

Jubilant Life Sciences

1 February 2020

Reuters: JULS.BO; Bloomberg: JOL IN

Revenue growth muted, margins expand

Jubilant Life Sciences or JLS reported 3QFY20 revenue of Rs23,152mn, which was above our estimate by 1.2% and below consensus estimate by 1.9%. Net profit for the quarter stood at Rs2,034mn (Rs12.8 per share) and was 8.5%/15.0% below our/consensus estimates, respectively. Revenue growth was 2.2% QoQ but was down by 2.6% YoY. Muted performance of LSI business affected the revenue performance. Drug Discovery Solution business clocked Rs680mn in sales during the quarter and was up 26% YoY. The business is showing good momentum and offers the potential for scale up.

Net profit margin at 8.8% was down 247bps YoY and 222bps QoQ. The margin was down due to one-off impact of Rs230mn related to pre-payment of high yield bonds and NCDs and Rs110mn related to write-off of unused assets. EBITDA margin expanded by 124bps QoQ as the LSI business showed some improvement in EBITDA margin QoQ. Pharma sales were flat QoQ, while LSI segment sales declined 11% YoY due to lower realization in commodity chemical segment (lower acetic acid prices).

Pharma business can continue to grow in single digit on the back of expansion in CDMO capacity, improvement in Ruby Fill market share and restoration of full compliance at its API and solid dosage generic facility. LSI sales, which have been adversely impacted by lower acetic acid prices, may see a recovery.

In an attempt to bring focus on growth, the company has proposed restructuring of Business - Separation of Pharma and LSI businesses into separate listed entities. As per the restructuring exercise, Pharma and LSI businesses will be listed separately (with no change in shareholding). The restructuring exercise will lead to unlocking of value for shareholders and allow better management of the business.

In the current quarter, the Pharma business reported an adjusted EBITDA of Rs4,110mn, while LSI business EBITDA stood at Rs1,000 mn. The company has filed the composite Scheme of Arrangement with exchanges and is awaiting response. Once NOC is received from exchanges the company will file it with the National Company Law Tribunal (NCLT) for its approval. Post the scheme becoming effective, the Life Science Ingredients business will stand demerged into the resulting entity, which will be listed on NSE and BSE with a mirror shareholding of JLL.

Valuation: We have maintained our financial estimates on JLS for FY20, FY21 and FY22. We have maintained a target P/E multiple of 12x to arrive at a target price (TP) of Rs792.

BUY

Sector: Pharmaceuticals

CMP: Rs583

Target Price: Rs792

Upside: 36%

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Key Data

Current Shares O/S (mn)	159.3
Mkt Cap (Rsbn/US\$bn)	92.3/1.3
52 Wk H / L (Rs)	899/391
Daily Vol. (3M NSE Avg.)	293,074

Price Performance (%)

	1 M	6 M	1 Yr
Jubilant Life Sciences	7.9	31.8	(17.7)
Nifty Index	(1.7)	7.6	10.4

Source: Bloomberg

Y/E March (Rsmn)	Q3FY19	Q2FY20	Q3FY20	YoY (%)	QoQ (%)	1HFY19	1HFY20	YoY (%)
Revenue from operations	23,770	22,659	23,152	-2.6	2.2	43,481	44,478	2.3
Raw Material Costs	8,758	7,732	7,732	-11.7	0.0	16,734	15,284	-8.7
% of revenue	36.8	34.1	33.4	(345) bps	(73) bps	38.5	34.4	(412) bps
Staff costs	4,997	5,222	5,386	7.8	3.1	9,295	10,263	10.4
% of revenue	21.0	23.0	23.3	224 bps	22 bps	21.4	23.1	170 bps
Other expenses	5,084	5,021	4,959	-2.4	-1.2	8,574	9,900	15.5
% of revenue	21.4	22.2	21.4	3 bps	(74) bps	19.7	22.3	254 bps
EBITDA	4,932	4,685	5,074	2.9	8.3	8,878	9,030	1.7
EBITDA margin (%)	20.7	20.7	21.9	117 bps	124 bps	20.4	20.3	(11) bps
Other income	290	123	60	-79.2	-	133	220	65.1
Interest costs	683	716	720	5.5	0.5	1,354	1,442	6.5
Depreciation	984	1,168	1,135	15.3	-2.9	1,775	2,195	23.7
PBT Before Exceptionals	3,556	2,922	3,280	-7.8	12.2	5,882	5,613	-4.6
Exceptional Items	0	0	346	-	-	0	0	-
PBT	3,556	2,922	2,933	-17.5	0.4	5,882	5,613	-4.6
Tax	881	428	899	2.1	109.9	1,780	1,269	-28.7
Tax rate (%)	24.8	14.7	27.4	265 bps	1276 bps	30.3	22.6	(766) bps
PAT before MI	2,675	2,494	2,034	-24.0	-18.4	4,101	4,344	5.9
PAT Margin (%)	11.3	11.0	8.8	(247) bps	(222) bps	9.4	9.8	33 bps

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Conference call highlights

- **CMO business:** The shift in line 1 has been increased to 24*7 and the new Lyo equipment at line 2 is expected to start commercial production in the next quarter. These initiatives will enable a 30% increase in capacity, improving the revenue by US\$30mn.
- **Specialty Pharma business:** The company received a favorable ruling from the US International Trade Commission and during the quarter the product witnessed higher volume, contributing to the steady performance in Specialty Pharma.
- **Allergy business:** The Allergy business grew both on QoQ and YoY basis, led by Venom and Allergenic extracts. The company is now the sole supplier of venom in this market.
- **Drug Discovery and Development Business (DDDS):** The DDDS business grew by 26%, driven by higher demand from biotech companies for integrated services, DPMK, Chemistry and scale up. Hence, the management has guided for a capacity expansion to double capacities in the next 2-3 years.
- **Nutritional products:** The business grew by 17% on the back of volume improvement of 5% and price hike of 12-14%. The average selling price in the quarter was around US\$4 to US\$4.4.
- **One-off expense:** One-off expenses included Rs230mn related to pre-payment of high yield bonds and NCDs and Rs110mn related to write-off of unused assets.
- **Valsartan:** During the quarter, business volume declined as there were additional regulatory checks mandated prior to shipment which were implemented. The process is now implemented and going forward normal volume should resume.
- **China:** The company buys few starting materials for APIs from China and they are cautiously monitoring any potential threat of supply disruption on account of Corona virus pandemic.
- **R&D:** There are 8 products in Radiopharma pipeline which the company plans to launch in the next 2-3 years.
- **Approvals:** The company has received 1 ANDA approval of Clomipramine HCL Capsule in the US.
- **Debt:** The net debt was Rs32,730mn, a reduction of Rs2,170mn since March 2019. Net debt increased QoQ by Rs1,280mn on account of payment of dividend and increase in working capital debt in LSI business.
- **FCF:** The Pharma and DDDS businesses generated free cash flow of Rs630mn during the quarter.
- **Regulatory compliance:** Regarding the Nanjangud facility, the company is working with the USFDA and Health Canada to resolve the issues associated with OAI. The Roorkee facility was re-inspected by the USFDA during the quarter and was issued 6 observations which included 1 repeat observation. The company is working on the resolution for the same. These facilities were also inspected by the Australian regulator (TGA) during the quarter and the company has been given GMP status, which bodes well for a resolution with the USFDA / Health Canada.

Exhibit 1: Actual performance versus our estimates, Bloomberg consensus estimates

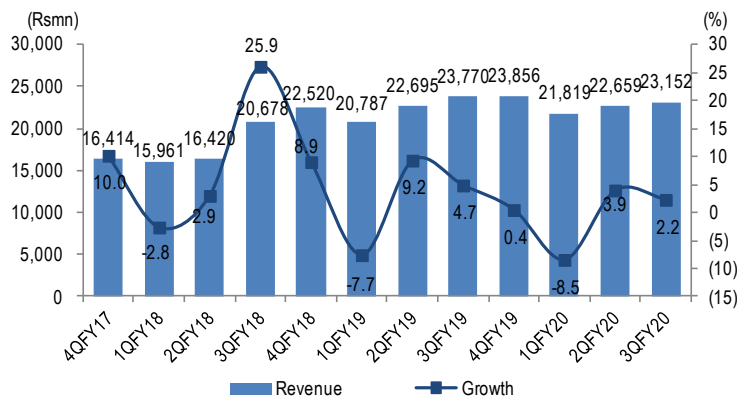
(Rsmn)	Actual	Our estimate	Var.(%)	Consensus estimate	Var.(%)
Revenues	23,152	22,885	1.2	23,595	(1.9)
EBITDA	5,074	4,633	9.5	4,938	2.8
EBITDA margin (%)	21.9	20.2	167 bps	20.9	99 bps
PAT*	2,034	2,222	(8.5)	2,393	(15.0)

Source: Company, Nirmal Bang Institutional Equities Research

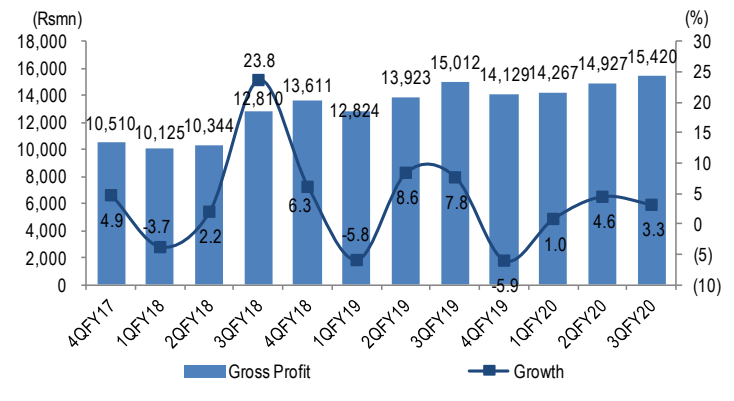
Exhibit 2: Key financials

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net sales	75,178	91,108	92,925	100,195	104,711
EBITDA	15,184	17,390	18,250	21,058	22,287
Net profit	6,344	5,770	8,423	10,279	10,739
EPS (Rs)	39.8	36.2	52.9	64.5	67.4
EPS growth (%)	10.4	(9.0)	46.0	22.0	4.5
EBITDA margin (%)	20.2	19.1	19.6	21.0	21.3
P/E (x)	13.2	14.6	10.0	8.2	7.8
P/BV (x)	2.1	1.7	1.5	1.3	1.1
EV/EBITDA (x)	7.5	6.8	6.0	4.9	4.2
RoCE (%)	16.0	17.9	17.5	20.2	20.4
RoE (%)	17.1	13.0	16.2	16.9	15.2

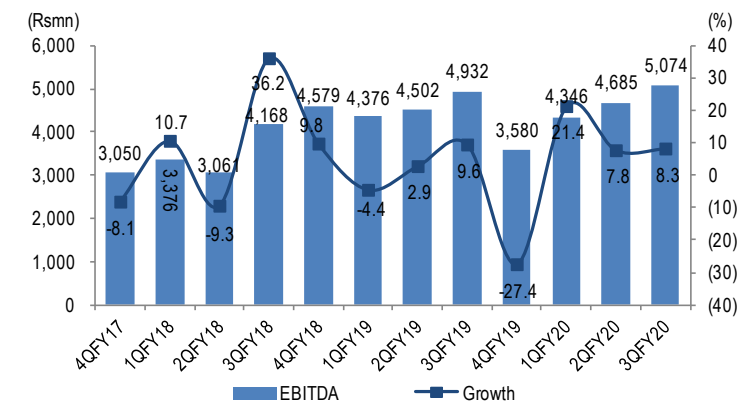
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Revenue and growth trend


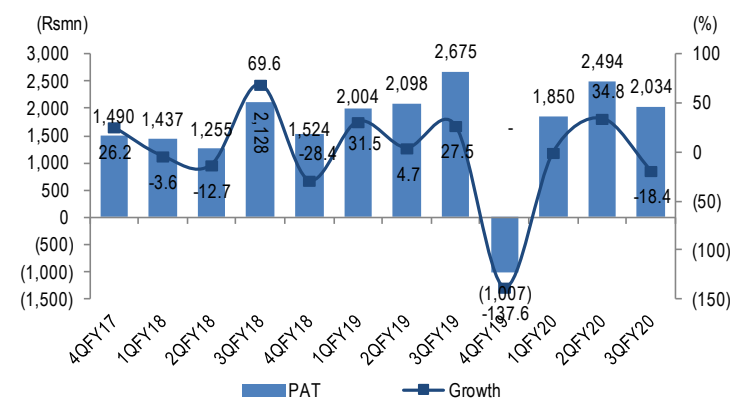
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Gross profit and growth trend


Source: Company, Nirmal Bang Institutional Equities Research

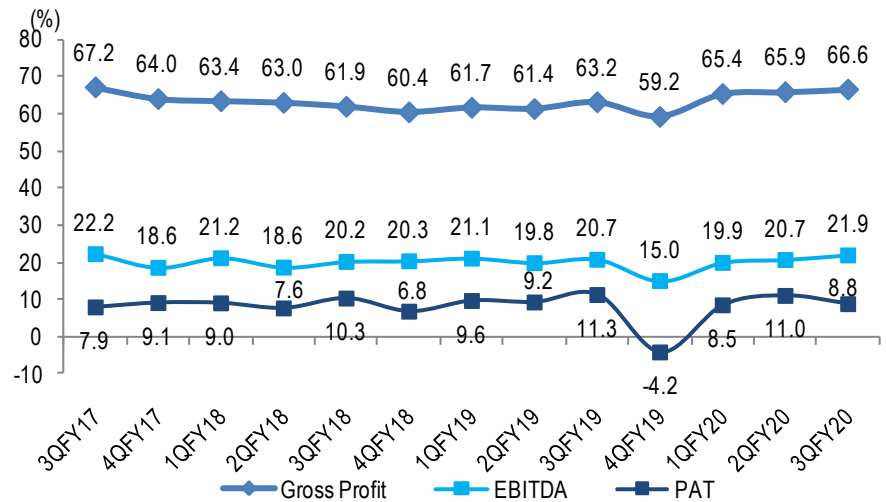
Exhibit 5: EBITDA and growth trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: PAT and growth trend


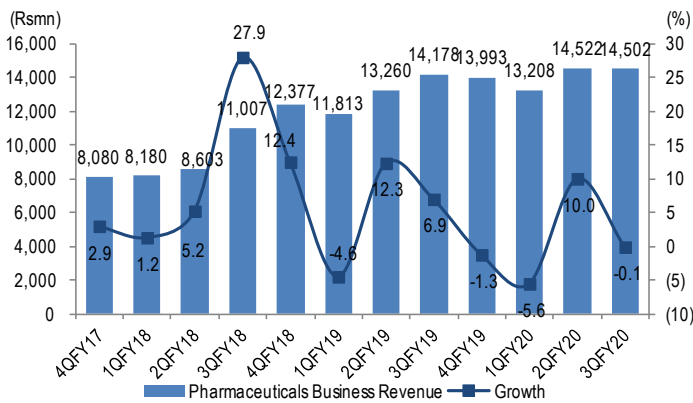
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Margin Trend



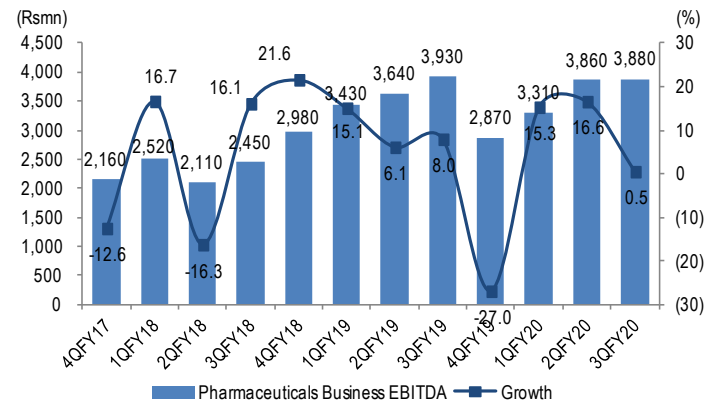
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Pharma business revenue and growth trend



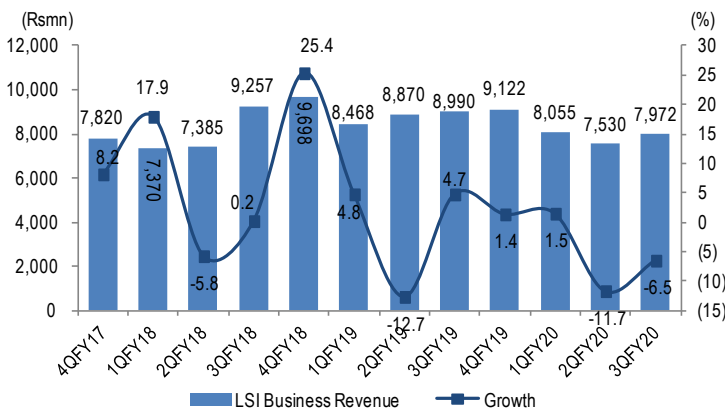
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Pharma business EBITDA and growth trend



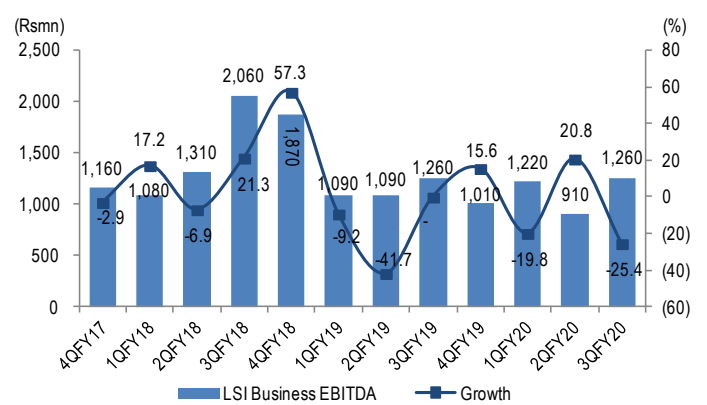
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: LSI Business revenue and growth trend



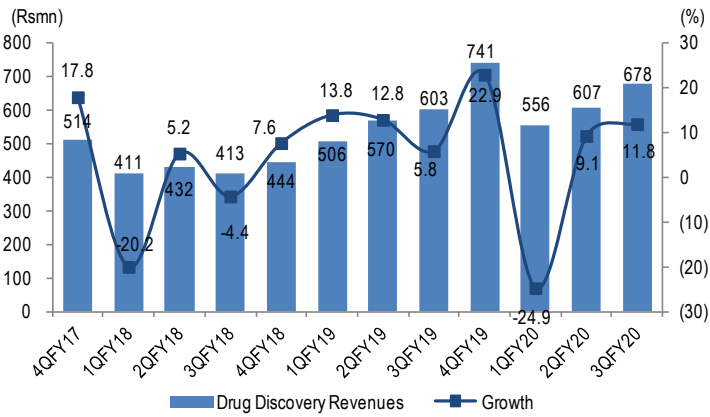
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: LSI business EBITDA and growth trend



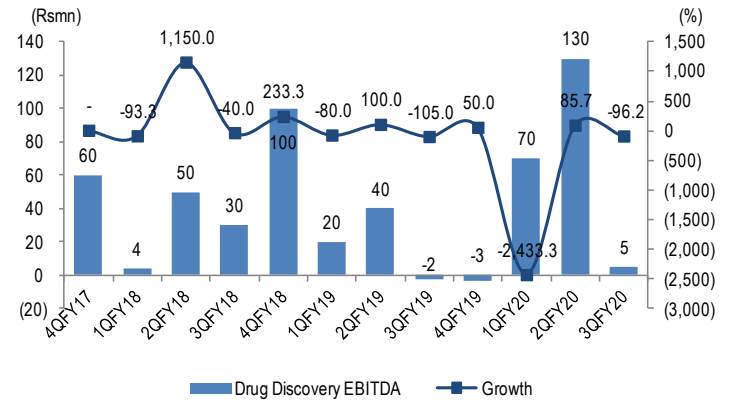
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Drug Discovery revenue and growth trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Drug Discovery EBITDA and growth trend



Source: Company, Nirmal Bang Institutional Equities Research

Financial statements
Exhibit 14: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net sales	75,178	91,108	92,925	100,195	104,711
% growth	28.3	21.2	2.0	7.8	4.5
Raw material costs	28,688	35,218	33,939	36,558	37,469
Staff costs	15,559	19,260	20,726	21,969	23,727
Other expenses	15,748	19,240	20,010	20,610	21,228
Total expenditure	59,995	73,718	74,675	79,137	82,424
EBITDA	15,184	17,390	18,250	21,058	22,287
% growth	12.9	14.5	4.9	15.4	5.8
EBITDA margin (%)	20.2	19.1	19.6	21.0	21.3
Other income	400	357	410	411	412
Interest costs	2,843	2,198	2,846	2,683	2,601
Gross profit	46,491	55,890	58,985	63,637	67,242
% growth	20.4	20.2	5.5	7.9	5.7
Depreciation	4,151	3,709	3,951	4,309	4,972
Profit before tax	8,591	9,038	11,863	14,477	15,126
% growth	16.4	5.2	31.3	22.0	4.5
Tax	2,247	3,268	3,440	4,198	4,386
Effective tax rate (%)	26.2	36.2	29.0	29.0	29.0
Net profit	6,344	5,770	8,423	10,279	10,739
% growth	10.4	(9.0)	46.0	22.0	4.5
EPS (Rs)	39.8	36.2	52.9	64.5	67.4
% growth	10.4	(9.0)	46.0	22.0	4.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Equity	156	159	159	159	159
Reserves	40,194	47,931	55,779	65,482	75,646
Net worth	40,350	48,090	55,938	65,641	75,805
Deferred tax liabilities	1,631	2,024	2,024	2,024	2,024
Provision/ other LT liabilities	3,671	1,245	1,245	1,245	1,245
Total loans	32,927	47,426	47,426	44,723	43,350
Liabilities	78,578	98,785	106,633	113,633	122,425
Net block	31,925	33,962	37,031	38,922	40,151
Capital work-in-progress	3,001	4,916	2,750	2,750	2,750
Goodwill & intangible assets	25,789	26,620	22,658	21,958	21,257
LT loans & advances	145	156	156	156	156
Other LT assets	3,418	3,184	3,460	3,573	3,674
Inventories	13,914	14,174	20,715	22,314	22,870
Debtors	11,308	12,716	15,553	16,770	17,526
Cash	2,488	13,704	21,548	26,172	33,838
Other current assets	4,188	5,255	5,330	5,338	5,344
Total current assets	31,898	45,848	63,146	70,595	79,577
Trade payables	11,362	10,201	12,722	13,704	14,045
Other current liabilities/provisions	6,237	5,699	9,846	10,617	11,095
Total current liabilities	17,598	15,900	22,568	24,320	25,140
Net current assets	14,299	29,948	40,578	46,274	54,437
Total assets	78,578	98,785	106,632	113,633	122,424

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
PBT	8,591	9,038	11,863	14,477	15,126
(Inc./dec. in working capital)	(1,211)	(4,433)	(2,786)	(1,072)	(497)
Cash flow from operations	7,380	4,606	9,077	13,405	14,628
Other income	(400)	(357)	(410)	(411)	(412)
Other expenses	2,843	2,198	2,846	2,683	2,601
Depreciation	4,151	3,709	3,951	4,309	4,972
Tax paid	(2,247)	(3,268)	(3,440)	(4,198)	(4,386)
Net cash from operations	11,726	6,887	12,024	15,788	17,403
Capital expenditure	(5,706)	(7,779)	(2,859)	(5,500)	(5,500)
Net cash after capex	6,020	(892)	9,164	10,288	11,903
Other investment activities	(1,398)	(131)	2,101	298	311
Cash from financial activities	(6,731)	12,239	(3,421)	(5,961)	(4,549)
Opening cash balance	4,564	2,488	13,704	21,548	26,172
Other bank balance	32	0	0	0	0
Closing cash balance	2,488	13,704	21,548	26,172	33,838
Change in cash balance	(2,109)	11,216	7,845	4,624	7,665

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Key ratios

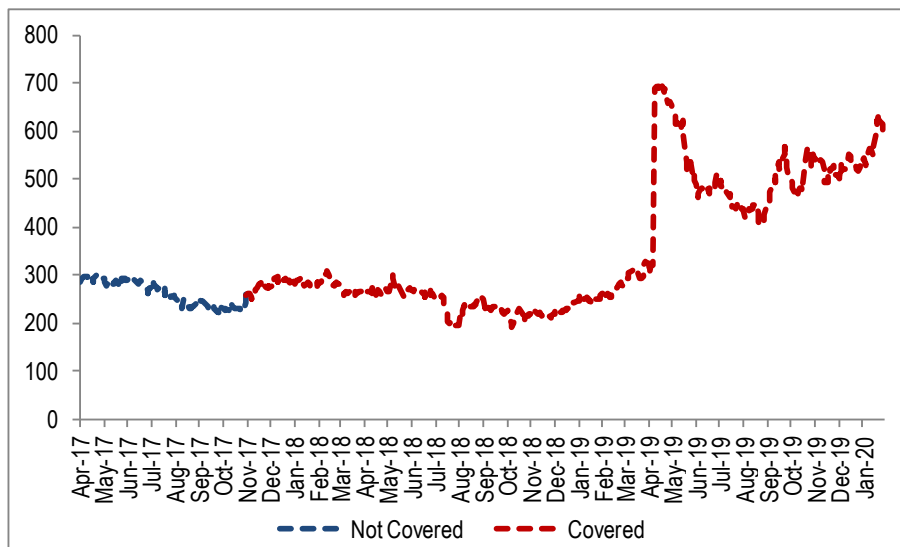
Y/E March	FY18	FY19	FY20E	FY21E	FY22E
Per share (Rs)					
EPS	39.8	36.2	52.9	64.5	67.4
DPS	3.6	3.6	3.6	3.6	3.6
BVPS	253.3	301.9	351.2	412.1	475.9
Profitability & return ratios					
EBITDA margin (%)	20.2	19.1	19.6	21.0	21.3
EBIT margin (%)	14.7	15.0	15.4	16.7	16.5
Net profit margin (%)	9.8	8.4	6.3	9.1	10.3
RoE (%)	17.1	13.0	16.2	16.9	15.2
RoCE (%)	16.0	17.9	17.5	20.2	20.4
Working capital & liquidity ratios					
Receivables (days)	52	48	56	59	60
Inventory (days)	166	146	188	215	220
Payables (days)	120	112	123	132	135
Current ratio (x)	1.8	2.9	2.8	2.9	3.2
Quick ratio (x)	1.0	2.0	1.9	2.0	2.3
Valuation ratios					
EV/sales (x)	1.6	1.4	1.3	1.1	1.0
EV/EBITDA (x)	8.1	7.3	6.5	5.3	4.6
P/E (x)	14.6	16.1	11.0	9.0	8.6
P/BV (x)	2.3	1.9	1.7	1.4	1.2

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price	Target price (Rs)
3 November 2017	Buy	745	833
18 January 2018	Buy	924	1,150
10 May 2018	Buy	843	1,040
30 July 2018	Buy	771	1,040
23 October 2018	Buy	650	1,021
4 February 2019	Buy	714	1012
5 April 2019	Buy	718	1037
20 May 2019	Buy	596	1037
29 July 2019	Buy	445	785
23 September 2019	Buy	535	834
29 October 2019	Buy	562	792
1 February 2020	Buy	583	792

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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