Jubilant Pharmova

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	JUBLPHAR IN
Equity Shares (m)	159
M.Cap.(INRb)/(USDb)	111 / 1.5
52-Week Range (INR)	982 / 598
1, 6, 12 Rel. Per (%)	-7/-24/-33
12M Avg Val (INR M)	380

Financials & valuations (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	89.1	64.0	67.9
EBITDA	19.0	16.0	17.8
Adj. PAT	8.4	7.6	8.8
EBIT Margin (%)	16.4	19.6	20.5
Cons. Adj. EPS (INR)	54.1	48.8	56.2
EPS Gr. (%)	-9.5	-9.8	15.0
BV/Sh. (INR)	304.3	348.6	399.4
Ratios			
Net D:E	0.4	0.2	0.2
RoE (%)	16.3	15.0	15.0
RoCE (%)	11.7	11.8	12.6
Payout (%)	9.5	9.5	9.5
Valuations			
P/E (x)	12.8	14.2	12.4
EV/EBITDA (x)	6.7	7.7	6.8
Div. Yield (%)	0.6	0.6	0.7
FCF Yield (%)	11.5	5.2	4.9
EV/Sales (x)	1.4	1.9	1.8

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	50.7	50.7	50.7
DII	1.3	1.0	1.9
FII	25.8	25.7	27.9
Others	22.3	22.6	19.5

FII Includes depository receipts

CMP: IN697 TP: INR830 (+19%) Buy

Radiopharma on a gradual recovery path

Import alert slows growth prospects in the Generic segment

- JP delivered in line earnings, despite a better than expected revenue in 1QFY22. The COVID-related business led to a strong YoY revenue growth. However, reduced number of lung procedures in the Radiopharma segment, increased price erosion in the Sartans portfolio, and price erosion in the base portfolio in the Generics segment led to lower-than-expected profitability, offsetting benefits of higher revenue.
- We have reduced our FY22E/FY23E EPS estimate by 14% each to factor in: a) delay in potential products on account of the import alert at Roorkee, b) higher competitive pressures in the Generics portfolio, c) gradual recovery in Radiopharma sales, and d) lower operating leverage. We continue to value JP at 8x 12-month forward EV/EBITDA to arrive at our PT of INR830. We remain positive on JP due to its attractive valuation and improving outlook in the Specialty segment. We maintain our **Buy** rating.

Low base, COVID-19, and Radiopharma drive YoY growth in earnings

- Net sales grew 41% YoY to INR16.3b (est: INR13.6b), led by a 70%/54%/55% growth in CDMO/Generics/Contract Research and Development Services revenue (29%/27%/5% of sales; INR4.7b/INR4.4b/INR880m). Specialty Pharma sales grew 18% YoY to INR6.3b (39% of sales).
- Gross margin contracted by 120bp YoY to 77.9% in 1QFY22 due to the reduced share of Specialty Pharma. EBITDA margin, however, expanded by 750bp YoY to 23% (est: 26%) due to better operating leverage. Employee expense fell 1,070bp YoY as a percentage of sales, partially offset by higher other expense (+210bp YoY as a percentage of sales).
- EBITDA almost doubled to INR3.8b (est: INR3.5b).
- Adjusted PAT grew ~4.5x YoY to INR1.6b (in line) on a lower base of 1QFY21, which was severely impacted by the COVID-19 outbreak.

Highlights from the management commentary

- JP is reorganizing its API business after the demerger from Jubilant Generics (a wholly-owned subsidiary) and vesting the same under JP. It would create service offerings across the value chain from CRO/CDMO for innovative and generic APIs. The management feels synergies between the CRO and CDMO businesses can be realized more effectively in a holding/subsidiary company as compared to a fellow subsidiary structure.
- It is engaging with consultants to resolve the import alert at the Roorkee facility. The key issues related to clinical protocol and validation batches.
- Within the CDMO segment, JP saw business worth INR2b from COVID-related contracts in 1QFY22. It expects to execute INR1b in additional sales over the coming quarters.
- It would be expanding its Spokane capacity by 50% to cater to demand in the Specialty segment, which would be commercialized by CY24-end.

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Valuation and view

- We have lowered our FY22E/FY23E EPS estimate by 14% each reflecting delays in ANDA approvals due to regulatory hurdles at Roorkee, increased price erosion in its Generics base portfolio, and ongoing impact on certain procedures within the Radiopharma segment.
- We expect 24% earnings CAGR over FY21-23E (adjusting for the demerged Life Science Ingredient business), led by a 15% sales CAGR in Specialty. Adjusted for COVID-related contracts, we expect the CDMO segment to deliver 7% sales CAGR over FY21-23E. Recovery in the high margin Specialty business will drive a 490bp EBITDA margin expansion over FY21-23E.
- We value JP at 8x 12-months forward EV/EBITDA to arrive at our TP of INR800. We maintain our BUY rating on account of healthy order book in the CDMO business, improving outlook in the Radiopharma segment, and attractive valuation.

Consolidated quarterly earnings model (INR m)

Y/E March	FY21				FY22				FY21*	FY22E	FY22E	Var.
	1Q	2Q*	3Q*	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	**11,561**	**23,749**	**26,643**	**15,798**	**16,347**	**14,975**	**16,154**	**16,564**	**89,059**	**64,040**	**13,637**	**19.9**
YoY Change (%)	-47.0	4.8	15.1	-33.9	41.4	-36.9	-39.4	4.9	-2.7	-28.1	-28.0	
EBITDA	**1,793**	**4,862**	**6,530**	**3,746**	**3,752**	**3,594**	**4,039**	**4,625**	**19,004**	**16,010**	**3,546**	**5.8**
YoY Change (%)	-60.0	3.8	28.7	-30.2	109.3	-26.1	-38.2	23.5	-3.1	-15.8	17.3	
Margin (%)	15.5	20.5	24.5	23.7	23.0	24.0	25.0	27.9	21.3	25.0	26.0	
Depreciation	817	1,158	1,270	862	880	875	870	852	4,421	3,477	850	
EBIT	**976**	**3,703**	**5,260**	**2,884**	**2,872**	**2,719**	**3,169**	**3,773**	**14,582**	**12,533**	**2,696**	**6.5**
YoY Change (%)	-71.8	5.3	33.5	-29.3	194.2	-26.6	-39.8	30.8	-2.7	-14.1	41.9	
Interest	479	640	590	433	346	330	320	298	2,469	1,294	400	
Other Income	39	73	0	67	39	50	60	75	154	224	45	
PBT before EO expense	**536**	**3,137**	**4,670**	**2,518**	**2,565**	**2,439**	**2,909**	**3,551**	**12,267**	**11,463**	**2,341**	**9.6**
Extra-Ord. expense	0	0	110	103	0	0	0	0	110	0	0	
PBT	**536**	**3,137**	**4,560**	**2,414**	**2,565**	**2,439**	**2,909**	**3,551**	**12,157**	**11,463**	**2,341**	**9.6**
Tax	182	896	1,430	831	860	781	873	1,040	3,766	3,554	690	**24.6**
Rate (%)	34.0	28.5	31.4	34.4	33.5	32.0	30.0	29.3	31.0	31.0	29.5	
Reported PAT	**354**	**2,240**	**3,100**	**1,727**	**1,605**	**1,564**	**1,956**	**2,485**	**8,360**	**7,609**	**1,650**	**-2.7**
Adj. PAT	**354**	**2,240**	**3,176**	**1,795**	**1,605**	**1,564**	**1,956**	**2,485**	**8,436**	**7,609**	**1,650**	**-2.7**
YoY Change (%)	-81.8	-10.2	39.6	-31.1	353.5	-30.2	-38.4	38.5	-9.5	-9.8	87.5	
Margin (%)	3.1	9.4	11.9	11.4	9.8	10.4	12.1	15.0	9.5	11.9	12.1	

2Q/3Q/FY21 financials include discontinued LSI business. Hence, the addition of the four quarters is not comparable with overall FY21 financials

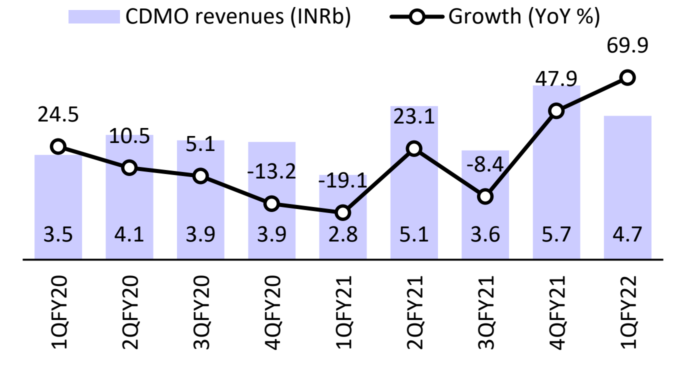
Highlights from the management interaction

CONFERENCE CALL

- JP plans to take one drug candidate to Phase I clinical trials in 2HFY22.
- Overall, it intends to spend INR7-8b towards capex in FY22.
- Ventilation lung procedures continue to be hit due to the COVID-19 pandemic.
- The Radiopharmacy business is close to pre-COVID levels.
- Ruby-Fill installations are picking up, with the COVID situation improving in the US.
- Allergy product volumes normalized to pre-COVID levels.
- JP witnessed increased demand from biotech companies for integrated services, functional chemistry and DMPK, discovery biology, and clinical trial data management.
- The pricing pressure in Sartans offset the benefit in Remdesivir in 1QFY22.
- JP reduced its net debt by INR2.7b QoQ to INR17b.

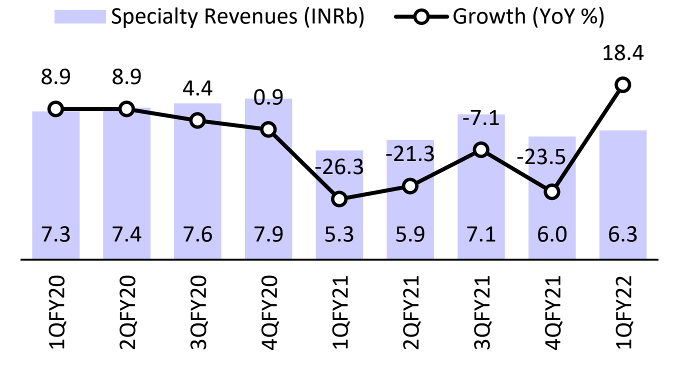
Key exhibits

Exhibit 1: CDMO revenue grew 70% YoY



Source: MOFSL, Company

Exhibit 2: Specialty sales grew 18% YoY in 1QFY22



Source: MOFSL, Company

Exhibit 3: Debt profile

Particulars (INR m)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Gross debt	46,560	44,290	41,540	40,060	26,000	26,300
Cash and cash equivalent	14,000	15,230	11,730	14,320	6,710	9,370
Currency impact						-430
Net debt	32,560	29,060	30,630	25,730	19,280	16,510

Source: MOFSL, Company

Radiopharma back on the recovery path

Healthy order book in the CDMO segment

- CDMO sales grew 70% YoY to INR4.7b (41% of sales) in 1QFY22. It realized ~INR2b in CDMO revenue in 1QFY22 from COVID-related deals it had signed in FY21. It expects an additional INR1b in COVID-related CDMO revenue in the remainder of FY22.
- Apart from orders for COVID-related products, JP has an order book of INR36b in the CDMO business. These orders are to be executed over the next three years, providing revenue visibility. Owing to strong customer demand, it is expanding capacity by 50% at its Spokane facility, which will become operational by CY24.
- Adjusting for the COVID-related product business, we expect 7% sales CAGR to INR17b in the CDMO segment over FY21-23E.

Radiopharma on the recovery path, lung procedures yet to pick-up

- JP's Specialty segment comprises of Radiopharmacy and Allergy businesses (41% of sales). Specialty Pharma sales in 1QFY22 grew 18% YoY to INR6.3b. Radiopharma saw a recovery, especially towards the second half of 1QFY22, with COVID-19 cases declining in the US. Nuclear medicine procedures are near pre-COVID levels now. However, lung perfusion scans are recovering at a slower rate, which is hindering complete normalization of the Radiopharma business. Generic competition in MAA has also impacted JP in its Radiopharma segment.
- JP is also focusing on ramping up its market share in Ruby-Fill in both the US and Europe, with increased efforts on marketing the product. Its efforts to turn around the Radiopharmacy business are on track. It intends to increase volumes

through its Radiopharmacy distribution channel of its own as well as others products, including those from partners, to turn around this business.

- Allergy therapy products are almost at pre-COVID levels and are expected to see further improvements sequentially in coming quarters.
- On the back of a gradual recovery from COVID-19, an innovative product portfolio, strategic tie-ups, an established distribution footprint, and strong R&D capabilities, we expect 15% sales CAGR to INR31b in the Specialty segment over FY21-23E.

Roorkee import alert a further dampener in Generics

- The Generics segment posted strong (54% YoY) growth in 1QFY22 to INR4.3b on the back of increased demand for Remdesivir in India. Generic sales are expected to slow down sequentially as demand for Remdesivir subsides.
- The import alert from the USFDA on the Roorkee plant will lead to further delays in expected approvals and launches from this facility in the US.
- Although JP is exploring the possibility of filing products from other sites, the import alert is a setback for JP's US plans over the medium term. We expect 4% CAGR in the Generics business over FY21-23E.

Recovery in Radiopharma to offset the expected impact in Generics/CDMO

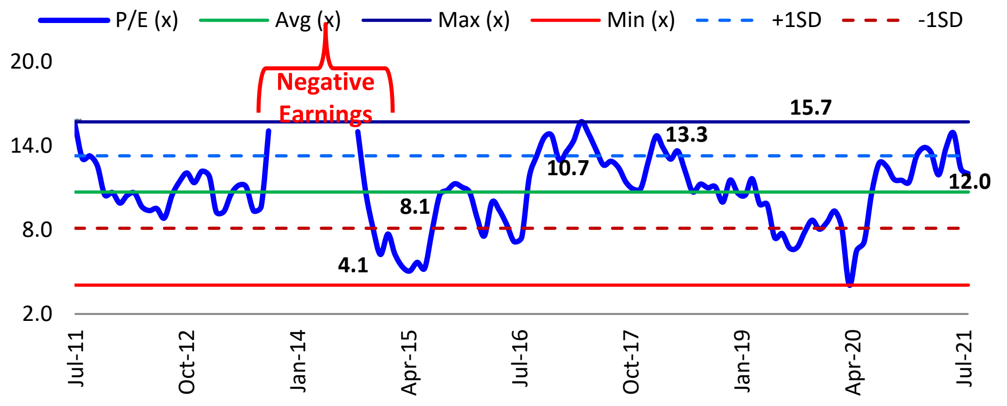
- We have reduced our FY22E/FY23E EPS estimate by 14% each to factor in: a) delay in potential products on account of the import alert at Roorkee, b) higher competitive pressures in the Generics portfolio, c) gradual recovery in Radiopharma sales, and d) lower operating leverage.
- We expect 24% earnings CAGR over FY21-23E (adjusting for the demerged Life Science Ingredient business), led by 15% sales CAGR in Specialty. Adjusted for COVID-related contracts, we expect the CDMO segment to deliver 7% sales CAGR over FY21-23E. We estimate recovery in the high margin Specialty business to drive a 490bp EBITDA margin expansion over FY21-23E.
- We continue to value JP at 8x 12-months forward EV/EBITDA to arrive at our TP of INR830. We remain positive on JP due to its attractive valuation and improving outlook in the Specialty segment. We maintain our **Buy** rating.

Exhibit 4: SoTP-based TP of INR830/share

Valuation	12-months forward
EBITDA for the Pharma business (INR m)	**18,735**
EV/EBITDA multiple for JP	8
Total EV (INR m)	1,46,134
Net Debt	16,510
Market capitalization (INR m)	**1,29,624**
Target price (INR per share)	830
CMP	695
Potential upside (%)	**19.4**

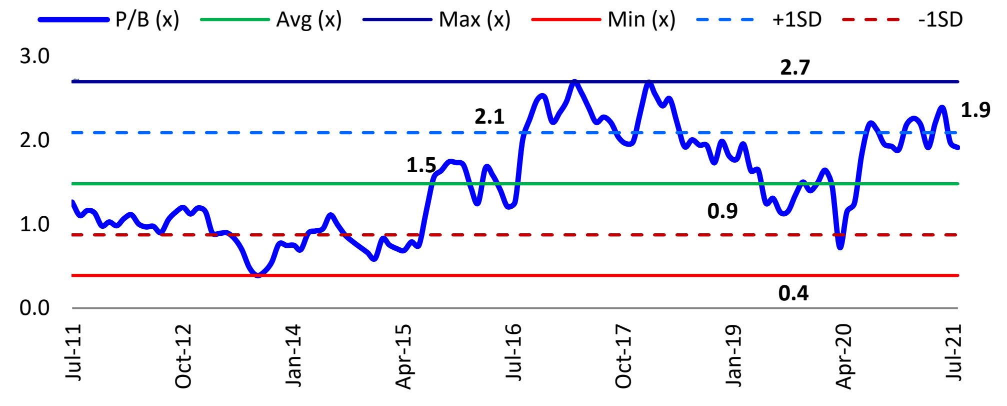
Source: MOFSL, Company

Exhibit 5: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 6: P/B chart



Source: MOFSL, Company, Bloomberg

Financials and valuations

Consolidated Income Statement									(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	**58,263**	**57,491**	**58,614**	**75,578**	**91,108**	**91,544**	**89,059**	**64,040**	**67,943**
Change (%)	0.4	-1.3	2.0	28.9	20.5	0.5	-2.7	-28.1	6.1
Total Expenditure	**51,370**	**45,022**	**45,161**	**60,394**	**72,688**	**71,933**	**70,055**	**48,030**	**50,142**
% of Sales	88.2	78.3	77.0	79.9	79.8	78.6	78.7	75.0	73.8
EBITDA	**6,893**	**12,470**	**13,453**	**15,184**	**18,420**	**19,611**	**19,004**	**16,010**	**17,801**
Margin (%)	11.8	21.7	23.0	20.1	20.2	21.4	21.3	25.0	26.2
Depreciation	2,880	3,467	2,914	3,241	3,709	4,619	4,421	3,477	3,891
EBIT	**4,013**	**9,002**	**10,539**	**11,943**	**14,711**	**14,992**	**14,582**	**12,533**	**13,910**
Int. and Finance Charges	3,553	3,714	3,411	2,843	2,198	2,874	2,469	1,294	1,194
Other Income	425	134	249	400	357	474	154	224	238
PBT bef. EO Exp.	**884**	**5,422**	**7,376**	**9,501**	**12,870**	**12,592**	**12,267**	**11,463**	**12,953**
EO Items	-481	0	0	-910	-3,832	-486	-110	0	0
PBT after EO Exp.	**403**	**5,422**	**7,376**	**8,591**	**9,038**	**12,105**	**12,157**	**11,463**	**12,953**
Total Tax	805	1,554	1,630	2,247	3,268	3,123	3,766	3,554	3,886
Tax Rate (%)	199.6	28.7	22.1	26.2	36.2	25.8	31.0	31.0	30.0
Reported PAT	**-578**	**3,918**	**5,757**	**6,428**	**5,770**	**8,982**	**8,360**	**7,609**	**8,752**
Adjusted PAT	**-1,057**	**3,918**	**5,757**	**7,100**	**8,955**	**9,319**	**8,436**	**7,609**	**8,752**
Change (%)	-142.0	-470.8	46.9	23.3	26.1	4.1	-9.5	-9.8	15.0
Margin (%)	-1.8	6.8	9.8	9.4	9.8	10.2	9.5	11.9	12.9

*FY21 includes 10 months of LSI segment operations

Consolidated Balance Sheet									(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	159	155	156	156	159	159	159	159	159
Total Reserves	24,376	29,507	34,205	40,710	47,930	55,880	47,256	54,146	62,070
Net Worth	**24,535**	**29,663**	**34,361**	**40,865**	**48,089**	**56,039**	**47,415**	**54,305**	**62,229**
Minority Interest	0	-381	-393	-515	1	0	0	0	0
Total Loans	47,931	44,933	40,453	35,449	47,431	43,901	25,840	22,090	19,090
Deferred Tax Liabilities	2,380	1,146	445	26	528	522	926	926	926
Capital Employed	**74,847**	**75,360**	**74,865**	**75,825**	**96,049**	**100,461**	**74,181**	**77,321**	**82,245**
Gross Block	54,245	35,597	39,102	44,936	50,411	60,641	47,344	58,020	65,506
Less: Accum. Deprn.	24,508	2,864	5,657	9,807	13,516	18,135	22,557	26,034	29,925
Net Fixed Assets	**29,737**	**32,733**	**33,445**	**35,129**	**36,894**	**42,505**	**24,788**	**31,987**	**35,581**
Goodwill on Consolidation	19,376	18,311	17,622	18,877	19,589	20,895	21,300	21,300	21,300
Capital WIP	5,966	6,113	6,838	6,710	9,014	7,684	8,970	5,294	4,309
Total Investments	**395**	**854**	**1,027**	**1,235**	**1,151**	**694**	**2,410**	**2,410**	**2,410**
Curr. Assets, Loans, and Adv.	**30,714**	**29,385**	**30,055**	**32,621**	**46,541**	**51,327**	**30,167**	**25,946**	**28,511**
Inventory	12,353	12,031	12,204	13,914	14,174	18,454	11,294	8,553	9,341
Account Receivables	8,193	9,505	10,053	11,308	12,716	12,932	8,199	7,895	9,121
Cash and Bank Balance	3,944	3,446	4,596	2,488	13,704	13,999	6,713	6,650	7,027
Loans and Advances	6,225	4,403	3,202	4,912	5,947	5,942	3,961	2,848	3,022
Curr. Liability and Prov.	**11,342**	**12,038**	**14,122**	**18,747**	**17,141**	**22,643**	**13,453**	**9,616**	**9,864**
Account Payables	7,669	6,328	7,909	11,362	10,201	10,903	5,205	3,684	3,572
Other Current Liabilities	2,028	3,487	4,425	5,897	5,109	9,245	6,410	4,609	4,890
Provisions	1,645	2,222	1,788	1,488	1,831	2,495	1,838	1,322	1,402
Net Current Assets	**19,372**	**17,348**	**15,933**	**13,874**	**29,400**	**28,684**	**16,714**	**16,331**	**18,647**
Appl. of Funds	**74,847**	**75,359**	**74,865**	**75,825**	**96,049**	**100,461**	**74,181**	**77,321**	**82,245**

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)									
EPS	**-6.8**	**25.1**	**36.9**	**44.9**	**56.9**	**59.8**	**54.1**	**48.8**	**56.2**
Cash EPS	11.7	47.4	55.7	65.7	80.8	89.5	82.5	71.2	81.2
BV/Share	157.5	190.4	220.5	262.3	308.7	359.7	304.3	348.6	399.4
DPS	3.1	3.1	3.1	3.1	3.1	4.8	4.5	4.1	4.7
Payout (%)	-99.6	14.7	10.0	8.9	10.0	10.0	9.5	9.5	9.5
Valuation (x)									
P/E	-102.5	27.6	18.8	15.5	12.2	11.6	12.8	14.2	12.4
Cash P/E	59.4	14.7	12.5	10.6	8.6	7.8	8.4	9.8	8.6
P/BV	4.4	3.7	3.2	2.6	2.3	1.9	2.3	2.0	1.7
EV/Sales	2.6	2.6	2.5	1.9	1.6	1.5	1.4	1.9	1.8
EV/EBITDA	22.1	12.0	10.7	9.3	7.7	7.0	6.7	7.7	6.8
Dividend Yield (%)	0.4	0.4	0.4	0.4	0.4	0.7	0.6	0.6	0.7
FCF per share	27.9	48.8	51.7	52.6	30.4	62.6	81.5	37.1	35.1
Return Ratios (%)									
RoE	-4.2	14.5	18.0	18.9	20.1	17.9	16.3	15.0	15.0
RoCE	-6.2	8.9	11.2	12.1	11.2	11.7	11.7	11.8	12.6
RoIC	-6.2	9.9	12.9	13.7	13.6	14.8	15.0	14.5	14.8
Working Capital Ratios									
Fixed Asset Turnover (x)	1.1	1.6	1.5	1.7	1.8	1.5	1.9	1.1	1.0
Inventory (Days)	77	76	76	67	57	74	46	49	50
Debtor (Days)	51	60	63	55	51	52	34	45	49
Creditor (Days)	48	40	49	55	41	43	21	21	19
Leverage Ratio (x)									
Current Ratio	2.7	2.4	2.1	1.7	2.7	2.3	2.2	2.7	2.9
Interest Coverage Ratio	1.1	2.4	3.1	4.2	6.7	5.2	5.9	9.7	11.6
Net Debt/Equity	1.8	1.4	1.0	0.8	0.7	0.5	0.4	0.2	0.2

Consolidated Cash Flow Statement (INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	403	5,422	7,376	8,591	9,038	12,105	12,120	11,463	12,953
Depreciation	2,880	3,467	2,914	4,151	3,709	4,619	4,517	3,477	3,891
Interest and Finance Charges	3,491	3,686	3,323	2,792	2,088	2,659	2,334	1,070	956
Direct Taxes Paid	-793	-481	-1,439	-2,578	-3,433	-2,487	-3,941	-3,554	-3,886
(Inc.)/Dec. in WC	964	-1,332	369	142	-3,005	-1,797	2,499	319	-1,939
CF from Operations	**6,945**	**10,763**	**12,543**	**13,096**	**8,397**	**15,100**	**17,528**	**12,776**	**11,976**
Others	888	225	142	-64	2,818	329	314	0	0
CF from Operations incl. EO	**7,833**	**10,989**	**12,685**	**13,032**	**11,215**	**15,429**	**17,843**	**12,776**	**11,976**
(Inc.)/Dec. in FA	-3,491	-3,392	-4,623	-4,837	-6,481	-5,676	-5,143	-7,000	-6,500
Free Cash Flow	**4,341**	**7,597**	**8,062**	**8,195**	**4,734**	**9,753**	**12,700**	**5,776**	**5,476**
(Pur.)/Sale of Investments	-42	257	74	-116	0	199	-2,024	0	0
Others	100	10	45	-1,223	-3,637	2,207	-867	224	238
CF from Investments	**-3,433**	**-3,125**	**-4,504**	**-6,177**	**-10,118**	**-3,270**	**-8,034**	**-6,776**	**-6,262**
Issue of Shares	0	197	77	10	2,659	3	0	0	0
Inc./(Dec.) in Debt	-1,136	-4,558	-4,086	-6,278	6,616	-4,986	-13,497	-3,750	-3,000
Interest Paid	-3,353	-3,511	-2,291	-2,183	-2,155	-3,250	-2,922	-1,294	-1,194
Dividend Paid	-538	-555	-559	-560	-546	-1,528	-15	-720	-828
CF from Fin. Activity	**-5,027**	**-8,427**	**-6,859**	**-9,011**	**6,574**	**-10,504**	**-17,094**	**-6,064**	**-5,337**
Inc./Dec. in Cash	**-628**	**-564**	**1,322**	**-2,156**	**7,671**	**1,656**	**-7,286**	**-64**	**377**
Opening Balance	4,735	3,916	3,392	4,564	2,442	10,054	12,308	5,023	4,959
Bank balance	27	53	32	46	3,650	1,691	1,691	1,691	1,691
Closing Balance	**3,944**	**3,446**	**4,596**	**2,488**	**13,704**	**13,999**	**6,713**	**6,650**	**7,027**

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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