

Jubilant Life Sciences

Estimate change



TP change



Rating change



Bloomberg	JUBILANT IN
Equity Shares (m)	159
M.Cap.(INRb)/(USDb)	132.1 / 1.8
52-Week Range (INR)	910 / 230
1, 6, 12 Rel. Per (%)	-2/68/82
12M Avg Val (INR M)	290

Financials & valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	91.5	86.5	98.0
EBITDA	19.6	17.5	21.1
Adj. PAT	9.3	7.6	10.1
EBIT Margin (%)	16.4	14.8	16.2
Cons. Adj. EPS (INR)	59.8	48.7	64.8
EPS Gr. (%)	4.1	-18.6	33.1
BV/Sh. (INR)	359.7	403.5	461.9

Ratios

Net D:E	0.5	0.4	0.2
RoE (%)	17.9	12.8	15.0
RoCE (%)	11.7	9.4	11.1
Payout (%)	10.0	10.0	10.0

Valuations

P/E (x)	13.9	17.1	12.8
EV/EBITDA (x)	8.1	8.8	7.0
Div. Yield (%)	0.6	0.5	0.6
FCF Yield (%)	8.6	8.4	8.4
EV/Sales (x)	1.7	1.8	1.5

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	50.7	50.7	50.7
DII	1.6	1.9	4.6
FII	27.0	27.9	27.0
Others	20.8	19.5	17.7

FII Includes depository receipts

CMP: INR830
TP: INR975 (+18%)
Buy

COVID-19-led aberration for the quarter

Strong comeback expected over near-to-medium term

- Jubilant Life Sciences (JLS)'s 1QFY21 performance was adversely impacted due to COVID-19-led slowdown in demand for its Radiopharma and Life Science Chemicals (LSC) segment. The temporary 2M shutdown of its Nanjangud plant (used for the CDMO business) worsened the situation.
- We reduce our earnings estimate by 14%/2% for FY21/FY22 to factor the COVID-19-led impact on the business. We remain positive on JLS on the back of: 1) strong demand recovery in Specialty Pharma, CDMO, and Specialty Intermediates, 2) new product additions, and 3) improved operating leverage. We value JLS on an SOTP basis to arrive at target price of INR975. Reiterate Buy.

CDMO leads revenue decline in 1QFY21, hampered by COVID-19

- JLS' 1QFY21 revenues declined 13% YoY to INR18.9b (our est.: INR22.2b).
- The decline was largely led by an 18% YoY fall in pharmaceutical sales (INR11b; 58% of sales). Life Science ingredients (LSI) sales were also down 8.3% YoY to IN7.4b (39% of sales).
- The gross margin expanded 190bp YoY to 67.3% on a superior product mix.
- However, the EBITDA margin contracted by 460bps to 16% (our est.: 19.5%) on reduced operating leverage (employee cost / other expenses up 580bp/70bp YoY as a % of sales).
- Accordingly, EBITDA declined by 33%YoY to INR3b (our est.: INR4.3b).
- Adj. PAT fell 55% YoY to INR880m (our est.: INR1.9b).

Highlights from management commentary

- JLS has entered into licensing agreements for COVID-19-related drugs/vaccines, which would aid incremental revenue of INR500m for FY21 and INR2.5b for FY22, subject to approvals.
- Radiopharma sales are back at ~90% of pre-COVID-19 levels, after reaching lows of ~50% in April/May'20.
- JLS guided for double-digit growth in the LSI business, with higher EBITDA growth and healthy cash flows in FY21.
- Remediation has been completed for the Rourkee and Nanjangud facilities and is cleared by Canadian and Australian regulators.
- Net debt reduction stood at INR3.4b in 1QFY21.

Valuation and view

- We expect a 4% earnings CAGR over FY20–22, led by a 2.5%/3.5% sales CAGR in Specialty Pharma / Specialty Intermediates-Nutritional Products as well as a steady EBITDA margin. The earnings CAGR is partially impacted due to COVID-19-led temporary slowdown in the Radiopharma, CDMO, and Life Sciences Chemicals segments.
- We value JLS at 9x EV/EBITDA for the Pharma business and 4x EV/EBITDA for the LSI business, arriving at target price of INR975 on an SOTP basis. While the uptick in earnings growth is gradual (partly dented by COVID-19 in FY21), we remain positive on JLS on an attractive valuation of 7x FY22 EV/EBITDA. Maintain Buy.

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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.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Consolidated – Quarterly Earnings Model

(INR m)

Y/E March	FY20				FY21E				FY20	FY21E	FY21	vs Est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	21,819	22,659	23,152	23,914	18,929	21,012	22,788	23,769	91,544	86,498	22,159	-14.6
YoY Change (%)	5.0	-0.2	-2.6	0.2	-13.2	-7.3	-1.6	-0.6	0.5	-5.5	1.6	
Total Expenditure	17,332	17,975	18,078	18,548	15,907	16,810	17,889	18,420	71,933	69,026	17,838	-10.8
EBITDA	4,486	4,685	5,074	5,366	3,022	4,202	4,899	5,349	19,611	17,473	4,321	-30.1
YoY Change (%)	2.5	4.1	2.9	16.4	-32.6	-10.3	-3.4	-0.3	6.5	-10.9	-4	
Margins (%)	20.6	20.7	21.9	22.4	16.0	20.0	21.5	22.5	21.4	20.2	19.5	
Depreciation	1,027	1,168	1,135	1,289	1,123	1,160	1,170	1,185	4,619	4,638	1,140	
EBIT	3,460	3,516	3,940	4,077	1,899	3,042	3,729	4,163	14,992	12,834	3,181	-40.3
YoY Change (%)	-1.0	-2.5	-0.2	11.4	-45.1	-13.5	-5.3	2.1	1.9	-14.4	-8	
Margins (%)	15.9	15.5	17.0	17.0	10.0	14.5	16.4	17.5	16.4	14.8	14.4	-30.1
Interest	726	716	720	712	760	700	690	639	2,874	2,789	725	
Other Income	97	123	60	194	81	90	80	95	474	346	110	
PBT before EO expense	2,831	2,922	3,280	3,559	1,221	2,432	3,119	3,619	12,592	10,392	2,566	-52.4
Extra-Ord expense	140	0	346	0	0	0	0	0	486	0	0	
PBT	2,691	2,922	2,933	3,559	1,221	2,432	3,119	3,619	12,105	10,392	2,566	-52.4
Tax	841	428	899	955	341	657	867	941	3,123	2,806	680	-49.9
Rate (%)	31.2	14.7	30.7	26.8	27.9	27.0	27.8	26.0	25.8	27.0	26.5	
Reported PAT	1,850	2,494	2,034	2,605	880	1,776	2,252	2,678	8,982	7,586	1,886	-53.3
Adj PAT	1,947	2,494	2,274	2,605	880	1,776	2,252	2,678	9,319	7,586	1,886	-53.3
YoY Change (%)	-2.9	18.9	-13.7	17.4	-54.8	-28.8	-1.0	2.8	4.1	-18.6	-3.1	
Margins (%)	8.9	11.0	9.8	10.9	4.6	8.5	9.9	11.3	10.2	8.8	8.5	

Key performance Indicators (Consolidated)

Y/E March	FY20E				FY21E				FY20	FY21E	FY21
INRb	1Q	2Q	3Q	4QE	1Q	2QE	3QE	4QE			1QE
Pharma(ex-Triad)	10.0	11.3	11.1	11.5	7.9	9.8	10.8	12.6	44.0	41.0	11.0
YoY Growth (%)	16.1	12.5	-0.4	6.7	-21.5	12.0	25.0	9.3	8.3	-6.8	41.0
Triad sales	3.2	3.2	3.4	3.3	3.1	2.9	3.1	2.0	13.1	11.1	3.1
LSI	8.1	7.5	8.0	8.2	7.4	7.7	8.2	8.3	31.8	31.6	7.2
YoY Growth (%)	-4.9	-15.1	-11.3	-9.8	-8.3	2.0	3.0	1.3	(10.3)	(0.6)	(10.0)
DDS	0.6	0.6	0.7	0.9	0.6	0.7	0.7	0.8	2.6	2.7	0.8
YoY Growth (%)	20.7	21.3	25.7	25.3	8.4	25.0	24.0	-9.8	20.7	4.0	25.0
Cost Break-up											
RM Cost (% of Sales)	34.6	34.1	33.4	35.1	32.7	33.4	34.3	34.5	34.3	33.8	35.5
Staff Cost (% of Sales)	23.1	23.0	23.3	23.5	28.9	26.3	24.7	23.8	89.0	93.3	23.5
R&D Cost (% of Pharma Sales)	4.3	3.9	3.8	4.0	4.3	3.9	3.8	4.0	4.5	5.5	4.3
Other Cost (% of Sales)	21.7	22.2	21.4	18.9	22.4	20.3	19.5	18.9	21.0	20.2	21.5
Gross Margins(%)	65.4	65.9	66.6	64.9	67.3	66.6	65.7	65.5	65.7	66.2	64.5
EBITDA Margins(%)	20.6	20.7	21.9	22.4	16.0	20.0	21.5	22.5	21.4	20.2	19.5
EBIT Margins(%)	15.9	15.5	17.0	17.0	10.0	14.5	16.4	17.5	16.4	14.8	14.4



Conference call highlights

- Two proprietary drugs would enter Phase 1 clinical trials in FY22. Phase I would be funded from internal accruals, post which the company may look at licensing.
- The CDMO business was impacted as the API manufacturing plant was closed down for 2M as a person working in the plant was tested COVID-positive. The plant is now operating at normal levels. Growth would be driven by higher demand / better prices, and supported by the recent completion of the debottlenecking exercise.
- Remdesivir was launched in India in the first week of Aug. The company plans to double capacity in the next two months from ~200k vials/month currently.

- The company has entered into a licensing agreement for one of its products in Radiopharma, used as an imaging agent for Rheumatoid Arthritis. The product would enter Phase 3 trials.

Key exhibits

Exhibit 1: Ex-Triad, Pharma sales drop ~22%YoY

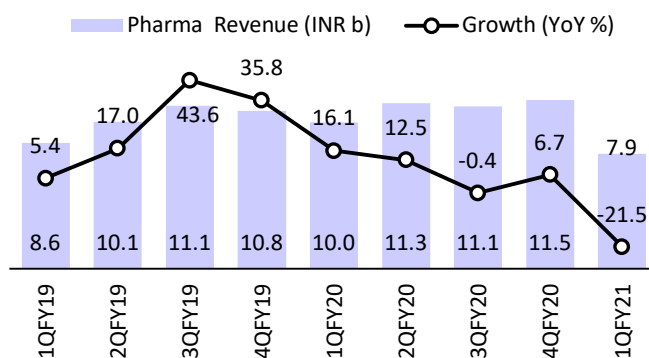


Exhibit 2: Pharma (Ex-Triad) margins down 1030bp YoY

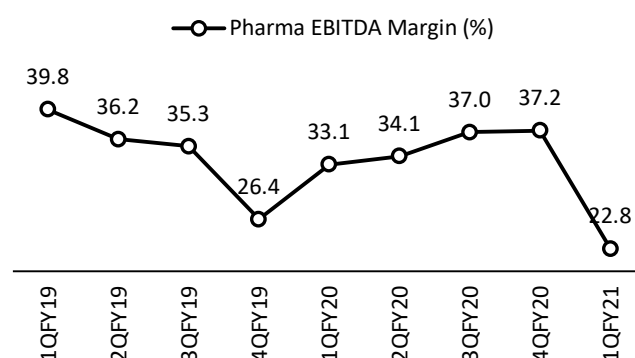
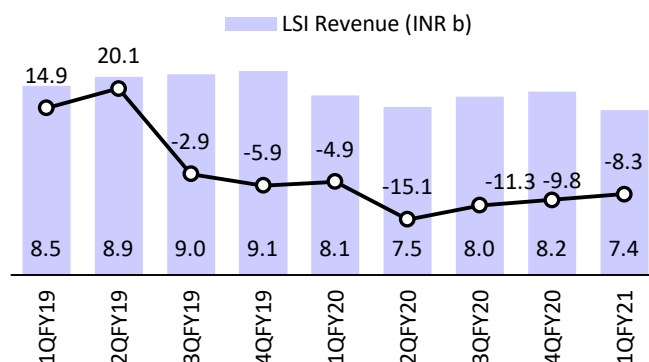
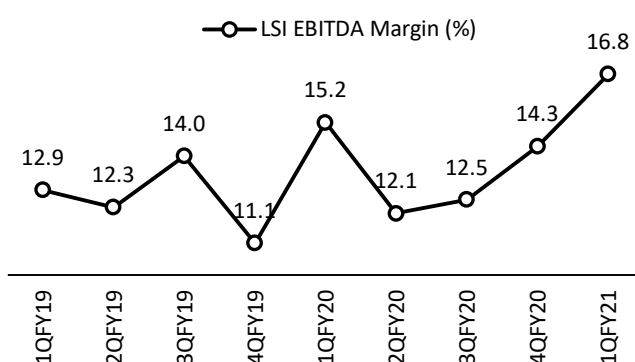


Exhibit 3: LSI sales continues to decline YoY



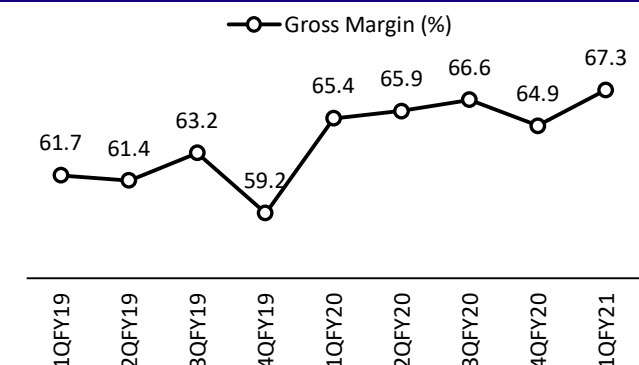
Source: MOFSL, Company

Exhibit 4: LSI's EBITDA margin up 160bp YoY / 250bp QoQ



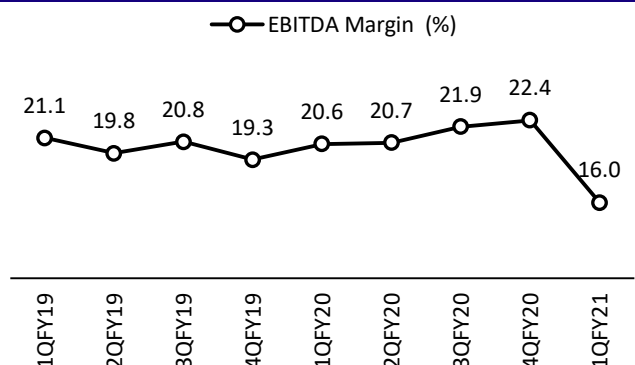
Source: MOFSL, Company

Exhibit 5: Overall gross margin up 190bp YoY



Source: MOFSL, Company

Exhibit 6: Overall EBITDA margin declines 460bp YoY



Source: MOFSL, Company

Exhibit 7: Debt profile

Particulars (INR m)	2QFY20	3QFY20	4QFY20	1QFY21
Gross Debt	45,940	40,480	46,560	44,290
Cash & Cash Equivalent	13,630	6,870	14,000	15,230
Net Debt	31,450	32,730	32,560	29,060

Source: MOFSL, Company

Valuation and view

Speedy recovery in Pharma

- 1QFY21 Pharma sales declined 18% YoY due to a 19% YoY sales reduction in CDMO (25% of Pharma sales) and 26% YoY sales decline in Specialty Pharma (49% of Pharma sales). This was partially offset by 9% YoY growth in Generics sales (26% of Pharma sales).
- The CDMO business was impacted due to the suspension of the Nanjangud API plant for 2M. However, is expected to perform well for the remainder of the year, driven by the resumption of operations at the plant, strong demand, and better prices. JLS has a strong order book for sustained momentum in the CDMO business. In fact, it has contracts in place for fill-finish activities with regard to COVID-19 drugs/vaccines. Subject to approval, this would add sales of INR500m in FY21 and INR2.5b in FY22.
- New product introductions, better volumes, and favorable prices are expected to drive the Radiopharma and Allergy businesses going forward. Overall, we expect a 3% CAGR to INR60b in Pharma over FY20–22. This is because some amount of growth is expected to be offset by a muted performance in Generics on account of regulator issues.

Gradual improvement expected in LSC segment

- LSI sales fell 8% YoY, largely due to a 16% YoY fall in LSC revenue (45% of LSI sales). This is largely attributable to COVID-19-led slowdown in demand for a major product (Ethyl Acetate) as well as a significant drop in the price of Acetic Acid. However, demand has since improved due to the opening up of the economy. With the situation gradually improving in LSC and sustained momentum in Specialty Intermediates / Nutritional Products, we expect a 5% sales CAGR in the LSI segment to INR35b over FY20–22.

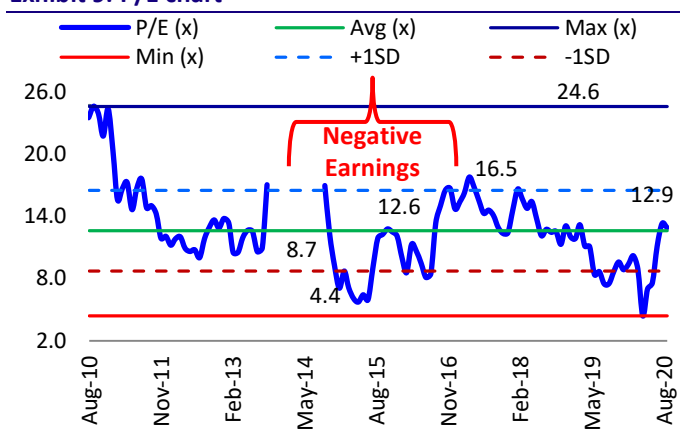
Valuation and view

- Overall, we expect a 4% earnings CAGR over FY20–22, led by a 2.5%/3.5% sales CAGR in Specialty Pharma / Specialty Intermediates-Nutritional Products as well as a steady EBITDA margin. The earnings CAGR is partially impacted due to a COVID-19-led temporary slowdown in the Radiopharma, CDMO, and Life Sciences Chemicals segments.
- We value JLS at 9x EV/EBITDA for the Pharma business and 4x EV/EBITDA for the LSI business, arriving at target price of INR975 on an SOTP basis. While the uptick in earnings growth is gradual (partly dented by COVID-19 in FY21), we remain positive on JLS on an attractive valuation of 7x FY22 EV/EBITDA. Maintain Buy.

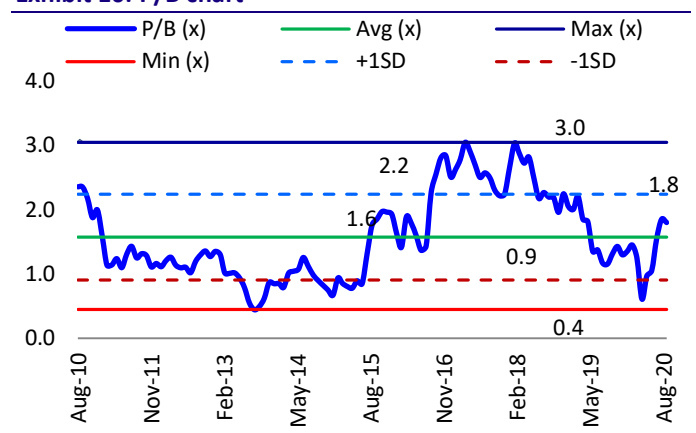
Exhibit 8: SOTP-based price target of INR975 per share

Valuation	12M forward
EBITDA of Pharma business (INR m)	17,342
EV/EBITDA multiple for JOL	9
EV of Pharma (INR m)	1,62,151
EBITDA of LSI business (INR m)	4,348
EV/EBITDA multiple for JOL	4
EV of LSI (INR m)	19,131
Total EV (INR m)	1,81,282
Net Debt	29,060
Market Cap (INR m)	1,52,222
Target Price (INR per share)	975
CMP	832
Potential upside (%)	17

Source: MOFSL, Company

Exhibit 9: P/E chart

Source: MOFSL, Company, Bloomberg

Exhibit 10: P/B chart

Source: MOFSL, Company, Bloomberg

Financials and valuations

Consol. – 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	86,498	98,019
Change (%)	12.3	0.4	-1.3	2.0	28.9	20.5	0.5	-5.5	13.3
Total Expenditure	47,958	51,370	45,022	45,161	60,394	72,688	71,933	69,026	76,945
% of Sales	82.6	88.2	78.3	77.0	79.9	79.8	78.6	79.8	78.5
EBITDA	10,076	6,893	12,470	13,453	15,184	18,420	19,611	17,473	21,074
Margin (%)	17.4	11.8	21.7	23.0	20.1	20.2	21.4	20.2	21.5
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	12,834	15,921
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	346	343
PBT bef. EO Exp.	4,218	884	5,422	7,376	9,501	12,870	12,592	10,392	13,649
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	10,392	13,649
Total Tax	696	805	1,554	1,630	2,247	3,268	3,123	2,806	3,549
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	7,586	10,100
Adjusted PAT	2,515	-1,057	3,918	5,757	7,100	8,955	9,319	7,586	10,100
Change (%)	-2.9	-142.0	-470.8	46.9	23.3	26.1	4.1	-18.6	33.1
Margin (%)	4.3	-1.8	6.8	9.8	9.4	9.8	10.2	8.8	10.3

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	62,708	71,800
Net Worth	26,265	24,535	29,663	34,361	40,865	48,089	56,039	62,867	71,959
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	105,289	112,280
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	49,427	58,202
Inventory	13,414	12,353	12,031	12,204	13,914	14,174	18,454	13,460	15,178
Account Receivables	8,059	8,193	9,505	10,053	11,308	12,716	12,932	12,072	14,233
Cash and Bank Balance	4,795	3,944	3,446	4,596	2,488	13,704	13,999	18,249	22,393
Loans and Advances	6,318	6,225	4,403	3,202	4,912	5,947	5,942	5,646	6,398
Curr. Liability & Prov.	14,471	11,342	12,038	14,122	18,747	17,141	22,643	16,276	18,006
Account Payables	7,498	7,669	6,328	7,909	11,362	10,201	10,903	9,687	10,540
Other Current Liabilities	2,205	2,028	3,487	4,425	5,897	5,109	9,245	4,850	5,496
Provisions	4,768	1,645	2,222	1,788	1,488	1,831	2,495	1,738	1,970
Net Current Assets	18,116	19,372	17,348	15,933	13,874	29,400	28,684	33,151	40,196
Appl. of Funds	74,168	74,847	75,359	74,865	75,825	96,049	100,461	105,289	112,280

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	48.7	64.8
Cash EPS	34.2	11.7	47.4	55.7	65.7	80.8	89.5	78.5	97.9
BV/Share	168.6	157.5	190.4	220.5	262.3	308.7	359.7	403.5	461.9
DPS	3.0	3.1	3.1	3.1	3.1	3.1	4.8	4.0	5.4
Payout (%)	49.9	-99.6	14.7	10.0	8.9	10.0	10.0	10.0	10.0
Valuation (x)									
P/E	51.5	-122.7	33.1	22.5	18.5	14.6	13.9	17.1	12.8
Cash P/E	24.3	71.1	17.6	15.0	12.7	10.3	9.3	10.6	8.5
P/BV	4.9	5.3	4.4	3.8	3.2	2.7	2.3	2.1	1.8
EV/Sales	2.9	3.0	3.0	2.8	2.2	1.8	1.7	1.8	1.5
EV/EBITDA	16.8	25.2	13.7	12.3	10.7	8.9	8.1	8.8	7.0
Dividend Yield (%)	0.4	0.4	0.4	0.4	0.4	0.4	0.6	0.5	0.6
FCF per share	33.9	27.9	48.8	51.7	52.6	30.4	62.6	60.7	61.1
Return Ratios (%)									
RoE	9.9	-4.2	14.5	18.0	18.9	20.1	17.9	12.8	15.0
RoCE	7.2	-6.2	8.9	11.2	12.1	11.2	11.7	9.4	11.1
RoIC	7.6	-6.2	9.9	12.9	13.7	13.6	14.8	11.7	14.0
Working Capital Ratios									
Fixed Asset Turnover (x)	1.1	1.1	1.6	1.5	1.7	1.8	1.5	1.2	1.3
Asset Turnover (x)	0.8	0.8	0.8	0.8	1.0	0.9	0.9	0.8	0.9
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	39
Leverage Ratio (x)									
Current Ratio	2.3	2.7	2.4	2.1	1.7	2.7	2.3	3.0	3.2
Interest Cover Ratio	2.2	1.1	2.4	3.1	4.2	6.7	5.2	4.6	6.1
Net Debt/Equity	1.5	1.8	1.4	1.0	0.8	0.7	0.5	0.4	0.2

Consol. – 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	10,392	13,649
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	2,443	2,271
Direct Taxes Paid	-809	-793	-481	-1,439	-2,578	-3,433	-2,487	-2,806	-3,549
(Inc)/Dec in WC	-1,107	964	-1,332	369	142	-3,005	-1,797	-217	-2,901
CF from Operations	6,153	6,945	10,763	12,543	13,096	8,397	15,100	14,450	14,625
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	14,450	14,625
(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	9,450	9,525
(Pur)/Sale of Investments	-63	-42	257	74	-116	0	199	0	0
Others	156	-125	76	-126	-1,175	-92	846	346	343
CF from Investments	-2,344	-3,658	-3,059	-4,676	-6,129	-6,573	-4,631	-4,654	-4,757
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	-757	-1,009
CF from Fin. Activity	-4,144	-5,027	-8,427	-6,859	-9,011	6,574	-10,504	-5,546	-5,723
Inc/Dec of Cash	1,235	-852	-498	1,150	-2,108	11,216	295	4,250	4,145
Opening Balance	3,561	4,795	3,944	3,446	4,596	2,488	13,704	13,999	18,249
Closing Balance	4,795	3,944	3,446	4,596	2,488	13,704	13,999	18,249	22,393

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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