

CMP: ₹ 697

Target: ₹ 850 (22%)

Target Period: 12 months

July 24, 2021

BUY

Low base, Covid opportunities drive Q1...

About the stock: Jubilant Pharmova is engaged in specialty pharmaceuticals, CDMO, generics, drug discovery and proprietary novel drug businesses.

- Formulations - 24% of FY21 revenues, Radiopharma and allergy therapy – 38%, and CDMO & API – 33% of sales
- It has six USFDA approved manufacturing facilities in India, US and Canada

Q1FY22 Results: Jubilant Pharmova reported robust Q1FY22 results.

- Sales were up 41% YoY to ₹ 1634.7 crore
- EBITDA in Q1FY22 was at ₹ 375.2 crore, up 109% YoY with margins at 23%
- Consequent PAT was at ₹ 160.6 crore (up 354% YoY)

What should investors do? Jubilant's share price has grown by ~2.3x over the past five years (from ~₹ 314 in June 2016 to ~₹ 732 levels in June 2021) even after considering demerger of life science ingredients business into Jubilant Ingrevia.

- Despite regulatory concerns, we remain positive and retain our BUY rating on the stock

Target Price and Valuation: We value Jubilant at ₹ 850 i.e. 10x P/E on FY23E EPS

Key triggers for future price performance:

- Strong position in specialty pharmaceuticals - radiopharmaceuticals, allergy immunotherapy and CDMO of sterile injectables & non-sterile products
- CDMO has a strong visible order book of ₹ 3,600 crore (including vaccine opportunities) to be serviced over the next three years
- Generic business - to be impacted due to import alert and OAI

Alternate Stock Idea: Apart from Jubilant, in CRAMs space we like Divis

- Divi's stays a quintessential play on Indian API/CRAMs segment with its product offering, execution prowess
- BUY with a target price of ₹ 4825

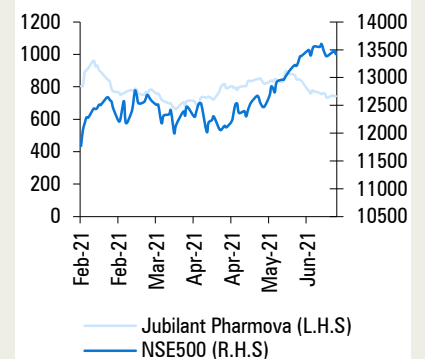
Particulars

Particular	Amount
Market Capitalisation	₹ 11100 crore
Debt (FY21)	₹ 2846 crore
Cash (FY21)	₹ 671 crore
EV	₹ 13275 crore
52 week H/L (₹)	₹ 982/₹ 592
Equity capital	₹ 15.9 crore
Face value	₹ 1

Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	50.7	50.7	50.7	50.7	50.7
Others	49.3	49.3	49.3	49.3	49.3

Price Chart



Recent Event & Key risks

- Roorkee facility received import alert post inspection in March 21
- Key Risk:** (i) Impact on Radiopharma segment (ii) Regulatory concern

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Key Financial Summary

Key Financials (₹ crore)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Revenues	9110.8	5975.8	6098.5	0.7	7594.8	9155.2	22.5
EBITDA	1739.0	1548.0	1396.5	2.3	1851.5	2392.5	30.9
EBITDA Margins (%)	19.1	25.9	22.9		24.4	26.1	
Adjusted Net Profit	854.7	710.7	595.3	8.7	953.6	1352.7	50.7
Reported EPS (₹)	36.9	42.6	36.0		59.9	84.9	
Adjusted EPS (₹)	54.9	44.6	37.4		59.9	84.9	
PE (x)	18.9	16.4	19.3		11.6	8.2	
EV/EBITDA (x)	8.2	9.4	9.5		7.0	5.0	
RoE (%)	17.8	12.7	12.6		16.9	19.5	
RoCE (%)	14.3	11.7	13.7		18.2	22.4	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Robust growth on low base, Covid opportunities

- Q1FY22 revenues were at ₹ 1634.7 crore, up 41.4% YoY due to low base in Q1FY21 and a gradual recovery in all segments. Specialty pharma (which comprises Radiopharma) grew 18.4% YoY to ₹ 632 crore. Generics jumped 54.3% to ₹ 435 crore whereas CDMO segment grew 69.9% YoY to ₹ 474 crore. Contract research & development grew 56.1% YoY to ₹ 94.7 crore
- EBITDA margins increased 745 bps YoY to 23% while EBITDA grew 109.3% YoY to ₹ 375.2 crore. Adjusted PAT grew 353.7% to ₹ 160.6 crore
- Q1FY22 witnessed gradual recovery across radiopharmaceuticals, radio pharmacy and allergy business. CMO business continued to benefit from Covid related deals while contract research and development services business saw growth due to healthy demand from customers

Q1FY22 earnings conference call highlights

- The Board of Directors of Jubilant Pharmova has approved the demerger of the active pharmaceutical ingredients (API) undertaking of Jubilant Generics Ltd and vesting of the same with JPM
 - The management is aiming at creation of a small molecule discovery and chemistry focused vertical present across value chain of CRO & CDMO of Innovative and Generic API

Speciality Pharma

- Radiopharma business saw a gradual improvement sequentially
- Ruby-Fill installs are picking up growth in the US and the company is expanding its distribution network in the EU but ventilation lung procedures continue to be impacted by Covid
- Radiopharmacy business came close to pre-Covid levels with a pick-up in nuclear medicine procedures. The management is confident of a turnaround plan
- Allergy immunotherapy volumes have normalised to pre-Covid levels in Q1FY22
- Building a long term pipeline of radiopharmaceuticals and executing a turnaround plan of radio pharmacies
- Has 20-25% market share in radio pharmacy business in the US

CDMO/API

- API business witnessed higher demand, including for Remdesivir though the company is facing pricing pressure in Sartans
- Realised ₹ 200 crore in Q1FY21 and ₹ 535 crore from five CMO deals for Covid related products signed in FY21. The company expects another ₹ 100 crore from this deal in the rest of FY22
- In CMO, the management guided for a strong visible order book
- Spokane capacity expansion by 50% is expected to get commercialised by end of CY24

Generic

- **Roorkee**
 - Formulations facility received import alert from USFDA post inspected during March 2021
 - Earlier, the Roorkee facility received an OAI in December 2018 and then a warning letter in March 2019
 - The agency has exempted Meclizine tablets, Olanzapine orally disintegrating tablets, Risperidone orally disintegrating tablets,

Spirolactone tablets and Valsartan tablets from the import alert subject to the company meeting a few conditions

- Revenue impact is expected to be less than 3% of total revenues
- ANDA - 98 filings, 60 approved and 37 pending
- The company is evaluating site transfer for pending pipeline and a couple of important approved products
- The company has single digit filings from the Cadista facility
- OAI status remains at Nanjangud facility. The company is awaiting USFDA inspection

Contract research & development services

- Higher demand from biotech companies for integrated services, functional chemistry and DMPK, Discovery Biology and Clinical trial data management
- The company is on track to double chemistry research capacity by FY23
- The management plans to take one proprietary novel drug candidate to phase I clinical trials in H2FY22
- This segment is equally divided between integrated and chemistry business

Others

- R&D for Q1FY22 was ₹ 45.6 crore, 3% of segment sales
- FY22 capex was ₹ 700-800 crore, which includes expansion of Spokane site and CRDS capacity. Capex for Q1FY22 was ₹ 106 crore
- Net debt reduced by ₹ 277 crore in Q1FY22. Net debt to EBITDA was at 1.03x at end of Q1FY22
- ETR for Q1FY22 was 34.9% while the company's cash tax outflow is estimated to be 24% for the next three years

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY21	Q4FY21	YoY (%)	QoQ (%)	Comments
Revenue	1,634.7	1,156.1	1,579.8	41.4	3.5	YoY growth was driven by strong growth in Generic, CDMO amid lower base and Covid opportunities
Raw Material Expenses	360.6	241.4	389.1	49.4	-7.3	
Gross margins (%)	77.9	79.1	75.4	-118 bps	257 bps	YoY contraction mainly due to adverse product mix
Employee Expenses	499.2	477.2	475.9	4.6	4.9	
Other Expenditure	370.9	239.3	311.3	55.0	19.1	YoY improvement mainly due to higher marketing expenses and additional Rubifill related expenses
Power cost	28.7	18.9	28.9	52.2	-0.8	
Total Expenditure	1,259.4	976.8	1,205.2	28.9	4.5	
EBITDA	375.2	179.3	374.6	109.3	0.2	
EBITDA (%)	23.0	15.5	23.7	745 bps	-76 bps	YoY increased mainly due to lower employee cost
Interest	34.6	47.9	43.3	-27.8	-20.1	
Depreciation	88.0	81.7	86.2	7.8	2.1	
Other income	3.9	3.9	6.7	-0.5	-41.9	
Exceptional Items	0.0	0.0	10.3	0.0	0.0	
PBT after Exceptional Items	256.5	53.6	241.4	378.4	6.2	
Tax	86.0	18.2	83.1	372.1	3.6	
Tax Rate (%)	33.5	34.0	34.4			
PAT before MI	170.5	35.4	158.3	381.6	7.7	
MI	-0.1	0.0	-0.3	0.0	NA	
Adj. Net Profit	160.6	35.4	183.3	353.7	-12.4	Delta vis-à-vis I-direct estimates mainly due to lower interest and depreciation
Key Metrics						
Generics	435.0	282.0	309.0	54.3	40.8	Growth was led by higher volumes including Remdesivir though the business witnessed higher pricing erosion in the US
Specialty Pharma	632.0	534.0	602.0	18.4	5.0	Radiopharma business gradually improve sequentially but continued to be impacted by Covid-19. Allergy immunotherapy volumes have normalised to pre-Covid level
CDMO	474.0	279.0	574.0	69.9	-17.4	1) CMO business revenue grew YoY based on strong demand from customers as well as Covid related deals, 2) API business continued to witness higher demand including for Remdesivir though it saw a QoQ decline due to pricing pressure in Sartans
Drug Discovery Solutions	94.7	60.7	94.0	56.1	0.8	Growth due to higher demand from biotech companies

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Revenue	7,508.0	7,594.8	1.2	9,068.5	9,155.2	1.0
EBITDA	1,868.0	1,851.5	-0.9	2,359.6	2,392.5	1.4
EBITDA Margin (%)	24.9	24.4	-50 bps	26.0	26.1	11 bps
PAT	992.1	953.6	-3.9	1,327.0	1,352.7	1.9
EPS (₹)	62.3	59.9	-3.9	83.3	84.9	1.9

EBITDA Margin (%) 24.9 24.4 -50 bps 26.0 26.1 11 bps Changed mainly due to increase competition in Radiopharma business and increased cost amid spending in innovative pipeline

PAT 992.1 953.6 -3.9 1,327.0 1,352.7 1.9 Declined mainly in sync with operational performance

Source: ICICI Direct Research

Exhibit 3: Assumptions

	Revenues	Growth	Adj. EPS	Growth	P/E	EV/EBITDA	RoNW	RoCE
	(₹ crore)	(%)	(₹)	(%)	(x)	(X)	(%)	(%)
FY20	5976	-34.4	44.6	18.0	16.4	9.4	12.7	11.7
FY21	6099	2.1	37.4	-15.3	19.3	9.5	12.6	13.7
FY22E	7595	24.5	59.9	66.1	11.6	7.0	16.9	18.2
FY23E	9155	20.5	84.9	41.8	8.2	5.0	19.5	22.4

Source: ICICI Direct Research

Exhibit 4: Revenue break-up

(₹ crore)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	CAGR FY16-21	CAGR FY21-23E
Generics	797.4	814.0	803.4	1022.0	1159.0	1476.0	1594.8	1609.2	13.1	4.4
CDMO	1158.5	1223.9	1201.3	1469.0	1537.0	2009.0	2903.8	3935.1	11.6	40.0
Specialty Pharma	1486.1	1655.8	1990.0	2830.0	3019.0	2303.0	2637.1	3032.7	9.2	14.8
Radiopharmaceuticals	712.9	816.4	1709.2	2467.0	2608.0	1892.0	2185.0	2535.4	21.6	15.8
Allergy Therapy Products	203.6	244.4	281.2	362.0	411.0	411.0	452.1	497.3	15.1	10.0
CMO	569.6	595.0	648.3	784.0	896.0	1413.0	2278.0	3278.0	19.9	52.3
Drug Discovery Solutions	126.0	182.0	176.0	231.3	259.9	308.7	382.9	459.5	19.6	22.0

Source: ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Revenues	5,975.8	6,098.5	7,594.8	9,155.2
Growth (%)	-34.4	2.1	24.5	20.5
Raw Material Expenses	1,455.2	1,536.0	1,850.6	2,288.8
Employee Expenses	1,843.2	1,922.9	2,213.8	2,617.3
Selling & Admin expenses	1,017.2	1,137.4	1,545.4	1,693.7
Power cost	112.2	105.8	133.4	163.0
Total Operating Expenditure	4,427.8	4,702.1	5,743.3	6,762.7
EBITDA	1,548.0	1,396.5	1,851.5	2,392.5
Growth (%)	-11.0	-9.8	32.6	29.2
Depreciation	339.8	349.0	373.0	442.5
Interest	199.7	184.1	138.5	109.0
Other Income	37.4	17.6	18.1	64.2
PBT before EO	1,045.8	881.1	1,358.0	1,905.2
Less: Exceptional Items	32.9	21.2	0.0	0.0
Total Tax	335.1	297.2	394.5	552.5
Minority Interest	0.0	-0.3	0.0	0.0
PAT	677.8	574.1	953.6	1,352.7
Growth (%)	18.0	-15.3	66.1	41.8
EPS	42.6	36.0	59.9	84.9
Adjusted PAT	710.7	595.3	953.6	1,352.7
EPS (Adjusted)	44.6	37.4	59.9	84.9

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	961.9	817.9	953.6	1,352.7
Add: Depreciation	461.9	451.7	373.0	442.5
Add: Interest paid	287.4	247.3	138.5	138.5
(Inc)/dec in Current Assets	-154.6	21.6	-615.8	-535.2
Inc/(dec) in CL and Provisions	-25.1	228.3	361.8	212.5
Other Operating Activities	0.0	0.0	0.0	0.0
CF from operating activities	1,531.5	1,766.7	1,211.1	1,610.9
(Purchase)/Sale of FA	-567.6	-514.3	-700.0	-500.0
Deferred Tax Liability	0.0	0.0	7.4	7.6
Minority Interest	0.0	0.0	0.0	0.0
Investments	19.9	-202.4	0.0	0.0
Other Investing Activities	84.6	-86.7	-13.8	-15.3
CF from investing activities	-463.1	-803.4	-706.3	-507.6
Inc/(Dec) in Equity Capital	0.0	-10.1	0.0	0.0
Inc/(Dec) in Loan Funds	-572.8	-1,405.6	-500.0	-500.0
Dividend & Dividend tax	-152.8	-1.5	-47.8	-47.8
Less: Interest Paid	-287.4	-247.3	-138.5	-138.5
Others	-37.4	-44.9	0.0	0.0
CF from financing activities	-1,050.4	-1,709.4	-686.3	-686.3
Net Cash flow	18.1	-746.1	-181.5	417.0
Opening Cash	1,370.4	1,399.9	671.3	489.8
Closing Cash	1,388.5	653.8	489.8	906.8
Free Cash Flow	963.9	1,252.4	511.1	1,110.9

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	15.9	15.9	15.9	15.9
Reserve and Surplus	5,588.0	4,725.6	5,631.4	6,936.3
Total Shareholders funds	5,603.9	4,741.5	5,647.3	6,952.2
Total Debt	4,808.4	2,845.6	2,345.6	1,845.6
Deferred Tax Liability	263.4	247.3	254.7	262.4
Minority Interest	0.0	0.0	0.0	0.0
Other Non CL & LT Provisions	159.5	121.1	124.7	128.4
Total Liabilities	10,835.2	7,955.4	8,372.3	9,188.6
Gross Block - Fixed Assets	5,952.3	4,529.6	4,829.6	5,729.6
Accumulated Depreciation	1,701.8	2,050.8	2,423.8	2,866.3
Net Block	4,250.5	2,478.8	2,405.8	2,863.2
Capital WIP	768.4	897.0	1,297.0	897.0
Total Fixed Assets	5,018.9	3,375.8	3,702.8	3,760.2
Investments	69.4	241.0	241.0	241.0
Goodwill on Consolidation	2,089.5	2,130.0	2,130.0	2,130.0
Inventory	1,845.4	1,129.4	1,419.6	1,711.2
Debtors	1,293.2	819.9	1,135.5	1,368.8
Cash	1,399.9	671.3	489.8	906.8
Other current Assets	499.9	331.9	341.9	352.1
Total Current Assets	5,038.4	2,952.5	3,386.8	4,339.0
Creditors	1,090.3	520.5	850.0	1,024.6
Provisions	98.8	89.8	111.5	138.5
Other Current Liabilities	497.4	352.4	363.0	373.8
Total Current Liabilities	1,686.4	962.7	1,324.4	1,536.9
Net Current Assets	3,351.9	1,989.8	2,062.3	2,802.1
Deferred Tax Assets	211.2	154.7	170.2	187.2
LT L & A, Other Non CA	94.3	64.2	66.1	68.1
Application of Funds	10,835.2	7,955.4	8,372.3	9,188.6

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Reported EPS	42.6	36.0	59.9	84.9
Adjusted EPS	44.6	37.4	59.9	84.9
BV per share	351.8	297.7	354.6	436.5
Dividend per share	5.9	5.0	3.0	3.0
Cash Per Share	87.9	42.1	30.8	56.9
Operating Ratios (%)				
Gross Profit Margins	75.6	74.8	75.6	75.0
EBITDA Margins	25.9	22.9	24.4	26.1
PAT Margins	11.9	9.8	12.6	14.8
Inventory days	112.7	67.6	68.2	68.2
Debtor days	79.0	49.1	54.6	54.6
Creditor days	66.6	31.2	40.8	40.8
Asset Turnover	1.0	1.9	1.5	1.4
EBITDA conversion Rate	98.9	126.5	65.4	67.3
Return Ratios (%)				
RoE	12.7	12.6	16.9	19.5
RoCE	11.7	13.7	18.2	22.4
RoIC	13.1	14.7	19.2	24.1
Valuation Ratios (x)				
P/E	16.4	19.3	11.6	8.2
EV / EBITDA	9.4	9.5	7.0	5.0
EV / Net Sales	2.4	2.2	1.7	1.3
Market Cap / Sales	1.9	1.8	1.5	1.2
Price to Book Value	2.0	2.3	2.0	1.6
Solvency Ratios				
Debt / Equity	0.9	0.6	0.4	0.3
Debt / EBITDA	3.1	2.0	1.3	0.8
Current Ratio	2.2	2.4	2.2	2.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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