

JB Chemicals and Pharmaceuticals

19 February, 2023

Reuters: JBCH.BO; Bloomberg: JBCP IN

JB Chemicals – Management Meet Update

We hosted the management of JB Chemicals and Pharmaceuticals Ltd (JB Chem) at the NBIE Annual Investors' Conference to discuss the company's business outlook. The management has guided for ~Rs30bn revenue for FY23 (Rs23.9bn in 9MFY23). For FY24, it expects gross margin to improve to 63.5-64% with EBITDA margin in the vicinity of ~25.5-26%. JB Chem remains poised for strong growth in the Domestic market, which will be driven by growth in the base business and integration of acquisitions. The company expects strong visibility in the Lozenges CMO business as it looks to add new products and partners in due course. In the US market, it will focus on niche products and the company will remain conservative in its efforts, so as not to over invest. JB Chem remains our preferred pick, mainly underpinned by aggressive growth focus in the domestic market, high return ratios and healthy FCF despite acquisitions. We maintain BUY recommendation on JB Chem with a target price (TP) of Rs2,385, valuing it at 20x Sept'24E EV/EBITDA.

India

- In the domestic market, the company follows a 'go to market' strategy, making big brands bigger, improving contribution from new products and growing acquired products at double the rate prior to acquisition.
- For FY23, MR productivity will stand at ~Rs0.65mn and it has the potential to improve to Rs0.75-0.8mn in future.
- The management is not planning to add new MRs in the next 12-18 months.
- New products' contribution for 3QFY23 stood at 5% and 4-5% growth from the introduction of new products is expected to continue in future as well.
- The company is focusing on increasing its presence in Metro and Tier 1 cities.
- Inorganic assets recorded sales of ~Rs750-800mn in 3QFY23 with high teen growth. The company is looking at ~6 years of payback period for all acquisitions.
- 12% of the domestic portfolio is in NLEM. While Trade Generics' contribution stood at 4-5% of domestic sales. The company won't foray into OTC business as of now.
- Probiotic target market share stands at 7.5% and the company wants to double it in future.
- The company has ~250-strong sales team for promoting Azmarda only.

| Y/E March (Rsmn) | FY21 | FY22 | FY23E | FY24E | FY25E |
|-------------------|--------|--------|--------|--------|--------|
| Net sales | 20,425 | 24,242 | 31,676 | 35,180 | 39,525 |
| EBITDA | 5,604 | 5,435 | 7,017 | 8,483 | 9,994 |
| Net profit | 4,078 | 3,854 | 4,165 | 5,095 | 6,387 |
| EPS (Rs) | 52.8 | 56.0 | 60.4 | 70.5 | 85.7 |
| EPS growth (%) | 45.7 | 6.1 | 7.9 | 16.8 | 21.5 |
| EBITDA margin (%) | 27.4 | 22.4 | 22.2 | 24.1 | 25.3 |
| P/E (x) | 37.2 | 35.0 | 32.5 | 27.8 | 22.9 |
| EV/Sales (x) | 7.1 | 6.2 | 5.0 | 4.4 | 3.8 |
| EV/EBITDA (x) | 25.9 | 27.8 | 22.4 | 18.2 | 15.0 |
| RoCE (%) | 23.9 | 18.6 | 16.1 | 16.0 | 17.6 |
| RoE (%) | 25.1 | 19.5 | 17.9 | 18.6 | 19.6 |

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Pharmaceuticals

CMP: Rs1,962

Target Price: Rs2,385

Upside: 21.6%

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Key Data

| | |
|--------------------------|-------------|
| Current Shares O/S (mn) | 77.4 |
| Mkt Cap (Rsbn/US\$bn) | 151.7/1.8 |
| 52 Wk H / L (Rs) | 2,150/1,339 |
| Daily Vol. (3M NSE Avg.) | 54,345 |

Price Performance (%)

| | 1 M | 6 M | 1 Yr |
|---------------|-------|-----|------|
| J.B Chemicals | (1.4) | 9.4 | 21.1 |
| Nifty Index | (0.5) | 1.0 | 3.9 |

Source: Bloomberg

[FY22 Annual Report](#)
[3QFY23Result](#)

CMO

- Guidance for mid to long term (3-5 years) is to double revenue.
- It will add 1-2 partners in 6-8 months and is in the process of adding new products beyond cough & cold lozenges in areas such as sleep disorder, motion sickness, immunity and wellness.
- CMO is completely a B2B business and it is not looking to venture into B2C segment.

International Formulations

- RoW business has bounced back and it expects to close FY23 with low double-digit growth. South East Asia and Middle East geographies are growing well.
- Russia reported strong growth in 3QFY23 (~Rs500mn revenue) due to strong demand in cough and cold segment during winter season.
- The SA business was soft due to slowdown in public tenders. For the SA business, the current public:private mix is 60:40. The company intends to improve the mix by focusing more on the private market.
- The company follows a cost-plus model in the US. Annual revenue in the US is ~US\$30mn. It focuses on niche products in the US market. It expects to file 3-4 ANDAs in FY23 and 4-5 ANDAs in FY24.
- The company is not looking for an additional market in exports. In exports, it believes to go deeper than wider.

Margins

- Gross margin will improve in FY24. Softness will continue in 4QFY23 due to price reduction in Azmarda, an adverse product mix and high input costs. Azmarda sales had ~150bps negative impact on gross margin in 3QFY23.

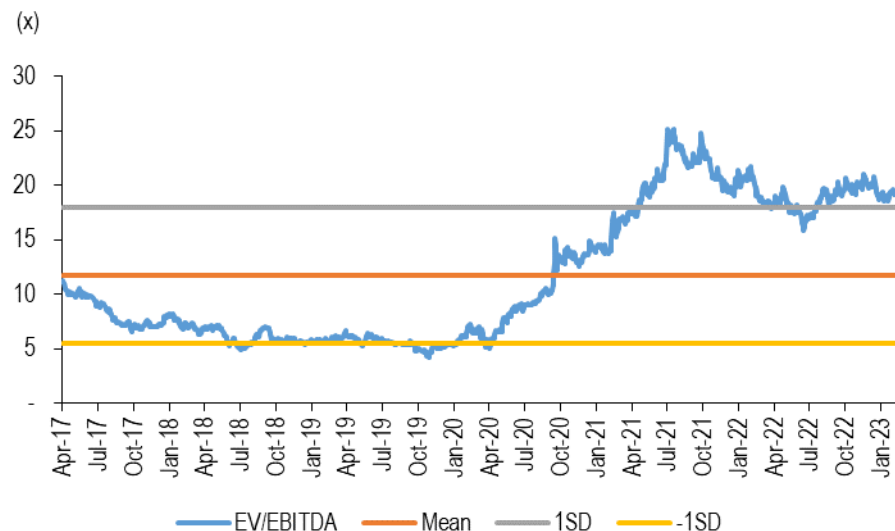
Capex

- The management has guided for ~US\$10-12mn of annual capex. It intends to add a third line for packaging in the Lozenges unit. Capacity utilization for the overall business stands at 75-80%. The company is not looking for any major capex at least in the near term.

Others

- For M&A opportunities, the company keeps scouting for an asset that can grow at high single digits to low double digits, fits into the company's focused therapy areas and post-acquisition can grow at double the rate of pre-acquisition.
- ESOPs are spread over 5-7 years with 60% being performance linked.

One-year Rolling Forward EV/EBITDA Chart



Source: BSE, Bloomberg, Company, Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 1: Income statement

| Y/E March (Rsmn) | FY21 | FY22 | FY23E | FY24E | FY25E |
|--------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Net sales | 20,425 | 24,242 | 31,676 | 35,180 | 39,525 |
| % growth | 15.1 | 18.7 | 30.7 | 11.1 | 12.3 |
| Raw material costs | 7,015 | 8,429 | 11,878 | 12,665 | 14,031 |
| Staff costs | 3,406 | 4,392 | 5,447 | 6,100 | 6,832 |
| ESOP cost | 0 | 620 | 680 | 480 | 320 |
| Other expenditure | 4,400 | 5,366 | 6,654 | 7,452 | 8,347 |
| Total expenditure | 14,821 | 18,808 | 24,659 | 26,698 | 29,530 |
| Gross profit | 13,410 | 15,813 | 19,797 | 22,515 | 25,493 |
| % growth | 17.2 | 17.9 | 25.2 | 13.7 | 13.2 |
| EBITDA | 5,604 | 5,435 | 7,017 | 8,483 | 9,994 |
| % growth | 48.4 | -3.0 | 29.1 | 20.9 | 17.8 |
| EBITDA margin (%) | 27.4 | 22.4 | 22.2 | 24.1 | 25.3 |
| Other income | 589 | 392 | 63 | 106 | 316 |
| Interest costs | 72 | 51 | 303 | 362 | 241 |
| Depreciation | 687 | 727 | 1,139 | 1,332 | 1,429 |
| Profit before tax & Exceptional Items | 5,434 | 5,049 | 5,637 | 6,894 | 8,640 |
| Exceptional Items | 535 | 0 | 0 | 0 | 0 |
| Profit before tax | 5,969 | 5,049 | 5,637 | 6,894 | 8,640 |
| % growth | 71.1 | -15.4 | 11.7 | 22.3 | 25.3 |
| Tax | 1,484 | 1,189 | 1,466 | 1,792 | 2,247 |
| Effective tax rate (%) | 27 | 24 | 26 | 26 | 26 |
| Minority Interest | 6 | 7 | 7 | 7 | 7 |
| PAT | 4,480 | 3,854 | 4,165 | 5,095 | 6,387 |
| Adjusted PAT | 4,078 | 3,854 | 4,165 | 5,095 | 6,387 |
| % growth | 64.7 | -14.0 | 8.1 | 22.3 | 25.4 |
| Adjusted EPS (Rs) | 52.8 | 56.0 | 60.4 | 70.5 | 85.7 |
| % growth | 45.7 | 6.1 | 7.9 | 16.8 | 21.5 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Cash flow

| Y/E March (Rsmn) | FY21 | FY22 | FY23E | FY24E | FY25E |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| PBT | 5,969 | 5,049 | 5,637 | 6,894 | 8,640 |
| Depreciation | 687 | 727 | 1,139 | 1,332 | 1,429 |
| Net Chg in WC | -938 | -3,025 | -1,335 | -958 | -1,150 |
| Taxes | -1,417 | -1,346 | -1,466 | -1,792 | -2,247 |
| Others | -1,152 | 297 | -280 | 87 | -100 |
| CFO | 3,148 | 1,701 | 3,696 | 5,563 | 6,573 |
| Capex | -79 | -6,990 | -8,964 | -1,500 | -1,500 |
| Net Investments made | -2,243 | 7,002 | 0 | -1,000 | -1,000 |
| Others | 15 | -53 | 0 | 0 | 0 |
| CFI | -2,307 | -41 | -8,964 | -2,500 | -2,500 |
| Change in Share capital | 0 | 0 | 0 | 0 | 0 |
| Change in Debts | -82 | -3 | 5,710 | -1,500 | -1,500 |
| Div. & Div Tax | -732 | -1,276 | -416 | -509 | -639 |
| Others | -28 | -105 | -303 | -362 | -241 |
| CFF | -842 | -1,384 | 4,990 | -2,372 | -2,380 |
| Total Cash Generated | -1 | 277 | -278 | 691 | 1,694 |
| Cash Opening Balance | 309 | 309 | 585 | 308 | 999 |
| Cash Closing Balance | 309 | 585 | 308 | 999 | 2,692 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Balance sheet

| Y/E March (Rsmn) | FY21 | FY22 | FY23E | FY24E | FY25E |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Equity | 155 | 155 | 155 | 155 | 155 |
| Reserves | 17,943 | 21,187 | 24,935 | 29,520 | 35,269 |
| Net worth | 18,097 | 21,341 | 25,090 | 29,675 | 35,423 |
| Minority Interest | 37 | 45 | 52 | 59 | 65 |
| Net deferred tax liabilities | 498 | 411 | 411 | 411 | 411 |
| Total Loans | 0 | 0 | 5,710 | 4,210 | 2,710 |
| Other Long Term Liabilities | 226 | 375 | 427 | 451 | 482 |
| Liabilities | 18,859 | 22,173 | 31,689 | 34,806 | 39,091 |
| Net Block | 5,441 | 5,529 | 5,890 | 6,058 | 6,128 |
| CWIP | 256 | 139 | 139 | 139 | 139 |
| Intangible Assets and Goodwill | 896 | 7,241 | 14,705 | 14,705 | 14,705 |
| Intangible assets under development | 0 | 48 | 48 | 48 | 48 |
| Other Non Current Assets | 64 | 177 | 229 | 254 | 284 |
| Non-Current Investments | 129 | 127 | 127 | 127 | 127 |
| Inventories | 3,474 | 4,100 | 5,375 | 5,819 | 6,437 |
| Debtors | 3,890 | 5,557 | 6,535 | 7,258 | 8,154 |
| Cash | 309 | 585 | 308 | 999 | 2,692 |
| Other current assets | 7,853 | 2,507 | 3,275 | 4,638 | 6,087 |
| Total current assets | 15,526 | 12,749 | 15,493 | 18,713 | 23,370 |
| Creditors | 1,869 | 2,245 | 3,163 | 3,373 | 3,737 |
| Other current liabilities | 1,584 | 1,592 | 1,777 | 1,865 | 1,973 |
| Total current liabilities | 3,453 | 3,837 | 4,941 | 5,237 | 5,709 |
| Net current assets | 12,073 | 8,911 | 10,552 | 13,476 | 17,660 |
| Total assets | 18,859 | 22,173 | 31,689 | 34,806 | 39,091 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key ratios

| Y/E March | FY21 | FY22 | FY23E | FY24E | FY25E |
|-----------------------------------------------|------|------|-------|-------|-------|
| Profitability & return ratios | | | | | |
| EBITDA margin (%) | 27.4 | 22.4 | 22.2 | 24.1 | 25.3 |
| Net profit margin (%) | 21.9 | 15.9 | 13.1 | 14.5 | 16.2 |
| RoE (%) | 25.1 | 19.5 | 17.9 | 18.6 | 19.6 |
| RoCE (%) | 23.9 | 18.6 | 16.1 | 16.0 | 17.6 |
| Working capital & liquidity ratios | | | | | |
| Receivables (days) | 66 | 71 | 70 | 72 | 71 |
| Inventory (days) | 56 | 57 | 55 | 58 | 57 |
| Payables (days) | 32 | 31 | 31 | 34 | 33 |
| Current ratio (x) | 4.5 | 3.3 | 3.1 | 3.6 | 4.1 |
| Quick ratio (x) | 3.5 | 2.3 | 2.0 | 2.5 | 3.0 |
| Valuation ratios | | | | | |
| EV/sales (x) | 7.1 | 6.2 | 5.0 | 4.4 | 3.8 |
| EV/EBITDA (x) | 25.9 | 27.8 | 22.4 | 18.2 | 15.0 |
| P/E (x) | 37.2 | 35.0 | 32.5 | 27.8 | 22.9 |
| P/BV (x) | 8.4 | 7.1 | 6.0 | 5.1 | 4.3 |

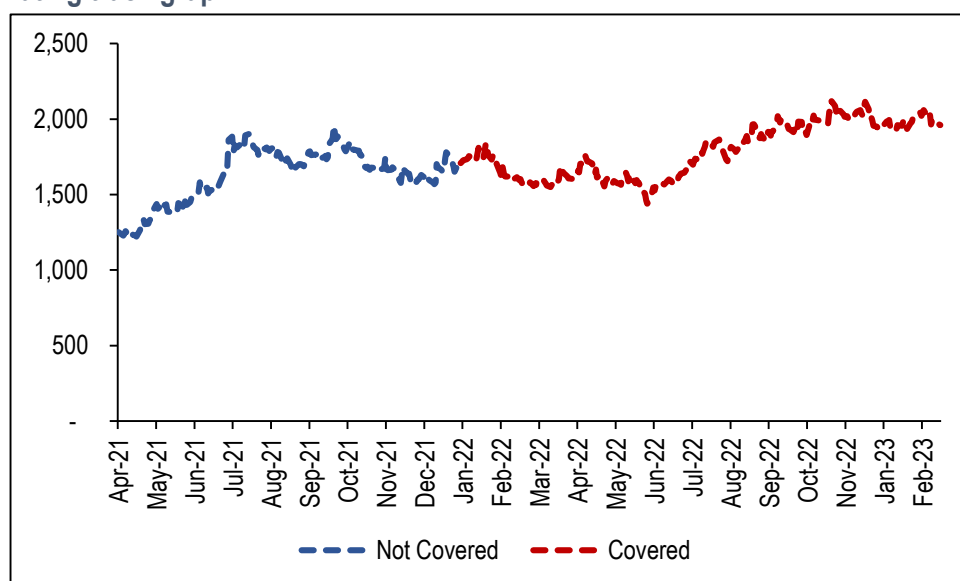
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

| Date | Rating | Market price (Rs) | Target price (Rs) |
|-------------------|------------|-------------------|-------------------|
| 12 January, 2022 | Buy | 1,708 | 1,974 |
| 16 February, 2022 | Buy | 1,619 | 1,988 |
| 21 February 2022 | Buy | 1,621 | 1,988 |
| 25 February 2022 | Buy | 1,584 | 1,988 |
| 29 May 2022 | Buy | 1,619 | 1,946 |
| 7 August 2022 | Accumulate | 1815 | 2,041 |
| 29 September 2022 | Buy | 1,891 | 2,307 |
| 15 November 2022 | Buy | 1,980 | 2,394 |
| 9 February 2023 | Buy | 1,957 | 2,385 |
| 19 February 2023 | Buy | 1,962 | 2,385 |

Coverage was transferred to Mitesh Shah with effect from 29th September 2022

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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