India

ADD *(no change)*

Consensus ratings*:	Buy 13	Hold 2	Sell 2

Current price:	Rs2,767
Target price:	Rs3,100
Previous target:	Rs3,100
Up/downside:	12.0%
InCred Research / Consensus:	2.9%
Reuters:	AJPH.NS
Bloomberg:	AJP IN
Market cap:	US$3,989m
	Rs345,644m
Average daily turnover:	US$4.7m
	Rs410.7m
Current shares o/s:	125.4m
Free float:	33.8%

Source: Bloomberg

Key changes in this note

- FY26F/27F EPS reduced by 2%/~4%, respectively.

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.8	(0.3)	15.2
Relative (%)	14.1	(1.0)	15.9

Major shareholders	% held
Promoters	66.2
UTI MF	3.7
Nippon MF	3.2

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Ajanta Pharma Ltd

Steady growth; margin likely to remain flat

- The 1QFY26 performance was in line with estimates but missed on the margin front. Margin to be 27% (+/-1%) in FY26F, with an improvement likely in FY27F.
- The US business is expected to post mid-high teen growth in FY26F. India to outperform IPM by at least 20-25% while Africa to grow in mid-high single digit.
- Our FY26F/27F EPS slightly down by 2%/~4%, respectively. Maintain our ADD rating on the stock with an unchanged target price of Rs3,100.

In-line 1QFY26 growth; miss on the margin front

Ajanta Pharma's 1QFY26 performance was steady (~14% YoY growth in line with our estimate). However, the miss on the margin front at 27% (our/Bloomberg or BB consensus estimate at 27.9%/28.1%, respectively) was because of higher (up 38% YoY ex-forex loss) other expenses (S&D expenses related to new therapies), despite a 20bp YoY lower R&D spending (no ANDA filing done in 1Q) and a 150bp decline in employee costs. India business grew by 16% YoY; however, the cardiology segment underperformed the market (volume-related) due to intense competition. The growth is expected to come in the next two-to-three quarters. As per IQVIA, India growth was 10% (volume-2.5%, new launch-3.3%, price-4.4%) vs. IPM growth of 8% (volume-1.5%, new launch-2.3%, price-4.2%). The company aims to outperform the IPM by at least 20-25% in FY26F. Management has given FY26F margin guidance of 27% (with a 100bp possible variation on either side) – factoring in margin pressure resulting from higher R&D spending (20bp impact), field force addition and higher S&D expenses. We expect margin improvement in FY27F.

US business to shine in FY26F; Africa market to witness moderation

The US business grew by 33% in 1Q led by new launches (done in 2HFY25 & in 1QFY26) and market share gains in certain products. The growth in FY26F is likely to be in mid-high teens driven by new launches (five in 2HFY25, including Fluvoxamine ER tablets and Oxcarbazepine having the potential to reach a decent size in FY26F), and three-to-four new product launches spread over FY26F. While the African pharmaceutical market is likely to witness moderate growth in FY26F (high base effect), management is optimistic of achieving mid-high single-digit growth in FY26F & resume double-digit growth in FY27F.

Other highlights

a) Gross margin to be 78% in FY26F (with a 100bp variation on either side). b) Working capital efficiency has reached its peak and no further improvement is likely. c) Field force – in emerging markets, the plan is to add 250 medical representatives (40 already added in 1Q) in FY26F.

Maintain ADD rating with an unchanged target price of Rs3,100

Our FY26F/27F EPS are slightly down by 2%/4%, respectively. Ajanta Pharma's large, diversified presence in the branded generics markets of India, Asia and Africa (~70% of revenue) provides revenue stability/visibility and mitigates business risks. We maintain our ADD rating on the stock with an unchanged target price of Rs3,100. Downside risk: Slowdown in the branded generics market.

Financial Summary	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue (Rsm)	37,426	42,088	46,481	52,828	58,353
Operating EBITDA (Rsm)	7,833	11,720	12,595	14,639	16,985
Net Profit (Rsm)	5,880	8,163	9,204	10,787	12,605
Core EPS (Rs)	46.9	65.1	73.4	86.1	100.6
Core EPS Growth	(17.5%)	38.8%	12.8%	17.2%	16.9%
FD Core P/E (x)	58.99	42.49	37.68	32.16	27.52
DPS (Rs)	6.7	51.0	55.8	50.0	50.0
Dividend Yield	0.24%	1.84%	2.02%	1.81%	1.81%
EV/EBITDA (x)	43.16	29.16	27.40	23.35	19.85
P/FCFE (x)	24.45	24.24	17.36	15.94	15.59
Net Gearing	(25.3%)	(13.8%)	(4.6%)	(11.9%)	(20.3%)
P/BV (x)	10.24	9.72	9.15	8.32	7.22
ROE	17.7%	23.5%	25.0%	27.1%	28.1%
% Change In Core EPS Estimates				(2.22%)	(3.52%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

InCred Equities

Figure 1: Financial summary

(Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	Y-o-Y (%)	Q-o-Q (%)
Revenue	10,210	10,284	11,052	10,541	11,449	11,866	11,461	11,704	13,027	14%	11%
Consumption of raw materials	2,519	2,561	2,941	2,644	2,679	2,617	2,578	2,834	2,759	3%	-3%
as % of sales	*24.7%*	*24.9%*	*26.6%*	*25.1%*	*23.4%*	*22.1%*	*22.5%*	*24.2%*	*21.2%*		
Employee costs	2,132	2,223	2,314	2,335	2,838	2,610	2,652	2,798	3,029	7%	8%
as % of sales	*20.9%*	*21.6%*	*20.9%*	*22.2%*	*24.8%*	*22.0%*	*23.1%*	*23.9%*	*23.3%*		
Other expenditure	2296	2094	2136	2279	2119	2958	2493	2471	3165	49%	28%
as % of sales	*22.5%*	*20.4%*	*19.3%*	*21.6%*	*18.5%*	*24.9%*	*21.8%*	*21.1%*	*24.3%*		
EBITDA	2,713	2,907	3,142	2,783	3,304	3,112	3,208	2,972	3,514	6%	18%
Margins (%)	*26.6%*	*28.3%*	*28.4%*	*26.4%*	*28.9%*	*26.2%*	*28.0%*	*25.4%*	*27.0%*		
Depreciation	332	337	343	343	340	344	360	398	413		
Other income	318	213	136	355	265	195	304	181	263		
Interest	9	23	25	15	7	60	79	61	53		
PBT	2,690	2,759	2,910	2,780	3,221	2,902	3,074	2,694	3,311	3%	23%
Total tax	609	806	809	753	764	738	745	442	758		
Tax rate (%)	*22.6%*	*29.2%*	*27.8%*	*27.1%*	*23.7%*	*25.4%*	*24.2%*	*16.4%*	*22.9%*		
PAT before MI	2,081	1,953	2,101	2,027	2,458	2,165	2,329	2,253	2,553	4%	13%
Minority interest (MI)	0	0	0	0	0	0	0	0	0		
Adj. PAT before extraordinary items	2,081	1,953	2,101	2,027	2,458	2,165	2,329	2,253	2,553	4%	13%
Extraordinary expenses	0	0	0	0	0	0	0	0	0		
Reported PAT	2,081	1,953	2,101	2,027	2,458	2,165	2,329	2,253	2,553	4%	13%
No. of shares	125.9	125.9	125.9	125.9	125.9	125.9	125.9	125.9	125.9		
EPS	16.5	15.5	16.6	16.0	19.5	17.3	18.6	18.0	20.4		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)											
Gross	75%	75%	73%	75%	77%	78%	78%	76%	79%	222	304
EBITDA	27%	28%	28%	26%	29%	26%	28%	25%	27%	-188	158
Adj.PAT	20%	19%	19%	19%	21%	18%	20%	19%	20%	-186	35
Effective tax rate	23%	29%	28%	27%	24%	25%	24%	16%	23%	-81	650

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	Y-o-Y (%)	Q-o-Q (%)
US formulations - INR	2,130	2,370	2,520	2,610	2,280	2,320	2,630	3,250	3,100	36%	-5%
% total revenue	*20.9%*	*23.0%*	*22.8%*	*24.8%*	*19.9%*	*19.6%*	*22.9%*	*27.8%*	*23.8%*		
Africa institutional	650	370	860	610	420	430	330	280	380	-10%	36%
% total revenue	*6.4%*	*3.6%*	*7.8%*	*5.8%*	*3.7%*	*3.6%*	*2.9%*	*2.4%*	*2.9%*		
Africa total / branded	1,590	1,570	1,550	1,130	2,300	2,130	1,730	1,330	2,280	-1%	71%
% total revenue	*15.6%*	*15.3%*	*14.0%*	*10.7%*	*20.1%*	*17.9%*	*15.1%*	*11.4%*	*17.5%*		
Asia	2,540	2,510	2,920	2,810	2,770	2,960	3,160	3,030	3,040	10%	0%
% total revenue	*24.9%*	*24.4%*	*26.4%*	*26.7%*	*24.2%*	*24.9%*	*27.6%*	*25.9%*	*23.3%*		
India	3,190	3,550	3,080	3,260	3,530	3,860	3,450	3,690	4,090	16%	11%
% total revenue	*31.2%*	*34.5%*	*27.9%*	*30.9%*	*30.8%*	*32.5%*	*30.1%*	*31.5%*	*31.4%*		
Total revenue	10,210	10,284	11,052	10,541	11,449	11,866	11,461	11,704	13,027	14%	11%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates (Rs m)

	Actuals	Incred Estimates	Variance (%)	Bloomberg Estimates	Variance (%)
Revenue	13,027	13,024	0.0	12,676	2.8
EBITDA	3,514	3,632	-3.3	3,556	-1.2
Margin (%)	27.0	27.9		28.1	
PAT	2,553	2,574	-0.8	2,542	0.4

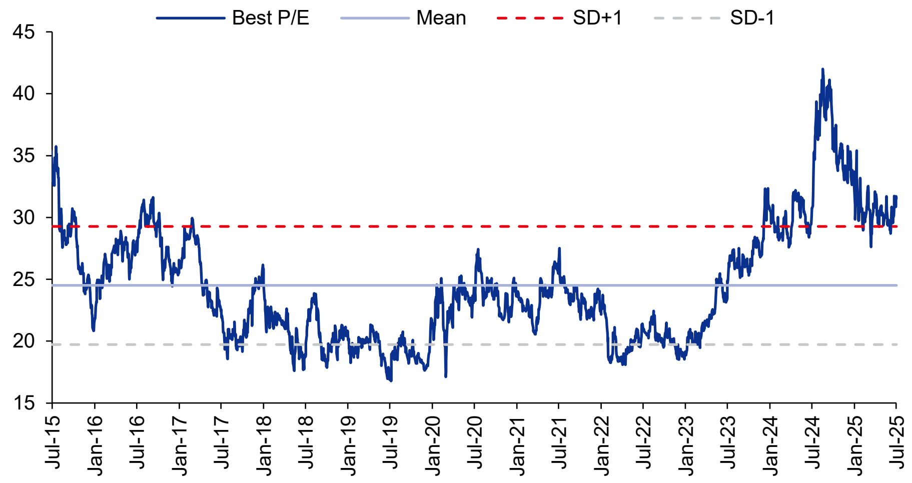
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates (Rs m)

	FY26F			FY27F		
Change in our earnings estimates	Old	New	% change	Old	New	% change
Revenue	53,044	52,828	(0.4)	58,858	58,353	(0.9)
EBITDA	14,957	14,639	(2.1)	17,582	16,985	(3.4)
Margin	28.2	27.7		29.9	29.1	
PAT	11,032	10,787	(2.2)	13,065	12,605	(3.5)
EPS	88.0	86.1		104.2	100.6	

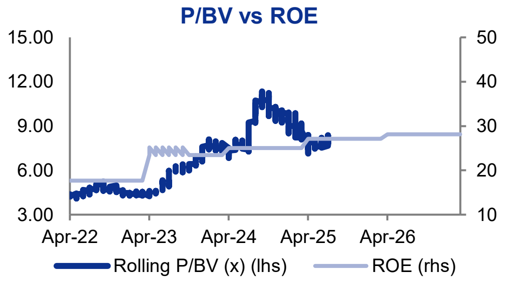
SOURCE: INCRED RESEARCH, COMPANY REPORTS

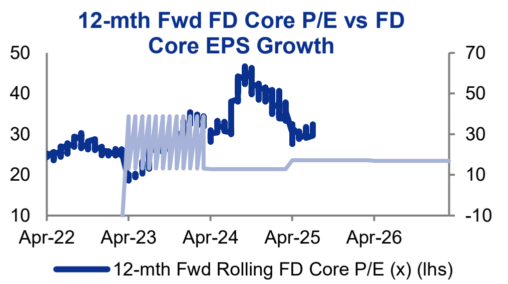
Figure 6: Ajanta Pharma trades near its SD+1 level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Net Revenues	**37,426**	**42,088**	**46,481**	**52,828**	**58,353**
Gross Profit	**26,922**	**31,422**	**35,774**	**40,941**	**45,340**
Operating EBITDA	**7,833**	**11,720**	**12,595**	**14,639**	**16,985**
Depreciation And Amortisation	(1,308)	(1,354)	(1,441)	(1,480)	(1,515)
Operating EBIT	**6,525**	**10,366**	**11,154**	**13,159**	**15,470**
Financial Income/(Expense)	(58)	(72)	(207)	(150)	(100)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	986	846	945	1,000	1,000
Profit Before Tax (pre-EI)	**7,453**	**11,140**	**11,892**	**14,009**	**16,370**
Exceptional Items					
Pre-tax Profit	**7,453**	**11,140**	**11,892**	**14,009**	**16,370**
Taxation	(1,573)	(2,978)	(2,688)	(3,222)	(3,765)
Exceptional Income - post-tax					
Profit After Tax	**5,880**	**8,163**	**9,204**	**10,787**	**12,605**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**5,880**	**8,163**	**9,204**	**10,787**	**12,605**
Recurring Net Profit	5,880	8,163	9,204	10,787	12,605
Fully Diluted Recurring Net Profit	**5,880**	**8,163**	**9,204**	**10,787**	**12,605**

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
EBITDA	7,833	11,720	12,595	14,639	16,985
Cash Flow from Invt. & Assoc.					
Change In Working Capital	575	(998)	1,789	960	(1,092)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(490)	(2,872)	(2,812)	(3,222)	(3,765)
Net Interest (Paid)/Received	(58)	(72)	(207)	(150)	(100)
Tax Paid	(1,418)	(3,645)	(3,550)	(4,072)	(4,665)
Cashflow From Operations	**7,918**	**7,851**	**11,572**	**12,377**	**12,128**
Capex	(1,649)	(1,390)	(3,168)	(3,000)	(2,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	**6,268**	**6,460**	**8,405**	**9,377**	**10,128**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	(14)	(9)			
Shares Repurchased					
Dividends Paid	(897)	(6,422)	(3,494)	(6,995)	(6,268)
Preferred Dividends					
Other Financing Cashflow	(4,114)	(2,036)	(4,438)	850	900
Cash Flow From Financing	**(5,025)**	**(8,466)**	**(7,932)**	**(6,145)**	**(5,368)**
Total Cash Generated	1,243	(2,006)	473	3,232	4,760
Free Cashflow To Equity	**14,186**	**14,311**	**19,977**	**21,754**	**22,255**
Free Cashflow To Firm	**14,245**	**14,383**	**20,184**	**21,904**	**22,355**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Cash And Equivalents	8,586	4,948	1,762	4,995	9,755
Total Debtors	10,569	12,468	11,827	13,207	14,005
Inventories	8,156	8,284	9,039	10,566	11,087
Total Other Current Assets	1,029	1,609	5,802	2,641	3,501
Total Current Assets	**28,340**	**27,309**	**28,430**	**31,409**	**38,348**
Fixed Assets	16,982	17,210	18,918	20,438	20,923
Total Investments	251	186			
Intangible Assets	78	147	465	465	465
Total Other Non-Current Assets	1,140	1,533	2,336	2,336	2,336
Total Non-current Assets	**18,450**	**19,075**	**21,719**	**23,239**	**23,724**
Short-term Debt	2	15	26	26	26
Current Portion of Long-Term Debt					
Total Creditors	4,228	4,632	4,542	4,858	5,609
Other Current Liabilities	7,163	4,306	5,393	5,783	6,119
Total Current Liabilities	**11,393**	**8,953**	**9,961**	**10,667**	**11,754**
Total Long-term Debt	13				
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,505	1,758	2,286	2,286	2,286
Total Non-current Liabilities	**1,518**	**1,758**	**2,286**	**2,286**	**2,286**
Total Provisions					
Total Liabilities	**12,910**	**10,710**	**12,247**	**12,953**	**14,040**
Shareholders Equity	33,880	35,674	37,903	41,695	48,033
Minority Interests					
Total Equity	**33,880**	**35,674**	**37,903**	**41,695**	**48,033**

Key Ratios

	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue Growth	12.0%	12.5%	10.4%	13.7%	10.5%
Operating EBITDA Growth	(15.7%)	49.6%	7.5%	16.2%	16.0%
Operating EBITDA Margin	20.9%	27.8%	27.1%	27.7%	29.1%
Net Cash Per Share (Rs)	68.38	39.35	13.85	39.64	77.62
BVPS (Rs)	270.28	284.59	302.38	332.63	383.19
Gross Interest Cover	111.72	143.78	53.81	87.73	154.70
Effective Tax Rate	21.1%	26.7%	22.6%	23.0%	23.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	101.27	99.89	95.39	86.48	85.10
Inventory Days	279.15	281.32	295.24	301.00	303.67
Accounts Payables Days	130.30	151.60	156.36	144.32	146.80
ROIC (%)	18.4%	24.0%	21.7%	25.2%	28.5%
ROCE (%)	19.6%	29.8%	30.3%	33.0%	34.5%
Return On Average Assets	13.6%	17.6%	19.4%	20.8%	21.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.