

October 28, 2016

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Rating	Accumulate
Price	Rs649
Target Price	Rs740
Implied Upside	14.0%
Sensex	27,916
Nifty	8,615

(Prices as on October 27, 2016)

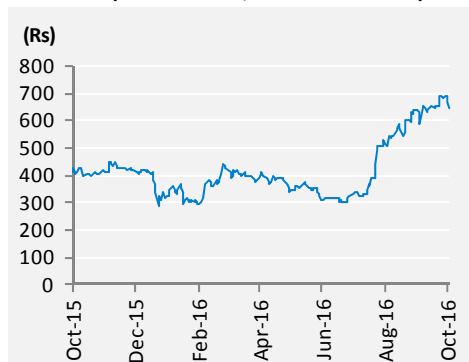
Trading data	
Market Cap. (Rs bn)	100.3
Shares o/s (m)	154.5
3M Avg. Daily value (Rs m)	1040

Major shareholders	
Promoters	54.02%
Foreign	15.12%
Domestic Inst.	0.11%
Public & Other	31.00%

Stock Performance			
(%)	1M	6M	12M
Absolute	2.7	63.0	59.2
Relative	3.8	55.9	56.8

How we differ from Consensus			
EPS (Rs)	PL	Cons.	% Diff.
2017	31.5	37.2	-15.3
2018	36.4	47.7	-23.8

Price Perf. (RIC: JULS.BO, BB: JUBILANT IN)



Source: Bloomberg

■ **Sales miss on lower LSI; EBITDA, PAT in-line with lower input costs:** Jubilant's net sales declined by 5% YoY to Rs13.6bn, while EBITDA grew by 5% to Rs3.4bn in Q2FY17. The company's overall financial performance except LSI sales were in line with our estimates as Jubilant has been benefitting from volume and price rise in Radiopharma products. There was scheduled shutdown of three weeks in Spokane plant, which led to marginal miss in CMO revenues in Q2FY17. Global generics grew by 12% YoY on commissioning of new API capacity and global launch of new formulations. LSI revenues declined by 19% due to lower price of pyridines, lower demand of pyridines and Acetates (Acetyles) from global agro-chemical clients and declining demand in Nutritional business. The Pharma division sales grew by 8% YoY, while LSI's business declined by 19% as lower solvent prices (derivatives of Crude oil) drove down both input prices as well as end products. The EBITDA of Pharma business grew 14% with margin of 33% while EBITDA of LSI declined by 7% though lower input costs resulted in EBITDA margin increasing by 200bps YoY to 16.6% in Q2FY17.

■ **Ruby-Fill to be launched in Q3FY17E:** Management plans to launch gRuby-Fill in Q3FY17 in US post its approval in October 2016. While the current market of the drug is US\$70m, Jubilant expects its non-substitutable gRubi-Fill to expand market size to US\$250m by FY21E. With two ANDAs pending for approval and development pipeline of seven more products, Jubilant expects to launch one Radiology product every year.

■ **Valuation-Price run-up by 116% reduce upside potential, downgrade to 'Accumulate', increase TP to Rs740:** With sustainable limited competition in Radiology products (unlike peers) in US and better visibility of utilisation of CMO plants, Jubilant's EBITDA margin (30-34%) in US generics is currently highest among all Indian peers. Net Debt reduction of Rs7.6bn decreased D/E ratio to 1.1 in Q2FY17 from 1.6 in FY16 and promised better cash flow and return ratios in FY17E-18E. With improving financial metrics, there was partial rerating in valuation as it ran up 116% in Aug-Oct 2016. In our SOTP valuation, we increased EV/EBITDA to 12x from 10x in Pharma and to 5x from 3x in LSI and derive new TP at Rs740 (previously Rs484). We downgraded our recommendation to 'Accumulate' as upside potential reduces to 11% at current market price.

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	57,761	57,005	60,580	64,951
Growth (%)	1.0	(1.3)	6.3	7.2
EBITDA (Rs m)	6,392	11,759	12,679	13,809
PAT (Rs m)	(97)	4,140	4,900	5,656
EPS (Rs)	(0.6)	26.0	31.5	36.4
Growth (%)	(102.9)	(4,385.9)	21.2	15.4
Net DPS (Rs)	3.0	3.0	3.1	3.1

Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	11.1	20.6	20.9	21.3
RoE (%)	(0.4)	15.4	15.7	15.7
RoCE (%)	3.4	9.1	9.7	10.3
EV / sales (x)	2.6	2.5	2.3	2.1
EV / EBITDA (x)	23.1	12.3	11.1	9.9
PE (x)	(1,070.7)	25.0	20.6	17.9
P / BV (x)	4.2	3.6	3.0	2.6
Net dividend yield (%)	0.5	0.5	0.5	0.5

Source: Company Data; PL Research

Key takeaways from Conference call

- In Q2FY17, JOL's Pharma business drew major growth from Specialty Pharma, API and DDDS business. Its CMO business however decreased by 5% YoY due to maintenance shutdown in Spokane facility which is scheduled twice (July and December) in a year. With 65-70% capacity utilisation, the CMO business currently has US\$558m order book, of which there are executable order to the extent of US\$100m in FY17E. Management maintain normalised revenues of US\$140m to be reached in 2-3 years with higher utilisation of better product portfolio.
- LSI business continues to disappoint as specialty chemicals and LSC business declined due to faltering demand. LSI sales were also impacted due to lower input price driving the end-product prices lower in global markets. Nutritional business also grew flattish on the back of sluggish demand scenario in global market
- Management guided for the launch of gRubi-Fill in Q3FY17E and expects ram-up in sales could be achieved from Q4FY17E onwards. The company expects gRuby-Fill market to expand to US\$250m by FY21 from US\$70m currently.
- USFDA's inspection visit of Spokane and Roorkee completed successfully with no major observations in Q2FY17. The company also completed successful USFDA inspection of plants in Nanjangud (API) and Radiopharma facility in Montreal in Q3FY16.
- With plan to file 10 ANDAs in FY17, the company received three approvals and filed two products in H1FY17. It currently have 25 ANDAs pending with USFDA.
- Of the capex plan of Rs3.5bn and R&D investments of Rs1.5bn in FY17E, the company spent Rs1.13bn in H1FY17.
- Jubilant reduced net debt by Rs1.49bn and Rs3.96bn in Q2FY17 and H1FY17. Its current net debt is Rs30.8bn after bond issue of US\$300m in Q2FY17. Out of the proceedings from US\$300mn, the company retired high-interest bearing loan and reduced average interest rate to 6.76% from 7.95%, leading to estimated annual savings of US\$8.3m (Rs552.9m) in annual interest payment.

Exhibit 1: Q2FY17 Result Overview (Rs m)

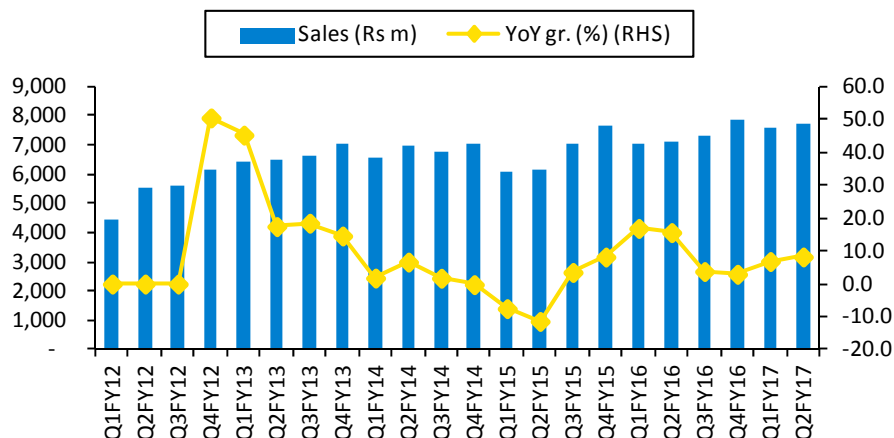
Y/e March	Q2FY17	Q2FY16	YoY gr. (%)	Q1FY17	H1FY17	H1FY16	YoY gr. (%)
Net Sales	13,855	14,520	(4.6)	14,195	28,050	28,977	(3.2)
Raw Material	5,326	6,296	(15.4)	5,448	10,773	12,688	(15.1)
<i>% of Net Sales</i>	<i>38.4</i>	<i>43.4</i>		<i>38.4</i>	<i>38.4</i>	<i>43.8</i>	
Personnel Cost	3,014	2,836	6.3	2,959	5,973	5,563	7.4
<i>% of Net Sales</i>	<i>21.8</i>	<i>19.5</i>		<i>20.8</i>	<i>21.3</i>	<i>19.2</i>	
Others	2,112	2,156	(2.0)	2,107	4,219	4,244	(0.6)
<i>% of Net Sales</i>	<i>15.2</i>	<i>14.8</i>		<i>14.8</i>	<i>15.0</i>	<i>14.6</i>	
Total Expenditure	10,452	11,288	(7.4)	10,514	20,965	22,494	(6.8)
EBITDA	3,403	3,231	5.3	3,682	7,085	6,482	9.3
<i>Margin (%)</i>	<i>24.6</i>	<i>22.3</i>		<i>25.9</i>	<i>25.3</i>	<i>22.4</i>	
Depreciation	720	751	(4.1)	715	1,435	1,453	(1.2)
EBIT	2,683	2,480	8.2	2,966	5,650	5,029	12.3
Other Income	49	45	9.8	43	92	83	11.2
Interest	800	921	(13.2)	828	1,627	1,833	(11.2)
PBT	1,933	1,604	20.5	2,182	4,114	3,279	(25.5)
Extra-Ord. Inc./Exps.	12	22	(45.5)	23	11	(42)	
Total Taxes	497	362	37.5	542	1,040	737	41.0
<i>ETR (%)</i>	<i>25.7</i>	<i>22.6</i>		<i>24.9</i>	<i>25.3</i>	<i>22.5</i>	
Reported PAT	1,448	1,264	(14.5)	1,616	3,064	2,584	(18.6)
Other Comprehensive Income	(467)	(486)		349	(117)	85	
Total Comprehensive Income	981	778	(26.1)	1,965	2,946	2,668	(10.4)

Source: Company Data, PL Research

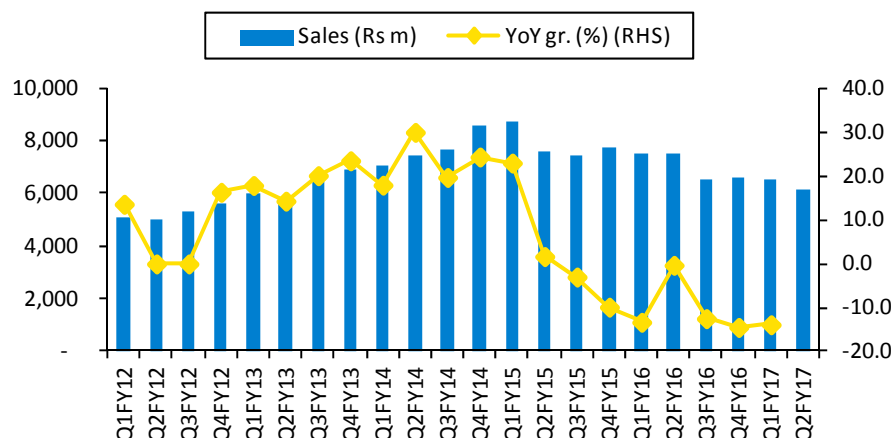
Exhibit 2: Major Sources of Revenues (Rs m)

Y/e March	Q2FY17	Q2FY16	YoY gr. (%)	Q1FY17	H1FY17	H1FY16	YoY gr. (%)
Pharmaceuticals	7,689	7,104	8.2	7,546	15,236	14,166	7.5
<i>% of Net Sales</i>	<i>54.2</i>	<i>47.6</i>		<i>51.9</i>	<i>53.0</i>	<i>47.6</i>	
Life Science ingredients	6,127	7,544	(18.8)	6,497	12,623	15,086	(16.3)
<i>% of Net Sales</i>	<i>43.2</i>	<i>50.6</i>		<i>44.7</i>	<i>43.9</i>	<i>50.7</i>	
Drug Discovery Solutions	378	271	39.1	496	874	517	69.2
<i>% of Net Sales</i>	<i>2.7</i>	<i>1.8</i>		<i>3.4</i>	<i>3.0</i>	<i>1.7</i>	
Gross Sales	14,193	14,919	(4.9)	14,539	28,733	29,769	(3.5)

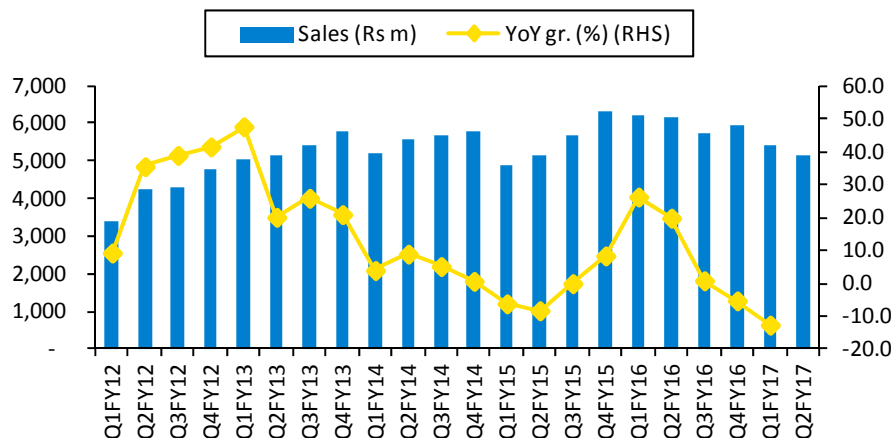
Source: Company Data, PL Research

Exhibit 3: Pharma sales and growth


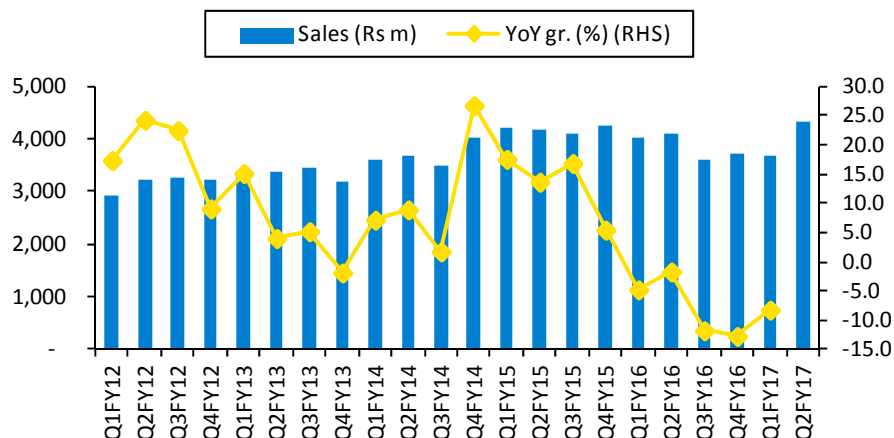
Source: Company Data, PL Research

Exhibit 4: LSI Sales and Growth


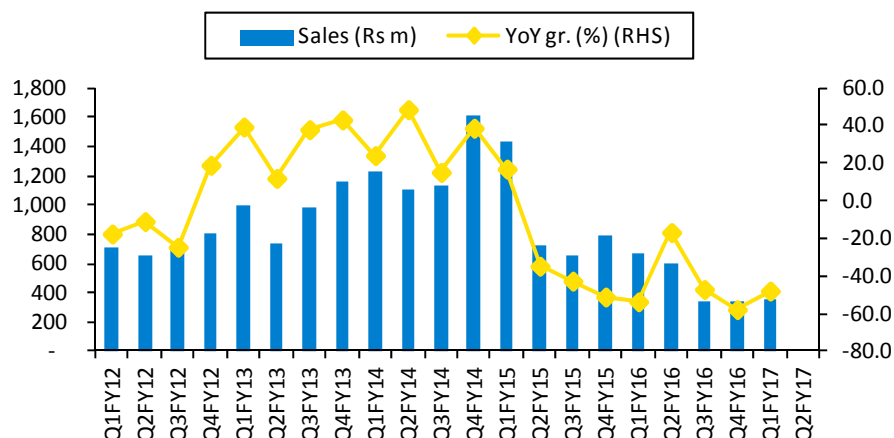
Source: Company Data, PL Research

Exhibit 5: US Sales and Growth


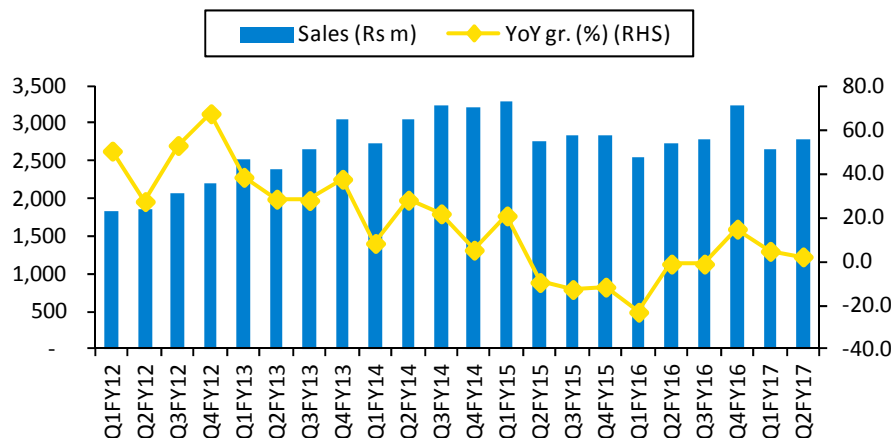
Source: Company Data, PL Research

Exhibit 6: India Sales and Growth


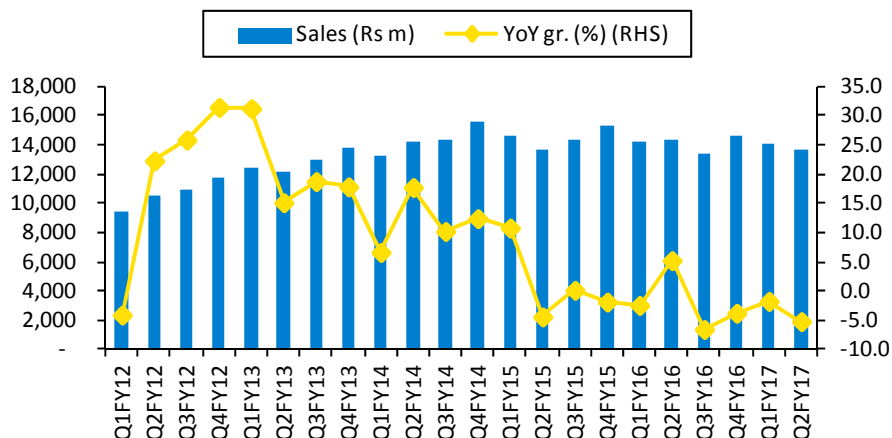
Source: Company Data, PL Research

Exhibit 7: China Sales and Growth


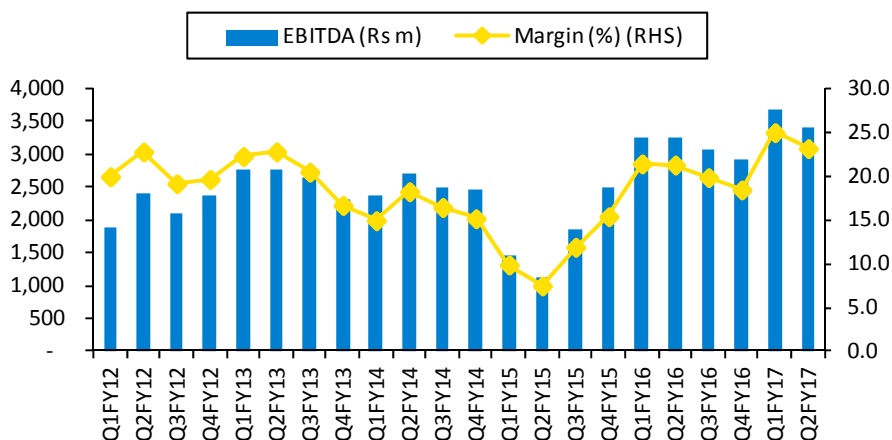
Source: Company Data, PL Research

Exhibit 8: EU, Japan: Sales and Growth


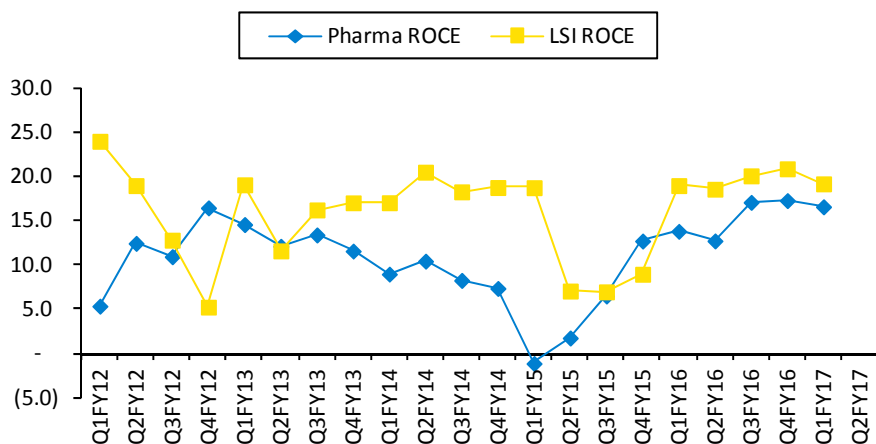
Source: Company Data, PL Research

Exhibit 9: Overall Sales and Growth


Source: Company Data, PL Research

Exhibit 10: EBITDA and Margin: Pharma and LSI


Source: Company Data, PL Research

Exhibit 11: ROCE: Pharma and LSI


Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Net Revenue	57,761	57,005	60,580	64,951
Raw Material Expenses	26,617	21,175	22,899	24,227
Gross Profit	31,144	35,830	37,681	40,724
Employee Cost	10,903	11,267	11,510	12,341
Other Expenses	13,850	12,803	13,492	14,574
EBITDA	6,392	11,759	12,679	13,809
Depr. & Amortization	2,880	3,460	3,874	4,227
Net Interest	3,553	3,786	3,522	3,376
Other Income	926	1,155	1,251	1,335
Profit before Tax	884	5,669	6,533	7,542
Total Tax	805	1,529	1,633	1,885
Profit after Tax	79	4,140	4,900	5,656
Ex-Od items / Min. Int.	(786)	349	—	—
Adj. PAT	(97)	4,140	4,900	5,656
Avg. Shares O/S (m)	159.3	159.3	155.5	155.5
EPS (Rs.)	(0.6)	26.0	31.5	36.4

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	7,833	10,923	11,016	11,176
C/F from Investing	(3,433)	(3,265)	(4,478)	(3,478)
C/F from Financing	(5,218)	(8,183)	(6,832)	(6,669)
Inc. / Dec. in Cash	(819)	(525)	(294)	1,028
Opening Cash	4,735	3,916	3,392	3,097
Closing Cash	3,916	3,392	3,097	4,126
FCFF	256	707	1,733	4,432
FCFE	4,234	(2,057)	(1,002)	1,713

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	1.0	(1.3)	6.3	7.2
EBITDA (%)	(31.0)	84.0	7.8	8.9
PAT (%)	(103.0)	(4,385.9)	18.4	15.4
EPS (%)	(102.9)	(4,385.9)	21.2	15.4
Profitability				
EBITDA Margin (%)	11.1	20.6	20.9	21.3
PAT Margin (%)	(0.2)	7.3	8.1	8.7
RoCE (%)	3.4	9.1	9.7	10.3
RoE (%)	(0.4)	15.4	15.7	15.7
Balance Sheet				
Net Debt : Equity	1.8	1.4	1.2	0.9
Net Wrkg Cap. (days)	125	166	167	169
Valuation				
PER (x)	(1,070.7)	25.0	20.6	17.9
P / B (x)	4.2	3.6	3.0	2.6
EV / EBITDA (x)	23.1	12.3	11.1	9.9
EV / Sales (x)	2.6	2.5	2.3	2.1
Earnings Quality				
Eff. Tax Rate	91.0	27.0	25.0	25.0
Other Inc / PBT	104.7	20.4	19.1	17.7
Eff. Depr. Rate (%)	3.9	4.4	4.6	4.8
FCFE / PAT	(4,383.1)	(49.7)	(20.5)	30.3

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	24,535	29,096	33,417	38,498
Total Debt	47,931	45,167	42,432	39,713
Other Liabilities	3,449	4,790	4,846	4,907
Total Liabilities	75,915	79,053	80,695	83,118
Net Fixed Assets	55,079	56,850	57,475	56,748
Goodwill	—	—	—	—
Investments	395	361	361	361
Net Current Assets	16,872	18,596	19,454	22,434
<i>Cash & Equivalents</i>	<i>3,943</i>	<i>3,445</i>	<i>3,097</i>	<i>4,126</i>
<i>Other Current Assets</i>	<i>23,336</i>	<i>25,568</i>	<i>27,054</i>	<i>28,987</i>
<i>Current Liabilities</i>	<i>10,407</i>	<i>10,417</i>	<i>10,698</i>	<i>10,679</i>
Other Assets	3,569	3,246	3,409	3,579
Total Assets	75,915	79,053	80,699	83,122

Quarterly Financials (Rs m)

Y/e March	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Net Revenue	13,795	14,873	14,195	13,855
EBITDA	3,075	2,912	3,682	3,403
% of revenue	22.3	19.6	25.9	24.6
Depr. & Amortization	747	1,260	715	720
Net Interest	900	881	828	800
Other Income	3	25	43	49
Profit before Tax	1,432	796	2,182	1,933
Total Tax	230	409	542	497
Profit after Tax	1,187	483	1,616	1,448
Adj. PAT	1,187	483	1,616	1,448

Key Operating Metrics

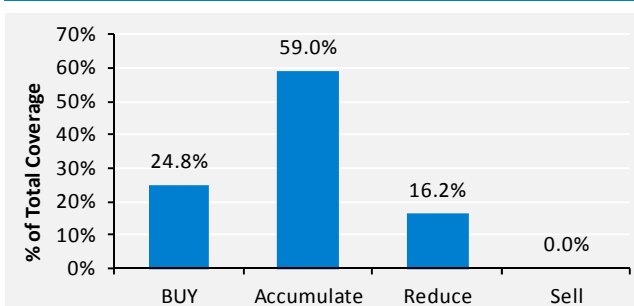
Y/e March	2015	2016	2017E	2018E
Pharmaceuticals	26,820	30,548	33,577	36,876
LSI	31,442	27,475	28,114	29,265

Source: Company Data, PL Research.

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Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months
Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month
Trading Sell	: Over 10% absolute decline in 1-month
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