

January 31, 2020

## Q3FY20 Result Update

■ Change in Estimates |  Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	REDUCE		REDUCE	
Target Price	488		433	
Sales (Rs. m)	103,734	111,265	103,734	111,265
% Chng.	-	-	-	-
EBITDA (Rs. m)	19,294	19,861	19,294	19,861
% Chng.	-	-	-	-
EPS (Rs.)	64.9	69.0	64.9	69.0
% 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)	7.8	6.7	6.0	5.5
PE (x)	16.2	10.1	9.0	8.4
P/BV (x)	1.9	1.6	1.4	1.2

### Key Data

JULS.BO | JUBILANT IN

52-W High / Low	Rs.899 / Rs.391
Sensex / Nifty	40,723 / 11,962
Market Cap	Rs.93bn / \$ 1,300m
Shares Outstanding	159m
3M Avg. Daily Value	Rs.299.81m

### Shareholding Pattern (%)

Promoter's	50.68
Foreign	27.43
Domestic Institution	2.66
Public & Others	19.24
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	8.5	32.6	(17.2)
Relative	9.9	22.0	(26.3)

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## Traction in Rubyfill to remain stuck in legality

### Quick Pointers:

- Ruby-fill ramp up to be impacted by legal hurdles with Bracco in US
- Improvement in growth for LSI business remains distant

**JUBILANT Adj. Sales declined 3% YoY to Rs 23.2bn (PLe Rs24.6bn) on account of 11% YoY decline in LSI (Life Science Ingredients) segment. Adj. EBITDA grew 3% YoY to Rs5.1bn (PLe Rs5.1b), while EBITDA margin expanded by 116bps to 21.9% (PLe 20.8%). With installation of instruments, Ruby-fill received better traction from hospitals though the expectation seems to be short-lived with new prolong legality of Bracco over IP assets. US formulations and API sales to remain muted in FY21E, given the FDA's six new observations post visit of Roorkee plant (formulations) in Q3FY20. CDMO sales declined by 4% QoQ while management guided for better sales with commissioning of new capacity in FY21E. LSI business continued to be impacted with muted demand and lower margin.**

**JUBILANT guided for favourable outcome of legal issues in Ruby-fill, new capacity in CDMO and FDA resolution of regulatory issues which may help in back-ended revenue growth in FY22E. The company however maintained heavy capex in FY21E. In our SOTP valuation, we increased EV/EBITDA of pharma business to 5.5x (from 5x) of FY22E while same for LSI maintained at 3x for commoditized LSI business. This has derived new TP of Rs488 (from Rs433). We maintain Reduce.**

### Conference call and other key highlights:

- **Pharmaceuticals Segment (63% of revenue):** Revenue and EBITDA margin was flat QoQ to Rs14.5bn and 28.4% for the segment. Specialty (53% of Pharma revenues) was stable during Q3FY20 with 2% growth QoQ due to steady growth in Radiopharma and Allergy businesses. The CDMO and generic sales declined 4% and 2% QoQ, respectively. Generic segment witnessed better volume and pricing in some of the key APIs while Valsartan impurity issue remained an overhang.
- **LSI (Life Science Ingredients, 34% of revenues):** Revenue increased by 6% QoQ with 10% QoQ growth in Nutritional products and 13% QoQ in specialty Intermediates. Vit-B business growth was led by price hike of 12-14% and volume growth 4-6%. LS chemicals remained flat QoQ with muted demand both in domestic and export markets.
- **DDDS (Drug Discovery & Development Solutions):** Revenue increased by 11% QoQ. It plans to double its NDDS capacity in next few years with capex of Rs1bn in FY21E. Currently, there are 6 ongoing projects with few of them in Oncology.

- Radiopharma business maintained at stable growth due to higher volumes in key products like Ruby-Fill, while Allergy business witnessed revenue growth both YoY and QoQ led by higher volumes in venom and allergenic extracts. Radiopharma has 8 products in their pipeline which could be launched in 2-3 years.
- CDMO business will ramp-up from Q1FY21E due to additional capacity installation.
- Net Debt stands at Rs32.4bn, increase by Rs1.24bn QoQ due to increase in working capital
- CAPEX for 9M was Rs4.28b and guided for strong outflow for FY21E.
- Roorkee (formulation plant) and Nanjangud (API plant) continue to be under USFDA scanner with WL (Warning Letter) and OAI (Official Action Indicated) status.
- The termination of the anti-dumping duties in China on pyridine import has led to increase in Pyrdine business only marginally

**Exhibit 1: Q3FY20 Result Overview (Rs m)**

Y/e March	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	9MFY20	9MFY19	YoY gr. (%)
<b>Net Sales</b>	<b>23,152</b>	<b>23,771</b>	<b>(2.6)</b>	<b>22,659</b>	<b>67,630</b>	<b>67,252</b>	<b>0.6</b>
Raw Material	8,968	10,105	(11.3)	8,980	26,619	29,027	(8.3)
<i>% of Net Sales</i>	<i>38.7</i>	<i>42.5</i>		<i>39.6</i>	<i>39.4</i>	<i>43.2</i>	
Personnel Cost	5,386	4,997	7.8	5,222	15,650	14,292	9.5
<i>% of Net Sales</i>	<i>23.3</i>	<i>21.0</i>		<i>23.0</i>	<i>23.1</i>	<i>21.3</i>	
Others	3,724	3,737	(0.3)	3,773	11,257	10,124	11.2
<i>% of Net Sales</i>	<i>16.1</i>	<i>15.7</i>		<i>16.6</i>	<i>16.6</i>	<i>15.1</i>	
Total Expenditure	18,078	18,838	(4.0)	17,975	53,525	53,442	0.2
<b>EBITDA</b>	<b>5,074</b>	<b>4,933</b>	<b>2.9</b>	<b>4,685</b>	<b>14,105</b>	<b>13,810</b>	<b>2.1</b>
<i>Margin (%)</i>	<i>21.9</i>	<i>20.8</i>		<i>20.7</i>	<i>20.9</i>	<i>20.5</i>	
Depreciation	1,135	984	15.3	1,168	3,330	2,759	20.7
<b>EBIT</b>	<b>3,940</b>	<b>3,949</b>	<b>(0.2)</b>	<b>3,516</b>	<b>10,775</b>	<b>11,052</b>	<b>(2.5)</b>
Other Income	60	290	(79.2)	123	280	423	(33.9)
Interest	720	531	35.6	716	2,163	1,582	36.7
<b>PBT</b>	<b>3,280</b>	<b>3,708</b>	<b>(11.5)</b>	<b>2,922</b>	<b>8,892</b>	<b>9,893</b>	<b>10.1</b>
Minority Interest	(346)	(218)	58.8	-	-	28	
Total Taxes	899	881	2.1	428	2,168	2,661	(18.5)
<i>ETR (%)</i>	<i>27.4</i>	<i>23.8</i>		<i>14.7</i>	<i>24.4</i>	<i>26.9</i>	
<b>Reported PAT</b>	<b>2,034</b>	<b>2,608</b>	<b>(22.0)</b>	<b>2,494</b>	<b>6,724</b>	<b>7,259</b>	<b>7.4</b>
Other Comprehensive Income	496	(1,802)		238	1,205	(256)	
<b>Total Comprehensive Income</b>	<b>2,530</b>	<b>806</b>	<b>213.8</b>	<b>2,732</b>	<b>7,929</b>	<b>7,003</b>	<b>(13.2)</b>

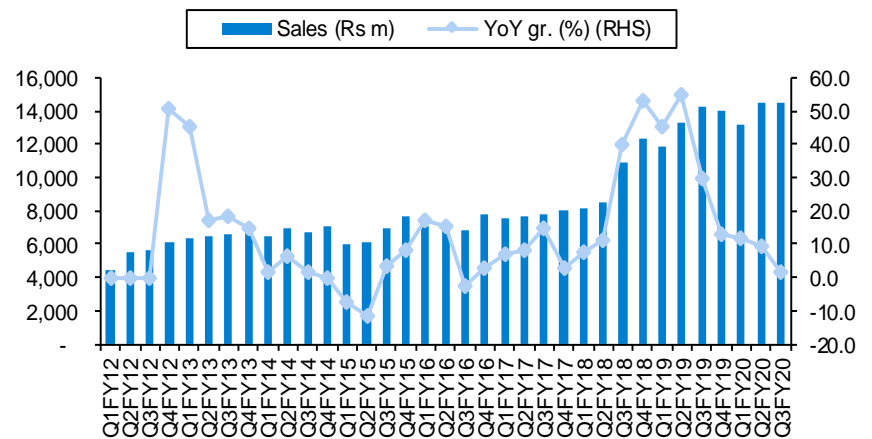
Source: Company, PL

**Exhibit 2: Major Sources of Revenue**

Y/e March	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	9MFY20	9MFY19	YoY gr. (%)
Pharmaceuticals	14,502	14,241	1.8	14,522	42,308	39,433	7.3
% of Net Sales	62.6	59.9		64.1	62.6	58.6	
Life Science ingredients	7,966	8,987	(11.4)	7,521	23,538	26,320	(10.6)
% of Net Sales	34.4	37.8		33.2	34.8	39.1	
Drug Discovery Solutions	685	542	26.3	616	1,784	1,499	19.0
% of Net Sales	3.0	2.3		2.7	2.6	2.2	
<b>Gross Sales</b>	<b>23,152</b>	<b>23,771</b>	<b>(2.6)</b>	<b>22,659</b>	<b>67,630</b>	<b>67,252</b>	<b>0.6</b>

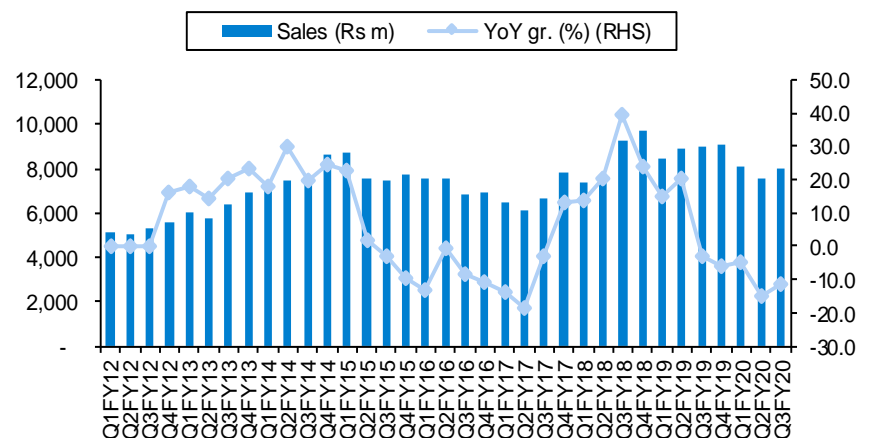
Source: Company, PL

**Exhibit 3: Pharma Sales and growth**



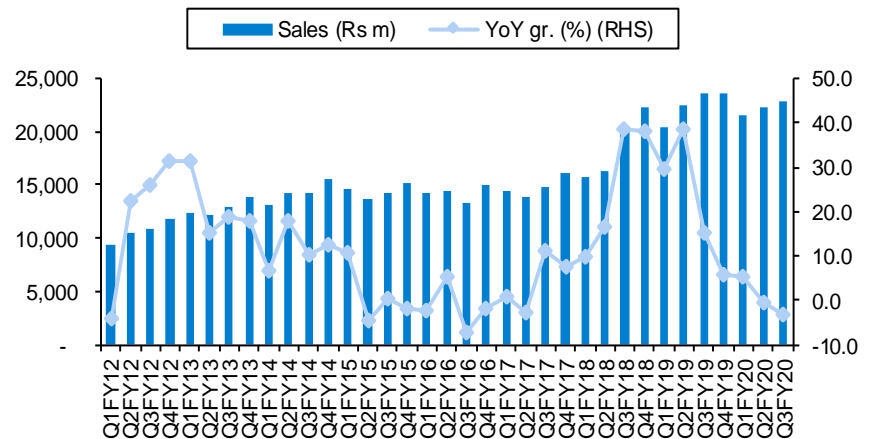
Source: Company, PL

**Exhibit 4: LSI Sales and growth**



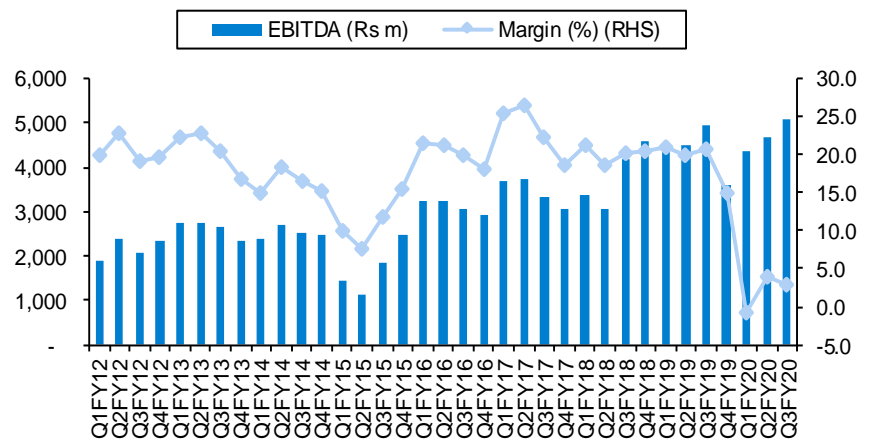
Source: Company, PL

**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
<b>Net Revenues</b>	<b>89,971</b>	<b>96,920</b>	<b>103,734</b>	<b>111,265</b>
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
<b>EBITDA</b>	<b>16,253</b>	<b>17,882</b>	<b>19,294</b>	<b>19,861</b>
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
<b>EBIT</b>	<b>12,544</b>	<b>14,277</b>	<b>15,293</b>	<b>15,639</b>
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
<b>Profit Before Tax</b>	<b>11,840</b>	<b>12,801</b>	<b>14,409</b>	<b>15,317</b>
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
<b>Profit after tax</b>	<b>8,572</b>	<b>9,217</b>	<b>10,374</b>	<b>11,028</b>
Minority interest	26	27	28	30
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>5,745</b>	<b>9,190</b>	<b>10,346</b>	<b>10,999</b>
YoY gr. (%)	(10.6)	60.0	12.6	6.3
Margin (%)	6.4	9.5	10.0	9.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>5,745</b>	<b>9,190</b>	<b>10,346</b>	<b>10,999</b>
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
<b>Equity Shares O/s (m)</b>	<b>159</b>	<b>159</b>	<b>159</b>	<b>159</b>
<b>EPS (Rs)</b>	<b>36.1</b>	<b>57.7</b>	<b>64.9</b>	<b>69.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>51,521</b>	<b>60,987</b>	<b>66,287</b>	<b>71,587</b>
Tangibles	42,927	51,593	56,093	60,593
Intangibles	8,594	9,394	10,194	10,994
<b>Acc: Dep / Amortization</b>	<b>13,399</b>	<b>17,004</b>	<b>21,005</b>	<b>25,227</b>
Tangibles	10,008	12,791	15,859	19,136
Intangibles	3,391	4,213	5,146	6,092
<b>Net fixed assets</b>	<b>36,894</b>	<b>43,983</b>	<b>45,281</b>	<b>46,359</b>
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
<b>Current Assets</b>				
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
<b>Total Assets</b>	<b>114,685</b>	<b>114,687</b>	<b>119,149</b>	<b>125,379</b>
<b>Equity</b>				
Equity Share Capital	159	159	159	159
Other Equity	47,930	56,545	66,316	76,740
<b>Total Networkth</b>	<b>48,089</b>	<b>56,704</b>	<b>66,475</b>	<b>76,899</b>
<b>Non-Current Liabilities</b>				
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
<b>Current Liabilities</b>				
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
<b>Total Equity &amp; Liabilities</b>	<b>114,685</b>	<b>114,687</b>	<b>119,149</b>	<b>125,379</b>

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)
<b>Net cash from Op. activities</b>	<b>11,823</b>	<b>10,248</b>	<b>14,227</b>	<b>14,541</b>
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)
<b>Net Cash from Invt. activities</b>	<b>(9,802)</b>	<b>(5,351)</b>	<b>(6,500)</b>	<b>(6,332)</b>
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	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>9,967</b>	<b>(13,073)</b>	<b>(8,876)</b>	<b>(7,484)</b>
<b>Net change in cash</b>	<b>11,988</b>	<b>(8,176)</b>	<b>(1,149)</b>	<b>724</b>
Free Cash Flow	3,323	4,698	8,927	9,241

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
<b>Net Revenue</b>	<b>23,856</b>	<b>21,819</b>	<b>22,659</b>	<b>23,152</b>
YoY gr. (%)	5.9	5.0	(0.2)	(2.6)
Raw Material Expenses	9,726	7,552	7,732	7,732
Gross Profit	14,129	14,267	14,927	15,420
Margin (%)	59.2	65.4	65.9	66.6
<b>EBITDA</b>	<b>3,580</b>	<b>4,346</b>	<b>4,685</b>	<b>5,074</b>
YoY gr. (%)	(21.8)	(0.7)	4.1	2.9
Margin (%)	15.0	19.9	20.7	21.9
Depreciation / Depletion	950	1,027	1,168	1,135
<b>EBIT</b>	<b>2,630</b>	<b>3,319</b>	<b>3,516</b>	<b>3,940</b>
Margin (%)	11.0	15.2	15.5	17.0
Net Interest	616	726	716	720
Other Income	(66)	97	123	60
<b>Profit before Tax</b>	<b>1,948</b>	<b>2,690</b>	<b>2,922</b>	<b>3,280</b>
Margin (%)	8.2	12.3	12.9	14.2
Total Tax	607	841	428	899
Effective tax rate (%)	31.1	31.2	14.7	27.4
<b>Profit after Tax</b>	<b>1,341</b>	<b>1,850</b>	<b>2,494</b>	<b>2,380</b>
Minority interest	(14)	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,355</b>	<b>1,850</b>	<b>2,494</b>	<b>2,380</b>
YoY gr. (%)	(12.5)	(8.7)	18.5	(13.8)
Margin (%)	5.7	8.5	11.0	10.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,355</b>	<b>1,850</b>	<b>2,494</b>	<b>2,380</b>
YoY gr. (%)	(12.5)	(8.7)	18.5	(13.8)
Margin (%)	5.7	8.5	11.0	10.3
Other Comprehensive Income	-	471	137	496
<b>Total Comprehensive Income</b>	<b>1,355</b>	<b>2,320</b>	<b>2,631</b>	<b>2,876</b>
Avg. Shares O/s (m)	156	156	156	156
<b>EPS (Rs)</b>	<b>8.7</b>	<b>11.9</b>	<b>16.0</b>	<b>15.3</b>

Source: Company Data, PL Research

**Key Financial Metrics**

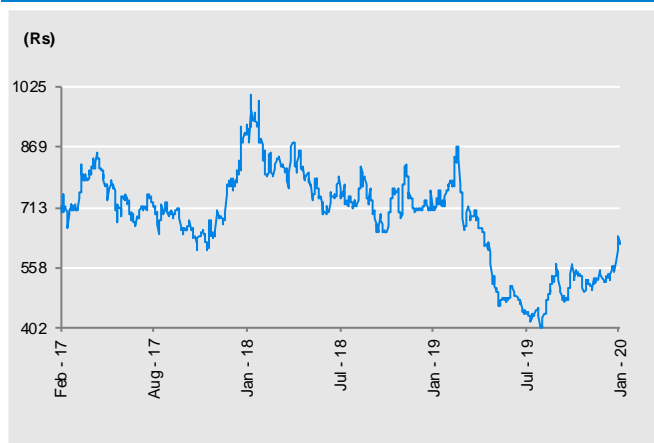
Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	36.1	57.7	64.9	69.0
CEPS	59.3	80.3	90.1	95.5
BVPS	301.9	356.0	417.3	482.7
FCF	20.9	29.5	56.0	58.0
DPS	-	-	-	-
<b>Return Ratio(%)</b>				
RoCE	14.7	15.0	15.8	15.4
ROIC	12.6	12.1	12.6	12.4
RoE	12.9	17.5	16.8	15.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.7	0.5	0.3	0.2
Net Working Capital (Days)	68	64	64	64
<b>Valuation(x)</b>				
PER	16.2	10.1	9.0	8.4
P/B	1.9	1.6	1.4	1.2
P/CEPS	9.8	7.3	6.5	6.1
EV/EBITDA	7.8	6.7	6.0	5.5
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-Jan-20	Reduce	433	543
2	25-Oct-19	Reduce	433	562
3	3-Oct-19	Reduce	433	493
4	29-Jul-19	Reduce	433	445
5	4-Jul-19	Reduce	648	496
6	20-May-19	Reduce	648	594
7	5-Apr-19	Reduce	703	709
8	11-Mar-19	Reduce	703	850
9	1-Feb-19	Accumulate	822	714

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	412	460
2	Cadila Healthcare	Hold	220	260
3	Cipla	Reduce	439	470
4	Dr. Lal PathLabs	Hold	1,437	1,537
5	Dr. Reddy's Laboratories	Accumulate	3,331	3,200
6	Eris Lifesciences	Accumulate	459	490
7	Glenmark Pharmaceuticals	Reduce	335	352
8	Indoco Remedies	Hold	198	234
9	Ipca Laboratories	Accumulate	1,238	1,139
10	Jubilant Life Sciences	Reduce	433	543
11	Lupin	Hold	760	777
12	Sun Pharmaceutical Industries	Reduce	396	439
13	Thyrocare Technologies	BUY	686	533

**PL's Recommendation Nomenclature (Absolute Performance)**

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



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