



Company Name	: JUBILANT LIFE SCIENCES
BSE Code	: 530019
Time Duration	: 2 years
CMP	: ₹537.45 (as on 04 June, 2020)
Target Price	: ₹755

Our Upstream Pick for this month is Jubilant Life Sciences. It is an integrated global pharmaceutical and life sciences company, engaged in drug discovery solutions and India branded pharmaceuticals.

Company to produce COVID-19 drug

Jubilant Life Sciences has entered into a non-exclusive licensing agreement with Gilead Sciences, which will grant the company a right to register, manufacture and sell Gilead's investigational drug 'Remdesivir', a potential therapy for COVID-19 in 127 countries, including India. The production of Remdesivir is expected to commence in July 2020.

Under the licensing agreement, Jubilant Life Sciences will have the right to receive a technology transfer of Gilead manufacturing process to scale-up its production in order to enable expedited access of the medicine to COVID-19 patients, upon approvals by regulatory authorities in respective countries.

Healthy growth to drive pharma business

The company has recently entered into long-term contracts in the radiopharmaceutical business as well as Ruby-fill traction in US, together with Europe launch, later this year. There is a considerable pent-up demand and unmet requirement for Ruby-fill in Europe. The company intends to launch the drug initially in Germany and Switzerland. This deal would strengthen the company's growth in speciality segments. Meanwhile, speciality segment in the pharma sector has grown at 22 per cent CAGR over FY18-20, supported by good traction.

The company's contract development and manufacturing organisation (CDMO) business has been affected due to Coronavirus outbreak. However, going ahead, supported by improved operating leverage, this business is likely to gain traction.

Life science ingredients (LSI) segment to remain volatile

Life science ingredients (LSI) segment is likely to grow in single digit as it majorly depends upon the commodity cycle. In the recent quarter, LSI segment has posted a decline of 11 per cent on YoY basis. This hampered performance is likely to offset the growth in the pharma business.

Other rationales

- **Capex:** The company has incurred a capex of Rs 89 crore in Q4FY20 and Rs 516 crore in FY20. For FY21, the company has guided the capex in the range of Rs 500-Rs 600 crore.
- **Debt:** During FY20, the company has reduced its net debt by Rs 514 crore and now, the debt stood at Rs 2,976 crore. This step has been taken to focus on further deleveraging by generating healthy levels of cash flows.
- **Nanjangud plant update:** The company has received a regulatory permission to restart Nanjangud plant (Mysuru district, Karnataka). The company plans to make up for the lost production (in two months) through higher capacity utilisation.

Financial performance

Looking at the recently concluded quarter-Q4FY20, the consolidated revenue stood at Rs 2,391 crore as compared to Rs 2,386 crore in Q4FY19. The Q4FY20 performance was impressive with EBITDA growth of 58 per cent YoY. Despite COVID-19 led challenges, the company continues to experience strong demand across most of its businesses.

On an annual basis, the consolidated revenue stood at Rs 9,154 crore in FY20, up from Rs 9,111 crore in FY19. The company had an annual consolidated net profit at Rs 898 crore, up by 56 per cent, as compared to FY19.

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Valuation & outlook

The stock is currently trading at TTM P/E of 15.14x and TTM EPS of Rs 33.81. Despite a challenging FY20, the company has maintained a moderating capex as well as strong margin expansion. Looking at the return ratios, ROE and ROCE stood healthy at 16.62 per cent and 16.37 per cent, respectively. The company's dividend pay-out ratio also looks impressive at 12.48 per cent. Going ahead, the licensing agreement for Remdesivir and long-term contracts in radiopharmaceuticals business would drive the overall growth. Considering all the above factors, we see a potential upside of ~40 per cent with a target price of Rs 755 over a period of two years.

Inc/Exp Statement (Consolidated)

Description	201903	201803	201703	201603
Net Sales	9110.82	7517.84	5861.43	5749.13
Total Income	9146.56	7557.87	5886.29	5762.50
Total Expenditure	7371.81	5999.45	4516.14	4502.19
PBIDT	1774.74	1558.41	1370.15	1260.32
PAT	577.01	634.42	574.63	386.82
Dividend %	450.00	300.00	300.00	300.00
Adj. EPS(Rs)	36.07	41.27	36.96	25.22

Quarter On Quarter (Consolidated)

Particulars	201912	201909	Q on Q Var %	201812	Y on Y Var %
Net Sales	2279.89	2236.55	1.94	2353.08	-3.11
Total Expenditure	1807.79	1797.48	0.57	1883.84	-4.04
PBIDT (Excl OI)	507.42	468.45	8.32	493.26	2.87
PAT	203.38	249.39	-18.45	267.52	-23.98
PBIDTM% (Excl OI)	21.92	20.67	6.05	20.75	5.64
PBIDTM%	22.18	21.21	4.57	21.97	0.96
PATM%	8.78	11.01	-20.25	11.25	-21.96
Adj. EPS(Rs)	12.77	15.66	-18.45	16.74	-23.72

Stock vs. Index



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