

Jubilant Life Sciences

BSE SENSEX	S&P CNX
33,266	10,364
Bloomberg	JUBILANT IN
Equity Shares (m)	159.3
M.Cap.(INRb)/(USDb)	101.9 / 1.6
52-Week Range (INR)	879/515
1, 6, 12 Rel. Per (%)	-9/-27/-26
Avg Val, INR m	466
Free float (%)	46.0

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	58.6	71.3	83.7
EBITDA	13.5	15.0	17.4
PAT	5.8	6.9	8.6
EPS (INR)	36.9	44.2	55.0
Gr. (%)	46.9	19.7	24.4
BV/Sh (INR)	220.5	261.1	311.6
RoE (%)	18.0	18.4	19.2
RoCE (%)	11.2	11.5	12.8
P/E (x)	17.5	14.6	11.7
P/BV (x)	2.9	2.5	2.1

Estimate change



TP change



Rating change

CMP: INR640 TP: INR861 (+35%)

Buy

Specialty Pharma and LSI outlook remains promising; Pricing pressure and deferred sales in Pharma impact 2Q results

- Jubilant Life Sciences (JLS) delivered sales of INR16.4b, lower than our estimate of INR17.3b. EBITDA margin came in at 19.8% (est. of 21.6%), led by the deferment of some Pharma business to 2HFY18. Accordingly, PAT of INR1.3b came in lower than our estimate of INR1.7b.
- **LSI drives growth in 2QFY18:** LSI sales grew 20.5% YoY to INR7.2b, driven by better pricing in the Nutritional segment and better demand across segments. As a result, EBITDA margin improved 110bp YoY and 300bp QoQ.
- **Lower generics business affects Pharma growth:** Pharmaceutical sales (52% of total revenue) grew 11.9% YoY to INR8.6b. Adjusting for one-month Triad business, Pharma sales dipped 1% YoY. This is largely due to the deferment of API sales and manufacturing constraint in the CMO business.
- **Management guides for strong H2 v/s H1:** Management has guided for a strong 2HFY18 compared to 1HFY18 on the back of execution of deferred sales in the API segment, strong momentum in Specialty Pharma and robust growth in LSI.
- **Valuation and view:** We raise revenues for FY18/19/20E to incorporate the Triad business. We marginally lower PAT for FY18/19/20E to factor in pressure on margins due to supply chain consolidation in the US market. We remain positive on JLS, given the robust outlook in Specialty Pharmaceuticals and Advanced Intermediates, lower financial leverage, and attractive valuation. Maintain **Buy** with a revised TP of 861, on an SOTP basis.

Cons. - Quarterly Earning Model

(INR Million)

Y/E March	FY17				FY18				FY17	FY18E	FY18 vs Est	2QE (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	14,195	13,855	14,582	15,982	15,563	16,420	19,915	21,162	60,063	73,060	17,353	-5.4
YoY Change (%)	-1.8	-4.6	6.7	7.6	9.6	18.5	36.6	32.4	4.5	21.6		
Total Expenditure	10,514	10,452	11,264	12,932	12,187	13,360	15,833	16,709	46,610	58,088	13,657	-2.2
EBITDA	3,682	3,403	3,318	3,050	3,376	3,060	4,083	4,453	13,453	14,972	3,696	-17.2
Margins (%)	25.9	24.6	22.8	19.1	21.7	18.6	20.5	21.0	22.4	20.5		
Depreciation	715	720	727	752	725	790	825	844	2,914	3,184	780	1.3
Interest	828	800	982	802	687	660	670	650	3,411	2,667	680	-2.9
Other Income	44	51	51	105	68	71	79	84	251	302	70	1.4
PBT	2,183	1,934	1,661	1,601	2,032	1,681	2,667	3,043	7,379	9,423	2,296	-26.8
Tax	542	497	480	111	595	427	707	816	1,630	2,544	620	-31.1
Rate (%)	24.9	25.7	28.9	6.9	29.3	25.4	26.5	26.8	22.1	27.0		
MI & Profit/Loss of Asso. Cos.	24	-11	0	0	0	0	0	0	-14	-11		
Reported PAT	1,616	1,448	1,181	1,490	1,437	1,254	1,960	2,227	5,756	6,899	1,676	-25.2
Adj PAT	1,616	1,448	1,181	1,490	1,437	1,254	1,960	2,227	5,756	6,899	1,676	-25.2
YoY Change (%)	22.5	14.5	-4.0	1,272.3	-11.1	-13.4	65.9	49.5	46.7	19.9		
Margins (%)	11.4	10.4	8.1	9.3	9.2	7.6	9.8	10.5	9.6	9.4		

E: MOSL Estimates

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Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

LSI led growth for the quarter

JLS delivered revenue of INR16.4b, up 18.5% YoY. LSI segment maintained strong momentum in revenue growth for the quarter. It grew by 20.5% YoY to INR7.4b, led by healthy growth in all sub-segments of LSI. Pharma segment grew at lower rate of 11.9% YoY, compared to overall sales growth. There is addition of INR1b sales in Pharma due to the Triad acquisition. Adjusting for the same, Pharma sales would show a YoY dip in revenue. Drug discovery solution revenue remained stable at INR442m for the quarter.

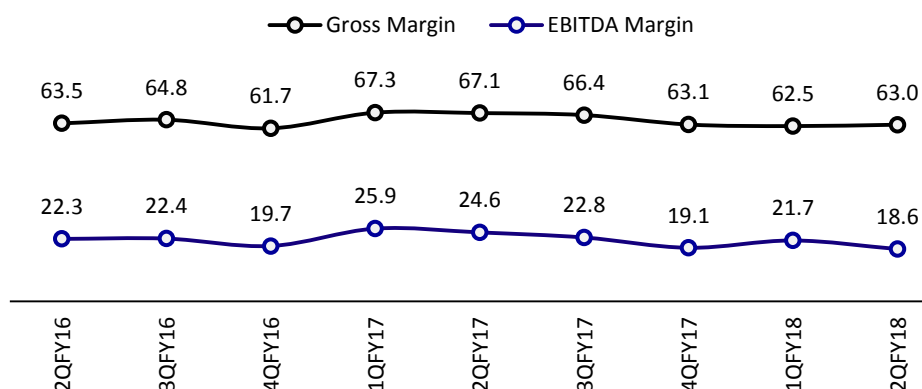
Exhibit 1: Segment performance

(INR b)	FY16				FY17				FY18	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Pharma	7.0	7.1	6.8	7.8	7.6	7.7	7.9	8.1	8.2	8.6
YoY (%)	16.6	15.6	-2.4	2.8	7.2	8.3	14.8	3.0	8.3	11.9
LSI	7.2	7.2	6.5	6.9	6.5	6.1	6.6	7.8	7.4	7.4
YoY (%)	-17.4	-5.4	-12.4	-10.7	-9.5	-14.4	1.7	13.2	13.4	20.5
DDS	0.3	0.3	0.3	0.4	0.5	0.4	0.4	0.5	0.4	0.4
YoY (%)	NA	NA	NA	NA	100.0	39.0	29.4	27.5	-18.0	16.5
Total	14.5	14.5	13.7	15.2	14.6	14.2	14.9	16.4	16.0	16.4
YoY (%)	-3.5	4.0	-7.5	-1.4	-0.1	-0.4	11.7	8.3	12.4	24.2

Source: MOSL, Company

Gross margin downtrend till 1QFY18 took a pause, and JLS showed a QoQ improvement in the same. It is about 414bp lower YoY due to addition of low-margin business of Triad, and lower growth in the relatively high-margin Pharma business. EBITDA margin continued its downtrend due to higher employee cost and other expenses. This quarter's operating expense includes one-time acquisition cost of INR190mn. Adjusting for the same, EBITDA margin would be 19.8% for the quarter.

Exhibit 2: Addition of Triad and lower margin in Pharma affect overall margins

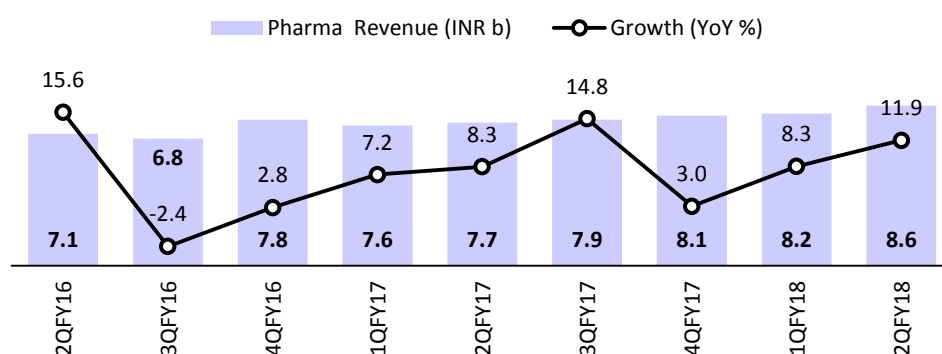


Source: MOSL, Company

Adjusting for Triad, Pharma sales dipped 1% YoY

- JLS delivered 11.9% YoY growth in Pharma sales to INR8.6b for the quarter. Specialty segment maintained its growth momentum (+13% YoY to INR4.3b). Including Triad sales, YoY growth would have been 42% YoY. Generics continued to remain laggard in term of growth. Generics business declined 3% YoY to INR3.3b for the quarter.
- In terms of geography, JLS continues to derive maximum share of revenue from North America. North America revenues grew 27% YoY, driving overall sales growth for the quarter.

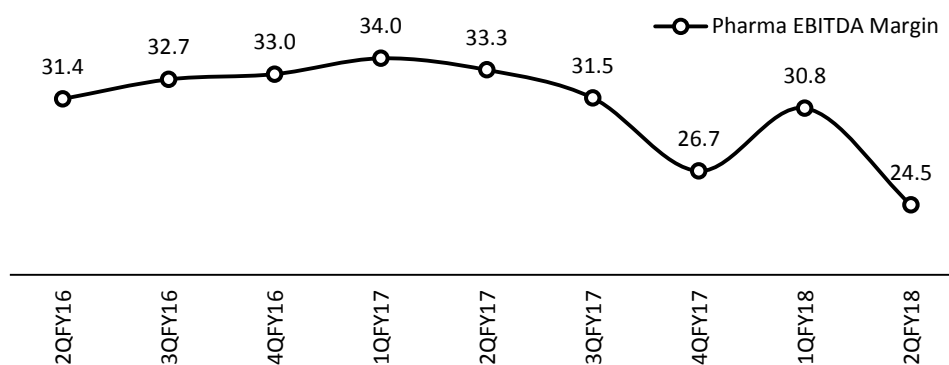
Exhibit 3: Adjusting for Triad sales, Specialty segment showed superior growth



Source: MOSL, Company

Adjusting for Triad business, Pharma EBITDA margin would be 27.8% for the quarter. Despite an improvement in margins of Specialty segment, overall pharma EBITDA margin was lower YoY and QoQ due to lower margins in the generic segment. Deferment of API sales also led to some pressure on margins in the generic segment.

Exhibit 4: Pricing pressure in generics segment affects pharma margin



Source: MOSL, Company

During the quarter, JLS spent INR490m toward R&D. Of this, INR310m was expensed in P&L. R&D spend formed 3.6% of Pharmaceutical sales.

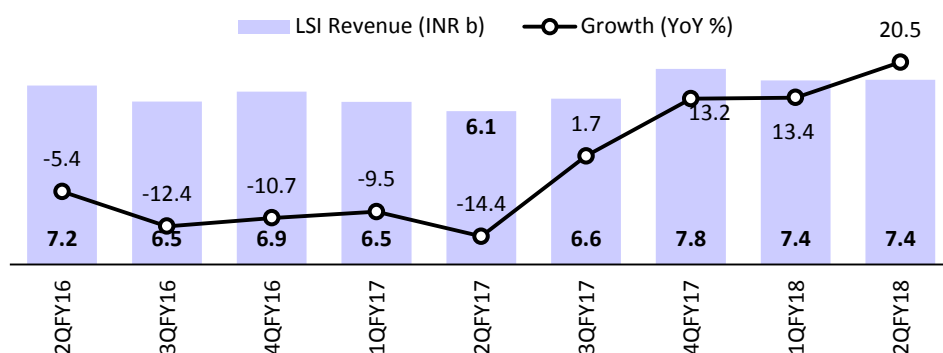
Cumulative ANDA filings at end-1HFY18 stand at 85, with 29 ANDAs pending for approval. JLS made 33 additional filings in ROW markets (Canada, Europe and Japan), and 185 are pending for approval. Injectables-related ANDAs remained same at 3, with one pending for approval. JLS have six products under development, and plans to complete development and submit product dossiers over the next three years.

JLS guided for better growth in 2HFY18 in Pharmaceutical to be driven by execution of deferred sales in API business, continued better performance in radiopharma and allergy businesses, and higher production to meet order backlog in CMO business.

LSI business remains on strong momentum

LSI segment revenue for the quarter was INR7.4b, up 20.5% YoY. Growth in this segment was largely driven by Vitamins and advanced intermediate segments. Pricing environment for nutritional products remained robust, leading to strong growth in LSI segment. Also, a low base of past year due to temporary stoppage of production at Gajraula distillery unit led to higher growth for the quarter. NGT passed another order on 31 May 2017, which allowed restart of operations at the unit, resulting in a recovery of some of the lost business in 2QFY18.

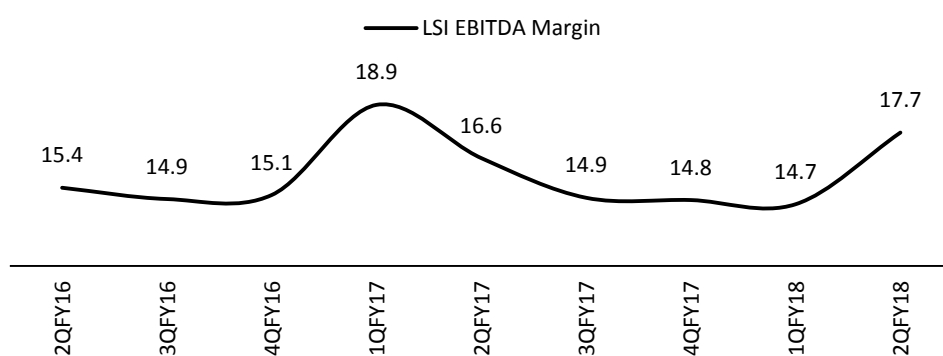
Exhibit 5: LSI sales growth remains on uptrend



Source: MOSL, Company

JLS delivered 110bp YoY and 300bp QoQ improvement in EBITDA margin in LSI segment due to robust demand and a favorable pricing environment. JLS guided for momentum to continue in 2HFY18 on the back of new product additions, increased capacity utilization and higher pricing of existing products.

Exhibit 6: LSI margin downtrend takes a pause; shows recovery



Source: MOSL, Company

Net debt stable

JLS's net debt remained stable at INR36.4b v/s FY17. Average blended interest rate cost also remained lower at 6% pa in 1HFY18 compared to ~8% in 2HFY17. Finance cost included INR240m on account of charge on stock settlement instrument.

Exhibit 7: Debt profile

Particulars (INR m)	FY17	2QFY18
Foreign Currency Loans	27,626	26,800
Rupee Loans	13,230	13,100
Gross Debt	40,856	39,900
Cash & Cash Equivalent	4,600	3,320
Net Debt	36,256	36,590

Source: MOSL, Company

Capex update

JLS spent INR1.9b toward capex in 1HFY18, and has guided for overall capex of INR4b in FY18. The capex is expected to be largely utilized for expansion of API & formulation facility, which would be INR2.5b. There would be maintenance capex of INR1.5b, totaling to INR4b for FY18.

Valuation

We increase FY18, FY19 and FY20 revenue estimates by 8.3%, 14.7% and 13.1%, respectively, to incorporate revenue from Triad business. However, we reduce PAT estimates for FY18, FY19 and FY20 by 6%, 2.8% and 3.4%, respectively, to factor in pricing pressure on the generics business due to supply chain consolidation and a gradual improvement in the operating margin of Triad business. Accordingly, we revise our SOTP-based target price to INR861 (from 905 earlier). We continue to like JLS on the back of strong growth momentum in radiopharma, allergy and LSI segment, lower financial leverage, and attractive valuation. We maintain **Buy** on the stock.

Exhibit 8: Change in estimates

INR b	Old estimates			New estimates			Change (%)		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Sales	65.9	72.9	82.2	71.3	83.7	92.9	8.3	14.7	13.1
EBITDA	15.7	17.7	20.1	15.0	17.4	19.8	(4.9)	(1.8)	(1.7)
EBITDA Margin (%)	23.9	24.3	24.5	21	20.8	21.3			
PAT	7.3	8.8	10.4	6.9	8.6	10.0	(6.0)	(2.8)	(3.4)
EPS (INR)	47.1	56.6	66.7	44.2	55.0	64.4	(6.0)	(2.8)	(3.4)
TP		905			861			(4.9)	

Source: MOSL

Exhibit 9: SOTP-based price target revised to INR861

Valuation	12M forward
EBITDA of Pharma business (INR m)	13,163
EV/EBITDA multiple for JOL	11
EV of Pharma (INR m)	144,791
EBITDA of LSI business (INR m)	5,729
EV/EBITDA multiple for JOL	4.5
EV of LSI (INR m)	25,781
Total EV (INR m)	170,572
Net Debt	36,250
Market Cap (INR m)	134,322
Target Price (INR per share)	861
CMP	645
Potential upside (%)	33.5

Source: MOSL

Financials and Valuations

Income Statement						(INR Million)		
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Net Sales	51,660	58,034	58,263	57,491	58,614	71,297	83,681	92,929
Change (%)	20.1	12.3	0.4	-1.3	2.0	21.6	17.4	11.1
EBITDA	10,559	10,076	6,893	12,470	13,453	14,972	17,406	19,794
EBITDA Margin (%)	20.4	17.4	11.8	21.7	23.0	21.0	20.8	21.3
Depreciation	2,538	2,812	2,880	3,467	2,914	3,352	3,863	4,253
EBIT	8,021	7,264	4,013	9,002	10,539	11,621	13,542	15,541
Interest	2,987	3,237	3,553	3,714	3,411	2,499	2,167	2,207
Other Income	299	191	425	134	249	302	355	394
Extraordinary items	-1,922	-2,145	-481	0	0	0	0	0
PBT	3,411	2,073	403	5,422	7,376	9,424	11,730	13,729
Tax	1,524	696	805	1,554	1,630	2,544	3,167	3,707
Tax Rate (%)	44.7	33.6	199.6	28.7	22.1	27.0	27.0	27.0
Min. Int. & Assoc. Share	361	286	176	-50	-10	-11	-11	-12
Reported PAT	1,527	1,090	-578	3,918	5,757	6,890	8,574	10,034
Adjusted PAT	2,591	2,515	-1,057	3,918	5,757	6,890	8,574	10,034
Change (%)	68.0	-2.9	-142.0	-470.8	46.9	19.7	24.4	17.0

Balance Sheet						(INR Million)		
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Share Capital	159	155	159	155	156	156	156	156
Reserves	24,602	26,111	24,376	29,507	34,205	40,523	48,385	57,586
Net Worth	24,761	26,265	24,535	29,663	34,361	40,679	48,541	57,742
Debt	42,452	43,953	47,931	44,933	40,453	36,453	33,453	31,453
Deferred Tax	2,922	2,371	2,380	1,146	445	445	445	445
Total Capital Employed	71,251	74,168	74,847	75,360	74,865	77,183	82,046	89,247
Gross Fixed Assets	50,244	53,614	54,245	35,597	39,102	46,822	52,216	56,795
Less: Acc Depreciation	19,027	22,319	24,508	2,864	5,657	9,008	12,872	17,124
Net Fixed Assets	31,217	31,295	29,737	32,733	33,445	37,813	39,344	39,670
Capital WIP	4,369	4,724	5,966	6,113	6,838	3,618	3,224	2,645
Investments	256	340	395	854	1,027	1,027	1,027	1,027
Current Assets	29,409	32,587	30,714	29,385	30,055	34,525	41,306	50,941
Inventory	11,162	13,414	12,353	12,031	12,204	15,221	17,910	19,763
Debtors	7,086	8,059	8,193	9,505	10,053	12,228	14,352	15,939
Cash & Bank	3,561	4,795	3,944	3,446	4,596	3,181	4,473	10,163
Loans & Adv, Others	7,601	6,318	6,225	4,403	3,202	3,895	4,571	5,076
Curr Liabs & Provns	12,458	14,471	11,342	12,038	14,122	17,422	20,477	22,659
Curr. Liabilities	9,060	9,702	9,697	9,815	12,334	15,246	17,924	19,823
Provisions	3,398	4,768	1,645	2,222	1,788	2,175	2,553	2,835
Net Current Assets	16,951	18,116	19,372	17,348	15,933	17,103	20,829	28,283
Total Assets	71,251	74,168	74,847	75,359	74,865	77,183	82,046	89,247

Financials and Valuations

Ratios

Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Basic (INR)								
EPS	16.6	16.1	-6.8	25.1	36.9	44.2	55.0	64.4
Cash EPS	32.9	34.2	11.7	47.4	55.7	65.7	79.8	91.7
Book Value	158.9	168.6	157.5	190.4	220.5	261.1	311.6	370.6
DPS	3.1	3.0	3.1	3.1	3.1	3.7	4.6	5.3
Payout (incl. Div. Tax.)	36.6	49.9	-99.6	12.2	8.3	8.3	8.3	8.3
Valuation(x)								
P/E			-95.1	25.6	17.5	14.6	11.7	10.0
Price / Book Value			4.1	3.4	2.9	2.5	2.1	1.7
EV/Sales			2.5	2.5	2.3	1.9	1.5	1.3
EV/EBITDA			21.0	11.4	10.1	8.9	7.4	6.2
Dividend Yield (%)			0.5	0.5	0.5	0.6	0.7	0.8
Profitability Ratios (%)								
RoE	10.9	9.9	-4.2	14.5	18.0	18.4	19.2	18.9
RoCE	7.2	7.2	-6.2	8.9	11.2	11.5	12.8	13.6
RoIC	7.6	7.6	-6.2	9.9	12.9	12.9	13.9	15.3
Turnover Ratios (%)								
Asset Turnover (x)	0.7	0.8	0.8	0.8	0.8	0.9	1.0	1.0
Debtors (No. of Days)	50	51	51	60	63	63	63	63
Inventory (No. of Days)	79	84	77	76	76	78	78	78
Creditors (No. of Days)	49	47	48	40	49	50	51	50
Leverage Ratios (%)								
Net Debt/Equity (x)	1.6	1.5	1.8	1.4	1.0	0.8	0.6	0.4

Cash Flow Statement

Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
(INR Million)								
Adjusted EBITDA	10,559	10,076	6,893	12,470	13,453	14,972	17,406	19,794
Non cash opr. exp (inc)	-1,736	-2,007	-119	106	161	0	0	0
(Inc)/Dec in Wkg. Cap.	-40	-1,107	964	-1,332	369	-2,585	-2,434	-1,763
Tax Paid	-1,196	-809	-793	-481	-1,439	-2,544	-3,167	-3,707
Other operating activities	2,112	1,569	888	225	142	0	0	0
CF from Op. Activity	9,699	7,723	7,833	10,989	12,685	9,843	11,804	14,324
(Inc)/Dec in FA & CWIP	-4,378	-2,438	-3,491	-3,392	-4,623	-4,500	-5,000	-4,000
Free cash flows	5,321	5,285	4,341	7,597	8,062	5,343	6,804	10,324
(Pur)/Sale of Invt	-54	-63	-42	257	74	0	0	0
Others	123	156	-125	76	-126	302	355	394
CF from Inv. Activity	-4,309	-2,344	-3,658	-3,059	-4,676	-4,198	-4,645	-3,606
Inc/(Dec) in Net Worth	0	0	0	197	77	0	0	0
Inc / (Dec) in Debt	-992	-247	-1,136	-4,558	-4,086	-4,000	-3,000	-2,000
Interest Paid	-2,957	-3,345	-3,353	-3,511	-2,291	-2,499	-2,167	-2,207
Divd Paid (incl Tax) & Others	-548	-552	-538	-556	-559	-561	-700	-821
CF from Fin. Activity	-4,498	-4,144	-5,027	-8,427	-6,859	-7,060	-5,867	-5,028
Inc/(Dec) in Cash	892	1,235	-852	-498	1,150	-1,415	1,292	5,690
Add: Opening Balance	2,668	3,561	4,795	3,944	3,446	4,596	3,181	4,473
Closing Balance	3,561	4,795	3,944	3,446	4,596	3,181	4,473	10,163

Corporate profile

Company description

Jubilant Life Sciences (JLS), one of the three flagship companies of Jubilant Bhartia Group, is an integrated pharmaceuticals and life sciences company. It is engaged in the manufacturing of radiopharmaceuticals, allergy products, advanced intermediates, nutritional products and life science chemicals. The company also provides services in contract manufacturing and drug discovery solutions. JLS' operations are spread across the world, including India, the US, Canada, Europe and other countries.

Exhibit 1: Sensex rebased

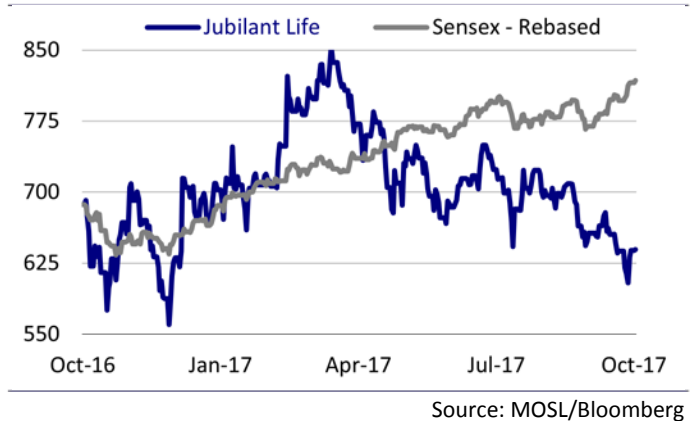


Exhibit 2: Shareholding pattern (%)

	Sep-17	Jun-17	Sep-16
Promoter	54.0	54.0	54.0
DII	5.3	4.5	0.1
FII	21.6	21.9	28.5
Others	19.1	19.7	17.3

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
East Bridge Capital Master Fund Limited	4.6
Motilal Oswal Most Focused Multicap 35 Fund	4.4
Government Pension Fund Global	1.8
JLL-Unclaimed Suspense Account	1.5
Morgan Stanley Asia (Singapore) Pte.	1.3

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Shyam S Bhartia	Chairman
Rajiv Shah	Company Secretary
Hari S Bhartia	Co-Chairman & Managing Director

Source: Capitaline

Exhibit 5: Directors

Name	Name
Shyamsundar Bang	Ashok Misra
S Sridhar	Sudha Pillai
Vivek Mehra	Pramod Yadav

*Independent

Exhibit 6: Auditors

Name	Type
BSR & Co LLP	Statutory
Ernst & Young LLP	Internal
J K Kabra & Co	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	44.2	43.3	2.2
FY19	55.0	58.0	-5.1
FY20	64.4	64.8	-0.7

Source: Bloomberg

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