

Rating: REDUCE | CMP: Rs562 | TP: Rs433

October 25, 2019

Q2FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	REDUCE		REDUCE	
Target Price	433		433	
Sales (Rs. m)	96,920	103,734	96,920	103,734
% Chng.	-	-	-	-
EBITDA (Rs. m)	17,882	19,294	17,882	19,294
% Chng.	-	-	-	-
EPS (Rs.)	57.7	64.9	57.7	64.9
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	89,971	96,920	103,734	111,265
EBITDA (Rs. m)	16,253	17,882	19,294	19,861
Margin (%)	18.1	18.5	18.6	17.9
PAT (Rs. m)	5,745	9,190	10,346	10,999
EPS (Rs.)	36.1	57.7	64.9	69.0
Gr. (%)	(12.6)	60.0	12.6	6.3
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	12.9	17.5	16.8	15.3
RoCE (%)	14.7	15.0	15.8	15.4
EV/Sales (x)	1.4	1.2	1.1	1.0
EV/EBITDA (x)	7.6	6.6	5.8	5.4
PE (x)	15.6	9.7	8.6	8.1
P/BV (x)	1.9	1.6	1.3	1.2

Key Data

JULS.BO | JUBILANT IN

52-W High / Low	Rs.899 / Rs.391
Sensex / Nifty	39,058 / 11,584
Market Cap	Rs.89bn / \$ 1,261m
Shares Outstanding	159m
3M Avg. Daily Value	Rs.500.51m

Shareholding Pattern (%)

Promoter's	50.68
Foreign	27.18
Domestic Institution	2.63
Public & Others	19.52
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.7	(16.6)	(14.5)
Relative	(0.5)	(17.3)	(26.2)

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Radiopharma decelerating, LSI faltering

With lower than usual growth in Pharma and declining LSI, JUBILANT sales were 3% lower than our estimates while adj. EBITDA and adj. PAT were ahead by 5% and 6% respectively. This is due to better adj. gross margin by 40bps and lower overhead. Pharma business grew by 10% YoY while LSI declined by 15% in Q2FY20. With high base and reliance on large contribution from a single product, the specialty pharma grew only 4% YoY though offset by surprise opportunity in older generics with higher volumes and better prices. Its formulation plant (Roorkee) and API plant (Nanjangud) remain under USFDA observation with no new approvals. LSI business remained tepid due to low demand and low prices in life science chemicals (LSC) while guidance offers better sales and margin in H2FY20E due to improvement in pricing environment in last fortnight.

With Rs230m one-off costs in Q2 (Rs480m in Q1), JUBILANT's operating and overhead costs remained surprisingly lower than expected in Q2FY20. This has led to 80bps QoQ increase in adj. EBITDA margin to 20.7%. The lower overhead expenses by 70bps QoQ despite having remediation costs, non-supply penalties, litigation exps and forex loss remained unexplained as there were no major improvement in key business verticals. Adjusting the one-off expenses, the adjusted EBITDA margin would have increased by 180bps QoQ, which seems highly unsustainable going forward.

API grew on account of better pricing of existing products and generics grew 20% YoY due to higher volumes and better pricing (mostly benefitted from shortage opportunity). JUBILANT is working to resolve Warning Letter (WL) with USFDA, while the regulator maintains ban on new product approvals from Roorkee (formulations) and Nanjangud (API). EBITDA margin in LSI decreased 300bps QoQ due to strong price decline in LSC products though partially offsets by price improvement in Specialty intermediates and Vit-B3 (Nutritional product).

With ban on new approvals, the benefit of higher volume and opportunities from shortage of drugs will be limited for JUBILANT. Its anti-allergy and venom businesses although gaining traction post withdrawal of competitions. While Vitamin business benefited from better demand scenario, the lower pricing regime with high volume impacted LSI business. The lack of supply of Vitamin-A & E have negatively impacted the price and demand of Vitamin-B thus reducing the price for the past 6-7 quarters.

JUBILANT raised US\$200m debt and prepaid US\$135m FCCB from IFC Washington. Its net debt reduced by Rs1.49bn in Q2FY20. Management has proposed demerger of Pharma and LSI business to unlock value of both the businesses, though shareholding to reflect mirror image. It guided for nine months to complete the process with approval from NCLT. Management plans to remain in old tax regime with guidance of effective annual tax outflow of 25% while reported tax liability to be 29-30%. We maintain 'Reduce' recommendation and retain TP at Rs433.

Exhibit 1: Q2FY20 Result Overview (Rs m)

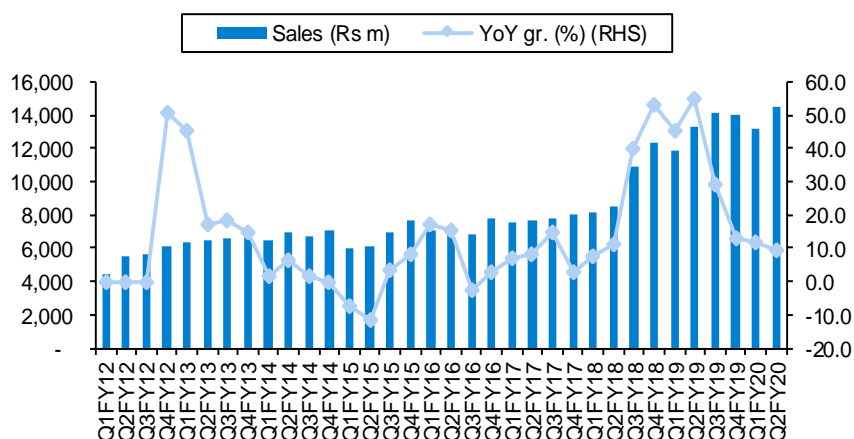
Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
Net Sales	22,659	22,695	(0.2)	21,819	44,478	43,481	2.3
Raw Material	8,980	9,962	(9.9)	8,671	17,652	18,922	(6.7)
<i>% of Net Sales</i>	<i>39.6</i>	<i>43.9</i>		<i>39.7</i>	<i>39.7</i>	<i>43.5</i>	
Personnel Cost	5,222	4,780	9.3	5,041	10,263	9,295	10.4
<i>% of Net Sales</i>	<i>23.0</i>	<i>21.1</i>		<i>23.1</i>	<i>23.1</i>	<i>21.4</i>	
Others	3,773	3,451	9.3	3,760	7,533	6,387	17.9
<i>% of Net Sales</i>	<i>16.6</i>	<i>15.2</i>		<i>17.2</i>	<i>16.9</i>	<i>14.7</i>	
Total Expenditure	17,975	18,193	(1.2)	17,473	35,447	34,604	2.4
EBITDA	4,685	4,502	4.1	4,346	9,031	8,878	1.7
<i>Margin (%)</i>	<i>20.7</i>	<i>19.8</i>		<i>19.9</i>	<i>20.3</i>	<i>20.4</i>	
Depreciation	1,168	895	30.6	1,027	2,195	1,775	23.7
EBIT	3,516	3,607	(2.5)	3,319	6,835	7,103	(3.8)
Other Income	123	38	220.1	97	220	133	65.1
Interest	716	627	14.2	726	1,442	1,354	6.5
PBT	2,922	3,018	(3.2)	2,690	5,613	5,882	4.6
Minority Interest	-	6	(100.0)	-	-	28	
Total Taxes	428	920	(53.5)	841	1,269	1,780	(28.7)
<i>ETR (%)</i>	<i>14.7</i>	<i>30.5</i>		<i>31.2</i>	<i>22.6</i>	<i>30.3</i>	
Reported PAT	2,494	2,104	18.5	1,850	4,344	4,129	(5.2)
Other Comprehensive Income	238	1,409		471	709	1,546	
Total Comprehensive Income	2,732	3,514	(22.2)	2,320	5,052	5,675	11.0

Source: Company, PL

Exhibit 2: Major Sources of Revenue

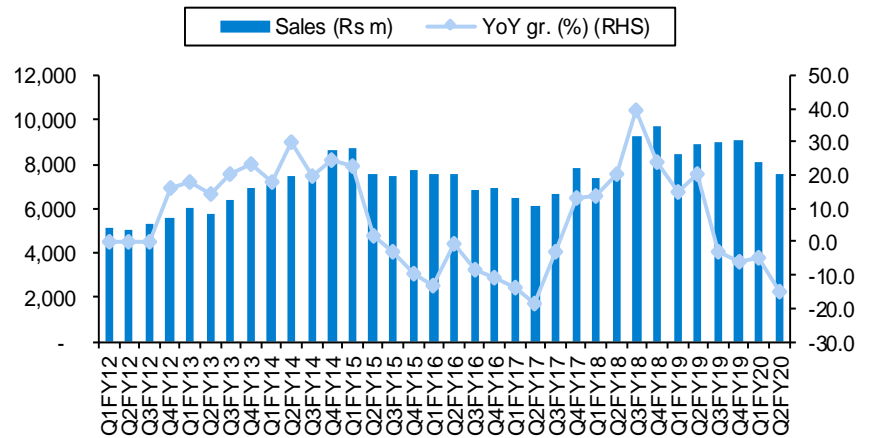
Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
Pharmaceuticals	14,522	13,256	9.6	13,208	27,807	25,069	10.9
<i>% of Net Sales</i>	<i>64.1</i>	<i>58.4</i>		<i>60.5</i>	<i>62.5</i>	<i>57.7</i>	
Life Science ingredients	7,521	8,872	(15.2)	8,055	15,572	17,340	(10.2)
<i>% of Net Sales</i>	<i>33.2</i>	<i>39.1</i>		<i>36.9</i>	<i>35.0</i>	<i>39.9</i>	
Drug Discovery Solutions	616	567	8.6	556	1,099	1,072	2.5
<i>% of Net Sales</i>	<i>2.7</i>	<i>2.5</i>		<i>2.5</i>	<i>2.5</i>	<i>2.5</i>	
Gross Sales	22,659	22,695	(0.2)	21,819	44,478	43,481	2.3

Source: Company, PL

Exhibit 3: Pharma Sales and growth


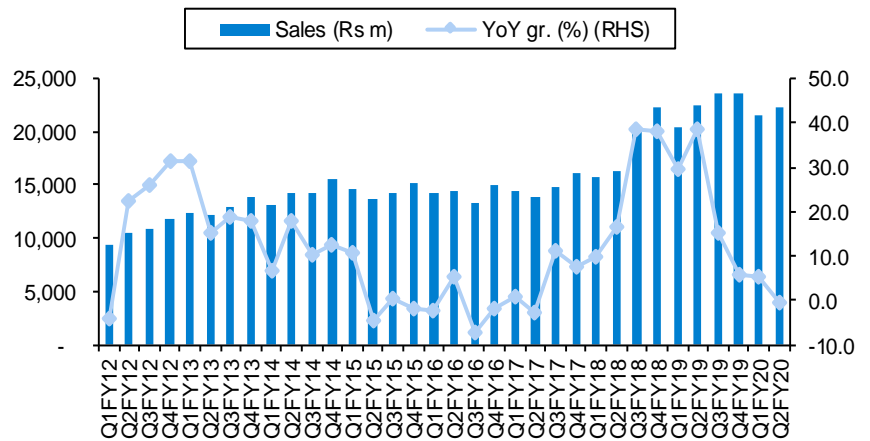
Source: Company, PL

Exhibit 4: LSI Sales and growth



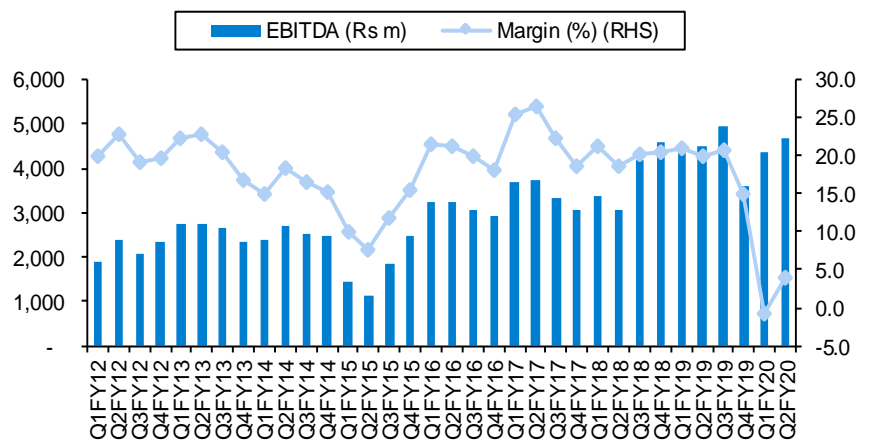
Source: Company, PL

Exhibit 5: Overall Sales and growth



Source: Company, PL

Exhibit 6: EBITDA and margin



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	89,971	96,920	103,734	111,265
YoY gr. (%)	20.5	7.7	7.0	7.3
Cost of Goods Sold	35,218	37,993	40,145	43,060
Gross Profit	54,753	58,928	63,589	68,206
Margin (%)	60.9	60.8	61.3	61.3
Employee Cost	19,260	20,596	22,043	24,478
Other Expenses	1,889	2,423	2,593	2,782
EBITDA	16,253	17,882	19,294	19,861
YoY gr. (%)	14.0	10.0	7.9	2.9
Margin (%)	18.1	18.5	18.6	17.9
Depreciation and Amortization	3,709	3,605	4,002	4,222
EBIT	12,544	14,277	15,293	15,639
Margin (%)	13.9	14.7	14.7	14.1
Net Interest	2,198	3,120	2,693	2,311
Other Income	1,495	1,644	1,809	1,989
Profit Before Tax	11,840	12,801	14,409	15,317
Margin (%)	13.2	13.2	13.9	13.8
Total Tax	3,268	3,584	4,034	4,289
Effective tax rate (%)	27.6	28.0	28.0	28.0
Profit after tax	8,572	9,217	10,374	11,028
Minority interest	26	27	28	30
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,745	9,190	10,346	10,999
YoY gr. (%)	(10.6)	60.0	12.6	6.3
Margin (%)	6.4	9.5	10.0	9.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,745	9,190	10,346	10,999
YoY gr. (%)	(10.6)	60.0	12.6	6.3
Margin (%)	6.4	9.5	10.0	9.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,745	9,190	10,346	10,999
Equity Shares O/s (m)	159	159	159	159
EPS (Rs)	36.1	57.7	64.9	69.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	51,521	60,987	66,287	71,587
Tangibles	42,927	51,593	56,093	60,593
Intangibles	8,594	9,394	10,194	10,994
Acc: Dep / Amortization	13,399	17,004	21,005	25,227
Tangibles	10,008	12,791	15,859	19,136
Intangibles	3,391	4,213	5,146	6,092
Net fixed assets	36,894	43,983	45,281	46,359
Tangibles	33,962	38,802	40,233	41,457
Intangibles	2,932	5,181	5,048	4,902
Capital Work In Progress	9,014	3,500	3,750	4,025
Goodwill	19,589	19,589	20,177	20,782
Non-Current Investments	1,313	1,379	1,448	1,520
Net Deferred tax assets	(528)	(784)	(848)	(896)
Other Non-Current Assets	531	551	588	629
Current Assets				
Investments	-	-	-	-
Inventories	14,174	15,667	16,768	17,985
Trade receivables	12,716	12,480	13,642	14,632
Cash & Bank Balance	13,704	10,351	9,603	10,769
Other Current Assets	4,149	4,563	5,020	5,522
Total Assets	114,685	114,687	119,149	125,379
Equity				
Equity Share Capital	159	159	159	159
Other Equity	47,930	56,545	66,316	76,740
Total Networkth	48,089	56,704	66,475	76,899
Non-Current Liabilities				
Long Term borrowings	42,429	36,065	30,655	26,057
Provisions	1,144	1,235	1,272	1,310
Other non current liabilities	97	107	118	129
Current Liabilities				
ST Debt / Current of LT Debt	4,997	1,983	1,785	1,785
Trade payables	10,201	11,152	12,221	13,108
Other current liabilities	5,699	5,129	3,996	3,126
Total Equity & Liabilities	114,685	114,687	119,149	125,379

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	11,840	12,801	14,409	15,317
Add. Depreciation	3,709	3,605	4,002	4,222
Add. Interest	2,198	3,120	2,693	2,311
Less Financial Other Income	1,495	1,644	1,809	1,989
Add. Other	1,238	(5,206)	(1,455)	(1,480)
Op. profit before WC changes	18,986	14,320	19,648	20,370
Net Changes-WC	(3,895)	(744)	(1,675)	(1,847)
Direct tax	(3,268)	(3,328)	(3,746)	(3,982)
Net cash from Op. activities	11,823	10,248	14,227	14,541
Capital expenditures	(8,500)	(5,550)	(5,300)	(5,300)
Interest / Dividend Income	22	22	22	22
Others	(1,324)	178	(1,222)	(1,054)
Net Cash from Inv. activities	(9,802)	(5,351)	(6,500)	(6,332)
Issue of share cap. / premium	4	-	-	-
Debt changes	12,737	(9,378)	(5,608)	(4,598)
Dividend paid	(575)	(575)	(575)	(575)
Interest paid	(2,198)	(3,120)	(2,693)	(2,311)
Others	-	-	-	-
Net cash from Fin. activities	9,967	(13,073)	(8,876)	(7,484)
Net change in cash	11,988	(8,176)	(1,149)	724
Free Cash Flow	3,323	4,698	8,927	9,241

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	23,771	23,856	21,819	22,659
YoY gr. (%)	15.0	5.9	5.0	(0.2)
Raw Material Expenses	8,758	9,726	7,552	7,732
Gross Profit	15,013	14,129	14,267	14,927
Margin (%)	63.2	59.2	65.4	65.9
EBITDA	4,933	3,580	4,346	4,685
YoY gr. (%)	18.3	(21.8)	(0.7)	4.1
Margin (%)	20.8	15.0	19.9	20.7
Depreciation / Depletion	984	950	1,027	1,168
EBIT	3,949	2,630	3,319	3,516
Margin (%)	16.6	11.0	15.2	15.5
Net Interest	533	616	726	716
Other Income	140	(66)	97	123
Profit before Tax	3,556	1,948	2,690	2,922
Margin (%)	15.0	8.2	12.3	12.9
Total Tax	881	607	841	428
Effective tax rate (%)	24.8	31.1	31.2	14.7
Profit after Tax	2,675	1,341	1,850	2,494
Minority interest	67	(14)	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,608	1,355	1,850	2,494
YoY gr. (%)	22.7	(12.5)	(8.7)	18.5
Margin (%)	11.0	5.7	8.5	11.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,608	1,355	1,850	2,494
YoY gr. (%)	22.7	(12.5)	(8.7)	18.5
Margin (%)	11.0	5.7	8.5	11.0
Other Comprehensive Income	(1,802)	-	471	137
Total Comprehensive Income	806	1,355	2,320	2,631
Avg. Shares O/s (m)	156	156	156	156
EPS (Rs)	16.7	8.7	11.9	16.0

Source: Company Data, PL Research

Key Financial Metrics

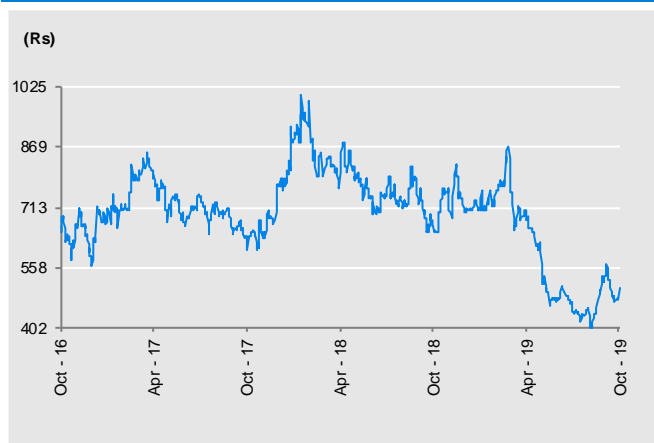
Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	36.1	57.7	64.9	69.0
CEPS	59.3	80.3	90.1	95.5
BVPS	301.9	356.0	417.3	482.7
FCF	20.9	29.5	56.0	58.0
DPS	-	-	-	-
Return Ratio(%)				
RoCE	14.7	15.0	15.8	15.4
ROIC	12.6	12.1	12.6	12.4
RoE	12.9	17.5	16.8	15.3
Balance Sheet				
Net Debt : Equity (x)	0.7	0.5	0.3	0.2
Net Working Capital (Days)	68	64	64	64
Valuation(x)				
PER	15.6	9.7	8.6	8.1
P/B	1.9	1.6	1.3	1.2
P/CEPS	9.5	7.0	6.2	5.9
EV/EBITDA	7.6	6.6	5.8	5.4
EV/Sales	1.4	1.2	1.1	1.0
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Pharmaceuticals	55,060	59,786	64,387	69,228
LSI	35,665	38,369	40,668	43,455

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	Reduce	433	493
2	29-Jul-19	Reduce	433	445
3	4-Jul-19	Reduce	648	496
4	20-May-19	Reduce	648	594
5	5-Apr-19	Reduce	703	709
6	11-Mar-19	Reduce	703	850
7	1-Feb-19	Accumulate	822	714
8	7-Jan-19	Accumulate	829	710

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	511	452
2	Cadila Healthcare	Accumulate	266	234
3	Cipla	Reduce	439	441
4	Dr. Lal PathLabs	Accumulate	1,120	1,390
5	Dr. Reddy's Laboratories	Accumulate	2,997	2,820
6	Eris Lifesciences	Accumulate	459	431
7	Glenmark Pharmaceuticals	Reduce	385	320
8	Indoco Remedies	Reduce	130	142
9	Ipca Laboratories	Accumulate	1,008	905
10	Jubilant Life Sciences	Reduce	433	493
11	Lupin	Reduce	730	701
12	Lupin	Reduce	730	701
13	Lupin	Reduce	730	701
14	Sun Pharmaceutical Industries	Reduce	396	388
15	Thyrocare Technologies	BUY	500	595

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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