

J B 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	
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

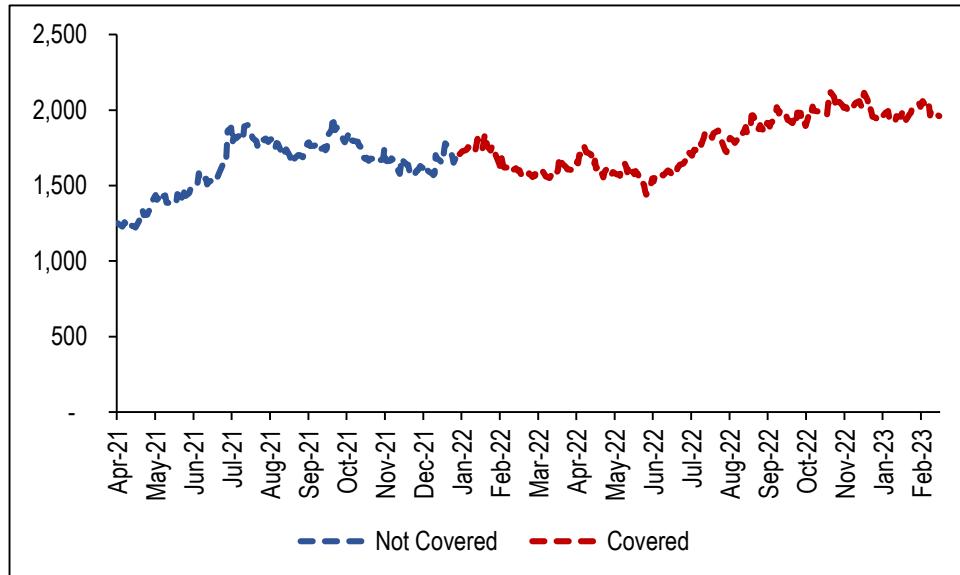
Source: Company, Nirmal Bang Institutional Equities Research

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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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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