

Jubilant Life Sciences

BUY

INDUSTRY	PHARMA		
CMP (as on 9 May 2018)	Rs 846		
Target Price	Rs 1,060		
Nifty	10,742		
Sensex	35,319		
KEY STOCK DATA			
Bloomberg	JUBILANT IN		
No. of Shares (mn)	159		
MCap (Rs bn) / (\$ mn)	134/1,996		
6m avg traded value (Rs mn)	419		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 1,039/600		
	3M	6M	12M
Absolute (%)	(10.5)	30.7	9.3
Relative (%)	(14.4)	24.5	(8.7)
SHAREHOLDING PATTERN (%)			
Promoters	54.0		
FIs & Local MFs	5.3		
FPIs	19.4		
Public & Others	21.3		
<i>Source : BSE</i>			

Stellar Quarter

Unlike in 3QFY18, when only LSI segment led the top line growth, 4QFY18 performance of 41%YoY growth was fueled by both the key segments (Pharma: 53%YoY, LSI: 24%YoY). Adjusted for Triad, the top-line grew ~21%YoY. EBITDA came in at ~Rs 4.6bn, 15% ahead of expectations. The margins improved 125bps YoY to 20.3%. **Favorable pricing in LSI and better traction in key specialty pharma segments were the primary reasons for improved profitability.** PAT was at ~Rs 1.5bn, flat YoY, affected by one time R&D asset write off of Rs 910mn. Adjusted for this, PAT was up 62%YoY at Rs 2.4bn.

LSI segment maintained its last quarter performance, with top-line growth of 24%YoY and an EBITDA margin of 19.3%, up ~400bps YoY. The pharma segment also grew generously at 53%YoY. Ex-Triad, pharma growth was at 14%YoY and EBITDA margin improved to ~32.5%. This was largely driven by the healthy growth reported in specialty pharma segment (20%YoY) during this quarter.

- To support the growing injectable supplies in specialty pharma and increased demand in chemical segment,

Financial Summary

Year Ending March (Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY17	FY18E	FY19E	FY20E
Net Sales	22,520	15,982	40.9	20,678	8.9	58,614	75,578	90,063	100,287
EBITDA	4,579	3,050	50.1	4,168	9.8	13,453	15,184	18,843	21,584
APAT	2,434	1,501	62.1	2,129	14.4	5,736	7,254	10,194	12,521
Diluted EPS (Rs)	9.8	9.6	1.5	13.7	(28.4)	37.0	46.6	65.5	80.4
EV/EBITDA (x)						12.5	10.7	8.3	6.7
RoE (%)						18.0	16.9	22.4	22.5

Source: Company, HDFC sec Inst Research # Consolidated

the mgmt has rolled out aggressive capex plan of Rs 5.5bn in FY19. It is also committed to continue reducing the debt in FY19. So far, the debt reduction plan has gone well as it has come down from Rs 45bn in FY16 to Rs 33bn in FY18. However, the listing of pharma subsidiary in Singapore exchange is likely to get delayed to 2HFY19, which could have helped JUBILANT to reduce the debt in one go.

- Overall, we model ~15% rev. and ~30% earnings CAGR over FY17-20E. While the sustainability of the momentum in the LSI segment is uncertain, improved traction in the specialty pharma segment is encouraging and will be the key monitorable for re-rating of the stock over next two years. **Re-iterate BUY** with a revised TP of Rs 1,060 (SOTP FY20E EV/EBITDA 11x for pharma + 4.5x for LSI).

Highlights of the quarter

- Takeaways:** (1) To expand capacities in pyridine and acetic anhydride, (2) New launches, fresh contracts and the synergies from Triad to drive strong double digit growth in Radio pharma. (3) To double the US generic product portfolio over next three years. (4) To spend Rs 3bn in R&D in FY19.

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Net sales grew ~21% YoY ex-Triad

Costs were higher primarily owing to the integration of Triad Isotopes

Depreciation includes one-time R&D asset write off of Rs 910mn

Ex-Triad, EBITDA margin improved in Pharma segment from 31% in 3QFY18 to 32.5% in 4QFY18

Quarterly Financials Snapshot (Consolidated)

Particulars	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)
Net Sales	22,520	15,982	40.9	20,678	8.9
Material Expenses	8,908	5,905	50.9	7,868	13.2
Employee Expenses	4,538	3,245	39.9	4,229	7.3
Other Expenses	4,494	3,783	18.8	4,412	1.9
EBITDA	4,579	3,050	50.1	4,168	9.8
Depreciation	1,817	752		818	
EBIT	2,761	2,298	20.2	3,350	(17.6)
Other Income	229	105		32	
Interest Cost	725	802		771	
PBT	2,266	1,601	41.5	2,612	(13.3)
Tax	742	111		483	
Minority Interest	-	(11)		-	
RPAT	1,524	1,501	1.5	2,129	(28.4)
EO Items (Adj For Tax)	910	-		-	
APAT	2,434	1,501	62.1	2,129	14.4

Source: Company, HDFC sec Inst Research

Margin Analysis

	4QFY18	4QFY17	YoY (bps)	3QFY18	QoQ (bps)
Material Expenses % Net Sales	39.6	36.9	261	38.1	151
SG&A Expenses % Net Sales	20.2	20.3	(15)	20.5	(30)
Other Expenses % Net Sales	20.0	23.7	(371)	21.3	(138)
EBITDA Margin (%)	20.3	19.1	125	20.2	17
Tax Rate (%)	32.7	6.9	2,582	18.5	1,423
APAT Margin (%)	10.8	9.4	141	10.3	51

Source: Company, HDFC sec Inst Research

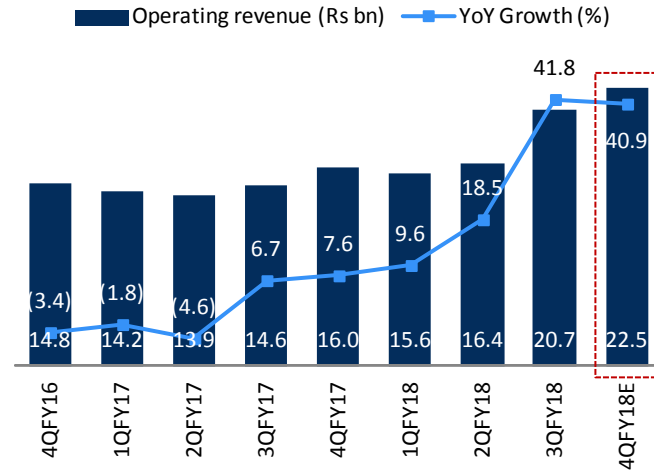
Ex-Triad, growth was at 21% YoY, driven by an improvement in both LSI and Pharma segments

Ex-Triad, the pharma segment growth was 14% YoY, largely driven by specialty pharma

Improvement in the LSI segment is expected to continue in the near to medium term with the business environment still favourable

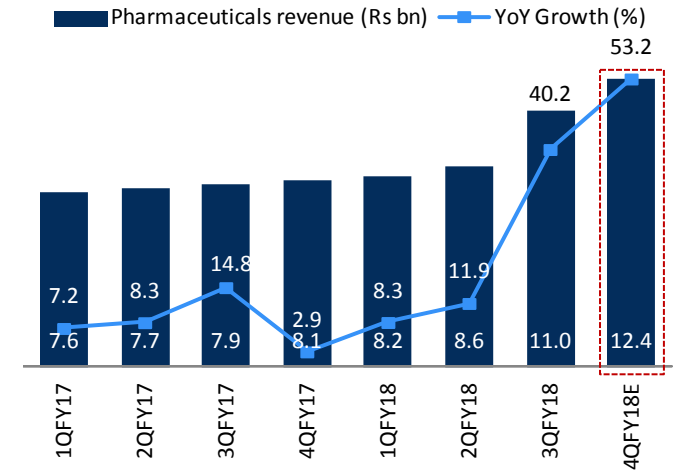
EBITDA was up ~125bps, largely owing to the continued momentum in the LSI business and higher EBITDA margins in pharma segments

Revenue: ~21% YoY Growth Ex-Triad



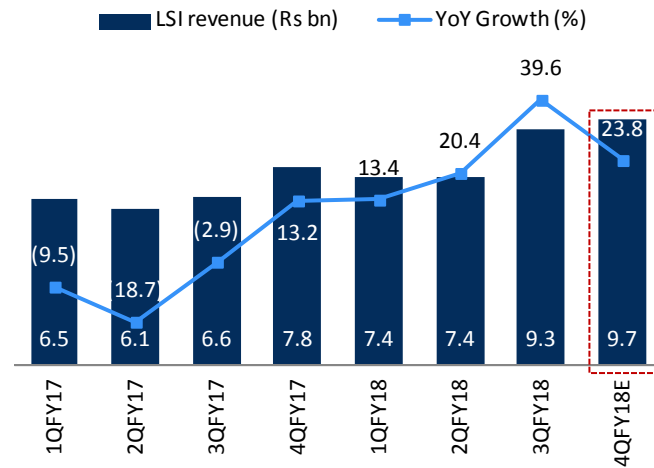
Source: Company, HDFC sec Inst Research

Pharmaceuticals Business: Ex-Triad, grew 14%YoY



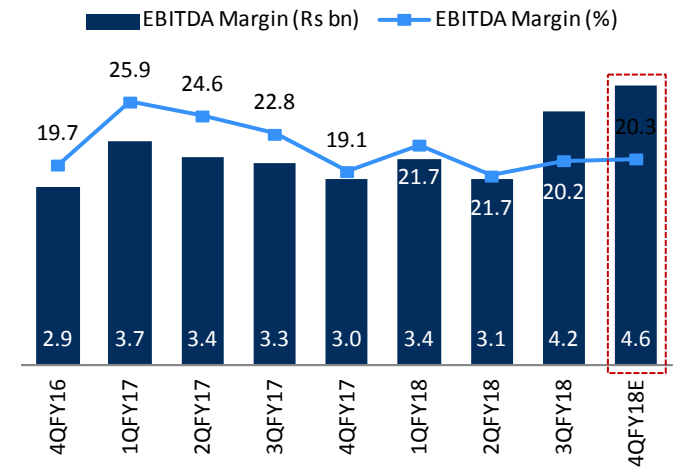
Source: Company, HDFC sec Inst Research

LSI Business: Stellar Show Continues



Source: Company, HDFC sec Inst Research

EBITDA Margin: ~125bps Expansion



Source: Company, HDFC sec Inst Research

Segmental Quarterly Performance

(Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)
Pharmaceuticals	12,380	8,080	53.2	11,007	12.5
Life sciences ingredients	9,680	7,820	23.8	9,257	4.6
Drug discovery solutions	470	510	(7.8)	449	4.8
Total	22,530	16,410	37.3	20,713	8.8

Source: HDFC sec Inst Research

Assumptions

	FY16	FY17	FY18E	FY19E	FY20E
Pharmaceuticals	28,849	31,167	39,030	50,340	55,236
<i>Growth (%)</i>	13.0	8.0	25.2	29.0	9.7
Life sciences ingredients	28,824	27,076	33,280	37,787	42,922
<i>Growth (%)</i>	(8.3)	(6.1)	22.9	13.5	13.6
Drug discovery solutions	1,259	1,820	1,760	1,936	2,130
<i>Growth (%)</i>	1.9	44.6	(3.3)	10.0	10.0
Total	58,932	60,063	74,070	90,063	100,287
<i>Growth (%)</i>	1.3	1.9	23.3	21.6	11.4

Source: HDFC sec Inst Research

Peer Valuations

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	Adj EPS (Rs/sh)				EV/EBITDA (x)				RoE (%)			
					FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Sun Pharma	1,218	506	NEU	544	26.0	14.0	20.1	27.2	12.5	22.6	16.9	13.3	14.9	17.9	9.1	12.3
Cipla	472	588	NEU	631	12.5	18.4	25.7	33.2	20.2	16.3	13.3	11.0	12.3	8.4	11.2	14.0
Cadila Healthcare	410	400	BUY	523	14.5	11.3	16.4	22.7	24.0	17.3	17.5	14.7	37.9	23.5	15.4	19.0
Aurobindo Pharma	357	609	BUY	835	39.3	35.2	46.0	52.2	11.0	9.8	9.1	8.1	32.0	27.6	20.0	21.4
Dr Reddy's Labs	351	2,064	NEU	2,320	72.7	64.7	116.0	161.0	15.2	15.0	10.8	8.2	16.7	9.5	8.4	13.9
Lupin	343	762	BUY	1,219	33.4	18.5	43.9	64.2	9.1	14.7	10.5	7.8	22.3	12.2	6.1	13.3
Divi's Labs	317	1,195	NEU	1,100	39.9	33.4	44.9	51.7	21.9	25.1	19.7	17.2	27.7	22.0	15.7	18.8
Alkem Laboratories	242	2,025	BUY	2,124	74.6	62.6	85.0	106.2	24.7	22.9	18.0	14.9	20.7	21.9	15.8	18.8
Torrent Pharma	231	1,366	BUY	1,748	51.2	38.9	62.0	79.5	17.9	19.9	14.1	11.8	23.3	22.1	14.9	21.5
Glenmark	148	526	BUY	781	29.6	18.5	30.0	43.8	9.0	11.0	10.2	7.7	19.3	18.1	9.8	14.0
Jubilant Life Sciences	134	846	BUY	1,020	37.0	40.7	65.4	80.4	12.5	10.7	8.3	6.7	18.0	16.9	22.4	22.5
Alembic Pharma	95	502	NEU	575	21.4	23.1	25.2	31.9	15.2	14.5	12.5	10.0	24.5	23.0	21.1	19.7
Dishman Carbogen Amcis	60	371	BUY	480	9.0	9.9	15.2	22.4	11.9	11.8	9.5	7.5	3.3	3.0	3.3	4.9
Strides Shasun	51	573	BUY	990	34.0	27.7	39.0	59.4	10.8	13.0	8.9	6.7	8.4	13.1	4.6	12.9
Granules India	26	101	BUY	177	7.5	6.0	8.5	11.8	10.3	11.2	8.5	6.8	23.2	21.0	13.7	15.3

Source: HDFC sec Inst Research

Change In Estimates (Consolidated)

Rs mn	Previous			New			% Chg		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Revenue	71,991	88,039	98,381	75,578	90,063	100,287	5.0	2.3	1.9
EBITDA	14,344	18,357	21,121	15,184	18,843	21,584	5.9	2.6	2.2
APAT	6,585	9,907	12,293	7,254	10,194	12,521	10.2	2.9	1.9

Source: HDFC sec Inst Research

Income Statement (Consolidated)

Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	57,491	58,614	75,578	90,063	100,287
Growth (%)	-1.3	2.0	28.9	19.2	11.4
Material Expenses	21,175	19,995	28,688	35,681	39,576
Employee Expenses	11,251	12,309	15,559	17,964	19,565
Other Operating Expenses	12,596	12,857	16,148	17,575	19,562
EBITDA	12,470	13,453	15,184	18,843	21,584
EBITDA Margin (%)	21.7	23.0	20.1	20.9	21.5
EBITDA Growth (%)	80.9	7.9	12.9	24.1	14.5
Depreciation	3,467	2,914	4,151	3,635	3,929
EBIT	9,002	10,539	11,033	15,208	17,655
Other Income (Including EO Items)	134	249	400	196	456
Interest	3,714	3,411	2,843	2,165	1,850
PBT	5,422	7,376	8,591	13,239	16,261
Tax (Incl Deferred)	1,554	1,630	2,247	3,045	3,740
RPAT	3,868	5,746	6,344	10,194	12,521
Minority Interest	50	(10)	-	-	-
EO (Loss) / Profit (Net Of Tax)	-	-	910	-	-
APAT	3,918	5,736	7,254	10,194	12,521
APAT Growth (%)	-778.5	46.4	26.5	40.5	22.8
Adjusted EPS (Rs)	25.2	37.0	46.6	65.5	80.4

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	155	156	156	156	156
Reserves	29,507	34,205	40,710	49,917	61,063
Total Shareholders Funds	29,663	34,360	40,865	50,073	61,218
Minority Interest	(381)	(393)	(515)	(515)	(515)
Long Term Debt	30,132	35,050	30,478	24,877	18,777
Short Term Debt	14,790	5,390	2,449	4,050	5,150
Total Debt	44,922	40,441	32,927	28,927	23,927
Net Deferred Taxes	1,146	445	26	446	496
Other Non-current Liabilities & Provns	2,194	2,765	3,671	3,450	3,800
TOTAL SOURCES OF FUNDS	77,543	77,618	76,973	82,379	88,925
APPLICATION OF FUNDS					
Net Block	51,044	51,067	54,006	56,871	56,941
CWIP	6,113	6,838	6,710	5,500	5,000
Investments	854	1,027	1,235	1,235	1,235
Other Non-current Assets	632	574	724	805	1,025
Total Non-current Assets	58,644	59,506	62,674	64,411	64,201
Cash & Equivalent	3,446	4,596	2,488	4,052	11,146
Inventories	12,031	12,204	13,914	17,596	17,891
Debtors	9,505	10,053	11,308	13,571	14,288
Other Current Assets	3,771	2,628	4,188	4,429	4,885
Total Current Assets	25,307	24,885	29,410	35,596	37,063
Creditors	6,121	7,495	11,362	10,753	11,385
Other Current Liabilities & Provns	3,733	3,874	6,237	10,926	12,099
Total Current Liabilities	9,854	11,369	17,598	21,679	23,484
Net Current Assets	15,453	13,516	11,812	13,918	13,579
TOTAL APPLICATION OF FUNDS	77,542	77,618	76,974	82,380	88,926

Source: Company, HDFC sec Inst Research

Cash Flow

Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	5,422	7,376	8,591	13,239	16,261
Non-operating & EO items	225	142	(634)	223	(406)
Interest expenses	3,686	3,323	2,843	2,165	1,850
Depreciation	3,467	2,914	4,151	3,635	3,929
Working Capital Change	(1,332)	369	2,460	(2,408)	469
Tax Paid	(481)	(1,439)	(2,247)	(3,045)	(3,740)
OPERATING CASH FLOW (a)	10,989	12,685	15,164	13,809	18,363
Capex	(3,392)	(4,623)	(6,170)	(5,290)	(3,500)
Free cash flow (FCF)	7,597	8,062	8,994	8,519	14,863
Investments	278	(65)	-	-	-
Non-operating Income	30	34	(208)	-	-
INVESTING CASH FLOW (b)	(3,085)	(4,654)	(6,378)	(5,290)	(3,500)
Debt Issuance/(Repaid)	(4,568)	(4,088)	(7,514)	(4,000)	(5,000)
Interest Expenses	(3,511)	(2,291)	(2,443)	(1,969)	(1,394)
FCFE	(175)	1,651	(1,171)	2,550	8,469
Share Capital Issuance	197	77	0	-	-
Dividend	(555)	(559)	(533)	(987)	(1,375)
Others	10	-	(405)	-	-
FINANCING CASH FLOW (c)	(8,427)	(6,861)	(10,894)	(6,955)	(7,769)
NET CASH FLOW (a+b+c)	(524)	1,170	(2,109)	1,564	7,094
Closing Cash & Equivalents	3,393	4,565	2,488	4,052	11,146

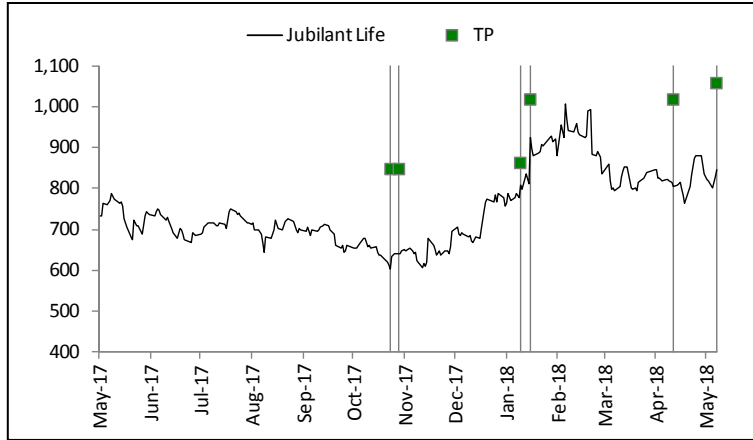
Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	63.2	65.9	62.0	60.4	60.5
EBITDA Margin	21.7	23.0	20.1	20.9	21.5
APAT Margin	6.8	9.8	8.4	11.3	12.5
RoE	14.5	18.0	16.9	22.4	22.5
RoIC (or Core RoCE)	9.1	11.4	11.3	15.7	17.9
RoCE	9.0	11.4	12.7	15.5	17.9
EFFICIENCY					
Tax Rate (%)	28.7	22.1	26.2	23.0	23.0
Fixed Asset Turnover (x)	1.1	1.1	1.2	1.3	1.4
Inventory (days)	76.4	76.0	67.2	71.3	65.1
Debtors (days)	60.3	62.6	54.6	55.0	52.0
Other Current Assets (days)	20.5	12.6	20.0	14.2	14.0
Payables (days)	38.9	46.7	54.9	43.6	41.4
Other Current Liab & Provns (days)	14.1	18.0	28.1	39.6	39.5
Cash Conversion Cycle (days)	104.3	86.5	58.8	57.3	50.2
Debt/EBITDA (x)	3.6	3.0	2.2	1.5	1.1
Net D/E (x)	1.4	1.0	0.7	0.5	0.2
Interest Coverage (x)	2.4	3.1	3.9	7.0	9.5
PER SHARE DATA (Rs)					
EPS	25.2	37.0	40.7	65.4	80.4
Dividend	3.0	3.0	3.0	3.0	3.0
Book Value	190.9	220.7	262.3	321.4	392.9
VALUATION					
P/E (x)	33.6	22.9	20.8	12.9	10.5
P/BV (x)	4.4	3.8	3.2	2.6	2.2
EV/EBITDA (x)	13.9	12.5	10.7	8.3	6.7
EV/Revenues (x)	3.0	2.9	2.1	1.7	1.4
OCF/EV (%)	6.4	7.6	9.3	8.8	12.7
FCF/EV (%)	4.4	4.8	5.5	5.4	10.3
FCFE/Mkt Cap (%)	(0.1)	1.3	(0.9)	1.9	6.4
Dividend Yield (%)	0.4	0.4	0.4	0.4	0.4

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
25-Oct-17	604	BUY	850
31-Oct-17	639	BUY	850
11-Jan-18	809	BUY	865
17-Jan-18	924	BUY	1,020
13-Apr-18	813	BUY	1,020
9-May-18	846	BUY	1,060

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH
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