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Q4FY21 result review
and reco change

Pharmaceuticals

Target price: Rs798

Earnings revision

(%)	FY22E	FY23E
Sales	(6.3)	(4.2)
EPS	(15.1)	(5.1)

Target price revision

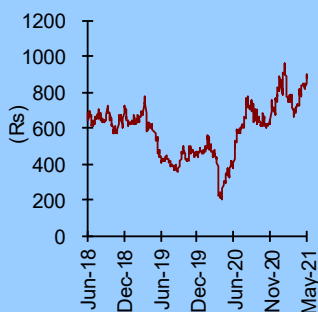
Rs798 from Rs840

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	50.7	50.7	50.7
Institutional investors	27.2	26.8	27.1
MFs and other	0.8	0.6	0.9
Banks/FIs	0.0	0.0	0.0
FIIIs	26.4	26.2	26.2
Others	22.1	22.5	22.3

Source: BSE India

Price chart



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Jubilant Pharmova

HOLD

Downgrade from *Buy*

Big miss; recovery delayed

Rs836

Jubilant Pharmova's (Jubilant) Q4FY21 performance was below our estimates with miss of 12/25/21% in revenue/EBITDA/PAT. The Life Science Ingredients business got demerged into Jubilant Ingrevia Ltd from Feb'21. Pharma business revenue grew remained flat at Rs15.8bn, EBITDA margin dropped 420bps YoY to 23.7% and adj. PAT declined 13.7% to Rs1.8bn. The CDMO business benefited from the manufacturing of potential COVID-19 drug and vaccines which contributed Rs5.4bn revenue in FY21. However, this business would come down to Rs2bn in FY22E with no certainty of continuity. We believe near to medium term growth would remain under pressure due to slow recovery in radiopharma business and potential decline in CMO and generics business on high base. **Downgrade to HOLD from Buy.**

- **Revenue recovery lags expectations:** Specialty segment (radiopharma & allergy therapy) revenue continued its decline with revenue dropping 23.5% YoY due to lower patient footfalls for radiology tests. Lung imaging products DTPA and MAA volumes remained very low, while allergy therapy business has come back to pre-COVID levels. CDMO business (CMO and API) grew strong 47.9% on a low base and incremental revenue from COVID-19 related manufacturing which would taper-off going forward. Generics segment remained flat YoY on lack of new launches and lower sales of *Remdesivir* in Q4FY21. Ongoing USFDA issues would keep growth in generics and API segments under check.
- **Lower revenue impacted the margins:** Reported EBITDA margin at 23.7% was down 420bps YoY and 410bps QoQ due to lower revenue and costs remained unabsorbed. Though, gross margin improved YoY as well as QoQ. We believe EBITDA margin would remain at current levels in FY22E despite expected pick-up in radiopharma sales due to decline in COVID-19 related CMO business which would have been at higher margins in FY21, in our view. We expect EBITDA margin to improve to ~25% in FY23E with normalisation of radiopharma sales.
- **Outlook:** We estimate revenue, EBITDA and PAT CAGRs of 7.9%, 12.9% and 24.2% respectively over FY21-FY23E. Demand in specialty pharma remains below pre-COVID levels, while other businesses have reverted to normal levels. Higher earnings growth is due to low FY21 base and expectation of reduction in tax rate. Company guided for higher capex of ~Rs7-8bn in FY22E.
- **Valuations and risks:** We cut revenue and EPS estimates by 4-6% and 5-15% respectively for FY22E-FY23E to factor in delayed recovery in the radiopharma business with reduced profitability and potential decline in the CMO and generics business. We downgrade the stock to **HOLD** from *Buy* with a revised target price of Rs798/share based on 14x FY23E EPS (earlier Rs840). Key downside risks: regulatory hurdles and delay in the recovery of specialty business. Key upside risks: early resolution of USFDA issues and faster recovery in radiopharma business.

Market Cap	Rs133bn/US\$1.8bn
Reuters/Bloomberg	JULS.BO/JUBILANT IN
Shares Outstanding (mn)	159.3
52-week Range (Rs)	962/453
Free Float (%)	48.3
FII (%)	26.2
Daily Volume (USD/'000)	4830
Absolute Return 3m (%)	6.6
Absolute Return 12m (%)	75.8
Sensex Return 3m (%)	2.7
Sensex Return 12m (%)	55.2

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	59,758	60,985	65,253	71,063
Net Income (Rs mn)	6,998	5,881	7,527	9,069
EPS (Rs)	43.9	37.0	47.3	57.0
% Chg YoY	(18.2)	(15.9)	27.9	20.5
P/E (x)	19.0	22.6	17.7	14.7
CEPS (Rs)	65.3	58.9	69.5	80.8
EV/E (x)	10.3	11.1	9.8	8.2
Dividend Yield (%)	1.1	0.0	0.0	0.0
RoCE (%)	9.4	9.0	10.5	11.5
RoE (%)	15.7	13.3	14.7	15.3

Q4FY21 result and concall highlights

Jubilant Pharmova's overall sales remained flat YoY (-10.8% QoQ) to Rs15.8bn.

- **Pharmaceutical business** remained flat YoY (-12.2% QoQ) to Rs14.9bn in Q4FY21. CDMO grew 47.9 YoY whereas Generics remained flat. Specialty pharma declined 23.5% YoY. EBITDA margin of this segment at 24.6% has dropped 430bps YoY (-490bps QoQ).

Company has 114 ANDA filings in the US including 98 oral solid dosage (OSD) and 16 sterile products, including: i) 61 approved and 37 pending approval in OSD, and ii) 13 approved and three pending approval in sterile. In Canada, the company has 24 (one pending) and 17 (all approved) filings in OSD and sterile products, respectively. In the EU, Jubilant has 39 filings with 33 approved in OSD and four filings (all approved) in sterile products.

Radiopharma remains impacted due to COVID-19 but has witnessed QoQ recovery in elective surgeries. *RubyFill* litigation has yielded favourable results. Lung procedures remain impacted due to the pandemic affecting sales of *MAA* and *DTPA*. Jubilant plans to open more pharmacies using hub and spoke approach for more targeted growth. Ramping up *RubyFill* in the EU post recent launch. Allergy segment has recovered ~90-95% of the pre-COVID levels in Q4FY21 with easing COVID-19 restrictions.

CMO business growth was driven by high demand and strong orderbook as well as supply of *Remdesivir*. Company has generated revenue of Rs5.4bn from five separate clinical and commercial supply agreements for COVID-19 treatments and vaccine candidates. Spokane unit was inspected and cleared by USFDA in Mar'21.

Generics segment reported a flattish performance during the quarter. API revenues picked up post resumption of Nanjangud plant. Roorkee plant was inspected by USFDA in Mar'21 and they have made certain observations related to manufacturing control and systems. Company is in talks with USFDA for resolution.

- **Drug discovery solutions'** revenue grew 14.8% YoY (+19.6% QoQ) to Rs1.0bn in Q4FY21. Company is witnessing strong demand in its integrated services. It has six products in its proprietary segment at different stages with potential to partner from discovery to clinical stage.
- **Net debt** of the company at Q4FY21-end stood at Rs19.3bn and **gross debt** at Rs26.0bn. It reduced net debt by Rs2.2bn in FY21.
- **Capex** for Q4FY21 was Rs690mn and the company expects to spend ~Rs7-8bn in FY22.

Table 1: Q4FY21 performance*(Rs mn, year ending March 31)*

	Q4FY21	Q4FY20	YoY % Chg	Q3FY21	QoQ % Chg
Net Sales	15,798	15,685	0.7	17,713	(10.8)
EBITDA	3,746	4,377	(14.4)	4,928	(24.0)
Other income	210	173	21.6	5	4,193.9
PBIDT	3,957	4,550	(13.0)	4,933	(19.8)
Depreciation	862	981	(12.1)	959	(10.1)
Interest	433	470	(7.7)	464	(6.5)
Exceptional / Forex items	(103)	-		(109)	
PBT	2,557	3,100	(17.5)	3,401	(24.8)
Tax	831	977	(15.0)	1,212	(31.4)
Minority Interest	(3)	-		(1)	
Reported PAT	1,729	2,123	(18.5)	2,190	(21.0)
Adjusted PAT	1,833	2,123	(13.7)	2,299	(20.3)
EBITDA margins (%)	23.7	27.9	(420)bps	27.8	(410)bps

Source: Company data, I-Sec research

Table 2: Sales mix*(Rs mn, year ending March 31)*

	Q4FY21	Q4FY20	YoY % Chg	Q3FY21	QoQ % Chg
Pharmaceuticals	14,857	14,834	0.2	16,919	(12.2)
DDS	1,026	894	14.8	858	19.6
Less Intersegment	(85)	(43)		(64)	
Net Sales	15,798	15,685	0.7	17,713	(10.8)

Source: Company data, I-Sec research

Table 3: Segmental EBITDA

	Q4FY21	Q4FY20	YoY % Chg	Q3FY21	QoQ % Chg
Pharmaceuticals	3,660	4,290	(14.7)	4,990	(26.7)
DDS	360	350	2.9	290	24.1
Total	4,020	4,640	(13.4)	5,280	(23.9)

Source: Company data, I-Sec research

Revising sales and earnings estimates

For FY21-FY23E, we forecast net sales and earnings to increase at CAGRs of 7.9% and 24.2% respectively. We cut revenue and EPS estimates by 4-6% and 5-15% respectively for FY22E-FY23E to factor in delayed recovery in the radiopharma business with reduced profitability and potential decline in the CMO and generics business.

Table 4: Earnings revision

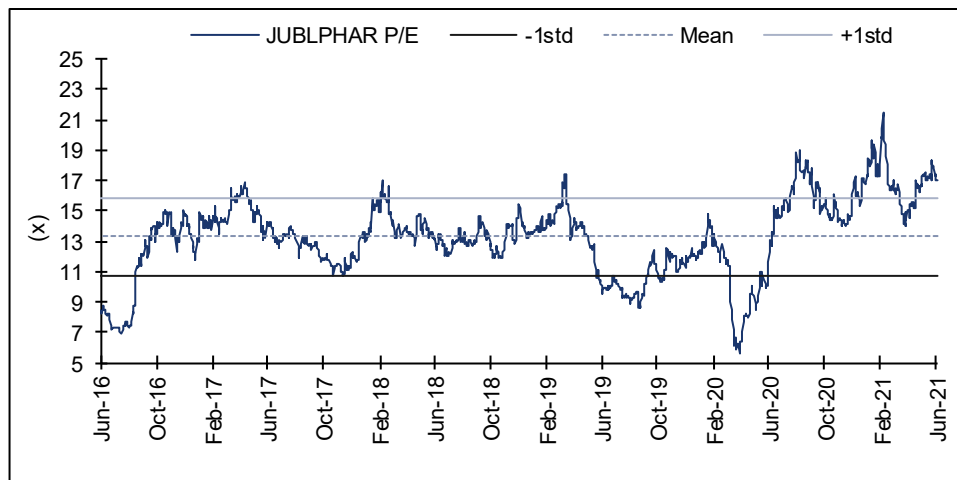
	FY22E	FY23E
Total sales (Rs mn)		
Sales – new	65,253	71,063
Sales – old	69,641	74,183
Change (%)	(6.3)	(4.2)
EPS (Rs)		
EPS – new	47.3	57.0
EPS – old	55.7	60.0
Change (%)	(15.1)	(5.1)

Source: I-Sec research

Valuations

The stock currently trades at valuations of 17.7x FY22E and 14.7x FY23E earnings and EV/EBITDA multiples of 9.8x FY22E and 8.2x FY23E. While the stock has underlying growth triggers, we believe near to medium term growth would remain under pressure due to slow recovery in radiopharma business and potential decline in CMO and generics business on high base. Hence, we downgrade to **HOLD** from *Buy* with a revised target price of Rs798/share based on 14x FY23E estimates EPS (earlier TP: Rs840/share).

Chart 1: 1-year forward P/E



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 5: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Total Gross Sales	59,758	60,985	65,253	71,063
Excise duty	-	-	-	-
Total Net Revenue	59,758	60,985	65,253	71,063
YoY Growth%	(34.4)	2.1	7.0	8.9
Total Op. Exp.	44,278	47,021	49,745	53,274
EBITDA	15,480	13,965	15,508	17,789
Margins %	25.9	22.9	23.8	25.0
YoY Growth%	(17.9)	(9.8)	11.1	14.7
Dep. & Amort.	3,398	3,490	3,533	3,793
EBIT	12,081	10,475	11,974	13,995
Other Income	374	289	303	319
Interest	1,997	1,841	1,525	1,358
EO Items	(329)	(212)	-	-
PBT	10,129	8,711	10,753	12,956
Tax	3,351	2,972	3,226	3,887
Tax Rate (%)	33.1	34.1	30.0	30.0
Minority Interest	-	(3)	-	-
Reported PAT	6,778	5,741	7,527	9,069
Adj PAT	6,998	5,881	7,527	9,069
Net Margins (%)	11.7	9.6	11.5	12.8

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Paid-up Capital	159	159	159	159
Reserves & Surplus	41,055	47,256	54,769	63,823
Total Equity	41,214	47,415	54,928	63,982
Minority Interest	-	0	0	0
Total Debt	37,600	28,296	26,296	22,296
Deferred Liabilities	409	926	926	926
Capital Employed	79,223	76,637	82,150	87,204
Current Liabilities	10,305	10,997	11,405	12,012
Total Liabilities	89,527	87,634	93,555	99,216
Net Fixed Assets	50,242	55,057	58,524	60,730
Investments	694	2,410	2,410	2,410
Inventory	12,045	11,294	11,948	12,796
Debtors	11,965	8,199	8,773	9,554
Other Current Assets	3,884	5,655	5,932	6,309
Cash and Equivalents	10,698	5,020	5,969	7,417
Total Cur. Assets	39,286	32,577	35,031	38,485
Total Assets	89,527	87,634	93,555	99,216

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
PBT (Adj. for Extraordinary)	10,129	8,711	10,753	12,956
Depreciation	3,398	3,490	3,533	3,793
Net Chg in WC	(1,797)	2,499	(905)	(1,136)
Taxes	(2,487)	(3,941)	(3,226)	(3,887)
Others	4,189	5,244	(192)	(262)
CFO	13,432	16,002	9,963	11,464
Capex	(5,676)	(5,143)	(7,000)	(6,000)
Net Investments made	199	(2,024)	-	-
Others	2,207	(223)	-	-
CFI	(3,270)	(7,390)	(7,000)	(6,000)
Change in Share capital	3	-	-	-
Change in Debts	(5,728)	(14,056)	(2,000)	(4,000)
Div. & Div Tax	(1,528)	(15)	(13)	(16)
Others	(2,265)	(219)	0	0
CFF	(9,518)	(14,290)	(2,013)	(4,016)
Total Cash Generated	644	(5,678)	949	1,448
Cash Opening Balance	10,054	10,698	5,020	5,969
Cash Closing Balance	10,698	5,020	5,969	7,417

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Adj EPS	43.9	37.0	47.3	57.0
YoY Growth%	(18.2)	(15.9)	27.9	20.5
Cash EPS	65.3	58.9	69.5	80.8
EBITDA - Core (%)	25.9	22.9	23.8	25.0
NPM (%)	11.7	9.6	11.5	12.8
Net Debt to Equity (x)	0.7	0.5	0.3	0.2
P/E (x)	19.0	22.6	17.7	14.7
EV/EBITDA Core (x)	10.3	11.1	9.8	8.2
P/BV (x)	3.2	2.8	2.4	2.1
EV/Sales (x)	2.7	2.5	2.3	2.1
RoCE (%)	9.4	9.0	10.5	11.5
RoE (%)	15.7	13.3	14.7	15.3
RoIC (%)	10.6	9.9	11.3	12.5
Book Value (Rs)	259	298	345	402
DPS (Rs)	9.6	0.1	0.1	0.1
Dividend Payout (%)	21.8	0.3	0.2	0.2
Div Yield (%)	1.1	0.0	0.0	0.0
Asset Turnover Ratio	0.6	0.7	0.7	0.7
Avg Collection days	75	60	47	47
Avg Inventory days	108	91	85	85

Source: Company data, I-Sec research

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