

Jubilant Life Sciences

4 February 2015

Reuters: JULS.BO; Bloomberg: JOL IN

Pharmaceuticals Segment Leads Recovery, Looks Promising

Jubilant Life Sciences (JLSL) trimmed its losses in 3QFY15 significantly to Rs110mn compared to a Rs987mn loss in the previous quarter, with the recovery led by pharmaceuticals segment (contract manufacturing operations or CMO) mainly on commencement of supplies from its Spokane facility (which was hit by the US Food and Drug Administration or USFDA's warning letter) since the past few quarters. Reported revenue of Rs14.5bn was 3% below our estimate, but in line with Bloomberg consensus estimate. However, the real impact was witnessed on the EBITDA front, with EBITDA being 2%/20% above our/Bloomberg consensus estimates, respectively, and EBITDA margin at 12.8% compared to 8.1% in 2QFY15 (lowest-ever margin) improving by a significant 470bps and also 60bps/210bps above our/Bloomberg consensus estimates, respectively. However, the problems in the Life Science Ingredient (LSI) segment, particularly the ban in China relating to Paraquat sales impacting its Pyridine business persists, but we believe that CMO operations look promising and we expect the recovery to be gradual.

Improvement in margins led by CMO segment: JLSL recovered from its lowest-ever EBITDA margin registered in the previous quarter of 8.1% to post 12.8%, an improvement of 470bps QoQ and also 60bps/210bps above our/Bloomberg consensus estimates of 12.2%/10.7%, respectively, led by CMO operations. Consequently, the pharmaceuticals segment posted a revenue of Rs7bn, up 4%/14% YoY/QoQ, respectively. This segment reported EBITDA of Rs1.4bn (warning letter from the USFDA regarding Spokane facility impacted EBITDA by around Rs900mn in 1QFY15 and by Rs650mn in 2QFY15) up 103% QoQ, with margins up 880bps QoQ from 11.2% in 2QFY15 to 20.0% in 3QFY15. However, JLSL continues to suffer from the ban in China on Paraquat sales in liquid form (since 1 July 2014) impacting its Pyridine business and also the anti-dumping duty imposed by China. Consequently, the LSI segment's EBITDA stood at Rs0.6bn, down 48%/2% YoY/QoQ, respectively. Expenses includes Rs0.53bn (Rs0.35bn in 2QFY15) pertaining to remedial measures for CMO business.

We expect a recovery only in FY16: While JLSL's performance may improve QoQ led by CMO business, the company's return to normalcy will depend on successful resolution of the USFDA warning letter to its Spokane unit, large scale commercial stabilisation of Symtet plant and launch of Rubifill (radio-pharmaceuticals product) in 1QFY17, pending USFDA approval, but all these matters are hazy currently. Further, the ban on Paraquat sales in China - if not revoked - may turn out to be a structural issue, although the company remains hopeful of resuming sales in the near term as the inventory level has started to deplete.

UNDER REVIEW

Sector: Pharmaceuticals

CMP: Rs172

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Key Data

Current Shares O/S (mn)	159.3
Mkt Cap (Rsbn/US\$m)	27.4/444.3
52 Wk H / L (Rs)	222/111
Daily Vol. (3M NSE Avg.)	517,923

Price Performance (%)

	1 M	6 M	1 Yr
Jubilant Life Sciences	22.7	(9.8)	29.5
Nifty Index	4.3	15.2	45.9

Source: Bloomberg

Y/E March (Rsmn)	3QFY14	2QFY15	3QFY15	YoY (%)	QoQ (%)	9MFY14	9MFY15	YoY (%)
Net revenue	14,428	13,711	14,455	0.2	5.4	42,360	42,897	1.3
Raw material costs	5,953	6,063	6,225	4.6	2.7	17,472	19,480	11.5
% of net revenue	41.3	44.2	43.1	-	-	41.2	45.4	-
Staff costs	2,811	2,712	2,717	(3.3)	0.2	8,215	8,152	(0.8)
% of net revenue	19.5	19.8	18.8	-	-	19.4	19.0	-
Other expenses	3,168	3,826	3,659	15.5	(4.4)	9,148	10,847	18.6
% of net revenue	22.0	27.9	25.3	??	??	21.6	25.3	-
EBITDA	2,496	1,110	1,853	(25.8)	67.0	7,526	4,418	(41.3)
EBITDA margin (%)	17.3	8.1	12.8	-	-	17.8	10.3	-
Other income	50	264	61	22.0	(77.1)	150	366	144.6
Interest costs	846	960	961	13.5	0.1	2,294	2,699	17.7
Depreciation	733	692	795	8.5	14.9	2,125	2,217	4.3
PBT	967	(278)	158	(83.7)	(156.9)	3,257	(132)	(104.1)
Exceptional item	(105)	(46)	2	(101.8)	(104.1)	2,583	142	(94.5)
Tax	(488)	645	202	(141.4)	(68.7)	344	554	61.1
Tax rate	(50.5)	(232.5)	128.1	-	-	10.6	(418.6)	-
Minority interest	126	65	65	(48.1)	1.2	191	176	(7.6)
Reported PAT	1,434	(941)	(112)	(107.8)	(88.1)	139	(1,005)	(822.9)
Adjusted PAT	1,329	(987)	(110)	(108.3)	(88.9)	2,722	(863)	(131.7)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Revenue	51,610	57,984	57,567	66,719	75,305
YoY (%)	19.9	12.4	(0.7)	15.9	12.9
EBITDA	10,495	9,984	6,207	9,460	11,357
EBITDA (%)	20.3	17.2	10.8	14.2	15.1
Reported PAT	1,527	1,127	160	2,346	3,668
Adj. PAT	3,824	3,347	160	2,346	3,668
YoY (%)	5.0	(12.5)	(95.2)	1,362.6	56.4
Fully DEPS	9.6	7.1	1.0	14.7	23.0
Adj. EPS	24.0	21.0	1.0	14.7	23.0
RoE (%)	15.9	13.1	0.6	8.8	12.6
RoCE (%)	12.1	10.7	4.8	9.5	11.9
P/E (x)	18.0	24.3	171.0	11.7	7.5
EV/EBITDA (x)	5.9	5.9	8.5	5.7	4.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Revenue summary

Revenue break-up (Rsmn)	3QFY14	2QFY15	3QFY15	YoY (%)	QoQ (%)
Pharmaceuticals	6,770	6,140	7,010	3.5	14.2
Life science ingredients	7,670	7,570	7,440	(3.0)	(1.7)
Total	14,440	13,710	14,450	0.1	5.4
EBITDA (Rsmn)					
Pharmaceuticals	1,510	690	1,400	(7.3)	102.9
Life science ingredients	1,180	620	610	(48.3)	(1.6)
Less: Corp. expenses	(140)	60	(100)	(28.6)	(266.7)
Total*	2,550	1,370	1,910	(25.1)	39.4
EBITDA margin (%)					
Pharmaceuticals	22.3	11.2	20.0	(230)bps	880bps
Life science ingredients	15.4	8.2	8.2	(720)bps	-
Total *	17.7	10.0	13.2	(450)bps	320bps

Note: (*) Includes other income

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Actual performance versus our estimates, Bloomberg consensus estimates

Particulars (Rsmn)	Actual	Our estimate	Variation (%)	Bloomberg cons.est.	Variation (%)
Revenue	14,455	14,825	(2.5)	14,473	(0.1)
EBITDA	1,853	1,811	2.3	1,547	19.8
EBITDA margin (%)	12.8	12.2	60bps	10.7	210bps
Reported PAT	(112)	146	NA	(3)	NA
Adjusted PAT	(110)	146	NA	(3)	NA

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 4: Income statement

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Net sales	51,610	57,984	57,567	66,719	75,305
% growth	19.9	12.4	(0.7)	15.9	12.9
Raw material costs	(20,500)	(24,421)	(26,422)	(29,753)	(32,870)
Staff costs	(9,622)	(11,052)	(11,242)	(13,025)	(14,717)
Other expenses	(10,732)	(12,527)	(13,696)	(14,480)	(16,360)
Forex loss	(260)	-	-	-	-
Total expenditure	(41,115)	(47,999)	(51,360)	(57,259)	(63,947)
EBITDA	10,495	9,984	6,207	9,460	11,357
% growth	18.3	(4.9)	(37.8)	52.4	20.1
EBITDA margin (%)	20.3	17.2	10.8	14.2	15.1
Other income	289	200	500	400	500
Interest costs	(2,537)	(3,044)	(3,265)	(3,026)	(3,041)
Gross profit	8,246	7,141	3,442	6,834	8,816
% growth	20.5	(13.4)	(51.8)	98.6	29.0
Depreciation	(2,538)	(2,812)	(2,991)	(3,248)	(3,428)
Exceptional items	(2,297)	(2,220)	-	-	-
Profit before tax	3,411	2,110	450	3,586	5,388
Tax	(1,524)	(696)	(90)	(897)	(1,347)
Effective tax rate (%)	44.7	33.0	20.0	25.0	25.0
Net profit	1,888	1,413	360	2,690	4,041
% growth	313	(25)	(74)	646	50
Minority interest	(361)	(286)	(200)	(345)	(375)
Reported net profit	1,527	1,127	160	2,346	3,668
% growth	948.8	(26.2)	(85.8)	1,362.0	56.4
Adjusted net profit	3,824	3,347	160	2,346	3,668
% growth	5.0	(12.5)	(95.2)	1,362.6	56.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Equity	159	159	159	159	159
Reserves	24,784	26,111	25,717	27,506	30,617
Net worth	24,944	26,270	25,876	27,665	30,776
Short-term loans	9,188	11,588	11,588	11,588	11,588
Long-term loans	28,721	24,977	24,688	22,030	22,205
Total loans	37,909	36,565	36,276	33,618	33,793
Deferred tax liability	2,740	2,371	2,371	2,371	2,371
Minority interest	1,115	1,579	1,579	1,579	1,579
Liabilities	66,707	66,785	66,102	65,234	68,519
Gross block	68,701	72,201	76,701	81,201	85,701
Depreciation	19,027	21,839	24,830	28,078	31,506
Net block	49,675	50,363	51,872	53,123	54,195
Capital work-in-progress	4,369	5,349	4,349	3,349	2,349
Long-term Investments	256	340	340	340	340
Inventories	11,149	13,418	12,977	15,035	16,988
Debtors	7,100	8,067	8,286	9,601	10,848
Cash	3,560	4,795	4,813	1,161	2,289
Other current assets	7,701	6,282	6,261	7,117	7,929
Total current assets	29,510	32,562	32,337	32,914	38,053
Creditors	10,562	13,808	14,775	16,472	18,396
Other current liabilities	6,549	8,026	8,026	8,027	8,027
Total current liabilities	17,112	21,834	22,801	24,499	26,423
Net current assets	12,399	10,728	9,536	8,415	11,630
Other non-current assets	9	6	6	6	6
Total assets	66,707	66,785	66,102	65,234	68,519

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
EBIT	7,957	7,173	3,215	6,212	7,929
(Inc./dec. in working capital)	(554)	2,008	1,209	(2,531)	(2,087)
Cash flow from operations	7,403	9,180	4,424	3,680	5,843
Other income	289	200	500	400	500
Depreciation	2,538	2,812	2,991	3,248	3,428
Interest paid (-)	(2,537)	(3,044)	(3,265)	(3,026)	(3,041)
Tax paid (-)	(1,524)	(696)	(90)	(897)	(1,347)
Dividends paid (-)	(555)	(559)	(554)	(554)	(555)
Minority interest (-)	(361)	(286)	(200)	(345)	(375)
Net cash from operations	5,253	7,607	3,806	2,507	4,452
Capital expenditure (-)	(5,374)	(4,480)	(3,500)	(3,500)	(3,500)
Net cash after capex	(121)	3,127	306	(993)	952
Inc./(dec.) in short-term borrowing	1,517	2,400	-	-	-
Inc./(dec.) in long-term borrowing	(1,787)	(3,743)	(289)	(2,658)	175
Inc./(dec.) in borrowings	(269)	(1,343)	(289)	(2,657)	176
(Inc./dec. in investments)	(64)	(84)	-	-	-
Cash from financial activities	(334)	(1,427)	(289)	(2,657)	176
Others	1,343	(465)	-	-	-
Opening cash	2,672	3,560	4,795	4,813	1,161
Closing cash	3,560	4,795	4,813	1,161	2,289
Change in cash	889	1,235	17	(3,651)	1,128

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Key ratios

Y/E March	FY13	FY14	FY15E	FY16E	FY17E
Per share (Rs)					
Reported EPS	9.6	7.1	1.0	14.7	23.0
Adjusted EPS	24.0	21.0	1.0	14.7	23.0
DPS	3.0	3.0	3.0	3.0	3.0
BV/share	156.6	164.9	162.4	173.7	193.2
Dividend payout (%)	14.5	16.6	345.7	23.6	15.1
Performance ratios					
RoE (%)	15.9	13.1	0.6	8.8	12.6
RoCE (%)	12.1	10.7	4.8	9.5	11.9
Valuation ratios					
P/E (x)	18.0	24.3	171.0	11.7	7.5
P/BV (x)	1.1	1.0	1.1	1.0	0.9
EV/net sales (x)	1.2	1.0	0.9	0.8	0.7
EV/EBITDA (x)	5.9	5.9	8.5	5.7	4.7
Efficiency ratios					
Asset turnover (x)	0.8	0.9	0.9	1.0	1.1
Working capital/sales (x)	0.23	0.17	0.15	0.17	0.18
Receivable days	50	51	53	53	53
Inventory days	79	86	83	83	83
Payable days	94	105	105	105	105

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
20 May 2013	Buy	159	257
9 July 2013	Buy	119	257
5 August 2013	Buy	90	160
7 October 2013	Buy	83	160
30 October 2013	Buy	101	160
6 December 2013	Buy	126	156
7 January 2014	Buy	127	156
7 February 2014	Buy	132	168
27 May 2014	Buy	186	226
10 July 2014	Buy	193	226
6 August 2014	Sell	197	171
29 October 2014	Sell	165	151
6 January 2015	Accumulate	144	151

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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