

# Jubilant Life Sciences

29 October 2019

Reuters: JULS.BO; Bloomberg: JOL IN

## Pharmaceutical business aids a strong performance

Jubilant Life Sciences or JLS reported 2QFY20 revenue of Rs22,659mn, which was above our estimate by 1.5% and below consensus estimate by 1.1%. The net profit for the quarter stood at Rs2,494mn (Rs15.7 per share) and was 16.4%/19.9% above our/consensus estimates, respectively. Adjusted for one-offs (tax benefit and one-time expenses), the net profit stood at Rs2,200mn, which is in line with estimates. EBITDA margin expanded 80bps QoQ as the share of Pharma segment expanded to 64% of sales as against 60% in the previous quarter. Pharma sales grew 10% QoQ on the back of strong QoQ growth in CDMO (sterile injectable CMO and API) and Generics business, while LSI segment sales declined due to lower realization in commodity chemical segment (lower acetic acid prices).

Going forward, the Pharma business should continue to grow on the back of the recent expansion in CDMO capacity and expected expansion in Ruby Fill market share. Restoration of full compliance at its API and solid dosage generic facility should allow growth in the solid dosage and API segments too. CDMO sales can expand 20% from current levels as new capacities will be implemented in 2HFY20. LSI sales, which have been adversely impacted by lower acetic acid prices, may see a recovery. The new acetic anhydride facility should also commence operation in the subsequent quarters. 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 business will be listed separately (with no change in shareholding). The restructuring exercise will lead to unlocking in value for shareholders and also allow better management of the business. In the current quarter, the Pharma business reported an adjusted EBITDA of Rs4,100mn, while LSI business EBITDA stood at Rs 910 mn. The composite Scheme of Arrangement will be filed 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 revised our financial estimates on JLS for FY20 and FY21 to account for the revised prices in the commodity chemicals business. We have also made minor changes in our costs related assumptions. We have rolled over the valuation to September FY22 with a target P/E multiple of 12x to arrive at a target price (TP) of Rs792 (from Rs834 earlier).

## BUY

**Sector:** Pharmaceuticals

**CMP:** Rs562

**Target Price:** Rs792

**Upside:** 41%

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### Key Data

|                          |          |
|--------------------------|----------|
| Current Shares O/S (mn)  | 159.3    |
| Mkt Cap (Rsbn/US\$bn)    | 89.5/1.3 |
| 52 Wk H / L (Rs)         | 899/391  |
| Daily Vol. (3M NSE Avg.) | 544,602  |

### Price Performance (%)

|                        | 1 M | 6 M    | 1 Yr   |
|------------------------|-----|--------|--------|
| Jubilant Life Sciences | 0.7 | (16.6) | (14.5) |
| Nifty Index            | 1.3 | (0.5)  | 14.4   |

Source: Bloomberg

| Y/E March (Rsmn)               | Q2FY19        | Q1FY20        | Q2FY20        | YoY (%)        | QoQ (%)        | 1HFY19        | 1HFY20        | YoY (%)         |
|--------------------------------|---------------|---------------|---------------|----------------|----------------|---------------|---------------|-----------------|
| <b>Revenue from operations</b> | <b>22,695</b> | <b>21,819</b> | <b>22,659</b> | <b>(0.2)</b>   | <b>3.9</b>     | <b>43,481</b> | <b>44,478</b> | <b>2.3</b>      |
| Raw Material Costs             | 8,772         | 7,552         | 7,732         | (11.8)         | 2.4            | 16,734        | 15,284        | (8.7)           |
| % of revenue                   | 38.6          | 34.6          | 34.1          | (453) bps      | (49) bps       | 38.5          | 34.4          | (412) bps       |
| Staff costs                    | 4,780         | 5,041         | 5,222         | 9.3            | 3.6            | 9,295         | 10,263        | 10.4            |
| % of revenue                   | 21.1          | 23.1          | 23            | 199 bps        | (6) bps        | 21.4          | 23.1          | 170 bps         |
| Other expenses                 | 4,642         | 4,880         | 5,021         | 8.2            | 2.9            | 8,574         | 9,900         | 15.5            |
| % of revenue                   | 20.5          | 22.4          | 22.2          | 170 bps        | (21) bps       | 19.7          | 22.3          | 254 bps         |
| <b>EBITDA</b>                  | <b>4,502</b>  | <b>4,346</b>  | <b>4,685</b>  | <b>4.1</b>     | <b>7.8</b>     | <b>8,878</b>  | <b>9,030</b>  | <b>1.7</b>      |
| <b>EBITDA margin (%)</b>       | <b>19.8</b>   | <b>19.9</b>   | <b>20.7</b>   | <b>84 bps</b>  | <b>75 bps</b>  | <b>20.4</b>   | <b>20.3</b>   | <b>(11) bps</b> |
| Other income                   | 38            | 97            | 123           | 220.1          | -              | 133           | 220           | 65.1            |
| Interest costs                 | 627           | 726           | 716           | 14.2           | (1.3)          | 1,354         | 1,442         | 6.5             |
| Depreciation                   | 895           | 1,027         | 1,168         | 30.6           | 13.8           | 1,775         | 2,195         | 23.7            |
| <b>PBT Before Exceptionals</b> | <b>3,018</b>  | <b>2,690</b>  | <b>2,922</b>  | <b>(3.2)</b>   | <b>8.6</b>     | <b>5,882</b>  | <b>5,613</b>  | <b>(4.6)</b>    |
| <b>Exceptional Items</b>       | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>-</b>       | <b>-</b>       | <b>0</b>      | <b>0</b>      | <b>-</b>        |
| <b>PBT</b>                     | <b>3,018</b>  | <b>2,690</b>  | <b>2,922</b>  | <b>(3.2)</b>   | <b>-</b>       | <b>5,882</b>  | <b>5,613</b>  | <b>(4.6)</b>    |
| Tax                            | 920           | 841           | 428           | (53.5)         | (49.0)         | 1,780         | 1,269         | (28.7)          |
| Tax rate (%)                   | 30.5          | 31.2          | 14.7          | (1584) bps     | (1658) bps     | 30.3          | 22.6          | (766) bps       |
| <b>PAT before MI</b>           | <b>2,098</b>  | <b>1,850</b>  | <b>2,494</b>  | <b>18.9</b>    | <b>-</b>       | <b>4,101</b>  | <b>4,344</b>  | <b>5.9</b>      |
| <b>PAT Margin (%)</b>          | <b>9.2</b>    | <b>8.5</b>    | <b>11</b>     | <b>176 bps</b> | <b>253 bps</b> | <b>9.4</b>    | <b>9.8</b>    | <b>33 bps</b>   |

Source: Company, Nirmal Bang Institutional Equities Research

## Conference call highlights

- **CMO Business:** The 2<sup>nd</sup> line is now operating at 24\*7 shift effectively giving extra capacity.
- **Specialty Pharma business:** The Specialty Pharma business is now 51% of the total Pharmaceuticals segment. The business grew 4% over the last year.
- **Allergy business:** In the Allergy business, Venom and Allergenic Extracts both saw volume growth. The company recently had a satisfactory USFDA inspection on line, which is expected to be used for increased production of Venom. The company will be focusing on non-US markets to supply Venom products.
- **Penalties and litigation expense:** There was a one-off expense due to litigation to the tune Rs80mn. The remediation expense for the Roorkee facility was at around Rs130mn.
- **Debt:** The net debt at the end of 1HFY20 stood at Rs31,450mn. The Singapore entity, which will be part of the Pharmaceutical business post demerger, has outstanding debt of US\$500mn in bonds. The company will be exercising the call option to purchase US\$100mn debt using cash. The net debt after transition will be the same but the effective interest rate will go up.
- **Acetic Acid:** Acetic Acid had a price drop, impacting the revenue, but in the current month the prices have stabilized. The demand for acetic anhydride is also seeing a pick-up.
- **Tax:** The company will not be shifting to the new tax regime and will continue to be under MAT. The management has guided for a tax rate of 29-30% for the full year.
- **Nanjangud facility:** The USFDA issued 12 observations for the Nunjangud facility, putting the facility under OAI status.

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

| (Rsmn)            | Actual | Our estimate | Var.(%) | Consensus estimate | Var.(%) |
|-------------------|--------|--------------|---------|--------------------|---------|
| Revenues          | 22,659 | 22,324       | 1.5     | 22,912             | (1.1)   |
| EBITDA            | 4,685  | 4,630        | 1.2     | 4,575              | 2.4     |
| EBITDA margin (%) | 20.7   | 20.7         | (7) bps | 20.0               | 71 bps  |
| PAT*              | 2,494  | 2,142        | 16.4    | 2,081              | 19.9    |

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 | 1,00,195 | 1,04,711 |
| 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)           | 14.1   | 15.5   | 10.6   | 8.7      | 8.3      |
| P/BV (x)          | 2.2    | 1.9    | 1.6    | 1.4      | 1.2      |
| EV/EBITDA (x)     | 7.9    | 7.1    | 6.3    | 5.1      | 4.4      |
| RoCE (%)          | 16.0   | 17.9   | 17.5   | 20.2     | 20.4     |
| RoE (%)           | 17.1   | 13.0   | 16.2   | 16.9     | 15.2     |

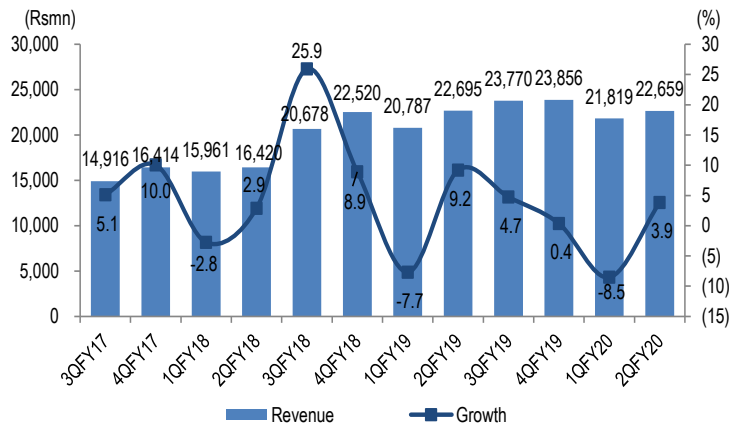
Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 3: Revised estimates

| (Rsmn)            | New estimates |          |          | Old estimates |          |          | Change (%) |          |          |
|-------------------|---------------|----------|----------|---------------|----------|----------|------------|----------|----------|
|                   | FY20E         | FY21E    | FY22E    | FY20E         | FY21E    | FY22E    | FY20E      | FY21E    | FY22E    |
| Net sales         | 92,925        | 1,00,195 | 1,04,711 | 92,925        | 1,00,195 | 1,04,711 | 0.0        | 0.0      | 0.0      |
| EBITDA            | 18,250        | 21,058   | 22,287   | 18,250        | 21,058   | 22,287   | 0.0        | 0.0      | 0.0      |
| EBITDA margin (%) | 19.6          | 21.0     | 21.3     | 19.6          | 21.0     | 21.3     | 0 bps      | 0 bps    | 0 bps    |
| PAT               | 8,423         | 10,279   | 10,739   | 8,877         | 10,833   | 11,318   | (5.1)      | (5.1)    | (5.1)    |
| PAT margin (%)    | 6.3           | 9.1      | 10.3     | 6.3           | 9.6      | 10.8     | 0 bps      | (49) bps | (55) bps |
| EPS (Rs)          | 52.9          | 64.5     | 67.4     | 55.7          | 68.0     | 71.1     | (5.1)      | (5.1)    | (5.1)    |

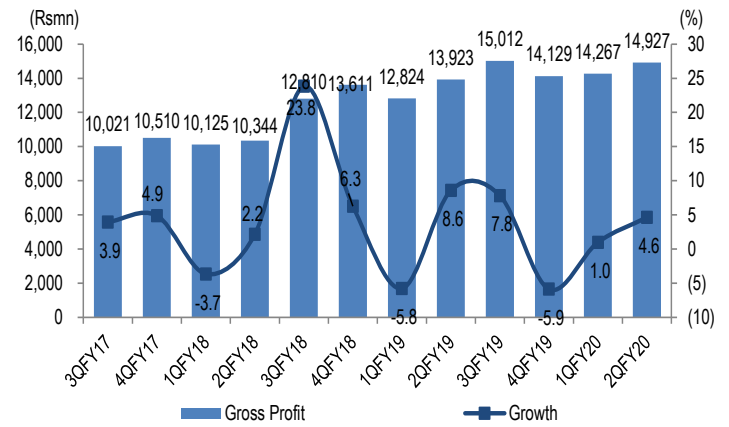
Source: Nirmal Bang Institutional Equities Research

### Exhibit 4: Revenue and growth trend



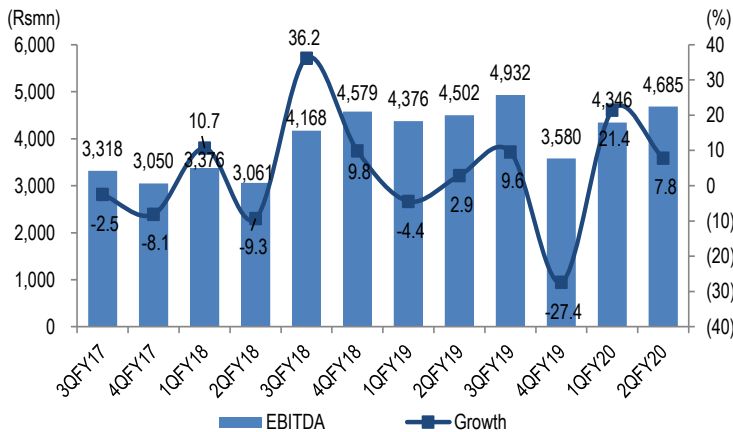
Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 5: Gross profit and growth trend



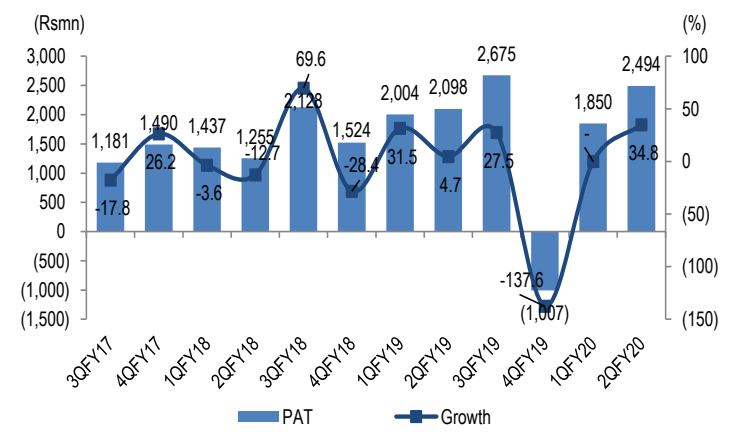
Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 6: EBITDA and growth trend



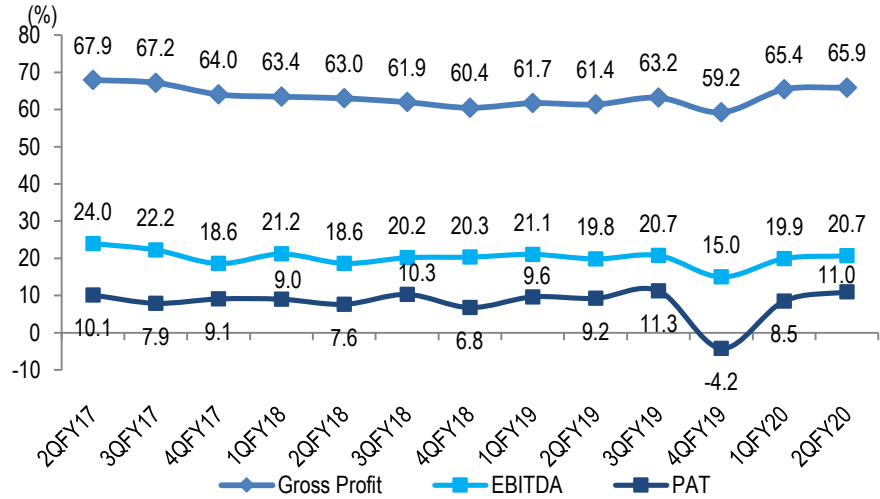
Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 7: PAT and growth trend



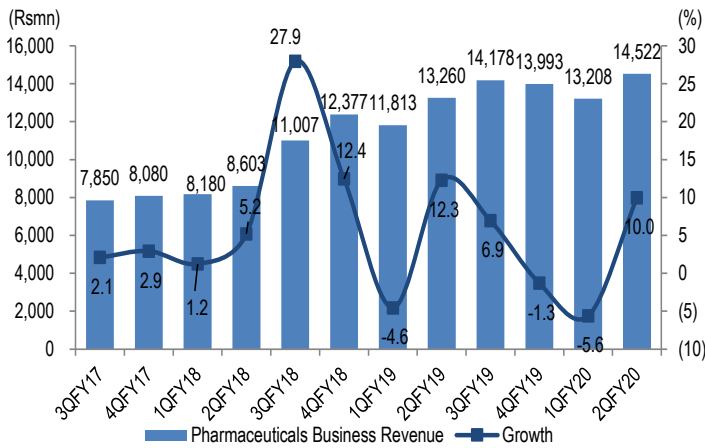
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Margin Trend**



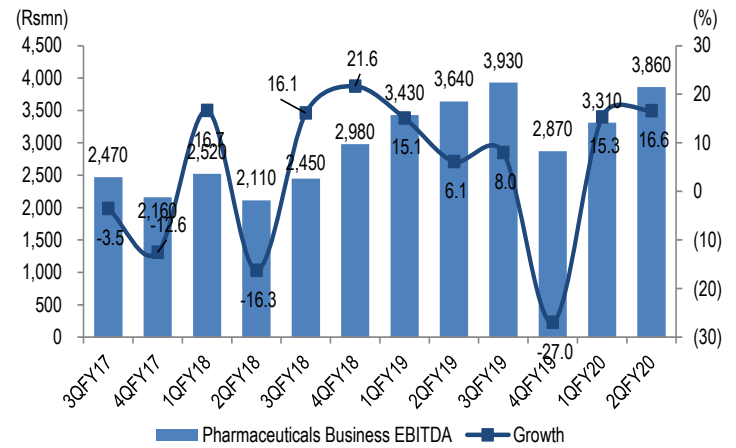
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: Pharma business revenue and growth trend**



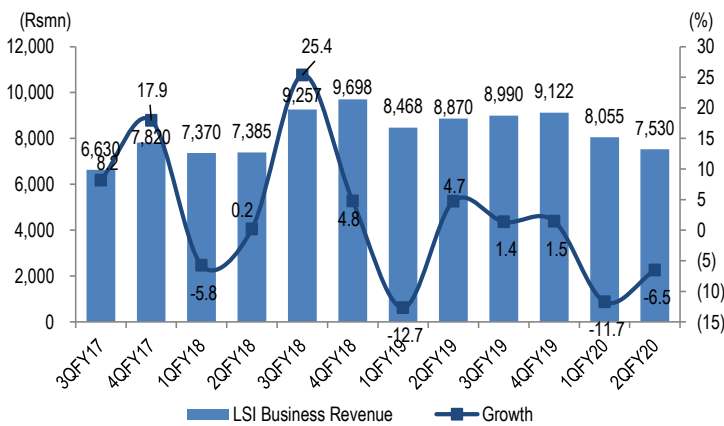
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: Pharma business EBITDA and growth trend**



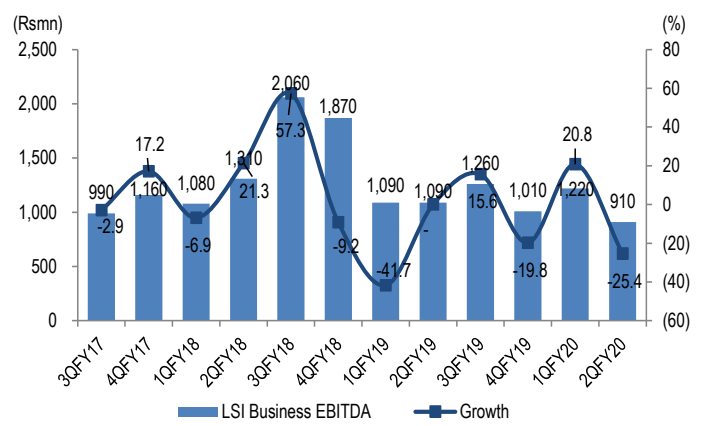
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: LSI Business revenue and growth trend**



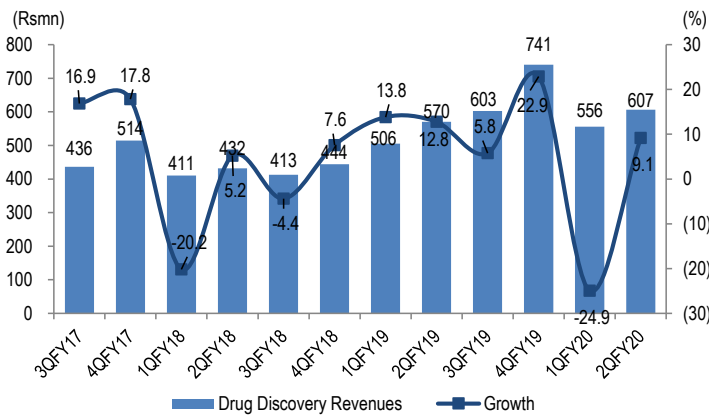
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: LSI business EBITDA and growth trend**



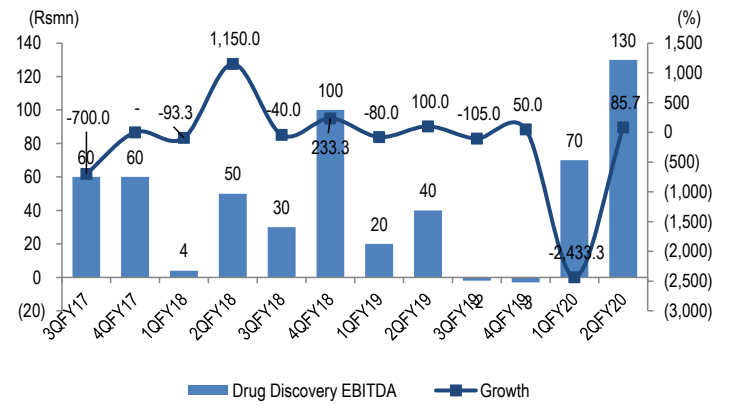
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 13: Drug Discovery revenue and growth trend**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 14: Drug Discovery EBITDA and growth trend**



Source: Company, Nirmal Bang Institutional Equities Research

**Financial statements**
**Exhibit 15: Income statement**

| Y/E March (Rsmn)         | FY18          | FY19          | FY20E         | FY21E           | FY22E           |
|--------------------------|---------------|---------------|---------------|-----------------|-----------------|
| <b>Net sales</b>         | <b>75,178</b> | <b>91,108</b> | <b>92,925</b> | <b>1,00,195</b> | <b>1,04,711</b> |
| % 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          |
| <b>EBITDA</b>            | <b>15,184</b> | <b>17,390</b> | <b>18,250</b> | <b>21,058</b>   | <b>22,287</b>   |
| % growth                 | 12.9          | 14.5          | 4.9           | 15.4            | 5.8             |
| <b>EBITDA margin (%)</b> | <b>20.2</b>   | <b>19.1</b>   | <b>19.6</b>   | <b>21.0</b>     | <b>21.3</b>     |
| 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            |
| <b>Net profit</b>        | <b>6,344</b>  | <b>5,770</b>  | <b>8,423</b>  | <b>10,279</b>   | <b>10,739</b>   |
| % growth                 | 282.4         | 176.6         | 244.8         | 244.8           | 244.8           |
| <b>EPS (Rs)</b>          | <b>39.8</b>   | <b>36.2</b>   | <b>52.9</b>   | <b>64.5</b>     | <b>67.4</b>     |
| % growth                 | 10.4          | (9.0)         | 46.0          | 22.0            | 4.5             |

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 17: 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          |
| <b>Liabilities</b>                   | <b>78,578</b> | <b>98,785</b> | <b>1,06,633</b> | <b>1,13,633</b> | <b>1,22,425</b> |
| 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          |
| <b>Total assets</b>                  | <b>78,578</b> | <b>98,785</b> | <b>1,06,632</b> | <b>1,13,633</b> | <b>1,22,424</b> |

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 16: 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)          |
| <b>Cash flow from operations</b>      | <b>7,380</b>   | <b>4,606</b>  | <b>9,077</b>   | <b>13,405</b>  | <b>14,628</b>  |
| 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)        |
| <b>Net cash from operations</b>       | <b>11,726</b>  | <b>6,887</b>  | <b>12,024</b>  | <b>15,788</b>  | <b>17,403</b>  |
| 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            |
| <b>Cash from financial activities</b> | <b>(6,731)</b> | <b>12,239</b> | <b>(3,421)</b> | <b>(5,961)</b> | <b>(4,549)</b> |
| Opening cash balance                  | 4,564          | 2,488         | 13,704         | 21,548         | 26,172         |
| Other bank balance                    | 32             | -             | -              | -              | 1              |
| Closing cash balance                  | 2,488          | 13,704        | 21,548         | 26,172         | 33,838         |
| <b>Change in cash balance</b>         | <b>(2,109)</b> | <b>11,216</b> | <b>7,845</b>   | <b>4,624</b>   | <b>7,665</b>   |

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 18: Key ratios**

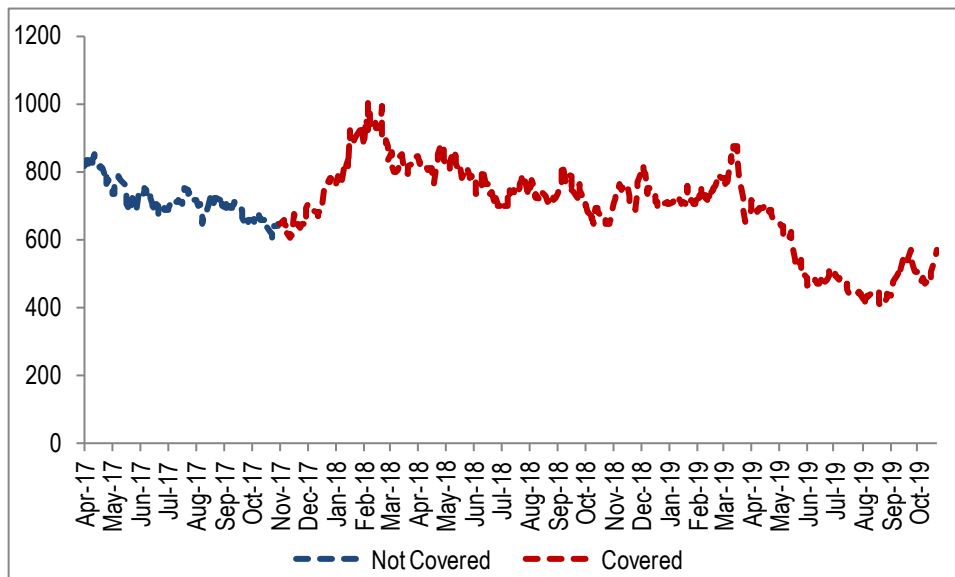
| Y/E March                                     | FY18  | FY19  | FY20E | FY21E | FY22E |
|---|-------|-------|-------|-------|-------|
| <b>Per share (Rs)</b>                         |       |       |       |       |       |
| EPS   | 39.8  | 36.2  | 52.9  | 64.5  | 67.4  |
| DPS   | 3.6   | 3.6   | 3.6   | 3.6   | 3.6   |
| BVPS  | 253.3 | 301.9 | 351.2 | 412.1 | 475.9 |
| Dividend yield (%)                            | 0.6   | 0.6   | 0.6   | 0.6   | 0.6   |
| <b>Profitability &amp; return ratios</b>      |       |       |       |       |       |
| 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  |
| <b>Working capital &amp; liquidity ratios</b> |       |       |       |       |       |
| 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   |
| <b>Valuation ratios</b>                       |       |       |       |       |       |
| EV/sales (x)                                  | 1.6   | 1.4   | 1.2   | 1.1   | 0.9   |
| EV/EBITDA (x)                                 | 7.9   | 7.1   | 6.3   | 5.1   | 4.4   |
| P/E (x)                                       | 14.1  | 15.5  | 10.6  | 8.7   | 8.3   |
| P/BV (x)                                      | 2.2   | 1.9   | 1.6   | 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               |

## Rating track graph



## DISCLOSURES

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## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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