J.B. Chemicals & Pharmaceuticals Ltd.	
No. of shares (m)	84.8
Mkt cap (Rs crs/$m)	2907/434.5
Current price (Rs/$)	343/5.1
Price target (Rs/$)	456/6.8
52 W H/L (Rs.)	365/228
Book Value (Rs/$)	141/2.1
Beta	0.9
Daily volume (avg. monthly)	540480
P/BV (FY17e/18e)	2.5/2.3
P/E (FY17e/18e)	18.3/15.0
EPS growth (FY16/17e/18e)	51.7/4.2/21.8
ROE (FY16/17e/18e)	15.1/14.5/15.9
OPM(FY16/17e/18e)	16.4/17.5/18.5
Net D/E ratio (FY16/17e/18e)	-.2/-.2/-.3
BSE Code	506943
NSE Code	JBCHEPHARM
Bloomberg	JBCP IN
Reuters	JBCH.BO

Shareholding pattern	%
Promoters	55.8
MFs / Banks / FIs	5.6
Foreign	4.9
Govt. holding	-
Public & others	33.7
Total	**100.0**

As on June 30, 2016

Recommendation

BUY

Phone: + 91 (33) 4488 0011

E- mail: research@cdequi.com

Company Brief

JBCPL, one of India's leading pharmaceutical companies, manufactures and markets a diverse range of pharmaceutical formulations, herbal remedies and APIs. JBCPL exports to many countries worldwide with a strong presence in Russia, Ukraine, CIS countries and South Africa.

Quarterly Highlights

- The income from operations in FY16, which was the highest in a decade, registered a growth of a 9.7% y-o-y. The company which has seen better profit margins in the past (read: FY10 and FY11), exhibited an operating profit margin of 16.4% and a net profit margin of 12.2%.
- During the year, Biotech Laboratories (Pty.) Ltd., South Africa, has become a subsidiary of the company, with company's interest going up to 95.24% from 49%. This strategic investment will allow the Company to expand its business in South Africa and SADC countries, which hold good growth potential.
- The domestic formulation business which somehow managed to contribute 35% in the Q4FY16, grew almost 31% q-o-q, contributing a beefy 43% last quarter i.e., Q1FY17. The volatile currency situation cast down the exports, which rendered a decline of 11.2% q-o-q.
- The company has placed enhanced focus on US business. The Company's 5 ANDAs are awaiting approval and plans to file a few more ANDAs every year. Besides this, the Company plans to manufacture certain APIs itself to make the US business more profitable and remove uncertainty associated with third party API source.
- The stock currently trades at 18.3x FY17e EPS of Rs. 18.73 and 15x FY18e EPS of 22.81. Strong liquidity position of Rs 392 crs ($ 58.6m) - Rs. 46/share- would help ward off competitive challenges, if any. Buoyancy in domestic formulation business over the last few years has made up for sclerosis in formulation exports, resurrecting revenue growth to nearly 10% last fiscal. Margin expansion in last few quarters- emanating from lower material costs stoked earning revision- FY17e EPS now Rs 18.73 vs Rs. 15.35 earlier. Though revenue growth would stabilize around 12-12.5%, higher margin would help pop up earnings growth to around 22% next fiscal. We maintain our "buy" rating on the stock with a revised target price of Rs. 456 (previous target Rs. 353), implying 20x FY18e earnings (peg: 1.5), over the next 9-12 months.

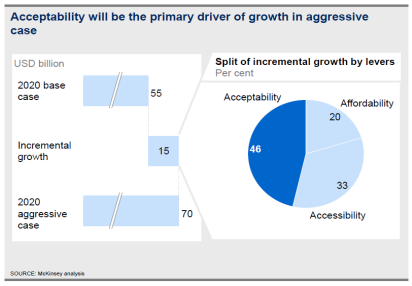
Figures (Rs crs)	FY14	FY15	FY16	FY17e	FY18e
Income from operations	1021.86	1144.21	1255.14	1413.63	1584.08
Other Income	37.70	10.89	54.16	23.39	33.99
EBIDTA (other income included)	121.39	191.01	259.64	270.77	327.04
PAT (after EO and MI)	106.88	100.50	152.52	158.91	193.49
EPS (Rs.)	12.61	11.85	17.98	18.73	22.81
EPS growth (%)	34.4	-6.1	51.7	4.2	21.8

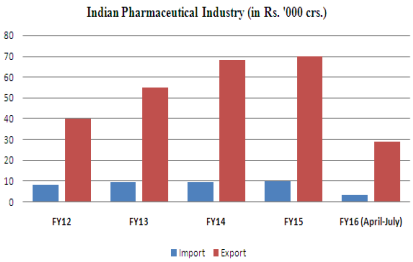
Outlook & Recommendation

Outlook of Pharmaceutical Industry

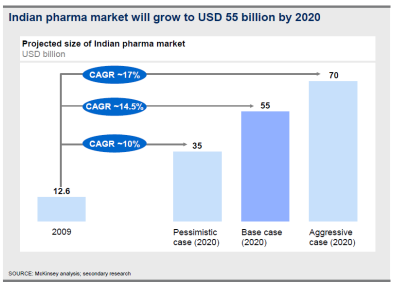
Global pharmaceutical markets are in the midst of major discontinuities. While growth in developed markets will slow down, emerging markets will become increasingly important in the coming decade. The Indian pharmaceutical market along with the markets of China, Brazil and Russia, will spearhead growth within these markets.

The Indian pharmaceuticals market is the third largest in terms of volume and thirteenth largest in terms of value. Branded generics lead the pharmaceuticals market, constituting nearly 70-80% of the market. India is the largest provider of generic drugs globally with the Indian generics accounting for 20% of global exports in terms of volume. (Source: IBEF) Of late, consolidation has become an important trait of the Indian pharmaceutical industry as the industry is exceedingly fragmented. The Indian pharma industry, which is expected to grow over 15% p.a. between 2009 and 2020, will surpass the growth of global pharma industry, which is set to grow at an annual rate of 4.6% during the same period. (Source: McKinsey, Statista)

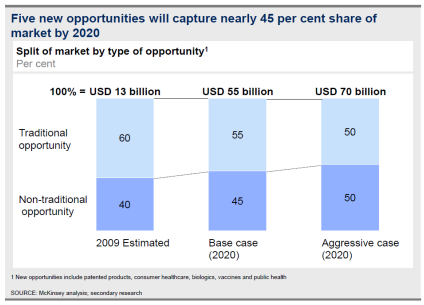


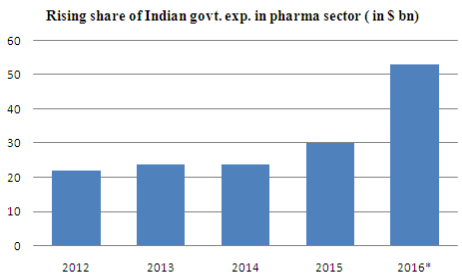


Source: Ace Equity



Analysis shows that the Indian pharmaceuticals market will grow to USD 55 billion by 2020 (see chart) driven by a steady increase in affordability and a sharp jump in the market access, with the potential to reach USD 70 billion in an aggressive growth scenario. At the projected scale, this market will be comparable to all developed markets other than the US, Japan and China. Even more impressive will be its level of penetration. In terms of volumes, India will be a close second only to the US market. Going forward, better growth in domestic sales would also depend on the ability of companies to align their product portfolio towards chronic therapies for diseases such as cardiovascular, anti-diabetes, anti-depressants and anti-cancers that are on the rise.





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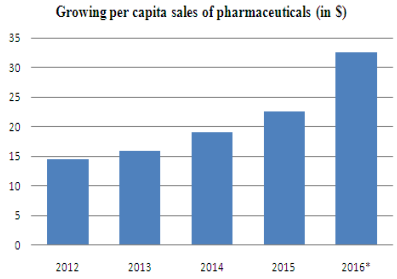


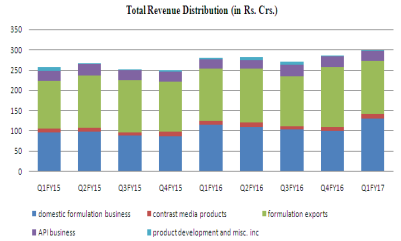
Source: Ace Equity

However, the Indian pharmaceutical industry is still a long way from compliance with global and US standards on data integrity. The industry is faced with various compliance challenges on the back of regulatory tightening, and the thrust on data integrity. The USFDA issued several warning letters and import alerts against Indian facilities on quality related issues. As of 2015-end, as many as 42 Indian facilities of 28 companies were under import alerts. (Source: DNA India)

The Indian government has taken many steps to reduce costs and bring down healthcare expenses. Speedy introduction of generic drugs into the market has remained in focus and is expected to benefit the Indian pharmaceutical companies. Further, government initiatives including plan to set up Rs 500 crore ($ 74.7m) venture capital fund and set up pharma parks, will also support the industry. In addition, the thrust on rural health programmes, lifesaving drugs and preventive vaccines also augurs well for the pharmaceutical companies.

Financials and Valuations

The financial performance of the company in the year gone by was below par. The growth in sales in FY16 (9.7% y-o-y) was a direct consequence of the challenging foreign currency environment. The growth in revenue was in single digit mainly due to the impact on exports caused by sharp depreciation of currencies (Ruble, ZAR, AED, UAH) against US Dollar- 58.13% of net sales in FY16 compared to 60.04% in the previous year. The Russian subsidiary of the company was impacted by Rs. 18.27 crs ($2.7m) due to depreciation of ruble against the US dollar due to steep fall in oil prices.



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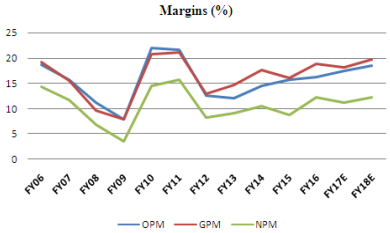

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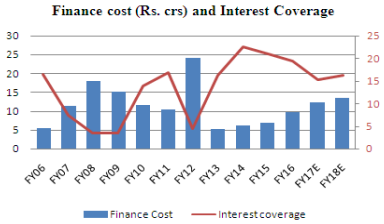
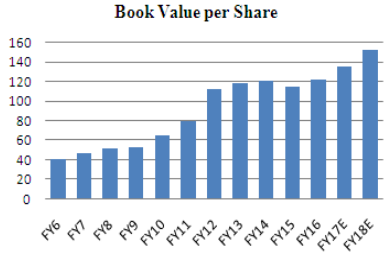


Source: Ace Equity

Exports of formulations (standalone) amounted to Rs. 531.81 crs ($79.5m) during the year (total exports were Rs. 651.67 crs/$97.4m), a growth of 5.94% over the previous year. The exports of formulations were also affected by sharp depreciation of various currencies against US Dollar. This volatility prevailed during most part of the year which affected the demand as well as payment situation. The exports for Russia-CIS region amounted to Rs. 52.46 crs ($7.8 mn); lower than the last year export of Rs. 69.25 crs ($10.4 mn). Though this business is still in the investment phase, the volatility in Russian, Ukrainian and the other CIS currencies affected the business significantly. The company continues to cautiously invest in these potential markets and is hopeful of improving its business performance in this region.



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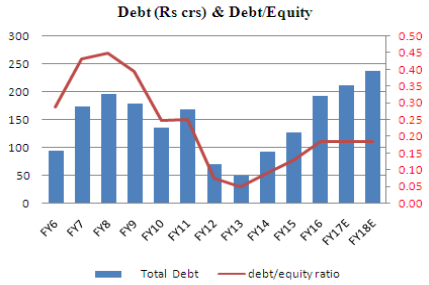

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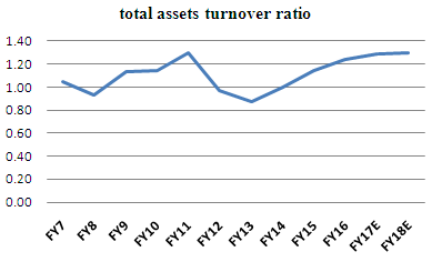
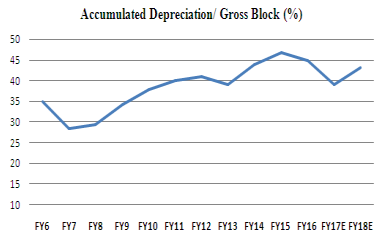


Source: Ace Equity

Biotech Laboratories (Pty.) Ltd, which was earlier into a joint venture with J.B. Chemicals, has now become a subsidiary of the company. The company upped its stake from 49% to 95.24% in the same. With strong marketing reach of Biotech, the Company expects to expand and strengthen its presence in South African region.

On the quarterly front, J.B. Chemicals saw the highest income from operations, Rs. 309.23 crs ($46.2m) in the last nine quarters. The formulation business- domestic and exports-, contrast media products together with API business saw a growth of 12.5%, 2.4%, 16.5% and 8.6% y-o-y respectively. The PAT stood at Rs. 49.86 crs ($7.5m) with a y-o-y increase of 25.8%.

The new capex plan of about Rs. 140 crs ($20.9m) is being incurred for the creation of additional capacity for the formulations business including tablets, liquid, ointments, vials, eye drops and lozenges and for the creation of additional capacity for the API business is progressing well. Undoubtedly, the road to growth is not without challenges. In fact, the business faces challenges such as increasing the span of price control, intense competition, increasing regulatory requirement and growing input costs, to name a few.



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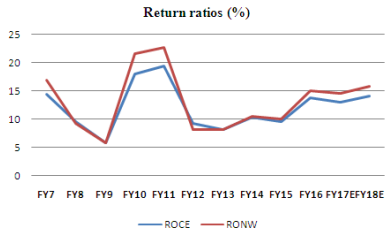

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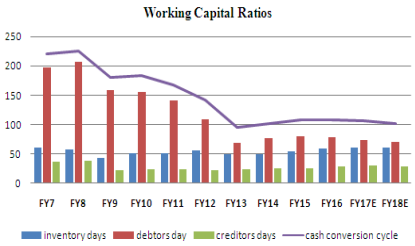


Source: Ace Equity

Going forward the company expects the ruble to stabilize against the US dollar which will enable it to drive higher performance. The company accords high priority to domestic formulations business- almost 37% of the total revenue is derived from the domestic formulation business. During the current year, the company also plans to continue to pursue focus on harnessing potential of the existing products, launch new line extensions and achieve increased productivity. The proportion of the domestic formulation is projected to go up to 40% in the next couple of years.

The stock currently trades at 18.3x FY17e EPS of Rs. 18.73 and 15x FY18e EPS of 22.81. Strong liquidity position of Rs 392 crs ($58.6m) - Rs. 46/share- would help ward off competitive challenges, if any. Buoyancy in domestic formulation business over the last few years has made up for sclerosis in formulation exports, resurrecting revenue growth to nearly 10% last fiscal. Margin expansion in last few quarters- emanating from lower material costs stoked earning revision- FY17e EPS now Rs 18.73 vs Rs. 15.35 earlier. Though revenue growth would stabilize around 12-12.5%, higher margin would help pop up earnings growth to around 22% next fiscal. We maintain our "buy" rating on the stock with a revised target price of Rs. 456 (previous target Rs. 353), implying 20x FY18e earnings (peg: 1.5), over the next 9-12 months. For more information, refer to our December report.

Risks & Concerns

Concerns in Russia

The company exports around 11% of its revenues to Russia & CIS. The political unrest in Russia and Ukraine and sharp depreciation of the Russian ruble against US Dollar can impact its business going forward. It reported a onetime loss of Rs 18.27 crs ($2.7m) due to sharp depreciation of Russian ruble last fiscal

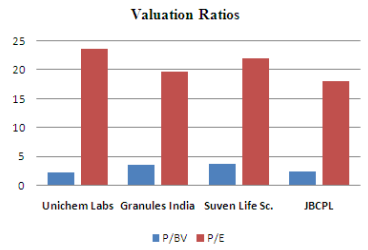
USFDA inspection

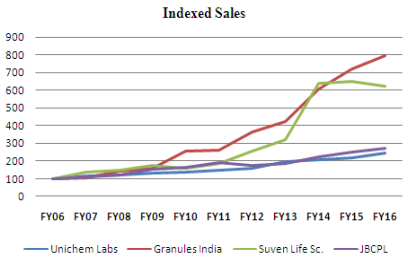
Rising concerns about USFDA inspection which is going on in major pharmaceutical companies in India can affect its product approvals in coming years.

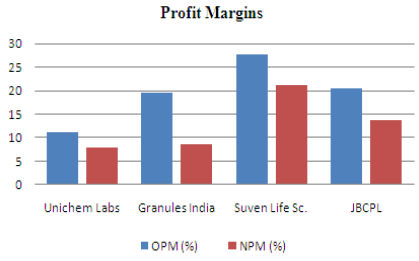
Cross Sectional Analysis

Company	Equity*	CMP	MCap*	Sales*	Profit*	OPM (%)	NPM (%)	Int Cov	ROE (%)	MCap/ Sales	P/BV	P/E
Unichem Labs	18	261	2370	1251	100	11.1	8.0	53.4	9.9	1.9	2.3	23.7
Granules India	22	117	2540	1452	129	19.6	8.6	5.7	22.1	1.7	3.6	19.7
Suven Life Sc.	13	194	2463	532	112	27.6	21.0	22.9	18.1	4.6	3.8	22.0
JBCPL	17	343	2907	1173	160	20.4	13.7	27.0	14.3	2.5	2.4	18.1

*figures in crores; calculations on ttm basis
Companies not truly comparable due to product dissimilarity







*All $ values expressed in the write-up are translated at current exchange rates.

Financials

Quarterly results- standalone

Figures in crores

	Q1FY17	Q1FY16	% chg.	FY16	FY15	% chg.
Income From Operations	**309.23**	**284.21**	**8.8**	**1148.17**	**1061.42**	**8.2**
Other Income	10.97	11.03	-0.6	52.92	10.41	408.5
Total Income	**320.19**	**295.24**	**8.5**	**1201.09**	**1071.83**	**12.1**
Total Expenditure	240.01	230.25	4.2	924.37	868.48	6.4
EBITDA (other income included)	**80.18**	**65.00**	**23.4**	**276.72**	**203.35**	**36.1**
Interest	0.78	1.98	-60.6	9.22	6.65	38.7
Depreciation	11.32	9.77	15.8	40.41	37.60	7.5
PBT	**68.08**	**53.25**	**27.9**	**227.10**	**159.10**	**42.7**
Tax	18.23	13.61	33.9	50.71	45.52	11.4
PAT	**49.86**	**39.64**	**25.8**	**176.39**	**113.58**	**55.3**
EO	0.00	0.00	0.0	26.19	6.54	300.3
Adjusted Net Profit	49.86	39.64	25.8	150.20	107.04	40.3
EPS(Rs)	**5.88**	**4.67**	**25.8**	**17.71**	**12.62**	**40.3**

Income Statement- consolidated

Figure in crores

	FY14	FY15	FY16	FY17e	FY18e
Income From Operations	**1021.86**	**1144.21**	**1255.14**	**1413.63**	**1584.08**
Growth (%)	18.0	12.0	9.7	12.6	12.1
Other Income	37.70	10.89	54.16	23.39	33.99
Total Income	**1059.57**	**1155.11**	**1309.30**	**1437.01**	**1618.07**
Total Expenditure	938.18	964.10	1049.66	1166.24	1291.02
EBITDA (other income included)	**121.39**	**191.01**	**259.64**	**270.77**	**327.04**
Interest	5.93	6.82	9.57	12.18	13.54
Depreciation	28.02	38.64	41.24	50.56	60.23
PBT	**87.44**	**145.55**	**208.83**	**208.03**	**253.27**
Tax	25.95	45.14	46.91	48.89	59.52
PAT	**61.49**	**100.41**	**161.92**	**159.15**	**193.75**
Minority Interest	0.00	0.00	0.04	0.24	0.26
PAT after MI	**61.49**	**100.41**	**161.89**	**158.91**	**193.49**
EO	-45.39	-0.09	9.36	0.00	0.00
Adjusted Net Profit	**106.88**	**100.50**	**152.52**	**158.91**	**193.49**
EPS (Rs)	12.61	11.85	17.98	18.73	22.81

Consolidated Balance Sheet

Figure in crores

	FY14	FY15	FY16	FY17e	FY18e
Sources of Funds					
Share Capital	16.95	16.96	16.96	16.96	16.96
Reserves	1025.86	977.91	1076.77	1184.62	1327.05
Total Shareholders' Funds	**1042.81**	**994.87**	**1093.73**	**1201.58**	**1344.01**
Minority Interest	0.00	0.00	1.59	1.83	2.09
Long Term Debt	0.49	0.40	-	-	-
Total Liabilities	**1043.30**	**995.28**	**1095.33**	**1203.41**	**1346.10**
Application of Funds					
Gross Block	540.54	601.67	753.54	984.76	1034.76
Less: Accumulated Depreciation	229.99	273.11	313.49	364.05	424.28
Net Block	**310.55**	**328.56**	**440.04**	**620.71**	**610.48**
Capital Work in Progress	46.36	55.17	131.23	40.00	10.00
Investments	500.01	551.62	380.09	428.90	587.54
Current Assets, Loans & Advances					
Inventory	134.40	150.27	187.98	204.09	225.93
Trade receivables	235.51	262.35	275.19	296.86	316.82
Cash and Bank	11.81	25.19	14.96	15.40	28.71
Short term loans (inc. other current assets)	101.67	96.35	104.38	116.29	130.67
Total CA	**483.39**	**534.15**	**582.51**	**632.64**	**702.13**
Current Liabilities	240.52	308.13	418.70	463.17	515.48
Provisions-Short term	35.76	151.62	17.10	59.18	59.18
Total Current Liabilities	**276.27**	**459.75**	**435.80**	**522.35**	**574.66**
Net Current Assets	**207.12**	**74.40**	**146.70**	**110.29**	**127.47**
Net Deferred Tax Asset	-19.26	-20.20	-15.82	-15.34	-14.82
Net long term assets (net of liabilities)	-1.48	5.72	13.09	18.84	25.43
Total Assets	**1043.30**	**995.28**	**1095.33**	**1203.41**	**1346.10**

Key Financial Ratios

	FY14	FY15	FY16	FY17e	FY18e
Growth Ratios (%)					
Revenue	18.0	12.0	9.7	12.6	12.1
EBITDA	39.2	2.8	29.5	9.4	20.8
Net Profit	34.5	-6.0	51.8	4.3	21.7
EPS	34.4	-6.1	51.7	4.2	21.8
Margins (%)					
Operating Profit Margin	14.5	15.8	16.4	17.5	18.5
Gross profit Margin	17.6	16.1	19.0	18.3	19.8
Net Profit Margin	10.5	8.8	12.2	11.2	12.2
Return (%)					
ROCE	10.2	9.5	13.7	13.0	14.1
RONW	10.5	10.0	15.1	14.5	15.9
Valuations					
Market Cap/ Sales	1.1	1.5	1.7	2.1	1.8
EV/EBITDA	3.6	6.5	7.7	10.0	8.3
P/E	10.2	16.8	13.9	18.3	15.0
P/BV	1.1	1.7	2.0	2.5	2.3
Other Ratios					
Interest Coverage	26.6	22.4	21.6	18.1	19.7
Debt Equity	0.1	0.1	0.2	0.2	0.2
Net Debt-Equity Ratio	-0.4	-0.5	-0.2	-0.2	-0.3
Current Ratio	3.5	2.4	2.2	2.0	2.2
Turnover Ratios					
Fixed Asset Turnover	3.3	3.8	3.6	3.0	2.8
Total Asset Turnover	1.0	1.1	1.2	1.3	1.3
Inventory Turnover	7.3	6.8	6.2	5.9	6.0
Debtors Turnover	4.8	4.6	4.7	4.9	5.2
Creditor Turnover	14.4	13.9	12.5	12.3	12.4
WC Ratios					
Inventory Days	49.9	53.9	58.8	61.4	60.8
Debtor Days	76.2	79.4	78.2	73.9	70.7
Creditor Days	25.3	26.2	29.3	29.7	29.5
Cash Conversion Cycle	100.8	107.1	107.7	105.5	102.0

Cumulative Financial Data

Figures in crores

	FY07-09	FY10-12	FY13-15	FY16-18
Income from operations	1805	2450	3032	4253
Operating profit	203	461	434	746
EBIT	190	430	419	693
PBT	145	384	401	658
PAT after MI	126	315	287	505
Dividends	40	443	203	153
OPM (%)	11.3	18.8	14.3	17.5
NPM (%)	7.0	12.8	9.5	11.9
ROE (%)	10.8	14.9	9.9	14.8
ROCE (%)	10.4	14.2	9.4	13.5
Debt Equity	0.4	0.1	0.1	0.2
Fixed asset turnover	3.3	3.3	3.5	3.3
Debtors turnover	2.2	3.7	5.1	4.9
Inventory turnover	7.4	7.3	6.9	6.2
Creditors turnover	17.8	18.5	15.1	12.5
Debtor days	168.5	98.1	71.9	74.6
Inventory days	49.6	50.0	53.0	58.7
Creditor days	20.5	19.7	24.2	29.2
Cash conversion	197.5	128.4	100.7	104.1
Dividend payout ratio (%)	30.2	47.3	84.0	29.8

FY07-09 implies three years ending fiscal 09

The disparity in the operating profit margin and return on equity of cumulative FY07-09 and FY10-12 is due to a sharp increase in other expenses in FY09- it rose to Rs. 318 crs ($47.5m) in FY09 from Rs. 201 crs ($30m) in FY08- and the subsequent normalization in cumulative FY10-12. The fall in interest cost further fuelled the gross profit margins for both FY10 and FY11 – 20.8% in FY10 compared to 8% in FY09. The cash conversion days fell sharply in cumulative FY10-12, a pronounced jump of almost 70 days, underpinned by a monumental reduction in receivables in FY12- slashed from Rs. 346 crs ($51.6m) in FY11 to Rs. 136 crs ($20.3m) in FY12.

Even though the company apportioned herculean interim dividend of Rs. 339 crs ($ 50.6m) in FY12, the dividend payout ratio was somewhat cushioned by the equally mammoth net profit in the same financial year. This jumbo net profit was courtesy the profit on sale of the business undertaking in Russia which contributed Rs. 761 crs ($113.7m). However, the net profits failed to suppress the dividend payout ratio in cumulative FY13-15 which rose drastically when the company parted with an above normal final dividend of Rs. 119 crs ($17.7m) in FY15. Projected to be backed by increasing profits in response to the singular growth expected by the industry, the return ratio will hover in mid teens. Increase in inventories coupled with receivables will marginally pressurize the cash conversion cycle.

Financial Summary – US dollar denominated

million $	FY14	FY15	FY16	FY17e	FY18e
Share capital	2.8	2.7	2.6	2.5	2.5
Shareholders' funds	170.7	156.2	156.9	171.7	193.0
Total debt	15.5	20.3	29.2	31.8	35.7
Net fixed assets (incl. CWIP)	56.6	58.6	78.1	90.8	84.8
Investments	83.2	88.1	57.3	64.1	87.8
Net Current assets	34.5	11.9	22.1	16.5	19.1
Total Assets	170.8	156.3	157.1	171.9	193.3
Revenues	168.9	187.1	191.7	211.3	236.8
EBITDA	30.7	31.3	37.8	40.5	48.9
EBDT	29.8	30.1	36.4	38.7	46.9
PBT	25.1	23.8	30.1	31.1	37.9
PAT	17.7	16.4	23.3	23.8	28.9
EPS($)	0.21	0.19	0.27	0.28	0.34
Book value ($)	2.01	1.84	1.85	2.02	2.27

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rates
*All $ values adjusted for extraordinary items.

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