

CMP: ₹ 2820

Target: ₹ 3455(22%)

Target Period: 12 months

BUY

November 11, 2024

## Branded business focus remains the key ...

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 Q2FY25, overall exports: domestic formulations ratio was at 67:33
- Among exports, Asia accounts for ~37.7% of export formulations, Africa ~32.6% and the US ~29.6%. The company also participates in anti-malarial tenders in Africa (included in Africa)

### Investment Rationale:

- **Q2FY25- Momentum continues in branded business** - Revenues grew ~15% YoY to ~₹ 1187 crore driven by Africa branded, India branded and Asia branded which grew 35% / 9% / 28% to ₹ 213 crore, ₹ 386 crore and ₹ 296 crore, respectively. Other businesses such as US de-grew 2% to ₹ 232 crore whereas Africa tender grew 16% to ₹ 43 crore. On the operational front, EBITDA grew 7% YoY to ~₹ 311 crore with margins at 26.2% (down 204 bps YoY) as strong GPM performance (up 285 bps to 77.9%) was neutralised by higher other expenditure. PAT during the quarter was at ~₹ 216 crore, up 11% YoY.
- Guidance more or less maintained with consistency in Branded portfolio- 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 9-10% India growth, mid-teen growth in Asia / Africa and mid-single digit growth in the US. EBITDA margins guidance is around 28-29% based on GPM guidance of 76-77%.
- Robust CFO generation continues; remains one of the best capital allocators among peers- 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. Four buybacks in three years and liberal dividend pay-outs 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 ₹ 3455 based on 40x FY26E EPS of 86.4, We believe the premium valuation is justified given the consistency in earnings and FCF.



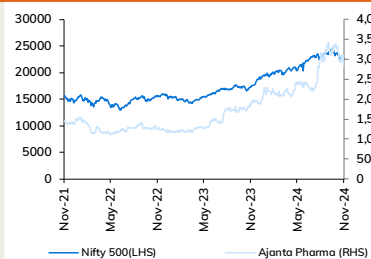
### Particulars

Particular	Amount
Market Capitalisation	₹ 36096 crore
Debt (FY24)	₹ 1 crore
Cash (FY24)	₹ 129 crore
EV	₹ 35968 crore
52 week H/L	3485/1840
Equity capital	₹ 25.0 crore
Face value	₹ 2

### Shareholding pattern

(in %)	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	66.2	66.2	66.3	66.3
Fils	9.1	8.5	8.4	9.1
DIs	16.7	17.5	17.4	17.1
Others	8.0	7.8	8.0	7.5

### Price Chart



### Key risks

- Unforeseen pressure on EBITDA margins
- Risk and lumpiness associated with non-branded businesses.

### Research Analyst

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### 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	4691.8	5223.1	11.4
EBITDA	998.6	929.3	783.3	4.7	1154.4	1313.9	1514.7	14.5
EBITDA margins (%)	34.6	27.8	20.9		27.4	28.0	29.0	
Net Profit	653.9	712.7	588.0	7.9	816.2	932.8	1079.9	15.0
EPS (₹)	51.1	55.7	46.5		64.6	74.7	86.5	
PE (x)	56.4	51.7	61.9		44.6	38.6	33.3	
EV to EBITDA (x)	36.5	39.3	46.0		31.5	27.5	23.3	
RoCE (%)	29.0	27.0	21.3		31.1	34.1	32.2	
ROE (%)	21.8	21.8	17.4		22.9	25.4	24.6	

Source: Company, ICICI Direct Research

Exhibit 1: Quarterly Summary

(₹ crore)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
Total Operating Income	884.8	837.9	870.3	950.9	938.1	971.8	881.8	1021.0	1028.4	1105.2	1054.1	1144.9	1186.6	15.4	3.6
Raw Material Expenses	232.2	189.1	239.3	280.4	259.8	269.3	240.9	251.9	256.1	294.2	264.4	267.9	261.7	2.2	-2.3
% of Revenue	26.2	22.6	27.5	29.5	27.7	27.7	27.3	24.7	24.9	26.6	25.1	23.4	22.1	-285 bps	-134 bps
Gross Profit	652.6	648.9	631.0	670.5	678.4	702.4	640.9	769.1	772.3	811.0	789.7	877.1	924.9	19.8	5.5
GPM (%)	73.8	77.4	72.5	70.5	72.3	72.3	72.7	75.3	75.1	73.4	74.9	76.6	77.9	285 bps	134 bps
Employee Expenses	160.1	162.2	165.5	182.9	186.1	192.4	223.6	213.2	222.3	231.4	233.5	283.8	261.0	17.4	-8.0
% of Revenue	18.1	19.4	19.0	19.2	19.8	19.8	25.4	20.9	21.6	20.9	22.2	24.8	22.0	38 bps	-279 bps
Other Expenditure	229.7	247.1	258.8	265.8	295.9	340.5	267.9	284.6	259.4	265.6	277.9	262.9	352.8	36.0	34.2
% of Revenue	26.0	29.5	29.7	28.0	31.5	35.0	30.4	27.9	25.2	24.0	26.4	23.0	29.7	451 bps	677 bps
Total Expenditure	622.0	598.3	663.6	729.2	741.8	802.2	732.5	749.7	737.8	791.1	775.8	814.6	875.5	18.7	7.5
% of Revenue	70.3	71.4	76.3	76.7	79.1	82.6	83.1	73.4	71.7	71.6	73.6	71.1	73.8	204 bps	263 bps
EBITDA	262.8	239.6	206.7	221.8	196.3	169.6	149.4	271.3	290.7	314.1	278.3	330.4	311.1	7.0	-5.8
EBITDA Margin (%)	29.7	28.6	23.7	23.3	20.9	17.4	16.9	26.6	28.3	28.4	26.4	28.9	26.2	-204 bps	-263 bps
Other Income	29.5	24.0	29.5	32.8	40.4	34.9	36.8	31.8	21.3	13.6	35.5	26.5	19.5	-8.7	-26.4
Interest	0.4	1.0	7.3	0.9	1.0	2.8	1.1	0.9	2.3	2.5	1.5	0.7	6.0	157.3	724.7
Depreciation	31.5	31.7	31.2	31.8	32.7	33.3	33.0	33.2	33.7	34.3	34.3	34.0	34.4	2.0	1.2
PBT	260.4	230.9	197.7	221.9	203.0	168.3	152.1	269.0	275.9	290.9	278.0	322.1	290.2	5.2	-9.9
Total Tax	64.5	39.2	46.5	47.2	46.4	33.8	29.8	60.9	80.6	80.9	75.3	76.4	73.8	-8.5	-3.4
Tax rate (%)	24.8	17.0	23.5	21.3	22.9	20.1	19.6	22.6	29.2	27.8	27.1	23.7	25.4	-381 bps	171 bps
PAT	195.9	191.8	151.2	174.6	156.6	134.5	122.3	208.1	195.3	210.0	202.7	245.8	216.4	10.8	-11.9
PAT Margin (%)	22.1	22.9	17.4	18.4	16.7	13.8	13.9	20.4	19.0	19.0	19.2	21.5	18.2	-75 bps	-323 bps

Source: Company, ICICI Direct Research

## Q2FY25 Conference call highlights

### International business

- US growth guidance remains at mid - single digit and company plans to launch 4 products in H2FY25 which will skew growth in second half of the year.
- In Africa, the business is spread across over 20 countries and growth was little elevated in H1, but will be lower in H2 and company expect the growth for the current financial year to remain in-line with guidance given- mid to-high teens.
- Asia business growth is led by market share gain, field force expansion, & new product launches.

### India Business

- The company added about 200 MRs during Q2, taking the total tally to 3,200 plus. Current MR productivity stands at ₹ 7.5 Lakh p.m.
- Launched 11 new products, out of which four were first time in the country.
- 12% of India sale is covered under NLEM price in restrictions.

### Overall

- Company expects GPM to stay around 77% with quarterly movement of 50 to 100 basis-points due to change in-product mix.
- R&D expenses to remain 5% of the total revenues
- Other expenses include forex loss towards mark-to-market of hedges of ₹ 26 crore in Q2
- Freight costs remained at elevated levels (annual burden of ₹ 30 crore)
- Employee cost to remain elevated due to MRs and one-time policy change impact of ₹ 30 crore.
- Company expects the EBITDA to be around 28% range plus-minus 1% for whole of the FY2025.
- Company expects Tax rate to be around 24% for FY25.
- Capex, including maintenance capex for FY 2025 is estimated to be around ₹ 200 crore.
- The management has guided for revenue growth of low teens supported by branded generics with mid teen growth, US Generics with mid-single digit, India to be around 9-10% with uncertainties in Africa Institutional business.
- Ajanta announced first interim dividend of ₹ 28 per share.

## 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	4,691.8	5,223.1	
Growth (%)	12.0	12.5	11.5	11.3	
Raw Material Expenses	1,050.4	1,066.6	1,119.6	1,305.8	
Gross Profit	2,692.2	3,142.1	3,572.2	3,917.3	
Gross Profit Margins (%)	71.9	74.7	76.1	75.0	
Employee Expenses	785.1	900.3	1,040.4	1,096.8	
Other Expenditure	1,123.9	1,087.4	1,217.9	1,305.8	
Total Operating Expenditure	2,959.4	3,054.3	3,377.9	3,708.4	
<b>EBITDA</b>	<b>783.3</b>	<b>1,154.4</b>	<b>1,313.9</b>	<b>1,514.7</b>	
Growth (%)	-15.7	47.4	13.8	15.3	
Interest	5.8	7.2	18.8	24.1	
Depreciation	130.8	135.4	138.7	147.3	
Other Income	98.6	102.2	100.5	111.8	
<b>PBT before Exceptional Items</b>	<b>745.3</b>	<b>1,113.9</b>	<b>1,256.9</b>	<b>1,455.2</b>	
Less: Exceptional Items	0.0	0.0	0.0	0.0	
PBT after Exceptional Items	745.3	1,113.9	1,256.9	1,455.2	
Total Tax	157.3	297.8	324.1	375.3	
PAT before MI	588.0	816.2	932.8	1,079.9	
<b>PAT</b>	<b>588.0</b>	<b>816.2</b>	<b>932.8</b>	<b>1,079.9</b>	
Growth (%)	-17.5	38.8	14.3	15.8	
<b>EPS (Adjusted)</b>	<b>46.5</b>	<b>64.6</b>	<b>74.7</b>	<b>86.5</b>	
Other income as % of (Cash)	11%	21%	13%	7%	

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	932.8	1,079.9	
Add: Depreciation & Amortiza	130.8	135.4	138.7	147.3	
Net Increase in Current Assets	-3.5	-229.4	217.5	-38.0	
Net Increase in Current Liabilit	70.1	129.6	12.3	53.9	
Others	0.5	-52.4	18.8	24.1	
<b>CF from Operating activities</b>	<b>785.9</b>	<b>785.1</b>	<b>1,320.0</b>	<b>1,267.2</b>	
(Purchase)/Sale of Fixed Asset	-173.8	-139.0	-203.1	-150.0	
Investments	-385.8	204.4	-353.2	0.0	
Others	0.0	0.2	11.5	150.2	
<b>CF from Investing activities</b>	<b>-559.6</b>	<b>65.6</b>	<b>-544.8</b>	<b>0.2</b>	
(inc)/Dec in Loan	-0.5	0.1	0.9	0.0	
Dividend & Dividend tax	-89.7	-642.2	-312.3	-374.7	
Other	-18.0	-409.0	-304.0	-24.1	
CF from Financing activities	-108.2	-1,051.1	-615.3	-398.8	
<b>Net Cash Flow</b>	<b>118.1</b>	<b>-200.4</b>	<b>-65.6</b>	<b>868.6</b>	
Cash and Cash Equivalent	211.8	329.9	129.5	63.9	
<b>Cash</b>	<b>329.9</b>	<b>129.5</b>	<b>63.9</b>	<b>932.5</b>	
<b>Free Cash Flow</b>	<b>612.1</b>	<b>646.0</b>	<b>1,116.9</b>	<b>1,117.2</b>	
FCF Yield	2%	2%	3%	3%	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Equity Capital	25.3	25.3	25.1	25.1	
Reserve and Surplus	3,362.7	3,542.1	3,652.1	4,357.3	
Total Shareholders funds	3,388.0	3,567.4	3,677.2	4,382.4	
Total Debt	1.4	1.5	2.4	2.4	
Deferred Tax Liability	87.3	108.5	112.6	114.8	
Long-Term Provisions	24.2	39.5	67.2	68.6	
Other Non Current Liabilities	28.6	27.2	24.8	25.3	
<b>Source of Funds</b>	<b>3,529.5</b>	<b>3,744.1</b>	<b>3,884.1</b>	<b>4,593.4</b>	
Gross Block - Fixed Assets	2,333.0	2,451.2	2,562.0	2,662.0	
Accumulated Depreciation	836.6	972.0	1,110.7	1,257.9	
Net Block	1,496.4	1,479.2	1,451.3	1,404.1	
Capital WIP	209.5	256.5	348.8	398.8	
Fixed Assets	1,705.9	1,735.6	1,800.1	1,802.8	
Investments	535.4	348.6	701.8	701.8	
Other non-Current Assets	114.0	143.8	15.2	15.5	
Inventory	815.0	828.4	845.7	250.4	
Debtors	1,056.9	1,246.8	1,016.4	1,645.6	
Other Current Assets	111.5	205.5	201.2	205.2	
Cash	329.9	129.5	63.9	932.5	
Total Current Assets	2,313.3	2,410.2	2,127.2	3,033.7	
Creditors	422.8	463.2	420.9	465.1	
Provisions	14.0	17.8	21.2	21.6	
Other Current Liabilities	702.3	413.3	464.5	473.8	
Total Current Liabilities	1,139.1	894.3	906.6	960.5	
Net Current Assets	1,174.2	1,516.0	1,220.6	2,073.2	
<b>Application of Funds</b>	<b>3,529.5</b>	<b>3,744.1</b>	<b>3,737.7</b>	<b>4,593.4</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
<b>Per share data (₹)</b>				
Reported EPS	46.5	64.6	74.7	86.5
Cash EPS	49.8	24.3	60.8	68.3
BV per share	268.0	282.2	294.4	350.9
Cash per Share	26.1	10.2	5.1	74.7
Dividend per share	7.1	51.0	25.0	30.0
<b>Operating Ratios (%)</b>				
Gross Profit Margins	71.9	74.7	76.1	75.0
EBITDA margins	20.9	27.4	28.0	29.0
PAT Margins	15.7	19.4	19.9	20.7
Cash Conversion Cycle	36	21	218	55
Fixed Asset Turnover	2.2	2.4	2.6	2.9
EBITDA conversion Rate	100.3	68.0	100.5	83.7
<b>Return Ratios (%)</b>				
RoE	17.4	22.9	25.4	24.6
RoCE	21.3	31.1	34.1	32.2
RoIC	26.3	35.2	44.4	52.9
<b>Valuation Ratios (x)</b>				
P/E	61.9	44.6	38.6	33.3
EV / EBITDA	46.0	31.5	27.5	23.3
EV / Net Sales	9.6	8.7	7.7	6.8
Market Cap / Sales	9.8	8.8	7.9	7.1
Price to Book Value	10.7	10.2	9.8	8.2
<b>Solvency Ratios</b>				
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	2.2
<b>Quick Ratio</b>				
Inventory days	79	72	276	70
Debtor days	103	108	79	115
Creditor days	147	159	137	130

Source: Company, ICICI Direct Research

## ANALYST CERTIFICATION

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