

December 14, 2017

Rating:	BUY
Ticker:	JUBILANT
CMP:	Rs. 671
Target:	Rs. 893
Upside:	33%

Key Stock Data

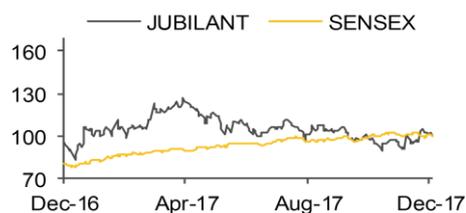
Sector	Pharmaceuticals
No. of shares	15.5 Crs
FV (Rs)	1
MCAP (Rs)	10,540 Crs
MCAP (\$)	162 Crs

Key Financials (Rs. in Crs)

Y/E March	FY17 A	FY18 E	FY19 E
Revenue	5,910	6684	7687
EBITDA	1249	1264	1537
PAT	575	602	769
EPS /sh.	36.93	38.64	49.59
BV /sh.	159	165	204
P/BV (x)	4.23	4.08	3.30
PE (x)	18.22	17.42	13.57
ROE (%)	23%	24%	24%

Shareholding Pattern

Promoters	54.02%
FIIs	19.38%
DIIIs	5.16%
Others	21.44%



Research Analyst
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Jubilant Life Science Ltd. - JUBILANT**2QFY18 Result Update**

The company reported muted set of 2QFY18 numbers both on a quarterly as well as on a yearly basis. Revenue for the quarter grew by 16% Y-o-Y and 3% Q-o-Q to Rs. 1,621 Crs in 2QFY18 against Rs. 1,394 Crs in 2QFY17 and Rs. 1,578 Crs in 1QFY18. EBITDA for the quarter de-grew by 11% Q-o-Q and 9% Y-o-Y to 285 Crs in 2QFY18 as against Rs. 315 Crs in 2QFY17 and Rs. 320 Crs in 1QFY18. PAT de-grew by 13% Y-o-Y and Q-o-Q to Rs. 125 Crs in 2QFY18 as against Rs. 144 Crs in 2QFY17 and 1QFY18. EBITDA Margin decreased by 266 bps Q-o-Q and 497 bps Y-o-Y to 17.60% in 2QFY18 to 17.60% in 2QFY18 as against 22.57% in 2QFY17 and 20.26% in 1QFY18.

Segment Result update

Pharma segment which contributes 53% of the total revenue grew by 12% Y-o-Y and 5% Q-o-Q to Rs. 860 Crs in 2QFY18 as against Rs. 768.93 Crs in 2QFY17 and Rs. 817.99 Crs in 1QFY18. Life Science segment which contributes 45% of the total revenue grew by 20% Y-o-Y and reported a flat growth on a sequential basis to Rs. 738 Crs in 2QFY18 as against Rs. 738 Crs in 2QFY18 as against Rs. 614 Crs in 2QFY17 and Rs. 738 Crs in 1QFY18. Drug Discovery which contributes merely 2% of the total revenue grew by 17% Y-o-Y and 7% Q-o-Q to Rs.44 Crs in 2QFY18 as against Rs. 37 Crs in 2QFY17 and Rs. 41 Crs in 1QFY18.

Outlook & Valuations

With the company's subsidiary listing on Singapore exchange will de-leverage the balance sheet and with higher visibility on the Radio Pharma and LSI (Life Science Ingredients) businesses, we believe there is a strong re-rating which is imminent. We feel at the current market price, we would like to allot a PE multiple of 18x FY19 PE on an EPS of Rs. 50/share to arrive at a target price of Rs. 893/share.

Quarterly Financial Highlight Table (Rs. In Crs)

Particulars	2QFY18	1QFY18	2QFY17	Q/Q	Y/Y	FY2017
Revenue	1621	1578	1394	3%	16%	5,910
EBITDA	285	320	315	-11%	-9%	1249
PAT	125	144	144	-13%	-13%	575
EPS	8.23	9.44	9.29	-13%	-11%	36.93
EBITDA M	17.60%	20.26%	22.57%	(266 bps)	(497 bps)	21%
PAT M	7.74%	9.11%	10.30%	(137 bps)	(256 bps)	10%

Investment Rationale

1. Singapore listing to unlock huge value.

The Management aims to list its Pharma entity, Jubilant Pharma, on the Singapore stock exchange by FY18. This is expected to lead to 15% dilution in Jubilant Life Science holding's which will unlock huge value for the investors. This value will help the company to offload its IFC (International Finance Corporation) debt through conversions thereby expanding the bottom line of the company.

2. Radio Pharma is a key growth driver.

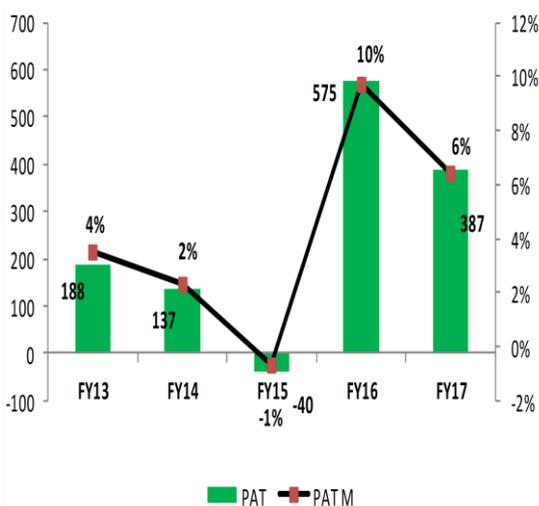
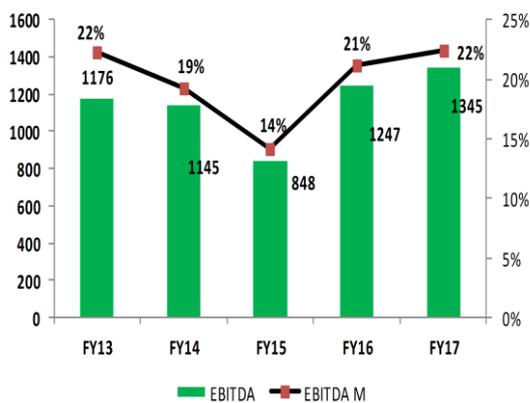
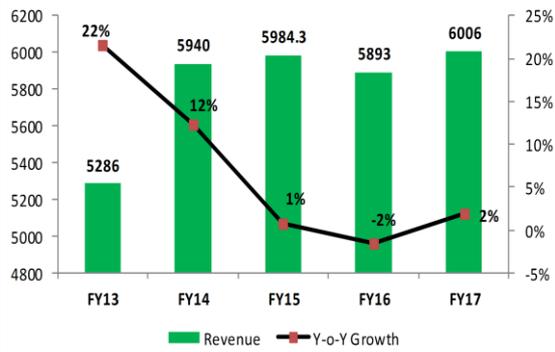
After the acquisition of Triad, Jubilant Life Science has got exclusive access to 25% specialty radio pharmacies in the US. This will ensure higher penetration of its specialty products in this segment. The recently launched Rubifil, if successful, could add substantial value in JUBILANT's radio pharma brands. Assuming an untapped market demand and shift in technology, the radio pharma market has the potential to grow to USD 250mn from mere USD 60mn currently.

3. Strong financials.

JUBILANT after listing on the Singapore exchange, we expect debt to be reduced by almost Rs 400 Crs and the net debt-to-equity ratio to fall to 0.1x. Also with major capex completed in FY18, Free Cash Flow is likely to be robust, and has already doubled over the last two years. A healthier balance sheet and improving FCF will likely lead to a strong re-rating of the company.

4. Integration of Triad Isotopes.

JUBILANT has completed the integration of Triad in Sep-17. This is likely to add up INR 1280 Crs in sales, and dilute the Pharma segment margins to 23% from 30%. The PAT impact would be minimal. However, access to 50+ specialty pharmacies will boost JUBILANT's Radio pharma sales. Especially with the launch of Rubyfill through Triad's associated pharmacies, the Radio Pharma segment would grow at ~20% CAGR over FY18-20E.



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JUBILANT also provides services in Contract Manufacturing of Sterile Injectable and Drug Discovery Solutions.

Jubilant Life Sciences serves its customers globally with sales in over 100 countries

The company faces intense competition from other pharmaceutical companies in North America

Subsidiary listing on Singapore exchange will deleverage the balance sheet and with higher visibility on the Radio Pharma and LSI businesses, we believe there is a strong re-rating which is imminent.

Company Background

Jubilant Life Sciences Limited is an integrated global pharmaceutical and life sciences company engaged in manufacturing and supply of APIs, Solid Dosage Formulations, Radiopharmaceuticals, Allergy Therapy Products, Advance Intermediates, Fine Ingredients, Crop Science Ingredients, Life Science Chemicals and Nutritional Products. It also provides services in Contract Manufacturing of Sterile Injectable and Drug Discovery Solutions. The Company's strength lies in its unique offerings of Pharmaceutical and Life Sciences products and services. Jubilant Life Sciences serves its customers globally with sales in over 100 countries and ground presence in India, North America, Europe and China.

Risk & Concerns

1. In Pharmaceuticals segment, dependency on Chinese suppliers for import of raw materials may lead to import disruptions, short supplies and production bottlenecks due to unforeseen changes in government regulations and economic policies of China.
2. The Company faces intense competition from other pharmaceutical companies in North America and in India and introduction of new products by competitors may impair the Company's competitive advantage and lead to decline in revenue and profit.
3. The US market is undergoing structural changes with supply chain consolidation and delay in Abbreviated New Drug Application (ANDA) approvals will affect the industry.

Outlook & Valuations

Triad's (acquired pharmacy chain) geographical strength and its conducive pricing supported with good demand environment. With its subsidiary listing on Singapore exchange, it will deleverage the balance sheet and with higher visibility on the Radio Pharma and LSI businesses, We feel at the current market price the stock is fairly valued at mere 13x FY19 PE. We would like to allot a PA multiple of 18x on an FY19E EPS of Rs. 50/share to arrive at a target price of Rs. 893/share.

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Analyst Stock Rating	
Ratings	Expected absolute returns over 12 months
BUY	>15%
HOLD	10- 15%
REDUCE	<10%

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Disclosure:

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