

Beat on Q1, on track for robust operating performance

JBCPL reported a strong Q1 on the operating front driven by higher contribution from acute products Ranitidine and Metrogyl (65% of sales came from acute portfolio) in India offsetting muted exports. Revenue growth of 16% YoY. Despite on ground expenses normalizing, EBITDA margins stood tall at 27% for 1Q (200 bps above our expectation) maintaining swift control on fixed costs and improving productivity. Higher contribution of domestic sales also aided margins. Despite a higher base YoY, PAT remained flat at Rs1.2bn. India (grew 39% YoY), exports (both formulations and API) were muted and declined 2% YoY. Management expects India growth led by deeper penetration of legacy portfolio, new launches in paediatrics and nephrology therapies coupled with productivity improvement. Further, it remains confident of its growth in the CMO segment on the back of strong order book with sustenance of healthy EBITDA margins in the range nearing that of FY21.

Key triggers: 1) Improving productivity in domestic formulations via newer therapy introduction such as nephrology, respiratory, diabetes, in-licensing and acquisitions 2) CMO and API segment in exports can be leveraged with existing infrastructure and client base 3) Increasing launch and filing rate in the US and EU 4) Margin improvement via backward integration and sales driven.

Key Risks: Higher raw material prices can impact gross and EBITDA margins as company depends on China for ~40% of its raw material.

Outlook and Valuation: With renewed management focus and healthy balance sheet, we believe JBCPL is poised for growth in the medium term. It is net-cash (~Rs7bn) company and can potentially generate annual FCF of ~Rs4-5bn with limited capex (Rs ~500mn p.a.) over FY21-23E. The profitability has improved to stellar 48% CAGR during FY18-21 (RoE improving from 10% to 28%), but this owes to low base, price hikes and lower spend in FY21 due to COVID. Over the next 2 years, we expect company to sustain its operating performance at 27%. The OCF/PAT conversion in the past few years has been ~80%, a healthy conversion rate. At CMP, the stock is trading at 26.4x FY23 earnings. We remain confident that new restructuring program and other initiatives shall aid growth from 2HFY22E justifying the premium valuations. Our SOTP methodology values JBCPL at Rs2,050, valuing the company at 31x FY23E.

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	6,060	5,223	16.0	5,285	14.7
Total Expense	4,423	3,669	20.6	4,046	9.3
EBITDA	1,637	1,554	5.3	1,239	32.1
Depreciation	178	173	3.2	165	8.0
EBIT	1,458	1,381	5.6	1,074	35.8
Other Income	130	227	(42.8)	253	(48.8)
Interest	9	37	(74.9)	7	36.3
EBT	1,579	1,571	0.5	1,320	19.6
Tax	388	376	3.3	312	24.3
RPAT	1,191	1,195	(0.4)	1,008	18.1
APAT	1,189	1,195	(0.5)	1,006	18.1
			(bps)		(bps)
Gross Margin (%)	64.3	64.3	(7)	63.2	108
EBITDA Margin (%)	27.0	29.8	(275)	23.4	357
NPM (%)	19.6	22.9	(323)	19.1	57
Tax Rate (%)	24.6	23.9	67	23.6	94
EBIT Margin (%)	24.1	26.4	(238)	20.3	375

CMP	Rs 1,777
Target / Upside	Rs 2,050 / 15%
NIFTY	16,364
Scrip Details	
Equity / FV	Rs 155mn / Rs 2
Market Cap	Rs 137bn
	USD 1.8bn
52-week High/Low	Rs 1,938/ 753
Avg. Volume (no)	165,323
Bloom Code	JBCP IN
Price Performance	
1M	28
3M	129
Absolute (%)	(3)
Rel to NIFTY (%)	(6)
12M	17
	84

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	55.9	55.9	55.9
MF/Banks/FIs	33.6	33.6	33.6
FII	7.9	7.9	7.9
Public / Others	2.6	2.6	2.6

Valuation (x)

	FY21A	FY22E	FY23E
P/E	30.7	31.2	26.4
EV/EBITDA	23.3	21.1	17.2
ROE (%)	27.6	22.3	22.2
RoACE (%)	26.0	21.0	21.0

Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	20,425	23,510	26,586
EBITDA	5,604	6,040	7,162
PAT	4,480	4,399	5,193
EPS (Rs.)	58.0	56.9	67.2

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Key highlights

Operational performance: Gross margins were sequentially higher by 110bps at 64.3% despite higher raw material prices as company had large inventory base of ranitidine which was one of the major contributors. Notwithstanding the normalized field activities in 1Q, EBITDA margins stood strong at 27%.

Guidance: Management remains confident of outperforming IPM in FY22E, indicating a mid-teens growth in domestic formulations. Growth will be driven by market share gains in existing products (penetration of acute portfolio beyond tier 2 cities) and newer launches in the chronic segment coupled with productivity improvement. Further, a strong order book in export markets to aid growth. **Company indicated that EBITDA margins going ahead is likely to be in the range similar to that of FY21.** ESOP related costs will be reflected in 2Q and is expected to be a one-off. ESOP is expected to be ~Rs600mn in FY22E and Rs230mn in FY23E.

Domestic formulations: The India business registered 39% YoY growth in Q1 led by core acute brands such as Metrogyl and Ranitidine and new launches in chronic category. Acute contribution was higher in Q1 at 65% vs normal run-rate of 55% and productivity improvement (at Rs4.4lakh).

- Launched 12-15 products in Nephrology and Metabolic division in Q1.
- Price hike in 3 SKUs of Ranitidine will be reflective from 3Q onwards. These 3 SKUs constitute ~80% of Ranitidine market.
- Products like Metrogyl, Rantac are also part of hospital portfolio. This is expected to pick up in FY22E.
- Cilacar-D is the new line extension launched in Q1. Metabolic (Gliptins, Dafagliflozin, etc.) are exhibiting strong Rx growth.
- In Q1, JBCPL entered into generic-generic market focusing on tier-2 and beyond. Management believes there is no overlap between branded and generic-generic and hence there will not be any cannibalization.
- Focus is to increase chronic presence and company has launched products in the nephrology, paediatric and diabetes segment (hypertension and metabolic). It plans to build a strong portfolio of 10-12 brands over the next 3-4 years.
- Inorganic expansion remains key focus for India

Exports: Q1 was challenging impacted by COVID and logistical challenges. As per the management, export order book remains strong with South Africa and US being the major contributors (20%+ YoY growth), while Russia was subdued impacted by COVID.

- **CRAMS:** Reported Rs480mn sales in Q1. Basis the order book visibility, FY22E looks promising. Management is looking to expand this segment aggressively and has added 2 customers for additional products in its existing markets. While it plans to supply only medicated lozenges, growth will be driven by the expanded capacity at Panoli. Apart from contract from Cilag (J&J), the Company has major 4 contracts: 2 in Australia, and 1 in Europe for manufacturing lozenges and tablets.
- **API:** API de-grew 14% QoQ and 35% YoY at Rs180mn. The growth has normalized on a high base of last year. Diclofenac Sodium is major product. Company sells APIs largely in Europe, Russia, and in few S.E. Asian markets. Management guides of a steady performance from this segment with 3-4 new launches.

- **Export formulations:** With COVID situation normalizing, management guided for steady improvement / demand revival in markets such as Latam, Russia, South East Asia going ahead.
 - (1) **South Africa** (combination of private and tender market). Sales have been strong both on the CRAMS as well as formulations specially on the tender front. Management is currently in the process of site transferring products. The existing portfolio encompasses multiple therapies such as CVS, GI, derma and respiratory, etc. Currently, it has 40 MRs in South Africa.
 - (2) **Russia/CIS:** JBCPL plans few launches in FY22E. It currently has 8-10 registered products, 4-5 products approved. With ~60+ MRs, the management does not envisage any major capex in this region. The major focus is on key therapeutic segments, viz. derma, cough & cold, gastro and contrast (imaging).
 - (3) **US:** 1Q performance was healthy double digits. Management guided for better off take in the ensuing quarters. It has launched Carbamazepine in 4Q. This is a limited competition product with only 3 players in the market. Besides, it also plans to launch Loratadine in 1HFY22E. The Company has 16 approved ANDAs of which 6 are actively marketed in the US. Further, 2 ANDAs are pending approval and the management has guided 2 ANDA filings and 1 launch per year.

Other highlights:

- 1) Maintenance capex would be ~Rs500mn and no plans on incremental capex as of now
- 2) Average capacity utilization for lozenges is ~65%
- 3) To invest in R&D going ahead as filings need to gear up for US and EU. Will be strengthened by backward integration.

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	17,747	20,425	23,510	26,586
Total Expense	13,972	14,821	17,470	19,425
COGS	6,308	7,015	8,294	9,262
Employees Cost	3,229	3,406	3,845	4,219
Other expenses	4,434	4,400	5,331	5,944
EBIDTA	3,776	5,604	6,040	7,162
Depreciation	663	687	776	776
EBIT	3,113	4,917	5,263	6,386
Interest	30	72	49	29
Other Income	507	1,124	648	562
Exc. / E.O. items	(100)	0	0	0
EBT	3,489	5,969	5,863	6,918
Tax	765	1,484	1,457	1,720
RPAT	2,720	4,480	4,399	5,192
Minority Interest	3	6	6	7
Profit/Loss share of associates	0	0	0	0
APAT	2,820	4,480	4,399	5,193

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	155	155	155	155
Minority Interest	25	37	37	37
Reserves & Surplus	14,200	17,943	21,248	25,249
Net Worth	14,355	18,097	21,402	25,403
Total Debt	295	326	326	326
Net Deferred Tax Liability	824	1,153	1,042	1,116
Total Capital Employed	15,499	19,614	22,807	26,883

Applications of Funds

Net Block	5,981	5,762	5,285	4,759
CWIP	693	830	856	884
Investments	760	199	199	199
Current Assets, Loans & Advances	10,771	15,590	19,502	24,274
Inventories	2,747	3,474	3,372	3,525
Receivables	3,454	3,890	4,342	4,696
Cash and Bank Balances	309	309	3,738	7,858
Loans and Advances	90	169	192	216
Other Current Assets	833	1,099	1,208	1,329
Less: Current Liabilities & Provisions	2,706	2,767	3,034	3,232
Payables	1,680	1,869	1,989	2,049
Other Current Liabilities	1,027	898	1,046	1,183
<i>sub total</i>				
Net Current Assets	8,065	12,823	16,468	21,041
Total Assets	15,499	19,614	22,807	26,883

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	64.5	65.7	64.7	65.2
EBIDTA Margin	21.3	27.4	25.7	26.9
EBIT Margin	17.5	24.1	22.4	24.0
Tax rate	21.9	24.9	24.9	24.9
Net Profit Margin	15.3	21.9	18.7	19.5
(B) As Percentage of Net Sales (%)				
COGS	35.5	34.3	35.3	34.8
Employee	18.2	16.7	16.4	15.9
Other	25.0	21.5	22.7	22.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	102.7	67.9	107.5	217.3
Inventory days	56	62	52	48
Debtors days	71	70	67	64
Average Cost of Debt	11.0	23.3	15.0	9.0
Payable days	35	33	31	28
Working Capital days	166	229	256	289
FA T/O	3.0	3.5	4.4	5.6
(D) Measures of Investment				
AEPS (Rs)	36.5	58.0	56.9	67.2
CEPS (Rs)	45.1	66.8	67.0	77.2
DPS (Rs)	18.3	9.5	12.5	13.8
Dividend Payout (%)	50.2	16.4	22.0	20.5
BVPS (Rs)	185.7	234.2	276.9	328.7
RoANW (%)	18.7	27.6	22.3	22.2
RoACE (%)	18.2	26.0	21.0	21.0
RoAIC (%)	20.3	28.5	27.4	33.5
(E) Valuation Ratios				
CMP (Rs)	1777	1777	1777	1777
P/E	48.7	30.7	31.2	26.4
Mcap (Rs Mn)	137,322	137,322	137,322	137,322
MCap/ Sales	7.7	6.7	5.8	5.2
EV	133,970	130,691	127,261	123,141
EV/Sales	7.5	6.4	5.4	4.6
EV/EBITDA	35.5	23.3	21.1	17.2
P/BV	9.6	7.6	6.4	5.4
Dividend Yield (%)	1.0	0.5	0.7	0.8
(F) Growth Rate (%)				
Revenue	8.0	15.1	15.1	13.1
EBITDA	23.5	48.4	7.8	18.6
EBIT	24.4	58.0	7.0	21.3
PBT	21.6	71.1	(1.8)	18.0
APAT	45.8	58.8	(1.8)	18.0
EPS	45.8	58.8	(1.8)	18.0

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	3,569	4,096	4,901	5,623
CFI	(510)	(3,311)	(326)	(278)
CFF	(3,117)	(786)	(1,147)	(1,225)
FCFF	3,058	785	4,576	5,345
Opening Cash	368	309	309	3,738
Closing Cash	309	309	3,738	7,858

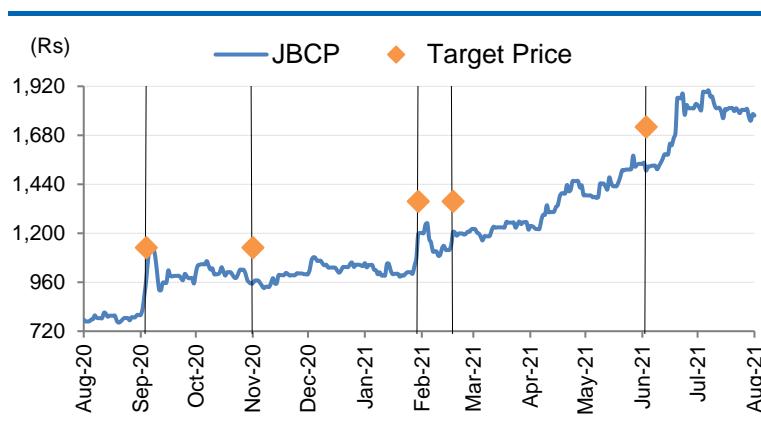
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Sep-20	Accumulate	1,130	971
Nov-20	Buy	1,130	955
Feb-21	Buy	1,356	1,196
Mar-21	Buy	1,356	1,207
Jun-21	Buy	1,721	1,507

*Price as on recommendation date

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