

November 9, 2023

## Q2FY24 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,675		1,500	
Sales (Rs.m)	34,994	39,655	35,925	40,802
% Chng.	(2.6)	(2.8)		
EBITDA (Rs.m)	9,001	10,763	9,003	10,799
% Chng.	(0.0)	(0.3)		
EPS (Rs.)	36.6	46.7	36.3	46.8
% Chng.	0.8	(0.2)		

### Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	31,493	34,994	39,655	44,955
EBITDA (Rs. m)	6,958	9,001	10,763	12,656
Margin (%)	22.1	25.7	27.1	28.2
PAT (Rs. m)	4,098	5,659	7,228	8,741
EPS (Rs.)	26.5	36.6	46.7	56.5
Gr. (%)	(46.9)	38.1	27.7	20.9
DPS (Rs.)	12.0	15.0	15.0	15.0
Yield (%)	0.8	1.0	1.0	1.0
RoE (%)	17.8	21.4	23.6	24.1
RoCE (%)	22.4	25.3	28.6	30.0
EV/Sales (x)	7.3	6.5	5.6	4.8
EV/EBITDA (x)	32.9	25.1	20.6	17.0
PE (x)	55.2	40.0	31.3	25.9
P/BV (x)	9.1	8.0	6.8	5.7

### Key Data

JBCE.BO | JBCE IN

52-W High / Low	Rs.1,525 / Rs.875
Sensex / Nifty	64,976 / 19,444
Market Cap	Rs.227bn/ \$ 2,721m
Shares Outstanding	155m
3M Avg. Daily Value	Rs.302.67m

### Shareholding Pattern (%)

Promoter's	53.86
Foreign	10.05
Domestic Institution	18.58
Public & Others	17.50
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(1.9)	40.3	46.8
Relative	(0.3)	33.3	38.2

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## Margin surprise

### Quick Pointers:

- Reiterate CDMO revenue guidance of \$100mn over next 3-4 years.
- Adj for ESOP (Rs 77mn), OPM came in at 28.5%.

**J.B. Chemicals & Pharmaceuticals (JBCE) Q2FY24 EBITDA growth of 32% YoY was 6% above our estimate aided by higher margins. Revenue growth across domestic formulation (+11% YoY) and contract manufacturing business (+5% YoY) continue to remain healthy. We believe JBCE will continue with its growth momentum driven by 1) geographical expansion of legacy brands 2) improvement in MR productivity 3) scale up in Sanzyme, Azmarda and Razel franchise 4) launch of new products & therapies 5) scaling up contract manufacturing business and 6) improvement in FCF generation. Our FY24/25E EPS stands broadly remains unchanged. We expect EPS CAGR of 29% over FY23-26E. At CMP, the stock is trading at 27x FY25E P/E adjusted for ESOP and amortization charges. We maintain our 'BUY' rating with revised TP of Rs1,675/share (Rs1,500 earlier), valuing at 30x Sept 2025E EPS adjusted for ESOP and amortization charges.**

- In line revenues:** JBCE revenues grew by 9% YoY to Rs8.82bn, against our estimates of Rs8.92bn. Domestic formulation sales continued to show double digit growth of 11% YoY, led by scale up in acquired portfolio and chronic brands despite softer demand from acute portfolio. Export formulations delivered growth of 9% YoY at Rs 2.63bn. It witnessed moderate growth of 5% YoY in CMO space to Rs 1.2bn. API sales were flat YoY.
- EBITDA 6% above our estimate; margins at 28.5% adj for ESOP:** EBITDA came in at Rs 2.43bn up 32% YoY & 5% QoQ, 6.4% beat to our estimate. Margins came at 27.6%. Adjusted for ESOP (Rs77mn), EBITDA was Rs2.51bn with OPM of 28.5%; up 380 bps YoY. GM came in at 66.2%; improved 340 bps YoY and up 80 bps QoQ. High chronic share and increased realization from acquire portfolio aided such performance. PAT came in at Rs1.5bn up 35.5%YoY, vs our est. of Rs1.4bn. EPS was Rs 9.7 in Q2FY24. Adj for ESOP and amortization charges, EPS came in at Rs 10.5/share for Q2FY24.
- Key concall takeaways: Domestic:** Overall good performance from its top 3 franchises – Cilacar, Rantac & Metrogyl. The life cycle management will continue to aid growth of flagship products. Volume growth was 5-6% | Q2. Q3 will see better growth for domestic formulation given low base. **Therapy mix** contribution stands at 53%/47% between Chronic/Acute. Sporlac brand is now+Rs1bnfranchise. Company has done restructuring in SouthAfrica market related to its tender business which will result in Rs1.2bn of revenue loss in FY24. Intend to focus more on private market which is slightly better margin in nature. CDMO segment is likely to remain soft in H2; reiterated its overall guidance of \$100mn. over next 3-4 years. Initiated capacity expansion for lozenges facility in Daman. Have bought adjacent land in Daman for Rs500mn. Guided earlier for margins 25-27% and should achieve at higher end of band. Net debt stands at Rs180mn vs Rs2.7bn as of FY23 end.

**Exhibit 1: 2QFY24 Result Overview (Rs mn): Beat on EBITDA; Revenues on expected lines**

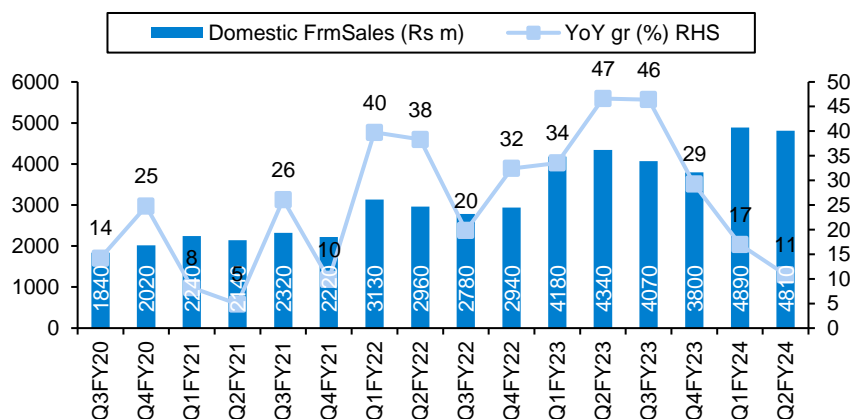
Y/e March (Rs in mn)	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	1HY24	1HY23	YoY Gr %
<b>Net Sales</b>	<b>8,817</b>	<b>8,094</b>	<b>8.9</b>	<b>8,962</b>	<b>(1.6)</b>	<b>17,779</b>	<b>15,943</b>	<b>11.5</b>
Raw Material	2,982	3,016	(1.1)	3,100	(3.8)	6,081	5,943	2.3
<i>% of Net Sales</i>	<i>33.8</i>	<i>37.3</i>		<i>34.6</i>		<i>34.2</i>	<i>37.3</i>	
Personnel Cost	1,483	1,356	9.3	1,488	(0.3)	2,970	2,695	10.2
<i>% of Net Sales</i>	<i>16.8</i>	<i>16.8</i>		<i>16.6</i>		<i>16.7</i>	<i>16.9</i>	
Others	1,918	1,877	2.2	2,054	(6.6)	3,971	3,731	6.4
<i>% of Net Sales</i>	<i>21.7</i>	<i>23.2</i>		<i>22.9</i>		<i>22.3</i>	<i>23.4</i>	
Total Expenditure	6,382	6,249	2.1	6,641	(3.9)	13,023	12,369	5.3
<b>EBITDA</b>	<b>2,435</b>	<b>1,846</b>	<b>31.9</b>	<b>2,321</b>	<b>4.9</b>	<b>4,757</b>	<b>3,573</b>	<b>33.1</b>
<i>Margin (%)</i>	<i>27.6</i>	<i>22.8</i>		<i>25.9</i>		<i>26.8</i>	<i>22.4</i>	
Depreciation	322	281	14.4	314	2.5	636	542	17.2
<b>EBIT</b>	<b>2,114</b>	<b>1,565</b>	<b>35.1</b>	<b>2,007</b>	<b>5.3</b>	<b>4,121</b>	<b>3,031</b>	<b>36.0</b>
Other Income	77	13	471.6	56	36.1	133	22	496.0
Interest	104	80	30.3	121	(14.0)	224	138	62.7
<b>PBT</b>	<b>2,087</b>	<b>1,498</b>	<b>39.3</b>	<b>1,943</b>	<b>7.4</b>	<b>4,030</b>	<b>2,916</b>	<b>38.2</b>
Total Taxes	581	388	49.9	520	11.7	1,101	753	46.2
<i>ETR (%)</i>	<i>27.8</i>	<i>25.9</i>		<i>26.8</i>		<i>27.3</i>	<i>25.8</i>	
Minority Interest	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>1,506</b>	<b>1,111</b>	<b>35.6</b>	<b>1,423</b>	<b>5.8</b>	<b>2,929</b>	<b>2,163</b>	<b>35.4</b>

Source: Company, PL

**Exhibit 2: Strong show from domestic formulation biz**

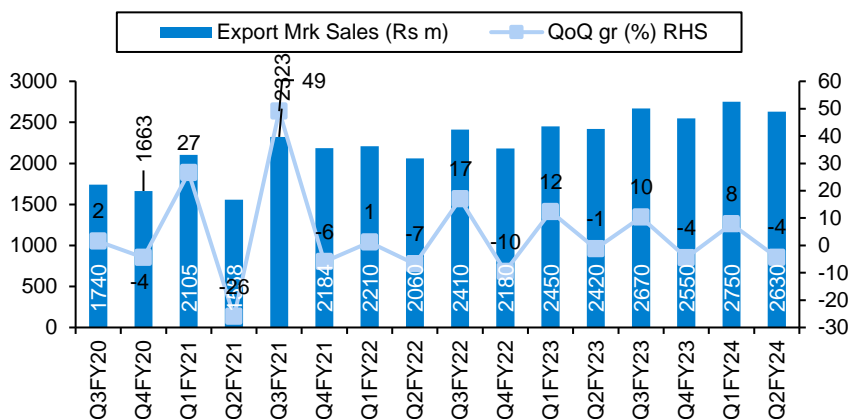
Major sources of revenues	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	1HY24	1HY23	YoY Gr %
<b>Domestic</b>	<b>4,810</b>	<b>4,340</b>	<b>10.8</b>	<b>4,890</b>	<b>(1.6)</b>	<b>9,700</b>	<b>8,520</b>	<b>13.8</b>
Formulations	4,810	4,340	10.8	4,890	(1.6)	9,700	8,520	13.8
<b>Exports</b>	<b>4,012</b>	<b>3,754</b>	<b>6.9</b>	<b>4,072</b>	<b>(1.5)</b>	<b>8,084</b>	<b>7,422</b>	<b>8.9</b>
Formulations	2,630	2,420	8.7	2,750	(4.4)	5,380	4,870	10.5
CMO	1,150	1,100	4.5	1,190	(3.4)	2,340	2,100	11.4
APIs	230	230	-	130	76.9	360	440	(18.2)
Other	2	4	(50.0)	2	-	4	12	(66.7)
<b>Net Revenues</b>	<b>8,822</b>	<b>8,094</b>	<b>9.0</b>	<b>8,962</b>	<b>(1.6)</b>	<b>17,784</b>	<b>15,942</b>	<b>11.6</b>

Source: Company, PL

**Exhibit 3: Performance driven by chronic and acquired portfolio**


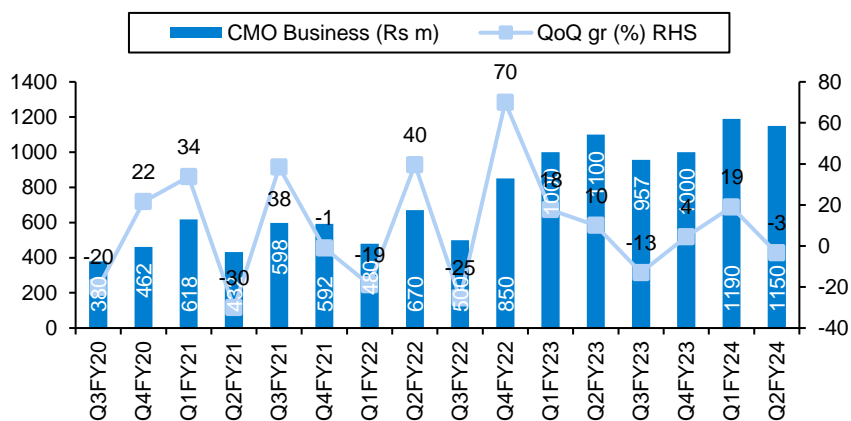
Source: Company, PL

Exhibit 4: Double digit growth ex SA biz



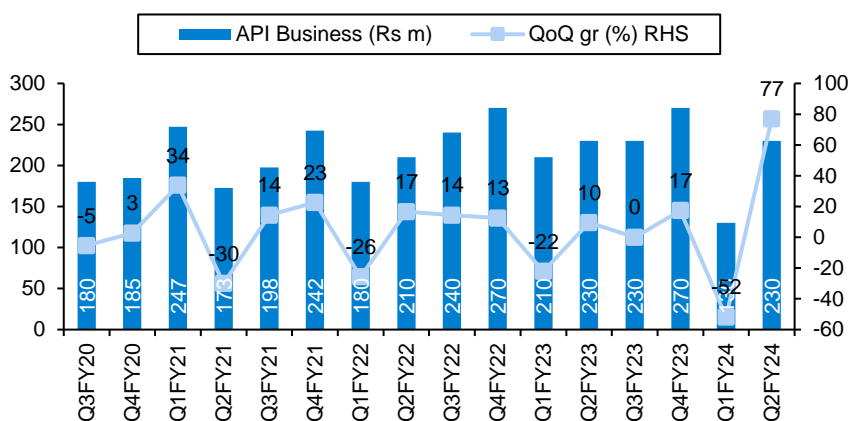
Source: Company, PL

Exhibit 5: Scale up with new launches to continue



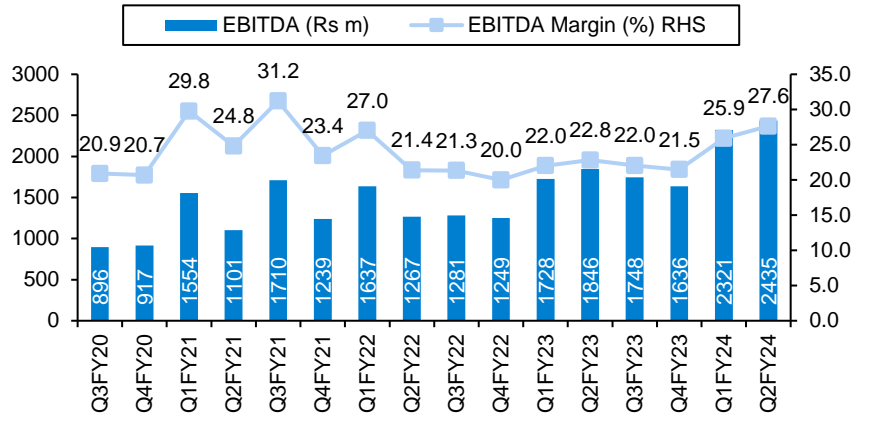
Source: Company, PL

Exhibit 6: Sharp recovery in API Biz QoQ



Source: Company, PL

Exhibit 7: Better product mix improved margins



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>31,493</b>	<b>34,994</b>	<b>39,655</b>	<b>44,955</b>
YoY gr. (%)	29.9	11.1	13.3	13.4
Cost of Goods Sold	11,682	12,003	13,483	15,195
Gross Profit	19,811	22,991	26,172	29,760
Margin (%)	62.9	65.7	66.0	66.2
Employee Cost	5,435	5,978	6,636	7,365
Other Expenses	7,419	8,012	8,773	9,739
<b>EBITDA</b>	<b>6,958</b>	<b>9,001</b>	<b>10,763</b>	<b>12,656</b>
YoY gr. (%)	28.0	29.4	19.6	17.6
Margin (%)	22.1	25.7	27.1	28.2
Depreciation and Amortization	1,144	1,262	1,331	1,399
<b>EBIT</b>	<b>5,813</b>	<b>7,738</b>	<b>9,432</b>	<b>11,258</b>
Margin (%)	18.5	22.1	23.8	25.0
Net Interest	361	351	150	75
Other Income	99	260	420	550
<b>Profit Before Tax</b>	<b>5,552</b>	<b>7,647</b>	<b>9,702</b>	<b>11,733</b>
Margin (%)	17.6	21.9	24.5	26.1
Total Tax	1,452	1,988	2,474	2,992
Effective tax rate (%)	26.2	26.0	25.5	25.5
<b>Profit after tax</b>	<b>4,100</b>	<b>5,659</b>	<b>7,228</b>	<b>8,741</b>
Minority interest	2	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>4,098</b>	<b>5,659</b>	<b>7,228</b>	<b>8,741</b>
YoY gr. (%)	6.4	38.1	27.7	20.9
Margin (%)	13.0	16.2	18.2	19.4
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>4,098</b>	<b>5,659</b>	<b>7,228</b>	<b>8,741</b>
YoY gr. (%)	6.4	38.1	27.7	20.9
Margin (%)	13.0	16.2	18.2	19.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,098	5,659	7,228	8,741
<b>Equity Shares O/s (m)</b>	<b>155</b>	<b>155</b>	<b>155</b>	<b>155</b>
<b>EPS (Rs)</b>	<b>26.5</b>	<b>36.6</b>	<b>46.7</b>	<b>56.5</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>25,795</b>	<b>26,092</b>	<b>26,389</b>	<b>26,687</b>
Tangibles	12,572	13,289	14,007	14,724
Intangibles	13,223	12,803	12,383	11,963
<b>Acc: Dep / Amortization</b>	<b>7,252</b>	<b>8,514</b>	<b>9,845</b>	<b>11,244</b>
Tangibles	7,252	8,514	9,845	11,244
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>18,543</b>	<b>17,578</b>	<b>16,544</b>	<b>15,443</b>
Tangibles	5,320	4,775	4,162	3,480
Intangibles	13,223	12,803	12,383	11,963
Capital Work In Progress	444	444	444	444
Goodwill	575	575	575	575
Non-Current Investments	138	129	129	129
Net Deferred tax assets	(963)	(963)	(963)	(963)
Other Non-Current Assets	227	227	227	227
<b>Current Assets</b>				
Investments	1,922	1,922	1,922	1,922
Inventories	4,305	5,273	5,975	6,774
Trade receivables	5,758	6,711	7,605	8,622
Cash & Bank Balance	788	1,209	4,961	10,129
Other Current Assets	2,761	2,761	2,761	2,761
<b>Total Assets</b>	<b>35,539</b>	<b>36,907</b>	<b>41,222</b>	<b>47,104</b>
<b>Equity</b>				
Equity Share Capital	155	310	310	310
Other Equity	24,649	27,831	32,737	39,155
<b>Total Networkth</b>	<b>24,804</b>	<b>28,140</b>	<b>33,046</b>	<b>39,464</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	3,832	2,832	1,832	832
Provisions	-	-	-	-
Other non current liabilities	330	330	330	330
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,650	-	-	-
Trade payables	2,386	3,068	3,477	3,941
Other current liabilities	1,508	1,508	1,508	1,508
<b>Total Equity &amp; Liabilities</b>	<b>35,539</b>	<b>36,907</b>	<b>41,222</b>	<b>47,104</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	5,552	7,647	9,702	11,733
Add. Depreciation	1,144	1,262	1,331	1,399
Add. Interest	361	351	150	75
Less Financial Other Income	99	260	420	550
Add. Other	508	-	-	-
Op. profit before WC changes	7,565	9,261	11,183	13,206
Net Changes-WC	(354)	(1,240)	(1,188)	(1,351)
Direct tax	(955)	(1,988)	(2,474)	(2,992)
<b>Net cash from Op. activities</b>	<b>6,256</b>	<b>6,033</b>	<b>7,521</b>	<b>8,864</b>
Capital expenditures	(7,641)	(717)	(717)	(717)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(7,641)</b>	<b>(717)</b>	<b>(717)</b>	<b>(717)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	5,232	(2,650)	(1,000)	(1,000)
Dividend paid	(1,276)	(2,322)	(2,322)	(2,323)
Interest paid	(322)	(351)	(150)	(75)
Others	(2,046)	429	420	420
<b>Net cash from Fin. activities</b>	<b>1,588</b>	<b>(4,895)</b>	<b>(3,052)</b>	<b>(2,978)</b>
<b>Net change in cash</b>	<b>203</b>	<b>421</b>	<b>3,752</b>	<b>5,169</b>
Free Cash Flow	(1,385)	5,315	6,804	8,147

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
<b>Net Revenue</b>	<b>7,927</b>	<b>7,623</b>	<b>8,962</b>	<b>8,817</b>
YoY gr. (%)	32.0	22.1	14.2	8.9
Raw Material Expenses	2,990	2,749	3,100	2,982
Gross Profit	4,937	4,875	5,862	5,836
Margin (%)	62.3	63.9	65.4	66.2
<b>EBITDA</b>	<b>1,748</b>	<b>1,636</b>	<b>2,321</b>	<b>2,435</b>
YoY gr. (%)	36.4	31.0	34.4	31.9
Margin (%)	22.0	21.5	25.9	27.6
Depreciation / Depletion	284	318	314	322
<b>EBIT</b>	<b>1,464</b>	<b>1,318</b>	<b>2,007</b>	<b>2,114</b>
Margin (%)	18.5	17.3	22.4	24.0
Net Interest	83	140	121	104
Other Income	31	46	56	77
<b>Profit before Tax</b>	<b>1,412</b>	<b>1,225</b>	<b>1,943</b>	<b>2,087</b>
Margin (%)	17.8	16.1	21.7	23.7
Total Tax	351	348	520	581
Effective tax rate (%)	24.9	28.4	26.8	27.8
<b>Profit after Tax</b>	<b>1,061</b>	<b>876</b>	<b>1,423</b>	<b>1,506</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,061</b>	<b>876</b>	<b>1,423</b>	<b>1,506</b>
YoY gr. (%)	26.5	3.3	35.5	35.6
Margin (%)	13.4	11.5	15.9	17.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,061</b>	<b>876</b>	<b>1,423</b>	<b>1,506</b>
YoY gr. (%)	26.5	3.3	35.5	35.6
Margin (%)	13.4	11.5	15.9	17.1
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,062</b>	<b>876</b>	<b>1,424</b>	<b>1,507</b>
Avg. Shares O/s (m)	155	155	155	155
<b>EPS (Rs)</b>	<b>6.9</b>	<b>5.7</b>	<b>9.2</b>	<b>9.7</b>

Source: Company Data, PL Research

**Key Financial Metrics**

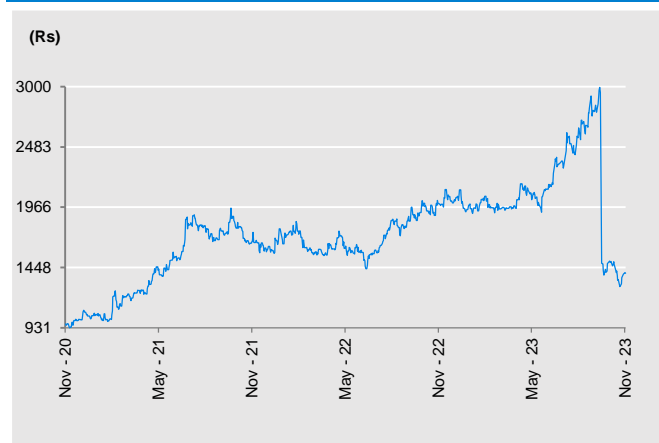
Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	26.5	36.6	46.7	56.5
CEPS	33.9	44.7	55.3	65.5
BVPS	160.2	181.8	213.5	254.9
FCF	(8.9)	34.3	44.0	52.6
DPS	12.0	15.0	15.0	15.0
<b>Return Ratio(%)</b>				
RoCE	22.4	25.3	28.6	30.0
ROIC	17.7	22.9	27.5	32.1
RoE	17.8	21.4	23.6	24.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.1	0.0	(0.2)	(0.3)
Net Working Capital (Days)	89	93	93	93
<b>Valuation(x)</b>				
PER	55.2	40.0	31.3	25.9
P/B	9.1	8.0	6.8	5.7
P/CEPS	43.2	32.7	26.4	22.3
EV/EBITDA	32.9	25.1	20.6	17.0
EV/Sales	7.3	6.5	5.6	4.8
Dividend Yield (%)	0.8	1.0	1.0	1.0

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY23	FY24E	FY25E	FY26E
Domestic Formulations	15,670	18,148	20,493	23,120
Contrast Media	730	818	916	1,026
Sanzyme	1,890	2,230	2,609	3,053
Export Formulations	10,090	10,718	12,069	13,606
Contract Manufacturing	4,060	4,507	5,318	6,275
API business	940	800	856	924

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	BUY	1,500	1,500
2	10-Aug-23	BUY	3,000	2,711
3	06-Jul-23	BUY	2,450	2,314
4	25-May-23	BUY	2,450	2,055
5	06-Apr-23	BUY	2,350	1,975
6	10-Feb-23	BUY	2,350	1,965
7	06-Jan-23	BUY	2,350	1,992
8	15-Nov-22	BUY	2,350	1,982

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,800	5,060
2	Aster DM Healthcare	BUY	345	327
3	Aurobindo Pharma	Accumulate	900	901
4	Cipla	BUY	1,350	1,174
5	Divi's Laboratories	Reduce	3,150	3,522
6	Dr. Reddy's Laboratories	Reduce	5,300	5,397
7	Eris Lifesciences	BUY	910	900
8	Fortis Healthcare	BUY	365	328
9	Glenmark Pharmaceuticals	Reduce	570	794
10	HealthCare Global Enterprises	BUY	385	361
11	Indoco Remedies	BUY	385	350
12	Ipca Laboratories	Hold	880	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,500	1,500
14	Krishna Institute of Medical Sciences	BUY	2,000	1,918
15	Lupin	Hold	1,010	1,155
16	Max Healthcare Institute	BUY	675	601
17	Narayana Hrudayalaya	BUY	1,110	1,092
18	Sun Pharmaceutical Industries	BUY	1,280	1,116
19	Sunteck Realty	BUY	565	436
20	Torrent Pharmaceuticals	BUY	2,250	1,877
21	Zydus Lifesciences	Accumulate	670	599

**PL's Recommendation Nomenclature (Absolute Performance)**

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



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