

November 15, 2022

Q2FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	2,350		1,950	
Sales (Rs. m)	36,168	40,666	34,080	38,328
% Chng.	6.1	6.1		
EBITDA (Rs. m)	8,932	10,371	8,459	9,821
% Chng.	5.6	5.6		
EPS (Rs.)	76.8	94.7	74.4	91.8
% Chng.	3.2	3.2		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	24,242	31,812	36,168	40,666
EBITDA (Rs. m)	5,435	7,202	8,932	10,371
Margin (%)	22.4	22.6	24.7	25.5
PAT (Rs. m)	3,854	4,345	5,937	7,321
EPS (Rs.)	49.9	56.2	76.8	94.7
Gr. (%)	(14.0)	12.7	36.6	23.3
DPS (Rs.)	9.5	12.0	15.0	15.0
Yield (%)	0.5	0.6	0.8	0.8
RoE (%)	19.5	18.8	21.9	22.4
RoCE (%)	23.5	25.3	27.2	27.3
EV/Sales (x)	6.3	4.8	4.1	3.5
EV/EBITDA (x)	28.1	21.4	16.7	13.8
PE (x)	39.7	35.3	25.8	20.9
P/BV (x)	7.2	6.2	5.2	4.3

Key Data

JBCH.BO | JBCP IN

52-W High / Low	Rs.2,068 / Rs.1,339
Sensex / Nifty	61,624 / 18,329
Market Cap	Rs.153bn / \$ 1,886m
Shares Outstanding	77m
3M Avg. Daily Value	Rs.159.63m

Shareholding Pattern (%)

Promoter's	53.96
Foreign	8.66
Domestic Institution	18.07
Public & Others	19.31
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.5	24.5	19.3
Relative	(3.6)	6.6	17.5

Param Desai

paramdesai@plindia.com | 91-22-66322259

Akshaya Shinde

akshayashinde@plindia.com | 91-22-66322490

J.B. Chemicals & Pharmaceuticals (JBCP IN)

Rating: BUY | CMP: Rs1,982 | TP: Rs2,350

Growth on track

Quick Pointers:

- Strong order book in CMO segments and aspiration to reach \$100mn revenues.
- Adj for ESOP; margins came in at 24.7%.

JBCP is one of India's fastest growing mid-sized Indian pharma company having superior return ratios. The company has shown sustainable growth momentum driven by 1) geographical expansion of legacy brands 2) improvement in MR productivity 3) Sanzyme and Azmarda acquisition 4) launch of new products and therapies 5) scaling up contract manufacturing business and 6) improvement in FCF generation. JBCP's strong positioning in domestic markets and focus on scaling emerging opportunities in exports segment, places it in an advantageous position to ride on near term growth prospects. We expect 24% EPS CAGR over FY22-25E. At CMP, the stock is trading at 23x FY24E P/E adjusted for ESOP and amortization charges. We maintained our Buy rating on stock with revised TP of Rs2,350/share (Rs1950 earlier) as we roll forward, valuing at 25x (23x earlier) Sept 2024E EPS adjusted for ESOP and amortization charges.

- Strong revenue growth across domestic formulation and CMO segment:** JBCP revenues grew by 37% YoY to Rs8.1bn vs our est 7.6bn aided by higher CMO revenues. Domestic formulation sales grew by 47% YoY, growth was led by key legacy and acquired brands. Export formulations posted strong growth of 17% YoY while CMO segment surprises positively with growth of 64% YoY and 10% QoQ to Rs 1.1bn vs our est. of Rs 800mn. API saw a growth of 10% YoY.
- EBITDA beat on higher CMO revenue:** EBITDA came in at Rs 1.8bn up 46% YoY (up 7% QoQ), vs our est of Rs1.65bn. OPM came in at 22.8% (up 80bp QoQ). Adjusted for ESOP (Rs170mn); OPM came in at 24.7%. Gross margin was flat QoQ to 62.7%. The YoY decline in GMs was due to inflationary pressure on input cost, packaging material cost and negligible margin from Azmarda product. PAT came in at Rs1.1bn (up 14% YoY) vs our estimates of Rs 1bn.
- Key concall takeaways: (1) Domestic formulations:** Excluding sales from the acquired brands, growth was around mid-teens for Q2 and H1 FY23. New Product contributed 4.4% to domestic sales for Q2FY23 Company is on track to improve its IPM ranking and its key brands have gained market share **(2) New Brand:** The recently acquired brands have progressing as per mgt. plan. Sporolac grew by 50% and remains #1 in its covered market space. Azmarda recorded growth of 46% with revenues clocking Rs100mn /month **(3)** The organic growth is driven by 7-8% price growth, 5-6% volume growth and 3-4% new introductions during Q2FY23. **(4)** Management indicated MR productivity to reach 0.65mn by end of FY23. Total MR at 2100 across base business, Sanzyme and Azmarda. **(5) CMO business** - Company continue to invest in lozenges research for marquee customers. H1 growth was aided by adding new products with existing customers and current order book remains healthy. Mgmt sees this business reaching \$100mn revenues and likely to contribute 20% to total revenue over period of time vs 14% currently **(6)** Russia and SouthAfrica markets also grew in double digits during Q2 **(7)** Guided for operating margins at 24-26% in FY23. **(7)** ESOP cost likely to come off to Rs380-400mn in FY24 and Rs 250-300mn in FY25.

Exhibit 1: 2QFY23 Result Overview (Rs mn): Growth led by domestic and international business

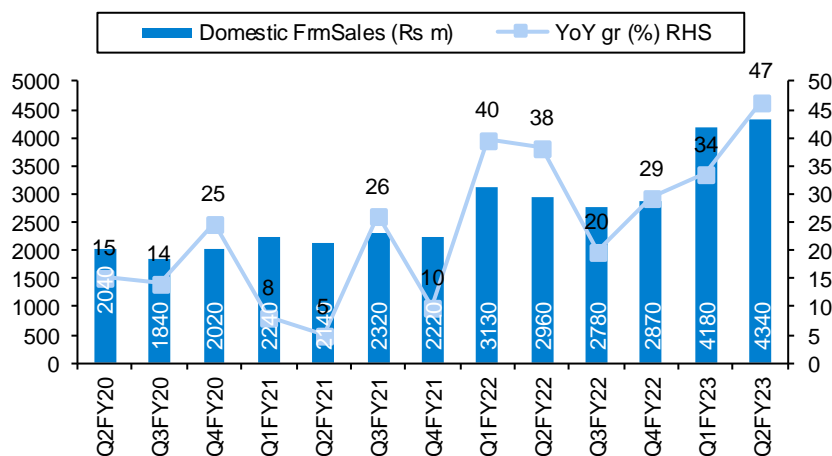
Y/e March	Q2FY23	Q2FY22	YoY gr.(%)	Q1FY23	QoQ gr. (%)	H1FY23	H1FY22	YoY gr.(%)
Net Sales	8,094	5,930	36.5	7,848	3.1	15,943	11,990	33.0
Raw Material	3,016	2,075	45.3	2,928	3.0	5,943	4,241	40.1
<i>% of Net Sales</i>	<i>37.3</i>	<i>35.0</i>		<i>37.3</i>		<i>37.3</i>	<i>35.4</i>	
Personnel Cost	1,356	1,054	28.7	1,339	1.3	2,695	2,035	32.4
<i>% of Net Sales</i>	<i>16.8</i>	<i>17.8</i>		<i>17.1</i>		<i>16.9</i>	<i>17.0</i>	
Others	1,877	1,533	22.4	1,854	1.2	3,731	2,810	32.8
<i>% of Net Sales</i>	<i>23.2</i>	<i>25.9</i>		<i>23.6</i>		<i>23.4</i>	<i>23.4</i>	
Total Expenditure	6,249	4,663	34.0	6,121	2.1	12,369	9,086	36.1
EBITDA	1,846	1,267	45.6	1,728	6.8	3,573	2,904	23.0
<i>Margin (%)</i>	<i>22.8</i>	<i>21.4</i>		<i>22.0</i>		<i>22.4</i>	<i>24.2</i>	
Depreciation	281	157	78.8	261	7.9	542	336	61.4
EBIT	1,565	1,110	40.9	1,467	6.7	3,031	2,568	18.0
Other Income	13	196	(93.2)	9	50.6	22	326	(93.2)
Interest	80	12	550.1	58	36.5	138	22	537.3
PBT	1,498	1,294	15.8	1,417	5.7	2,916	2,873	1.5
Total Taxes	388	315	22.9	365	6.0	753	703	7.0
<i>ETR (%)</i>	<i>25.9</i>	<i>24.4</i>		<i>25.8</i>		<i>25.8</i>	<i>24.5</i>	
Minority Interest	-	(1)		(2)		(2)	(3)	
Reported PAT	1,111	978	13.6	1,050	5.8	2,161	2,166	(0.2)

Source: Company, PL

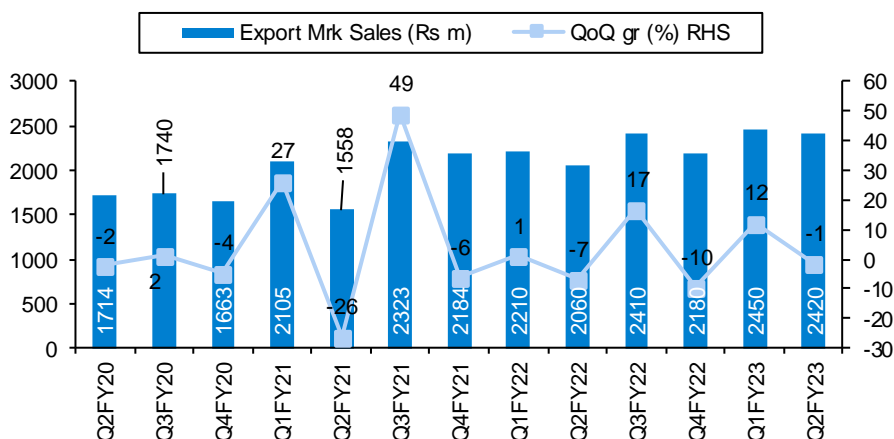
Exhibit 2: Break up of Consolidated Sale of Products

Y/e March	Q2FY23	Q2FY22	YoY gr.(%)	Q1FY23	QoQ gr. (%)	H1FY23	H1FY22	YoY gr.(%)
Domestic	4,340	2,960	46.6	4,180	3.8	8,520	6,090	39.9
Formulations	4,340	2,960	46.6	4,180	3.8	8,520	6,090	39.9
Exports	3,754	2,970	26.4	3,668	2.3	7,422	5,900	25.8
Formulations	2,420	2,060	17.5	2,450	(1.2)	4,870	4,270	14.1
CMO	1,100	670	64.2	1,000	10.0	2,100	1,150	82.6
APIs	230	210	9.5	210	9.5	440	390	12.8
Other	4	30	(86.7)	8	(50.0)	12	90	(86.7)
Net Revenues	8,094	5,930	36.5	7,848	3.1	15,942	11,990	33.0

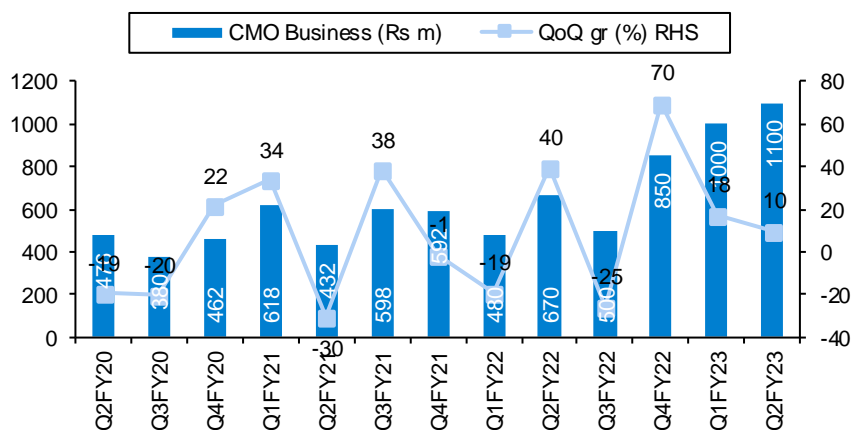
Source: Company, PL

Exhibit 3: Domestic formulation (Rs m): growth driven by key brands


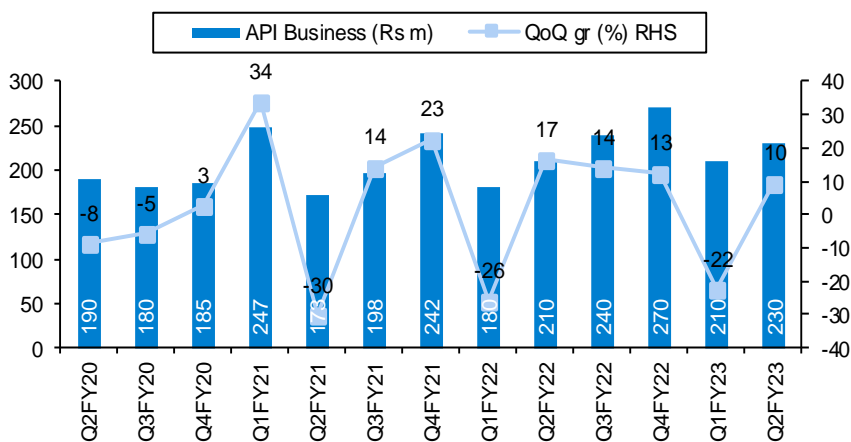
Source: Company, PL

Exhibit 4: Export formulation (Rs m): Export market remain promising


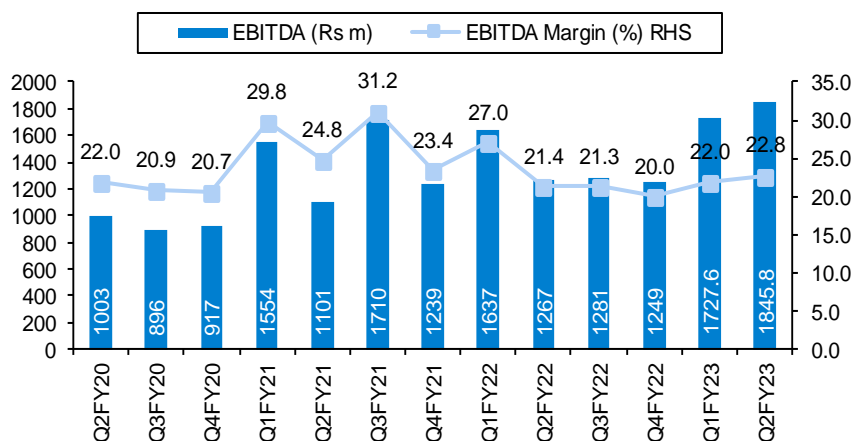
Source: Company, PL

Exhibit 5: CMO Biz (Rs m): positive surprise on QoQ


Source: Company, PL

Exhibit 6: API Biz (Rs m): strong growth on demand


Source: Company, PL

Exhibit 7: EBITDA & Margin (%) maintained margin despite cost pressure


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	24,242	31,812	36,168	40,666
YoY gr. (%)	18.7	31.2	13.7	12.4
Cost of Goods Sold	8,429	11,129	12,400	13,750
Gross Profit	15,813	20,683	23,768	26,916
Margin (%)	65.2	65.0	65.7	66.2
Employee Cost	4,392	6,035	6,515	7,138
Other Expenses	5,986	7,446	8,320	9,407
EBITDA	5,435	7,202	8,932	10,371
YoY gr. (%)	(3.0)	32.5	24.0	16.1
Margin (%)	22.4	22.6	24.7	25.5
Depreciation and Amortization	727	1,179	1,280	1,311
EBIT	4,708	6,023	7,652	9,060
Margin (%)	19.4	18.9	21.2	22.3
Net Interest	51	300	200	100
Other Income	392	70	309	548
Profit Before Tax	5,049	5,793	7,761	9,508
Margin (%)	20.8	18.2	21.5	23.4
Total Tax	1,189	1,448	1,824	2,187
Effective tax rate (%)	23.5	25.0	23.5	23.0
Profit after tax	3,860	4,345	5,937	7,321
Minority interest	7	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,854	4,345	5,937	7,321
YoY gr. (%)	(14.0)	12.7	36.6	23.3
Margin (%)	15.9	13.7	16.4	18.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,854	4,345	5,937	7,321
YoY gr. (%)	(14.0)	12.7	36.6	23.3
Margin (%)	15.9	13.7	16.4	18.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,854	4,345	5,937	7,321
Equity Shares O/s (m)	77	77	77	77
EPS (Rs)	49.9	56.2	76.8	94.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	18,351	22,251	22,431	22,611
Tangibles	11,637	15,937	16,537	17,137
Intangibles	6,714	6,314	5,894	5,474
Acc: Dep / Amortization	6,108	7,287	8,566	9,878
Tangibles	6,108	7,287	8,566	9,878
Intangibles	-	-	-	-
Net fixed assets	12,243	14,964	13,864	12,733
Tangibles	5,529	8,650	7,970	7,259
Intangibles	6,714	6,314	5,894	5,474
Capital Work In Progress	139	139	139	139
Goodwill	575	575	575	575
Non-Current Investments	127	129	129	129
Net Deferred tax assets	(411)	(411)	(411)	(411)
Other Non-Current Assets	177	177	177	177
Current Assets				
Investments	-	-	-	-
Inventories	4,100	5,665	6,441	7,242
Trade receivables	5,557	6,711	7,630	8,579
Cash & Bank Balance	585	366	4,467	9,941
Other Current Assets	2,494	2,494	2,494	2,494
Total Assets	26,074	31,297	35,993	42,086
Equity				
Equity Share Capital	155	155	155	155
Other Equity	21,187	24,604	29,382	35,544
Total Network	21,341	24,759	29,537	35,698
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	375	375	375	375
Current Liabilities				
ST Debt / Current of LT Debt	263	1,263	763	263
Trade payables	2,245	3,050	3,468	3,900
Other current liabilities	1,329	1,329	1,329	1,329
Total Equity & Liabilities	26,074	31,297	35,993	42,086

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	5,049	5,793	7,761	9,508
Add. Depreciation	727	1,179	1,280	1,311
Add. Interest	51	300	200	100
Less Financial Other Income	392	70	309	548
Add. Other	246	330	111	(128)
Op. profit before WC changes	6,073	7,602	9,352	10,791
Net Changes-WC	(3,025)	(1,914)	(1,277)	(1,319)
Direct tax	(1,346)	(1,448)	(1,824)	(2,187)
Net cash from Op. activities	1,701	4,240	6,252	7,285
Capital expenditures	(6,990)	(4,300)	(600)	(600)
Interest / Dividend Income	-	-	-	-
Others	7,013	-	-	-
Net Cash from Invt. activities	23	(4,300)	(600)	(600)
Issue of share cap. / premium	-	-	-	-
Debt changes	(3)	1,000	(500)	(500)
Dividend paid	(1,276)	(927)	(1,159)	(1,159)
Interest paid	(25)	(300)	(200)	(100)
Others	(144)	68	309	548
Net cash from Fin. activities	(1,448)	(159)	(1,551)	(1,211)
Net change in cash	277	(220)	4,101	5,474
Free Cash Flow	(5,289)	(60)	5,652	6,685

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	6,007	6,246	7,848	8,094
YoY gr. (%)	9.6	18.2	29.5	36.5
Raw Material Expenses	2,060	2,128	2,928	3,016
Gross Profit	3,946	4,118	4,920	5,079
Margin (%)	65.7	65.9	62.7	62.7
EBITDA	1,281	1,249	1,728	1,846
YoY gr. (%)	(25.1)	0.8	5.5	45.6
Margin (%)	21.3	20.0	22.0	22.8
Depreciation / Depletion	170	221	261	281
EBIT	1,111	1,028	1,467	1,565
Margin (%)	18.5	16.5	18.7	19.3
Net Interest	13	16	58	80
Other Income	45	21	9	13
Profit before Tax	1,143	1,033	1,417	1,498
Margin (%)	19.0	16.5	18.1	18.5
Total Tax	302	183	365	388
Effective tax rate (%)	26.4	17.7	25.8	25.9
Profit after Tax	841	850	1,052	1,111
Minority interest	2	1	2	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	839	848	1,050	1,111
YoY gr. (%)	(45.6)	(15.7)	(11.6)	13.6
Margin (%)	14.0	13.6	13.4	13.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	839	848	1,050	1,111
YoY gr. (%)	(45.6)	(15.7)	(11.6)	13.6
Margin (%)	14.0	13.6	13.4	13.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	839	849	1,051	1,112
Avg. Shares O/s (m)	77	77	77	77
EPS (Rs)	10.9	11.0	13.6	14.4

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	49.9	56.2	76.8	94.7
CEPS	59.3	71.5	93.4	111.7
BVPS	276.1	320.4	382.2	461.9
FCF	(68.4)	(0.8)	73.1	86.5
DPS	9.5	12.0	15.0	15.0
Return Ratio(%)				
RoCE	23.5	25.3	27.2	27.3
ROIC	18.5	19.5	24.3	28.2
RoE	19.5	18.8	21.9	22.4
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	(0.1)	(0.3)
Net Working Capital (Days)	112	107	107	107
Valuation(x)				
PER	39.7	35.3	25.8	20.9
P/B	7.2	6.2	5.2	4.3
P/CEPS	33.4	27.7	21.2	17.7
EV/EBITDA	28.1	21.4	16.7	13.8
EV/Sales	6.3	4.8	4.1	3.5
Dividend Yield (%)	0.5	0.6	0.8	0.8

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Domestic Formulations	11,095	13,241	14,963	16,758
Contrast Media	635	730	818	916
Sanzyme	1,400	1,890	2,268	2,608
Export Formulations	8,922	9,924	11,224	12,698
Contract Manufacturing	2,530	3,795	4,554	5,100
API business	910	1,001	1,101	1,211

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	1,950	1,975
2	19-Jul-22	BUY	1,950	1,636

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,421
2	Aster DM Healthcare	BUY	234	249
3	Aurobindo Pharma	Accumulate	635	535
4	Cipla	BUY	1,300	1,146
5	Divi's Laboratories	Hold	3,300	3,415
6	Dr. Reddy's Laboratories	BUY	4,900	4,460
7	Eris Lifesciences	BUY	850	736
8	Fortis Healthcare	BUY	330	266
9	Glenmark Pharmaceuticals	Accumulate	450	401
10	HealthCare Global Enterprises	BUY	358	291
11	Indoco Remedies	BUY	430	348
12	Ipca Laboratories	Accumulate	1,000	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,660	1,448
15	Lupin	Hold	650	719
16	Max Healthcare Institute	BUY	500	465
17	Narayana Hrudayalaya	BUY	900	740
18	Sun Pharmaceutical Industries	BUY	1,175	1,037
19	Torrent Pharmaceuticals	BUY	1,850	1,567
20	Zydus Lifesciences	Accumulate	465	429

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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