

# Jubilant Life Sciences

1 June 2020

Reuters: JULS.BO; Bloomberg: JOL IN

## Strong Performance - Drug Discovery Business Shines

Jubilant Life Sciences or JLS reported 4QFY20 revenue of Rs23,914mn, which was above our estimate by 4.2% and above consensus estimate by 1.4%. Net profit for the quarter stood at Rs2,605mn (Rs16.4 per share) and was 27.6%/8.9% above our/consensus estimates, respectively. Revenue growth was 3.3% QoQ but was flat YoY. Drug Discovery Solution business clocked Rs851mn in sales during the quarter and was up 25.5% YoY. The business is showing good momentum and with capacity set to double in 2-3 years.

Net profit margin at 10.9% was up 211bps QoQ. EBITDA margin expanded by 52bps QoQ as the LSI business showed some improvement in EBITDA margin QoQ. Pharma sales were up 2.3% QoQ, and LSI segment sales were up 3% QoQ led by improvement in Vitamin B3 prices. Overall the LSI business EBITDA margins are trending lower than historical levels due to lower demand and realization in commodity chemical segment (lower acetic acid prices) and nutritional product category.

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. The company will be launching Ruby-Fill in Europe in FY21.

In the current quarter, the Pharma business reported an adjusted EBITDA of Rs4,290mn, while LSI business EBITDA stood at Rs1,180mn. The company had filed the composite Scheme of Arrangement with exchanges and post getting NOC has filed with NCLT, Allahabad. But the Covid-19 related lockdown has delayed the hearing at NCLT and is expected to be taken up post lifting of the lockdown.

**Valuation:** We have maintained our financial estimates on JLS for FY21 and FY22 and retain our target P/E multiple of 8x to arrive at a target price (TP) of Rs539 continuing to maintain Buy rating. The key triggers for JLS stock price going forward are demerger of LSI business which will allow value unlocking for the Pharma business valuation. From an earnings growth perspective, ramp up of CDMO business, recovery in sales of oral solid dosage exports / API business led by resolution of compliance woes, ramp up of Ruby-Fill sales in the US and normalization of LSI business led by a normalization in prices / demand of commodity chemical and nutritional business, should be the triggers. Fundamentally JLS Pharma business is positioned well in the current environment which bodes well for companies having a manufacturing footprint in the US and India both.

## BUY

**Sector:** Pharmaceuticals

**CMP:** Rs442

**Target Price:** Rs539

**Upside:** 22%

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### Key Data

Current Shares O/S (mn)	159.3
Mkt Cap (Rsbn/US\$m)	70.4/931.4
52 Wk H / L (Rs)	640/230
Daily Vol. (3M NSE Avg.)	412,049

### Price Performance (%)

	1 M	6 M	1 Yr
Jubilant Life Sciences	10.5	(13.3)	(10.7)
Nifty Index	(2.8)	(20.5)	(19.6)

Source: Bloomberg

Y/E March (Rsmn)	Q4FY19	Q3FY20	Q4FY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
<b>Revenue from operations</b>	<b>23,856</b>	<b>23,152</b>	<b>23,914</b>	<b>0.2</b>	<b>3.3</b>	<b>91,108</b>	<b>91,544</b>	<b>0.5</b>
Raw Material Costs	9,726	7,732	8,390	-13.7	8.5	35,218	31,406	-10.8
% of revenue	40.8	33.4	35.1	(569) bps	168 bps	38.7	34.3	(435) bps
Staff costs	4,968	5,386	5,627	13.3	4.5	19,260	21,277	10.5
% of revenue	20.8	23.3	23.5	271 bps	27 bps	21.1	23.2	210 bps
Other expenses	5,582	4,959	4,531	-18.8	-8.6	19,240	19,391	0.8
% of revenue	23.4	21.4	18.9	(445) bps	(247) bps	21.1	21.2	6 bps
<b>EBITDA</b>	<b>3,580</b>	<b>5,074</b>	<b>5,366</b>	<b>49.9</b>	<b>5.8</b>	<b>17,390</b>	<b>19,471</b>	<b>12.0</b>
<b>EBITDA margin (%)</b>	<b>15.0</b>	<b>21.9</b>	<b>22.4</b>	<b>743 bps</b>	<b>52 bps</b>	<b>19.1</b>	<b>21.3</b>	<b>218 bps</b>
Other income	-66	60	194	-	222.4	357	474	32.7
Interest costs	616	720	712	15.5	-1.2	2,653	2,874	8.3
Depreciation	950	1,135	1,289	35.7	13.6	3,709	4,619	24.5
<b>PBT Before Exceptionals</b>	<b>1,948</b>	<b>3,280</b>	<b>3,560</b>	<b>82.7</b>	<b>8.5</b>	<b>11,385</b>	<b>12,452</b>	<b>9.4</b>
<b>Exceptional Items</b>	<b>2,348</b>	<b>346</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>2,348</b>	<b>346</b>	<b>-</b>
<b>PBT</b>	<b>-400</b>	<b>2,933</b>	<b>3,560</b>	<b>-</b>	<b>21.4</b>	<b>9,038</b>	<b>12,105</b>	<b>33.9</b>
Tax	607	899	955	57.3	6.1	3,268	3,123	-4.4
Tax rate (%)	31.1	27.4	26.8	(433) bps	(61) bps	28.7	25.1	(362) bps
<b>PAT before MI</b>	<b>-1,007</b>	<b>2,034</b>	<b>2,605</b>	<b>-</b>	<b>28.1</b>	<b>5,770</b>	<b>8,982</b>	<b>55.7</b>
<b>PAT Margin (%)</b>	<b>-4.2</b>	<b>8.8</b>	<b>10.9</b>	<b>-</b>	<b>211 bps</b>	<b>6.3</b>	<b>9.8</b>	<b>348 bps</b>

Source: Company, Nirmal Bang Institutional Equities Research

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

## Conference call highlights

- **Covid-19 Impact:** The Company has made efforts to continued production in challenging times. The company had some shipments of APIs deferred due to lockdown of Nanjangud facility. The facility has now received a green signal from authorities and should start production as well as shipments in a few days. Specialty business had an impact due to Covid-19 in USA as fewer patients went for doctor visits, however, with opening of economy in US, normalization of revenues is in sight. In response to Covid-19 the company has started manufacturing of sanitizers in-house.
- **Remdesivir:** The production of Remdesivir drug will start by July 2020 subject to approvals from regulatory authorities.
- **Specialty Pharma business:** Radiopharma driving growth with key products performing strong. Ruby-Fill drug is expected to be launched in FY21 in Europe. Currently Ruby-Fill is not available commercially in Europe presenting a market making opportunity for Jubilant Lifesciences. The Company will most likely launch Ruby-Fill in Germany, Switzerland, and Netherlands.
- **Allergy business:** The Allergy business grew both on QoQ and YoY basis, led by better prices.
- **Drug Discovery and Development Business (DDDS):** The DDDS business grew by 25%, driven by higher demand from biotech companies for integrated services, DPMK, Chemistry and scale up of drug discovery business. The management has guided for a capacity expansion to double capacities in the next 2-3 years.
- **LSI Business:** The decline in LSI business was due to lower demand and more significantly due to price reduction of Acetic Acid.
- **Nutritional products:** The business grew by 50% YoY led by better prices of Vitamin B3. The prices are expected to improve in Q1FY21.
- **CapEx:** The Company will be moderating CapEx to conserve cash till the time the pandemic subsides. The expected CapEx in Pharma business is US\$50mn.
- **Debt:** The net debt was Rs29,760mn, a reduction of Rs5,140mn since March 2019. Net debt increased QoQ by Rs2,970mn. The average blended interest rate for FY20 was 6.1%. The INR termed loans were at 8.2% and foreign currency loans were at 5.3%.
- **Nanjangud Facility:** The facility's OAI was turned into GMP compliance status by health Canada and the company is working with US FDA for OAI status.
- **Reorganization of business:** The Company had submitted proposal to NCLT post NOCs from BSE and NSE. Due to lockdown the hearing could be delayed.

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

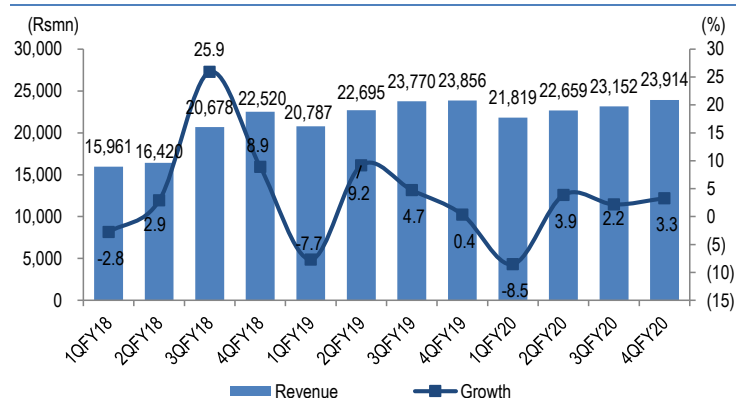
(Rsmn)	Actual	Our estimate	Var.(%)	Consensus estimate	Var.(%)
Revenues	23,914	22,949	4.2	23,595	1.4
EBITDA	5,366	4,482	19.7	4,938	8.7
EBITDA margin (%)	22.4	19.5	291 bps	20.9	151 bps
PAT	2,605	2,041	27.6	2,393	8.9

Source: Company, Nirmal Bang Institutional Equities Research

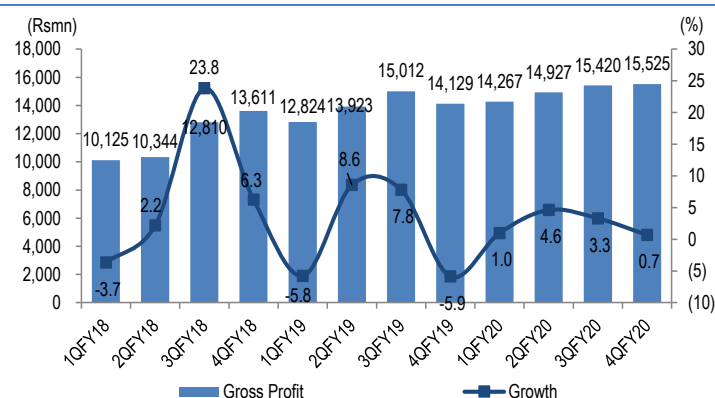
**Exhibit 2: Key financials**

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net sales	75,178	91,108	91,544	1,00,195	1,04,711
EBITDA	15,184	17,390	19,471	21,058	22,287
Net profit	6,344	5,770	8,982	10,279	10,739
EPS (Rs)	39.8	36.2	56.4	64.5	67.4
EPS growth (%)	10.4	(9.0)	55.7	14.4	4.5
EBITDA margin (%)	20.2	19.1	21.3	21.0	21.3
P/E (x)	8.8	9.7	6.2	5.5	5.2
P/BV (x)	1.4	1.2	1.0	0.9	0.7
EV/EBITDA (x)	5.7	5.2	4.4	3.6	3.0
RoCE (%)	16.0	17.9	17.7	19.6	20.2
RoE (%)	17.1	13.0	17.3	16.9	15.2

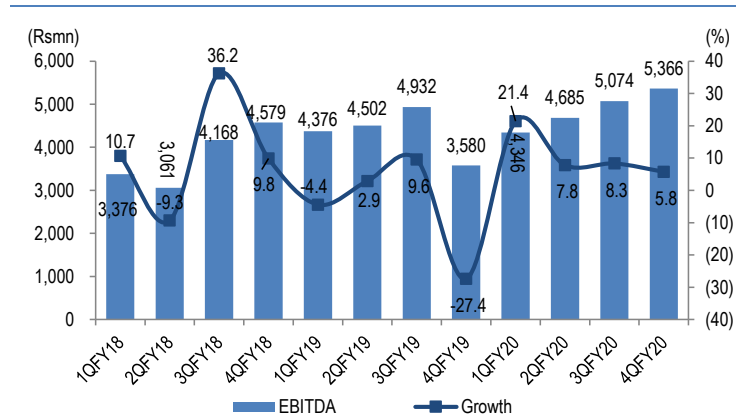
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: Revenue and growth trend**


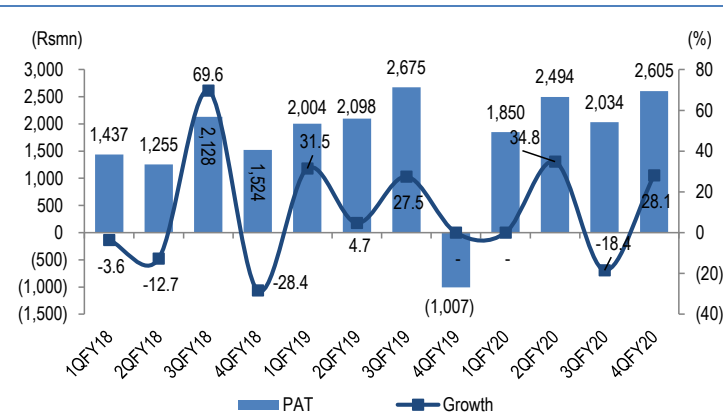
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Gross profit and growth trend**


Source: Company, Nirmal Bang Institutional Equities Research

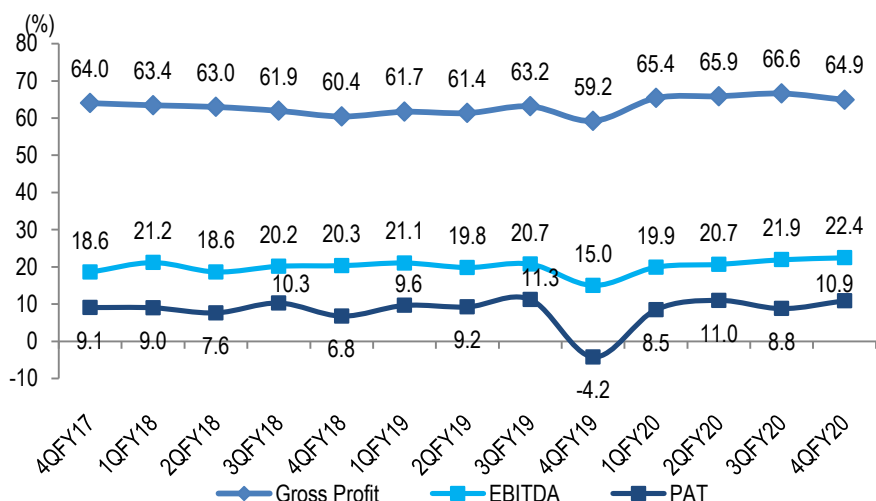
**Exhibit 5: EBITDA and growth trend**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: PAT and growth trend**


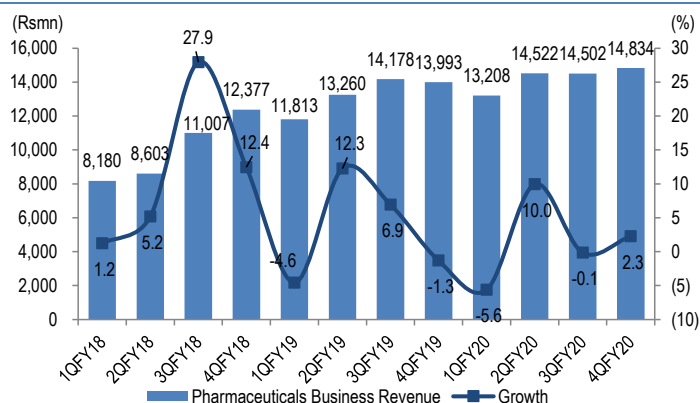
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: Margin Trend**



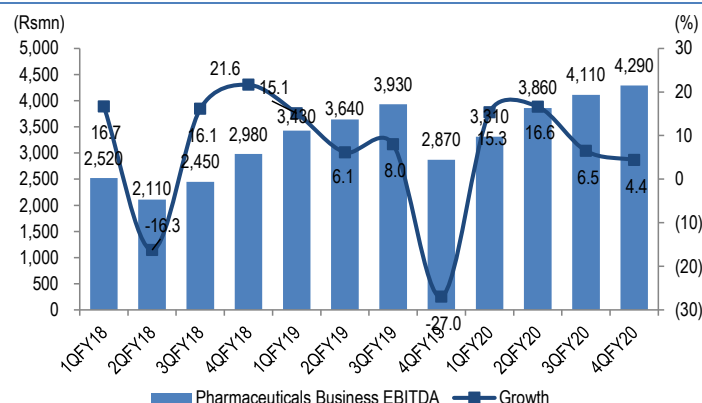
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Pharma business revenue and growth trend**



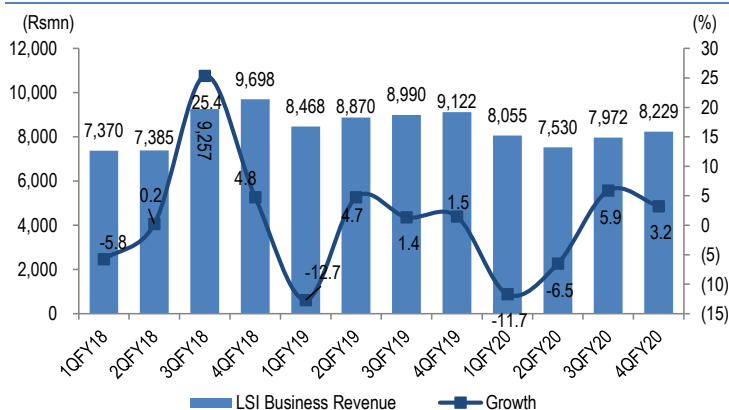
Source: Company, Nirmal Bang Institutional Equities Research

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



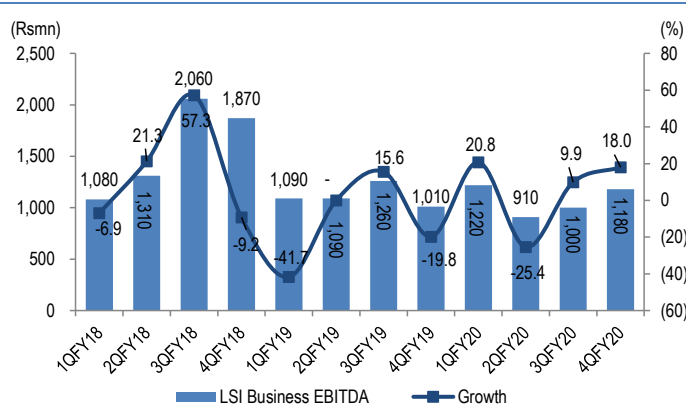
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: LSI Business revenue and growth trend**

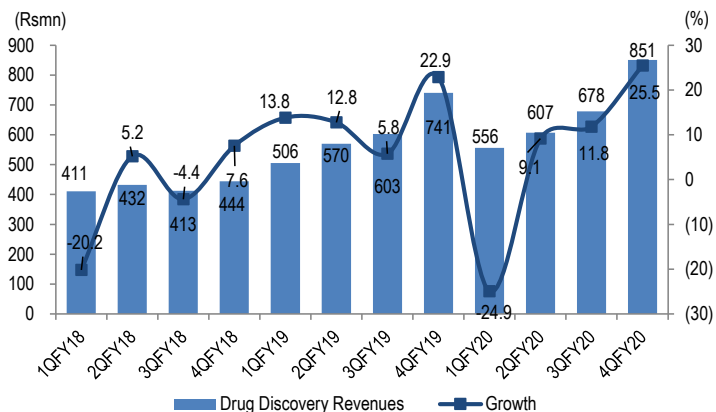


Source: Company, Nirmal Bang Institutional Equities Research

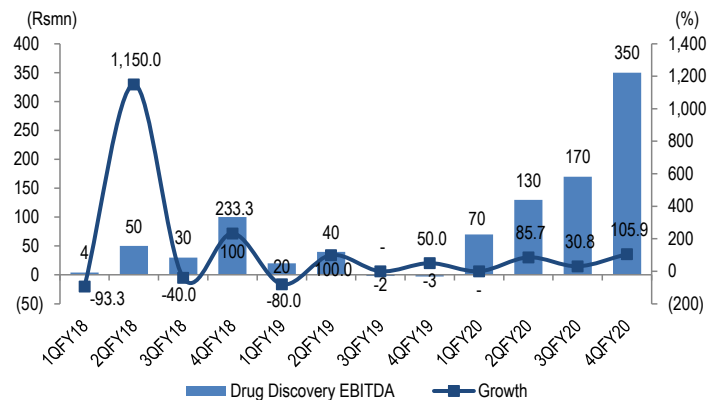
**Exhibit 11: LSI business EBITDA and growth trend**



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
<b>Net sales</b>	<b>75,178</b>	<b>91,108</b>	<b>91,544</b>	<b>1,00,195</b>	<b>1,04,711</b>
% growth	28.3	21.2	0.5	9.5	4.5
Raw material costs	28,688	35,218	31,406	36,558	37,469
Staff costs	15,559	19,260	21,277	21,969	23,727
Other expenses	15,748	19,240	19,391	20,610	21,228
Total expenditure	59,995	73,718	72,073	79,137	82,424
<b>EBITDA</b>	<b>15,184</b>	<b>17,390</b>	<b>19,471</b>	<b>21,058</b>	<b>22,287</b>
% growth	12.9	14.5	12.0	8.2	5.8
<b>EBITDA margin (%)</b>	<b>20.2</b>	<b>19.1</b>	<b>21.3</b>	<b>21.0</b>	<b>21.3</b>
Other income	400	357	474	411	412
Interest costs	2,843	2,198	2,874	2,683	2,601
Gross profit	46,491	55,890	60,138	63,637	67,242
% growth	20.4	20.2	7.6	5.8	5.7
Depreciation	4,151	3,709	4,619	4,309	4,972
Profit before tax	8,591	9,038	12,105	14,477	15,126
% growth	16.4	5.2	33.9	19.6	4.5
Tax	2,247	3,268	3,123	4,198	4,386
Effective tax rate (%)	26.2	36.2	25.8	29.0	29.0
<b>Net profit</b>	<b>6,344</b>	<b>5,770</b>	<b>8,982</b>	<b>10,279</b>	<b>10,739</b>
% growth	10.4	(9.0)	55.7	14.4	4.5
<b>EPS (Rs)</b>	<b>39.8</b>	<b>36.2</b>	<b>56.4</b>	<b>64.5</b>	<b>67.4</b>
% growth	10.4	(9.0)	55.7	14.4	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	55,880	65,583	75,747
Net worth	40,350	48,090	56,039	65,742	75,906
Deferred tax liabilities	1,631	2,024	2,634	2,634	2,634
Provision/ other LT liabilities	3,671	1,245	2,957	2,957	2,957
Total loans	32,927	47,426	43,896	44,723	43,350
<b>Liabilities</b>	<b>78,578</b>	<b>98,785</b>	<b>1,05,525</b>	<b>1,16,056</b>	<b>1,24,848</b>
Net block	31,925	33,962	37,507	38,922	40,151
Capital work-in-progress	3,001	4,916	2,636	2,750	2,750
Goodwill & intangible assets	25,789	26,620	28,209	21,958	21,257
LT loans & advances	145	156	178	178	178
Other LT assets	3,418	3,184	6,304	7,135	7,287
Inventories	13,914	14,174	18,454	22,314	22,870
Debtors	11,308	12,716	12,932	16,770	17,526
Cash	2,488	13,704	13,999	25,265	32,879
Other current assets	4,188	5,255	4,999	5,085	5,091
Total current assets	31,898	45,848	50,384	69,434	78,365
Trade payables	11,362	10,201	10,903	13,704	14,045
Other current liabilities/provisions	6,237	5,699	8,789	10,617	11,095
Total current liabilities	17,598	15,900	19,691	24,320	25,140
Net current assets	14,299	29,948	30,692	45,114	53,225
<b>Total assets</b>	<b>78,578</b>	<b>98,785</b>	<b>1,05,525</b>	<b>1,16,056</b>	<b>1,24,848</b>

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	12,105	14,477	15,126
(Inc.)/dec. in working capital	(1,211)	(3,005)	(1,797)	(3,155)	(497)
<b>Cash flow from operations</b>	<b>7,380</b>	<b>6,033</b>	<b>10,309</b>	<b>11,322</b>	<b>14,628</b>
Other income	(400)	(110)	(215)	(411)	(412)
Other expenses	2,843	2,121	2,855	2,683	2,601
Depreciation	4,151	3,709	4,619	4,309	4,972
Tax paid	(2,247)	(3,433)	(2,487)	(4,198)	(4,386)
<b>Net cash from operations</b>	<b>11,726</b>	<b>8,320</b>	<b>15,081</b>	<b>13,705</b>	<b>17,403</b>
Capital expenditure	(5,706)	(6,481)	(5,676)	(2,860)	(5,500)
Net cash after capex	6,020	1,838	9,404	10,845	11,903
Other investment activities	(1,398)	(3,637)	2,406	2,852	260
<b>Cash from financial activities</b>	<b>(6,731)</b>	<b>6,516</b>	<b>(9,905)</b>	<b>(2,431)</b>	<b>(4,549)</b>
Opening cash balance	4,564	2,488	10,054	12,308	25,265
Other bank balance	32	-	-	-	-
Closing cash balance	2,488	7,204	11,959	23,574	32,879
<b>Change in cash balance</b>	<b>(2,109)</b>	<b>4,717</b>	<b>1,905</b>	<b>11,266</b>	<b>7,614</b>

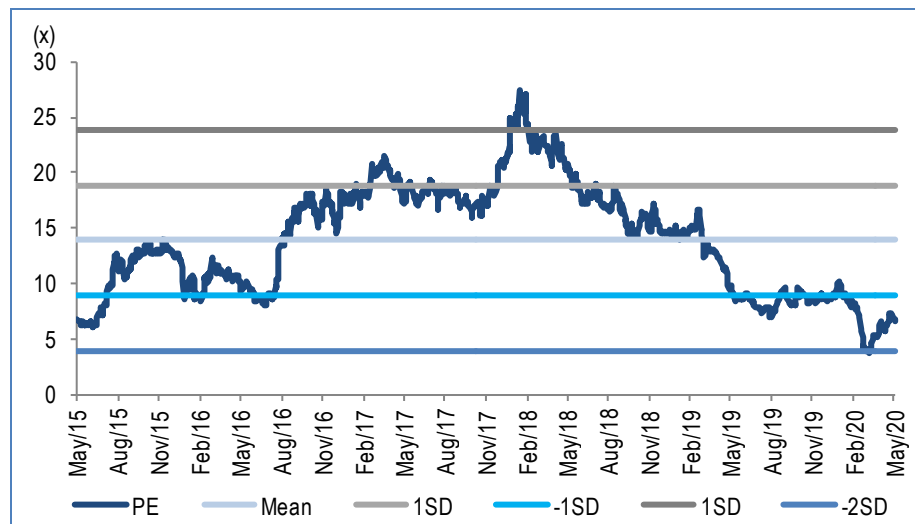
Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 17: Key ratios

Y/E March	FY18	FY19	FY20E	FY21E	FY22E
<b>Profitability &amp; return ratios</b>					
EBITDA margin (%)	20.2	19.1	21.3	21.0	21.3
EBIT margin (%)	14.7	15.0	16.2	16.7	16.5
Net profit margin (%)	9.8	8.4	6.3	9.8	10.3
RoE (%)	17.1	13.0	17.3	16.9	15.2
RoCE (%)	16.0	17.9	17.7	19.6	20.2
<b>Working capital &amp; liquidity ratios</b>					
Receivables (days)	52	48	51	54	60
Inventory (days)	166	146	190	204	220
Payables (days)	120	112	123	123	135
Current ratio (x)	1.8	2.9	2.6	2.9	3.1
Quick ratio (x)	1.0	2.0	1.6	1.9	2.2
<b>Valuation ratios</b>					
EV/sales (x)	1.2	1.0	0.9	0.8	0.6
EV/EBITDA (x)	5.7	5.2	4.4	3.6	3.0
P/E (x)	8.8	9.7	6.2	5.5	5.2
P/BV (x)	1.4	1.2	1.0	0.9	0.7

Source: Company, Nirmal Bang Institutional Equities Research

## P/EV Chart

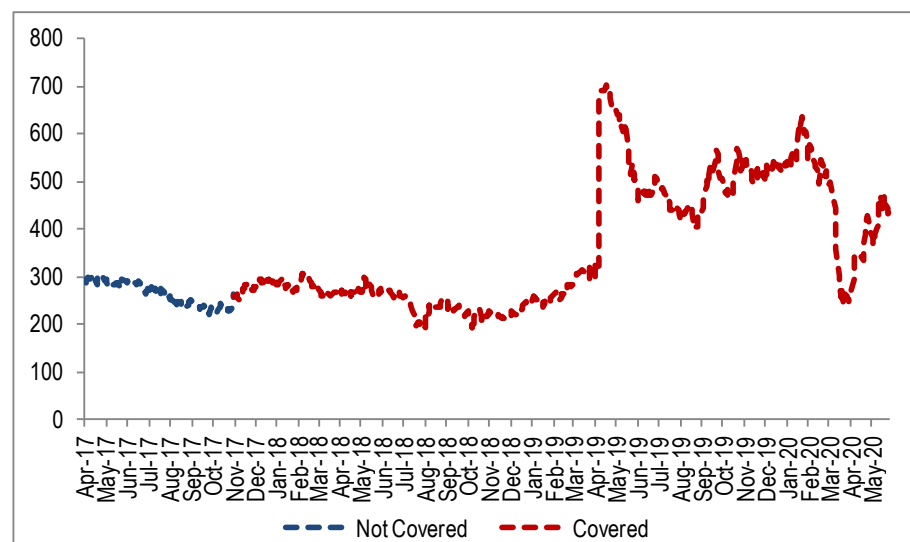


Source: BSE, Bloomberg, Nirmal Bang Institutional Equities Research

## 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
27 March 2020	Buy	262	337
23 April 2020	Buy	369	539
1 June 2020	Buy	442	539

## Rating track graph





**DISCLOSURES**

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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