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Q1FY21 result review and reco change

Pharmaceuticals

Target price: Rs822

Earnings revision

(%)	FY21E	FY22E
Sales	(0.6)	0.1
EPS	(2.9)	(0.5)

Target price revision

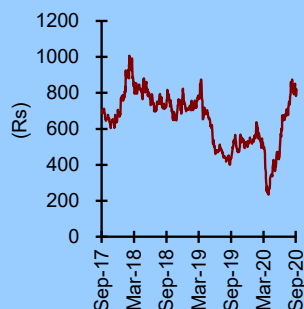
Rs822 from Rs749

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	50.7	50.7	50.7
Institutional investors	30.1	29.8	28.5
MFs and other	2.2	1.4	1.2
Banks/FIs	0.3	0.1	0.1
FII	27.6	28.3	27.2
Others	19.2	19.5	20.8

Source: BSE India

Price chart



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INDIA

ICICI Securities

Jubilant Life Sciences

HOLD

Downgrade from Add

COVID impacts performance, debt reduction continues **Rs830**

Jubilant Life Sciences (JLS) has reported Q1FY21 performance below estimates due to revenue impact on account of COVID-19. Pharma segment revenue declined 17.5% while LSI business witnessed 8.5% decline. Consolidated revenue remained dropped 13.2% YoY Rs18.9bn (I-Sec: Rs23.1bn) and adjusted PAT declined 52.4% YoY on lower revenue and margins. EBITDA margin contracted 390bps to 16.0% (I-Sec: 21.0%). Company has launched *Remdesivir*, a potential treatment for COVID-19, in India and other several countries as part of licensing agreement with Gilead Life Sciences. JLS reduced net debt by Rs3.4bn. NCLT approval for demerger of pharma and LSI businesses is awaited. Considering recent rally in stock price, we downgrade it to **HOLD** from **Add**.

- **Specialty Pharma and CDMO impacted revenue growth:** Pharma business revenue decreased 17.5% YoY mainly on account of 26.3% fall in Specialty business (radiopharma and allergy products) and 19.1% decline in CDMO business (CMO and API). Within CDMO, CMO business continued to grow while APIs faced significant decline owing to two months of temporary operation shutdown at Nanjangud plant due to COVID-19 cases. However, generics segment witnessed a growth of 8.9% led by good traction in key products in US market. LSI business reported a decline of 8.5% impacted by lower demand of specialty intermediates and life science chemicals on account of COVID-19. Drug discovery solutions posted a healthy growth of 25.6% YoY driven by strong demand for its services.
- **Profitability hit despite improvement in gross margin:** Reported EBITDA margin at 16.0% was lower primarily due to decline in revenue. Pharma business margin dropped 850bps YoY to 16.3% while LSI margin improved 170bps to 16.8% backed by better pricing. DDS operating profit nearly doubled YoY and posted a margin of 26.4%. Gross margin improved 190bps with better product mix within the segments. Overall, we expect EBITDA margin to remain stable at 21-22% going forward.
- **Outlook:** We estimate revenue/EBITDA/PAT CAGR of 6.5/7.0/8.6% over FY20-FY23E. We introduce FY23 estimates with growth expectation of 7.1/13.9% in revenue/PAT. The demand in most of the businesses have normalised to pre-COVID levels and growth should be visible Q2FY20 onwards. The company has entered into four COVID-19 related contracts including manufacturing of vaccines which could lead to additional business contingent upon regulatory approvals.
- **Valuations and risks:** Considering recent rally in stock, we downgrade it to **HOLD** from **Add** with revised target of Rs822 based on FY22E, 8x pharma EBITDA and 4x LSI EBITDA (earlier: Rs749). We have raised target EV/EBITDA for pharma business from 7x to 8x considering potential for additional business from COVID-19 related contracts. Key downside risks: Regulatory hurdles and delay in ramp-up in *Ruby-Fill*. Key upside risks: Additional business from COVID-19 related contracts.

Market Cap	Rs132bn/US\$1.8bn
Reuters/Bloomberg	JULS.BO/JUBILANT IN
Shares Outstanding (mn)	159.3
52-week Range (Rs)	875/234
Free Float (%)	48.3
FII (%)	27.2
Daily Volume (USD/'000)	5,427
Absolute Return 3m (%)	54.4
Absolute Return 12m (%)	90.7
Sensex Return 3m (%)	13.5
Sensex Return 12m (%)	5.6

Year to Mar	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)	91,544	96,525	103,275	110,618
Net Income (Rs mn)	9,239	9,063	10,379	11,819
EPS (Rs)	58.0	56.9	65.2	74.2
% Chg YoY	8.1	(1.9)	14.5	13.9
P/E (x)	14.3	14.6	12.7	11.2
CEPS (Rs)	87.0	88.8	99.2	110.6
EV/E (x)	8.5	8.0	7.0	6.0
Dividend Yield (%)	0.8	0.9	1.0	1.1
RoCE (%)	11.1	10.3	10.9	11.5
RoE (%)	17.7	15.1	15.2	15.2

Q1FY21 result and concall highlights

Jubilant Life Sciences' (JLS) overall sales declined 13.2% YoY (-20.8% QoQ) to Rs18.9bn.

- **Pharmaceutical business** declined 17.5% YoY (-26.1% QoQ) to Rs10.9bn in Q1FY21. Generics grew 8.9% while specialty pharma and CDMO declined 26.3% and 19.1% respectively. EBITDA margin of this segment at 16.3% declined 850bps YoY (-1260bps QoQ).

Company has 113 ANDA filings in the US including 97 oral solid dosage (OSD) and 16 sterile products, including: i) 62 approved and 35 pending for approval in OSD, and ii) 13 approved and three pending for approval in sterile. In Canada, the company has 24 (one pending) and 17 (all approved) filings in OSD and sterile products, respectively. The EU has 39 filings with 33 approved in OSD and four filings (all approved) in sterile products.

Radiopharma business in specialty pharma segment witnessed a decline as elective surgeries were postponed. However, in Sep'20 this segment has reached ~90% to its pre-COVID levels. Company has planned a commercial launch of *RubyFill* in EU in FY21. Company has initiated ph-3 trials for a new diagnostic agent for rheumatoid arthritis which when launched would support this segment. Allergy segment also saw a decline due to COVID-19 but has returned to pre-COVID levels in Sep'20.

CMO's growth was driven by high demand and strong orderbook augurs well for the outlook. Company has operationalised all lines and increased shifts on them. Company has also entered into contracts for four different COVID-19 treatment drugs/vaccines for initial batches. Company would also provide services for these products upon approval and launch.

Shutdown at the Nanjangud plant affected sales of API. However, the plant restarted in Jun'20 and strong demand for API augurs well for growth.

Generics segment reported a strong performance driven by the US market. Company has also launched *Remdesivir* generic in India and will be launching in several other countries soon.

Life Science Ingredients' (LSI) revenue declined 8.5% YoY to Rs7.4bn due to temporary impact on specialty intermediates and life science chemicals owing to COVID-19. Specialty intermediates declined 6.8% YoY due to lower demand in the domestic market. Life science chemicals declined 15.6% YoY largely due to fall in prices of acetic acid and lower demand for it. Nutritional products posted a growth of 9.6% YoY with higher prices of VitB3 however, demand has abated to some extent. Most segments are witnessing normalisation and company expects a double digit growth for the year from this segment.

- **Drug Discovery Solutions'** revenue grew 25.6% YoY (-29.0% QoQ) to Rs607mn in Q1FY21. The company is witnessing a strong demand in its integrated services. Company has six products in its proprietary segment at different stages with potential to partner from discovery to clinical stage.
- **Net debt** of the company at Q1FY21-end stood at Rs29.0bn and **gross debt** at Rs44.3bn. Company repaid net debt of Rs3.43bn in Q1FY21.
- **Capex** for Q1FY21 was Rs710mn and expects to spend ~Rs5bn for FY21.
- Company awaits NCLT approval for the reorganisation and as per the revised timeline it is expected in Q3FY21.

Table 1: Q1FY21 performance*(Rs mn, year ending March 31)*

	Q1FY21	Q1FY20	YoY % Chg	Q4FY20	QoQ % Chg
Net Sales	18,929	21,819	(13.2)	23,914	(20.8)
EBITDA	3,022	4,346	(30.5)	5,366	(43.7)
Other income	81	97	(16.2)	194	(58.2)
PBIDT	3,104	4,443	(30.1)	5,561	(44.2)
Depreciation	1,123	1,027	9.4	1,289	(12.9)
Interest	760	726	4.6	712	6.7
PBT	1,221	2,690	(54.6)	3,560	(65.7)
Exceptional / Forex items	-	-		-	
PBT after exceptional	1,221	2,690	(54.6)	3,560	(65.7)
Tax	341	841	(59.4)	955	(64.3)
Minority Interest	-	-		(0)	
Reported PAT	880	1,850	(52.4)	2,605	99
Adjusted PAT	880	1,850	(52.4)	2,605	(66.2)
EBITDA margins (%)	16.0	19.9	(390)bps	22.4	(640)bps

Source: Company data, I-Sec research

Table 2: Sales mix*(Rs mn, year ending March 31)*

	Q1FY21	Q1FY20	YoY % Chg	Q4FY20	QoQ % Chg
Pharmaceuticals	10,958	13,285	(17.5)	14,834	(26.1)
LSI	7,384	8,068	(8.5)	8,230	(10.3)
DDS	607	483	25.6	854	(29.0)
Less Intersegment	(19)	(17)	12.9	(5)	302.1
Net Sales	18,929	21,819	(13.2)	23,914	(20.8)

Source: Company data, I-Sec research

Table 3: Segmental EBITDA

	Q1FY21	Q1FY20	YoY % Chg	Q4FY20	QoQ % Chg
Pharmaceuticals	1,790	3,300	(45.8)	4,290	(58.3)
LSI	1,240	1,220	1.6	1,180	5.1
DDS	160	80	100.0	350	(54.3)
Total	3,190	4,600	(30.7)	5,820	(45.2)

Source: Company data, I-Sec research

Valuations

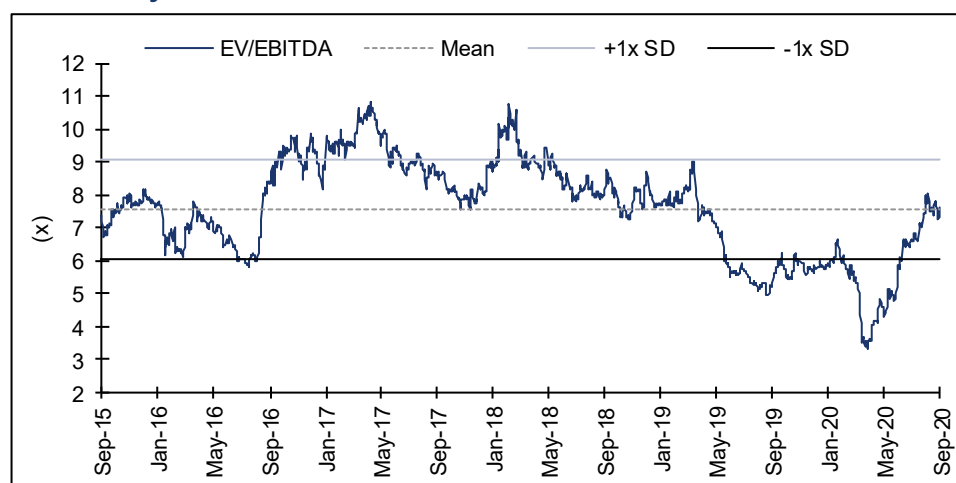
The stock currently trades at valuations of 12.7x FY22E and 11.2x FY23E earnings and EV/EBITDA multiples of 7.0x FY22E and 6.0x FY23E. We remain positive on the stock considering: 1) Strong growth potential in the specialty pharma business, 2) gradual ramp-up in *Ruby Fill* sales in the US, 3) improving revenue mix with higher growth in specialty pharma business, and 4) reduction in interest cost with deleveraging balance sheet. We have raised target EV/EBITDA for pharma business from 7x to 8x considering potential for additional business from COVID-19 related contracts. However, considering the recent rally in the stock price we downgrade to **HOLD** from **Add** with a revised target price of Rs822/share based on FY22E estimates for pharma and LSI segment EBITDA (earlier: Rs749/share).

Table 4: Sum of the parts (SoTP) valuation

Rs mn	FY22E EBITDA	(x)	Value
Pharma business (after R&D)	16,036	8.0	128,287
LSI	5,761	4.0	23,044
Enterprise value (EV)			151,331
Less: Net debt & MI			(20,324)
Market capitalisation			131,007
Value per share (Rs)			822

Source: Company data, I-Sec research

Chart 1: 1-year forward EV/EBITDA



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 5: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Total Gross Sales	91,544	96,525	103,275	110,618
Excise duty	-	-	-	-
Total Net Revenue	91,544	96,525	103,275	110,618
YoY Growth%	0.5	5.4	7.0	7.1
Total Op. Exp.	72,073	76,613	81,484	86,756
EBITDA	19,471	19,912	21,792	23,862
Margins %	21.3	20.6	21.1	21.6
YoY Growth%	3.3	2.3	9.4	9.5
Dep. & Amort.	4,619	5,082	5,425	5,793
EBIT	14,852	14,830	16,366	18,069
Other Income	474	522	574	631
Interest	2,874	2,765	2,525	2,285
EO Items	(346)	-	-	-
PBT	12,105	12,587	14,415	16,415
Tax	3,123	3,524	4,036	4,596
Tax Rate (%)	25.8	28.0	28.0	28.0
Minority Interest	(0)	-	-	-
Reported PAT	8,982	9,063	10,379	11,819
Adj PAT	9,239	9,063	10,379	11,819
Net Margins (%)	10.1	9.4	10.0	10.7

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Paid-up Capital	159	159	159	159
Reserves & Surplus	55,880	63,581	72,401	82,445
Total Equity	56,039	63,740	72,560	82,604
Minority Interest	-	-	-	-
Total Debt	48,084	44,084	40,084	36,084
Deferred Liabilities	522	522	522	522
Capital Employed	104,645	108,346	113,166	119,210
Current Liabilities	18,460	19,575	21,021	22,589
Total Liabilities	123,104	127,921	134,187	141,799
Net Fixed Assets	71,084	71,002	71,577	71,784
Investments	694	694	694	694
Inventory	18,454	19,616	20,863	22,213
Debtors	12,932	13,636	14,589	15,627
Other Current Assets	7,633	7,956	8,394	8,871
Cash and Equivalents	12,308	15,017	18,070	22,611
Total Cur. Assets	52,021	56,919	62,610	70,015
Total Assets	123,104	127,921	134,187	141,799

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
PBT (Adj. for Extraordinary)	12,105	12,587	14,415	16,415
Depreciation	4,619	5,082	5,425	5,793
Net Chg in WC	(1,797)	(1,292)	(1,488)	(1,616)
Taxes	(2,487)	(3,524)	(4,036)	(4,596)
Others	114	218	295	321
CFO	12,555	13,070	14,611	16,316
Capex	(5,676)	(5,000)	(6,000)	(6,000)
Net Investments made	199	-	-	-
Others	2,207	-	-	-
CFI	(3,270)	(5,000)	(6,000)	(6,000)
Change in Share capital	3	-	-	-
Change in Debts	(5,728)	(4,000)	(4,000)	(4,000)
Div. & Div Tax	(1,528)	(1,361)	(1,559)	(1,775)
Others	222	0	0	0
CFF	(7,031)	(5,361)	(5,559)	(5,775)
Total Cash Generated	2,254	2,709	3,053	4,541
Cash Opening Balance	10,054	12,308	15,017	18,070
Cash Closing Balance	12,308	15,017	18,070	22,611

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Adj EPS	58.0	56.9	65.2	74.2
YoY Growth%	8.1	(1.9)	14.5	13.9
Cash EPS	87.0	88.8	99.2	110.6
EBITDA - Core (%)	21.3	20.6	21.1	21.6
NPM (%)	10.1	9.4	10.0	10.7
Net Debt to Equity (x)	0.6	0.4	0.3	0.1
P/E (x)	14.3	14.6	12.7	11.2
EV/EBITDA Core (x)	8.5	8.0	7.0	6.0
P/BV (x)	2.4	2.1	1.8	1.6
EV/Sales (x)	1.8	1.7	1.5	1.3
RoCE (%)	11.1	10.3	10.9	11.5
RoE (%)	17.7	15.1	15.2	15.2
RoIC (%)	12.5	11.8	12.8	13.9
Book Value (Rs)	352	400	455	519
DPS (Rs)	7.0	7.1	8.1	9.3
Dividend Payout (%)	12.1	12.5	12.5	12.5
Div Yield (%)	0.8	0.9	1.0	1.1
Asset Turnover Ratio	0.8	0.8	0.8	0.8
Avg Collection days	51	50	50	50
Avg Inventory days	83	91	91	91

Source: Company data, I-Sec research

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