

September 7, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	SELL		SELL	
Target Price	446		414	
Sales (Rs. m)	1,06,456	1,17,135	1,11,265	1,19,422
% Chng.	(4.3)	(1.9)		
EBITDA (Rs. m)	19,694	22,139	22,698	24,362
% Chng.	(13.2)	(9.1)		
EPS (Rs.)	63.8	76.3	77.4	86.3
% Chng.	(17.5)	(11.6)		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	89,765	97,236	1,06,456	1,17,135
EBITDA (Rs. m)	17,692	17,016	19,694	22,139
Margin (%)	19.7	17.5	18.5	18.9
PAT (Rs. m)	8,956	8,448	10,165	12,149
EPS (Rs.)	56.2	53.0	63.8	76.3
Gr. (%)	55.9	(5.7)	20.3	19.5
DPS (Rs.)	9.5	3.0	3.0	3.0
Yield (%)	1.1	0.4	0.4	0.4
RoE (%)	17.2	14.1	14.8	15.3
RoCE (%)	13.3	12.4	14.5	15.8
EV/Sales (x)	1.8	1.6	1.4	1.3
EV/EBITDA (x)	9.2	9.2	7.7	6.6
PE (x)	14.8	15.6	13.0	10.9
P/BV (x)	2.4	2.1	1.8	1.5

Key Data

JULS.BO | JUBILANT IN

52-W High / Low	Rs.910 / Rs.230
Sensex / Nifty	38,357 / 11,334
Market Cap	Rs.132bn/ \$ 1,807m
Shares Outstanding	159m
3M Avg. Daily Value	Rs.1164.83m

Shareholding Pattern (%)

Promoter's	50.68
Foreign	26.96
Domestic Institution	1.57
Public & Others	20.79
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.7)	66.9	86.9
Relative	(2.4)	67.1	78.9

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Pharma witness headwinds; LSI remains pale

Quick Pointers:

- Pharmaceuticals/LSI/DDDS revenue declined 26%/10%/29% QoQ
- Net debt stands at Rs29bn after reduction of Rs3.4bn in 1Q
- Reduce earnings estimate by 23%/17.5%/11.6% for FY21/22/23E

We reduce earnings estimate of JUBILANT by 23%/17.5%/11.6% for FY21/22/23E due to weak and inconsistent performance of its Pharmaceutical segment (65% revenue and 78% EBITDA contribution in FY20) whose key contributors Radio pharma and Allergy are currently witnessing lower volumes caused by pandemic in US. Radiopharma being a hospital driven business, we expect lower turnout/visit of non-Covid patients in US hospitals leading to slower ramp up in volumes and revenues for JUBILANT. With travel restriction still in place for USFDA's visit on overseas plants, expect no new approvals for its key plants (Roorkee, Nanjangud) which are currently under WL/OAI. This will impact revenues in generics and API under pharma segment. We increase our TP to Rs446 (from Rs414) as we increase our EV/EBITDA multiple assigned to pharma segment to 5x (4x earlier) on account of better debt management since Q4FY20 and parity over the valuation of peers. Nevertheless, the challenging valuation of JUBILANT (vs. our TP) implies strong downside. We maintain 'SELL'

Earnings below estimate on all fronts: Revenue declined 13% YoY and 21% QoQ to Rs18.9bn (PLe: Rs24.9bn) with Pharma/LSI segment/ Drug Discovery witnessing decline of 26%/10%/29% QoQ. EBITDA declined 30% YoY and 44% QoQ to Rs3bn (PLe: Rs5.2bn) while EBITDA margin was 16% (PLe: 20.8%) v/s 19.9% YoY and 22.4% QoQ. PBT declined 55% YoY and 65% QoQ to Rs1.2bn (PLe: Rs3.3bn). PAT declined 52% YoY and 66% QoQ to Rs0.8bn (PLe:Rs2.4bn)

Conference call and other key highlights:

- Pharmaceuticals:** Revenue/EBITDA declined 26%/38% QoQ while EBITDA margin was 16.3% v/s 28.9% QoQ. Specialty Pharma (Radio Pharma and Allergy) performance impacted by COVID while CDMO(API) declined due to Nanjangud facility operations temporary suspension. The plant has resumed production back in June and is witnessing improved pricing for certain products, however Nanjangud remains under OAI status.
- JUBILANT entered into a supply contract with 4 manufacturers for COVID related vaccine for its injectable plants in the US. KSM and API will be supplied by the innovator and guided to have sales opportunity of Rs2.3-4.5bn. However further clarity on timing, volumes and profitability is waited as it's likely a limited period opportunity which may have lower margin than the average.
- The Company launched Remdesivir injectable in India and branded as 'JUBI-R' in the first week of August CY20. JUBILANT manufactures its KSM and API in-house while final formulation manufactured in third-party plant.

- LSI:** Revenues declined 10% while EBITDA grew 5% QoQ. EBITDA margin was 16.8% v/s 14.4% QoQ. Nutritional products was the saviour for LSI segment while specialty Intermediates faced headwinds due to temporary impact on demand because of pandemic. Life Science Chemicals segments key product Ethyl Acetate was negatively impacted specially in certain customer segments viz. Automotive (Paints), Consumer durables (Packaging) and Electronics sectors in 1Q due to lower activities during COVID-19. Guided for double-digit growth in LSI in FY21E, but seems to be unattainable due to lacklustre demand in global market, prevalent even before the impact of pandemic came into effect.
- DDDS:** Revenue/EBITDA declined 29%/ 54% QoQ while EBITDA margin was 35.2% v/s 40.7% QoQ. Discovery business currently has more than six programs at different stages with potential to partner and/or fast track from discovery to clinical stage. Plans to double its capacity by 1QFY22 in oncology space and file its IND for LSD1/HDAC6 (Cancer product) by end for FY21. JUBILANT's two NDDS project are well funded for Phase-1 clinical trials.
- Debt/CAPEX/Regulatory Status:** Net debt stood at Rs29.bn with Rs3.4bn debt reduction in 1QFY21. Pharma segment has gross debt of Rs23bn while LSI 10.3bn. CAPEX incurred in 1Q was Rs0.7bn and guided for Rs5bn for FY21E. Roorkee (Dosage Form) and Nanjangud (API) manufacturing facilities have completed remediation measures, and USFDA inspections are awaited. The plants continue to remain under Warning Letter and Official Action Indicated (OAI) issued by the US FDA.
- Demerger of the Life Science Ingredients (LSI) segment is expected by Oct-Nov CY20.

Exhibit 1: Q1FY21 Result Overview (Rs m)

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net Sales	18,929	21,819	(13.2)	23,914	97,236	89,765	8.3
Raw Material	7,164	8,671	(17.4)	9,524	40,596	36,144	12.3
<i>% of Net Sales</i>	<i>37.8</i>	<i>39.7</i>		<i>39.8</i>	<i>41.8</i>	<i>40.3</i>	
Personnel Cost	5,464	5,041	8.4	5,627	23,337	21,277	9.7
<i>% of Net Sales</i>	<i>28.9</i>	<i>23.1</i>		<i>23.5</i>	<i>24.0</i>	<i>23.7</i>	
Others	3,280	3,760	(12.8)	3,396	16,287	14,653	11.2
<i>% of Net Sales</i>	<i>17.3</i>	<i>17.2</i>		<i>14.2</i>	<i>16.8</i>	<i>16.3</i>	
Total Expenditure	15,907	17,473	(9.0)	18,548	80,220	72,073	11.3
EBITDA	3,022	4,346	(30.5)	5,366	17,016	17,692	(3.8)
<i>Margin (%)</i>	<i>16.0</i>	<i>19.9</i>		<i>22.4</i>	<i>17.5</i>	<i>19.7</i>	
Depreciation	1,123	1,027	9.4	1,289	4,732	4,619	2.4
EBIT	1,899	3,319	(42.8)	4,077	12,284	13,073	(6.0)
Other Income	81	97	(16.2)	194	2,276	2,253	1.0
Interest	760	726	4.6	712	2,786	2,874	(3.0)
PBT	1,221	2,690	(54.6)	3,560	11,773	12,452	5.5
Minority Interest	-	-	NA	-	28	27	
Total Taxes	341	841	(59.4)	955	3,296	3,123	5.6
<i>ETR (%)</i>	<i>27.9</i>	<i>31.2</i>		<i>26.8</i>	<i>28.0</i>	<i>25.1</i>	
Reported PAT						(346.4)	
Other Comprehensive Income	880	1,850	(52.4)	2,605	8,448	8,956	5.7
Total Comprehensive Income	18,929	21,819	(13.2)	23,914	97,236	89,765	8.3

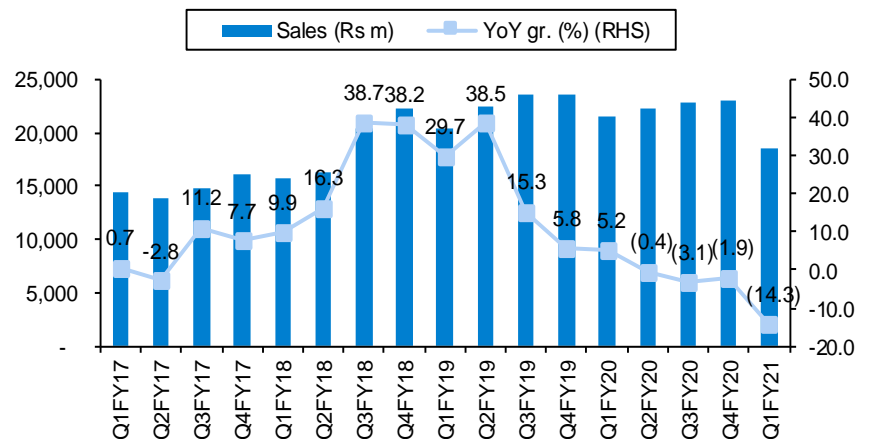
Source: Company, PL

Exhibit 2: Major Sources of Revenue

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Pharmaceuticals	10,958	13,285	(17.5)	14,834	62,926	55,382	13.6
% of Net Sales	57.9	60.9		62.0	64.7	61.7	
Life Science ingredients	7,369	8,055	(8.5)	8,225	31,374	31,763	(1.2)
% of Net Sales	38.9	36.9		34.4	32.3	35.4	
Drug Discovery Solutions	604	479	26.0	854	2,936	2,620	12.0
% of Net Sales	3.2	2.2		3.6	3.0	2.9	
Gross Sales	18,930	21,819	(13.2)	23,914	97,235	89,765	8.3

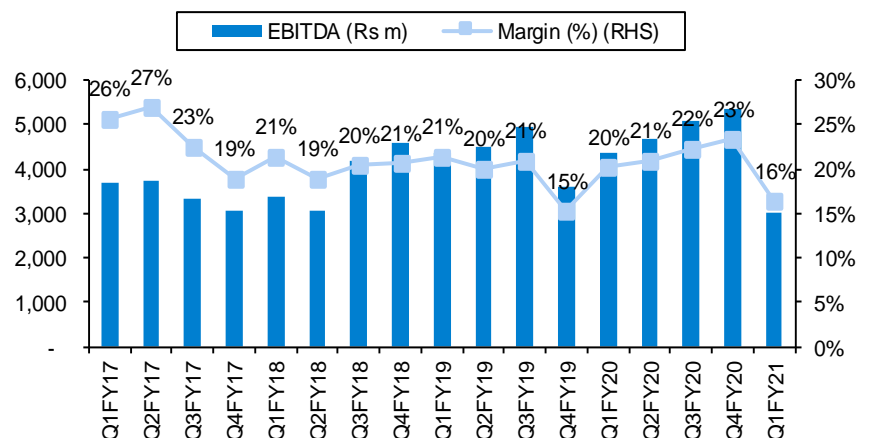
Source: Company, PL

Exhibit 3: Revenue (Rs mn) YoY Growth (%): Pharma segment growth muted



Source: Company, PL

Exhibit 4: EBITDA (Rs mn) & EBITDA Margin (%)



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	89,765	97,236	1,06,456	1,17,135
YoY gr. (%)	(0.2)	8.3	9.5	10.0
Cost of Goods Sold	31,406	35,977	39,389	43,340
Gross Profit	58,360	61,259	67,067	73,795
Margin (%)	65.0	63.0	63.0	63.0
Employee Cost	21,277	23,337	24,485	26,941
Other Expenses	1,990	2,431	2,661	2,928
EBITDA	17,692	17,016	19,694	22,139
YoY gr. (%)	8.9	(3.8)	15.7	12.4
Margin (%)	19.7	17.5	18.5	18.9
Depreciation and Amortization	4,619	4,732	5,198	5,328
EBIT	13,073	12,284	14,496	16,811
Margin (%)	14.6	12.6	13.6	14.4
Net Interest	2,874	2,786	2,636	2,216
Other Income	2,253	2,276	2,298	2,321
Profit Before Tax	12,452	11,773	14,159	16,916
Margin (%)	13.9	12.1	13.3	14.4
Total Tax	3,123	3,296	3,964	4,737
Effective tax rate (%)	25.1	28.0	28.0	28.0
Profit after tax	9,329	8,477	10,194	12,180
Minority interest	27	28	30	31
Share Profit from Associate	-	-	-	-
Adjusted PAT	8,956	8,448	10,165	12,149
YoY gr. (%)	55.9	(5.7)	20.3	19.5
Margin (%)	10.0	8.7	9.5	10.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	8,956	8,448	10,165	12,149
YoY gr. (%)	55.9	(5.7)	20.3	19.5
Margin (%)	10.0	8.7	9.5	10.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,956	8,448	10,165	12,149
Equity Shares O/s (m)	159	159	159	159
EPS (Rs)	56.2	53.0	63.8	76.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	59,350	66,287	71,587	76,887
Tangibles	49,956	56,093	60,593	65,093
Intangibles	9,394	10,194	10,994	11,794
Acc: Dep / Amortization	17,004	21,736	26,934	32,262
Tangibles	12,791	16,276	19,924	23,690
Intangibles	4,213	5,460	7,010	8,572
Net fixed assets	39,773	44,551	44,652	44,624
Tangibles	34,592	39,817	40,669	41,402
Intangibles	5,181	4,734	3,984	3,222
Capital Work In Progress	10,416	9,558	10,414	11,355
Goodwill	20,895	21,521	22,167	22,832
Non-Current Investments	947	994	1,044	1,096
Net Deferred tax assets	(522)	(440)	(359)	(278)
Other Non-Current Assets	690	727	768	811
Current Assets				
Investments	-	-	-	-
Inventories	18,454	14,918	17,208	19,255
Trade receivables	12,932	11,988	13,125	15,083
Cash & Bank Balance	13,999	9,211	9,329	9,703
Other Current Assets	4,019	3,215	2,572	3,086
Total Assets	1,25,213	1,20,111	1,25,090	1,32,098
Equity				
Equity Share Capital	159	159	159	159
Other Equity	55,880	63,868	73,573	85,261
Total Networkth	56,039	64,027	73,732	85,421
Non-Current Liabilities				
Long Term borrowings	37,397	31,787	27,019	22,966
Provisions	1,508	1,553	1,599	1,279
Other non current liabilities	83	91	100	110
Current Liabilities				
ST Debt / Current of LT Debt	6,939	1,785	1,785	1,249
Trade payables	10,903	11,455	12,541	13,479
Other current liabilities	8,345	6,509	5,097	4,009
Total Equity & Liabilities	1,25,213	1,20,111	1,25,090	1,32,098

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	12,452	11,773	14,159	16,916
Add. Depreciation	4,619	4,732	5,198	5,328
Add. Interest	2,874	2,786	2,636	2,216
Less Financial Other Income	2,253	2,276	2,298	2,321
Add. Other	(7,523)	(3,170)	(1,843)	(1,735)
Op. profit before WC changes	12,422	16,122	20,149	22,725
Net Changes-WC	(3,536)	5,815	(1,718)	(3,604)
Direct tax	(3,123)	(3,061)	(3,681)	(4,398)
Net cash from Op. activities	5,763	18,877	14,750	14,723
Capital expenditures	(5,550)	(5,300)	(5,300)	(5,300)
Interest / Dividend Income	22	22	22	22
Others	241	910	(1,173)	(1,997)
Net Cash from Inv. activities	(5,288)	(4,369)	(6,451)	(7,275)
Issue of share cap. / premium	-	-	-	-
Debt changes	(3,090)	(10,764)	(4,768)	(4,588)
Dividend paid	(1,577)	(460)	(460)	(460)
Interest paid	(2,874)	(2,786)	(2,636)	(2,216)
Others	-	-	-	-
Net cash from Fin. activities	(7,541)	(14,010)	(7,864)	(7,264)
Net change in cash	(7,065)	497	435	183
Free Cash Flow	213	13,577	9,450	9,423

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	22,659	23,152	23,914	18,929
YoY gr. (%)	(0.2)	(2.6)	0.2	(13.2)
Raw Material Expenses	7,732	7,732	8,390	6,197
Gross Profit	14,927	15,420	15,525	12,732
Margin (%)	65.9	66.6	64.9	67.3
EBITDA	4,685	5,074	5,366	3,022
YoY gr. (%)	4.1	2.9	49.9	(30.5)
Margin (%)	20.7	21.9	22.4	16.0
Depreciation / Depletion	1,168	1,135	1,289	1,123
EBIT	3,516	3,940	4,077	1,899
Margin (%)	15.5	17.0	17.0	10.0
Net Interest	716	720	712	760
Other Income	123	60	194	81
Profit before Tax	2,922	3,280	3,560	1,221
Margin (%)	12.9	14.2	14.9	6.5
Total Tax	428	899	955	341
Effective tax rate (%)	14.7	27.4	26.8	27.9
Profit after Tax	2,494	2,380	2,605	880
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,494	2,380	2,605	880
YoY gr. (%)	18.5	(13.8)	92.3	(52.4)
Margin (%)	11.0	10.3	10.9	4.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,494	2,380	2,605	880
YoY gr. (%)	18.5	(13.8)	92.3	(52.4)
Margin (%)	11.0	10.3	10.9	4.6
Other Comprehensive Income	137	496	-	783
Total Comprehensive Income	2,631	2,876	2,605	1,663
Avg. Shares O/s (m)	156	156	156	156
EPS (Rs)	16.0	15.3	16.7	5.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	56.2	53.0	63.8	76.3
CEPS	85.2	82.7	96.4	109.7
BVPS	351.8	401.9	462.8	536.2
FCF	1.3	85.2	59.3	59.1
DPS	9.5	3.0	3.0	3.0
Return Ratio(%)				
RoCE	13.3	12.4	14.5	15.8
ROIC	11.7	9.9	11.5	12.6
RoE	17.2	14.1	14.8	15.3
Balance Sheet				
Net Debt : Equity (x)	0.5	0.4	0.3	0.2
Net Working Capital (Days)	83	58	61	65
Valuation(x)				
PER	14.8	15.6	13.0	10.9
P/B	2.4	2.1	1.8	1.5
P/CEPS	9.7	10.0	8.6	7.6
EV/EBITDA	9.2	9.2	7.7	6.6
EV/Sales	1.8	1.6	1.4	1.3
Dividend Yield (%)	1.1	0.4	0.4	0.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Pharmaceuticals	59,760	66,457	72,571	79,829
LSI	31,790	32,018	35,241	38,799

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	Sell	414	703
2	01-Jun-20	Hold	414	445
3	18-Apr-20	Hold	363	345
4	14-Apr-20	Hold	488	341
5	31-Jan-20	Reduce	488	583
6	03-Jan-20	Reduce	433	543
7	25-Oct-19	Reduce	433	562
8	03-Oct-19	Reduce	433	493

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	838	881
2	Cadila Healthcare	Sell	329	396
3	Cipla	Reduce	657	729
4	Dr. Lal PathLabs	Sell	1,006	1,892
5	Dr. Reddy's Laboratories	Hold	4,326	4,306
6	Eris Lifesciences	BUY	576	511
7	Glenmark Pharmaceuticals	Sell	365	481
8	Indoco Remedies	Hold	243	262
9	Ipca Laboratories	Hold	1,962	2,013
10	Jubilant Life Sciences	Sell	414	703
11	Lupin	BUY	1,085	972
12	Sun Pharmaceutical Industries	Reduce	479	532
13	Thyrocare Technologies	Sell	307	677

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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