

Robust growth across businesses in India and exports



Niche launches, backward integration, R&D investment to drive earnings growth, slower execution a risk

- The new management has strategized to focus on its core strengths of niche molecules catering to multiple therapies and high-quality manufacturing.
- India (47% of sales) to grow through existing brands (Cilacar, Nicardia, Rantac & Metrogyl) and new chronic launches.** Contribution of chronic to increase from 48% in 9MFY21 to 60% over the next 3-4 years. Over the last 3 quarters, the company has digitized its network and widened reach to Tier 2 & 3 cities. We expect India business to grow at 13% CAGR to Rs 11.4 bn by FY23.
- Export formulations (38% of sales), to continue 14% growth in FY21 through US, South Africa and Russia.** The company has strategized new launches in US and backward integration. In Russia, JBCHEM plans to widen reach for DOKTOR MOM and RINZA and 2 new launches in FY22. In South Africa, the company plans to expand its product basket & grow through both private market and tenders. ROW is currently impacted due to Covid19. The company expects growth to return post lockdown. We expect export formulations to grow 13% CAGR to Rs 10 bn by FY23E.
- CMO (11% of sales) Being amongst top 5 manufacturers of medicated/ herbal lozenges in the world, JBCHEM plans to add new customers and increase offerings to manufacturing syrups, ointments and more dosage forms.** We expect CMO revenues to grow 20% CAGR to Rs 3 bn by FY23E.
- API Exports (4% of sales) expect to grow 12% CAGR to Rs 976 mn by FY23E.**

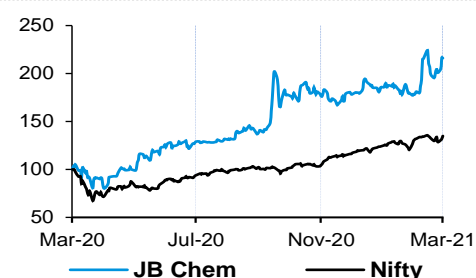
Rating	TP (Rs)	Up/Dn (%)
BUY	1507	25

Market data

Current price	Rs	1,202
Market Cap (Rs.Bn)	(Rs Bn)	93
Market Cap (US\$ Mn)	(US\$ Mn)	1274
Face Value	Rs	2
52 Weeks High/Low	Rs	1263/435
Daily Average Volume	('000)	398
BSE Code		506943
Bloomberg		JBCP:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	55.91	55.91
Public	44.09	44.09
Others	0.00	0.00
Total	100	100

Source: BSE

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	16432	17747	19845	22565	25457
Adjusted net profit	1940	2724	4087	4425	4856
Vs Consensus			21%	20%	32%
Free cash flow	1377	2007	635	1653	2349
EPS (Rs)	24.2	35.2	52.9	57.3	62.8
growth (%)	40%	40%	50%	8%	10%
P/E (x)	50	34	23	21	19
P/B (x)	9	9	8	8	7
EV/EBITDA (x)	30	25	16	15	14
D/E	0.02	0.02	0.02	0.02	0.01
RoIC (%)	13%	19%	24%	23%	22%
RoE (%)	13%	19%	23%	21%	20%
Dividend yield (%)	0	1	1	1	1

Source: Company

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Key Highlights

- FY21 has been an aberration with a unique Covid situation. Robust sales growth and lower costs that have seen a sharp 730 bps increase in EBITDA margins to 28.8% in 9MFY21.
- Going forward, JBCHEM expects EBITDA margins to be lower than the current levels, in view of the returning expenses post lockdown and R & D spend. The new management is focused on productivity improvement, cost control and profitability. The company expects growth in both EBITDA and earnings.
- Slower execution of strategy across markets remains key risk.
- We have revised our estimates for Sales/EBITDA/PAT by 2%/15%/19% for FY21E and 4%/13%/15% for FY23E, in view of the higher profitability due to robust sales growth in India and exports.

Key strategic notes

1. JBCHEM will invest in R & D, with a team focus on building new niche molecules. R & D focus on new molecules for India, US, Russia, South Africa. The company will finance through internal accruals.
2. **India business:**
India focus on niche molecules with application across therapies. The company has >50% market share in key brands (Cilacar, Nicardia, Metrogyl, Rantac).
3. New chronic launches in hypertension, diabetes, nephrology, pediatrics.
4. **India growth to continue through improved reach for existing brands and new chronic launches.** JBCHEM focus on deeper prescriber relationships and wider reach through digitization.
5. JBCHEM focus on productivity improvement by 15% in revenue per MR (currently at Rs 4.5 lakh/month).
6. The company aims at improved ranking from 28th in IPM to 20th over 3-4 years.
7. Working on in licensing tie ups for patented products and launching off patent molecules in chronic therapies.
8. **Russia (7% of sales, Rs 1300 mn)**
 - Growth through wider OTC reach of 4 key brands (mainly Doktor Mom, Rinza).
 - Plans to launch 2 new products in FY22.
 - Plans to file 4 dossiers for the Russian market.
 - Working on opportunities for in-licensing as well as contract manufacturing.

Chronic (49% of India) contribution to increase to 60% over the next 3-4 years.

Deeper penetration in Russia/CIS will improve profitability in the region.

(Continued below...)

9. South Africa (10% of sales, Rs 1800 mn)

- Growth through new launches and entry into private markets.
- Expand base in public tenders on broader portfolio.
- Acquisition of dossiers in OTC market.

10. USA (8% of sales, Rs 1500 mn)

- US growth from new launches and contract manufacturing.
- Working on backward integration of products to improve profitability.
- JBCHEM plans to file 4-6 ANDAs annually.

Valuation & Outlook

The new management has strategized revenue growth across India and exports, with a focus on productivity improvement, cost control and profitability. JBCHEM has strengthened its team on multiple fronts to enable smooth operations. The management has also planned for backward integration of select products to improve profitability. The strengthening of R & D will enable expansion of its product basket across geographies.

The strategy faces risk of slower execution leading to lower revenue growth, impacting profitability.

We have revised our estimates for Sales/EBITDA/PAT by 2%/15%/19% for FY21E and 4%/13%/15% for FY23E, in view of the higher profitability due to robust sales growth in India and exports. We roll forward our estimates to FY23E.

We have valued JBCHEM at 24x FY23E EPS of Rs 62.8 and arrived at a **target price of Rs 1507**, implying an upside of 25%. **We upgrade our rating from ACCUMULATE to BUY.**

At Rs 1200, JBCHEM trades at 19x FY23E EPS of Rs 62.8.

Financial

Profit & Loss (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E		FY19	FY20	FY21E	FY22E	FY23E
Net Sales	16432	17747	19845	22565	25457	Cash Flow St. (Rs. mn)					
Other Income	414	507	481	491	501	Net Profit	1940	2724	4087	4425	4856
Total Income	16846	18254	20326	23056	25958	Add: Dep. & Amort.	556	663	710	787	831
RMC	5965	6308	6549	7446	8401	Cash profits	2496	3387	4797	5212	5687
Employee costs	2882	3229	3391	4069	4679	(Inc)/Dec in					
Other Expenses	4527	4434	4213	4845	5571	-Sundry debtors	-75	-372	-623	-559	-594
EBITDA (ex OI)	3058	3776	5693	6205	6806	-Inventories	-300	-309	-515	-447	-476
EBIT	2502	3113	4983	5418	5975	-Other current assets	405	407	-751	-895	-1068
Interest	46	30	86	86	86	-Sundry creditors	70	64	108	184	196
Depreciation	556	663	710	787	831	-Other curr liab	-229	529	-84	57	61
Profit before tax	2870	3589	5377	5823	6389	Change in working capital	-284	367	-1852	-1644	-1863
Tax	930	765	1291	1397	1533	CF from Oper. activities	2212	3754	2945	3568	3824
Profit after tax	1940	2824	4087	4425	4856	CF from Inv. activities	-785	-664	-1326	-2041	-1043
Exceptional	0	100	0	0	0	CF from Fin. activities	-1364	-3149	-942	-1053	-1052
Adj. PAT	1940	2724	4087	4425	4856	Cash generated/(utilised)	62	-59	677	474	1729
						Cash at start of the year	299	368	309	987	1461
						Cash at end of the year	368	309	987	1461	3190
Balance Sheet	FY19	FY20	FY21E	FY22E	FY23E	Ratios	FY19	FY20	FY21E	FY22E	FY23E
Equity	160	155	155	155	155	OPM	18.6	21.3	28.7	27.5	26.7
Networth	14801	14355	17447	20787	24558	NPM	11.8	15.3	20.6	19.6	19.1
Minority interest	28	25	26	28	29	Tax rate	32.4	21.3	24.0	24.0	24.0
DEBT	258	320	320	320	320	Growth Ratios (%)					
Deferred tax liabilities (Net)	569	481	530	556	584	Net Sales	16%	8%	12%	14%	13%
Other non-current financial liabil	0	12	13	14	14	Operating Profit	41%	23%	51%	9%	10%
Other non-current liabilities	22	60	63	66	69	PAT	40%	40%	50%	8%	10%
Capital Employed	15678	15254	18399	21771	25574	Per Share (Rs.)					
Gross Block	9979	10834	11834	13334	14334	Net Earnings (EPS)	24.2	35.2	52.9	57.3	62.8
CAPEX	296	856	1000	1500	1000	Cash Earnings (CPS)	31	44	62	67	74
Acc. Depreciation	4534	5154	5864	6651	7482	Dividend	5	11	11	12	12
Net Block	5444	5680	5970	6683	6852	Book Value	127	135	158	153	176
CWIP	151	162	500	1000	1000	Free Cash Flow	18	26	8	21	30
Goodwill	531	531	531	531	531	Valuation Ratios					
Other Intangible assets	234	301	250	250	250	P/E(x)	50	34	23	21	19
Financial Assets	996	699	734	770	809	P/B(x)	9	9	8	8	7
Other non-current assets	52	35	39	43	47	EV/EBIDTA(x)	30	25	16	15	14
Cash & Cash Equivalents	368	309	987	1461	3190	EV/SALES(x)	6	5	5	4	4
CURRENT ASSETS						Div. Yield(%)	0.4	0.9	0.9	1.0	1.0
Inventories	2438	2747	3262	3709	4185	FCF Yield(%)	1.5	2.2	0.7	1.8	2.5
Financial Assets	3791	3452	4143	4971	5966	Return Ratios (%)					
Trade Receivables	3082	3454	4078	4637	5231	ROE	13%	19%	23%	21%	20%
Current Tax Assets (Net)	72	156	156	156	156	ROCE	16%	20%	27%	25%	23%
Other current assets	761	608	669	736	809	ROIC	13%	19%	24%	23%	22%
Total Current Assets	10512	10727	13295	15670	19537						
CURRENT LIABILITIES											
Trade Payables	1174	1238	1346	1530	1726						
Other financial liabilities	756	1171	1054	1075	1097						
Other current liabilities	175	268	295	324	356						
Current Tax Liabilities (Net)	39	60	66	73	80						
Total Current Liabilities	2144	2737	2760	3002	3259						
Total Provisions	97	145	160	175	193						
Working Capital	7902	7536	9388	11032	12895						
Capital Deployed	15678	15254	18399	21771	25574						

Source: Dalal & Broacha Research, Company

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