

Rating: REDUCE | CMP: Rs445 | TP: Rs433

July 29, 2019

Q1FY20 Result Update

■ Change in Estimates | Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	REDUCE		REDUCE	
Target Price	433		648	
Sales (Rs. m)	96,920	103,734	96,920	103,734
% Chng.	-	-	-	-
EBITDA (Rs. m)	17,882	19,294	17,882	19,294
% Chng.	-	-	-	-
EPS (Rs.)	57.7	64.9	57.7	64.9
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	74,648	89,971	96,920	103,734
EBITDA (Rs. m)	14,253	16,253	17,882	19,294
Margin (%)	19.1	18.1	18.5	18.6
PAT (Rs. m)	6,428	5,745	9,190	10,346
EPS (Rs.)	41.3	36.1	57.7	64.9
Gr. (%)	11.6	(12.6)	60.0	12.6
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	17.1	12.9	17.5	16.8
RoCE (%)	13.4	14.7	15.0	15.8
EV/Sales (x)	1.4	1.2	1.0	0.9
EV/EBITDA (x)	7.1	6.4	5.5	4.9
PE (x)	10.8	12.3	7.7	6.9
P/BV (x)	1.7	1.5	1.3	1.1

Key Data

JULS.BO | JUBILANT IN

52-W High / Low	Rs.899 / Rs.425
Sensex / Nifty	37,883 / 11,284
Market Cap	Rs.71bn/ \$ 1,028m
Shares Outstanding	159m
3M Avg. Daily Value	Rs.389.42m

Shareholding Pattern (%)

Promoter's	50.68
Foreign	26.98
Domestic Institution	4.68
Public & Others	17.67
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.1)	(37.1)	(42.9)
Relative	(2.9)	(40.2)	(44.3)

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Pharma continues to lead growth, profitability

With lower than usual growth in Pharma business and declining LSI revenues, JUBILANT sales were 7% lower than our estimates while adj. EBITDA and adj. PAT were in-line as those were 1% and 2%, respectively, higher than our estimates. Pharma business grew by 12% YoY while LSI declined by 5% in Q1FY20. Ban on new approvals and lack of sales in sartans impacted US generic and API sales which were the key reasons for low growth in pharma business. LSI business remains tepid due to low demand and low prices in life science chemicals (LSC) and management guided sluggish demand and pricing scenario to continue in LSC segments and expect improvement only in H2FY20E.

With Rs480m one-offs in Q1, JUBILANT's operating and overhead costs remained higher in Q1FY20. This has led to 30bps YoY decline in adj. EBITDA margin to 19.5% respectively. Radiopharma, CDMO and allergic extracts maintains growth and margin while API and generics continued to be impacted due to ban on new product approvals in Roorkee (formulations) and Nanjangud (API) plants. EBITDA margin in LSI however increased with improved demand in specialty chemicals and margin. The sustainability of LSI profitability to remain tepid without witnessing growth in Vit-B business globally.

With ban on new approvals, the benefit of new launches and opportunities from shortage of drugs will be limited for JUBILANT. Its anti-allergy and venom businesses although gaining traction post withdrawal of competitions. While Vitamin business benefited from better demand scenario, the lower pricing regime with high volume impacted LSI business. The lack of supply of Vitamin-A & E have negatively impacted the price and demand of Vitamin-B thus reducing the price for the past 5-6 quarters.

JUBILANT raised US\$200m debt to repay US\$135m prepay debt from IFC Washington, though the event raised total borrowings. Its net debt reduced by Rs1.96bn in Q1FY20. This will result in compression of valuation multiples. We reduced assigned EV/EBITDA to 5x (from 7x) to Pharma business on FY21E in our SOTP valuations. The current valuation reflects all possible positive developments in the near to medium term. With muted demand offtake in chemical biz (LSI), high leverage and regulatory uncertainties we maintain 'Reduce' recommendation and decrease TP to Rs433 (Rs648 earlier).

Exhibit 1: Q1FY20 Result Overview (Rs m)

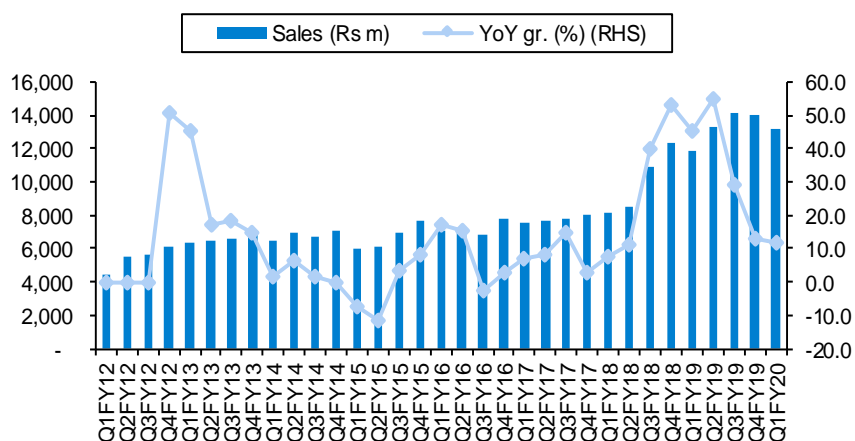
Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Net Sales	21,819	20,787	5.0	23,856	96,920	91,108	6.4
Raw Material	8,671	8,959	(3.2)	10,856	37,993	39,882	(4.7)
<i>% of Net Sales</i>	<i>39.7</i>	<i>43.1</i>		<i>45.5</i>	<i>39.2</i>	<i>43.8</i>	
Personnel Cost	5,041	4,516	11.6	4,968	20,596	19,260	6.9
<i>% of Net Sales</i>	<i>23.1</i>	<i>21.7</i>		<i>20.8</i>	<i>21.3</i>	<i>21.1</i>	
Others	3,760	2,935	28.1	4,453	20,450	14,576	40.3
<i>% of Net Sales</i>	<i>17.2</i>	<i>14.1</i>		<i>18.7</i>	<i>21.1</i>	<i>16.0</i>	
Total Expenditure	17,473	16,411	6.5	20,276	79,038	73,718	7.2
EBITDA	4,346	4,376	(0.7)	3,580	17,882	17,390	2.8
<i>Margin (%)</i>	<i>19.9</i>	<i>21.1</i>		<i>15.0</i>	<i>18.5</i>	<i>19.1</i>	
Depreciation	1,027	880	16.7	950	3,605	3,709	(2.8)
EBIT	3,319	3,496	(5.1)	2,630	14,277	13,681	4.4
Other Income	97	95	2.4	(66)	1,644	357	360.0
Interest	726	727	(0.2)	616	3,120	2,198	41.9
PBT	2,690	2,864	(6.1)	1,948	12,801	11,840	(8.1)
Minority Interest	-	21	(100.0)	(2,334)	27	2,828	
Total Taxes	841	860	(2.3)	607	3,584	3,268	9.7
<i>ETR (%)</i>	<i>31.2</i>	<i>30.0</i>		<i>31.1</i>	<i>28.0</i>	<i>27.6</i>	
Reported PAT	1,850	2,025	(8.7)	(993)	9,190	5,745	(60.0)
Other Comprehensive Income	471	137		-	-	-	
Total Comprehensive Income	2,320	2,162	7.3	(993)	9,190	5,745	(60.0)

Source: Company, PL

Exhibit 2: Major Sources of Revenue

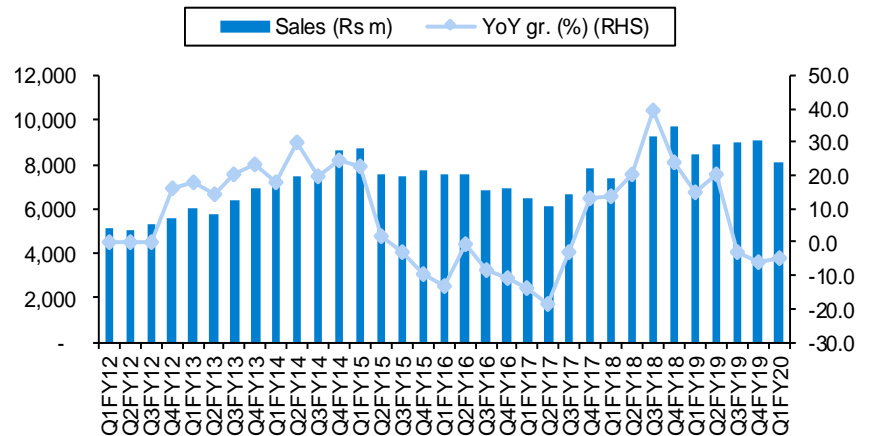
Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Pharmaceuticals	13,208	11,813	11.8	13,993	39,247	52,747	(25.6)
<i>% of Net Sales</i>	<i>60.5</i>	<i>56.8</i>		<i>58.7</i>	<i>58.3</i>	<i>58.1</i>	
Life Science ingredients	8,055	8,468	(4.9)	9,122	26,343	35,665	(26.1)
<i>% of Net Sales</i>	<i>36.9</i>	<i>40.7</i>		<i>38.2</i>	<i>39.2</i>	<i>39.3</i>	
Drug Discovery Solutions	556	506	10.0	741	1,678	2,312	(27.4)
<i>% of Net Sales</i>	<i>2.5</i>	<i>2.4</i>		<i>3.1</i>	<i>2.5</i>	<i>2.5</i>	
Gross Sales	21,819	20,787	5.0	23,856	67,268	90,724	(25.9)

Source: Company, PL

Exhibit 3: Pharma Sales and growth


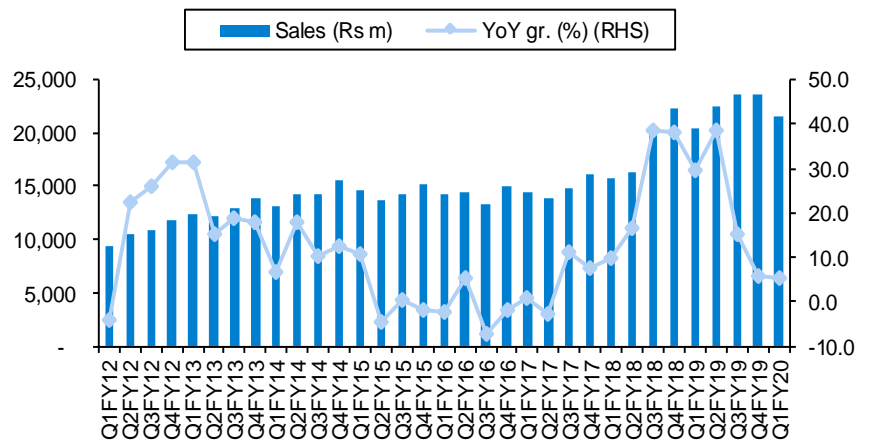
Source: Company, PL

Exhibit 4: LSI Sales and growth



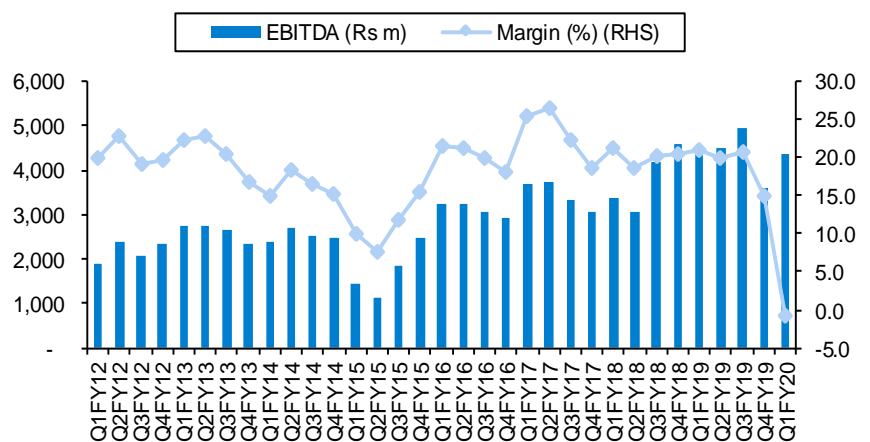
Source: Company, PL

Exhibit 5: Overall Sales and growth



Source: Company, PL

Exhibit 6: EBITDA and margin



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	74,648	89,971	96,920	103,734
YoY gr. (%)	26.3	20.5	7.7	7.0
Cost of Goods Sold	28,688	35,218	37,993	40,145
Gross Profit	45,960	54,753	58,928	63,589
Margin (%)	61.6	60.9	60.8	61.3
Employee Cost	15,559	19,260	20,596	22,043
Other Expenses	2,370	1,889	2,423	2,593
EBITDA	14,253	16,253	17,882	19,294
YoY gr. (%)	14.1	14.0	10.0	7.9
Margin (%)	19.1	18.1	18.5	18.6
Depreciation and Amortization	4,151	3,709	3,605	4,002
EBIT	10,103	12,544	14,277	15,293
Margin (%)	13.5	13.9	14.7	14.7
Net Interest	2,843	2,198	3,120	2,693
Other Income	1,331	1,495	1,644	1,809
Profit Before Tax	8,591	11,840	12,801	14,409
Margin (%)	11.5	13.2	13.2	13.9
Total Tax	2,247	3,268	3,584	4,034
Effective tax rate (%)	26.2	27.6	28.0	28.0
Profit after tax	6,344	8,572	9,217	10,374
Minority interest	(84)	26	27	28
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,428	5,745	9,190	10,346
YoY gr. (%)	11.7	(10.6)	60.0	12.6
Margin (%)	8.6	6.4	9.5	10.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,428	5,745	9,190	10,346
YoY gr. (%)	11.7	(10.6)	60.0	12.6
Margin (%)	8.6	6.4	9.5	10.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,428	5,745	9,190	10,346
Equity Shares O/s (m)	156	159	159	159
EPS (Rs)	41.3	36.1	57.7	64.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	44,936	51,521	60,987	66,287
Tangibles	39,342	42,927	51,593	56,093
Intangibles	5,594	8,594	9,394	10,194
Acc: Dep / Amortization	9,807	13,399	17,004	21,005
Tangibles	7,416	10,008	12,791	15,859
Intangibles	2,391	3,391	4,213	5,146
Net fixed assets	35,129	36,894	43,983	45,281
Tangibles	31,925	33,962	38,802	40,233
Intangibles	3,203	2,932	5,181	5,048
Capital Work In Progress	6,710	9,014	3,500	3,750
Goodwill	18,877	19,589	19,589	20,177
Non-Current Investments	1,385	1,313	1,379	1,448
Net Deferred tax assets	(26)	(528)	(784)	(848)
Other Non-Current Assets	573	531	551	588
Current Assets				
Investments	-	-	-	-
Inventories	13,914	14,174	15,667	16,768
Trade receivables	11,308	12,716	12,480	13,642
Cash & Bank Balance	2,488	13,704	10,351	9,603
Other Current Assets	3,259	4,149	4,563	5,020
Total Assets	96,176	114,685	114,687	119,149
Equity				
Equity Share Capital	156	159	159	159
Other Equity	40,710	47,930	56,545	66,316
Total Networkth	40,865	48,089	56,704	66,475
Non-Current Liabilities				
Long Term borrowings	30,478	42,429	36,065	30,655
Provisions	1,071	1,144	1,235	1,272
Other non current liabilities	78	97	107	118
Current Liabilities				
ST Debt / Current of LT Debt	4,211	4,997	1,983	1,785
Trade payables	11,362	10,201	11,152	12,221
Other current liabilities	4,475	5,699	5,129	3,996
Total Equity & Liabilities	96,176	114,685	114,687	119,149

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	8,591	11,840	12,801	14,409
Add. Depreciation	4,151	3,709	3,605	4,002
Add. Interest	2,843	2,198	3,120	2,693
Less Financial Other Income	1,331	1,495	1,644	1,809
Add. Other	116	1,238	(5,206)	(1,455)
Op. profit before WC changes	15,700	18,986	14,320	19,648
Net Changes-WC	(658)	(3,895)	(744)	(1,675)
Direct tax	(2,075)	(3,268)	(3,328)	(3,746)
Net cash from Op. activities	12,967	11,823	10,248	14,227
Capital expenditures	(4,536)	(8,500)	(5,550)	(5,300)
Interest / Dividend Income	22	22	22	22
Others	(1,463)	(1,324)	178	(1,222)
Net Cash from Invt. activities	(5,977)	(9,802)	(5,351)	(6,500)
Issue of share cap. / premium	0	4	-	-
Debt changes	(5,764)	12,737	(9,378)	(5,608)
Dividend paid	(575)	(575)	(575)	(575)
Interest paid	(2,843)	(2,198)	(3,120)	(2,693)
Others	-	-	-	-
Net cash from Fin. activities	(9,182)	9,967	(13,073)	(8,876)
Net change in cash	(2,192)	11,988	(8,176)	(1,149)
Free Cash Flow	8,431	3,323	4,698	8,927

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	22,695	23,771	23,856	21,819
YoY gr. (%)	38.2	15.0	5.9	5.0
Raw Material Expenses	8,772	8,758	9,726	7,552
Gross Profit	13,923	15,013	14,129	14,267
Margin (%)	61.4	63.2	59.2	65.4
EBITDA	4,502	4,933	3,580	4,346
YoY gr. (%)	47.1	18.3	(21.8)	(0.7)
Margin (%)	19.8	20.8	15.0	19.9
Depreciation / Depletion	895	984	950	1,027
EBIT	3,607	3,949	2,630	3,319
Margin (%)	15.9	16.6	11.0	15.2
Net Interest	543	533	616	726
Other Income	(46)	140	(66)	97
Profit before Tax	3,018	3,556	1,948	2,690
Margin (%)	13.3	15.0	8.2	12.3
Total Tax	920	881	607	841
Effective tax rate (%)	30.5	24.8	31.1	31.2
Profit after Tax	2,098	2,675	1,341	1,850
Minority interest	(6)	67	(14)	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,104	2,608	1,355	1,850
YoY gr. (%)	64.0	22.7	(12.5)	(8.7)
Margin (%)	9.3	11.0	5.7	8.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,104	2,608	1,355	1,850
YoY gr. (%)	64.0	22.7	(12.5)	(8.7)
Margin (%)	9.3	11.0	5.7	8.5
Other Comprehensive Income	1,409	(1,802)	-	471
Total Comprehensive Income	3,514	806	1,355	2,320
Avg. Shares O/s (m)	156	156	156	156
EPS (Rs)	13.5	16.7	8.7	11.9

Source: Company Data, PL Research

Key Financial Metrics

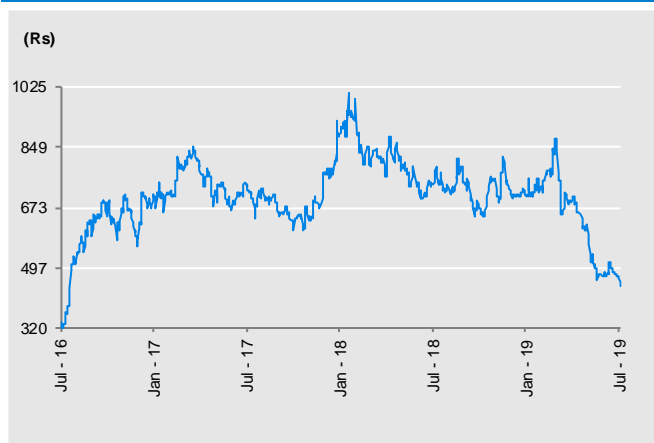
Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	41.3	36.1	57.7	64.9
CEPS	67.9	59.3	80.3	90.1
BVPS	262.3	301.9	356.0	417.3
FCF	54.1	20.9	29.5	56.0
DPS	-	-	-	-
Return Ratio(%)				
RoCE	13.4	14.7	15.0	15.8
ROIC	10.3	12.6	12.1	12.6
RoE	17.1	12.9	17.5	16.8
Balance Sheet				
Net Debt : Equity (x)	0.8	0.7	0.5	0.3
Net Working Capital (Days)	68	68	64	64
Valuation(x)				
PER	10.8	12.3	7.7	6.9
P/B	1.7	1.5	1.3	1.1
P/CEPS	6.6	7.5	5.5	4.9
EV/EBITDA	7.1	6.4	5.5	4.9
EV/Sales	1.4	1.2	1.0	0.9
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Pharmaceuticals	41,900	55,060	59,786	64,387
LSI	33,280	35,665	38,369	40,668

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-19	Reduce	648	496
2	20-May-19	Reduce	648	594
3	05-Apr-19	Reduce	703	709
4	11-Mar-19	Reduce	703	850
5	01-Feb-19	Accumulate	822	714
6	07-Jan-19	Accumulate	829	710
7	22-Oct-18	Accumulate	723	650
8	05-Oct-18	Accumulate	880	705

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	BUY	932	605
2	Cadila Healthcare	Accumulate	341	237
3	Cipla	Reduce	470	552
4	Dr. Lal PathLabs	Accumulate	1,120	1,077
5	Dr. Reddy's Laboratories	Hold	2,997	2,602
6	Eris Lifesciences	Accumulate	812	498
7	Glenmark Pharmaceuticals	Reduce	589	440
8	Indoco Remedies	Hold	137	160
9	Ipca Laboratories	BUY	908	949
10	Jubilant Life Sciences	Reduce	648	496
11	Lupin	Reduce	730	754
12	Sun Pharmaceutical Industries	Reduce	396	392
13	Thyrocare Technologies	BUY	595	466

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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