Initiating Coverage

Jubilant Life Sciences — BUY

Concerns overdone; optimistic on Specialty play

TP	Rs620
CMP	Rs472
Potential upside / downside	+31%

V/s Consensus

EPS (Rs)	FY20E	FY21E
IDBI Capital	53.6	71.2
Consensus	60.9	70.7
% difference	*(12.0)*	*0.7*

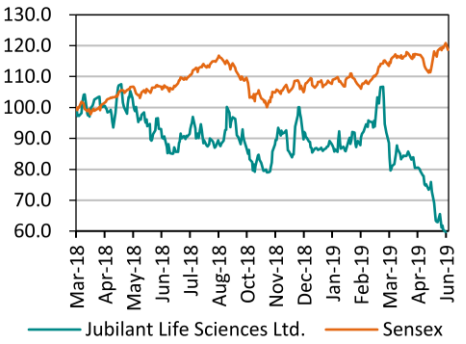
Key Stock Data

Bloomberg / Reuters	JUBILANT IN/JUBO.BO
Sector	Pharmaceuticals
Shares o/s (mn)	159
Market cap. (Rs mn)	75,101
Market cap. (US$ mn)	1,081
3-m daily avg. Tr. value (Rs mn)	723.8
52-week high / low	Rs898 / 450
Sensex / Nifty	39,452 / 11,823

Shareholding Pattern (%)

Promoters	50.7
FII	26.7
DII	4.8
Public	17.8

Relative to Sensex (%)



Price Performance (%)

	-1m	-3m	-12m
Absolute	(24.1)	(46.0)	(38.2)
Rel to Sensex	(29.6)	(49.7)	(48.9)

Summary

Jubilant Life Sciences (JUBILANT) is an integrated pharma and life sciences player focused on niche segments like –radiopharma, allergy therapy, CMO of sterile injectable, other pyridine based and acetyl based products. Jubilant emerged as a key beneficiary of uptick in specialty pharma, generics and favorable pricing environment in its chemical business during FY16-19 (revenue/Adj.PAT CAGR of 16%/31%). While some of benefits have started eluding the company, we do not see structural changes in industry dynamics. While the recent correction in stock price factors adverse impact of warning letter by USFDA, we believe the potential of specialty business, capacity ramp up in specialty chemicals and favorable pricing environment are underscored. We expect revenue and Adj. PAT CAGR of 9% and 17% over FY19-21, factoring in to ~7% revenue de-growth in generics business due to USFDA's Warning Letter (WL) on its key facility. We initiate the coverage on JUBILANT with a BUY rating and price target of Rs620 based on SOTP method.

Key Highlights and Investment Rationale

- **Multiple growth drivers:** JUBILANTS's FY20/21E performance would be mainly driven by (a) market share gains in key radiopharmaceutical products (b) ramp-up in CMO business with new clients/capacity additions, (c) capacity additions in finished dosages and Life Science Chemical (LSI) segment and (d) opportunities from the supply of ethanol to government.
- **USFDA's warning letter a concern but overdone**: The USFDA's warning letter on its Roorkee (formulation) and Nanjangud (API) facility indicates a procedural lapses and hence chances of escalation (Import Alert) appears to be remote. The US generics business contributes ~22%/13% of Pharma/consolidated revenue. We assume 12 months' time-frame to get resolution of WL, but a delay beyond 12 months will impact FY21E EPS by ~12-13%.
- **Initiate with BUY; expecting re-rating of stock:** A 46% correction in stock (CMP implies 6.6x FY21E EPS) post WL, seems overweighing concerns. Apart from WL, these concerns also include-(a) slower off take in nutrition business, (b) erratic prices of acetic acid, (c) delay in getting synergies from Triad and (d) high level of debt. While fresh raising of $200mn debt is set to reduce cost of finance, other concerns are short terms in nature. Our SOTP based price target at Rs620 reflects EV/EBIDTA of 7.5x/5.7x for FY20E/21E.

Financial snapshot

(Rs mn)

Year	FY17	FY18	FY19	FY20E	FY21E
Revenue	60,063	75,578	91,108	96,200	108,645
EBITDA	13,453	15,184	17,390	17,605	21,838
EBITDA (%)	22.4	20.1	19.1	18.3	20.1
Adj. PAT	5,758	7,338	8,547	8,539	11,348
EPS (Rs)	37.0	47.1	53.7	53.6	71.2
EPS Growth (%)	50.3	27.4	13.9	(0.1)	32.9
PE (x)	12.7	10.0	8.8	8.8	6.6
Dividend Yield (%)	0.7	0.7	0.6	0.6	0.6
EV/EBITDA (x)	7.9	6.8	6.2	6.3	4.7
RoE (%)	18.1	19.3	19.2	16.8	19.3
RoCE (%)	14.5	15.8	15.8	14.3	18.2

Source: Company; IDBI Capital Research

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Key investment rationale

- **Specialty segment to remain a growth engine:** We like its focus on specialty pharma (~31% /~43% of revenue/EBIDTA) which includes radiopharma (undergoing forward integration) and allergy therapy products (segment monopoly in USA). Besides, custom manufacturing of sterile injectables (order book of ~US$700mn) is also expected to witness a healthy growth. These segments have limited competition and generate decent profit margins (~27% in FY19). We expect specialty pharma business to grow at a CAGR of 11% over FY19-21E.
- **Immense potential of radiopharma business**: The radiopharma industry is currently estimated at $2.6bn and growing at ~6% annually. With 14 products in market, JUBILANT commands ~10% market share in US. We are optimistic on its innovative radiopharmaceutical product, Ruby-fill, which is witnessing ramp up in North America and pipeline of eight other products to be filed under 505(b)(2) including I-131 mIBG undergoing phase-II clinical trials. This will provide a better operating leverage. The recent acquisition of Triad Isotopes (currently at EBIDTA negative) will help forward integrate the operation and will help improve the segment margins.
- **Reorganisation and ramp up initiatives in LSI business to spur growth:** During the last couple of years, the company has reorganised and consolidated its well diversified specialty chemical business for a dedicated focus. Apart from vertically integrating the low-end products like Pyridine and capacity expansions in specialty chemicals, it is also participating in ethanol blending program by the government to get opportunistic benefits. Past few quarters witnessed lumpiness in its Vitamin-B3 (low demand) and Acetyl (drop in global prices). However, we expect the demand for Vitamin-B3 to improve and prices of Acetic acid to stabilize in H2FY20. We expect LSI business to post 15% CAGR over FY19-21E.
- **USFDA's warning letter a concern but overdone**: The warning letter on its formulation facility at Roorkee and API facility at Nanjangud will block the new approvals and may also hamper some of API business. However, given the generic pricing pressure in USA, the generic business of JUBILANT (~13%/8% of Pharma/consolidated revenue) was not supposed to be significant driver of growth. The API business contributed ~9%/5% of Pharma/consolidated revenue. We believe WL will not impact existing business materially during remedial process. We assume 12 months' time frame to get the business normalized on quality front. We expect a generics formulation business to de-grow at CAGR of ~7% and generic API to contract by CAGR of ~10% over FY19-21E
- **New debt provides cushion and better visibility on servicing:** As of 31st March 2019, JUBILANT has $702mn of gross debt including $509mn of foreign debt and $196mn of cash (net debt $487mn). A large cash balance actually relates to $200mn bonds (5 years, coupon rate 6%) it raised recently to fully redeem the outstanding zero coupon convertible loan of IFC (settled at $135mn) and other high cost debt. Restructuring of debt will reduce the cost of finance (currently 6.8%) and will also improve the overall leverage. We expect debt/equity to reduce from ~0.7x in FY19 to 0.4x in FY21.

Risks and concerns

- **Delay in resolution of WL may impact FY21E EPS by 12-13%:** JUBILANT is facing USFDA's warning letter on its Roorkee facility. Most of generic ANDA is filed from this site and hence WL will impact approval of new products (~35 ANDA pending from this site). Most of concerns raised in WL are procedural in nature (no data integrity issue) and therefore the resolution should not take more than 12-14 months in normal case. However, delay up to 24 months will reduce our FY21 EPS by ~12-13%,
- **Slower ramp up of Rubyfill:** JUBILANT's radiopharma product- Ruby-Fill has one dominant competitor –Bracco Imaging (CardioGen-82), which has been present in the market for nearly 30 years. Therefore, gaining market share in $62mn PET market would require lot of efforts**.** We expect JUBILANT to gain meaningful market share in next few years as some of old contracts between Bracco and key hospitals/institutions would expire, thus opening door for JUBILANT to step in. We have built ~15mn/$20mn of revenue from Rubyfill in FY20E/FY21E).
- **Weaker synergies from Triad:** JUBILANT acquired Triad Isotopes, which is a 2nd largest radiopharmacy network spread across 22 states in USA. Triad was EBIDTA positive at the time of acquisition but plunged in EBIDTA negative as few of old customers disassociated themselves. JUBILANT is currently repositioning itself to gain old customers. We expect this entity to turn EBIDTA positive in FY21, though delay in gaining synergy will impact earnings.
- **Erratic prices of acetic acid:** Acetyl business, which mainly uses acetic acid as input, contributes ~20% of JUBILANTS revenue. Prices of acetic acid have been very erratic (plunged to~ $450/MT in Q4FY19 from ~$600/MT in 1HFY19) during past few quarters. Although, the changes in price of inputs (acetic acid) could be passed on, but a sharp and sudden change in prices of acetic acid may impact profitability. We have assumed prices of acetic acid to remain range bound, but volume of acetyls (output) to pick up on recovery in demand.

USFDA to affect generics business, but impact seems amplified

The USFDA has recently issued warning letter (WL) to its Roorkee facility, after notifying two lapses (483s) on GMP compliances, which is set to block new approvals. It also issued form 483s on its Nanjangud API facility with 12 observations and the outcome has been classified at official action initiated (OAI). The whole issues are linked to the use of inferior excipients in valsartan. JUBILANT had to recall over 46,000 bottles of Valsartan tablets manufactured by at its Roorkee plant on the ground of using incorrect/undeclared excipient. We believe the resolution of WL/OAI may take 12-18 months in normal course and that will hamper the growth in US generics business in FY120-21.

- **Affected business contributed ~13% of consolidated revenue:** JUBILANT generated ~13% of consolidated revenues from formulation and API business in US (~22% of revenues from Pharma segments) in FY19. Nearly one-third of revenues from generics (formulation and API) of JUBILANT come from non-US market (Asia, Middle East, Latin America and Africa), which will grow at ~10-12%. The company currently has 35 ANDA pending approvals from USFDA (though none of these are meaningful products in terms of market size) that will be stuck until resolution of Roorkee facility. However, as most of existing products are commoditized, the incidence of price erosion is unlikely to be steeper. Also, a nominal growth from RoW will help offset the price erosion in US.

- **The remediation and resolution may not involve significant cost and time:** The WL issued on Roorkee facility raised two key observations- (a) Investigations into deviations and consumer complaints were inadequate; failure to determine root cause of problem and (b) quality control unit failed to test and reject in-process materials that did not conform to standard (repeat violation). None of these issues requires major up- gradation of infrastructure. It only flags concern on quality systems and control. Similarly, most of observations raised in form-483 on Nanjangud API traces its root in use of inferior quality excipient in Valsartan and hence points out system lapses. We believe, the remedial measures would not involve modification in physical infrastructure and therefore the remedial costs would be limited to consultancy fees, up-gradation some software and training of employees.

- **We expect a strong bounce back in FY21:** We have built a 17.6% de-growth in finished dosages business in FY20 but a growth of 5% in FY21, assuming the resolution would be reached in 12-18 months, supplies of existing products are not materially disturbed in US and non-US business continues to see growth. We have also built a ~22.6% de-growth in revenues from API business (high base in FY19 on limited period opportunity from valsartan) in FY20 but 5% growth in FY21.

Exhibit 1: Revenue contribution from US (FD & API)

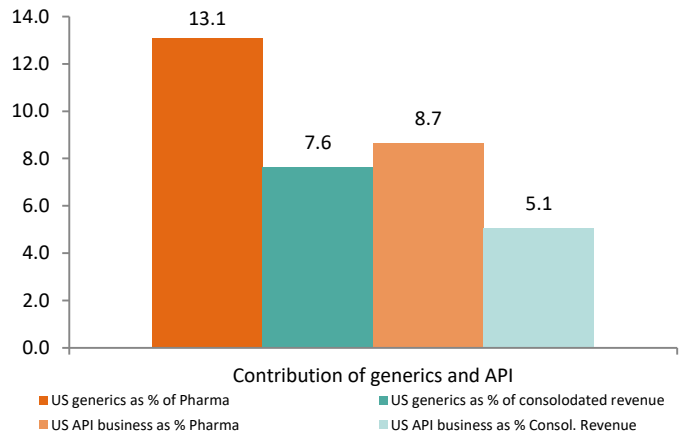
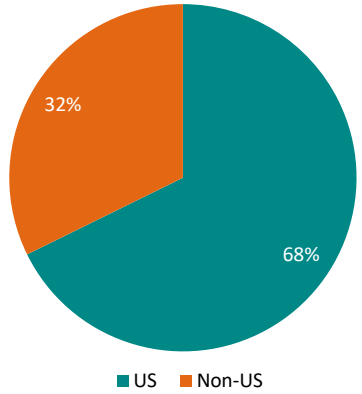


Exhibit 2: Revenue from FD and API (FY19)



Source: Company; IDBI Capital Research

Exhibit 3: Products pipeline-formulations (Mar-19)

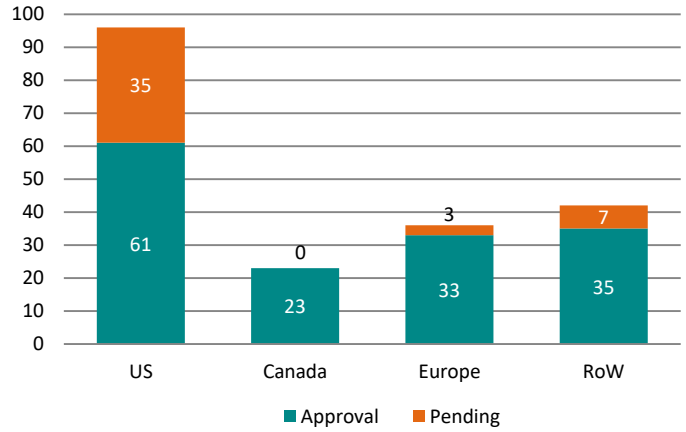
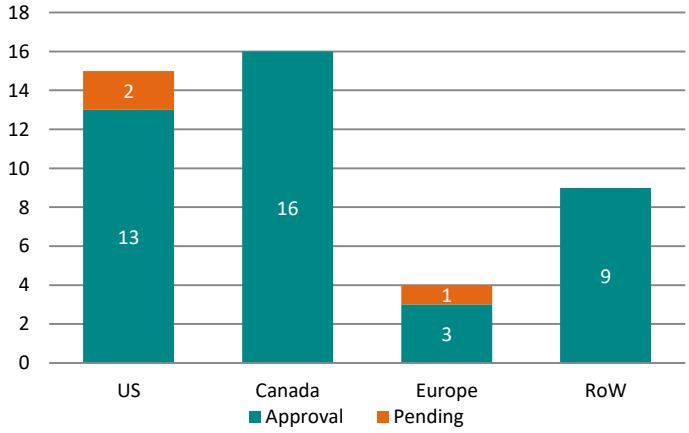


Exhibit 4: Products pipeline-Sterile Injectibles (Mar-19)



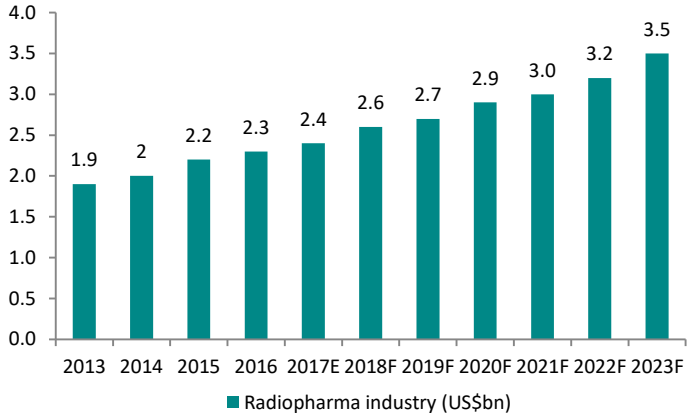
Source: Company; IDBI Capital Research

Specialty Pharma remains a key growth driver

Specialty Pharma which includes radiopharma and allergy therapy products contributed ~31% of consolidated revenue and 43% of EBIDTA in FY19. Specialty Pharma reported a revenue and EBIDTA CAGR of 46% and 23% during FY16-19, driven by products ramp up (base business grew at ~20% CAGR) and acquisition of Triad Isotopes in US. Specialty pharma offers a lucrative opportunity for JUBILANT, thanks to positive market dynamics, improved market positioning, forward integration and capacity expansions. We expect specialty pharma business to register a revenue and EBIDTA CAGR of 11% and 17% respectively over FY19-21E.

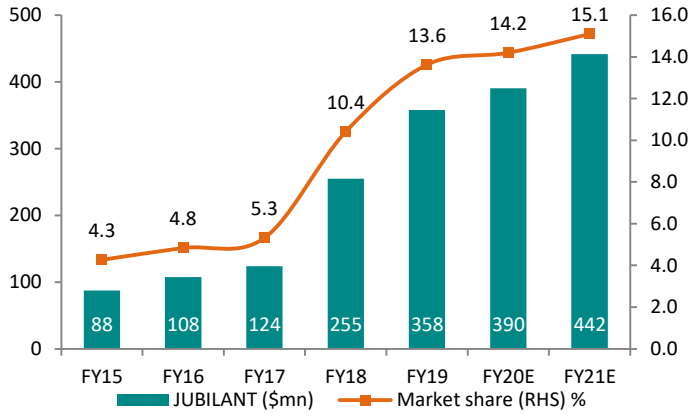
- **Radiopharma offers an attractive value proposition:** The radiopharma industry is witnessing significant expansions on the back of expanding molecular imaging applications, growing acceptance in diagnosis and disease targeted treatment in cancer and cardiology etc. The increase in the number of cancer and cardiovascular disease (CVD) cases worldwide is the primary driving force behind the growth of nuclear medicine or radiopharma market. The radiopharma industry is currently estimated at $2.6bn and growing at ~6% annually. Owing to high entry barriers (in terms of long gestation of products approvals and market ramp up), radiopharma market operates under a limited competition.

Exhibit 5: Global Radiopharma industry



Source: Industry, IDBI Capital research

Exhibit 6: Radiopharma business of JUBILANT



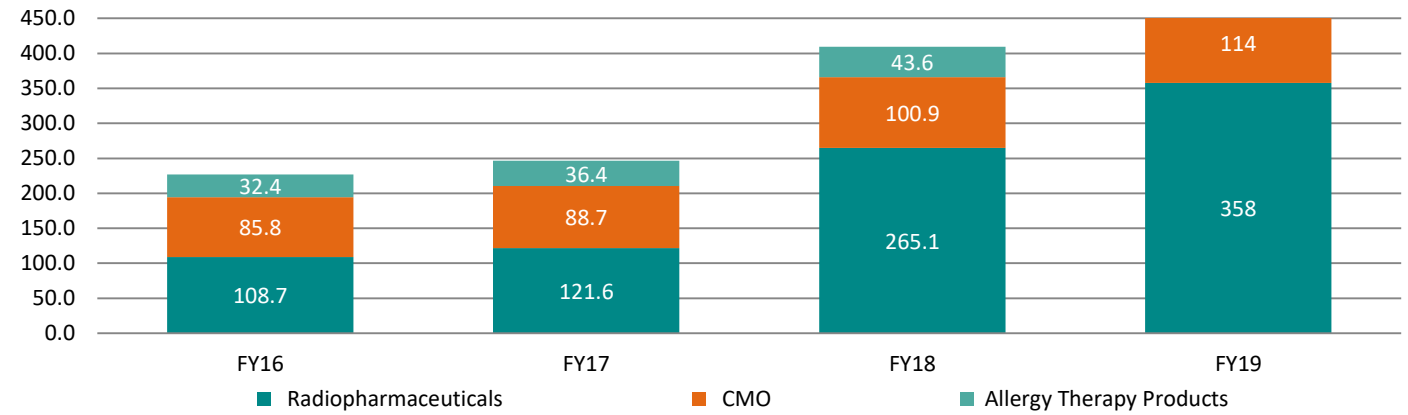
Source: Company, IDBI Capital research

- **Consolidation of Triad impacts EBIDTA:** JUBILANT currently markets 14 radiopharmaceutical products most of which are used for diagnostic purposes. It generated US$358mn of revenue in FY19 which included ~$67mn of revenue from Triad Isotopes. While its base business has been generating healthy EBIDTA margins over ~45-55%, the acquisition of Triad Isotopes has affected the consolidated margin in the segment.

- **Optimistic on strong pipeline:** We are optimistic on its innovative radiopharmaceutical product, Ruby-Fill, which is witnessing ramp up in US and Canada. We believe **Ruby-Fill** (used for positron emission tomography or PET imaging) will gain a gradual market share from its key competitor – CardioGen-82 (Bracco Imaging), on the back of superior generator design and Rb 82 dose administration parameters. CardioGen-82, a rubidium generator that has been on the market for over 30 years has dominant presence in PET imaging market. Currently the cardiovascular PET market in the US is estimated to be approximately US$ 62 million and has potential to grow over US$ 120 million over the next five years. Apart from Ruby-Fill, JUBILANT has pipeline of eight products which are likely to be filed under 505(b)(2) over next 2-4 years.

- **Forward integration to provide better scale:** JUBILANT's radiopharma business is witnessing a transformation after the acquisition of Triad Isotopes, which will provide with direct access to hospital networks with ability to deliver more than three million patient doses annually through around 1,700 customers. Earlier, JUBILANT's radiopharma products were sold to distributers under B2B model. Triad Isotopes possesses the 2nd largest radiopharmacy network in the US with more than 50 pharmacies distributing nuclear medicine products to the largest national Group Purchasing Organisations (GPOs), regional health systems, stand-alone imaging centers, cardiologists and hospitals. These networks will act as front end for JUBILANT and will help expand its business in course of time. Currently, the consolidation of Triad is EBIDTA dilutive due to restructuring of products and disassociation of clients which happens to be competitor of JUBILANT. However, JUBILANT is set to ramp up products, which will help achieve significant improvement in profit margins.

Exhibit 7: JUBILANT: Revenue trend in specialty pharma ($mn)



Source: Company, IDBI Capital research

Allergy therapy products- flourishing on monopolistic presence

JUBILANT's Allergy Therapy Products business is dedicated to provide allergy immunotherapy products in the US, though it is seeking to expand presence beyond USA. JUBILANT supplies bulk extracts to physicians who can use the same for diagnostic testing and also to administer treatment. The allergic immunotherapy (AIT) market is pegged at $1.8bn in 2017 and is expected to grow at 9% CAGR over next five years. JUBILANT (through Jubilant Hollister Stier Allergy) supplies more than 200 bulk extracts related to different allergic therapies, six insect venom products and exclusive skin diagnostic testing devices. It has attained a monopolistic position in US venom immunotherapy market following the exit of ALK Albello A/S. Although, the venom market is small in size, JUBILANT is set to gain from monopolistic position in USA and expansions in other geographies. The competition is likely to remain limited in this business due to high entry barriers (being biotechnology products with grandfather status; new products require an NDA). JUBILANT is expanding capacities in Lyophilization in the Allergy Therapy Products manufacturing facility to ensure consistent supply of insect venom products.

Exhibit 8: Allergy Therapy (AT) Products market

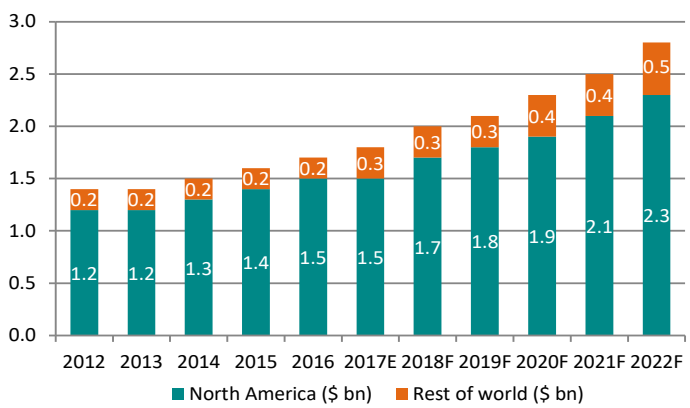
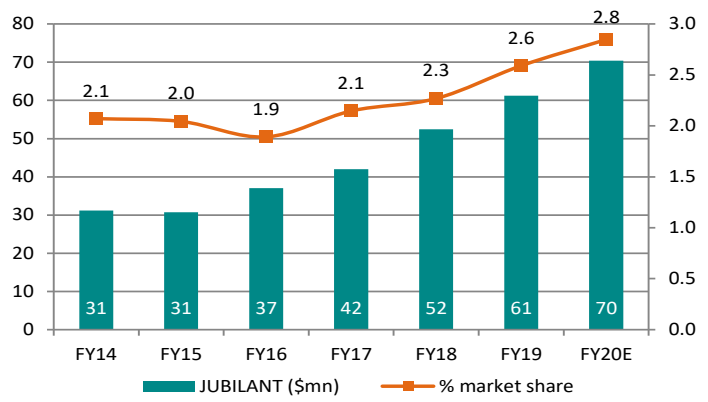


Exhibit 9: Performance of JUBILANT in Allergy Therapy



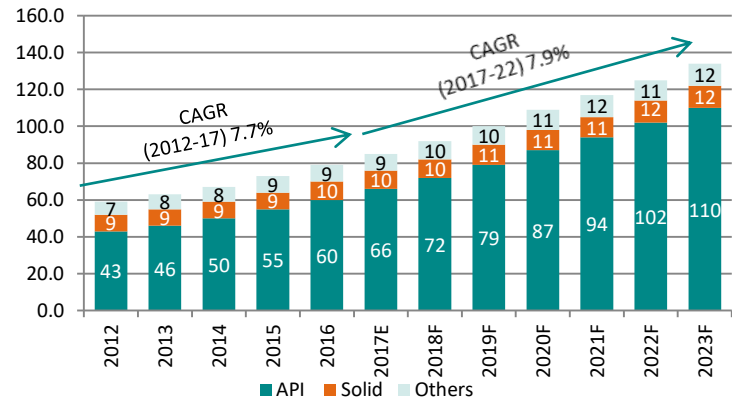
Source: Industry; IDBI Capital Research

Contract Manufacturing of Sterile Injectables to see growth on expanded capacity

JUBILANT offers contract development and manufacturing services (CDMO) of sterile injectables (both liquid and lyophilisation) and non-sterile creams liquid etc to clients based in USA and Canada. Sterile injectable constitute ~80% of its CDMO business, which is niche and growing segment. It has been present in the market for over 10 years and has deep relationships with key clients. The CDMO for sterile products are expected to see faster growth as most of innovations are now happening in this space. JUBILANT has increased production capacity by increasing shifts to operate on 24 x 7 basis as against 24 x 5, for one of production lines in Spokane from Q3'FY19. It has also installed new Lypholization equipment, which is expected to increase capacity by 25% once it starts commercial operations by H1FY20.

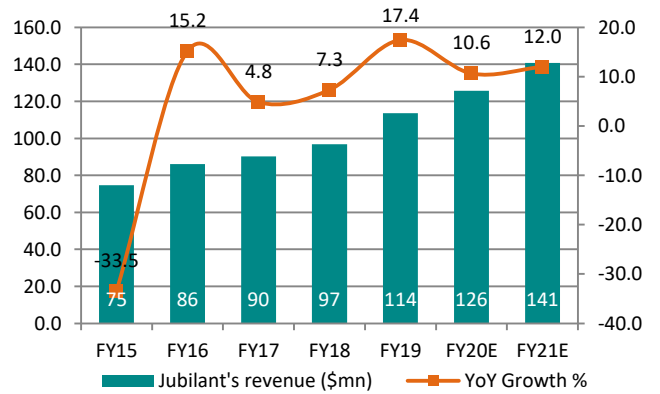
We expect CDMO business of JUBILANT to grow at a CAGR of 10.5% over FY19-21E on the back of capacity expansions which will add ~25% capacity in one of the production line and new clients' additions. Its current order book position of ~$700mn implies 6.2x its annual sales in FY19.

Exhibit 10: CMO industry by products



Source: Industry; IDBI Capital Research

Exhibit 11: CMO business of JUBILANT



Source: Company; IDBI Capital Research

Strong presence in synthetic APIs; USFDA's action to hurt near term growth

JUBILANT is global supplier of synthetic APIs (Active Pharma Ingredients) and has achieved a considerable scale over a period of time. Global synthetic API market was estimated at $115bn in 2018 and expected to grow at 6.7% CAGR (CY19-22). JUBILANT's API business grew at CAGR of 6% over FY16-19. It generated Rs6.85bn of sales from API business in FY19 and generated a healthy EBIDTA margin (25-30%) on the strength of market leadership in some of APIs and fully integrated manufacturing.

The USFDA's Official Action Initiated (OAI) on its Nanjangud facility is set to restrict growth as the new addition of products and clients would be halted till the resolution. Even existing business may also see slower off take during the pendency of USFDA's clearances. We have built a 22.5% de-growth in revenues from API during FY20 from a high base in FY19 caused by exceptional sales from 'sartan' group of drugs, which faced shortage in FY19.

Exhibit 12: Market leadership in key APIs

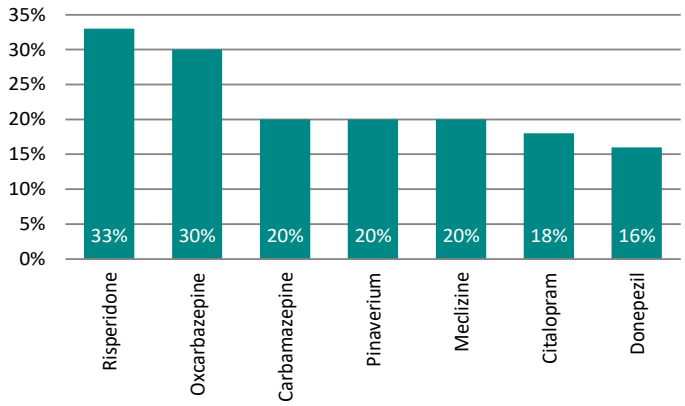
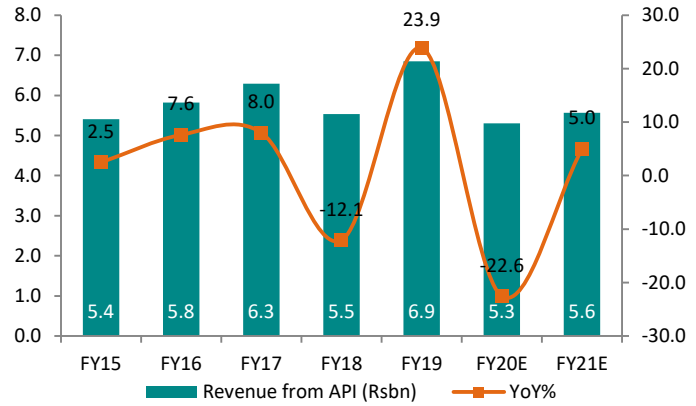


Exhibit 13: JUBILANT's performance in API



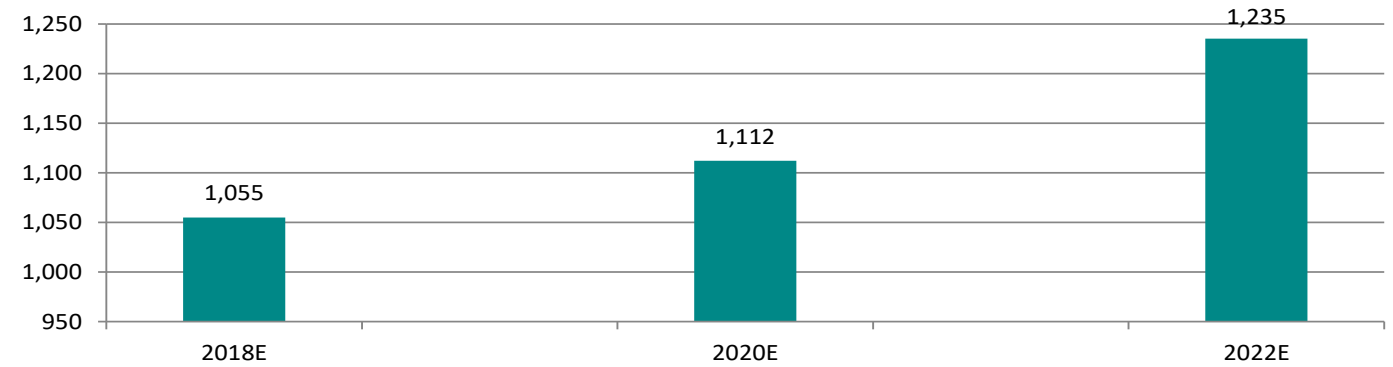
Source: Company; IDBI Capital Research

Life Science Ingredients (LSI) business getting a better shape

JUBILANT witnessed a strong growth in LSI in FY18 (revenue and EBIDTA grew by 23%/46% YoY) on the back of stronger uptick in nutritional products (vitamin-B3/B4), favorable crude prices and currency benefits. However, growth has moderated in FY19 (revenue grew by 2% and EBIDTA declined by 30% YoY), as the demand for Vitamin-B3 business witnessed a sudden decline, spike in key raw materials, volatility in acetic acid prices and new capacities burdened the overhead costs. While the nutrition business is likely to see gradual recovery, optmisation of new capacities and new products launches (pyridine and acetyl based) will drive the growth. We expect this segment see revenue CAGR of 15% FY19-21E.

- **Specialty Intermediates to get boost from new capacity, favorable industry dynamics:** JUBILANT's specialty chemicals business mainly include advance Intermediates like Pyridine, Picolines, Cyanopyridines, Piperidine and their value added derivatives known as Fine Ingredients and Crop Science Ingredients. JUBILANT has forward integrated Pyridine and Picolines platform to develop 60 commercial products and currently holds global leadership in nearly 10 value added products. The growth in user industry like Pharmaceutical, Agrochemicals, Food, Personal Care, Healthcare and Nutrition Products are key drivers for this business. Apart from a few debottlenecking of existing facilities, JUBILANT invested in a multipurpose plant for agrochemical intermediates at Bharuch. We expect the optimization of Bharuch facility to happen in next two years. Besides, JUBILANT would also be benefitted from supply disruptions in China due to new environmental norms. **We have built revenue CAGR of 15% over FY19-21E from advance intermediates.**

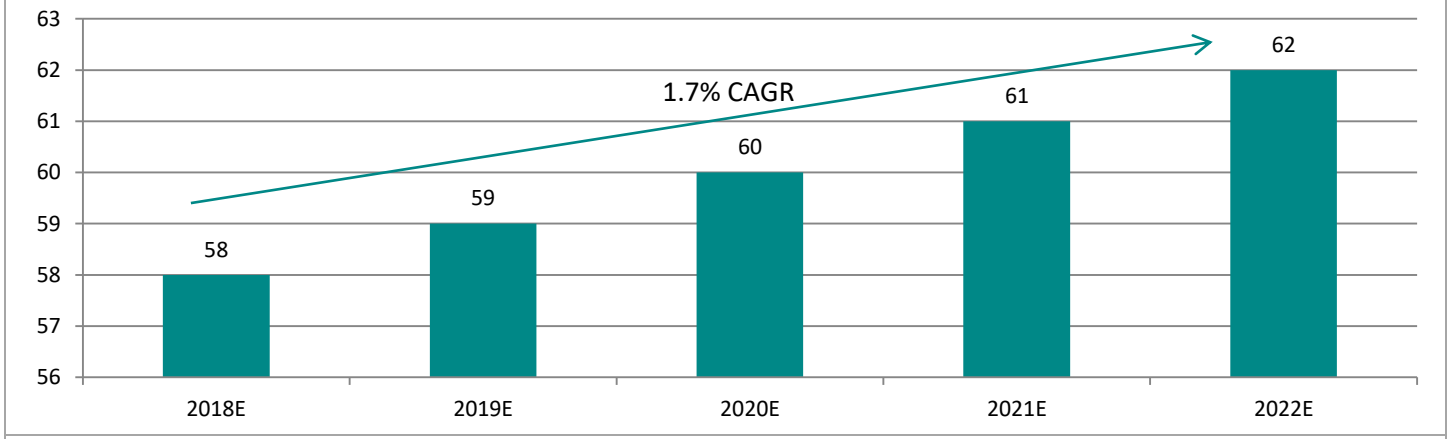
Exhibit 14: Global Market Size ($ Mn) : Specialty Chemicals



Source: Industry; IDBI Capital Research

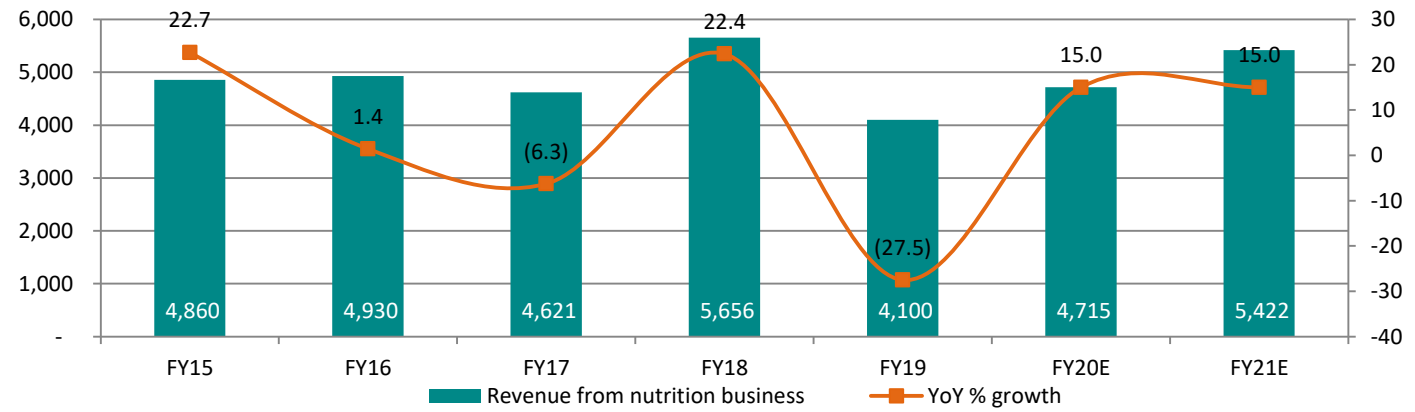
- **Nutritional business to remain muted in short term; may see pick up in FY20:** JUBILANT's nutrition business mainly comprises Vitamin B3 (Niacinamide and Niacin) and Vitamin B4 (Choline Chloride) which are by-products of Pyridine. Its nutrition business witnessed strong traction in FY18 on the back of surge in global demand and better pricing environment. However, FY19 witnessed a sluggish performance from Vitamin business due to non-availability of Vitamin A & E, which is pre-mixed with Vitamin-B3 to produce final product. The non-availability of Vitamin- A&E is mainly attributed to production disturbance from a key global supplier. Although supplies of vitamin A & E have resumed now, vitamin B3 remain in over-supply. We expect the growth in nutrition business to pick up in FY20, as the stuck up inventories will recede. We expect JUBILANT's nutrition business to grow at 15% CAGR over FY19-21E.

Exhibit 15: Global Market Size (KT): Vitamin B3



Source: Industry; IDBI Capital Research

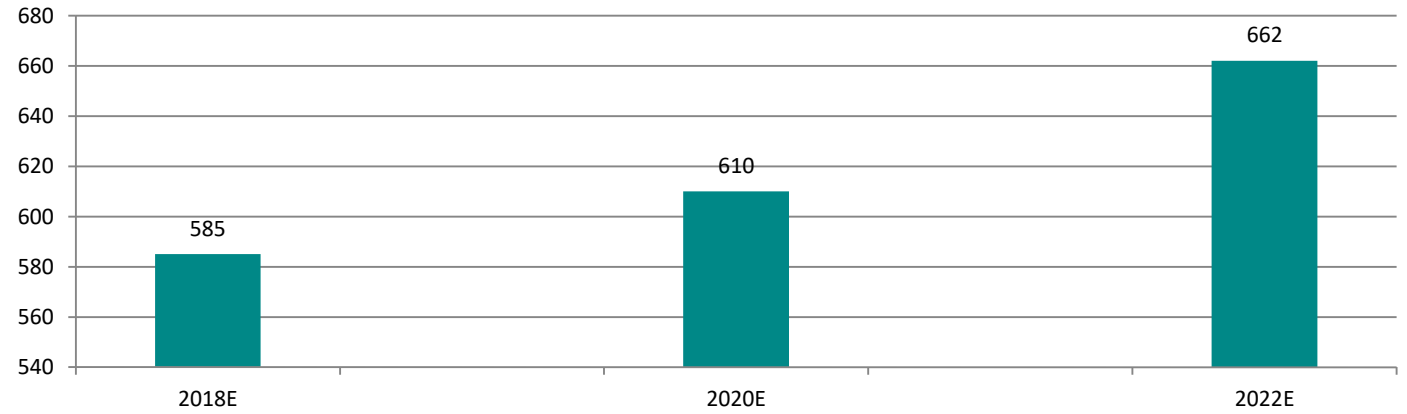
Exhibit 16: JUBILANT's revenue from Nutrition business



Source: Company; IDBI Capital Research

- **Capacity expansions to boost Life Science Chemical business:** JUBILANT's Life Science Chemicals business mainly comprises the acetyl range of products like Acetic Anhydride, Ethyl Acetate, Acetic Acid, Anhydrous Alcohol, Monochloroacetic Acid and Sodium Monochloroacetate with a streamlined production process. A vast user industry (applications in Pharma, Agro, Drugs, Dye sectors) for these products retains a consistent demand for these chemicals. JUBILANT has attained market leadership in India and have been increasing our presence in international markets like Europe and South East Asia. The price of acetic acid has been erratic during past few months which impacted the performance of JUBILANT in this segment. However, the prices of acetic acid are showing signs of stabilizing near $400/MT (vs. $600/MT during Q2-Q3FY19). Stability in price would help JUBILANT to pass on the impact to end customers. **The company is expanding Acetic Anhydride capacity, which should get commercialise in H1FY20. This facility is expected to generate peak revenue of Rs3bn.**

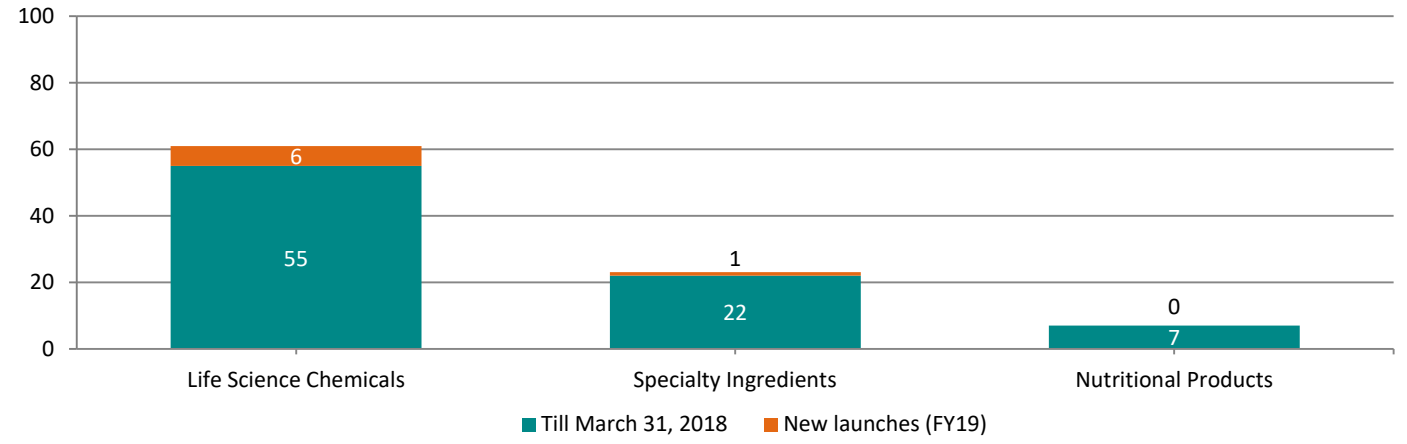
Exhibit 17: Global Market Size (KT): Acetic Anhydride



Source: Industry; IDBI Capital Research

- **Opportunities from government's EBP program may extend further:** JUBILANT participated in Ethanol Blending Program (EBP) last year and became key supplier of ethanol to Oil Marketing Companies (OMCs). The company was awarded tender for supplies in Uttar Pradesh, Delhi and Maharashtra states. During December 2017 to November 2018. We expect better opportunities in this field as the fresh tenders for other regions are on cards.

Exhibit 18: Life Science Ingredients (LSI) – Product Pipeline

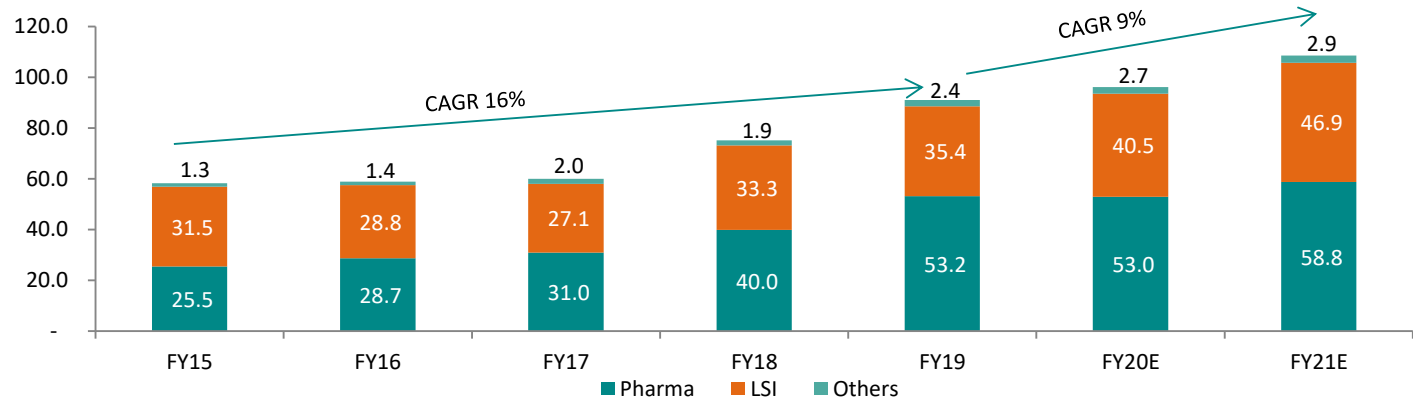


Source: Company; IDBI Capital Research

Financials

JUBILANT re-emerged from the challenges faced during FY13-15 due to A series of acquisitions, USFDA's warning letter on its CMO facility (FY14) and heavy capex in LSI business affected its performance and that also resulted in piling of debt. However, it reorganized itself to focus on pharma segment and optimizing the assets crated in LSI segments to achieve revenue, EBIDTA and profit CAGR of 16%, 15% and 37% respectively over FY16-19, on the back of healthy growth in Pharma segment (23% CAGR), reduced financing costs and slower pace of capex leading to low depreciation. The net debt level has reduced from ~Rs44bn in FY15 to Rs33.7bn by the end of Mar-19. We expect revenue, EBIDTA and profit CAGR of 9%, 12% and 15% over FY19-21E.

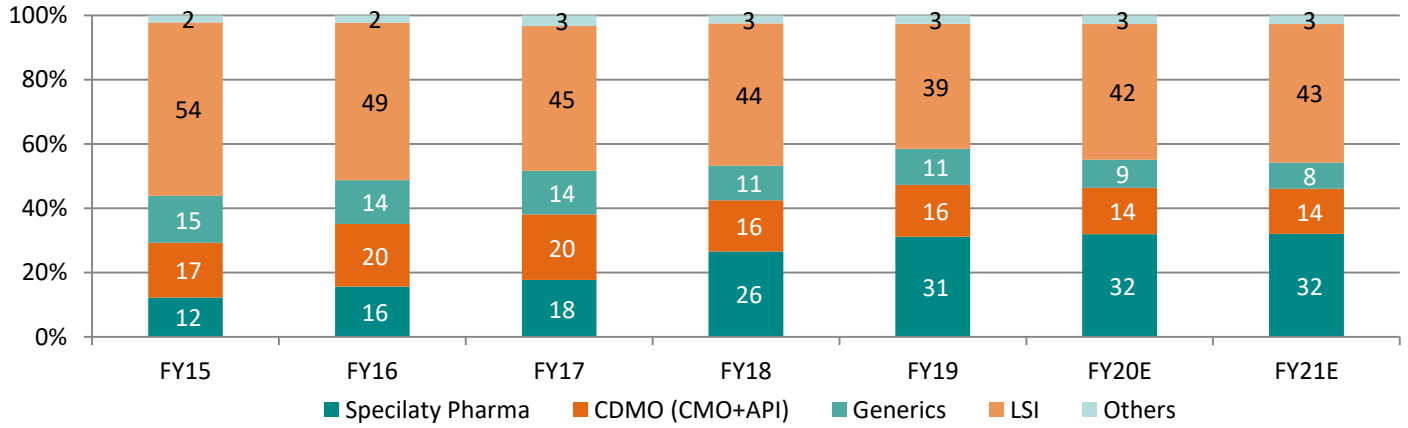
Exhibit 19: Trend in revenue



Source: Company; IDBI Capital Research

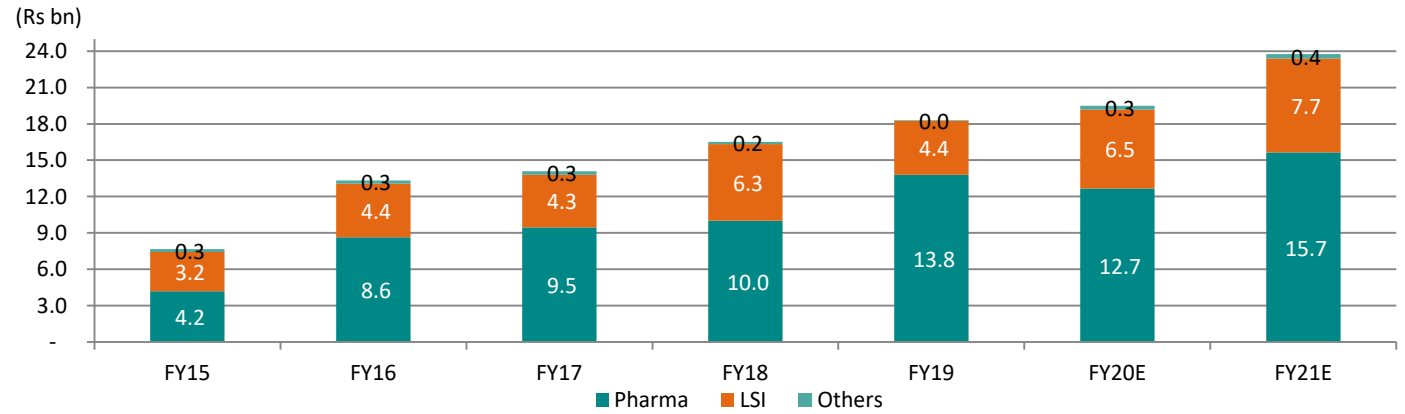
- **FY19 recorded multiple exceptional items:** JUBILANT reported revenue/EBIDTA/APAT growth of 20.5%/14.5%/ 16.5% to Rs91.10bn/Rs17.39bn/Rs8.55bn. FY19 financials included business of Triad Isotopes (acquired during Q2FY18), though base business also witnessed stronger traction. The growth in base business was stronger in H1FY19 on the back of favorable pricing in Vitamin-B3/ Acetic acid and opportunities emanating from shortage of few cardiovascular drugs (Saratns) in US. However, H2FY19 saw trend reversal, as demand for Vitamin –B dwindled and global prices of acetic acid dropped ~30%. Meanwhile, USFDA also issued Warning Letter on its Roorkee facility and issued OAI status on its API facility. This resulted in EBIDTA margin dropping to 17.9% in H2FY19 from 20.4% in H1FY19, yet, EBIDTA margin for full year stood at 19.1% (vs. 20.1% in FY18). FY19 EBIDTA included exceptional expenses of Rs1.57bn, adjusting which the EBIDTA margin is worked out at 20.8%. FY19 also provided an exceptional loss of Rs2.80bn related to settlement of loans taken from IFC, which resulted in reported PAT declining by 11% YoY to Rs5.74bn.

Exhibit 20: Segment contribution (%)



Source: Company; IDBI Capital Research

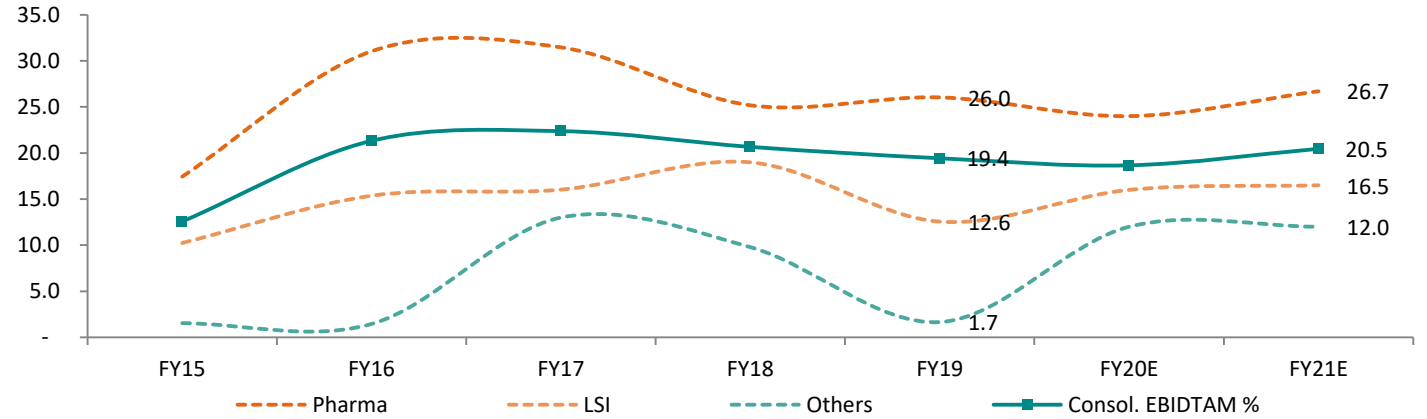
Exhibit 21: Segment wise EBIDTA (Rsbn)



Source: Company; IDBI Capital Research

- **FY20 to remain moderate; expect revenue CAGR of 9% over FY19-21:** The trend reflected in H2FY19 is likely to broadly continue in H1FY20, though we expect a recovery in H2FY20 on the back of pickup in demand for Vitamin B3/B4, stability of prices in acetic acid, better traction in radiopharma business (partial recovery in Triad) and new capacity in acetic anhydride/CMO joining the production stream. We expect revenue to grow by 5.6% in FY20 and 12.9% in FY21E. We expect EBIDTA margin to decline in ~78bps YoY to 18.3% , though 180bps recovery may be seen in FY21.

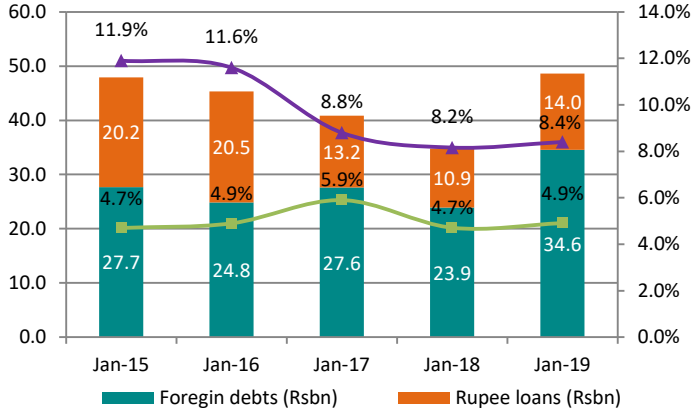
Exhibit 22: Trend in segment wise EBIDTA margin (%)



*Source: Company; IDBI Capital Research; *EBIDTA in FY19 included exceptional expenses of Rs1.57bn, adjusting which EBIDTA margin stood at 20.8%*

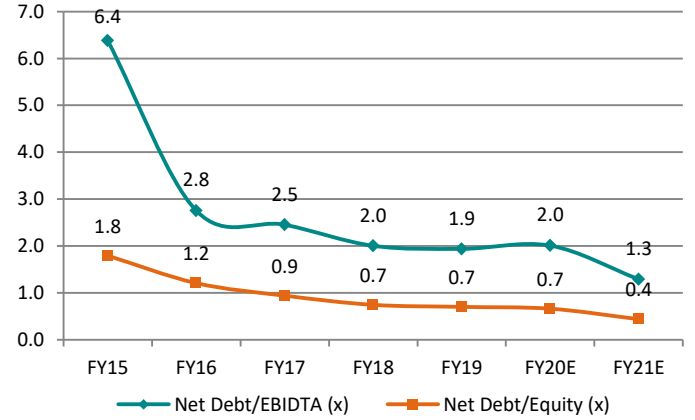
- **Restructuring of debt to help reduce finance costs:** In March 2019, JUBILANT's wholly-owned subsidiary Jubilant Pharma Limited, Singapore, raised rated unsecured bonds of USD200 million with coupon rate of 6% and maturity in March 2024. Part of this debt has been utilized to fully redeem the outstanding zero coupon convertible loan of International Finance Corporation (IFC), Washington, on a one-time settlement of $135mn. Jubilant Pharma had raised originally raised $58.2mn from IFC in 2015 through convertible zero coupon bonds, which was costliest among other debt (settlement amount reflects cost of ~22% p.a.). As on 31st March 2019, the blended cost of finance stood at 6.18%, which included 8.4% rate on Rupee loans and 4.91% on foreign debt. After replacement of debt from IFC the cost of finance is likely to moderate.
- **Adj.PAT to grow at CAGR of 15%:** We expect adjusted net profit to remain flat in FY20, though FY21 would see a 33% YoY growth to Rs 11.35bn.

Exhibit 23: Trend in Debt and cost of finance



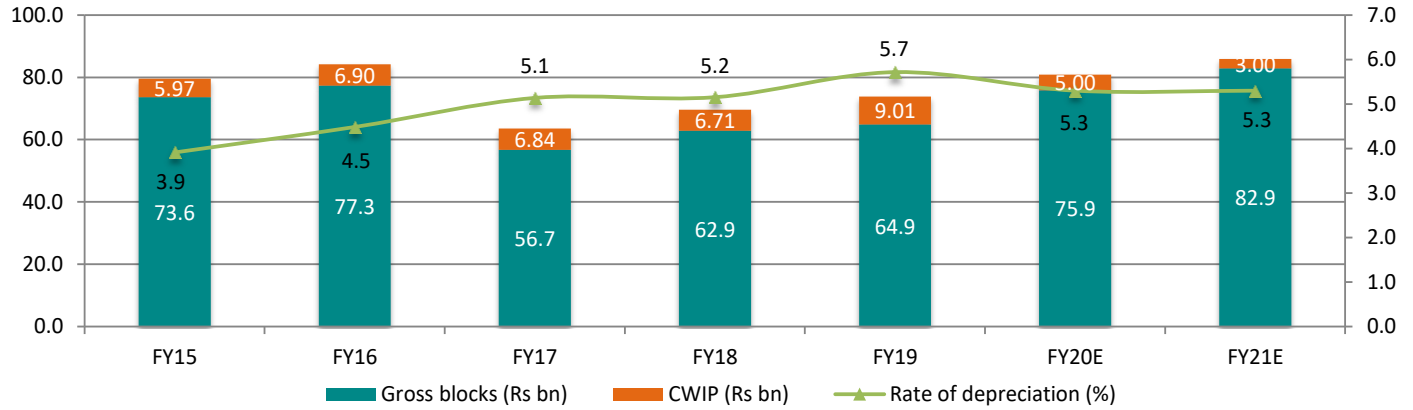
Source: Company; IDBI Capital Research

Exhibit 24: Financial leverage improving



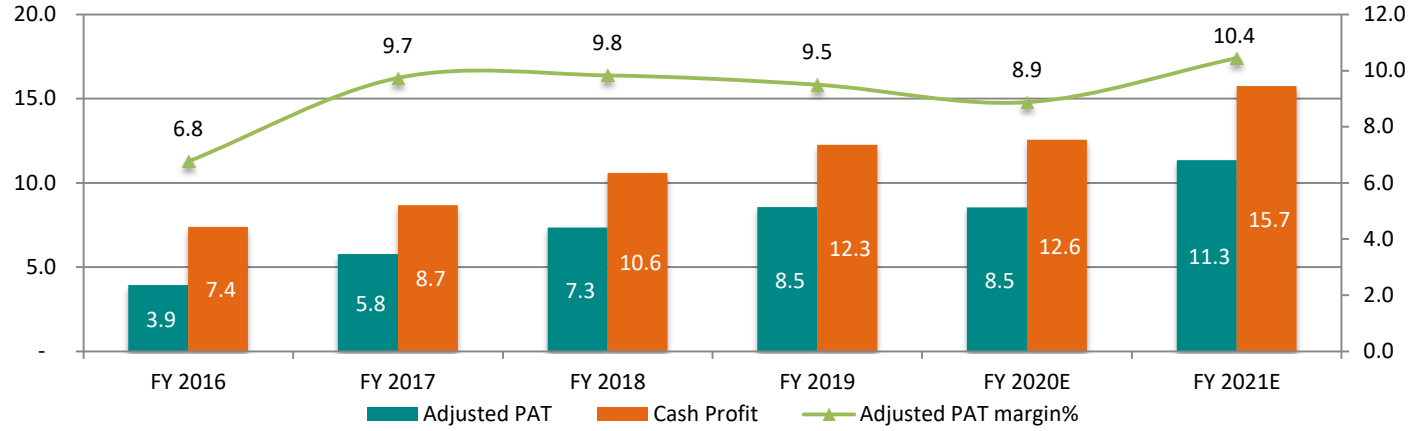
Source: Company; IDBI Capital Research

Exhibit 25: Trend and estimates of gross blocks and depreciation



*Source: Company; IDBI Capital Research; Note: *Revaluation asset in FY17 led to reduction in gross block.*

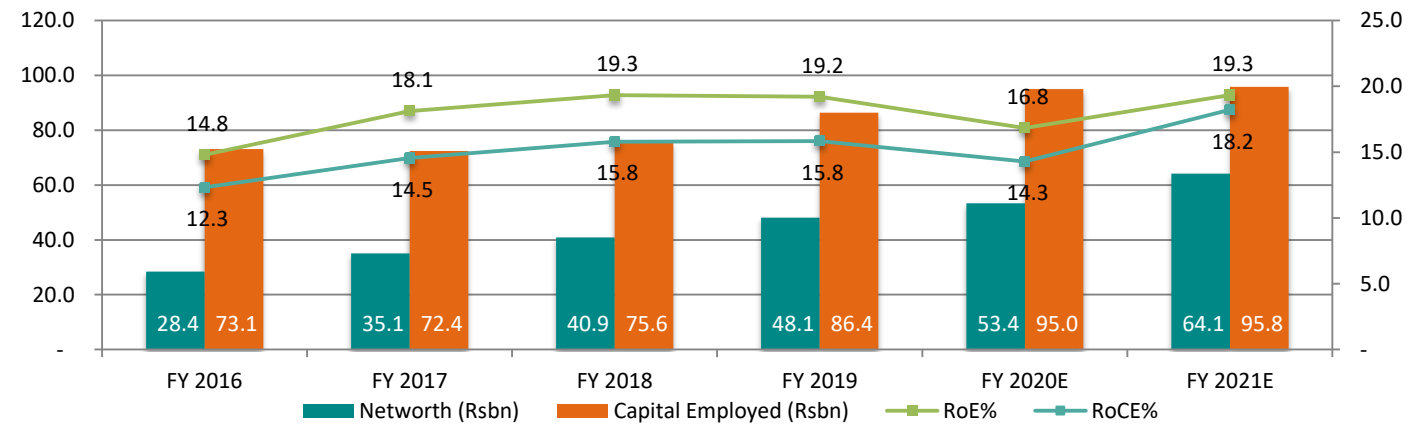
Exhibit 26: Trend and estimates of APAT



Source: Company; IDBI Capital Research

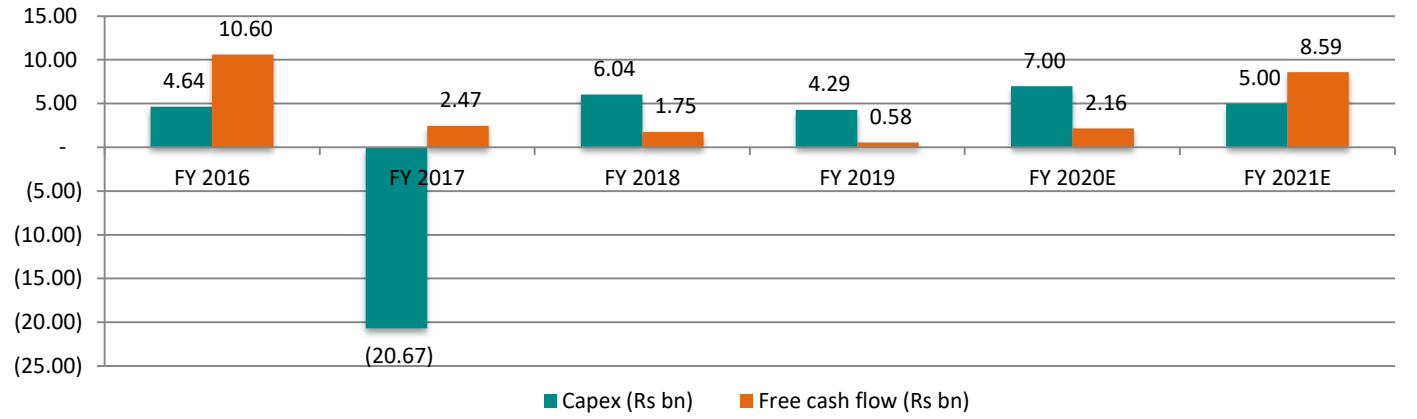
- **Expecting RoE and RoCE of 19% and 18% in FY21E:** JUBILANT has consistently given superior returns on its cost of capital (WACC) during past few years. FY18 and FY19 have been a good years for JUBILANT. We expect the RoE and RoCE of ~19% and ~18% in FY21E as compared to 19.2% and 15.8% achieved in FY18, respectively. Comparing with average RoCE of 15% in Pharma and ~12% in fine chemicals, JUBILANT is yet better placed.

Exhibit 27: Trend in RoE and RoCE



Source: Company; IDBI Capital Research

Exhibit 28: Trend in capex and free cash flow



Source: Company; IDBI Capital Research

Exhibit 29: Revenue break- up

(Rs bn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Pharma	**25.5**	**28.7**	**31.0**	**40.0**	**53.2**	**53.0**	**58.8**
YoY growth %	-	*12.6*	*7.8*	*28.9*	*33.2*	*(0.4)*	*11.0*
Specialty Pharma	7.1	9.2	10.6	19.9	28.3	30.7	34.8
CDMO (CMO+API)	9.9	11.5	12.2	12.0	14.7	13.9	15.1
Generics	8.5	8.1	8.1	8.0	10.2	8.4	8.9
LSI	**31.5**	**28.8**	**27.1**	**33.3**	**35.4**	**40.5**	**46.9**
YoY growth %	*16.8*	*(8.3)*	*(6.1)*	*22.9*	*6.5*	*14.4*	*15.7*
Others	1.3	1.4	2.0	1.9	2.4	2.7	2.9
YoY growth %	*(5.1)*	*6.0*	*45.1*	*(2.9)*	*24.6*	*10.0*	*10.0*
Total	**58.3**	**58.9**	**60.1**	**75.2**	**91.1**	**96.2**	**108.6**
YoY growth %	-	*1.2*	*1.9*	*25.2*	*21.2*	*5.6*	*12.9*

Source: Company; IDBI Capital Research

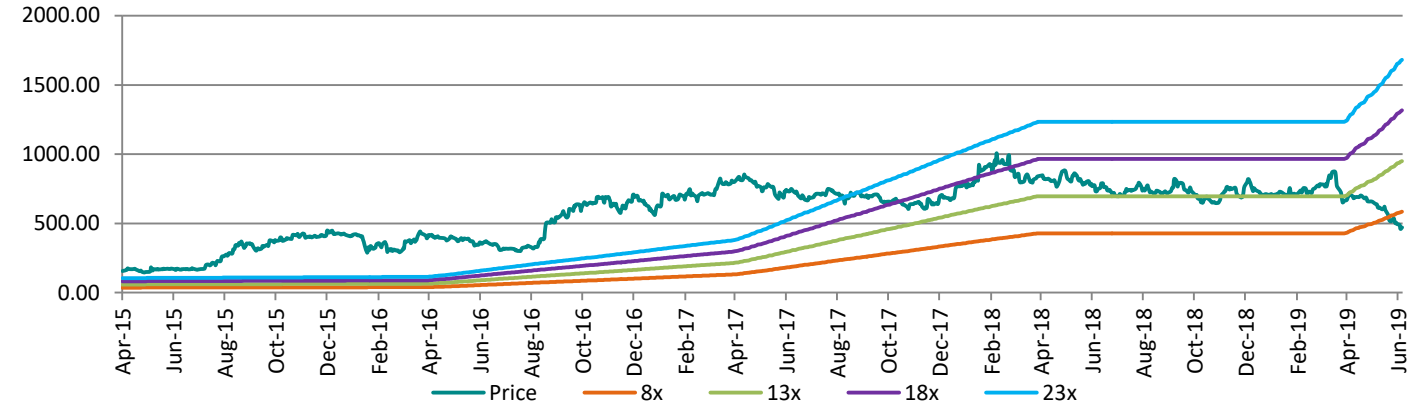
Valuation and view

The company has increased its focus on value-added products in LSI segments through forward integration and specialty products (like radiopharma, Allergy therapy products) and services (sterile CMO and drug discovery services) in pharma space. Jubilant has restructured its debt to ensure that the free cash flows would take care of the repayment obligation each year. We expect revenue and profit CAGR of 9% and 15% over FY19-21E.

The stock is trading at historical low multiple

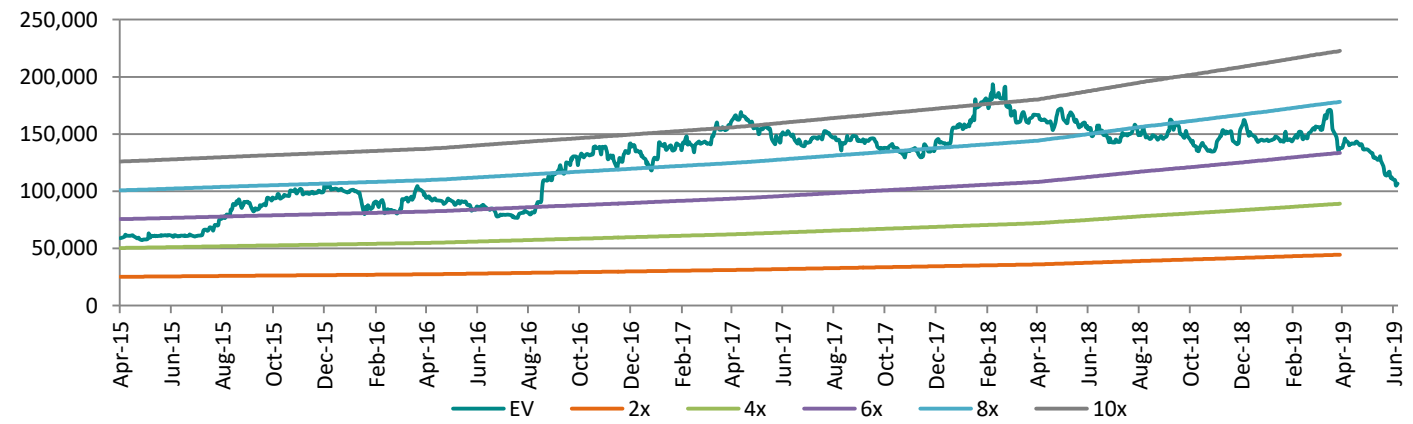
The stock trades at 9x and 6x FY20E and FY21E earnings respectively, as compared to three-year average of 9x and five-year average of 11x. The focus on niche segments like Specialty Pharma, CMO business, stronger traction in Nutritional products and optimization of new capacities are some of the growth elements which warrant the stock's re-rating.

Exhibit 30: P/E band



Source: IDBI Capital Research

Exhibit 31: EV/EBIDTA band



Source: IDBI Capital Research

Exhibit 32: Implied EV/EBIDTA

Segment	EBIDTA (Rs mn)			EV (Rsmn)			Implied EV/EBIDTA		
	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Pharma	13,860	12,722	15,704	89,753	83,900	79,807	6	7	5
LSI	4,850	6,885	8,139	19,400	27,540	24,416	4	4	3
Others	40	319	351	40	319	351	1	1	1
Adjustments/EO	(600)	(1,530)	(1,520)	(600)	(1,530)	(1,520)	1	1	1
Total	**18,150**	**18,396**	**22,674**	**108,593**	**110,229**	**103,054**	6	6	5

Source: Company, IDBI Capital Research

We deduce our price target of Rs620 on SOTP basis, as follows: Given that, multiple segments having a different business dynamics, we use SOTP method based on EV/EBIDTA multiples assigned to each segments. Our price target of Rs620 implies 7.5x/5.7x FY20/FY21E EV/EBIDTA on blended basis. In terms of P/E ratio, price target represents 11.6x/ 8.7x FY20E/FY21E EPS.

Exhibit 33: SOTP Valuation

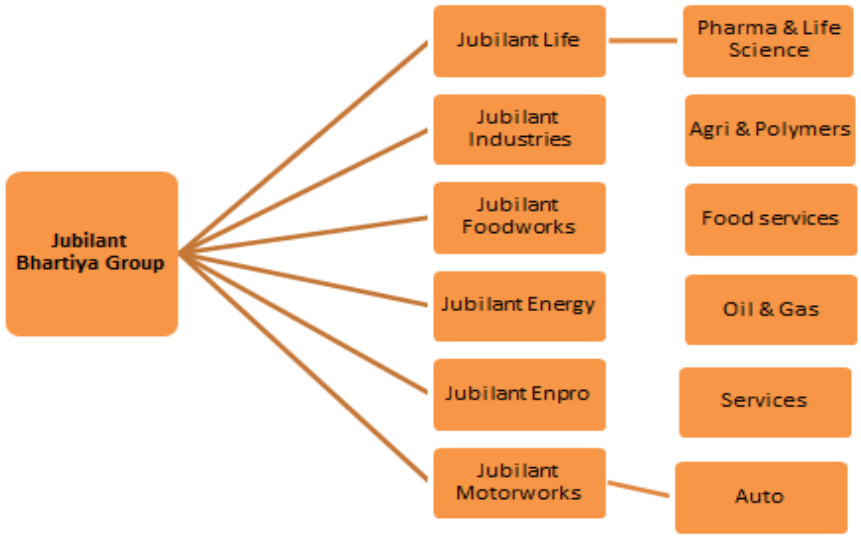
Segments	Segment EBIDTA (FY21E)	Target EV/EBIDTA	Segment EV
Pharma	15,704	6.5	102,075
LSI	7,739	3.4	26,002
Others	351	1.0	351
Adjustments/EO	(1,520)	1.0	(1,520)
Consolidated EBIDTA (+OI)	22,274		126,908
Net Debt			(28,183)
Stock value			98,725
No. of outstanding shares			159
Per share value			**620**

Source: Company; IDBI Capital Research

Company background

Jubilant Life Sciences is a part of the Jubilant Bhartiya group, which deals in a wide spectrum of products and services, including Life Sciences, Agri Polymers, Food Services, Oil and Gas and Automobiles.

Exhibit 34: The Bhartiya Group



Source: Company

Jubilant Life Sciences (erstwhile Jubilant Organosys Ltd) is a vertically integrated player and deals in the manufacture and supply of APIs, Solid Dosage Formulations, Radiopharmaceuticals, Allergy Therapy Products and Life Science Ingredients. It also provides services in Contract Manufacturing of Sterile Injectables and Drug Discovery Solutions. The company has categorized its well-diversified businesses into two major business segments -- Pharmaceuticals and Life Science Ingredients -- to streamline efficiencies and promote the ease of conducting business, which contributed 46% and 54% respectively in FY15. The company reorganised and consolidated all of its pharmaceutical business under Jubilant Pharma, Singapore with effect from July 1, 2014 and appointed separate CEOs for Pharma and LSI divisions to focus on growth in the respective segments. Jubilant also took a minority stake in Jubilant Cadista to consolidate the US generics business. The company recently forayed into the Indian branded formulation business to tap the high growth opportunities.

Jubilant has a presence across the globe either directly or through wholly-owned subsidiaries (48 subsidiaries). Exports contributed 71% of the consolidated revenue in FY15, of which 58% came from the regulated markets of the US, Canada, Europe and Japan.

Exhibit 35: Key revenue verticals (FY19)

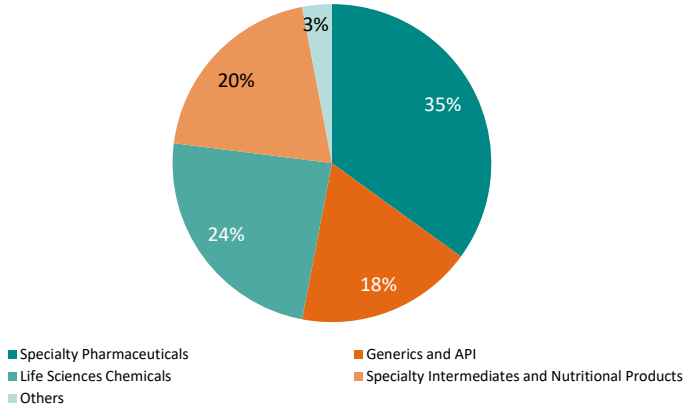
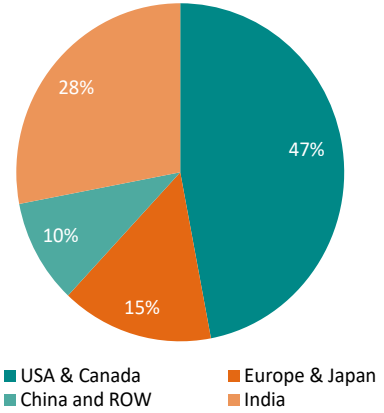


Exhibit 36: Revenue by geography (FY19)



Source: Company; IDBI Capital Research

Exhibit 37: Products concentration (FY19)

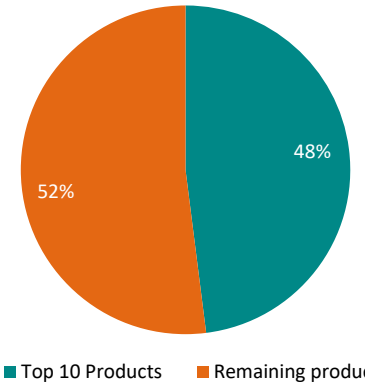
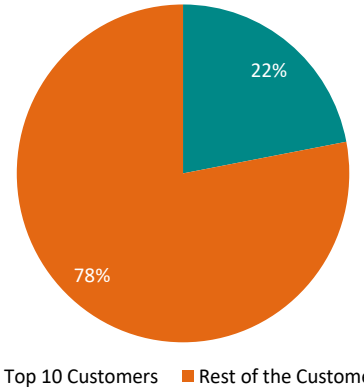


Exhibit 38: Clients concentration (FY19)



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net sales	**75,578**	**91,108**	**96,200**	**108,645**
Growth (%)	*25.8*	*20.5*	*5.6*	*12.9*
Operating expenses	(60,394)	(73,718)	(78,595)	(86,807)
EBITDA	**15,184**	**17,390**	**17,605**	**21,838**
Growth (%)	*12.9*	*14.5*	*1.2*	*24.0*
Depreciation	(3,241)	(3,709)	(4,022)	(4,393)
EBIT	**11,943**	**13,681**	**13,583**	**17,445**
Interest paid	(2,843)	(2,198)	(2,060)	(2,060)
Other income	400	357	393	432
Pre-tax profit	**8,591**	**9,038**	**11,915**	**15,817**
Tax	(2,247)	(3,268)	(3,336)	(4,429)
Effective tax rate (%)	*26.2*	*36.2*	*28.0*	*28.0*
Minority Interest	83.9	(25.5)	(40.0)	(40.0)
Net profit	**6,428**	**5,745**	**8,539**	**11,348**
Exceptional items	(910)	(2,802)	-	-
Adjusted net profit	**7,338**	**8,547**	**8,539**	**11,348**
Growth (%)	*27.4*	*16.5*	*(0.1)*	*32.9*
Shares o/s (mn nos)	*156*	*159*	*159*	*159*

Cash Flow Statement

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Pre-tax profit	8,591	9,038	11,915	15,817
Depreciation	3,227	3,709	4,022	4,393
Tax paid	(2,665)	(2,766)	(3,838)	(4,429)
Chg in working capital	1,356	(3,295)	(2,688)	(1,762)
Other operating activities	(2,720)	(1,822)	(251)	(433)
Cash flow from operations (a)	**7,788**	**4,864**	**9,160**	**13,586**
Capital expenditure	(6,036)	(4,288)	(7,000)	(5,000)
Chg in investments	(208)	84	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	**(6,249)**	**(4,199)**	**(7,000)**	**(5,000)**
Equity raised/(repaid)	5	441	-	-
Debt raised/(repaid)	(4,680)	14,499	(7,000)	(7,000)
Dividend (incl. tax)	(575)	(575)	(575)	(575)
Chg in minorities	43	491	(40)	(40)
Other financing activities	-	(7,327)	(3,142)	(768)
Cash flow from financing (c)	**(5,207)**	**7,529**	**(10,757)**	**(8,383)**
Net chg in cash (a+b+c)	**(3,668)**	**8,194**	**(8,596)**	**203**

Balance Sheet

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net fixed assets	60,714	61,294	64,272	64,879
Investments	1,235	1,151	1,151	1,151
Other non-curr assets	1,273	4,204	4,625	5,087
Current assets	**32,048**	**46,541**	**46,939**	**52,521**
Inventories	13,914	14,174	19,767	22,324
Sundry Debtors	11,308	12,716	15,814	17,859
Cash and Bank	2,488	13,704	5,077	5,243
Securities	5	-	-	-
Loans and advances	191	192	206	232
Total assets	**95,270**	**113,190**	**116,987**	**123,638**
Shareholders' funds	**40,865**	**48,089**	**53,361**	**64,134**
Share capital	156	159	159	159
Reserves & surplus	40,710	47,930	53,202	63,975
Total Debt	**32,927**	**47,426**	**40,426**	**33,426**
Secured loans	30,478	4,997	2,997	997
Unsecured loans	2,449	42,429	37,429	32,429
Other liabilities	3,324	630	138	149
Curr Liab & prov	**18,669**	**17,044**	**23,061**	**25,928**
Current liabilities	17,181	15,213	21,111	23,627
Provisions	1,488	1,831	1,950	2,302
Total liabilities	**54,920**	**65,099**	**63,625**	**59,504**
Total equity & liabilities	**95,270**	**113,190**	**116,987**	**123,638**
Book Value (Rs)	**262**	**302**	**335**	**403**

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY18	FY19	FY20E	FY21E
Adj. EPS (Rs)	47.1	53.7	53.6	71.2
Adj. EPS growth (%)	*27.4*	*13.9*	*(0.1)*	*32.9*
EBITDA margin (%)	*20.1*	*19.1*	*18.3*	*20.1*
Pre-tax margin (%)	*11.4*	*9.9*	*12.4*	*14.6*
ROE (%)	*19.3*	*19.2*	*16.8*	*19.3*
ROCE (%)	*15.8*	*15.8*	*14.3*	*18.2*
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.8	0.9	0.8	0.9
Leverage factor (x)	2.4	2.3	2.3	2.0
Net margin (%)	*9.7*	*9.4*	*8.9*	*10.4*
Net Debt/Equity (x)	0.7	0.7	0.7	0.4
Working Capital & Liquidity ratio				
Inventory days	67	57	75	75
Receivable days	55	51	60	60
Payable days	69	51	67	68

Valuation

Year-end: March	FY18	FY19	FY20E	FY21E
P/E (x)	10.0	8.8	8.8	6.6
Price / Book value (x)	1.8	1.6	1.4	1.2
PCE (x)	6.9	6.1	6.0	4.8
EV / Net sales (x)	1.4	1.2	1.1	0.9
EV / EBITDA (x)	6.8	6.2	6.3	4.7
Dividend Yield (%)	*0.7*	*0.6*	*0.6*	*0.6*

Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com

Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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Disclaimer

Analyst Disclosures

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