

Buy

JBCPL hosted virtual analyst meet to share its mid to long term vision post the change in management after the buyout by PE firm KKR (54%) in July'20. The new management laid out a 6-point framework for sustainable mid-teens growth via therapy diversification, productivity improvement, leveraging existing capabilities in CMO, exploring M&A (brands, portfolio) and focus on deepening existing base through digitization.

JBCPL's revenue base is equally divided between India (formulations) and Exports (formulation, CMO and API). However, going forward management indicated an increased focus on India to be driven by newer initiatives (focusing on therapies such as diabetes and respiratory) coupled with increased penetration in existing therapy base of Gastro and Cardio and in-licensing opportunities. M&A (assets under evaluation) would also largely focus on India. Leveraging existing field force management aims to improve productivity by 12-14% p.a. from current Rs4.5 lakh PCPM. It expects to beat IPM growth by 15-20% on a sustainable basis focusing on the lifecycle management of its flagship products.

On the exports front, company has decent platforms built across formulations (US, Russia and South Africa -74% of exports), CMO (South Africa-19% of exports) and API (US and EU)-8% of exports. With all regulatory approvals in place and no major capex required, management emphasized on leveraging its existing client base for incremental growth in CMO business along-with backward integration in APIs to improve profitability in generic formulations. JBCPL has direct presence in South Africa and Russia and is evaluating combination of opportunities like in-licensing, newer launches and operating leverage to improve profitability from these markets.

With renewed management focus and healthy balance sheet, we believe JBCPL is poised for growth in the medium term. It is net-cash (~Rs6bn) company and can generate FCF of ~Rs3.5-4bn annually with limited capex (Rs ~500mn p.a.) over FY21-23E. The profitability has improved to stellar 45% CAGR during FY18-21E (RoE improving from 10% to 27%), but this owes to low base, price hikes and lower spend in FY21E due to COVID. While over the next 2 years, our PAT CAGR is only 2% (FY21-23E) on the higher base of FY21E, we expect company to improve its operating performance to 24% in FY23E vs 21% in FY20. The OCF/PAT conversion in the past few years has been more than 70%, a healthy conversion rate. At CMP, stock trades at 24.7x FY22E and 21x FY23E EPS of Rs48.8 and Rs56.7 respectively.

FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	16,432	17,747	20,103	22,675	25,369
Growth(%)	16.3	8.0	13.3	12.8	11.9
EBITDA	3,058	3,776	5,498	5,334	6,169
OPM(%)	18.6	21.3	27.3	23.5	24.3
PAT	1,935	2,820	4,220	3,773	4,382
Growth(%)	39.5	45.8	49.6	(10.6)	16.1
EPS(Rs.)	25.0	36.5	54.6	48.8	56.7
Growth(%)	39.5	45.8	49.6	(10.6)	16.1
PER(x)	48.2	33.1	22.1	24.7	21.3
ROANW(%)	13.2	18.7	27.0	21.1	21.6
ROACE(%)	12.7	18.3	25.7	20.0	20.5

CMP	Rs 1,207
Target / Upside	Rs 1,356 / 12%
NIFTY	14,919

Script Details

Equity / FV	Rs 155mn / Rs 2
Market Cap	Rs 93bn
	USD 1bn
52-week High/Low	Rs 1,263/ 415
Avg. Volume (no)	226,400
Bloom Code	JBCP IN

Price Performance	1M	3M	12M
Absolute (%)	21	21	127
Rel to NIFTY (%)	21	21	126

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	55.9	55.9	55.9
MF/Banks/FIs	33.4	33.1	33.6
FIIIs	7.8	7.3	7.9
Public / Others	2.9	3.7	2.6

JBCP Relative to SENSEX



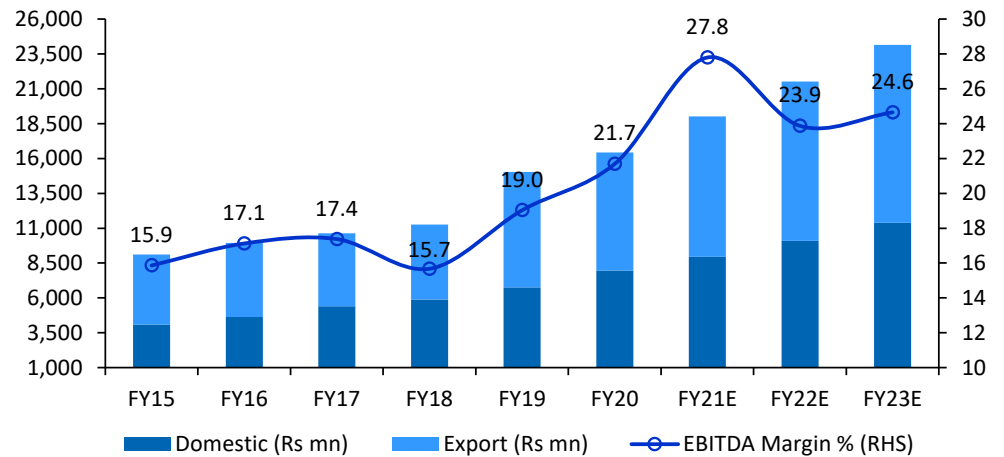
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Key takeaways:

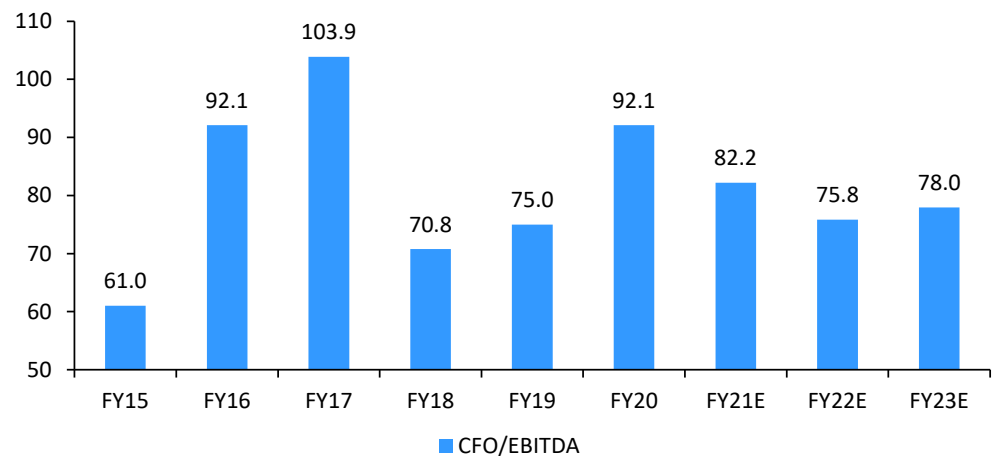
- **Domestic formulations:** JBCPL has grown at 11% CAGR over FY10-20 driven by existing product portfolio largely Cardiac and Gastro and currently ranks 28th in IPM. It aims to improve its ranking to 20th in the next 3-5 years.
 - Top 5 brands contribute 74% of total domestic sales, major products being Cilacar and Nicardia (27% growth CAGR each over last 3 years). Focus on lifecycle management on these brands has aided higher market share (>50% in top 5 brands).
 - Focus on 2 new divisions in chronic, nephrology and pediatric by FY21-22 to drive future growth. This will be a combination of off-patented as well in-licensing products.
 - With ~2,000 on-field MRs, it has been at par with its peers in terms of the productivity ratio (~Rs4.5mn). With the restructured divisions and change in leadership in the domestic formulations, the company has created capacity to handle more products efficiently. It plans to expand its domestic business through penetration in Tier II and rural markets, new launches and digital efforts. No expansion of field force planned in near term.
 - Only 15-20% products are backward integrated, key ones being Cilacar and Diclofenac.
 - **Management guided for 12-14% improvement in MR productivity and beating the IPM growth by 15-20% p.a. driven by newer launches (6-8) vs 1-2 earlier.**
- **Exports:** This division comprises revenues from US, South Africa, Russia and South East Asia as their major markets. Management categorizes the segment into CMO, API and formulations.
- **Formulations:** Formulations comprise 74% of export sales with US, EU, and South Africa as its major markets in generic formulations. ROW (Asia, Latam, Africa) and Russia are the branded markets. JBCPL has direct presence in Russia and South Africa. Other markets are distributor led (US is cost plus model).
- **US:** Management intends to increase ANDA filings to 4-5 p.a. vs 1-2 currently. The company has 11 approved ANDAs of which 6 are actively marketed in the US, major ones being Glipizide, Oxybutynin, Cetirizine, Diclofenac Sodium, etc. Working on backward integration.
- **Russia/CIS:** Plans to penetrate with existing brands in the OTC space, guided for 2 new launches and filing of 4 new products in FY22E. Besides, it is exploring the in-licensing opportunities in the near term.
- **South Africa:** Focus on margin improvement, filing of new dossiers and OTC launches.
- **ROW:** Expansion of current market base, new launches
- **CMO:** Company is amongst top 5 players in \$4.6bn lozenges market and has all major MNC companies as its clients. It plans to increase its offerings to Syrups, tablets, ointments and creams to its existing set of clients and also expand its focus on high potential lozenges. Besides, currently large part of sales comes from South Africa and Russia. Expansion of this segment to ROW markets is expected to aid growth.
- **API:** Has been a concentrated market with focus on Diclofenac Sodium. Management guided to increase the offering by adding ~8-10 more APIs focusing on regulated markets over the next 2-3 years.

Exhibit 1: Expect revenue to grow at 12% CAGR over FY21-23E



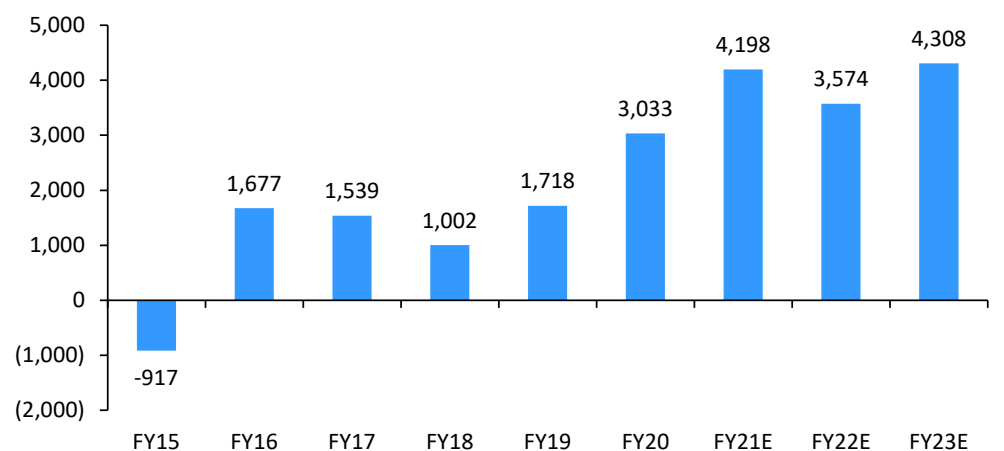
Source: Company, DART

Exhibit 2: JBCP has best in class CFO/EBITDA conversion (%)



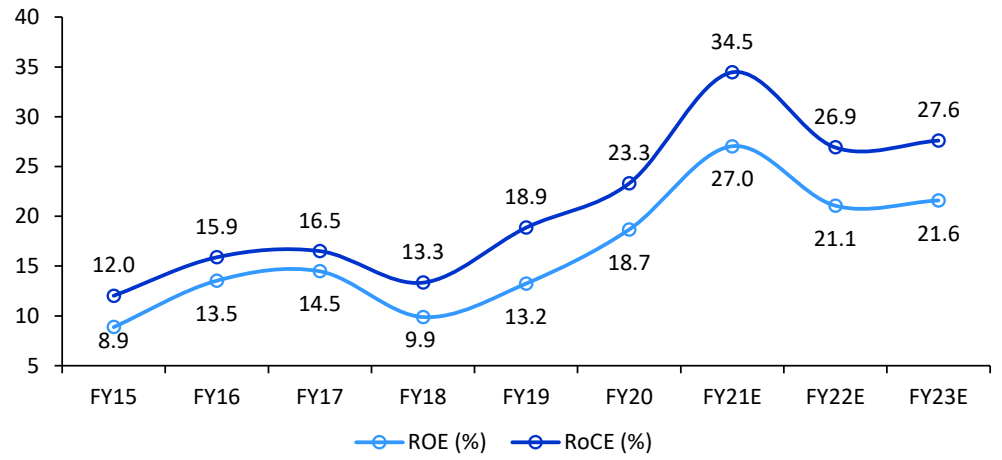
Source: Company, DART

Exhibit 3: FCF has been consistently improving (Rs mn)



Source: Company, DART

Exhibit 4: Return ratios to remain strong and sustain above 25%



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	17,747	20,103	22,675	25,369
Total Expense	13,972	14,605	17,341	19,200
COGS	6,308	6,780	8,036	8,837
Employees Cost	3,229	3,461	3,843	4,305
Other expenses	4,434	4,364	5,462	6,058
EBIDTA	3,776	5,498	5,334	6,169
Depreciation	663	699	791	803
EBIT	3,113	4,798	4,543	5,367
Interest	30	77	48	32
Other Income	507	925	555	528
Exc. / E.O. items	(100)	0	0	0
EBT	3,489	5,647	5,050	5,863
Tax	765	1,423	1,273	1,477
RPAT	2,720	4,220	3,773	4,381
Minority Interest	3	4	4	5
Profit/Loss share of associates	0	0	0	0
APAT	2,820	4,220	3,773	4,382

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	155	155	155	155
Minority Interest	25	25	25	25
Reserves & Surplus	14,200	16,722	18,797	21,479
Net Worth	14,355	16,877	18,951	21,634
Total Debt	320	320	320	320
Net Deferred Tax Liability	759	814	871	931
Total Capital Employed	15,459	18,036	20,168	22,910

Applications of Funds

Net Block	5,981	5,632	5,191	4,838
CWIP	693	709	727	747
Investments	695	651	753	784
Current Assets, Loans & Advances	10,767	13,811	16,393	19,532
Inventories	2,747	2,852	3,156	3,372
Receivables	3,454	3,875	4,224	4,457
Cash and Bank Balances	309	2,734	4,561	7,138
Loans and Advances	82	91	102	113
Other Current Assets	837	920	1,012	1,114
Less: Current Liabilities & Provisions	2,677	2,766	2,896	2,991
Payables	1,238	1,249	1,366	1,414
Other Current Liabilities	1,439	1,517	1,530	1,577
		<i>sub total</i>		
Net Current Assets	8,090	11,045	13,497	16,541
Total Assets	15,459	18,036	20,168	22,910

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	64.5	66.3	64.6	65.2
EBIDTA Margin	21.3	27.3	23.5	24.3
EBIT Margin	17.5	23.9	20.0	21.2
Tax rate	21.9	25.2	25.2	25.2
Net Profit Margin	15.3	21.0	16.6	17.3
(B) As Percentage of Net Sales (%)				
COGS	35.5	33.7	35.4	34.8
Employee	18.2	17.2	16.9	17.0
Other	25.0	21.7	24.1	23.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	102.7	62.4	94.5	167.5
Inventory days	56	52	51	49
Debtors days	71	70	68	64
Average Cost of Debt	10.5	24.0	15.0	10.0
Payable days	25	23	22	20
Working Capital days	166	201	217	238
FA T/O	3.0	3.6	4.4	5.2
(D) Measures of Investment				
AEPS (Rs)	36.5	54.6	48.8	56.7
CEPS (Rs)	45.1	63.7	59.1	67.1
DPS (Rs)	18.3	22.0	22.0	22.0
Dividend Payout (%)	50.2	40.2	45.0	38.8
BVPS (Rs)	185.7	218.4	245.2	279.9
RoANW (%)	18.7	27.0	21.1	21.6
RoACE (%)	18.3	25.7	20.0	20.5
RoAIC (%)	20.3	31.5	29.4	34.2
(E) Valuation Ratios				
CMP (Rs)	1207	1207	1207	1207
P/E	33.1	22.1	24.7	21.3
Mcap (Rs Mn)	93,252	93,252	93,252	93,252
MCap/ Sales	5.3	4.6	4.1	3.7
EV	89,925	87,500	85,673	83,097
EV/Sales	5.1	4.4	3.8	3.3
EV/EBITDA	23.8	15.9	16.1	13.5
P/BV	6.5	5.5	4.9	4.3
Dividend Yield (%)	1.5	1.8	1.8	1.8
(F) Growth Rate (%)				
Revenue	8.0	13.3	12.8	11.9
EBITDA	23.5	45.6	(3.0)	15.7
EBIT	24.4	54.2	(5.3)	18.1
PBT	21.6	61.9	(10.6)	16.1
APAT	45.8	49.6	(10.6)	16.1
EPS	45.8	49.6	(10.6)	16.1

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	3,477	4,520	4,044	4,809
CFI	(445)	(322)	(470)	(501)
CFF	(3,091)	(1,773)	(1,747)	(1,732)
FCFF	3,033	4,198	3,574	4,308
Opening Cash	368	309	2,734	4,561
Closing Cash	309	2,734	4,561	7,138

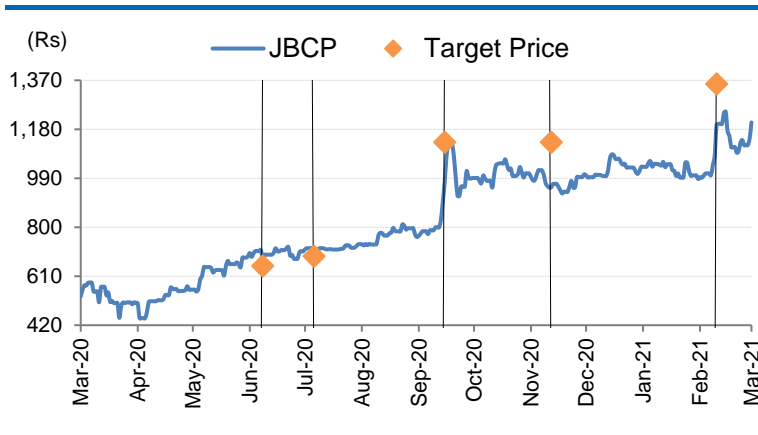
E – Estimates

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
Jul-20	Reduce	688	712
Sep-20	Accumulate	1,130	971
Nov-20	Buy	1,130	955
Feb-21	Buy	1,356	1,196

*Price as on recommendation date

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