

Reduce

Strong quarter; business sell-off captures value

JBCPL reported a strong Q4, led by 25% growth in domestic formulations (pre-emptive buying), however, logistical challenges led to de-growth in exports (down 7% YoY). EBITDA margins at 21.4% (up 210 bps YoY) was led by better product mix and cost optimization. Management guided for a soft Q1 for domestic (slowdown in acute segment) though it expects to outperform IPM and guided recovery in exports in FY21E. Further, it remains confident of its growth in the medium term led by newer launches in India, traction in CMO and its export branded generics markets with sustenance of healthy EBITDA margins at 20%+.

Private equity player, KKR will acquire 54% controlling stake as promoter family tender in their shares for Rs745/share. This will trigger an open offer for 26% additional shares. If the open offer is not fully tendered, then the promoter family will tender the difference from their remaining 17% stake at Rs745/share. The deal has been capped with foreign ownership having a controlling stake of 65%. Of the current promoter family, Mr. Pranabh Mody, Mr. Nirav Mody and Mr. Jai Mehta will act as a guiding force for a smooth transition. The family will also retain a board seat. However, KKR could possibly hire new leaders to run the business. Besides, the Mody family has also signed a non-compete deal.

Outlook and Valuation: Over the past 2 years, management's execution on the India business has significantly improved driven by an expanded sales force and restructuring of the domestic divisions. As JBCPL consolidates its expanded field-force (1600 MRs) over the next few years, we believe improving MR productivity, higher volume growth and an aggressive step up in exports shall drive the business at 12-13% CAGR over the next few years.

While we remain confident of KKR's ability to drive business, the buyout transition gives lower visibility of new management at this point. Further, the recent run-up in the stock price has narrowed the gap to a considerable extent (trading at 19.1x FY21E and 16.8x FY22E). While we do reckon the strong FCF generation and no major capex requirements in the near term, we see limited scope of re-rating. Maintain Reduce.

Q4FY20 Result (₹ Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	4,436	4,189	5.9	4,286	3.5
Total Expense	3,518	3,539	(0.6)	3,390	3.8
EBITDA	917	650	41.1	896	2.4
Depreciation	174	116	49.9	167	3.8
EBIT	743	534	39.2	728	2.1
Other Income	32	157	(79.7)	164	(80.6)
Interest	5	8	(36.4)	9	(41.5)
EBT	670	704	(4.8)	884	(24.2)
Tax	170	215	(21.1)	219	(22.7)
RPAT	501	489	2.3	664	(24.6)
APAT	401	510	(21.5)	664	(39.7)
			(bps)		(bps)
Gross Margin (%)	66.9	60.9	600	64.9	194
EBITDA Margin (%)	20.7	15.5	516	20.9	(22)
NPM (%)	11.3	11.7	(39)	15.5	(421)
Tax Rate (%)	25.3	30.5	(522)	24.8	48
EBIT Margin (%)	16.8	12.8	401	17.0	(23)

CMP	Rs 719
Target / Downside	Rs 688 / 4%
BSE Sensex	36,514
NSE Nifty	10,764

Scrip Details

Equity / FV	Rs 155mn / Rs 2
Market Cap	Rs 56bn
	US\$ 745mn
52-week High/Low	Rs 744/Rs 315
Avg. Volume (no)	316,930
NSE Symbol	JBCHEPHARM
Bloomberg Code	JBCP IN

Shareholding Pattern Mar'20(%)

Promoters	55.9
MF/Banks/FIs	14.6
FII	7.2
Public / Others	22.4

Valuation (x)

	FY20A	FY21E	FY22E
P/E	19.7	19.0	16.7
EV/EBITDA	13.8	12.6	10.7
ROE (%)	18.7	21.4	24.0
RoACE (%)	18.3	19.9	22.2

Estimates (₹ mn)

	FY20A	FY21E	FY22E
Revenue	17,747	19,452	21,747
EBITDA	3,776	4,196	4,783
PAT	2,824	2,920	3,324
EPS (Rs.)	36.5	37.8	43.0

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Exhibit 1: Revenue mix

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Domestic Formulations	1,847	1,491	23.9	1,687	9.5	7,357	6,225	18.2
Contrast Media	174	128	35.8	153	13.7	615	521	18.1
Branded generic exports	1,382	1,285	7.5	1,561	(11.4)	5,308	4,825	10.0
US	319	432	(26.2)	350	(8.9)	1,423	1,792	(20.6)
CMO	417	444	(6.1)	280	48.9	1,726	1,671	3.3
API	129	253	(49.1)	178	(27.4)	765	835	(8.4)
Others	168	156	7.8	78	115.7	383	823	(53.4)
Gross revenues	4,436	4,189	5.9	4,286	3.5	17,577	16,692	5.3

Source: Company, DART

Concall highlights:

Domestic formulations: The India business (46% of sales) registered 25% YoY growth in Q4 and 18% YoY growth in FY20, aided by sales from top 3 products—Metrogyl, Cilacar and Nocardia. Volumes of Ranitidine were slow impacted by the NDMA impurity issue. JBCPL’s therapeutic focus in India remains on gastrointestinal, cardiac, and pain management therapies with the top 4 products contributing 80% of sales. With a field force of ~2000, it has been at par with the average in industry in terms of the productivity ratio (~Rs4mn). With restructured divisions, the company has created capacity to handle more products efficiently. It plans to expand its domestic business through focused MR training, product promotion and new launches. While Q1 will be a soft quarter, we expect swift recovery in domestic business from 2HFY21 onwards.

US: The Company has 16 approved ANDAs of which 6 are actively marketed in the US. Further, 3 ANDAs are pending approval and the management has guided 2 ANDA filings and 1 launch per year. Q4 was soft owing to lower volumes in Ranitidine and logistic issues during the end of the quarter. At a revenue base of US\$20mn (8% of sales) in FY20, JBCPL still has a lot to catch up in the US. With better currency realization and a swift ramp up in commercialization, we expect JBCPL to be a benefactor of the demand-supply mismatch in the US.

Branded formulations: JBCPL reported 10% YoY growth in FY20, 30% of total sales. Major markets include

- (1) **South Africa** (combination of private and tender market). Currently, it has 40 MRs in South Africa. The existing portfolio encompasses multiple therapies such as CVS, GI, derma and respiratory, etc. and has not faced significant price erosion due to the absence of ARV products.
- (2) **Russia/CIS:** After the sale of the OTC business, the company markets its prescription products in Russia and CIS. Earlier, the company distributed products through its subsidiary; however, the company has recently started to market the products on its own, resulting in better margins. It currently has 8-10 registered products, 4-5 products approved and expected to launch in FY21E. With ~60+ MRs, the management does not envisage any major capex in this region. The major focus is on key therapeutic segments, viz. derma, cough & cold, gastro and contrast (imaging).
- (3) **Other markets:** South-east Asia, Africa, Australia are other markets which is a combination of branded formulations and contract manufacturing.

CRAMS: Apart from contract from Cilag (J&J), the Company has major 4 contracts: 2 in Australia, and 1 in Europe for manufacturing lozenges and tablets. Russian CMO sales to Cilag (J&J) accounted for ~Rs1.7bn in FY20 (up 3% YoY, 10% of sales). While 4Q was subdued due to lower offtake, J&J is expected to ramp up stock in the next 2 quarters. Growth will be driven by the expanded product portfolio and the expanded capacity with the new facility at Panoli.

Loss of API business impacts growth: Diclofenac sodium is one of the major API products for JBCPL. The business suffered low offtake from Novartis, one of the major customers (due to the business acquisition from one company to another), owing to lower registrations for formulation supply. We believe the country-wise product registrations will take some time (down 17% YoY in FY20) and shall recover from FY21E onwards.

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	16,432	17,747	19,452	21,747
Total Expense	13,378	13,972	15,256	16,964
COGS	5,965	6,308	6,938	7,693
Employees Cost	2,882	3,229	3,446	3,818
Other expenses	4,532	4,434	4,872	5,453
EBIDTA	3,054	3,776	4,196	4,783
Depreciation	557	663	727	764
EBIT	2,497	3,113	3,469	4,018
Interest	42	30	26	19
Other Income	414	507	459	442
Exc. / E.O. items	0	(100)	0	0
EBT	2,870	3,489	3,902	4,442
Tax	930	765	982	1,118
RPAT	1,940	2,724	2,920	3,324
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,940	2,824	2,920	3,324

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	160	155	155	155
Minority Interest	28	25	25	25
Reserves & Surplus	14,641	14,200	12,793	14,643
Net Worth	14,801	14,355	12,948	14,797
Total Debt	258	320	320	320
Net Deferred Tax Liability	728	759	833	889
Total Capital Employed	15,815	15,459	14,126	16,032

Applications of Funds

Net Block	5,678	5,981	5,617	5,202
CWIP	682	693	693	725
Investments	959	730	660	730
Current Assets, Loans & Advances	10,591	10,731	9,849	12,135
Inventories	2,438	2,747	2,702	2,728
Receivables	3,093	3,454	3,409	3,526
Cash and Bank Balances	368	309	(488)	1,566
Loans and Advances	109	46	51	57
Other Current Assets	977	837	837	920
Less: Current Liabilities & Provisions	2,095	2,677	2,693	2,761
Payables	828	1,238	1,224	1,292
Other Current Liabilities	1,268	1,439	1,468	1,469
<i>sub total</i>				
Net Current Assets	8,496	8,055	7,156	9,374
Total Assets	15,815	15,459	14,126	16,032

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	63.7	64.5	64.3	64.6
EBIDTA Margin	18.6	21.3	21.6	22.0
EBIT Margin	15.2	17.5	17.8	18.5
Tax rate	32.4	21.9	25.2	25.2
Net Profit Margin	11.8	15.3	15.0	15.3
(B) As Percentage of Net Sales (%)				
COGS	36.3	35.5	35.7	35.4
Employee	17.5	18.2	17.7	17.6
Other	27.6	25.0	25.0	25.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	59.5	102.7	135.3	209.1
Inventory days	54	56	51	46
Debtors days	69	71	64	59
Average Cost of Debt	15.2	10.5	8.0	6.0
Payable days	18	25	23	22
Working Capital days	189	166	134	157
FA T/O	2.9	3.0	3.5	4.2
(D) Measures of Investment				
AEPS (Rs)	25.1	36.5	37.8	43.0
CEPS (Rs)	32.3	45.1	47.2	52.9
DPS (Rs)	2.5	13.2	13.2	13.2
Dividend Payout (%)	9.9	36.1	34.9	30.7
BVPS (Rs)	191.5	185.7	167.5	191.5
RoANW (%)	13.3	18.7	21.4	24.0
RoACE (%)	12.7	18.3	19.9	22.2
RoAIC (%)	16.4	20.3	23.3	27.6
(E) Valuation Ratios				
CMP (Rs)	719	719	719	719
P/E	28.7	19.7	19.0	16.7
Mcap (Rs Mn)	55,593	55,593	55,593	55,593
MCap/ Sales	3.4	3.1	2.9	2.6
EV	51,876	52,266	53,063	51,009
EV/Sales	3.2	2.9	2.7	2.3
EV/EBITDA	17.0	13.8	12.6	10.7
P/BV	3.8	3.9	4.3	3.8
Dividend Yield (%)	0.3	1.8	1.8	1.8
(F) Growth Rate (%)				
Revenue	16.3	8.0	9.6	11.8
EBITDA	40.5	23.6	11.1	14.0
EBIT	55.8	24.6	11.4	15.8
PBT	48.0	21.6	11.8	13.8
APAT	39.8	45.6	3.4	13.8
EPS	39.8	45.6	3.4	13.8
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	2,289	3,513	3,843	3,995
CFI	(576)	(480)	(293)	(452)
CFF	(1,645)	(3,091)	(4,347)	(1,490)
FCFF	1,713	3,033	3,550	3,543
Opening Cash	299	368	309	(488)
Closing Cash	368	309	(488)	1,566

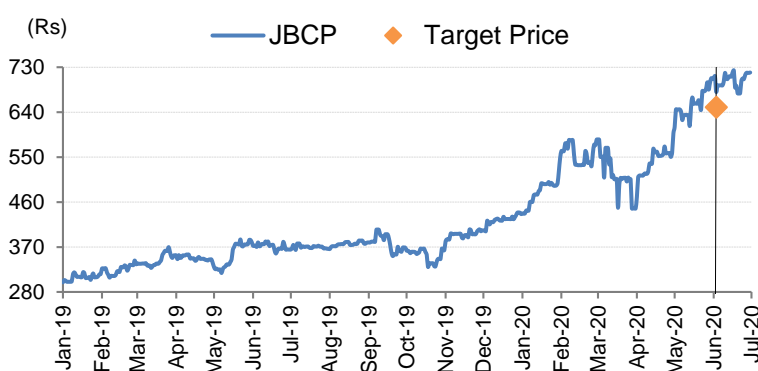
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jun-20	Reduce	650	681

**Price as on recommendation date*

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