

Jubilant Life Sciences

BSE SENSEX
36,134

S&P CNX
10,870

CMP: INR809

TP: INR965 (+19%)

Buy



Stock Info

	JUBILANT IN
Bloomberg	JUBILANT IN
Equity Shares (m)	155
M.Cap.(INRb)/(USDb)	128.9 / 1.8
52-Week Range (INR)	1039 / 617
1, 6, 12 Rel. Per (%)	12/8/5
12M Avg Val (INR M)	564
Free float (%)	49.3

Financials Snapshot (INR b)

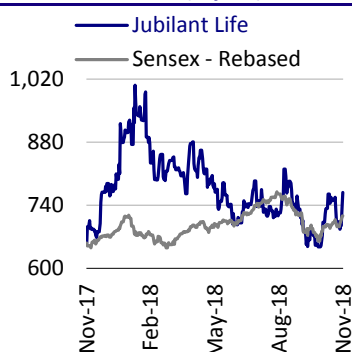
Y/E Mar	2018	2019E	2020E
Net Sales	75.6	86.7	96.8
EBITDA	15.2	18.9	21.2
PAT	7.1	9.3	10.8
EPS (INR)	45.6	59.7	69.2
Gr. (%)	23.3	30.9	16.1
BV/Sh (INR)	262.3	317.0	380.5
RoE (%)	18.9	20.6	19.9
RoCE (%)	12.1	13.7	14.2
P/E (x)	18.1	13.8	11.9
P/BV (x)	3.1	2.6	2.2

Shareholding pattern (%)

As On	Sep-18	Jun-18	Sep-17
Promoter	50.7	50.7	54.0
DII	4.3	5.1	5.3
FII	26.9	26.4	21.6
Others	18.1	17.8	19.1

FII Includes depository receipts

Stock Performance (1-year)



Across-the-board traction strengthening growth story

We recently met Jubilant Life Sciences' (JLS) management to understand the business performance and outlook in detail.

- JLS reported revenue of INR44b, EBITDA margin of 20.4% and PAT of INR4.1b in 1HFY19. Management reiterated that it is well placed to improve on this performance in 2HFY19.
- We expect Pharmaceutical business (55% of sales) to remain on a strong footing, particularly in Specialty Pharmaceuticals. The operating environment for Generic Pharmaceuticals is also favorable, according to management.
- Life Science Ingredient segment (LSI – 45% of total sales) also stands to benefit from improved prospects for Vitamin business and reduced supply from Chinese competitors.
- We expect sales/PAT CAGR of 13%/23% to INR97b/INR11b over FY18-20. We reiterate our Buy rating with a revised TP of INR965 (SOTP-based 12M forward rolling).

Pharmaceutical – key pillars of growth in place

JLS performed much better than peers in Pharma segment, with EBITDA margin improvement of ~700bp in 1HFY19 v/s FY18. We expect this momentum to continue, led by (1) increase in the number of Ruby-fill installations, improved penetration through Triad's distribution network spread across 1,700 customers and better demand for existing products, (2) recently enhanced capacity in Contract Manufacturing Organization (CMO) and Solid Dosage Formulation (SDF) businesses, (3) expanding market share led by superior execution in Allergy business, and (4) reduced competition in Active Pharmaceutical Ingredient (API) business, benefitting from cost efficiency and manufacturing issues for peers.

LSI – in a revival mode

After coming in at an impressive INR4b (the best half yearly performance) in 2HFY18, LSI segment EBITDA was subdued at INR2.2b in 1HFY19, largely due to demand constraints, and thus, inferior pricing in nutritional products (17% of LSI sales). However, we expect the ongoing demand improvement to provide much-needed support in 2HFY19. The segment also has more catalysts in the form of own capacity expansion and ongoing slowdown in manufacturing in China (due to government crackdown on polluting companies).

Valuation and view

We continue valuing JLS on an SOTP basis (10x EV/EBITDA for Pharma and 6x EV/EBITDA for LSI) to arrive at a revised price target of INR965 (SOTP-based 12M forward rolling). We expect PAT CAGR of 23% to INR10.7b over FY18-20 on the back of improved performance across business segments. Re-iterate **Buy**.

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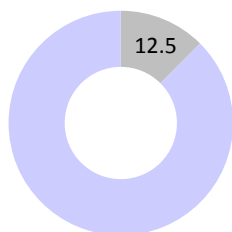
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Key meeting highlights

Specialty pharmaceuticals

Radiopharmaceuticals: Niche products, concentrated market and better integration to drive growth

Radiopharma as a % of sales in FY18

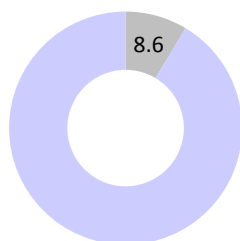


Source: MOSL, Company

- The industry size in North America at USD2.4b is expected to have a CAGR of 6.2% and reach USD3.5b over the next five years.
- The products and generator market from a manufacturer's perspective is at USD600m and USD400m, respectively, out of a market size of USD2.4b.
- The market remains concentrated among four manufacturers and four distributors catering to 2,600 hospitals.
- With sales at INR9.4b – ex of Triad (USD145m FY18), JLS has ~24% market share in the product category as per our estimates.
- JLS remains the sole supplier for niche products, MAA and DTPA. Growth in this segment would be driven by newer products and increased traction in existing portfolio.
- Despite Rubyfill being a superior product, the company expects its sales growth to be gradual initially as customers have already signed 1-3 year contracts with a company having a relatively inferior product. However, the outlook remains promising due to JLS' better product and reduced impact of radioactivity on patients.
- The new product pipeline is healthy with one product at the NDA filing stage and four products under 505(b)(2) stage which are expected to be launched over next 3-4 years.
- In addition, with acquisition of Triad, JLS now has access to 1,700 customers spread across GPOs, regional network, local hospitals and physicians group, thereby aiding last mile access for better value chain.
- We expect radiopharmaceutical (incl. Triad) business to have revenues of INR28.3b at CAGR of 29% for FY18-20.

CMO: Increased operation time and expanded capacity to drive growth

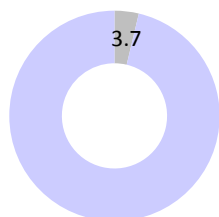
CMO as a % of sales in FY18



Source: MOSL, Company

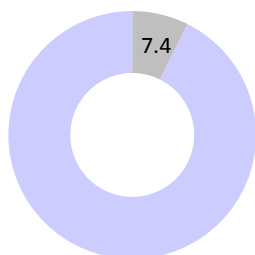
- One of the key constraints for JLS to grow in the CMO business was the availability of capacity. JLS is on track to expand capacity through increasing the running time of its plants and installation of new lyophilization line.
- Increased time for operations would provide better business from 3QFY19, while installation of a new line should enhance operations from FY20.
- We expect the CMO business to witness revenue CAGR of 10% for FY18-20 and to reach revenues of INR7.8b (INR6.4b in FY18).

Allergy Therapy as a % of sales in FY18



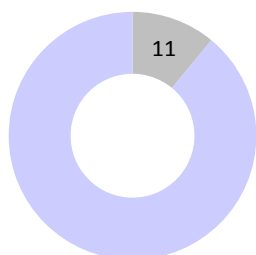
Source: MOSL, Company

API as a % of sales in FY18



Source: MOSL, Company

SDF as a % of sales



Source: MOSL, Company

Allergy – Large product range including niche segment and superior execution to aid growth

- Post exit of competitor (ALK Albello), JLS is expected to have better business prospects for Venom as it becomes the sole supplier for treatment of allergies in the US.
- Growth in the allergy segment would also be aided by superior execution, enhanced product range, improving existing processes and supply reliability.
- We expect allergy therapy to witness revenue CAGR of 20% for FY18-20 and to reach revenues of INR4b (INR2.8b in FY18).

API: Product specific issues with peers to drive medium-term growth

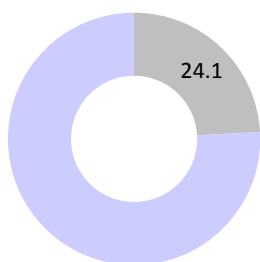
- Sartans remain the focus area for JLS. It continues to enjoy better market share and favorable pricing due to ongoing impurity issue for its peers.
- On the back of cost efficient manufacturing process, it has reasonable market share in products like Risperidone (33%), Oxcarbazepine (30%), and ~16-20% in Carbamazepine, Pinaverium, Meclizine, Citalopram and Donepezil.
- We expect the API business to see revenue CAGR of 9.7% for FY18-20 and to reach revenues of INR6.6b (INR5.5b in FY18).
- The momentum of improved profitability (up 1250bp YoY for 1HFY19) in API/Generic segment is expected to continue going forward.

SDF: Capacity expansion/new launches/backward integration to aid growth

- JLS is in process of expanding its formulation capacity at Roorkee to meet additional demand and launch new products.
- It is also expanding business in emerging markets leveraging product filings for US market.
- In addition, backward integration has kept cost efficiency in place, thereby driving superior profitability for this segment.

Life Science Ingredient (LSI)

Life science chemicals as a % of sales in FY18

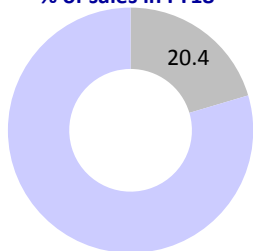


Source: MOSL, Company

Life Science Chemicals – Better off-take and pricing to aid growth over medium-term

- JLS is in the process of enhancing capacity for Acetic Anhydride to cater to increasing demand in pharma, agrochemicals, drug and dyes sector.
- The Acetic anhydride capacity expansion is expected to be completed by 4QFY19. The revenue from this capacity is expected to increase gradually and has potential to reach INR4b at optimum capacity with expected payback of 4-5 years.
- JLS intends to increase its market share globally, by increasing its presence in Europe and South East Asia.
- The manufacturing facility is near the sugarcane belt as raw materials required for producing Ethanol are available at a lower cost. Based on the capacity and pricing, JLS is the fourth largest supplier of Ethanol to the Government of India under the Ethanol Blending Program (EBP).
- We expect this segment to see revenue CAGR of 10.5% for FY18-20 and to reach revenues of INR22.2b (INR18.2b in FY18).

Specialty intermediates & Nutritional Products as % of sales in FY18



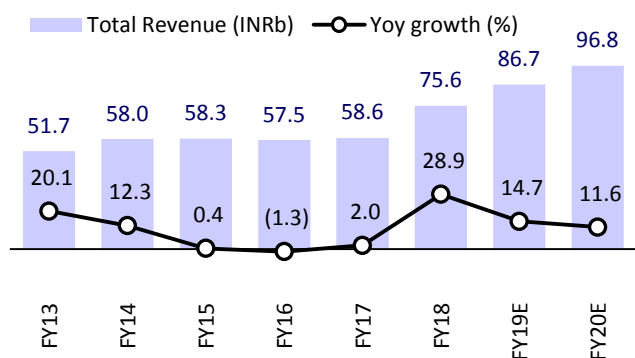
Source: MOSL, Company

Specialty intermediates and nutritional products (SINP) – revival in demand for nutritional products and new launches in intermediates to drive growth

- The availability of Vitamin A and E has improved, thereby enhancing demand for Vitamin B in feed applications. As a result, nutritional business is expected improve in 2HFY19 compared to 1HFY19.
- JLS has launched 2-3 products in specialty intermediates. It intends to launch about six products in FY19.
- Thus, JLS intends to grow the specialty intermediates business through enhancing product portfolio and improving asset utilization.
- We expect this segment to see revenue CAGR of 12.7% for FY18-20 and to reach revenues of INR19.6b (INR15.4b in FY18).

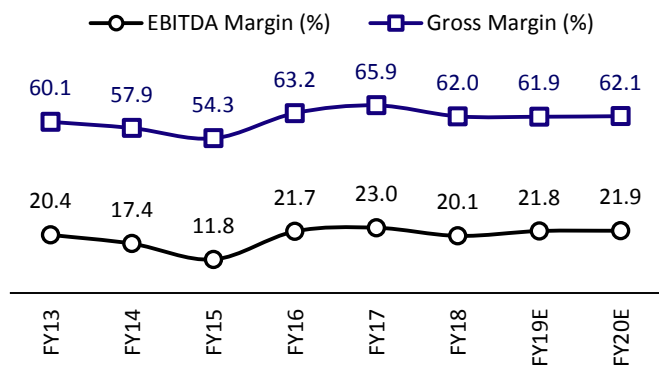
Story in charts

Exhibit 1: Both Pharma & LSI to drive revenue growth



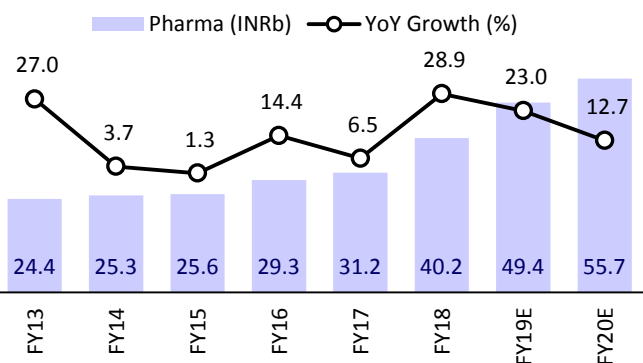
Source: MOSL, Company

Exhibit 2: Margins to improve gradually over next 2 years



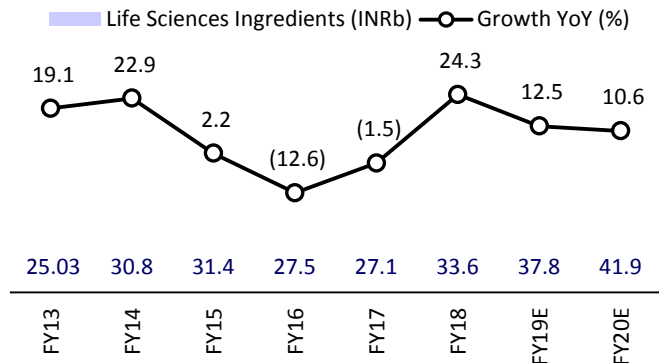
Source: MOSL, Company

Exhibit 3: Specialty & Generics to aid growth in Pharma



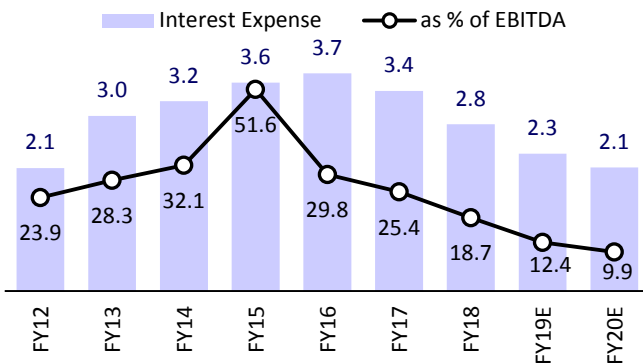
Source: MOSL, Company

Exhibit 4: LSI growth to slow down on a high FY18 base



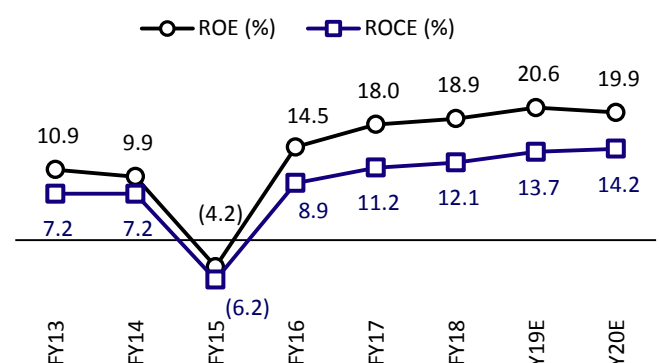
Source: MOSL, Company

Exhibit 5: JLS continues to reduce debt



Source: MOSL, Company

Exhibit 6: ROE and ROCE on an upward trend



Source: MOSL, Company

Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Net Sales	51,660	58,034	58,263	57,491	58,614	75,578	86,679	96,770
Change (%)	20.1	12.3	0.4	-1.3	2.0	28.9	14.7	11.6
EBITDA	10,559	10,076	6,893	12,470	13,453	15,184	18,896	21,193
EBITDA Margin (%)	20.4	17.4	11.8	21.7	23.0	20.1	21.8	21.9
Depreciation	2,538	2,812	2,880	3,467	2,914	3,241	3,616	4,095
EBIT	8,021	7,264	4,013	9,002	10,539	11,943	15,280	17,098
Interest	2,987	3,237	3,553	3,714	3,411	2,843	2,342	2,107
Other Income	299	191	425	134	249	400	217	290
Extraordinary items	-1,922	-2,145	-481	0	0	-910	0	0
PBT	3,411	2,073	403	5,422	7,376	8,591	13,154	15,281
Tax	1,524	696	805	1,554	1,630	2,247	3,946	4,584
Tax Rate (%)	44.7	33.6	199.6	28.7	22.1	26.2	30.0	30.0
Min. Int. & Assoc. Share	361	286	176	-50	-10	-84	-88	-92
Reported PAT	1,527	1,090	-578	3,918	5,757	6,428	9,296	10,789
Adjusted PAT	2,591	2,515	-1,057	3,918	5,757	7,100	9,296	10,789
Change (%)	68.0	-2.9	-142.0	-470.8	46.9	23.3	30.9	16.1

Balance Sheet							(INR Million)	
Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Share Capital	159	155	159	155	156	156	156	156
Reserves	24,602	26,111	24,376	29,507	34,205	40,710	49,234	59,127
Net Worth	24,761	26,265	24,535	29,663	34,361	40,865	49,390	59,283
Debt	42,452	43,953	47,931	44,933	40,453	35,449	32,449	30,449
Deferred Tax	2,922	2,371	2,380	1,146	445	26	26	26
Total Capital Employed	71,251	74,168	74,847	75,360	74,865	75,825	81,349	89,242
Gross Fixed Assets	50,244	53,614	54,245	35,597	39,102	44,936	52,804	57,877
Less: Acc Depreciation	19,027	22,319	24,508	2,864	5,657	9,807	13,423	17,519
Net Fixed Assets	31,217	31,295	29,737	32,733	33,445	35,129	39,380	40,359
Capital WIP	4,369	4,724	5,966	6,113	6,838	6,710	3,842	2,768
Investments	256	340	395	854	1,027	1,235	1,235	1,235
Current Assets	29,409	32,587	30,714	29,385	30,055	32,621	39,073	49,497
Inventory	11,162	13,414	12,353	12,031	12,204	13,914	18,317	20,423
Debtors	7,086	8,059	8,193	9,505	10,053	11,308	14,867	16,597
Cash & Bank	3,561	4,795	3,944	3,446	4,596	2,488	1,155	7,190
Loans & Adv, Others	7,601	6,318	6,225	4,403	3,202	4,912	4,735	5,286
Curr Liabs & Provns	12,458	14,471	11,342	12,038	14,122	18,747	21,059	23,494
Curr. Liabilities	9,060	9,702	9,697	9,815	12,334	17,259	18,414	20,541
Provisions	3,398	4,768	1,645	2,222	1,788	1,488	2,645	2,953
Net Current Assets	16,951	18,116	19,372	17,348	15,933	13,874	18,015	26,003
Total Assets	71,251	74,168	74,847	75,360	74,865	75,825	81,349	89,242

Financials and Valuations

Ratios

Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Basic (INR)								
EPS	16.6	16.1	-6.8	25.1	36.9	45.6	59.7	69.2
Cash EPS	32.9	34.2	11.7	47.4	55.7	66.4	82.9	95.5
Book Value	158.9	168.6	157.5	190.4	220.5	262.3	317.0	380.5
DPS	3.1	3.0	3.1	3.1	3.1	3.4	5.0	5.7
Payout (incl. Div. Tax.)	36.6	49.9	-99.6	12.2	8.3	8.3	8.3	8.3
Valuation(x)								
P/E	0.0	0.0	-121.6	32.8	22.3	18.1	13.8	11.9
Price / Book Value	0.0	0.0	5.2	4.3	3.7	3.1	2.6	2.2
EV/Sales	0.0	0.0	3.0	3.0	2.8	2.1	1.8	1.6
EV/EBITDA	0.0	0.0	25.0	13.6	12.2	10.6	8.5	7.2
Dividend Yield (%)	0.4	0.4	0.4	0.4	0.4	0.4	0.6	0.7
Profitability Ratios (%)								
RoE	10.9	9.9	-4.2	14.5	18.0	18.9	20.6	19.9
RoCE	7.2	7.2	-6.2	8.9	11.2	12.1	13.7	14.2
RoIC	7.6	7.6	-6.2	9.9	12.9	13.8	15.2	15.6
Turnover Ratios (%)								
Asset Turnover (x)	0.7	0.8	0.8	0.8	0.8	1.0	1.1	1.1
Debtors (No. of Days)	50	51	51	60	63	55	63	63
Inventory (No. of Days)	79	84	77	76	76	67	77	77
Creditors (No. of Days)	49	47	48	40	49	55	50	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

(INR Million)

Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Adjusted EBITDA	10,559	10,076	6,893	12,470	13,453	15,184	18,896	21,193
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	-50	-5,473	-1,954
Tax Paid	-1,196	-809	-793	-481	-1,439	-2,247	-3,946	-4,584
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	12,888	9,477	14,655
(Inc)/Dec in FA & CWIP	-4,378	-2,438	-3,491	-3,392	-4,623	-6,961	-5,000	-4,000
Free cash flows	5,321	5,285	4,341	7,597	8,062	5,927	4,477	10,655
(Pur)/Sale of Invt	-54	-63	-42	257	74	-208	0	0
Others	123	156	-125	76	-126	400	217	290
CF from Inv. Activity	-4,309	-2,344	-3,658	-3,059	-4,676	-6,769	-4,783	-3,710
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	-5,004	-3,000	-2,000
Interest Paid	-2,957	-3,345	-3,353	-3,511	-2,291	-2,843	-2,342	-2,107
Divd Paid (incl Tax) & Others	-548	-552	-538	-556	-559	-381	-683	-803
CF from Fin. Activity	-4,498	-4,144	-5,027	-8,427	-6,859	-8,228	-6,026	-4,910
Inc/(Dec) in Cash	892	1,235	-852	-498	1,150	-2,109	-1,333	6,035
Add: Opening Balance	2,668	3,561	4,795	3,944	3,446	4,596	2,488	1,155
Closing Balance	3,561	4,795	3,944	3,446	4,596	2,488	1,155	7,190

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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