

Jubilant Life Sciences

Estimate change

TP change

Rating change

CMP: INR442
TP: INR515 (+16%)
Buy

Superior product mix drives earnings

Operations at Nanjangud plant to resume soon

- JLS has gradually improved margins for three years now, led by superior execution in the Specialty business in both the Pharma as well as Life Science Ingredient (LSI) segments. The overall Specialty business forms 51% of the total revenue. Particularly, the Specialty business in the Pharma segment recorded a 22% CAGR over FY18–20, led by better traction as well as inorganic growth.
- We reduce our EPS estimate by 2% for FY21 to factor COVID-19-led slowdown, particularly in the Life Science Chemical and API segments. We continue valuing JLS on an SOTP basis to arrive at a price target of INR515 and maintain Buy on the stock.

Pharma leads earnings for quarter

- Revenues were flat YoY at INR23.9b (in-line). The Pharma segment (INR14.8b; 63% of sales) grew at 6% YoY. The LSI segment saw decline of 11% YoY at INR8b (34% of sales), which hampered overall growth.
- The gross margin improved 570bp YoY to 64.9% on a superior product mix. The EBITDA margin expanded at a lower rate of 310bp YoY to 22.4% (our est.: 20.8%) due to higher employee cost (+270bp YoY as % of sales).
- The EBITDA margin for Pharma came in at 28.9%. LSI's EBITDA came in at INR1180m, with a margin of 14.4% v/s 11% YoY. EBITDA at INR5.4b (our est.: INR4.9b) grew 16.4%YoY.
- PAT grew 17.4% YoY to INR2.6b (our est.: INR2.3b).
- FY20 revenue/EBITDA/adj. PAT came in at INR91.5b/INR19.6b/INR9.3b, up 0.5%/6.5%/4.1%.

Highlights from management commentary

- The Nanjangud plant is now cleared by regulatory authorities to resume operations after it was closed in March when two employees tested positive for COVID-19.
- The lifting of the lockdown has enabled considerable recovery in the Radiopharma business.
- The production of Remdesivir is expected to commence in July 2020.
- There is considerable pent-up demand and unmet requirement for Ruby-fill in Europe. JLS intends to launch the drug first in Germany and Switzerland.
- JLS would incur substantially lower capex for FY21 (primarily maintenance capex) v/s INR5b spent in FY20.

Valuation and view

- We expect a 5% earnings CAGR over FY20–22, led by a 9%/7% sales CAGR in Specialty Pharma/Specialty Intermediates-Nutritional products.
- We reduce our earnings estimate for FY21 to factor the temporary disruption caused by COVID-19 at the production as well as supply chain level. We continue valuing JLS at 7x EV/EBITDA for the Pharma business and 3x EV/EBITDA for the LSI business, arriving at a price target of INR515 on an SOTP basis. While earnings growth is moderate over the medium term, we remain positive on JLS on an attractive valuation of 5x FY21 EV/EBITDA / 4x FY22 EV/EBITDA. Maintain Buy.

Bloomberg	JUBILANT IN
Equity Shares (m)	159
M.Cap.(INRb)/(USDb)	70.4 / 0.9
52-Week Range (INR)	639 / 230
1, 6, 12 Rel. Per (%)	9/7/6
12M Avg Val (INR M)	194

Financials & valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	91.5	95.6	103.3
EBITDA	19.6	19.1	21.4
Adj. PAT	9.3	8.8	10.3
EBIT Margin (%)	16.4	15.1	15.7
Cons. Adj. EPS (INR)	59.8	56.6	66.4
EPS Gr. (%)	5.0	-5.4	17.4
BV/Sh. (INR)	359.7	410.6	470.4

Ratios

Net D:E	0.5	0.4	0.2
RoE (%)	17.9	14.7	15.1
RoCE (%)	11.7	10.5	11.2
Payout (%)	10.0	10.0	10.0

Valuations

P/E (x)	7.4	7.8	6.7
EV/EBITDA (x)	5.0	4.9	4.0
Div. Yield (%)	1.1	1.1	1.2
FCF Yield (%)	13.9	12.9	14.7
EV/Sales (x)	1.1	1.0	0.8

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	50.7	50.7	50.7
DII	1.9	2.7	4.8
FII	27.9	27.4	26.8
Others	19.5	19.2	17.8

FII Includes depository receipts

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

 Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Consolidated – Quarterly earnings model

(INR m)

Y/E March	FY19				FY20				FY19	FY20	FY20 vs Est	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		4QE	(%)	
Net Sales	20,787	22,695	23,771	23,856	21,819	22,659	23,152	23,914	91,108	91,544	23,615	1.3
YoY Change (%)	30.2	38.2	15.0	5.9	5.0	-0.2	-2.6	0.2	20.5	0.5	-1.0	
Total Expenditure	16,411	18,193	18,838	19,246	17,332	17,975	18,078	18,548	72,688	71,933	18,699	-0.8
EBITDA	4,376	4,502	4,933	4,610	4,486	4,685	5,074	5,366	18,420	19,611	4,916	9.1
YoY Change (%)	29.6	47.1	18.3	0.7	2.5	4.1	2.9	16.4	21.3	6.5	7	
Margins (%)	21.1	19.8	20.8	19.3	20.6	20.7	21.9	22.4	20.2	21.4	20.8	
Depreciation	880	895	984	950	1,027	1,168	1,135	1,289	3,709	4,619	1,147	
EBIT	3,496	3,607	3,949	3,660	3,460	3,516	3,940	4,077	14,711	14,992	3,770	8.1
YoY Change (%)	31.9	58.8	17.9	-0.3	-1.0	-2.5	-0.2	11.4	23.1	1.9	3	
Margins (%)	16.8	15.9	16.6	15.3	15.9	15.5	17.0	17.0	16.1	16.4	16.0	6.8
Interest	727	627	683	616	726	716	720	712	2,198	2,874	716	
Other Income	95	38	290	-66	97	123	60	194	357	474	85	
PBT before EO expense	2,864	3,018	3,556	2,978	2,831	2,922	3,280	3,559	12,870	12,592	3,139	13.4
Extra-Ord expense	0	0	151	3,226	140	0	346	0	3,832	486	0	
PBT	2,864	3,018	3,405	-248	2,691	2,922	2,933	3,559	9,038	12,105	3,139	13.4
Tax	860	920	881	607	841	428	899	955	3,268	3,123	811	17.6
Rate (%)	30.0	30.5	25.9	-244.8	31.2	14.7	30.7	26.8	36.2	25.8	25.9	
Reported PAT	2,004	2,098	2,524	-854	1,850	2,494	2,034	2,605	5,316	8,982	2,327	11.9
Adj PAT	2,004	2,098	2,636	2,218	1,947	2,494	2,274	2,605	8,955	9,319	2,327	11.9
YoY Change (%)	36.2	63.6	24.0	-0.1	-2.9	18.9	-13.7	17.4	26.1	4.1	4.9	
Margins (%)	9.6	9.2	11.1	9.3	8.9	11.0	9.8	10.9	9.8	10.2	9.9	

Key performance indicators (consolidated)

Y/E March	FY19				FY20				FY19	FY20
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
INRb										
Pharma(ex-Triad)	8.6	10.1	11.1	10.8	10.0	11.3	11.1	11.5	40.6	44.0
yoy (%)	5.4	17.0	43.6	35.8	16.1	12.5	(0.4)	6.7	25.1	8.3
Triad sales	3.3	3.3	3.1	3.2	3.2	3.2	3.4	3.3	12.8	13.1
LSI	8.5	8.9	9.0	9.1	8.1	7.5	8.0	8.2	35.5	31.8
DDS	0.5	0.5	0.5	0.7	0.6	0.6	0.7	0.9	2.2	2.6
yoy (%)	13.2	13.0	20.3	44.7	20.7	21.3	25.7	25.3	23.1	20.7
Cost Break-up										
RM Cost (% of Sales)	38.3	38.6	36.8	40.8	34.6	34.1	33.4	35.1	38.7	34.3
Staff Cost (% of Sales)	21.7	21.1	21.0	20.8	23.1	23.0	23.3	23.5	80.5	89.0
R&D Cost (% of Pharma Sales)	4.9	4.1	4.5	4.8	4.3	3.9	3.8	4.0	4.6	4.5
Other Cost (% of Sales)	18.9	20.5	21.4	19.1	21.7	22.2	21.4	18.9	20.0	21.0
Gross Margins(%)	61.7	61.4	63.2	59.2	65.4	65.9	66.6	64.9	61.3	65.7
EBITDA Margins(%)	21.1	19.8	20.8	19.3	20.6	20.7	21.9	22.4	20.2	21.4
EBIT Margins(%)	16.8	15.9	16.6	15.3	15.9	15.5	17.0	17.0	16.1	16.4

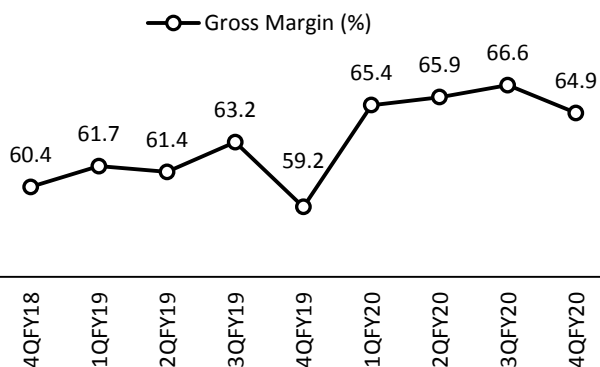


Conference call highlights

- JLS indicated it would invest significantly to double capacities for the Drug Discovery Services (DDDS) business in anticipation of strong demand. The DDDS expansion would add more lab space to take care of additional requirements.
- Pricing would be better in the DDDS business going forward, with capacity utilization also improving.
- The Specialty Intermediates segment declined 13% YoY, weighed by lower demand for key products such as Pyridine and Pyridine derivatives. This was a result of weak demand in Crop Protection products due to the COVID-19 outbreak in China.
- Subdued demand was witnessed for Acetic Anhydride due to lower demand from Auto and Consumer Durables for the quarter.
- JLS is progressing well on addressing the USFDA observation in consultation with a third-party consultant.

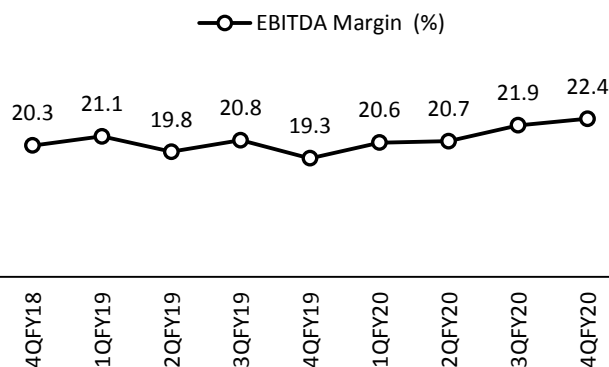
Key exhibits

Exhibit 1: Gross margin up 570bp YoY



Source: MOFSL, Company

Exhibit 2: EBITDA margin expands 310bp YoY



Source: MOFSL, Company

Exhibit 3: Ex-Triad, Pharma sales muted for 4QFY20

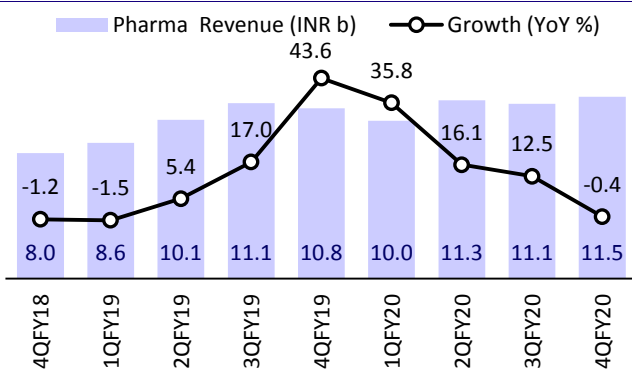


Exhibit 4: Pharma (Ex-Triad) margins up 1080bp YoY

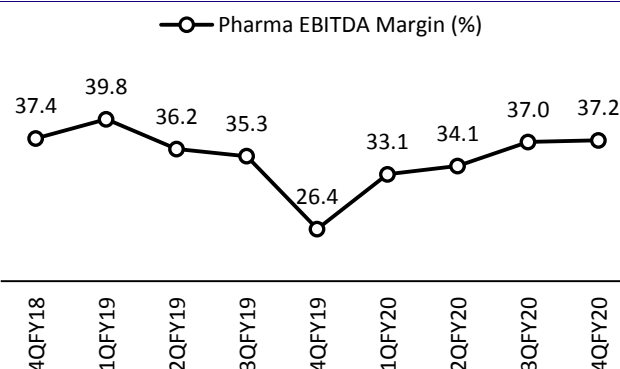
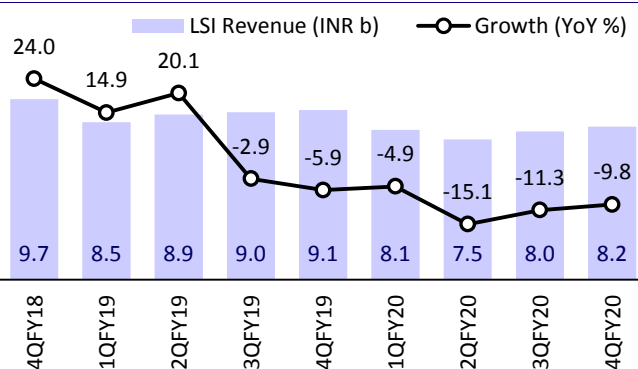
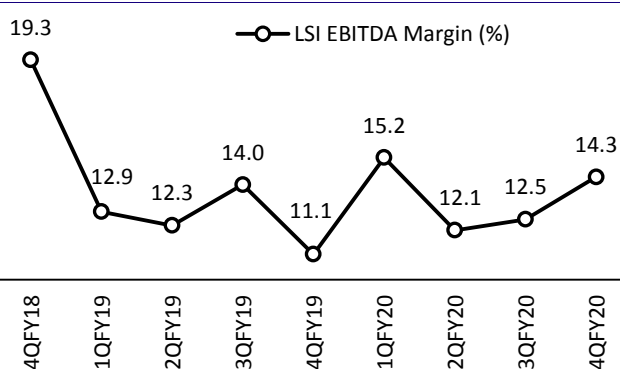


Exhibit 5: Gradual reduction in YoY decline in LSI sales



Source: MOFSL, Company

Exhibit 6: LSI's EBITDA margin up 320bp YoY / 180bp QoQ



Source: MOFSL, Company

Exhibit 7: Debt profile

Particulars (INR m)	2QFY20	3QFY20	4QFY20
Gross Debt	45,940	40,480	46,560
Cash & Cash Equivalent	13,630	6,870	14,000
Net Debt	31,450	32,730	32,560

Source: MOFSL, Company

Valuation and view

Steady superior margins in Pharma

JLS has garnered a 27% sales CAGR in the Pharma segment, led by a 12% CAGR in the CDMO business (27% of Pharma sales), a 16% CAGR in the Radiopharmaceutical business (22% of Pharma sales; Ex-Triad), a 19% CAGR in Allergy products (7% of Pharma sales), and the acquisition of the Triad business. JLS has a strong order book for sustained momentum in the CDMO business. Introducing new products / Increasing traction in existing products would drive the Radiopharma business over the next two–three years. With regard to Allergy products, better volumes, coupled with prices, are expected to drive growth over the next two–three years. Growth in these business segments is expected to slow a bit due to regulatory issues in the Generics business (20% of Pharma sales). Overall, we expect a 9% CAGR to INR65b in Pharma over FY20–22.

Gradual improvement expected in Life Science Chemical within LSI

While JLS delivered a 6% CAGR in the LSC business (48% of LSI sales) over FY20–22, 28% YoY decline was witnessed in FY20, weighed by reduced demand for its key product Ethyl Acetate. The reduction in raw material prices (primarily Acetic Acid) also increased the intensity of revenue reduction. The adverse impact was partly offset by favorable demand for products in Specialty Intermediates and better pricing in key products in the Nutritional segment. With the LSC situation gradually improving and sustained momentum in Specialty Intermediates / Nutritional products, we expect a 5% sales CAGR in the LSI segment to INR35b over FY20–22.

Valuation and view

Overall, we expect a 5% earnings CAGR over FY20–22, led by a 9% sales CAGR in Specialty Pharma and 7% sales CAGR in Specialty Intermediates / Nutritional products.

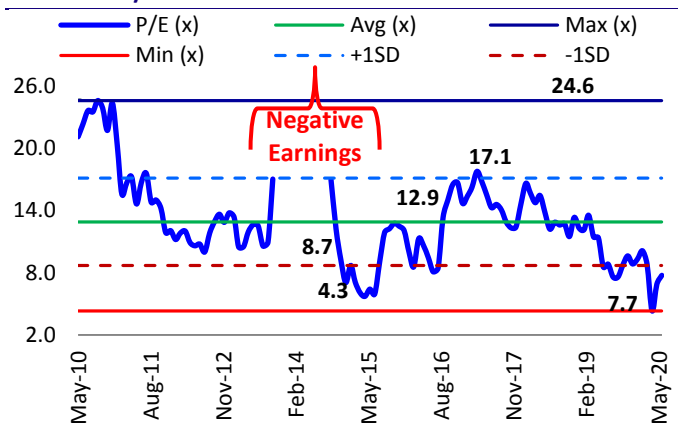
We reduce our earnings estimate for FY21 to factor the temporary disruption caused by COVID-19 at the production as well as supply chain level. We continue valuing JLS at 7x EV/EBITDA for the Pharma business and 3x EV/EBITDA for the LSI business, arriving at a price target of INR515 on an SOTP basis. While earnings growth is moderate over the medium term, we remain positive on JLS on an attractive valuation of 5x FY21 EV/EBITDA / 4x FY22 EV/EBITDA. Maintain Buy.

Exhibit 8: SOTP-based price target of INR515 per share

Valuation	12M forward
EBITDA of Pharma business (INR m)	15,483
EV/EBITDA multiple for JOL	7
EV of Pharma (INR m)	1,02,186
EBITDA of LSI business (INR m)	4,020
EV/EBITDA multiple for JOL	3
EV of LSI (INR m)	10,452
Total EV (INR m)	1,12,638
Net Debt	32,560
Market Cap (INR m)	80,008
Target Price (INR per share)	515
CMP	445
Potential upside (%)	15.7

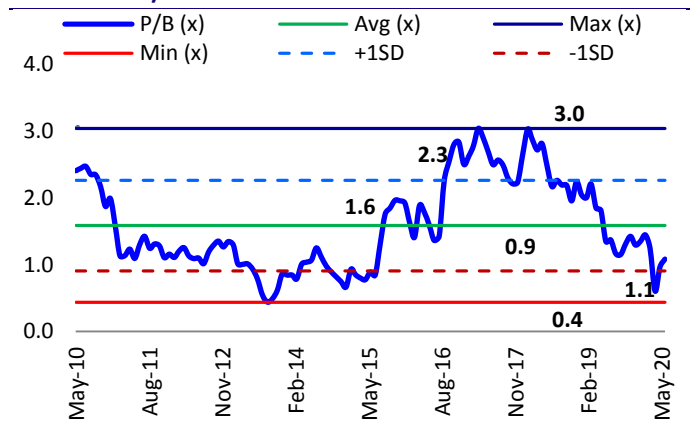
Source: MOFSL, Company

Exhibit 9: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 10: P/B chart



Source: MOFSL, Company, Bloomberg

Financials and valuations

Consolidated – Income statement									(INR m)
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	58,034	58,263	57,491	58,614	75,578	91,108	91,544	95,612	103,325
Change (%)	12.3	0.4	-1.3	2.0	28.9	20.5	0.5	4.4	8.1
Total Expenditure	47,958	51,370	45,022	45,161	60,394	72,688	71,933	76,489	81,937
% of Sales	82.6	88.2	78.3	77.0	79.9	79.8	78.6	80.0	79.3
EBITDA	10,076	6,893	12,470	13,453	15,184	18,420	19,611	19,122	21,388
Margin (%)	17.4	11.8	21.7	23.0	20.1	20.2	21.4	20.0	20.7
Depreciation	2,812	2,880	3,467	2,914	3,241	3,709	4,619	4,638	5,153
EBIT	7,264	4,013	9,002	10,539	11,943	14,711	14,992	14,484	16,235
Int. and Finance Charges	3,237	3,553	3,714	3,411	2,843	2,198	2,874	2,789	2,614
Other Income	191	425	134	249	400	357	474	382	362
PBT bef. EO Exp.	4,218	884	5,422	7,376	9,501	12,870	12,592	12,078	13,982
EO Items	-2,145	-481	0	0	-910	-3,832	-486	0	0
PBT after EO Exp.	2,073	403	5,422	7,376	8,591	9,038	12,105	12,078	13,982
Total Tax	696	805	1,554	1,630	2,247	3,268	3,123	3,261	3,635
Tax Rate (%)	33.6	199.6	28.7	22.1	26.2	36.2	25.8	27.0	26.0
Reported PAT	1,090	-578	3,918	5,757	6,428	5,770	8,982	8,817	10,347
Adjusted PAT	2,515	-1,057	3,918	5,757	7,100	8,955	9,319	8,817	10,347
Change (%)	-2.9	-142.0	-470.8	46.9	23.3	26.1	4.1	-5.4	17.4
Margin (%)	4.3	-1.8	6.8	9.8	9.4	9.8	10.2	9.2	10.0

Consolidated – Balance sheet									(INR m)
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	155	159	155	156	156	159	159	159	159
Total Reserves	26,111	24,376	29,507	34,205	40,710	47,930	55,880	63,816	73,130
Net Worth	26,265	24,535	29,663	34,361	40,865	48,089	56,039	63,975	73,289
Minority Interest	1,579	0	-381	-393	-515	1	0	0	0
Total Loans	43,953	47,931	44,933	40,453	35,449	47,431	43,901	41,901	39,801
Deferred Tax Liabilities	2,371	2,380	1,146	445	26	528	522	522	522
Capital Employed	74,168	74,847	75,359	74,865	75,825	96,049	100,461	106,397	113,610
Gross Block	53,614	54,245	35,597	39,102	44,936	50,411	60,641	69,288	75,067
Less: Accum. Deprn.	22,319	24,508	2,864	5,657	9,807	13,516	18,135	22,774	27,927
Net Fixed Assets	31,295	29,737	32,733	33,445	35,129	36,894	42,505	46,514	47,140
Goodwill on Consolidation	19,693	19,376	18,311	17,622	18,877	19,589	20,895	20,895	20,895
Capital WIP	4,724	5,966	6,113	6,838	6,710	9,014	7,684	4,037	3,357
Total Investments	340	395	854	1,027	1,235	1,151	694	694	694
Curr. Assets, Loans&Adv.	32,587	30,714	29,385	30,055	32,621	46,541	51,327	52,276	60,620
Inventory	13,414	12,353	12,031	12,204	13,914	14,174	18,454	14,915	16,163
Account Receivables	8,059	8,193	9,505	10,053	11,308	12,716	12,932	13,344	15,003
Cash and Bank Balance	4,795	3,944	3,446	4,596	2,488	13,704	13,999	17,776	22,710
Loans and Advances	6,318	6,225	4,403	3,202	4,912	5,947	5,942	6,241	6,744
Curr. Liability & Prov.	14,471	11,342	12,038	14,122	18,747	17,141	22,643	18,017	19,094
Account Payables	7,498	7,669	6,328	7,909	11,362	10,201	10,903	10,735	11,224
Other Current Liabilities	2,205	2,028	3,487	4,425	5,897	5,109	9,245	5,361	5,794
Provisions	4,768	1,645	2,222	1,788	1,488	1,831	2,495	1,921	2,076
Net Current Assets	18,116	19,372	17,348	15,933	13,874	29,400	28,684	34,259	41,526
Appl. of Funds	74,168	74,847	75,359	74,865	75,825	96,049	100,461	106,397	113,610

Financials and valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)									
EPS	16.1	-6.8	25.1	36.9	44.9	56.9	59.8	56.6	66.4
Cash EPS	34.2	11.7	47.4	55.7	65.7	80.8	89.5	86.4	99.5
BV/Share	168.6	157.5	190.4	220.5	262.3	308.7	359.7	410.6	470.4
DPS	3.0	3.1	3.1	3.1	3.1	3.1	4.8	4.7	5.5
Payout (%)	49.9	-99.6	14.7	10.0	8.9	10.0	10.0	10.0	10.0
Valuation (x)									
P/E	27.4	-65.2	17.6	12.0	9.8	7.8	7.4	7.8	6.7
Cash P/E	12.9	37.8	9.3	7.9	6.7	5.5	4.9	5.1	4.4
P/BV	2.6	2.8	2.3	2.0	1.7	1.4	1.2	1.1	0.9
EV/Sales	1.9	1.9	1.9	1.8	1.3	1.1	1.1	1.0	0.8
EV/EBITDA	10.7	16.4	8.8	7.8	6.7	5.6	5.0	4.9	4.0
Dividend Yield (%)	0.7	0.7	0.7	0.7	0.7	0.7	1.1	1.1	1.2
FCF per share	33.9	27.9	48.8	51.7	52.6	30.4	62.6	58.2	66.2
Return Ratios (%)									
RoE	9.9	-4.2	14.5	18.0	18.9	20.1	17.9	14.7	15.1
RoCE	7.2	-6.2	8.9	11.2	12.1	11.2	11.7	10.5	11.2
RoIC	7.6	-6.2	9.9	12.9	13.7	13.6	14.8	13.1	14.1
Working Capital Ratios									
Inventory (Days)	84	77	76	76	67	57	74	57	57
Debtor (Days)	51	51	60	63	55	51	52	51	53
Creditor (Days)	47	48	40	49	55	41	43	41	40
Leverage Ratio (x)									
Current Ratio	2.3	2.7	2.4	2.1	1.7	2.7	2.3	2.9	3.2
Interest Cover Ratio	2.2	1.1	2.4	3.1	4.2	6.7	5.2	5.2	6.2
Net Debt/Equity	1.5	1.8	1.4	1.0	0.8	0.7	0.5	0.4	0.2

Consolidated – Cash flow statement

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	2,073	403	5,422	7,376	8,591	9,038	12,105	12,078	13,982
Depreciation	2,812	2,880	3,467	2,914	4,151	3,709	4,619	4,638	5,153
Interest & Finance Charges	3,185	3,491	3,686	3,323	2,792	2,088	2,659	2,406	2,253
Direct Taxes Paid	-809	-793	-481	-1,439	-2,578	-3,433	-2,487	-3,261	-3,635
(Inc)/Dec in WC	-1,107	964	-1,332	369	142	-3,005	-1,797	-1,797	-2,334
CF from Operations	6,153	6,945	10,763	12,543	13,096	8,397	15,100	14,064	15,419
Others	1,569	888	225	142	-64	2,818	329	0	0
CF from Operating incl EO	7,723	7,833	10,989	12,685	13,032	11,215	15,429	14,064	15,419
(Inc)/Dec in FA	-2,438	-3,491	-3,392	-4,623	-4,837	-6,481	-5,676	-5,000	-5,100
Free Cash Flow	5,285	4,341	7,597	8,062	8,195	4,734	9,753	9,064	10,319
(Pur)/Sale of Investments	-63	-42	257	74	-116	0	199	0	0
Others	156	-125	76	-126	-1,175	-92	846	382	362
CF from Investments	-2,344	-3,658	-3,059	-4,676	-6,129	-6,573	-4,631	-4,618	-4,738
Issue of Shares	0	0	197	77	10	2,659	3	0	0
Inc/(Dec) in Debt	-247	-1,136	-4,558	-4,086	-6,278	6,616	-4,986	-2,000	-2,100
Interest Paid	-3,345	-3,353	-3,511	-2,291	-2,183	-2,155	-3,250	-2,789	-2,614
Dividend Paid	-552	-538	-555	-559	-560	-546	-1,528	-880	-1,033
CF from Fin. Activity	-4,144	-5,027	-8,427	-6,859	-9,011	6,574	-10,504	-5,669	-5,748
Inc/Dec of Cash	1,235	-852	-498	1,150	-2,108	11,216	295	3,777	4,933
Opening Balance	3,561	4,795	3,944	3,446	4,596	2,488	13,704	13,999	17,776
Closing Balance	4,795	3,944	3,446	4,596	2,488	13,704	13,999	17,776	22,710

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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