

November 5, 2020

Q2FY21 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		SELL	
Target Price	752		455	
Sales (Rs. m)	1,10,165	1,17,135	98,095	1,17,135
% Chng.	12.3	-		
EBITDA (Rs. m)	19,433	22,139	18,247	22,139
% Chng.	6.5	-		
EPS (Rs.)	61.8	76.9	59.2	76.9
% Chng.	4.3	0.1		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	89,765	1,03,426	1,10,165	1,17,135
EBITDA (Rs. m)	17,692	18,413	19,433	22,139
Margin (%)	19.7	17.8	17.6	18.9
PAT (Rs. m)	8,956	8,760	9,842	12,250
EPS (Rs.)	56.2	55.0	61.8	76.9
Gr. (%)	55.9	(2.2)	12.3	24.5
DPS (Rs.)	9.5	3.0	3.0	3.0
Yield (%)	1.4	0.4	0.4	0.4
RoE (%)	17.2	14.6	14.3	15.4
RoCE (%)	13.3	13.5	14.0	16.1
EV/Sales (x)	1.6	1.3	1.2	1.1
EV/EBITDA (x)	8.0	7.2	6.6	5.6
PE (x)	12.4	12.7	11.3	9.1
P/BV (x)	2.0	1.7	1.5	1.3

Key Data

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52-W High / Low	Rs.910 / Rs.230
Sensex / Nifty	40,261 / 11,814
Market Cap	Rs.111bn/ \$ 1,490m
Shares Outstanding	159m
3M Avg. Daily Value	Rs.919.74m

Shareholding Pattern (%)

Promoter's	50.68
Foreign	26.05
Domestic Institution	1.12
Public & Others	22.15
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.2)	74.0	28.5
Relative	(8.9)	45.7	28.2

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Value unlocking post demerger : Upgrade to Accumulate

Quick Pointers:

- Pharmaceuticals/LSI/DDDS revenue grew 38%/6%/24% QoQ
- 2Q growth driven by Remdesivir opportunities
- NCLT approval for demerger expected in 4QFY21

We upgrade our rating to Accumulate (earlier 'SELL') as we increase our EV/EBITDA (FY22E) multiple assigned to pharmaceutical segment and bring in line with peers on better earnings outlook led by opportunities in Remdesivir API and formulations. We also increase our earnings estimate by 4% for FY21/22E after anticipating Remdesivir's capability to compensate the Radio pharma loss, which is currently facing pricing pressures and lowering volumes. Given the rise in COVID cases globally we believe JUBILANT will benefit as it is the only Indian player to supply Remdesivir API to innovator(Gilead). JUBILANT has also been successful in reducing net debt by Rs7bn in last 18 months and current net debt as of 1HFY21 stood at Rs32.5bn. With estimated EBITDA of Rs15bn/Rs4.21bn for pharma and LSI in FY22E, we assign EV/EBITDA multiple of 8x (earlier 5x) for pharma segment and 3x (Unchanged) for LSI and arrive at new TP of Rs752 (earlier Rs455) based on SOTP valuation. Our new rating is Accumulate (earlier Sell).

JUBILANT 2QFY21 earnings were higher than our estimate due to growth in Pharmaceuticals segment of 38% QoQ led by Remdesivir related opportunities. Within pharmaceuticals segment, CDMO grew 81% QoQ due to Remdesivir API and generics grew 51% QoQ due to Remdesivir launch in India.

Earnings growth led by COVID related products: Revenue grew 5% YoY and 26% QoQ to Rs23.7bn (PL: Rs20.49bn). Pharma/Drug Discovery/LSI segment revenue grew 4%/22%/4% YoY and 38%/24%/6% QoQ. EBITDA grew 4% YoY and 61% QoQ to Rs4.8bn (PL: Rs3.3bn). EBITDA margin came in at 20.3% (PL: 16.3%) v/s 20.7% YoY and 16% QoQ. PAT declined 10% YoY while QoQ grew by 155% to Rs2.2bn (PL: Rs1.1bn). Q2FY20 had lower tax incidence due to deferred tax liability reversal of Rs500m.

Conference Call and Other Key Highlights:

- Pharmaceuticals:** Total revenue for pharma segment grew 4% YoY and 38% YoY with EBITDA margin of 22.6% v/s 26.6% YoY. CDMO and Generics grew 23% and 43% YoY due to Remdesivir API exports to US and launch of 'JUBI-R' (Remdesivir Injectable) in India. JUBILANT manufactures its KSM and API in-house while final formulations are manufactured in third-party plant. It's a largest pharma product, specialty (Radio Pharma) declined 21% YoY on back of lower volumes and price erosion due to new competition. Nanjangud remains under OAI status.

- JUBILANT in 1QFY21 entered into a supply contract with 4 manufacturers for COVID related vaccine from its injectable plants in the US. KSM and API will be supplied by the innovator and are guided to have sales opportunity of Rs2.3-4.5bn.
- **LSI:** Revenue grew 4% YoY and 6% QoQ while EBITDA margin was 17.7% v/s 12.1% YoY. Within LSI segment specialty intermediates declined 2% YoY while Nutritional and Life science chemicals (LSC) grew 11% and 6% YoY. Specialty Intermediates faced headwinds due to temporary impact on demand because of pandemic, while Nutritional growth was led by price growth and exports to European mkt for Vit-D3 products. LSC key product Ethyl Acetate growth was muted due to certain customer segments viz. Automotive (Paints), Consumer durables (Packaging) and Electronics sectors are witnessing lower activities during COVID-19. Guided for double-digit growth in LSI in FY21E, but seems to be unattainable due to lacklustre demand in global market, prevalent even before the impact of pandemic came into effect. While in 1HFY21, LSI revenue declined 2% YoY.
- **DDDS:** Revenue grew 22% YoY and 24% QoQ while EBITDA margin declined to 27.4% v/s 30.5% YoY. Discovery business currently has more than six programs at different stages with potential to partner and/or fast track from discovery to clinical stage. Plans to double its capacity by 1QFY22 in oncology space and file its IND for LSD1/HDAC6 (Cancer product) by end for FY21. JUBILANT's two NDDS project are well funded for Phase-1 clinical trials.

Exhibit 1: JUBILANT: SOTP Valuation in detail based on FY22E

	Value (Rs bn)	EBITDA-FY22E(Rsbn)	Per share (Rs)
Pharmaceutical (8x)	122	15.0	783
LSI (3x)	13	4.2	81
Combined Value	135	19.4	865
Net Debt	18		113
Value	117		752

Source: Company, PL

- **Debt/CAPEX/Regulatory Status:** Net debt was reduced by Rs1.9bn during 1HFY21 while Net debt now stood at Rs32.5bn. Guided for CAPEX of Rs5bn for FY21E while 1HFY21 CAPEX was Rs1.8bn. Roorkee (Dosage Form) and Nanjangud (API) manufacturing facilities have completed remediation measures and USFDA inspections are awaited. The plants continue to remain under Warning Letter and Official Action Indicated (OAI) issued by the US FDA.
- Demerger of the Life Science Ingredients (LSI) and Pharma segment is expected by Jan-Mar CY21. Net Debt for Pharma segment would be around Rs22bn post demerger.

Exhibit 2: Q2FY21 Result Overview (Rs m) :Remdesivir API and formulation opportunities drives growth

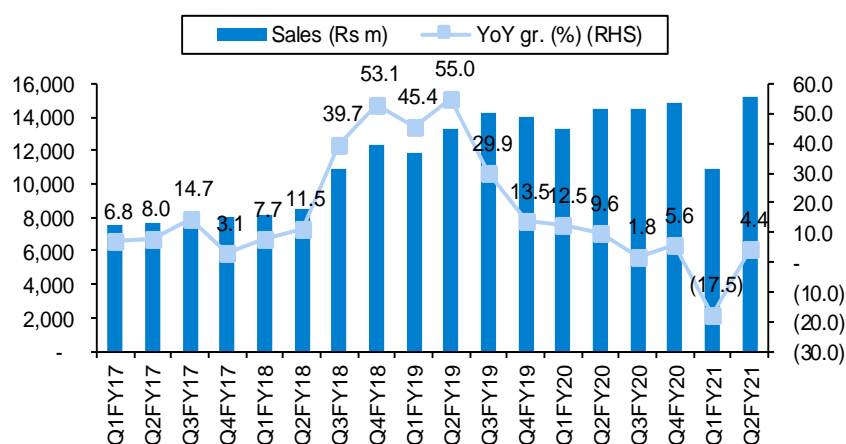
Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	23,749	22,659	4.8	18,929	42,678	44,478	(4.0)
Raw Material	9,631	8,980	7.2	7,164	16,795	17,652	(4.9)
<i>% of Net Sales</i>	<i>40.6</i>	<i>39.6</i>		<i>37.8</i>	<i>39.4</i>	<i>39.7</i>	
Personnel Cost	5,583	5,222	6.9	5,464	11,047	10,263	7.6
<i>% of Net Sales</i>	<i>23.5</i>	<i>23.0</i>		<i>28.9</i>	<i>25.9</i>	<i>23.1</i>	
Others	3,673	3,773	(2.6)	3,280	6,953	7,533	(7.7)
<i>% of Net Sales</i>	<i>15.5</i>	<i>16.6</i>		<i>17.3</i>	<i>16.3</i>	<i>16.9</i>	
Total Expenditure	18,887	17,975	5.1	15,907	34,794	35,447	(1.8)
EBITDA	4,862	4,685	3.8	3,022	7,884	9,031	(12.7)
<i>Margin (%)</i>	<i>20.5</i>	<i>20.7</i>		<i>16.0</i>	<i>18.5</i>	<i>20.3</i>	
Depreciation	1,158	1,168	(0.9)	1,123	2,281	2,195	3.9
EBIT	3,703	3,516	5.3	1,899	5,603	6,835	(18.0)
Other Income	73	123	(40.6)	81	154	220	(29.8)
Interest	640	716	(10.7)	760	1,399	1,442	(3.0)
PBT	3,137	2,922	7.3	1,221	4,358	5,613	(22.4)
Minority Interest	1	-	NA	-	1	-	NA
Total Taxes	896	428	109.0	341	1,236	1,269	(2.6)
<i>ETR (%)</i>	<i>28.5</i>	<i>14.7</i>		<i>27.9</i>	<i>28.4</i>	<i>22.6</i>	
Reported PAT	2,242	2,494	(10.1)	880	3,122	4,344	(28.1)

Source: Company, PL

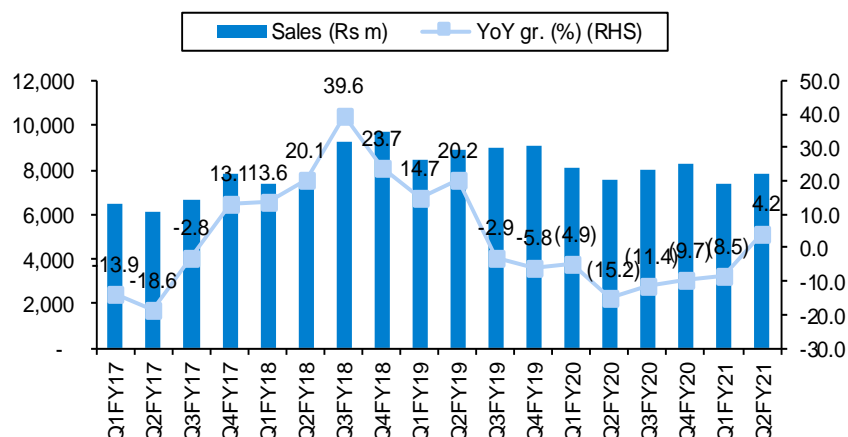
Exhibit 3: Major Sources of Revenue

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Pharmaceuticals	15,160	14,522	4.4	10,958	26,118	27,807	(6.1)
<i>% of Net Sales</i>	<i>63.8</i>	<i>64.1</i>		<i>57.9</i>	<i>61.2</i>	<i>62.5</i>	
Life Science ingredients	7,840	7,521	4.2	7,369	15,209	15,572	(2.3)
<i>% of Net Sales</i>	<i>33.0</i>	<i>33.2</i>		<i>38.9</i>	<i>35.6</i>	<i>35.0</i>	
Drug Discovery Solutions	750	616	21.8	604	1,354	1,099	23.2
<i>% of Net Sales</i>	<i>3.2</i>	<i>2.7</i>		<i>3.2</i>	<i>3.2</i>	<i>2.5</i>	

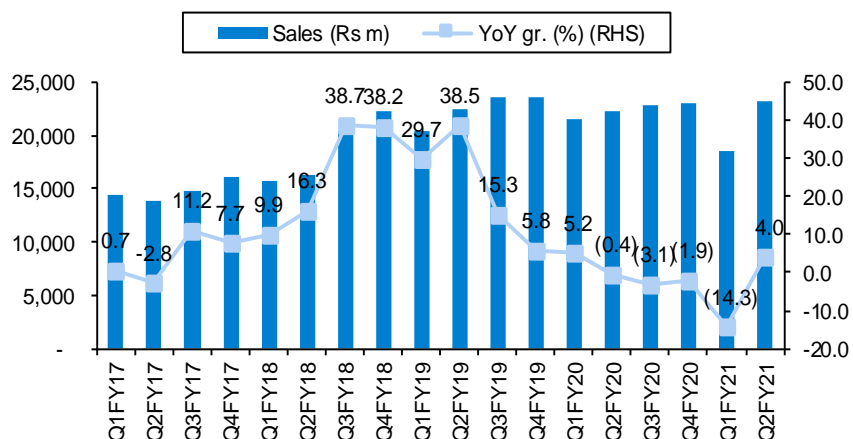
Source: Company, PL

Exhibit 4: Pharma Segment :Growth muted in near-term due to Radio pharma


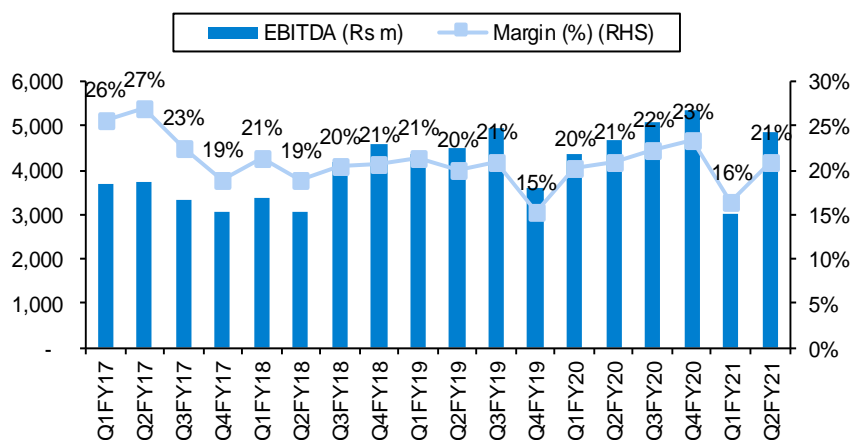
Source: Company, PL

Exhibit 5: LSI Segment : Key product Acetic Anhydride growth muted


Source: Company, PL

Exhibit 6: Revenue (Rs mn) YoY Growth (%): Pharma segment growth muted


Source: Company, PL

Exhibit 7: EBITDA (Rs mn) & EBITDA Margin (%)


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	89,765	1,03,426	1,10,165	1,17,135
YoY gr. (%)	(0.2)	15.2	6.5	6.3
Cost of Goods Sold	31,406	37,941	40,818	43,340
Gross Profit	58,360	65,484	69,347	73,795
Margin (%)	65.0	63.3	62.9	63.0
Employee Cost	21,277	24,948	25,357	26,941
Other Expenses	1,990	2,502	2,670	2,928
EBITDA	17,692	18,413	19,433	22,139
YoY gr. (%)	8.9	4.1	5.5	13.9
Margin (%)	19.7	17.8	17.6	18.9
Depreciation and Amortization	4,619	5,073	5,383	5,064
EBIT	13,073	13,340	14,050	17,074
Margin (%)	14.6	12.9	12.8	14.6
Net Interest	2,874	2,929	2,721	2,216
Other Income	2,253	1,836	2,469	2,222
Profit Before Tax	12,452	12,248	13,799	17,080
Margin (%)	13.9	11.8	12.5	14.6
Total Tax	3,123	3,438	3,919	4,783
Effective tax rate (%)	25.1	28.1	28.4	28.0
Profit after tax	9,329	8,810	9,880	12,298
Minority interest	27	30	46	48
Share Profit from Associate	-	-	-	-
Adjusted PAT	8,956	8,760	9,842	12,250
YoY gr. (%)	55.9	(2.2)	12.3	24.5
Margin (%)	10.0	8.5	8.9	10.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	8,956	8,760	9,842	12,250
YoY gr. (%)	55.9	(2.2)	12.3	24.5
Margin (%)	10.0	8.5	8.9	10.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,956	8,760	9,842	12,250
Equity Shares O/s (m)	159	159	159	159
EPS (Rs)	56.2	55.0	61.8	76.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	56,202	63,138	68,438	73,738
Tangibles	49,752	55,888	60,388	64,888
Intangibles	6,449	7,249	8,049	8,849
Acc: Dep / Amortization	16,429	21,161	26,062	31,127
Tangibles	12,246	15,731	19,403	23,191
Intangibles	4,183	5,430	6,660	7,936
Net fixed assets	39,773	41,977	42,375	42,611
Tangibles	37,507	40,158	40,986	41,698
Intangibles	2,266	1,819	1,390	913
Capital Work In Progress	10,416	9,558	10,414	11,355
Goodwill	20,895	21,521	22,167	22,832
Non-Current Investments	947	994	1,044	1,096
Net Deferred tax assets	(522)	(549)	(576)	(499)
Other Non-Current Assets	690	727	768	811
Current Assets				
Investments	-	-	-	-
Inventories	18,454	15,868	17,807	19,255
Trade receivables	12,932	12,751	13,582	15,083
Cash & Bank Balance	13,999	11,223	11,210	12,062
Other Current Assets	4,019	3,215	2,572	3,086
Total Assets	1,25,213	1,21,262	1,25,751	1,32,444
Equity				
Equity Share Capital	159	159	159	159
Other Equity	55,880	64,180	73,561	85,351
Total Network	56,039	64,339	73,721	85,511
Non-Current Liabilities				
Long Term borrowings	37,397	31,787	27,019	22,966
Provisions	1,508	1,553	1,599	1,279
Other non current liabilities	83	91	100	110
Current Liabilities				
ST Debt / Current of LT Debt	6,939	1,785	1,785	1,249
Trade payables	10,903	12,184	12,978	13,479
Other current liabilities	8,345	6,509	5,097	4,009
Total Equity & Liabilities	1,25,213	1,21,262	1,25,751	1,32,444

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	12,452	12,248	13,799	17,080
Add. Depreciation	4,619	5,073	5,383	5,064
Add. Interest	2,874	2,929	2,721	2,216
Less Financial Other Income	2,253	1,836	2,469	2,222
Add. Other	(7,523)	(32)	(2,623)	(2,192)
Op. profit before WC changes	12,422	20,217	19,279	22,168
Net Changes-WC	(3,536)	4,832	(1,354)	(2,984)
Direct tax	(3,123)	(3,094)	(3,527)	(4,441)
Net cash from Op. activities	5,763	21,954	14,398	14,743
Capital expenditures	(7,150)	(5,300)	(5,300)	(5,300)
Interest / Dividend Income	22	22	22	22
Others	241	146	(867)	(1,539)
Net Cash from Invt. activities	(6,887)	(5,132)	(6,146)	(6,818)
Issue of share cap. / premium	-	-	-	-
Debt changes	(3,090)	(10,764)	(4,768)	(4,588)
Dividend paid	(1,577)	(460)	(460)	(460)
Interest paid	(2,874)	(2,929)	(2,721)	(2,216)
Others	-	-	-	-
Net cash from Fin. activities	(7,541)	(14,153)	(7,949)	(7,264)
Net change in cash	(8,665)	2,670	304	661
Free Cash Flow	(1,386)	16,654	9,098	9,443

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	23,152	23,914	18,929	23,749
YoY gr. (%)	(2.6)	0.2	(13.2)	4.8
Raw Material Expenses	7,732	8,390	6,197	8,506
Gross Profit	15,420	15,525	12,732	15,243
Margin (%)	66.6	64.9	67.3	64.2
EBITDA	5,074	5,366	3,022	4,862
YoY gr. (%)	2.9	49.9	(30.5)	3.8
Margin (%)	21.9	22.4	16.0	20.5
Depreciation / Depletion	1,135	1,289	1,123	1,158
EBIT	3,940	4,077	1,899	3,703
Margin (%)	17.0	17.0	10.0	15.6
Net Interest	720	712	760	640
Other Income	60	194	81	73
Profit before Tax	3,280	3,560	1,221	3,137
Margin (%)	14.2	14.9	6.5	13.2
Total Tax	899	955	341	896
Effective tax rate (%)	27.4	26.8	27.9	28.5
Profit after Tax	2,380	2,605	880	2,241
Minority interest	-	-	-	(1)
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,380	2,605	880	2,242
YoY gr. (%)	(13.8)	92.3	(52.4)	(10.1)
Margin (%)	10.3	10.9	4.6	9.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,380	2,605	880	2,242
YoY gr. (%)	(13.8)	92.3	(52.4)	(10.1)
Margin (%)	10.3	10.9	4.6	9.4
Other Comprehensive Income	496	-	783	(157)
Total Comprehensive Income	2,876	2,605	1,663	2,086
Avg. Shares O/s (m)	156	156	156	156
EPS (Rs)	15.3	16.7	5.6	14.4

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	56.2	55.0	61.8	76.9
CEPS	85.2	86.8	95.6	108.7
BVPS	351.8	403.9	462.8	536.8
FCF	(8.7)	104.5	57.1	59.3
DPS	9.5	3.0	3.0	3.0
Return Ratio(%)				
RoCE	13.3	13.5	14.0	16.1
ROIC	11.7	10.9	11.3	13.1
RoE	17.2	14.6	14.3	15.4
Balance Sheet				
Net Debt : Equity (x)	0.5	0.3	0.2	0.1
Net Working Capital (Days)	83	58	61	65
Valuation(x)				
PER	12.4	12.7	11.3	9.1
P/B	2.0	1.7	1.5	1.3
P/CEPS	8.2	8.0	7.3	6.4
EV/EBITDA	8.0	7.2	6.6	5.6
EV/Sales	1.6	1.3	1.2	1.1
Dividend Yield (%)	1.4	0.4	0.4	0.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Pharmaceuticals	59,760	66,457	72,571	79,829
LSI	31,790	32,018	35,241	38,799

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Oct-20	Sell	455	708
2	07-Sep-20	Sell	446	830
3	08-Jul-20	Sell	414	703
4	01-Jun-20	Hold	414	445
5	18-Apr-20	Hold	363	345
6	14-Apr-20	Hold	488	341
7	31-Jan-20	Reduce	488	583
8	03-Jan-20	Reduce	433	543

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	808	834
2	Cadila Healthcare	Sell	357	411
3	Cipla	Reduce	657	814
4	Cipla	Reduce	657	787
5	Dr. Lal PathLabs	UR	-	2,179
6	Dr. Reddy's Laboratories	BUY	5,964	4,951
7	Eris Lifesciences	BUY	671	518
8	Glenmark Pharmaceuticals	Sell	349	496
9	Indoco Remedies	Hold	239	252
10	Ipca Laboratories	Hold	1,886	2,113
11	Jubilant Life Sciences	Sell	455	708
12	Lupin	BUY	1,085	1,047
13	Sun Pharmaceutical Industries	BUY	597	486
14	Thyrocare Technologies	UR	-	1,138

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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