

Jubilant Life Sciences

BSE Code	: 530019
Time Duration	: 18 months
CMP	: ₹722 (as on 24 January, 2019)
Target Price	: ₹845



Swiftest Performers
Among Heavy Weights

Our Large Rhino for the month of January 2019 is Jubilant Life Sciences (JLS), an integrated pharmaceuticals and life sciences company, which operates in various segment viz: specialty pharmaceuticals where it manufactures radiopharmaceuticals, allergy therapy products and contract manufacturing of sterile injectables and non-sterile products. In pharma business, the company operates in active pharmaceutical ingredients and solid dosage formulations. The company's other segment includes life science ingredients, which include specialty intermediates and nutritional products and life sciences chemicals. JLS is also involved in other segments like drug discovery solutions and India branded pharmaceuticals. Its revenue mix for FY18 was specialty pharmaceuticals (35 per cent), life sciences chemicals (24 per cent), specialty intermediates and nutritional products (20 per cent), generics & API (18 per cent) and other (3 per cent). The company has diversified its operations across the world. Geographically, in FY18 revenue, the US & Canada contributed (47 per cent), India (28 per cent), Europe & Japan (15 per cent) and China & rest of the world (10 per cent).

Strong outlook

Jubilant Life Science is the third largest radiopharmaceutical manufacturer and also enjoys the second largest commercial radiopharmacy network in the US. To expand its radiopharmaceuticals business the company is looking for product portfolio expansion through the launch of niche and differentiated products. JLS is one of the only three manufacturers of I-131 globally (HICON Sodium Iodine-131 solution for thyroid disease and thyroid cancer management). The company is looking to file NDA for I-131 mIBG (currently undergoing Phase II clinical trials in US) and 505(b)(2) for 4 other products. This drug may qualify for Orphan Drug Designation and get into accelerated USFDA which would be a big catalyst for the company.

Besides, JLS has received USFDA approval (new drug application) for Ruby-111 (Rubidium 82 Generator and Elution System) which has a market size of around US\$ 76 million and can reach to US\$ 250 million annually over the next five years, as per company's management. In the listed space, JLS is the sole company that has strong exposure in the niche radiopharma segment. Thus, this approval is likely to be a key growth driver for the company going forward, in the US market.

Post the exit of ALK Albello A/S, JLS is the only supplier for venom immunotherapy (from Allergic extracts sub-segment) in the US.

On Life Science Chemicals front, the company enjoys a market share of nearly 67 per cent in India and 16 per cent, globally for Acetic Anhydride products. Further, the capacity expansion of Acetic Anhydride is in the process and is likely to commission the same by the end of current fiscal. The management expects annual revenue potential of around Rs. 400 crore from this. Thus, capacity expansion of this segment bodes well for the company as it will help strengthen its market position.

In terms of API business, global synthetic API market is estimated at US\$ 115 billion in 2018 and is expected to grow at a CAGR of 6.7 per cent from 2018-22E to reach US\$ 149 billion. To capitalise this opportunity, JLS is increasing the range of its products in key markets such as the US, Europe and expanding its geographical reach in select Emerging Markets. The company's strategy to focus on product selection, new product launches and increasing market share of existing products would help to revive and boost its API business.

Entry barrier

The company operates in the various businesses which have significant barriers to entry such as extensive regulatory and licensing requirements and are also capital intensive in nature. Due to these entry barriers, other players are reluctant to enter in these therapeutic areas, which in turn provide enormous opportunities to the company to capitalise the huge potential in these businesses.

Aims to reduce debt

The company is looking to list its 100 per cent subsidiary Jubilant Pharma by reducing up to 15 per cent stake, while JSL is likely to

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DSJ Pvt. Ltd. : C - 305, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 | For Customer Service : 020-49072626 OR service@dsj.in

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

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consider an offer for sale of its stake in Jubilant Pharma up to 5 per cent. The proceeds from this IPO is likely to be utilised for debt reduction. Recently, the company has reduced its debt which resulted in net debt of Rs. 3,430 crore in Q2FY19 compared to Rs. 3,231 crore in the first quarter of FY19. Over the last few years, the company has reduced its D/E from 1.91x in FY14 to 0.63 in FY18 which indicates that management is keen on meeting its commitment.

Capacity expansion

Jubilant Life Science is in the process to expand its capacity by way of debottlenecking or greenfield expansions with an estimated capex of Rs. 550 crore. JSL is expanding the capacity of its various segments such as generics pharma (at Roorkee, India), allergy therapy, contract manufacturing business and specialty intermediates (chlorinated pyridine, commissioned in 1QFY19 and acetic anhydride in 3QFY19). The decision to expand its capacity is likely to be fruitful for JLS as it would help meet incremental demand. Going forward, specialty pharma is likely to continue its growth trajectory owing to robust CMO order book and growth in radiopharma.

Robust financial performance

During the second quarter of FY19, the company reported an extremely strong set of numbers. The company's revenue in Q2FY19 surged almost 38 per cent YoY to Rs. 2,269 crore. This stellar revenue growth was on account of strong performance across the segment. Pharma business grew nearly 55 per cent YoY, speciality pharma segment witnessed jumped of 71 per cent YoY. Generic & API grew 29 per cent YoY, while Life Science and other segment's revenue surged almost 20 per cent you and 15 per cent YoY, respectively.

JLS' EBITDA for Q2FY19 increased 45 per cent YoY to Rs. 454 crore with margin expansion of 93 bps. EBITDA margin for the quarter stood at 20 per cent. Notably, its net profit for the quarter soared 64 per cent YoY to Rs. 210 crore. Also, net margin during the quarter improved 9.3 per cent from 7.8 per cent in Q2FY18.

Risks

Owing to the commodity nature of life science chemicals business margins are relatively low and dependent on the commodity cycle, hence, this segment may deteriorate JLS' margins. The management is committed to bringing down its debt level, but we need to be watchful on this as capacity expansion and delay of IPO may act as an obstacle in the debt reduction plan.

Valuations & outlook

Presently, the stock of Jubilant Life Science is available at around 15x P/E on TTM earnings which looks very attractive when we compare this to its five-year median P/E of 19.70. The management expects the second half of FY19 to be better than first half on both the revenue and operational front on account of growth in existing products and capacity expansions for new product launches. Considering all the above aspects, we urge our investors to **BUY** this scrip.

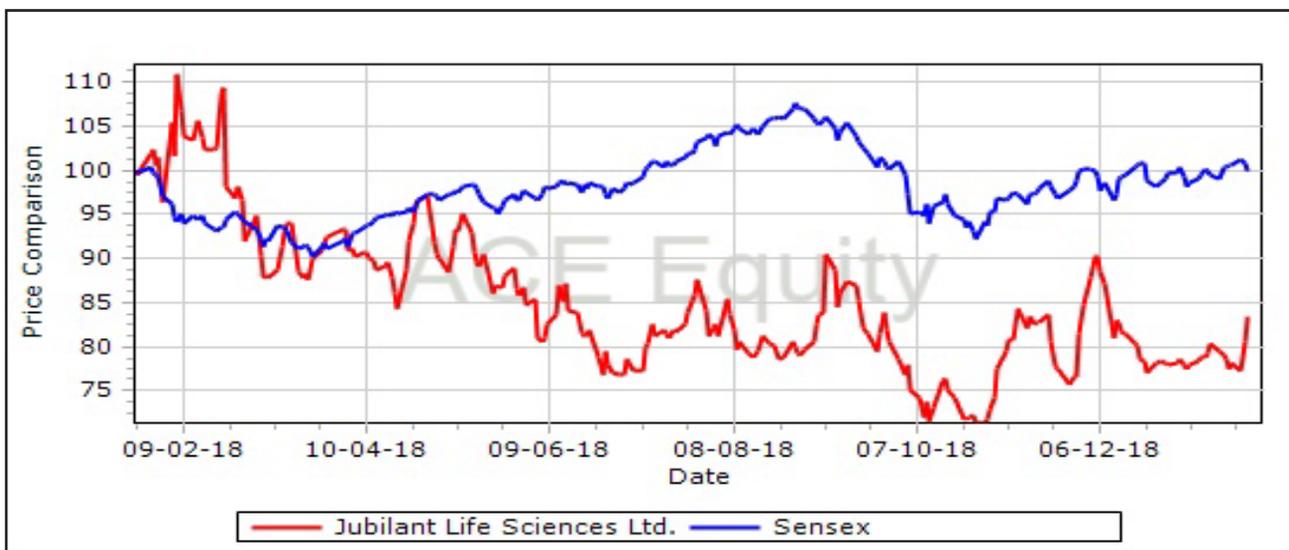
Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	3306.32	2491.22	2656.15	3176.30	3672.79
Total Income	3352.54	2543.11	2717.89	3282.72	3702.67
Total Expenditure	2767.08	2173.21	2343.86	2893.94	3083.89
PBIDT	585.46	369.90	374.03	388.78	618.79
PAT	263.44	79.19	73.00	205.11	0.82
Dividend %	300.00	300.00	300.00	300.00	300.00
Adj. EPS(Rs)	16.54	4.97	4.58	12.88	0.05

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Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201809	201806	Q on Q Var%	201709	Y on Y Var%
Net Sales	878.31	813.28	8.00	723.42	21.41
Total Expenditure	804.25	745.60	7.87	623.12	29.07
PBIDT (Excl OI)	83.02	81.04	2.44	111.36	-25.45
PAT	79.61	23.88	233.38	56.88	39.96
PBIDTM% (Excl OI)	9.36	9.80	-4.49	15.16	-38.26
PBIDTM%	16.55	10.34	60.06	18.09	-8.51
PATM%	8.97	2.89	210.38	7.74	15.89
Adj. EPS(Rs)	5.00	1.50	233.33	3.57	40.06



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