Dec 28, 2020 | PICK OF THE MONTH | VOL-6, NO-23

Industry: Pharmaceuticals

J.B. Chemicals & Pharmaceuticals Limited

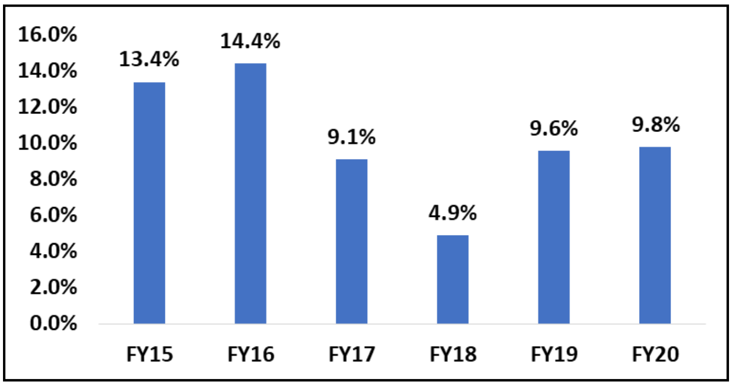
BUY

CMP: Rs.1033 | **TARGET PRICE: Rs.1227** | **TIME : 12 months**

OVERVIEW: Indian Pharma Industry:

Now known as the Pharmacy of the World; the Indian pharmaceutical sector is expected to grow to USD100bn, while the medical device market is expected to grow USD25bn by 2025. The pharmaceutical export (bulk drugs, intermediates, drug formulations, biologicals) from India stood at USD20.7bn in FY20. India's domestic pharmaceutical market turnover reached Rs1.4lk-cr (USD20.03bn) in 2019, up 9.8% y-o-y from Rs129,015cr (USD 18.12bn) in 2018. (As per IBEF). After hitting a high of 14.4% growth in FY16, IPM's growth had been coming off. The market has grown at or below 10% for each of the past 3-4 years. After FY18, it is majorly pricing, that has helped IPM sustain growth, despite a slowdown in volumes.

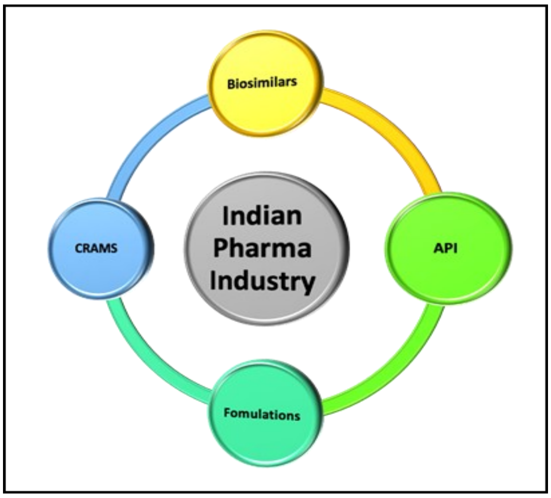
Exhibit 01: IPM Growth Trend



Source: Market Reports, Progressive Research

Structure of the Indian Pharma Market: Pharmaceutical products/drugs play an influential role in the healthcare, inventions and innovations, infrastructure aided with well trained and motivated health professionals.

Exhibit 02: Indian Pharma Market



Source: Market Reports, Progressive Research

US Generics Market: Do we see some positivity?

After the trough hit in the US generics market in 2019, we feel that with the thinning of the competitive intensity as well as new complex molecule approvals, there should be an upswing to witness. From 2015, there has been flattish revenue of approx. USD30-35bn every year in the US. Fierce competition led to double digit price erosion until FY18 which led to reduced revenue realization per product. However, the picture seems to be changing with the market stabilizing owing to the toned down competition led by market forces.

SNAPSHOT	
52 week H / L	Mcap (INR mn)
1150/424	79,801
Face value: 2	
BSE Code	NSE CODE
506943	JBCHEPHARM

Annual Performance

(Rs mn)	FY18	FY19	FY20	FY21E
Total Revenue	14,130	16,432	17,747	19,301
EBITDA	2,173	3,058	3,776	4,825
EBITDA (%)	15.4	18.6	21.3	25.0
Other Income	371	414	507	477
Interest	35	46	30	43
Depreciation	570	556	663	696
PBT	1,940	2,870	3,589	4,563
PAT	1,387	1,940	2,724	3,376
Equity (Rs mn)	167	160	155	155
EPS (INR)	17	24	35	44

Quarterly Performance

Parameters (Rs mn)	Dec-19	Mar-20	Jun-20	Sept-20
Sales (Net)	4,286	4,436	5,223	4,436
EBITDA	896	917	1,554	1,101
EBITDA (%)	20.9	20.7	29.8	24.8
Other Income	164	32	227	84
Interest	9	5	37	17
Depreciation	167	174	173	174
PAT	734	319	1225	683
Equity (Rs mn)	155	155	155	155

Ratio Analysis

Parameters (Rs mn)	FY18	FY19	FY20	FY21E
EV/EBITDA (x)	36.7	26.0	21.1	16.5
EV/Net Sales (x)	5.6	4.9	4.5	4.1
M Cap/Sales (x)	5.6	4.9	4.5	4.1
M Cap/EBITDA (x)	36.7	26.1	21.1	16.5
Debt/Equity (x)	0.01	0.02	0.02	0.02
ROCE (%)	27	19	24	28
Price/Book Value (x)	6.0	5.6	5.6	4.7
P/E (x) TTM	16.8	23.3	35.0	21.9

Shareholding Pattern as on 30th Sept, 2020

Parameters	No of Shares	%
Promoters	43,206,891	55.9
Institutions	15,167,601	19.6
Public	18,907,605	24.5
TOTAL	77,282,097	100

Source: Annual Report

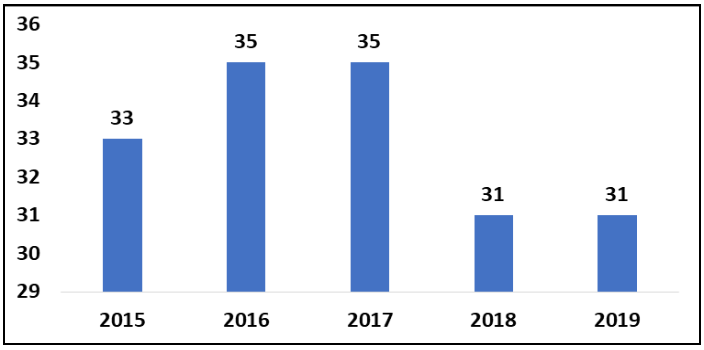
Note: All the data is calculated as per Market Price on 24th Dec, 2020

OVERVIEW: Industry (contd.)

US Generics Market: Do we see some positivity? (contd.)

It is expected that the revenues per marketed ANDA will start to rise as generic price environment is expected to remain stable for another 5 years, considering the time from capex to revenue in US generics. The companies that stand to benefit the most are the ones with healthy pipeline, FDA compliant facilities, excess capacity and a steady base business.

Exhibit 03: US Generic Sales (in bn)

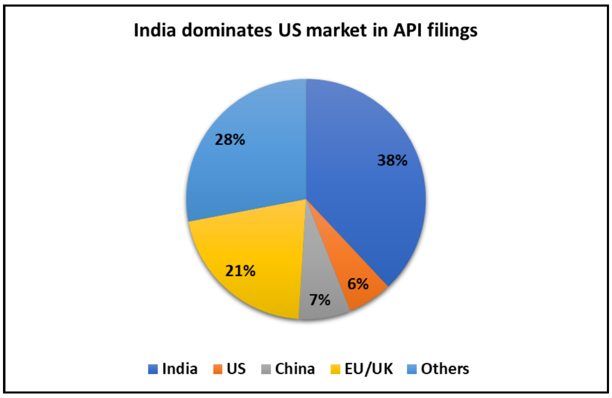


Source: USFDA, Progressive Research

The Indian Scenario:

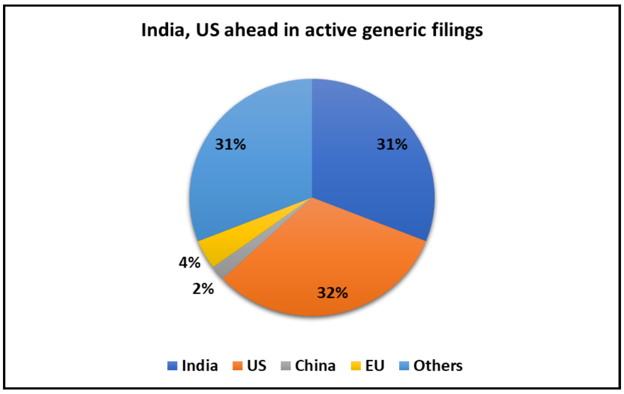
The below charts show dominance of India in API filings for the US market as well as India and US leading in active generic files. These do indicate revival and uptrend going forward. There are various other triggers which are indicating that there should be a comeback in the generics space majorly targeting the US market capture.

Exhibit 04: API Filings Across Geographies



Source: USFDA, Progressive Research

Exhibit 05: Generic Filings Across Geographies

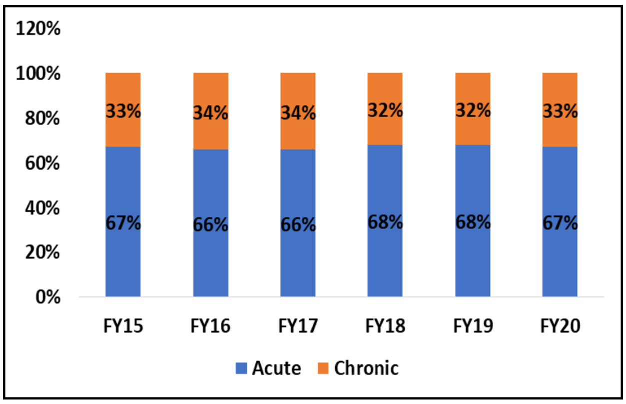


Source: USFDA, Progressive Research

Traditionally it was the chronic therapies that had driven volume growth, but offlate it seems to have run out of steam in the past 3 years. With regard to the chronic and acute differential; which was around 5.1% in FY14, (-10.7%) in FY18 stands now at 1.6% in FY20. This infers that the acute and chronic growth is merging in India. Acute therapies are emerging as a steady sustainable category.

Another positive hint is that pricing is the key growth driver in India market, more than volume and new introductions. As per the AIOCD, the IPM growth in FY20 can be split into 5.4% price led, 2.0% by volume and 2.4% due to new introductions. After the brief pause, the rate of product launches has picked up again in the last 2 years. The contribution of new products to revenue growth has consistently come down over the past 5 years. This may reflect excessive competition on new product launches which keeps price realizations down. It also goes back to the assertion that **IPM growth of the last 3 years has been driven by pricing.**

Exhibit 06: Acute v/s Chronic (%)



Source: AIOCD, Progressive Research

OVERVIEW: Industry (contd.)

API Scenario:

The number of API facilities supplying to the US has declined at an annual rate of 1.7% since 2013 when USFDA started charging an annual facility fee under Generic Drug User Fee Act (GDUFA). Most of this decline occurred in 2018 when there was an increase in fee per facility. The four major regions of active ingredient manufacturing viz; EU, India, China and US, account for 91% of all GDUFA paying API facilities. Of these regions, only India has added new API manufacturing sites and improved its overall share. Finished Dosage manufacturing environment is even more stable with only a 1% annual decline since 2017. The four dominant regions namely US, India, EU and China account for 88% of all fee paying facilities.

India and Exports:

Pharma exports soar 15% in H1FY21: Pharmaceutical exports from the country grew by 14.85% y-o-y at USD11.78bn in the H1FY21. Going by the indications of demand for pharma products across the globe, India is likely to maintain similar growth in pharmaceutical exports during 2HFY21. The growth is driven by drug formulations and biologicals, as countries across the globe turned to India to meet a spike in demand amid the Covid-19 pandemic that caused lockdowns and production disruptions in many parts of the world. **For the first time in the history of Indian pharmaceutical exports, formulations and biologicals accounted for 76.3% of the total pharma exports this first half, up from around 72% a year ago.** The fall in bulk drugs and drug intermediate exports can also be seen as a positive development since most Indian companies have used them for value addition to make high-margin and high-value formulations, adding to the overall growth of Indian pharmaceutical exports.

Covid-19 dimension on Pharma:

The pandemic that has almost lasted for more than 10 months in India has raised concerns across almost all sectors, with Pharma industry having no way to escape from the repercussions of the same. After a sharp dip in the early part of the lockdown, IPM gradually started to recover and clocked 9.6% growth in October. Covid-19 has brought in a fundamental shift in the working of the pharma industry players. Cost of doing business in India has reduced during Covid. However, this will start reversing from 3QFY21. Primary reason for the drop in operating expenses was due to drop in sales force incentives, travel expenses as well as doctor related expenses. This entire phase has been a trying and testing period for the manufacturers which in turn has highlighted the importance of the much needed move that the Govt. of India has undertaken in order to make India *Self-reliant*. The after effects of the pandemic have raised a question as What lies beyond the Covid-19 world? in terms of revamping the structure of the pharma industry, greater spending and focus on healthcare, government sponsored programmes to cover the rural markets, migration to the digital medium thus enabling to reduce costs. Highlighting on the priority yet essential driven sector, the optimism in terms of having a "China plus one" policy and laying a greater thrust on providing affordable and quality led healthcare services would enable India to ride the journey in truly becoming *Atmanirbhar* in the Pharma space.

About the Company:

Established in 1976, J.B. Chemicals & Pharmaceuticals Ltd. (JBCPL) is one of India's fastest growing pharmaceutical companies. An integrated, research-oriented, public listed organization with a focus on supplying affordable, quality products both in India and international markets, JBCPL is trusted by healthcare professionals globally. JBCPL exports to over 30 countries across the world and earns more than half of its revenue from its international business. The company is widely committed to manufacturing 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 well known for supplying quality products across chronic and acute therapeutic segments like cardiovascular, gastro, anti-infective, pain management. Mr. Shirish Mody is the whole time Director of the company.

Manufacturing Facilities: The company has total 8 manufacturing facilities (7 formulation plants and 1 API plant in India) across Gujarat and Daman, with capabilities across wide range of dosage forms, compliant with the necessary regulatory authorities.

Exhibit 07: Details of Manufacturing Facilities

Facility	Product Offerings	Compliance Approvals
Panoli, Gujarat (Campus -1)	Tablets, Capsules	USFDA, UK, AU, SA, EU
	IV Infusions	SA, Russia, EU
	Liquids	AU, EU, Russia, Ukraine
	Topicals	AU, EU, Russia, Ukraine
Panoli, Gujarat (Campus -2)	Vials	Brazil, Russia, Ukraine
	IV Infusions	Russia, Ukraine
	Tablets	USFDA, UK, SA, EU
Panoli, Gujarat (Campus-3)-API	Bulk Drugs	USFDA, EU. MOH Japan. MOH Korea
Ankleshwar, Gujarat	Tablets	Semi-regulated markets
	Liquids	Semi-regulated markets
Kadalya, Daman	Lozenges	UK, AS, SA, EU, Canada, Russia, Ukraine
	Tablets	Russia, Ukraine
	Sachets	Russia, Ukraine

Source: Q2FY21 PPT, Progressive Research

Industry: Pharmaceuticals **J.B. Chemicals & Pharmaceuticals Limited** **BUY**

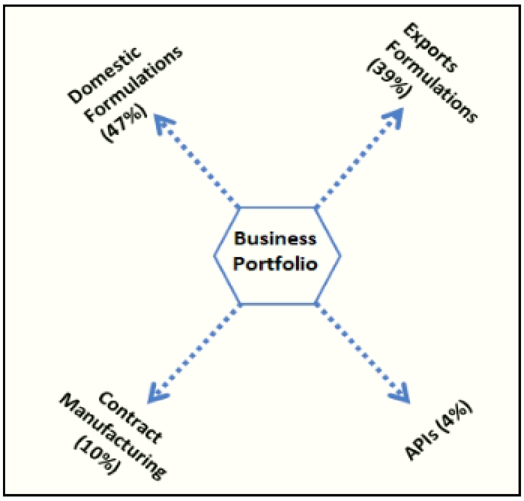
CMP: Rs.1033 **TARGET PRICE: Rs.1227** **TIME : 12 months**

INVESTMENT RATIONALE:

A. Business Overview:

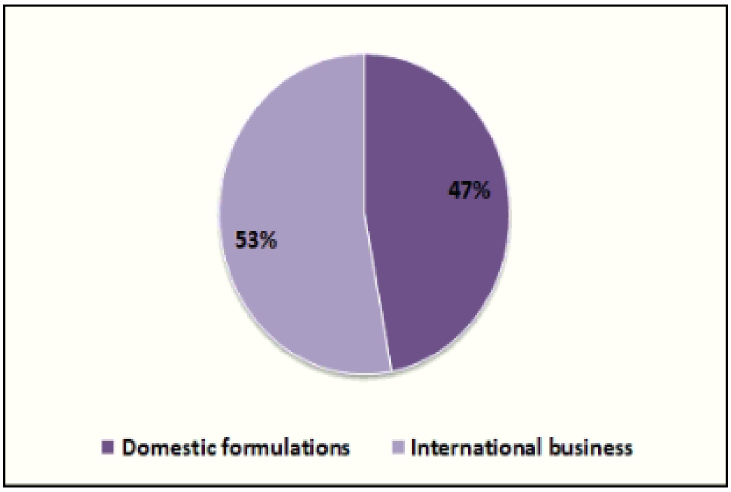
The business of the company is categorized across Domestic formulations (47%), Exports formulations (39%), Contract manufacturing (10%) and API (4%), of which formulations have a major share. Formulations have domestic and international contribution of 47% and 53% respectively. The key therapeutic segments are cardiovascular and gastroenterology that contribute approx. 28% and 11% respectively to the total revenues.

Exhibit 08: Business Portfolio



Source: Q2FY21 PPT, Progressive Research

Exhibit 09: Revenue Mix-FY20



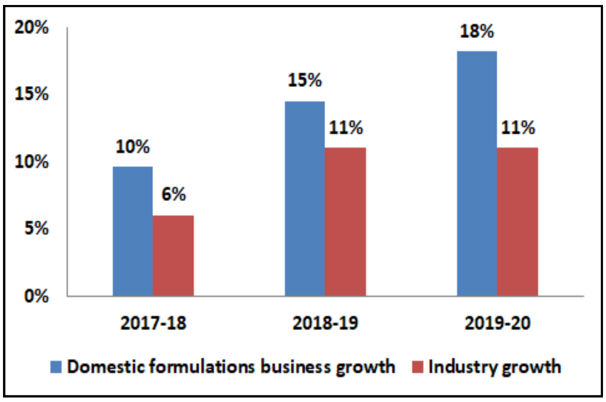
Source: Q2FY21 PPT, Progressive Research

a) Domestic Formulations:

JBCPL is ranked 34th in the domestic pharmaceutical industry. The India business comprises of Domestic Formulations and Contrast Media (these are iodinated drugs/dyes that are given to patients in order to enhance the ability to see the blood vessels and organs on medical images such as X-rays, MRI scan, CT-scan). JBCPL has an extensive range of products in the therapeutic segments viz; anti-diarrhoeal, antibiotics, cardiovasculars, gastro-intestinal, anti-ulcerant, non-steroidal anti-inflammatory drugs (NSAID) and others. The company's therapeutic focus in India remains on gastrointestinal, cardiac, and pain management therapies with the top 4 products contributing 80% of sales. The domestic formulations business contributes ~47% of the total consolidated revenues in FY20 that came in at Rs7,357mn as against Rs6,225mn in FY19. With this remarkable CAGR improvement of ~16% over FY18-20, it is the 6th straight year for the company wherein the domestic business has outperformed the industry growth rate. As per the latest result update, for July-Sept'20; JBCPL domestic formulations grew at 21.5% as against the industry growth rate of 4%. For H1FY21, the domestic formulations (inclusive of contrast media division) reported a revenue of Rs4,380mn as against Rs4,110mn in H1FY20.

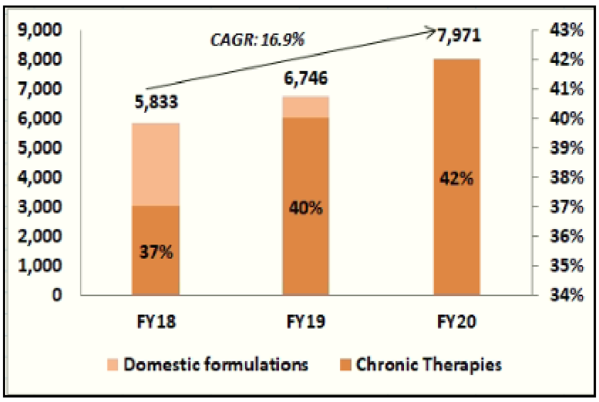
The company has four marketing divisions in this business i.e. VIVA, JIVA, DIVA, and IIVA, with a combined field force of over 2,100 as at March, 2020 which has been at par with the industry average in terms of productivity ratio (~Rs4mn). The increased penetration of key brands in the market on the back of a divisionalized approach coupled with scientific promotion of the products and intensive training has helped achieve the growth. Increase in the size of field force and creation of four divisions in the domestic formulations business has helped in achieving right focus on the products and deeper penetration in the market. The company plans to expand its domestic business through focused MR training, product promotion and new launches.

Exhibit 10: Domestic v/s Industry Growth



Source: Annual Reports, Progressive Research

Exhibit 11: Chronic v/s Domestic formulations



Source: Q2FY21 PPT, Progressive Research

INVESTMENT RATIONALE (contd.):

Key Products:
The brand 'Unique' is synonymous to high-quality products at affordable prices in both the domestic and international markets. Though the company has major presence in cardiovascular and gastrointestinal space, efforts are in place to continuously strengthen the products portfolio in other therapeutic segments.
The company's brands viz., Metrogyl (amoebicides) and Nicardia (calcium channel blocker) are featured in top 130 brands in unit terms, while Rantac (anti-peptic ulcerant) and Cilacar (calcium channel blocker) feature in top 100 brands in value terms (as per IQVIA, March, MAT 2020). *The sales of the company's key products in FY20 came in as Cilacar at Rs2,490mn, Rantac at Rs1,752mn, Nicardia had sales of Rs699mn and Metrogyl came in at sales of Rs1,152mn.*

Exhibit 12: Product Mix

Source: Company

Domestic Contrast Media Business: On the contrast media front, JBCPL is considered as one of the top three companies in India and it manufactures the products under its own brand in India and at international levels.

Some of the contrast media products that JBCPL markets in India are:
- Contrapaque (Iohexol)
- Lek Pamidol (Iopamidol)
- Trazograf (Diatrazoic acid)
- Trazogastro- Oral contrast (Diatrazoic acid)
- Magnilek Injection (Gadopentatic acid)
- Cardiolek Injection (Iodixanol)

The contrast media division (contributes ~3% of the total revenues for FY20) recorded sales of Rs615mn in FY20 as against Rs521mn in FY19; growth of 18%. In order to expand the product portfolio base, JBCPL in 2010, signed a multi-year agreement with Lantheus Medical Imaging, a global provider of diagnostic medical imaging, for the distribution and marketing of ultrasound contrast imaging agent Definity vial for (Perflutren Lipid Microsphere) injectable suspension, in India. Definity is currently marketed in North America, Australia and New Zealand, parts of the Pacific Rim, and several countries in the Middle East. Despite this division being faced with severe price competition thereby leading to erosion of margins; JBCPL's new product Gadotrast injection (a next-gen macrocylic MRI contrast agent) and Definity both have seen a good traction in the market.

Definity is an ultrasound contrast imaging agent that is indicated in India for use in patients with suboptimal echo-cardiograms to opacify the left ventricular chamber and to improve the delineation of the left ventricular endocardial border, as well as for use in patients in contrast-enhanced diagnostic ultrasound imaging to improve the characterization of focal lesions of the liver and kidney.

Industry: Pharmaceuticals | **J.B. Chemicals & Pharmaceuticals Limited** | **BUY**

CMP: Rs.1033 | **TARGET PRICE: Rs.1227** | **TIME : 12 months**

INVESTMENT RATIONALE (contd.):

As per Global newswire.com, chronic diseases such as heart ailment, stroke, cancer, type-2 diabetes, obesity are anticipated to emerge to be most costly and prevalent ones by 2030. This would necessitate the rise in the healthcare spending to reach about USD19trn by 2040; a major portion of which is expected to be spent on medical imaging procedures such as X-rays, CT scans, MRIs, ultrasound, PET scan amongst others. According to Wfmj.com research, the contrast media market is expected to reach USD6bn by 2024 from an estimated USD5bn in 2019, CAGR of 3.8%. The key factors for the growth in this division is based on the increasing approvals for contrast agents and rising volumes of CT and MRI examinations globally. The prominent players in the global contrast media market include GE Healthcare (US), Bracco Imaging (Italy), Bayer (Germany), and Guerbet (France); the major players operating in the market. Other prominent players in the market are Lantheus (US), Daiichi Sankyo (Japan), Unijules (India), J.B. Chemicals (India), Sanochemia (Austria), Taejoon Pharm (South Korea), Jodas (India), and Magnus Health (India). These factors coupled with the hospital business seeing good traction in the contrast media division along with the partnership with Lantheus should augur well for the company in times to come.

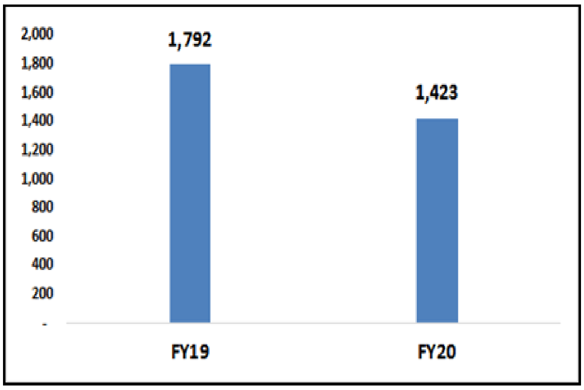
b) Exports Formulations:

JBCPL deals in manufacturing of generic products for the regulated markets whereas branded formulations cater the emerging markets. The company deals in sale of these products under its own brand name as branded generics and on the other hand sells private labels under its customers' brand names. The generics are exported to USA, UK, South Africa, Australia and Canada whereas branded generics are exported to parts of Africa, South-East Asia, Gulf, the Middle East, Central & South America. The company is regarded amongst India's top 20 pharmaceutical formulation exporters with its distributors across various countries.
The company's total formulations exports for FY20 stood at Rs7,113mn as against Rs6,865mn in FY19; growth of 4%. This segment contributes ~39% of the total revenues for the company. The sales to US at Rs1,792mn (FY19) registered growth of 66.8% with Glipizide sales being the major contributor.

(i) US Generics Market: JBCPL's US business reported a revenue of Rs1,792mn in FY19 as compared to Rs1,423mn in FY20; drop of 21%. The US business was slightly impacted because in one of the ANDAs (Ranitidine), the API supplier had some FDA queries which as on date stands resolved.

Ranitidine Fallout: *The controversy around presence of impurity, N-nitrosodimethylamine (NDMA), in API Ranitidine affected sales of company's product Rantac in second half of the year. The API vendors of the company ensured that Ranitidine that was been supplied by them met the international guidelines related to the presence of NDMA and was well within the acceptable limits. Further, JBCPL took steps to ensure that the NDMA in the formulation is within the acceptable limits. As a responsible manufacturer, the company continues to manufacture Rantac that complies with all the standards set by the Drugs Controller General of India. At present, the company has not yet launched this product in the US markets.*

Exhibit 13: US Generics Sales (Rs in mn)



Source: Q4FY20 PPT, Progressive Research

Approvals in the US Markets:

The US generics business is focused on high-potential products with 16 approved ANDAs and four in the pipeline.

- During FY20, the company received USFDA approval for Ranitidine tablets (75/150mg), Tolterodine Tartrate tablets (1/2mg) and Carbamazepine ER tablets (100/200/400mg).
- 3 ANDAs pending for approval, while the company plans to file 3 ANDAs in anti-depressant and anti-arrhythmic segment during the current financial year.
- Received an EIR from the USFDA for the new solid oral dosage forms manufacturing facility-T20 and Ti-10 at Panoli, Gujarat.

With better currency realization and a swift ramp up in commercialization, we expect JBCPL to benefit from the demand-supply mismatch in the US.

(ii) Branded formulations: It accounts for 30% of total sales with the major markets being:

South Africa (combination of private and tender market):
In order to explore the largest number of AIDS and TB patients in South Africa, JBCPL in the year 2007, made a strategic investment of USD5.1bn in Biotech Laboratories. Biotech (as of March, 2020; the company has 95.24% subsidiary stake in JBCPL) has been appointed as a distributor of the company for distribution of various products in South Africa and certain other African counties. The products are supplied at prices mutually agreed between the parties on case-to-case basis. With this investment, JBCPL enjoys the Black Economic Empowered (BEE) status that allows it to secure government tenders in the South African market.

Exhibit 14: Synopsis of Biotech Financials-FY20

Parameters	Rand (mn)	Rs (mn)
Sales	352.1	1,711.08
Ebitda	21.90	-
PAT	14.70	72.48

Source: Annual Report 2020, Progressive Research

INVESTMENT RATIONALE (contd.):

Despite lack of growth in the South African pharmaceutical market, the operations of Biotech and the customer relationships continue to remain strong. Additionally, Biotech's sales and product portfolio continued to grow in FY20 and the management anticipates it to grow even further in the current financial year on the back of increasing market share in the private sector and good government tender wins.

Russia-CIS:

JBCPL considers the Russian market as highly potential with its ongoing efforts to continue investing in new product pipeline. During FY20, exports to Russia-CIS markets stood at Rs1,256mn, growth of 9.7% as against FY19. After the sale of OTC and prescription business, JBCPL continues to manufacture and supply OTC products to Cilag GmbH International for Russia-CIS markets. The company plans to launch new products in Russia-CIS to boost sales and has received seven new product registrations from this region and plans nine more submissions this year. It currently has 8-10 registered products, 4-5 products approved and are expected to be launched in FY21E. With an MR count of ~60+, the management doesn't contemplate any major capex in this region. The major focus lies in the key therapeutic segments viz; derma, cough & cold, gastro and contrast imaging. Unique Pharmaceuticals Laboratories (UPL) is the Russian subsidiary of JBCPL. (JBCPL manufactures and supplies the products to UPL for sale and distribution thereof by UPL in the Russian market. The prices of the products are determined mutually on case-to-case basis. This arrangement facilitates sale and distribution of the company's products in the Russian market).

Exhibit 15: Synopsis of Unique Pharmaceuticals-FY20

Parameters	Rouble (mn)	Rs (mn)
Sales	708	713.25
Ebitda	14.50	-
PAT	4.03	2.26

Source: Annual Report 2020, Progressive Research

J& J sale of OTC business: *JBCPL sold off its Russia-CIS OTC business to Johnson & Johnson's arm Cilag GmbH International in 2018 and received nearly Rs7,380mn with an agreed portion of consideration. This move was undertaken in order to focus on domestic formulations business.*

- *Transfer of the worldwide rights and registrations of three OTC brands, Doktor Mom, Rinza and Fitovit*
- *Transfer of employees of the Russia-CIS OTC business*

Sale of Prescription business: *In 2013, the company's board granted an approval for entering into a definitive agreement in order to sell its Russia-CIS prescription products to Dr. Reddy's.*

- *The transaction involves sale of product registrations, intellectual properties etc. The consideration for the sale of this business is Rs1,375mn.*
- *DRL's affiliate has also entered into a contract with JBCPL's wholly-owned subsidiary situated in Russia for purchase of its inventory for a consideration of USD3.90mn.*
- *Acquisition includes 20 key brands, including Jocet which gives an entry into USD256mn cold and cough market in Russia, CIS markets.*

c) Contract Manufacturing:

JBCPL undertakes contract manufacturing projects in the area of lozenges, tablets, ointments, creams, and gels, liquid herbal syrups and capsules. This segment contributed approx. 10% of the total revenues in FY20. It caters to the markets such as USA, UK, Australia, Brazil, Canada, South Africa. The company's state-of-the-art manufacturing facilities with approvals from international health authorities such as USFDA, UK MHRA, EU GMP, TGA Australia, SAHPRA South Africa, MoH, Russia, Ukraine (PICs), MoH Japan and strong manufacturing, regulatory and development support coupled with increasing product registrations offer good prospects for growth. The range of services provided by the company includes but not limited to optimization of formulations, scale-up services, bio-studies, stability testing, validation of batches, regulatory support, packaging design and commercial production.

d) API Business:

JBCPL has over 36 years of experience in manufacturing APIs. Its state-of-the art facilities conforms to USFDA as well as EU GMP guidelines, thus enabling the company stand as a leading partner for innovator and generic companies. The API sales for FY20 (~4% of the total revenues) stood at Rs695mn which declined by 16.7% over the previous financial year at Rs835mn. The company's major customer for Diclofenac Sodium undertook a process change in the marketing authorizations that invariably led to lower exports of API. This process is still likely to take 12-18months to complete but the company anticipates sales to get back to the previous levels once all the registrations are in place. On the other hand, the company's domestic sales of API are on increase.

B. Therapeutic Brand Builders:

JBCPL has presence in 22 major therapeutic groups with 108 brands in the domestic market. It has always strived to sustain its focus on brand building, strengthening its R&D efforts, portfolio expansion in the chronic segment and enhance/diversify its presence across new therapies in line with core therapeutic strengths. Though the company has major presence in cardiovascular and gastrointestinal space, it is continually strengthening its products portfolio in other therapeutic segments. As stated earlier, the company's key brands in India are Cilacar, Rantac (featured in top 100 brands in value terms), Metrogyl and Nicardia (regarded as among the top 130 brands in unit terms in IPM).

INVESTMENT RATIONALE (contd.):

B. Therapeutic Brand Builders (contd.):

Below is the gist of key brands termed as the segment leaders (within top 300 of IPM) and contribute ~80% to domestic formulations revenues:

Exhibit 16: Brand Positioning

Brand	Therapy	Segment	Segment Position	Market Share	Revenues**	Growth**
Cilacar	Cardiovascular	Calcium channel blocker	#1	50%	238	24%
Nicardia	Cardiovascular	Calcium channel blocker	#1	87%	97	31%
Metrogyl	Gastrointestinal	Amoebicide	#1	47%	86	16%
Rantac	Gastrointestinal	Anti-peptiulcerant	#2	40%	238	20%
Cilacar T	Cardiovascular	CCB+ARB	#1	35%	78	32%
** Brand sales are IQVIA published numbers based on MAT Sept'20. Growth rate calculated from MAT18-20 The chronic and overall business split is based on internal reported numbers						

Source: Q2FY21 PPT, Progressive Research

C. Inorganic Investment Benefits:

Kohlberg Kravis Roberts & Co. L.P. (KKR) a leading global investment firm has in the past invested over ~USD14bn across the globe in healthcare, biopharmaceuticals (Impel, Gland Pharma), medical devices (Zeus Health, Cohera Medical Inc.), providers (Max Healthcare, Envision Healthcare), other services (Clarify Health Solutions), life sciences tools/diagnostics (Gamma Biosciences). *KKR has a 44-year track record of quality private equity investing having completed transactions with over ~USD630bn of total enterprise value in ~20 industries; current assets under management of ~USD233.8bn.* In July 2020, KKR entered into a definitive agreement to purchase a 54% controlling stake in JBCPL at a purchase price of Rs745 per share (value of USD500mn) and make an open offer for additional 26% stake in the company. With an opportunity basket at its disposal, JBCPL stands to leverage its position across new therapeutic segments in India branded formulations, along with strengthening its R&D base in the existing markets.

KKR would look to accelerate growth across the various business segments of JBCPL by:

- Entry into newer therapeutic areas in the domestic market
- Expanding the company's presence in the high-growth branded formulations markets
- Potentially scaling-up JBCPL's highly profitable CMO business over the next 3-4 years

Financials: The company reported marginal growth in revenues of 8% that came in at Rs17,747mn in FY20 as against Rs16,432mn in FY19; led by the pandemic coupled with the slowdown in the acute therapies on account of closure of clinics and hospital visits. Ebitda stood at Rs13,971mn in FY20 as against Rs13,373mn in FY19; translating into margins of 21.3% as against 18.6% in FY19. The company reported a PAT of Rs2,723mn as against Rs1,939mn in FY19; growth of 40%. Excluding the one-time exceptional item of Rs100mn (pertaining to compensation set aside for closure of API plant), the PAT came in at Rs2,823mn registering a growth of 46%.

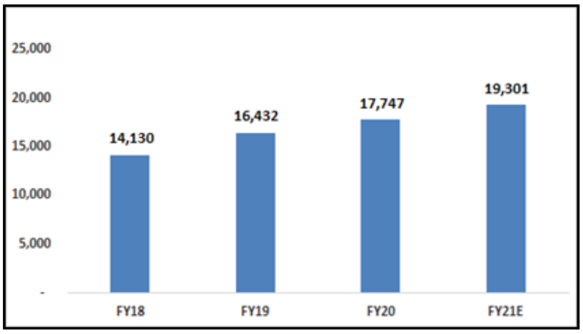
Strong P&L Matrix and Ratios: The company has been consistently reporting robust operating and PAT margins that came in at 21% and 16% respectively in FY20. A similar trend continued in Q2FY21, wherein the company reported Ebitda margins at 24.8% and PAT at 15%. JBCPL has been able to generate a healthy ROCE at +22% over the years.

Strong Cash Flows With No Leverage: JBCPL has a healthy financial risk profile driven by a robust capital structure. The company is virtually debt free and has healthy liquidity, driven by cash and liquid investments of Rs4bn as on March 2020 against a debt of Rs320mn. The company has been generating positive cash flow from operations for more than 10 years now except for FY14 with a gradual drop in D/E from 0.41x in FY09 to 0.02x in FY20.

Q2FY21 Performance: The company reported total operating revenues at Rs4,436mn as against Rs4,564mn in Q2FY20; marginal drop of 2.8%. The overall performance for Q2FY21 was led by domestic formulations and international business which retained the positive momentum. Despite the exports order book remaining healthy (a growth of 39% over Q2FY20), Rs570mn worth of planned dispatches in Q2FY21 were deferred to October due to constrained availability of ships/containers. The company has been maintaining the gross margins in the range of 62-69% over the past 3-4 quarters aided by continued cost control measures on operating expenses; enabling JBCPL to report an Ebitda of 24.8% in Q2FY21 as against 22.0% in Q2FY20. The PAT came in at Rs683mn as against Rs880mn in Q2FY20. The management expects healthy order book trend in contract manufacturing and API segments that would aid in generating better returns in times to come.

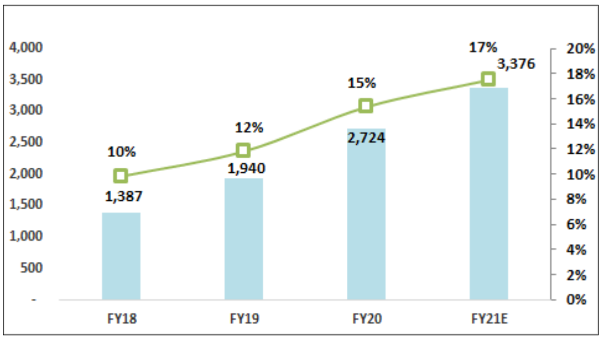
Financials (contd.):

Exhibit 17: Sales Trend



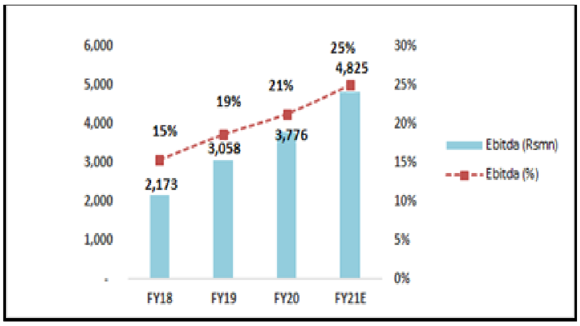
Source: Annual Reports, Progressive Research

Exhibit 18: PAT v/s PAT Margins



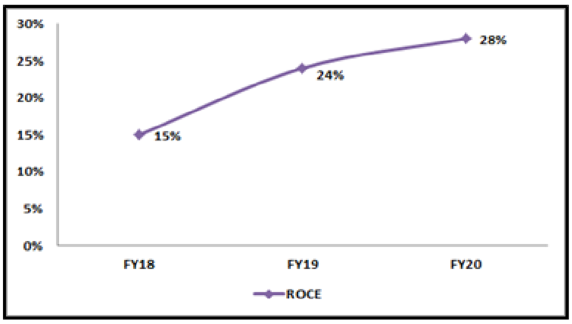
Source: Annual Reports, Progressive Research

Exhibit 19: Ebitda v/s Ebitda Margins



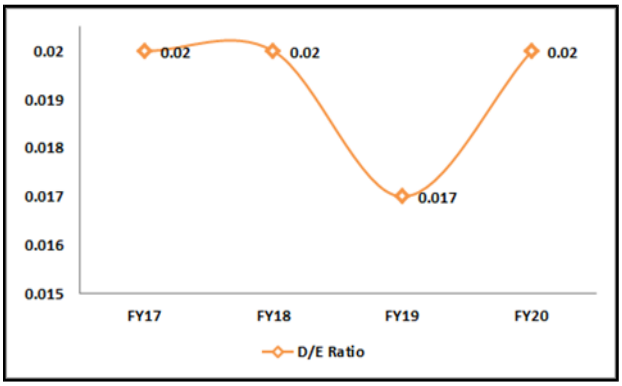
Source: Annual Reports, Progressive Research

Exhibit 20: ROCE Growth



Source: Q2FY21 PPT, Progressive Research

Exhibit 21: D/E Ratio



Source: Annual Reports, Progressive Research

Buyout of trademarks from Unique Pharmaceuticals to be EPS accretive: The company has trademarks licensing arrangement with Unique Pharmaceutical Laboratories Limited (UPLL) under which company has licensed several brands named under 'Unique' logo and company has been annually paying restricted royalty of about Rs100mn for last several years. UPLL has agreed to sell and the Board of Directors of the company has approved to purchase the entire trademark portfolio of UPLL at one-time consideration of Rs80mn. This transaction will be consummated before the end of this financial year. Consequently, the aforesaid licensing arrangement will stand submitted as such and there would be no royalty payment beginning next financial year and hence this would be an EPS-accretive to JBCPL from FY22.

Future Endeavours: The future path to value creation will focus on:

- Portfolio ramp up and building bigger brands in domestic formulations
- Strengthening of R&D to support filings & dossier registrations in regulated and semi regulated markets
- Expansion of lozenges platform to support the CMO business
- Deeper focus on business development and strategic partnerships along with synergistic acquisitions

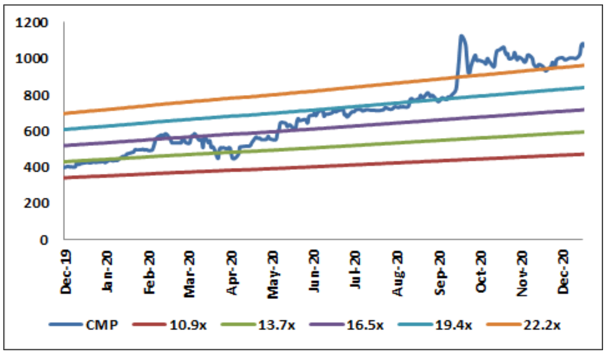
Risks and Concerns:

- Adverse currency fluctuations across 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

Outlook and Recommendations:

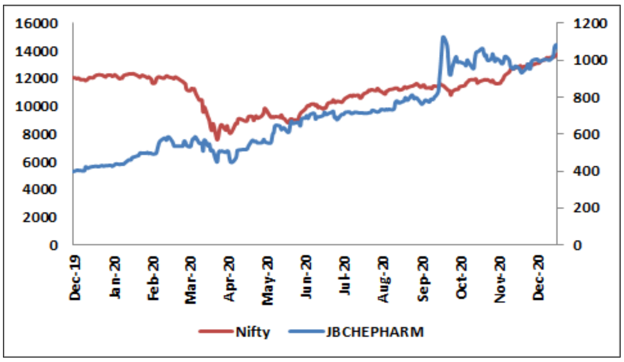
JBCPL has been focused on its domestic line of business over the past several years and has consistently garnered market share as per demand and that has led the company to be able to deliver better returns. This in turn has helped the company outperform the industry growth rate. The company has a niche product pipeline with established as well as growing brands, pan India presence, world class production facilities and compliant approved plants. With a focused management approach coupled with consistent efforts to expand the offerings and line extensions in the therapeutic segments; the company is well poised to grow and capitalize on opportunities further. Additionally, a lot of emphasis is being laid on the upcoming developing segments of CMO and contrast media division (despite these being small contributors to the revenues) well supported by the expansions being undertaken in these respective business platforms. Moreover, the company has a very healthy financial profile backed by the robust capital structure, better return ratios (ROCE), net debt-free status and increasing payouts in order to reward its shareholders. Considering all of these positive triggers and a healthy order book at the company level, we initiate a BUY call on the stock with a target of Rs1227 over 12 months horizon.

Exhibit 22: One Year Forward P/E



Source: Ace Equity, Progressive Research

Exhibit 23: Price v/s Nifty



Source: Ace Equity, Progressive Research

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