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Company update and  
earnings revision

## Pharmaceuticals

Target price: Rs936

### Earnings revision

(%)	FY21E	FY22E	FY23E
Sales	0.1	0.6	0.6
EBITDA	0.1	1.7	1.7

### Target price revision

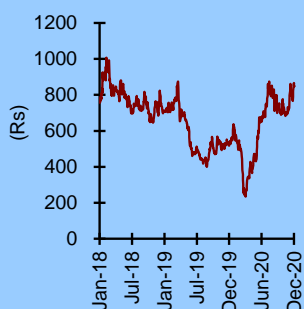
Rs936 from Rs852

### Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	50.7	50.7	50.7
Institutional investors	29.8	28.5	27.2
MFs and other	1.4	1.2	0.8
Banks/FIs	0.1	0.1	0.0
FII	28.3	27.2	26.4
Others	19.5	20.8	22.1

Source: BSE India

### Price chart



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# Jubilant Life Sciences

**ADD**

**Maintained**

## Demerger may complete in FY21

**Rs842**

Jubilant Life Sciences (JLS) has recently received the NCLT approval for demerger of pharma and LSI businesses into two separate companies. We believe separate listing of both companies should happen in the next few weeks, before FY21 ends. The company had announced this demerger in Oct'19 with the rationale of two separate and focused entities for pharma & LSI segment and to unlock shareholder value. There could be some value unlocking as combined entity trades at a discount to sector peers; however, we do not expect material valuation re-rating considering modest growth outlook and debt on the books. The company had entered into four CDMO agreements for clinical and commercial supply agreements for COVID-19 treatment and vaccine candidates, which may provide an upside to our estimates in near to medium term. Retain ADD.

- **NCLT approval received for demerger:** JLS has recently received the NCLT approval to go ahead with its demerger plan of having two separate entities for pharma and LSI (Life Science Ingredients) businesses. The board had initially approved this re-organisation of the businesses in Oct'19 and the approval from shareholders and creditors was received in Aug'20. Key objectives of this re-organisation were: 1) Have separate focus business entities, 2) better management of risks and regulatory requirements, 3) enabling strategic growth with optimal capital allocation, and 4) unlocking of shareholder value.
- **Structure post demerger:** As per the re-organisation plan, LSI business will be demerged into a separate entity and some promoter entities will be amalgamated into JLS in order to simplify the holding structures of the promoters with no change in ownership of promoters. The pharma entity will include businesses like radiopharma, allergy therapy products, CDMO of sterile & non-sterile products, APIs, generic formulations, drug discovery services (DDS) and proprietary drug discovery business (biopharma). The LSI entity will include specialty intermediates, nutritional products and life science chemicals. The company had net debt of Rs29.8bn as on Sep'20, of which ~Rs22bn pertains to pharma business.
- **Outlook:** We estimate consolidated revenue, EBITDA and PAT CAGRs of 6.6, 7.0 and 8.6% over FY20-FY23E, respectively. H1FY21 was impacted due to COVID-19 related disruptions and weak demand. However, we estimate recovery in H2FY21. Current gross and net debts, as on Sep'20 stands at Rs41.5bn and Rs29.8bn, respectively.
- **Valuations and risks:** We marginally raise our revenue and EBITDA estimates by 0-1% and 1-2% for FY21-FY23E respectively to factor in higher growth in CDMO segment. We maintain **ADD** on the stock with a revised target price of Rs936 based on Sep'22E, 9x pharma EBITDA and 4x LSI EBITDA (earlier TP: Rs852). Key downside risks: Regulatory hurdles and delay in recovery of specialty business.

Market Cap	Rs135bn/US\$1.8bn
Reuters/Bloomberg	JULS.BO/JUBILANT IN
Shares Outstanding (mn)	159.3
52-week Range (Rs)	875/234
Free Float (%)	48.3
FII (%)	26.4
Daily Volume (USD/'000)	6,013
Absolute Return 3m (%)	15.6
Absolute Return 12m (%)	59.1
Sensex Return 3m (%)	25.7
Sensex Return 12m (%)	17.2

Year to Mar	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)	91,544	94,962	103,153	110,802
Net Income (Rs mn)	9,239	8,757	10,583	11,828
EPS (Rs)	58.0	55.0	66.4	74.2
% Chg YoY	8.1	(5.2)	20.8	11.8
P/E (x)	14.5	15.3	12.7	11.3
CEPS (Rs)	87.0	85.3	99.2	109.5
EV/E (x)	8.6	8.5	7.2	6.4
Dividend Yield (%)	0.8	0.8	1.0	1.1
RoCE (%)	11.1	10.0	11.1	11.5
RoE (%)	17.7	14.7	15.6	15.3

## Valuations

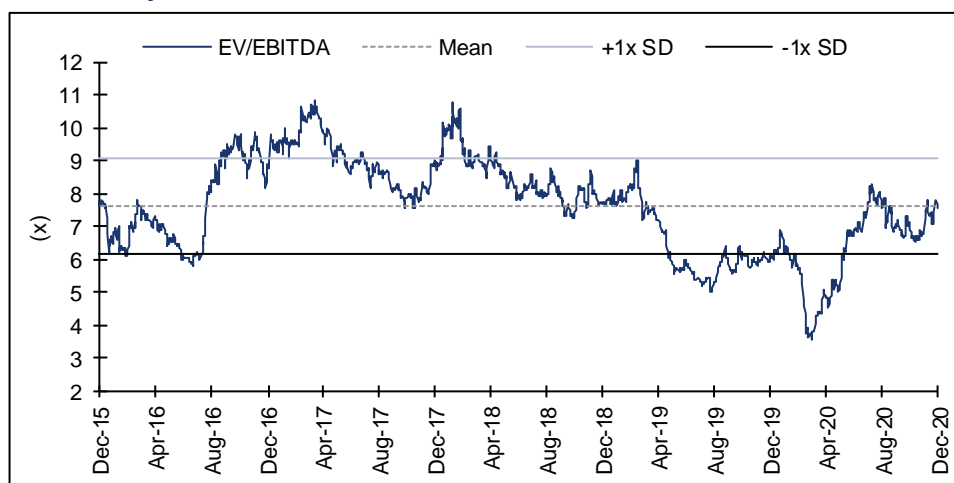
The stock currently trades at valuations of 12.7x FY22E and 11.3x FY23E earnings and EV/EBITDA multiples of 7.2x FY22E and 6.4x FY23E. We remain positive on the stock considering: 1) Strong growth potential in specialty pharma business, 2) gradual ramp-up in *RubyFill* sales in the US, 3) improving revenue mix with higher growth in specialty pharma business, and 4) potential upside from CDMO of COVID-19 related products. We maintain **ADD** with a revised target price of Rs936/share based on Sep'22E estimates for pharma and LSI segment EBITDA (earlier TP: Rs852/share). We have raised target EV/EBITDA multiple of pharma business from 8x to 9x considering the expected recovery in growth of CDMO & radiopharma from H1FY21 and potential upside from CDMO contracts for COVID vaccines.

**Table 1: Sum of the parts (SoTP) valuation**

Rs mn	Sep'22E EBITDA	(x)	Value (Rs mn)
Pharma business (after R&D)	16,477	9.0	148,295
LSI	6,467	4.0	25,869
<b>Enterprise value (EV)</b>			<b>174,164</b>
Less: Net debt			(25,027)
<b>Market capitalisation</b>			<b>149,137</b>
<b>Value per share (Rs)</b>			<b>936</b>

Source: Company data, I-Sec research

**Chart 1: 1-year forward EV/EBITDA**



Source: Company data, I-Sec research

## Financial summary (consolidated)

Table 2: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Total Gross Sales</b>	<b>91,544</b>	<b>94,962</b>	<b>103,153</b>	<b>110,802</b>
Excise duty	-	-	-	-
<b>Total Net Revenue</b>	<b>91,544</b>	<b>94,962</b>	<b>103,153</b>	<b>110,802</b>
YoY Growth%	0.5	3.7	8.6	7.4
<b>Total Op. Exp.</b>	<b>72,073</b>	<b>75,606</b>	<b>81,146</b>	<b>86,921</b>
<b>EBITDA</b>	<b>19,471</b>	<b>19,356</b>	<b>22,008</b>	<b>23,881</b>
Margins %	21.3	20.4	21.3	21.6
YoY Growth%	3.3	(0.6)	13.7	8.5
Dep. & Amort.	4,619	4,838	5,215	5,621
<b>EBIT</b>	<b>14,852</b>	<b>14,517</b>	<b>16,793</b>	<b>18,260</b>
Other Income	474	411	431	453
Interest	2,874	2,765	2,525	2,285
EO Items	(346)	-	-	-
<b>PBT</b>	<b>12,105</b>	<b>12,163</b>	<b>14,699</b>	<b>16,428</b>
Tax	3,123	3,406	4,116	4,600
Tax Rate (%)	25.8	28.0	28.0	28.0
Minority Interest	(0)	-	-	-
<b>Reported PAT</b>	<b>8,982</b>	<b>8,757</b>	<b>10,583</b>	<b>11,828</b>
<b>Adj PAT</b>	<b>9,239</b>	<b>8,757</b>	<b>10,583</b>	<b>11,828</b>
Net Margins (%)	10.1	9.2	10.3	10.7

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Paid-up Capital	159	159	159	159
Reserves & Surplus	55,880	63,322	72,315	82,366
<b>Total Equity</b>	<b>56,039</b>	<b>63,481</b>	<b>72,474</b>	<b>82,526</b>
Minority Interest	-	-	-	-
<b>Total Debt</b>	<b>48,084</b>	<b>44,084</b>	<b>40,084</b>	<b>36,084</b>
Deferred Liabilities	522	522	522	522
<b>Capital Employed</b>	<b>104,645</b>	<b>108,087</b>	<b>113,080</b>	<b>119,131</b>
Current Liabilities	18,460	19,384	21,083	22,823
<b>Total Liabilities</b>	<b>123,104</b>	<b>127,471</b>	<b>134,163</b>	<b>141,955</b>
<b>Net Fixed Assets</b>	<b>71,084</b>	<b>73,245</b>	<b>76,030</b>	<b>78,409</b>
Investments	694	694	694	694
Inventory	18,454	19,358	20,777	22,255
Debtors	12,932	13,415	14,572	15,653
Other Current Assets	7,633	8,166	8,724	9,246
Cash and Equivalents	12,308	12,593	13,366	15,698
<b>Total Cur. Assets</b>	<b>52,021</b>	<b>54,225</b>	<b>58,133</b>	<b>63,546</b>
<b>Total Assets</b>	<b>123,104</b>	<b>127,471</b>	<b>134,163</b>	<b>141,955</b>

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
PBT (Adj. for Extraordinary)	12,105	12,163	14,699	16,428
Depreciation	4,619	4,838	5,215	5,621
Net Chg in WC	(1,797)	(834)	(1,766)	(1,650)
Taxes	(2,487)	(3,406)	(4,116)	(4,600)
Others	114	(162)	331	309
<b>CFO</b>	<b>12,555</b>	<b>12,600</b>	<b>14,363</b>	<b>16,109</b>
Capex	(5,676)	(7,000)	(8,000)	(8,000)
Net Investments made	199	-	-	-
Others	2,207	-	-	-
<b>CFI</b>	<b>(3,270)</b>	<b>(7,000)</b>	<b>(8,000)</b>	<b>(8,000)</b>
Change in Share capital	3	-	-	-
Change in Debts	(5,728)	(4,000)	(4,000)	(4,000)
Div. & Div Tax	(1,528)	(1,315)	(1,589)	(1,776)
Others	222	0	0	0
<b>CFF</b>	<b>(7,031)</b>	<b>(5,315)</b>	<b>(5,589)</b>	<b>(5,776)</b>
<b>Total Cash Generated</b>	<b>2,254</b>	<b>285</b>	<b>774</b>	<b>2,332</b>
<b>Cash Opening Balance</b>	<b>10,054</b>	<b>12,308</b>	<b>12,593</b>	<b>13,366</b>
<b>Cash Closing Balance</b>	<b>12,308</b>	<b>12,593</b>	<b>13,366</b>	<b>15,698</b>

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Adj EPS	58.0	55.0	66.4	74.2
YoY Growth%	8.1	(5.2)	20.8	11.8
Cash EPS	87.0	85.3	99.2	109.5
EBITDA - Core (%)	21.3	20.4	21.3	21.6
NPM (%)	10.1	9.2	10.3	10.7
Net Debt to Equity (x)	0.6	0.5	0.3	0.2
P/E (x)	14.5	15.3	12.7	11.3
EV/EBITDA Core (x)	8.6	8.5	7.2	6.4
P/BV (x)	2.4	2.1	1.9	1.6
EV/Sales (x)	1.8	1.7	1.5	1.4
RoCE (%)	11.1	10.0	11.1	11.5
RoE (%)	17.7	14.7	15.6	15.3
RoIC (%)	12.5	11.3	12.6	13.1
Book Value (Rs)	352	398	455	518
DPS (Rs)	7.0	6.9	8.3	9.3
Dividend Payout (%)	12.1	12.5	12.5	12.5
Div Yield (%)	0.8	0.8	1.0	1.1
Asset Turnover Ratio	0.8	0.8	0.8	0.8
Avg Collection days	51	51	50	50
Avg Inventory days	83	91	90	90

Source: Company data, I-Sec research

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