

India

**ADD** (no change)

Consensus ratings*: Buy 11 Hold 1 Sell 2	
Current price:	Rs2,923
Target price: ▲	Rs3,220
Previous target:	Rs2,800
Up/downside:	10.2%
InCred Research / Consensus:	11.4%
Reuters:	
Bloomberg:	AJP IN
Market cap:	US\$5,027m
	Rs365,068m
Average daily turnover:	US\$7.4m
	Rs540.6m
Current shares o/s:	128.1m
Free float:	33.8%
*Source: Bloomberg	

**Key changes in this note**

- Raise our target price to Rs3,220 from Rs2,800 earlier.



<b>Price performance</b>	1M	3M	12M
Absolute (%)	(12.3)	21.7	66.4
Relative (%)	(6.2)	23.7	32.7

<b>Major shareholders</b>	% held
Promoters	66.2
UTI MF	3.7
Nippon MF	3.2

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# Ajanta Pharma Ltd

## In-line performance; outlook remains strong

- 2Q EBITDA was impacted by a forex loss of Rs256m, adjusting for which the margin stood at 28.4%, a marginal miss versus our expectation.
- Africa (+36% YoY) and Asia branded business (+18% YoY) posted strong growth. India business growth stood at 9% YoY.
- Our FY25F/26F EPS estimates remain broadly unchanged. We retain our ADD rating on the stock with a higher target price of Rs3,220 (Rs2,800 earlier).

### Decent 2QFY25 performance

Ajanta Pharma's 2QFY25 performance was decent, with revenue/adjusted EBITDA growth of 15%/16% YoY, respectively, broadly in line with our estimates. Margin was healthy at 28.4% (our/Bloomberg or BB consensus estimate: 28.9%), led by strong performance across branded markets and a better gross margin (+130bp QoQ, led by better geographical mix). Reported EBITDA includes a notional forex loss of Rs256m, owing to which the reported margin of 26.2% looks weak. Management reiterated its FY25F margin guidance of 28% (with a 100bp possible variation on either side) – baking in a likely increase in manpower costs (field force addition) and freight costs. We have built in a 29% margin in FY25F led by lower API prices and stable price erosion in the US.

### Africa branded business recovers sharply

India business growth was healthy at 9% YoY, driven by ophthalmology, dermatology and pain management segments while the cardiology segment underperformed. The impact of NLEM-linked price cuts for Met XL is now in the base. Africa's institutional business was up 16% YoY (lumpy). The US business was up 2% QoQ, in line with the guidance, as most of the launches are back-ended in 4QFY25F. The company has given guidance of a mid-single digit growth in the US in FY25F. Ajanta Pharma reaffirmed its FY25F guidance: low-teen growth driven by India business and mid-teen growth in Asia/Africa branded businesses, implying that the Africa branded business should normalize going ahead.

### Other highlights

- a) Capex guidance stands at Rs2bn while the tax rate will be around 24% in FY25F.
- b) Gross margin should sustain around the 1HFY25 level.
- c) Expects 2HFY25F SG&A costs to be like that in 1HFY25.
- d) 11% of India business is now trade generics.
- e) Launched 11 products in India in 1HFY25, of which 4 were first-to-market.
- f) Added 200 medical representatives or MRs in 2QFY25, and the total MR strength is now 3,200+.
- g) Saw strong improvement in the working capital cycle from 97 days to 74 days.

### Retain our ADD rating with a higher target price of Rs3,215

Our FY25F/26F earnings estimates remain broadly unchanged. 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 retain our ADD rating on the stock with a higher target price of Rs3,220 (Rs2,800 earlier). Downside risk: Slowdown in the branded generics market.

Financial Summary	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	33,410	37,426	42,088	46,840	52,727
Operating EBITDA (Rsm)	9,294	7,833	11,720	13,460	15,828
Net Profit (Rsm)	7,128	5,880	8,163	9,854	11,537
Core EPS (Rs)	55.6	45.9	63.7	76.9	90.1
Core EPS Growth	9.0%	(17.5%)	38.8%	20.7%	17.1%
FD Core P/E (x)	52.52	63.67	45.87	38.00	32.45
DPS (Rs)	6.3	6.7	51.0	50.0	50.0
Dividend Yield	0.22%	0.23%	1.75%	1.71%	1.71%
EV/EBITDA (x)	39.90	46.67	31.51	27.54	23.23
P/FCFE (x)	37.68	26.39	26.16	23.89	20.24
Net Gearing	(10.2%)	(25.3%)	(13.8%)	(9.8%)	(16.0%)
P/BV (x)	11.47	11.05	10.49	10.36	9.08
ROE	22.8%	17.7%	23.5%	27.4%	29.8%
% Change In Core EPS Estimates				(0.88%)	(1.21%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	9,381	9,718	8,818	10,210	10,284	11,052	10,541	11,449	11,866	15%	4%
Consumption of raw materials	2,598	2,693	2,409	2,519	2,561	2,941	2,644	2,679	2,617	2%	-2%
as % of sales	27.7%	27.7%	27.3%	24.7%	24.9%	26.6%	25.1%	23.4%	22.1%		
Employee costs	1,861	1,924	2,237	2,132	2,223	2,314	2,335	2,838	2,610	17%	-8%
as % of sales	19.8%	19.8%	25.4%	20.9%	21.6%	20.9%	22.2%	24.8%	22.0%		
Other expenditure	2369	2425	2049	2296	2094	2136	2279	2119	2958	41%	40%
as % of sales	25.2%	25.0%	23.2%	22.5%	20.4%	19.3%	21.6%	18.5%	24.9%		
EBITDA	1,963	2,065	1,494	2,713	2,907	3,142	2,783	3,304	3,112	7%	-6%
Margins (%)	20.9%	21.3%	16.9%	26.6%	28.3%	28.4%	26.4%	28.9%	26.2%		
Depreciation	327	333	330	332	337	343	343	340	344		
Other income	404	-21	368	318	213	136	355	265	195		
Interest	10	28	11	9	23	25	15	7	60		
PBT	2,030	1,683	1,520	2,690	2,759	2,910	2,780	3,221	2,902	5%	-10%
Total tax	464	338	298	609	806	809	753	764	738		
Tax rate (%)	22.9%	20.1%	19.6%	22.6%	29.2%	27.8%	27.1%	23.7%	25.4%		
PAT before MI	1,566	1,345	1,222	2,081	1,953	2,101	2,027	2,458	2,165	11%	-12%
Minority Interest (MI)	0	0	0	0	0	0	0	0	0		
Adj. PAT before extraordinary items	1,566	1,345	1,222	2,081	1,953	2,101	2,027	2,458	2,165	11%	-12%
Extraordinary expenses	0	0	0	0	0	0	0	0	0		
Reported PAT	1,566	1,345	1,222	2,081	1,953	2,101	2,027	2,458	2,165	11%	-12%
No. of shares	128.1	128.1	128.1	125.9	125.9	125.9	125.9	125.9	125.9		
EPS	12.2	10.5	9.5	16.5	15.5	16.6	16.0	19.5	17.3		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(in %)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	72%	72%	73%	75%	75%	73%	75%	77%	78%	285	134
EBITDA	21%	21%	17%	27%	28%	28%	26%	29%	26%	-204	-263
Adj.PAT	17%	14%	14%	20%	19%	19%	19%	21%	18%	-75	-322
Effective tax rate	23%	20%	20%	23%	29%	28%	27%	24%	25%	-381	171

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
US formulations (INR)	1,850	2,660	1,970	2,130	2,370	2,520	2,610	2,280	2,320	-2%	2%
% total revenue	19.7%	27.4%	22.3%	20.9%	23.0%	22.8%	24.8%	19.9%	19.6%		
Africa institutional	330	310	490	650	370	860	610	420	430	16%	2%
% total revenue	3.5%	3.2%	5.6%	6.4%	3.6%	7.8%	5.8%	3.7%	3.6%		
Africa total/branded	1,460	1,450	1,000	1,590	1,570	1,550	1,130	2,300	2,130	36%	-7%
% total revenue	15.6%	14.9%	11.3%	15.6%	15.3%	14.0%	10.7%	20.1%	17.9%		
Asia	2,510	2,280	2,380	2,540	2,510	2,920	2,810	2,770	2,960	18%	7%
% total revenue	26.8%	23.5%	27.0%	24.9%	24.4%	26.4%	26.7%	24.2%	24.9%		
India	3,140	2,940	2,870	3,190	3,550	3,080	3,260	3,530	3,860	9%	9%
% total revenue	33.5%	30.3%	32.5%	31.2%	34.5%	27.9%	30.9%	30.8%	32.5%		
Total revenue	9,381	9,718	8,818	10,210	10,284	11,052	10,541	11,449	11,866	15%	4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. estimates

(Rs m)	Actuals	Incred Ests.	Variance (%)	Bloomberg Ests.	Variance (%)
Revenue	11,866	11,663	1.7	11,435	3.8
EBITDA	3,112	3,373	-7.7	3,305	-5.8
Margin (%)	26.2	28.9		28.9	
PAT	2,165	2,400	-9.8	2,366	-8.5

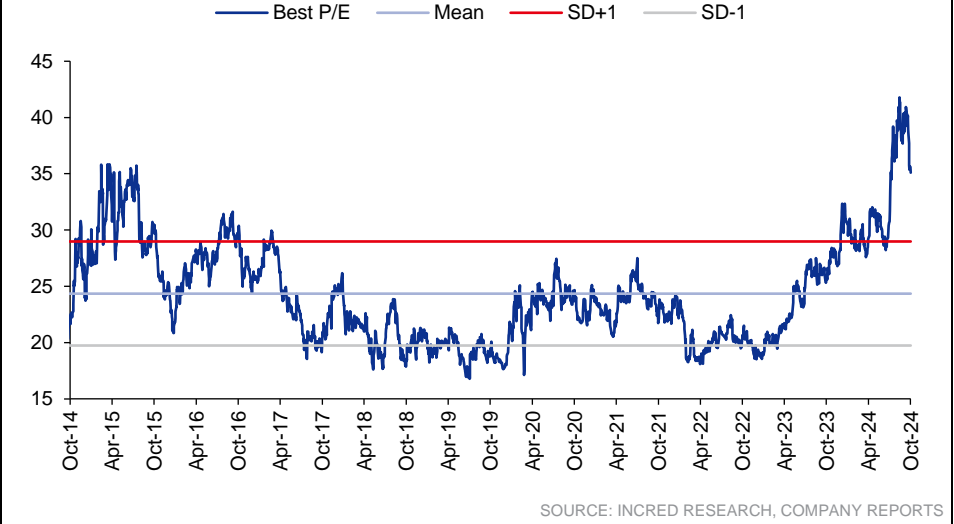
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

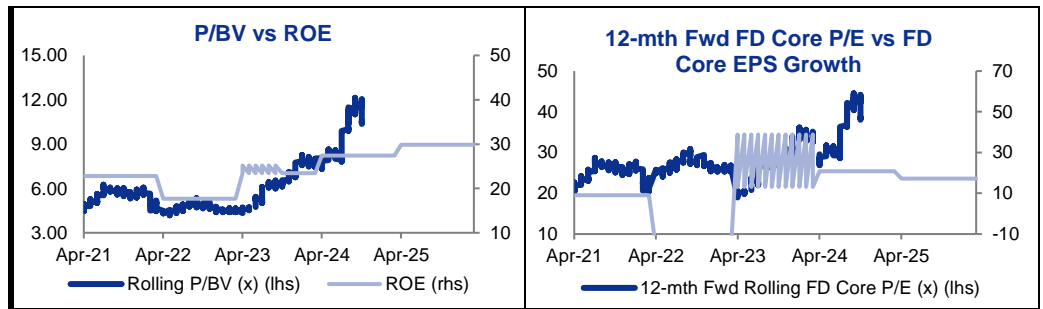
	FY25F			FY26F		
	Old	New	% change	Old	New	% change
Revenue	47,075	46,840	(0.5)	52,914	52,727	(0.4)
EBITDA	13,575	13,460	(0.8)	16,016	15,828	(1.2)
Margin	28.8	28.7		30.3	30.0	
PAT	9,941	9,854	(0.9)	11,678	11,537	(1.2)
EPS	78.7	78.0		92.4	91.3	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 6: Despite the recent price correction, Ajanta Pharma's valuation is significantly above SD+1**



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	33,410	37,426	42,088	46,840	52,727
<b>Gross Profit</b>	25,088	26,922	31,422	35,598	40,072
<b>Operating EBITDA</b>	9,294	7,833	11,720	13,460	15,828
Depreciation And Amortisation	(1,253)	(1,308)	(1,354)	(1,400)	(1,450)
<b>Operating EBIT</b>	8,041	6,525	10,366	12,060	14,378
Financial Income/(Expense)	(102)	(58)	(72)	(45)	(45)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,157	986	846	950	1,050
<b>Profit Before Tax (pre-EI)</b>	9,096	7,453	11,140	12,965	15,383
Exceptional Items					
<b>Pre-tax Profit</b>	9,096	7,453	11,140	12,965	15,383
Taxation	(1,968)	(1,573)	(2,978)	(3,112)	(3,846)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	7,128	5,880	8,163	9,854	11,537
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	7,128	5,880	8,163	9,854	11,537
Recurring Net Profit	7,128	5,880	8,163	9,854	11,537
<b>Fully Diluted Recurring Net Profit</b>	7,128	5,880	8,163	9,854	11,537

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>EBITDA</b>	9,294	7,833	11,720	13,460	15,828
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,004)	575	(998)	(1,764)	(1,985)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(1,670)	(490)	(2,872)	(3,112)	(3,846)
Net Interest (Paid)/Received	(102)	(58)	(72)	(45)	(45)
Tax Paid	(2,724)	(1,418)	(3,645)	(4,017)	(4,851)
<b>Cashflow From Operations</b>	5,620	7,918	7,851	8,584	9,997
Capex	(1,304)	(1,649)	(1,390)	(1,500)	(1,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	4,316	6,268	6,460	7,084	8,497
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	(3,541)	(14)	(9)		
Shares Repurchased					
Dividends Paid	(822)	(897)	(6,422)	(6,534)	(6,458)
Preferred Dividends					
Other Financing Cashflow	1,229	(4,114)	(2,036)	(1,945)	1,005
<b>Cash Flow From Financing</b>	(3,134)	(5,025)	(8,466)	(8,479)	(5,453)
Total Cash Generated	1,182	1,243	(2,006)	(1,395)	3,045
<b>Free Cashflow To Equity</b>	9,936	14,186	14,311	15,668	18,495
<b>Free Cashflow To Firm</b>	10,038	14,245	14,383	15,713	18,540

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	3,337	8,586	4,948	3,553	6,597
Total Debtors	10,198	10,569	12,468	14,052	15,818
Inventories	7,911	8,156	8,284	10,305	11,600
Total Other Current Assets	1,199	1,029	1,609	1,405	1,582
<b>Total Current Assets</b>	<b>22,645</b>	<b>28,340</b>	<b>27,309</b>	<b>29,315</b>	<b>35,597</b>
Fixed Assets	15,856	16,982	17,210	17,310	17,360
Total Investments	251	251	186	186	186
Intangible Assets	793	78	147	147	147
Total Other Non-Current Assets	1,012	1,140	1,533	1,533	1,533
<b>Total Non-current Assets</b>	<b>17,912</b>	<b>18,450</b>	<b>19,075</b>	<b>19,175</b>	<b>19,225</b>
Short-term Debt	3	2	15	15	15
Current Portion of Long-Term Debt					
Total Creditors	3,272	4,228	4,632	4,354	4,870
Other Current Liabilities	3,199	7,163	4,306	6,220	6,957
<b>Total Current Liabilities</b>	<b>6,474</b>	<b>11,393</b>	<b>8,953</b>	<b>10,589</b>	<b>11,842</b>
Total Long-term Debt	16	13			
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,422	1,505	1,758	1,758	1,758
<b>Total Non-current Liabilities</b>	<b>1,439</b>	<b>1,518</b>	<b>1,758</b>	<b>1,758</b>	<b>1,758</b>
Total Provisions					
<b>Total Liabilities</b>	<b>7,912</b>	<b>12,910</b>	<b>10,710</b>	<b>12,347</b>	<b>13,600</b>
Shareholders Equity	32,644	33,880	35,674	36,143	41,222
Minority Interests					
<b>Total Equity</b>	<b>32,644</b>	<b>33,880</b>	<b>35,674</b>	<b>36,143</b>	<b>41,222</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	15.6%	12.0%	12.5%	11.3%	12.6%
Operating EBITDA Growth	(6.9%)	(15.7%)	49.6%	14.8%	17.6%
Operating EBITDA Margin	27.8%	20.9%	27.8%	28.7%	30.0%
Net Cash Per Share (Rs)	25.90	66.91	38.51	27.62	51.39
BVPS (Rs)	254.83	264.48	278.48	282.14	321.80
Gross Interest Cover	78.83	111.72	143.78	268.00	319.51
Effective Tax Rate	21.6%	21.1%	26.7%	24.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	96.04	101.27	99.89	103.33	103.39
Inventory Days	341.57	279.15	281.32	301.77	315.91
Accounts Payables Days	153.73	130.30	151.60	145.88	133.02
ROIC (%)	19.7%	18.4%	24.0%	26.4%	29.7%
ROCE (%)	25.7%	19.6%	29.8%	33.6%	37.2%
Return On Average Assets	18.4%	13.6%	17.6%	20.8%	22.4%

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.