

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: JUL.S.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

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## Key takeways 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 ramp-up in sales could be achieved from Q4FY17E onwards. The company expects gRubi-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. (%)
<b>Net Sales</b>	<b>13,855</b>	<b>14,520</b>	<b>(4.6)</b>	<b>14,195</b>	<b>28,050</b>	<b>28,977</b>	<b>(3.2)</b>
Raw Material	5,326	6,296	(15.4)	5,448	10,773	12,688	(15.1)
% of Net Sales	38.4	43.4		38.4	38.4	43.8	
Personnel Cost	3,014	2,836	6.3	2,959	5,973	5,563	7.4
% of Net Sales	21.8	19.5		20.8	21.3	19.2	
Others	2,112	2,156	(2.0)	2,107	4,219	4,244	(0.6)
% of Net Sales	15.2	14.8		14.8	15.0	14.6	
Total Expenditure	10,452	11,288	(7.4)	10,514	20,965	22,494	(6.8)
<b>EBITDA</b>	<b>3,403</b>	<b>3,231</b>	<b>5.3</b>	<b>3,682</b>	<b>7,085</b>	<b>6,482</b>	<b>9.3</b>
Margin (%)	24.6	22.3		25.9	25.3	22.4	
Depreciation	720	751	(4.1)	715	1,435	1,453	(1.2)
<b>EBIT</b>	<b>2,683</b>	<b>2,480</b>	<b>8.2</b>	<b>2,966</b>	<b>5,650</b>	<b>5,029</b>	<b>12.3</b>
Other Income	49	45	9.8	43	92	83	11.2
Interest	800	921	(13.2)	828	1,627	1,833	(11.2)
<b>PBT</b>	<b>1,933</b>	<b>1,604</b>	<b>20.5</b>	<b>2,182</b>	<b>4,114</b>	<b>3,279</b>	<b>(25.5)</b>
Extra-Ord. Inc./Exps.	12	22	(45.5)	23	11	(42)	
Total Taxes	497	362	37.5	542	1,040	737	41.0
ETR (%)	25.7	22.6		24.9	25.3	22.5	
<b>Reported PAT</b>	<b>1,448</b>	<b>1,264</b>	<b>(14.5)</b>	<b>1,616</b>	<b>3,064</b>	<b>2,584</b>	<b>(18.6)</b>
Other Comprehensive Income	(467)	(486)		349	(117)	85	
<b>Total Comprehensive Income</b>	<b>981</b>	<b>778</b>	<b>(26.1)</b>	<b>1,965</b>	<b>2,946</b>	<b>2,668</b>	<b>(10.4)</b>

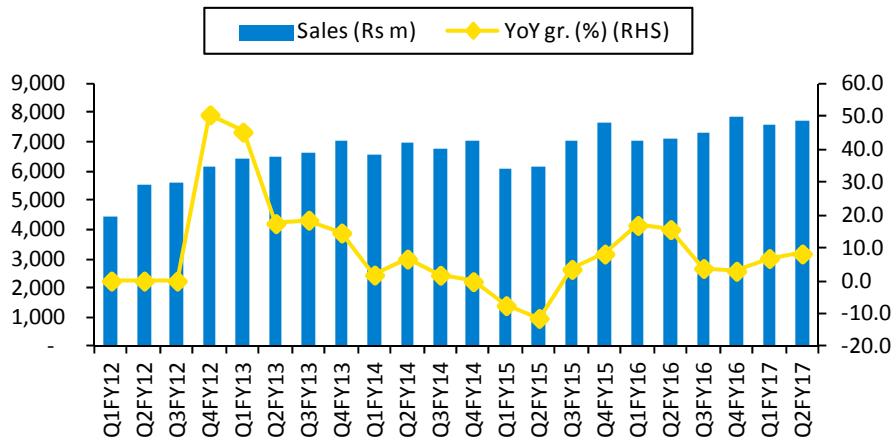
Source: Company Data, PL Research

**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
% of Net Sales	54.2	47.6		51.9	53.0	47.6	
Life Science ingredients	6,127	7,544	(18.8)	6,497	12,623	15,086	(16.3)
% of Net Sales	43.2	50.6		44.7	43.9	50.7	
Drug Discovery Solutions	378	271	39.1	496	874	517	69.2
% of Net Sales	2.7	1.8		3.4	3.0	1.7	
<b>Gross Sales</b>	<b>14,193</b>	<b>14,919</b>	<b>(4.9)</b>	<b>14,539</b>	<b>28,733</b>	<b>29,769</b>	<b>(3.5)</b>

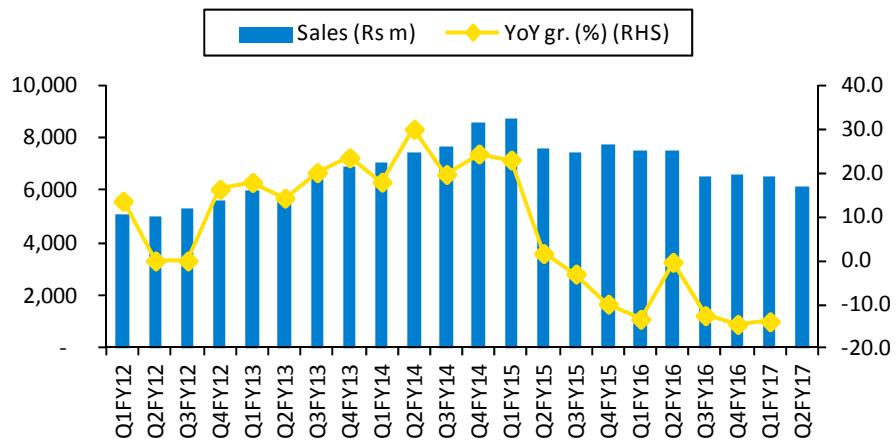
Source: Company Data, PL Research

## Exhibit 3: Pharma sales and growth



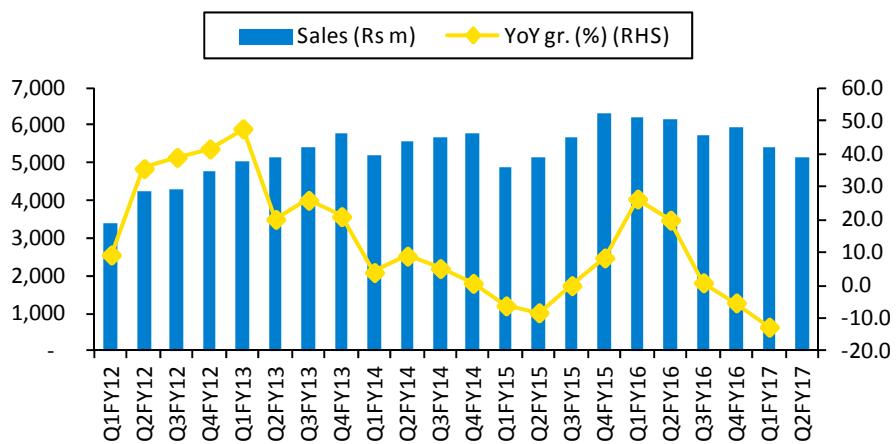
Source: Company Data, PL Research

## Exhibit 4: LSI Sales and Growth



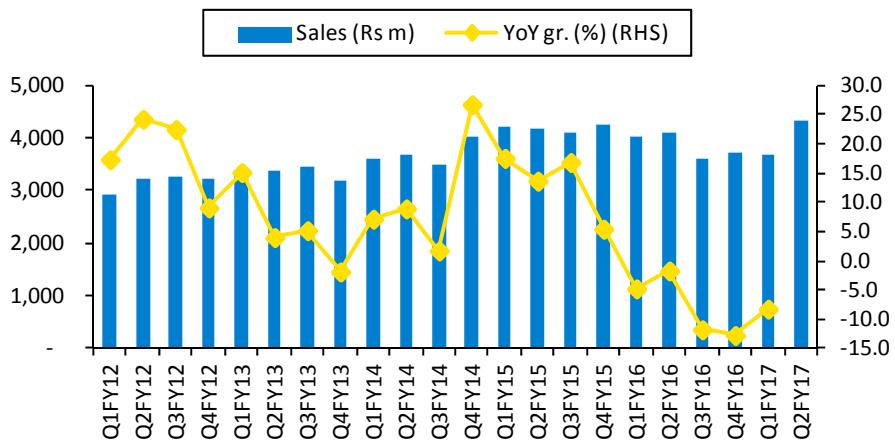
Source: Company Data, PL Research

## Exhibit 5: US Sales and Growth



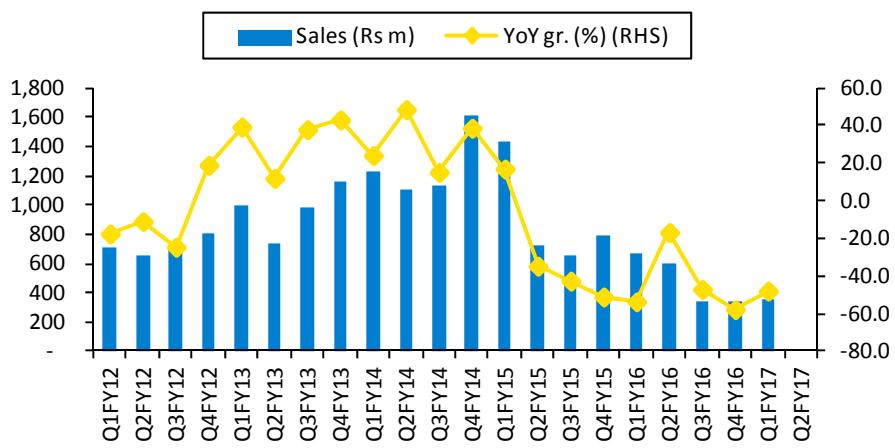
Source: Company Data, PL Research

## Exhibit 6: India Sales and Growth



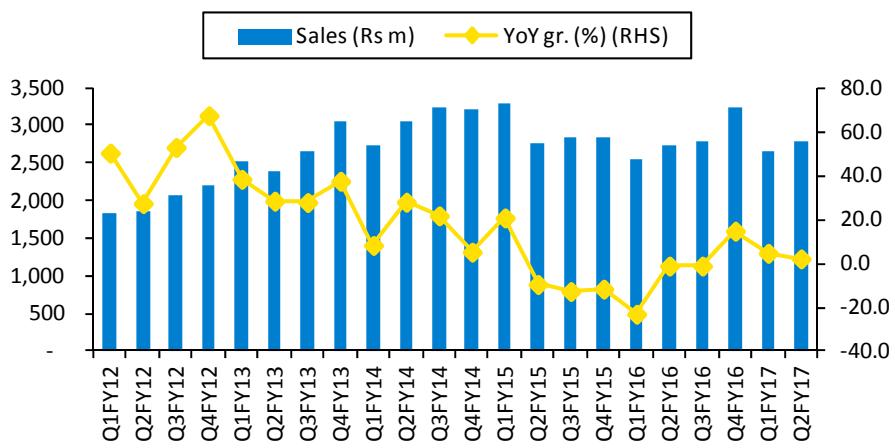
Source: Company Data, PL Research

## Exhibit 7: China Sales and Growth



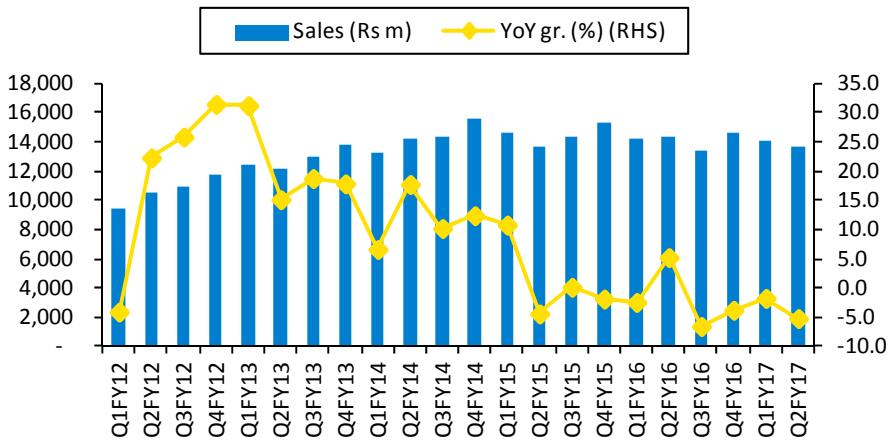
Source: Company Data, PL Research

## Exhibit 8: EU, Japan: Sales and Growth



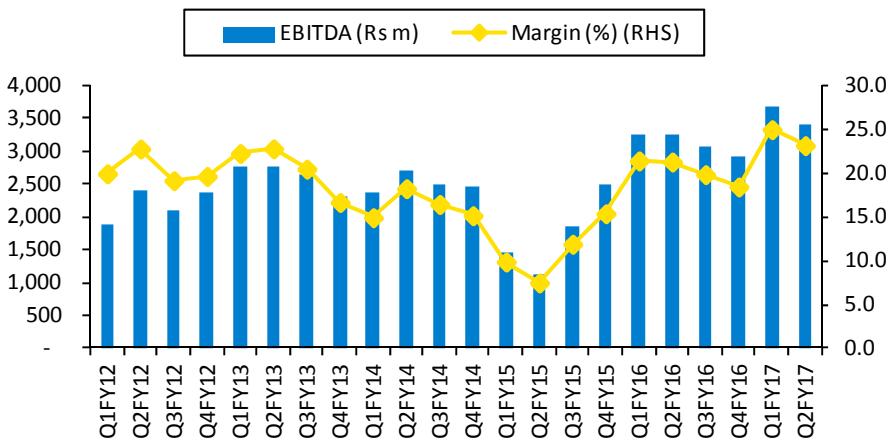
Source: Company Data, PL Research

## Exhibit 9: Overall Sales and Growth



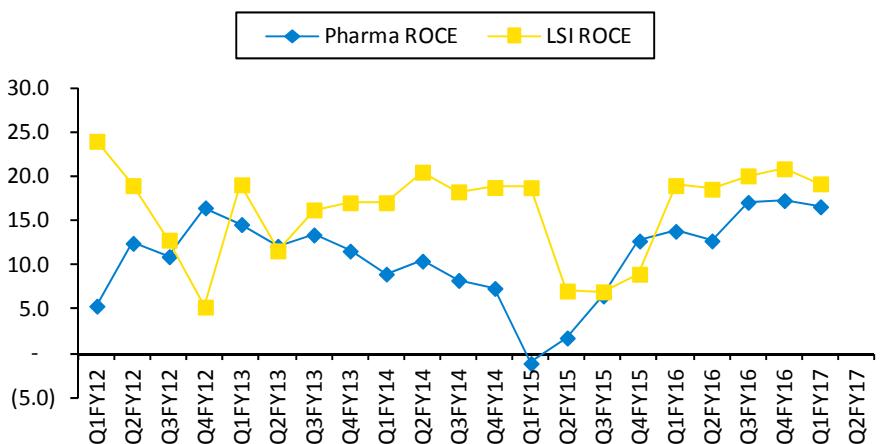
Source: Company Data, PL Research

## 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)**

<b>Y/e March</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>
<b>Net Revenue</b>	<b>57,761</b>	<b>57,005</b>	<b>60,580</b>	<b>64,951</b>
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
<b>EBITDA</b>	<b>6,392</b>	<b>11,759</b>	<b>12,679</b>	<b>13,809</b>
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
<b>Profit before Tax</b>	<b>884</b>	<b>5,669</b>	<b>6,533</b>	<b>7,542</b>
Total Tax	805	1,529	1,633	1,885
<b>Profit after Tax</b>	<b>79</b>	<b>4,140</b>	<b>4,900</b>	<b>5,656</b>
Ex-Od items / Min. Int.	(786)	349	—	—
Adj. PAT	(97)	4,140	4,900	5,656
<b>Avg. Shares O/S (m)</b>	<b>159.3</b>	<b>159.3</b>	<b>155.5</b>	<b>155.5</b>
<b>EPS (Rs.)</b>	<b>(0.6)</b>	<b>26.0</b>	<b>31.5</b>	<b>36.4</b>

**Balance Sheet Abstract (Rs m)**

<b>Y/e March</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>
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
<b>Total Liabilities</b>	<b>75,915</b>	<b>79,053</b>	<b>80,695</b>	<b>83,118</b>
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 &amp; 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
<b>Total Assets</b>	<b>75,915</b>	<b>79,053</b>	<b>80,699</b>	<b>83,122</b>

**Cash Flow Abstract (Rs m)**

<b>Y/e March</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>
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

**Quarterly Financials (Rs m)**

<b>Y/e March</b>	<b>Q3FY16</b>	<b>Q4FY16</b>	<b>Q1FY17</b>	<b>Q2FY17</b>
<b>Net Revenue</b>	<b>13,795</b>	<b>14,873</b>	<b>14,195</b>	<b>13,855</b>
<b>EBITDA</b>	<b>3,075</b>	<b>2,912</b>	<b>3,682</b>	<b>3,403</b>
<i>% of revenue</i>	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
<b>Profit before Tax</b>	<b>1,432</b>	<b>796</b>	<b>2,182</b>	<b>1,933</b>
Total Tax	230	409	542	497
<b>Profit after Tax</b>	<b>1,187</b>	<b>483</b>	<b>1,616</b>	<b>1,448</b>
Adj. PAT	1,187	483	1,616	1,448

**Key Financial Metrics**

<b>Y/e March</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>
<b>Growth</b>				
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
<b>Profitability</b>				
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
<b>Balance Sheet</b>				
Net Debt : Equity	1.8	1.4	1.2	0.9
Net Wrkng Cap. (days)	125	166	167	169
<b>Valuation</b>				
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
<b>Earnings Quality</b>				
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.*
**Key Operating Metrics**

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

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