.5	749.7	802.2	791.1	775.8	814.6	8.6	5.0
% of Revenue	70.6	70.3	71.4	76.3	76.7	79.1	82.6	83.1	73.4	82.6	71.6	73.6	71.1	-228 bps	-245 bps
EBITDA	220.2	262.8	239.6	206.7	221.8	196.3	169.6	149.4	271.3	169.6	314.1	278.3	330.4	21.8	18.7
EBITDA Margin (%)	29.4	29.7	28.6	23.7	23.3	20.9	17.4	16.9	26.6	17.4	28.4	26.4	28.9	228 bps	245 bps
Other Income	32.6	29.5	24.0	29.5	32.8	40.4	34.9	36.8	31.8	34.9	13.6	35.5	26.5	-16.6	-25.4
Interest	1.5	0.4	1.0	7.3	0.9	1.0	2.8	1.1	0.9	2.8	2.5	1.5	0.7	-14.1	-52.3
Depreciation	30.9	31.5	31.7	31.2	31.8	32.7	33.3	33.0	33.2	33.3	34.3	34.3	34.0	2.4	-0.8
PBT	220.5	260.4	230.9	197.7	221.9	203.0	168.3	152.1	269.0	168.3	290.9	278.0	322.1	19.7	15.9
Total Tax	46.7	64.5	39.2	46.5	47.2	46.4	33.8	29.8	60.9	33.8	80.9	75.3	76.4	25.3	1.4
Tax rate (%)	21.2	24.8	17.0	23.5	21.3	22.9	20.1	19.6	22.6	20.1	27.8	27.1	23.7	106 bps	-339 bps
PAT	173.8	195.9	191.8	151.2	174.6	156.6	134.5	122.3	208.1	134.5	210.0	202.7	245.8	18.1	21.2
PAT Margin (%)	23.2	22.1	22.9	17.4	18.4	16.7	13.8	13.9	20.4	13.8	19.0	19.2	21.5	108 bps	223 bps

Source: Company, ICICI Direct Research

Q1FY25 Conference call highlights

Company Performance Overview

- The cash conversion ratio was 141% due to improvements in the working capital cycle.
- Gross Margin Improved by 200 basis points to 77%, attributed to a higher contribution from branded generic business.
- Personnel Cost increased by 33% to ₹ 284 crore due to regular annual increments and a one-time charge of about ₹ 30 crore due to change in the gratuity policy.
- R&D Expenses stood at 4.5% of sales (₹ 51 crore). Expected to be around 5% for the full year.
- Capex for the full year to be ₹ 175 crore r.
- During Q1 FY 2025, launched a total of 9 new products in the branded generic segment across Asia and Africa.
- In Q1, filed two ANDAs and received three final approvals, and launched two ANDAs.
- Plans to file eight to twelve ANDAs in the current fiscal year.
- Africa tender business remains unpredictable due to reliance on the procurement agency's schedule
- Gross margin expected to remain in the range of 76-77%.
- Consistent efforts to improve the working capital cycle are ongoing, focusing on reducing inventory levels and improving receivables.
- Revenue run rate for Africa-branded generic business expected to sustain mid double-digit growth.
- Measures taken to curtail working capital include reducing inventory levels and improving receivables, especially in the US.
- Gross margin guidance is slightly conservative due to potential variations in product mix and anticipated increases in expenses in the next quarters.

Financial Tables

Exhibit 1: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Total Operating Income	3,742.6	4,208.7	4,623.2	5,135.8
Growth (%)	12.0	12.5	9.8	11.1
Raw Material Expenses	1,050.4	1,066.6	1,137.4	1,283.9
Gross Profit	2,692.2	3,142.1	3,485.8	3,851.8
Gross Profit Margins (%)	71.9	74.7	75.4	75.0
Employee Expenses	785.1	900.3	1,019.8	1,078.5
Other Expenditure	1,123.9	1,087.4	1,155.8	1,283.9
Total Operating Expenditure	2,959.4	3,054.3	3,313.1	3,646.4
EBITDA	783.3	1,154.4	1,310.2	1,489.4
Growth (%)	-15.7	47.4	13.5	13.7
Interest	5.8	7.2	5.3	6.1
Depreciation	130.8	135.4	144.4	154.4
Other Income	98.6	102.2	69.2	76.9
PBT before Exceptional Item	745.3	1,113.9	1,229.7	1,405.8
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	745.3	1,113.9	1,229.7	1,405.8
Total Tax	157.3	297.8	321.4	367.4
PAT before MI	588.0	816.2	908.3	1,038.4
PAT	588.0	816.2	908.3	1,038.4
Growth (%)	-17.5	38.8	11.3	14.3
EPS (Adjusted)	46.5	64.6	72.7	83.1

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Profit/(Loss) after taxation	588.0	801.8	908.3	1,038.4
Add: Depreciation & Amortiza	130.8	135.4	144.4	154.4
Net Increase in Current Assets	-3.5	-229.4	396.3	-193.8
Net Increase in Current Liabilit	70.1	129.6	-49.5	61.0
Others	0.5	-52.4	5.3	6.1
CF from Operating activities	785.9	785.1	1,404.9	1,066.1
(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	-290.6	-6.1
CF from Financing activities	-108.2	-1,051.1	-602.9	-380.8
Net Cash Flow	118.1	-200.4	939.8	538.6
Cash and Cash Equivalent	211.8	329.9	129.5	1,069.3
Cash	329.9	129.5	1,069.3	1,607.9
Free Cash Flow	612.1	646.0	1,204.9	916.1

Source: Company, ICICI Direct Research

Exhibit 3: 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	3,853.1	4,516.8
Total Shareholders funds	3,388.0	3,567.4	3,878.1	4,541.8
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	4,058.4	4,725.6
Gross Block - Fixed Assets	2,333.0	2,451.2	2,601.2	2,701.2
Accumulated Depreciation	836.6	972.0	1,116.4	1,270.8
Net Block	1,496.4	1,479.2	1,484.8	1,430.4
Capital WIP	209.5	256.5	306.5	356.5
Fixed Assets	1,705.9	1,735.6	1,791.2	1,786.8
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	218.1	246.2
Debtors	1,056.9	1,246.8	1,456.6	1,618.1
Other Current Assets	111.5	205.5	209.7	213.8
Cash	329.9	129.5	1,069.3	1,607.9
Total Current Assets	2,313.3	2,410.2	2,953.7	3,686.1
Creditors	422.8	463.2	405.1	457.3
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	844.8	905.8
Net Current Assets	1,174.2	1,516.0	2,108.9	2,780.3
Application of Funds	3,529.5	3,744.1	4,058.4	4,725.6

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
Reported EPS	46.5	64.6	72.7	83.1
Cash EPS	49.8	24.3	59.3	65.5
BV per share	268.0	282.2	310.5	363.6
Cash per Share	26.1	10.2	85.6	128.7
Dividend per share	7.1	51.0	25.0	30.0
Operating Ratios (%)				
Gross Profit Margins	71.9	74.7	75.4	75.0
EBITDA margins	20.9	27.4	28.3	29.0
PAT Margins	15.7	19.4	19.6	20.2
Cash Conversion Cycle	36	21	55	55
Fixed Asset Turnover	2.2	2.4	2.6	2.9
EBITDA conversion Rate	100.3	68.0	107.2	71.6
Return Ratios (%)				
RoE	17.4	22.9	23.4	22.9
RoCE	21.3	31.1	30.4	29.9
RoIC	26.3	35.2	45.7	50.7
Valuation Ratios (x)				
P/E	51.3	36.9	32.8	28.7
EV / EBITDA	37.9	26.0	22.4	19.3
EV / Net Sales	7.9	7.1	6.3	5.6
Market Cap / Sales	8.2	7.3	6.6	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	2.2	2.3
Quick Ratio	1.0	1.6	2.0	2.0
Inventory days	79	72	70	70
Debtor days	103	108	115	115
Creditor days	147	159	130	130

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

I/We, Siddhant Khandekar, Inter CA; Shubh Mehta, MBA(Tech); Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH00000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Anoop Goyal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.