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New product launches to drive growth

J.B. Chemicals & Pharmaceuticals Ltd (JBCPL) is India's leading pharmaceutical company that manufactures & markets a range of innovative specialty products that include various pharmaceutical dosage forms like tablets, injectable (vials, ampoules, form fill seal), creams & ointments, lozenges, herbal liquids and capsules.

Investment Rationale

🔗 **Strengthening workforce to support growth:** The domestic formulations business, the second largest contributor to the consolidated revenues (36% of total sales), continued to register impressive performance with a CAGR of 12% over FY13-17 on the back of company's strategy to identify potential brands in growing therapeutic segments and scientific product promotion among doctors. Further, with an objective to grow the business at a faster pace, the company has strengthened its workforce by adding over 600 medical representatives. New product launches, increased government and private spending on healthcare and company's continued focus on growing therapeutic segments like anti-hypertensive, anti-peptic ulcerant, pain management, anti-infective and gastrointestinal bodes well for the growth. Hence, we expect formulation business to grow at a CAGR of 10% over FY17-19E.

🔗 Increasing focus on US market

US sales has shown good growth over last several years on the back of company's enhanced focus on the US business. US sales has grown at a CAGR of 12% over FY13-17 and now contributes ~8% to the total sales on the back of consistent growth in product launches. Currently, the Company has 10 approved ANDAs while 5 are pending approval. Moreover, the company is targeting to file 4 more ANDAs in FY18. Notably, the company expects the US business to contribute significantly to the company's exports going forward on the back of increased focus on ANDA filings.

🔗 **New product launches to drive revenue growth:** JB Chemicals' revenue grew at 12% CAGR over FY13-17 driven largely by strong performance of India formulation business. The domestic formulation sales rose at 12% CAGR over FY13-17 supported by healthy growth in focus products including Gastro and anti-hypertensive segment. Going forward, we expect company's overall revenue to grow at a CAGR of 7% over FY17-19E driven by key product launches, investment in products, marketing & brand building and expectation of stabilisation of Ruble against the US dollar.

Outlook and Valuation:

Given good business outlook both in domestic and international market, strong products portfolio with high growth brands & pan India presence, expansion of filed force and strong balance sheet, we believe the company is well poised to grow further. Hence, we initiate JB Chemicals with a BUY rating with a TP of Rs 319 based on 13x FY19E EPS.

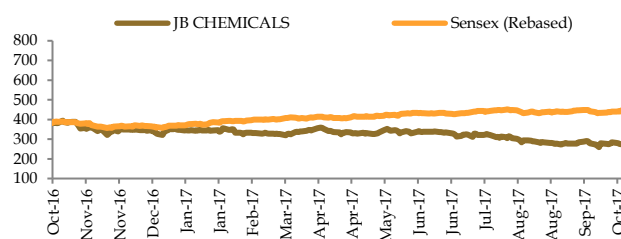
Market Data

Rating	BUY
CMP (Rs.)	275
Target (Rs.)	319
Potential Upside	16%
Duration	Long Term
Face Value (Rs.)	2
52 week H/L (Rs.)	402/255
Adj. all time High (Rs.)	402
Decline from 52WH (%)	32
Rise from 52WL (%)	8
Beta	0.4
Mkt. Cap (Rs.Cr)	2,332

Fiscal Year Ended

Y/E	FY16	FY17	FY18E	FY19E
Revenue (Rs.Cr)	1,210	1,344	1,398	1,525
Adj. profit (Rs.Cr)	163	184	169	205
Adj. EPS (Rs.)	19.2	21.7	20.3	24.5
P/E (x)	14.3	12.7	13.6	11.2
P/BV (x)	2.0	1.7	1.5	1.4
ROE (%)	14.9	14.4	11.8	12.8

One year Price Chart



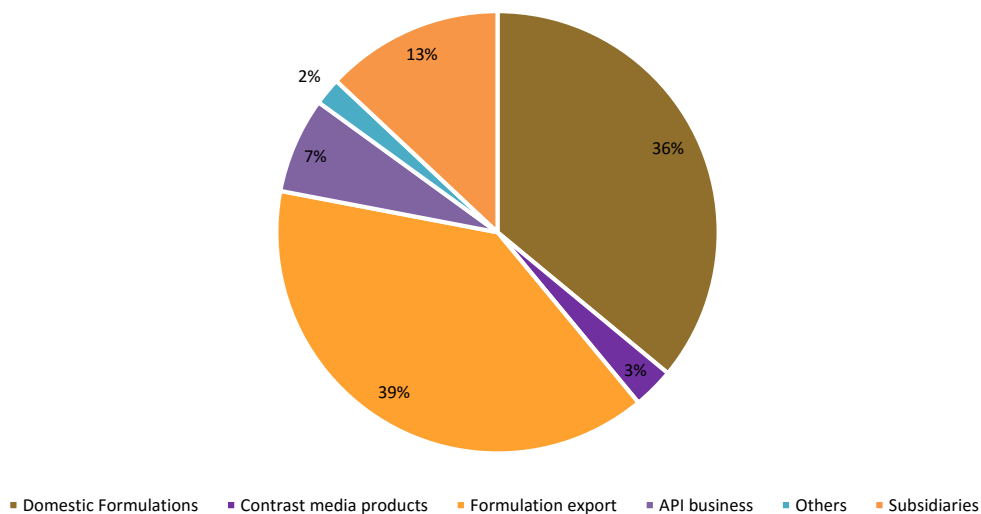
Source: Company, In-house research

Shareholding Pattern	Sep-17	Jun-17	Chg.
Promoters	55.9	55.8	0.0
FII's	5.2	5.4	0.0
MFs/Insti	8.9	9.5	(0.1)
Public	27.0	26.6	0.0
Others	3.0	2.7	0.1

J.B. Chemicals & Pharmaceuticals Ltd: Business overview

J.B. Chemicals & Pharmaceuticals Ltd (JBCPL) is India’s leading pharmaceutical company that manufactures & markets a range of innovative specialty products that include various pharmaceutical dosage forms like tablets, injectable (vials, ampoules, form fill seal), creams & ointments, lozenges, herbal liquids and capsules. The Company is engaged in one segment viz. pharmaceuticals. It is an integrated, research-oriented company that exports to many countries globally. It has a worldwide presence spread over 50 countries across Asia and South-East Asia, Gulf & Middle East, USA, EU, Canada, Australia, New Zealand, Latin & Central America, Africa & South Africa and Russia-CIS. The company has nine manufacturing facilities across Ankleshwar, Panoli & Daman and 27 distribution locations across the country. With a strong R&D set-up for development of new drug delivery system and formulations, JBCPL continues to invest in growing its share in the regulated markets in USA, Europe and Australia.

Revenue Breakup (FY17)



Source: Company, In-house research

Strengthening workforce to support growth

The domestic formulations business, the second largest contributor to the consolidated revenues (36% of total sales), continued to register impressive performance with a CAGR of 12% over FY13-17 on the back of company's strategy to identify potential brands in growing therapeutic segments and scientific product promotion among doctors. Further, with an objective to grow the business at a faster pace, the company has strengthened its workforce by adding over 600 medical representatives. New product launches, increased government and private spending on healthcare and company's continued focus on growing therapeutic segments like anti-hypertensive, anti-peptic ulcerant, pain management, anti-infective and gastrointestinal bodes well for the growth. Hence, we expect formulation business to grow at a CAGR of 10% over FY17-19E.

Increasing focus on US market

US sales has shown good growth over last several years on the back of company's enhanced focus on the US business. US sales has grown at a CAGR of 12% over FY13-17 and now contributes ~8% to the total sales on the back of consistent growth in product launches. Currently, the Company has 10 approved ANDAs while 5 are pending approval. Moreover, the company is targeting to file 4 more ANDAs in FY18. Notably, the company expects the US business to contribute significantly to the company's exports going forward on the back of increased focus on ANDA filings.

Gradual improvement in Russian business; targets new products for Russian market

The company consider Russia as a potential market and continues to remain its focus market. Although the exports for Russia-CIS region witness a 12% CAGR decline over FY13-17, notably Russia business witnessed improvement in FY17 with 15.6% YoY growth in primary exports. The company continued to invest heavily in Russian market and with an objective to grow in the market it has been in the process of building portfolio of new OTC and prescription products for the Russian market. Moreover, the company focus on consolidating the business and has identified several OTC and prescription products, which are under clinical trial.

New product launches to drive revenue growth

JB Chemicals' revenue grew at 12% CAGR over FY13-17 driven largely by strong performance of India formulation business. The domestic formulation sales rose at 12% CAGR over FY13-17 supported by healthy growth in focus products including Gastro and anti-hypertensive segment. Going forward, we expect company's overall revenue to grow at a CAGR of 7% over FY17-19E driven by key product launches, investment in products, marketing & brand building and expectation of stabilisation of Ruble against the US dollar.

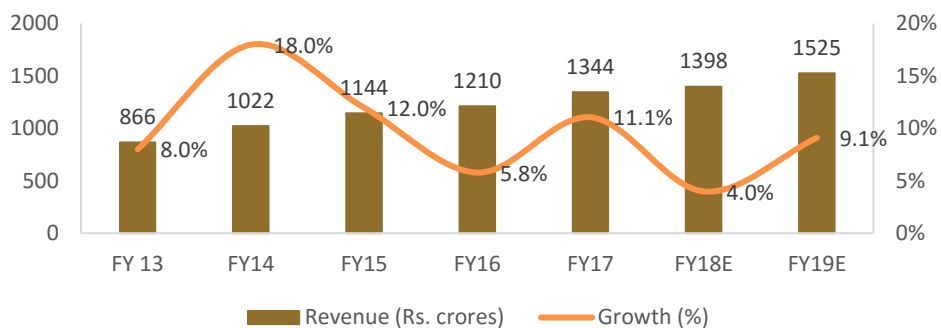
EBITDA Margin to recover in FY19E

In line with robust revenue growth and better operational efficiency, EBITDA grew at 22% CAGR over FY13-17 translating into 509bps expansion in EBITDA margin to 17.3% in FY17 from 12.2% in FY13. Going ahead, though EBITDA margin is expected to decline to 16.1% in FY18E due to lower sales (on account of destocking ahead of GST and lower export sales), however, the same is expected to recover to 17.5% in FY19E on account of new drug launches. Further, we expect Adj. PAT to grow at a CAGR of 6% and PAT margin to remain healthy at 13.4% in FY19E.

Outlook and Valuation

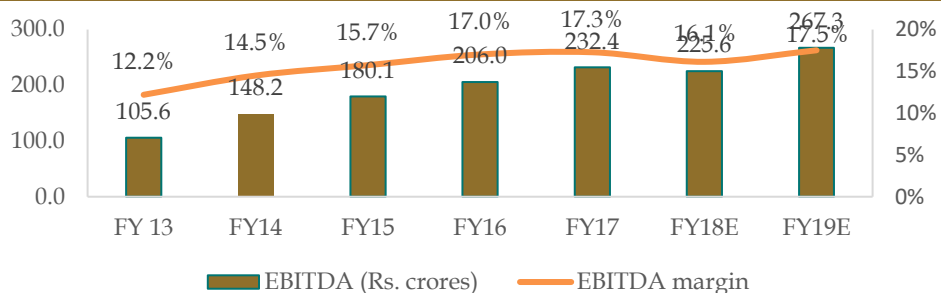
Given good business outlook both in domestic and international market, strong products portfolio with high growth brands & pan India presence, expansion of filed force and strong balance sheet, we believe the company is well poised to grow further. Moreover, wide geographical presence in international market, increased focus on ANDA filings, focus on new products launches in Russia-CIS market and focus on contract manufacturing business bodes well for company growth. Further, considering the long-term growth prospects of the industry and the Company's strengths in this business, we remain positive on the stock. Hence, we initiate JB Chemicals with a BUY rating with a TP of Rs 319 based on 13x FY19E EPS.

Revenue to grow at 7% CAGR over FY17-19E



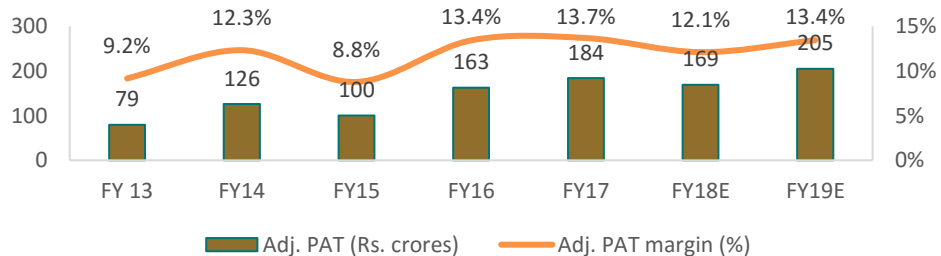
Source: Company, In-house research

EBITDA to grow at 7% CAGR over FY17-19E



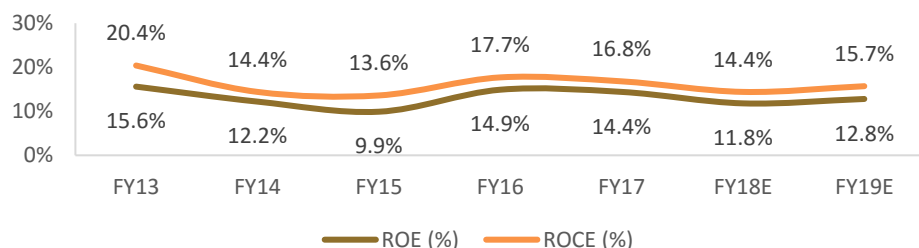
Source: Company, In-house research

PAT to grow at 6% CAGR over FY17-19E



Source: Company, In-house research

Return ratios to remain healthy



Source: Company, In-house research

Key Risks

- Adverse currency movement in related markets.
- Increased competition in generics business
- Price erosion in major markets
- Changing regulatory environment
- Rising costs and increasing span of price control such as NELM

Profit & Loss Account (Consolidated)

Y/E (Rs. Cr)	FY16	FY17	FY18E	FY19E
Total operating Income	1,210	1,344	1,398	1,525
Raw Material cost	470	528	566	596
Employee cost	175	207	214	234
Other operating expenses	359	377	392	427
EBITDA	206	232	226	267
Depreciation	41	47	59	63
EBIT	165	185	167	204
Interest Cost	11	5	3	3
Other income	57	50	48	55
Profit before tax	211	230	212	256
Tax	50	46	42	51
PAT	161	184	170	205
Minority Interest	0	0	0	0
P/L from Associates	1	-	-	-
Adjusted PAT	163	184	169	205
E/o income / (Expense)				
Reported PAT	163	184	169	205

Balance Sheet (Consolidated)

Y/E (Rs. Cr)	FY16	FY17	FY18E	FY19E
Paid up capital	17	17	17	17
Reserves and Surplus	1,167	1,347	1,496	1,675
Net worth	1,184	1,364	1,513	1,692
Minority interest	2	2	3	3
Total Debt	193	49	49	49
Other non-current liabilities	21	14	14	14
Total Liabilities	1,399	1,429	1,578	1,758
Net fixed assets	387	626	626	643
Capital WIP	135	4	25	25
Goodwill	53	53	53	53
Investments	479	411	471	591
Net Current assets	320	325	393	435
Other non-current assets	25	10	10	10
Total Assets	1399	1429	1578	1758

Cash Flow Statement (Consolidated)

Y/E (Rs. Cr)	FY16	FY17	FY18E	FY19E
Pretax profit	212.2	229.9	211.5	256.2
Depreciation	41.2	47.2	58.9	62.9
Chg. in Working Capital	-17.0	2.8	-21.5	-34.1
Others	-43	-32	-45	-52
Tax paid	-53.5	-47.8	-42	-51
Cash flow from operating activities	140	200	162	182
Capital expenditure	-203	-156	-80	-80
Chg. in investments	168	109	-60	-120
Other investing cashflow	8	4	48	55
Cash flow from investing activities	-28	-44	-92	-145
Equity raised/(repaid)	1	0	0	0
Debt raised/(repaid)	89	-175	0	0
Dividend paid	-188	-6	-20	-26
Other financing activities	-2	-2	-3	-3
Cash flow from financing activities	-100	-183	-24	-30
Net chg in cash	13	-26	47	8

Key Ratios (Consolidated)

Y/E	FY16	FY17	FY18E	FY19E
Growth (%)				
Net Sales	5.4	11.1	3.8	9.1
EBITDA	14.4	12.8	-2.9	18.4
Net profit	61.9	13.2	-8.0	21.1
Margin (%)				
EBITDA	17.0	17.3	16.1	17.5
EBIT	18.3	17.5	15.4	17.0
NPM	13.4	13.7	12.1	13.4
Return Ratios (%)				
RoE	14.9	14.4	11.8	12.8
RoCE	17.7	16.8	14.4	15.7
Per share data (Rs.)				
EPS	19.2	21.7	20.3	24.5
DPS	5.0	1.0	2.0	2.6
Valuation(x)				
P/E	14.3	12.7	13.6	11.2
EV/EBITDA	9.9	8.4	8.1	6.3
EV/Net Sales	1.7	1.5	1.3	1.1
P/B	2.0	1.7	1.5	1.4
Turnover Ratios (x)				
Net Sales/GFA	1.8	1.6	1.3	1.4
Sales/Total Assets	0.8	0.8	0.8	0.8

Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Upside or downside is less than 10%	Accumulate*	Upside between 10% & 15%
Reduce	Less than equal to -10%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

* JB Chemicals and Pharma is a mid-cap company.

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Contact Us:

Funds India

Uttam Building, Third Floor |
No. 38 & 39 | Whites Road |
Royapettah | Chennai – 600014 |

T: +91 7667 166 166

Email: contact@fundsindia.com

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