

Accumulate

Growth driven by Cilacar and Nicardia

JBCPL reported a strong Q1, led by 8.6% YoY growth in domestic formulations (11% QoQ despite a high base) vs IPM de-growth of 5%. The sharp growth was driven by cardiac portfolio (up 24%)– Cilacar and Nicardia as acute declined 1% YoY. Exports (both formulations and API) grew 28% YoY led by higher stocking. Improved product mix coupled with lower opex led EBITDA margins surge to 34% (up 980 bps YoY). Management expects to outperform IPM growth and sustenance in export growth 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%+.

Outlook and Valuation

As private equity, KKR takes charge of the company, there have been new inductions at the leadership level. As per media articles, Mr. Nikhil Chopra, ex-CEO of Cipla's India business will be heading the JB Chem team. We have assumed a flattish EBITDA in FY22E as we believe the management transition and business restructuring would take some time. Starting FY23E, we believe the cost efficiency benefits would kick in along with newer product launches in India. This should aid in margin expansion. We pencil in 110 bps improvement in EBITDA margins at 24.5% in FY23E. Strong FCF generation and no major capex requirements in the near term could be used for inorganic expansion. We assume JB Chemicals to report 11% revenue CAGR and 15% CAGR at bottom-line with improving operating performance over FY20-23E. At CMP, the stock is trading at 21x FY22 and 18x FY23 EPS of Rs45.6 and Rs53.8 respectively. Upgrade to Accumulate with a target price of Rs1,130.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	5,223	4,461	17.1	4,436	17.7
Total Expense	3,669	3,501	4.8	3,518	4.3
EBITDA	1,554	960	61.9	917	69.4
Depreciation	173	158	9.5	174	(0.5)
EBIT	1,381	802	72.3	743	85.8
Other Income	227	126	80.0	32	614.9
Interest	37	8	366.0	5	650.8
EBT	1,571	920	70.8	670	134.4
Tax	376	299	25.7	170	121.6
RPAT	1,195	621	92.4	501	138.7
APAT	1,195	621	92.4	401	198.2
			(bps)		(bps)
Gross Margin (%)	64.3	62.6	172	66.9	(252)
EBITDA Margin (%)	29.8	21.5	824	20.7	908
NPM (%)	22.9	13.9	896	11.3	1159
Tax Rate (%)	23.9	32.5	(856)	25.3	(138)
EBIT Margin (%)	26.4	18.0	847	16.8	969

CMP	Rs 971
Target / Upside	Rs 1,130 / 16%
BSE Sensex	39,292
NSE Nifty	11,605

Scrip Details

Equity / FV	Rs 155mn / Rs 2
Market Cap	Rs 75bn
	US\$ 1bn
52-week High/Low	Rs 985/Rs 315
Avg. Volume (no)	398,048
NSE Symbol	JBCHEPHARM
Bloomberg Code	JBCP IN

Shareholding Pattern Jun'20(%)

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

Valuation (x)

	FY20A	FY21E	FY22E
P/E	26.6	23.4	21.3
EV/EBITDA	19.0	15.5	13.5
ROE (%)	18.7	21.2	21.0
RoACE (%)	18.3	19.9	19.8

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	17,747	19,404	21,829
EBITDA	3,776	4,537	5,089
PAT	2,820	3,201	3,526
EPS (Rs.)	36.5	41.4	45.6

VP - Research: Sapna Jhawar

Tel: +9122 40969724

E-mail: sapnai@dolatcapital.com

Associate: Zain Gulam Hussain

Tel: +9122 40969724

E-mail: zain@dolatcapital.com

Business highlights

Domestic formulations: The India business (44% of sales) registered 8.6% YoY growth in Q1 aided by sales from top 2 products—Cilacar and Nicardia. Volumes of Ranitidine were slow impacted by the NDMA impurity issue and Metrogl was impacted due to slower offtake in acute drugs. 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. As per the AOICD numbers, JB Chemicals' chronic portfolio reported strong growth in July and August led by price hikes, indicating a robust Q2. We expect domestic formulations to grow at 11% CAGR over FY20-23E.

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. 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: 30% of total sales. Major markets include

- **South Africa** (combination of private and tender market). Sales in Q1 grew 40% YoY driven by higher sales in private 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.
- **Russia/CIS:** Sales in Q1 de-grew 33% YoY due to COVID-19 led lockdown. Sales should stabilize from 2HFY21 onwards. 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).
- **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). Higher offtake in Q1 aided export formulations. Growth will be driven by the expanded product portfolio and the expanded capacity with the new facility at Panoli.

API business spikes up: After many quarters of de-growth/low growth, API business grew 47% YoY in Q1. Normalization in diclofenac sodium supplies (issues at distributor end resolved) led the growth. Further, higher demand from APIs due to supply disruption also contributed.

Exhibit 1: Revenue break-up

Rs mn	Q1FY21	Q1FY20	YoY (%)
Domestic Formulations	2,109	1,929	9.3
Contrast Media	136	138	(1.2)
Export formulations	1,980	1,480	33.8
API	278	189	47.0
Subsidiary sales	580	560	3.6
Others	61	54	11.8
Gross revenues	5,144	4,350	18.2

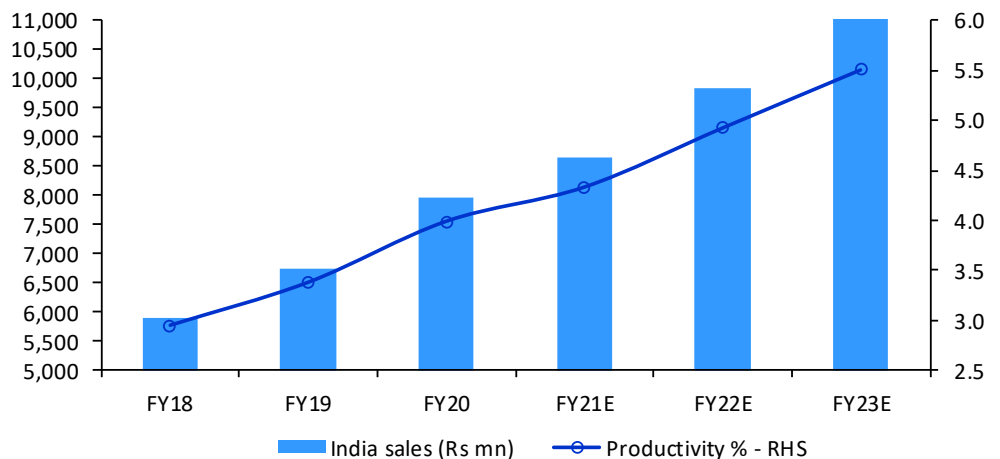
Source: Company, DART

Exhibit 2: Key products growth

Particulars	FY18	FY19	FY20	Aug-20
Cilacar	1,459	1,990	2,439	2,610
Nicardia	535	520	896	936
Rantac	1,611	1,590	1,845	1,910
Metrogyl	620	920	811	879

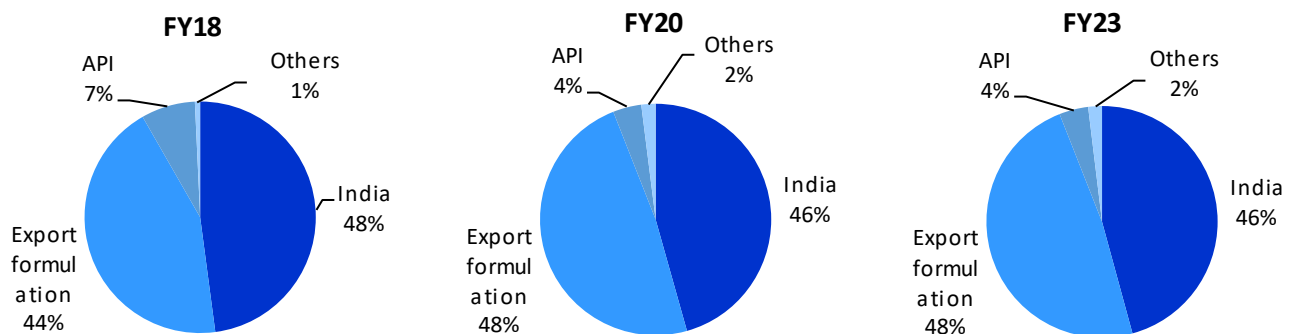
Source: Company, DART

Exhibit 3: India sales and productivity



Source: Company, DART

Exhibit 4: Revenue break up (%)



Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	16,432	17,747	19,404	21,829
Total Expense	13,374	13,972	14,867	16,740
COGS	5,965	6,308	6,855	7,669
Employees Cost	2,882	3,229	3,530	3,870
Other expenses	4,527	4,434	4,482	5,201
EBIDTA	3,058	3,776	4,537	5,089
Depreciation	556	663	699	791
EBIT	2,502	3,113	3,838	4,298
Interest	46	30	26	19
Other Income	414	507	471	439
Exc. / E.O. items	0	(100)	0	0
EBT	2,870	3,489	4,283	4,718
Tax	930	765	1,078	1,188
RPAT	1,935	2,720	3,201	3,526
Minority Interest	5	3	4	4
Profit/Loss share of associates	0	0	0	0
APAT	1,935	2,820	3,201	3,526

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	15,703	17,531
Net Worth	14,801	14,355	15,858	17,685
Total Debt	258	320	320	320
Net Deferred Tax Liability	728	759	809	864
Total Capital Employed	15,815	15,459	17,012	18,895

Applications of Funds

Net Block	5,678	5,981	5,632	5,191
CWIP	682	693	709	727
Investments	959	695	651	753
Current Assets, Loans & Advances	10,600	10,767	12,746	14,993
Inventories	2,438	2,747	2,877	3,047
Receivables	3,082	3,454	3,738	4,064
Cash and Bank Balances	368	309	1,783	3,432
Loans and Advances	103	82	90	100
Other Current Assets	1,003	837	920	1,012
Less: Current Liabilities & Provisions	2,105	2,677	2,726	2,769
Payables	1,174	1,238	1,262	1,297
Other Current Liabilities	931	1,439	1,464	1,472
		<i>sub total</i>		
Net Current Assets	8,496	8,090	10,020	12,224
Total Assets	15,815	15,459	17,012	18,895

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	63.7	64.5	64.7	64.9
EBIDTA Margin	18.6	21.3	23.4	23.3
EBIT Margin	15.2	17.5	19.8	19.7
Tax rate	32.4	21.9	25.2	25.2
Net Profit Margin	11.8	15.3	16.5	16.2
(B) As Percentage of Net Sales (%)				
COGS	36.3	35.5	35.3	35.1
Employee	17.5	18.2	18.2	17.7
Other	27.6	25.0	23.1	23.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	53.8	102.7	149.7	223.6
Inventory days	54	56	54	51
Debtors days	68	71	70	68
Average Cost of Debt	16.9	10.5	8.0	6.0
Payable days	26	25	24	22
Working Capital days	189	166	188	204
FA T/O	2.9	3.0	3.4	4.2
(D) Measures of Investment				
AEPS (Rs)	25.0	36.5	41.4	45.6
CEPS (Rs)	32.2	45.1	50.5	55.9
DPS (Rs)	2.6	18.3	22.0	22.0
Dividend Payout (%)	10.4	50.2	53.1	48.2
BVPS (Rs)	191.5	185.7	205.2	228.8
RoANW (%)	13.2	18.7	21.2	21.0
RoACE (%)	12.7	18.3	19.9	19.8
RoAIC (%)	16.4	20.3	25.3	28.0
(E) Valuation Ratios				
CMP (Rs)	971	971	971	971
P/E	38.8	26.6	23.4	21.3
Mcap (Rs Mn)	75,029	75,029	75,029	75,029
Mcap/ Sales	4.6	4.2	3.9	3.4
EV	71,313	71,702	70,228	68,579
EV/Sales	4.3	4.0	3.6	3.1
EV/EBITDA	23.3	19.0	15.5	13.5
P/BV	5.1	5.2	4.7	4.2
Dividend Yield (%)	0.3	1.9	2.3	2.3
(F) Growth Rate (%)				
Revenue	16.3	8.0	9.3	12.5
EBITDA	40.7	23.5	20.2	12.2
EBIT	56.0	24.4	23.3	12.0
PBT	48.0	21.6	22.8	10.2
APAT	39.5	45.8	13.5	10.2
EPS	39.5	45.8	13.5	10.2

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	2,294	3,477	3,518	3,837
CFI	(576)	(445)	(322)	(470)
CFF	(1,649)	(3,091)	(1,722)	(1,719)
FCFF	1,718	3,033	3,196	3,368
Opening Cash	299	368	309	1,783
Closing Cash	368	309	1,783	3,432

E – Estimates

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com