

23 December 2023

India | Equity Research | Company Update

J B Chemicals & Pharmaceuticals

Pharma

On M&A spree to diversify India base

JB Chemicals & Pharmaceuticals (JB) is licensing ophthalmic brands from Novartis, marking its foray in this therapy. It will make a cumulative payment of INR 10.89bn for in-licensing the 10 brands of Novartis for 3 years, post which it will get a perpetual license for those brands. Key acquired brands like Vigamax, Nevanac, Travatan are the market leaders in molecule category. As per IQVIA, sales from these 10 brands have registered a CAGR of 8% in the last 2 years. Management aims to grow the acquired portfolio at 15% in coming years by launching line extensions and adding 30-40 MRs. We raise our FY25E earnings by 1% to factor in the impact of this deal. We maintain our **HOLD** rating on the stock but raise target price to INR 1,595, valuing the company at 20x FY26E EV/EBITDA (earlier 20x FY25E).

Deal marks foray in fast-growing ophthalmic market

Ophthalmology has been one of the fastest growing therapies in IPM post covid (3yr CAGR at 15%). The deal helps JB Chemicals to further diversify its India revenue base which was traditionally focused towards cardiac and gastro-intestinal therapies. India business contribution is likely to increase to ~54% from 52% in FY23. We believe the in-licensed portfolio would have company level sales of INR 1.45-1.5bn for which cash payment of INR 10.89bn appears a bit pricey (~7x EV/sales).

Licensed ophthalmic brands have dominant market share

The acquired ophthalmology brands had sales of INR 2.07bn as per IQVIA for MAT Oct'23. Key brands include Vigamox (INR 620mn sales), Travatan (INR 330mn), Nevanac (INR 330mn), Simbrinza (INR 190mn), Travacom (INR 160mn), Azopt (INR 160mn), Vigadexa (INR 100mn), Pataday (INR 90mn), Ilvero (INR 60mn) and Azarga (INR 20mn). Five out of the 10 brands are the market leaders in molecule category and 8 brands have registered a CAGR of 10-20% in the last 3 years. These brands are marketed by a field force of 100 MRs who will be transferred to JB Chemicals and it will further add 30-40 MRs in this division. PCPM of these MRs stood at INR 1.2mn p.a. which is better than INR 0.62mn for JB Chemicals in FY23.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	31,493	35,800	41,716	46,660
EBITDA	6,958	9,580	11,352	12,803
EBITDA Margin (%)	22.1	26.8	27.2	27.4
Net Profit	4,098	5,994	7,294	8,428
EPS (Rs)	26.5	38.7	47.1	54.4
EPS % Chg YoY	6.2	46.3	21.7	15.5
P/E (x)	61.1	41.8	34.4	29.7
EV/EBITDA (x)	36.3	26.1	21.7	18.8
RoCE (%)	16.4	19.0	20.5	20.9
RoE (%)	17.8	22.3	23.1	22.7

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Market Data

Market Cap (INR)	251bn
Market Cap (USD)	3,018mn
Bloomberg Code	JBCP IN
Reuters Code	JBCH.BO
52-week Range (INR)	1,631 /875
Free Float (%)	46.0
ADTV-3M (mn) (USD)	2.7

Price Performance (%)	3m	6m	12m
Absolute	17.5	35.3	62.5
Relative to Sensex	7.7	12.4	16.9

Previous Reports

08-11-2023: [Q2FY24 results review](#)11-08-2023: [Q1FY24 results review](#)

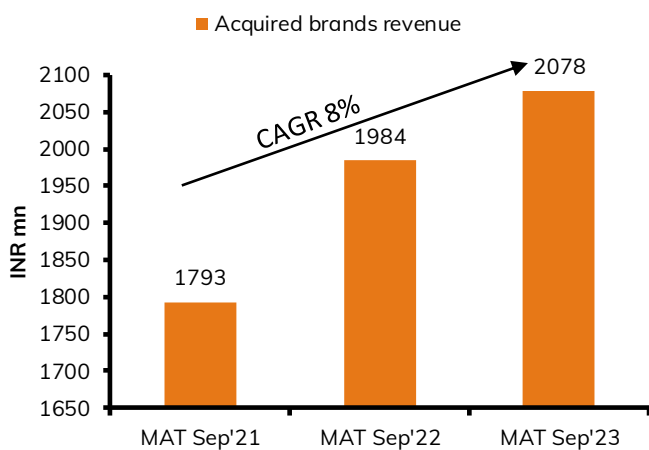
Deal constructed in two parts

JB Chemicals will initially have exclusive promotional and distribution rights for the 10 ophthalmic brands (sales of INR 2.07 bn as per IQVIA, MAT Sep'23) of Novartis in India for a period of 3 years (starting Dec'23). It will pay INR 1.25bn for marketing rights. Till Dec'26, JB Chemicals will further pay USD 116mn (INR 9.64bn) for a perpetual license of the 10 ophthalmic products. We believe the company may make ~15% EBITDA margin in the initial 3-year period, post which when manufacturing license is transferred to JB Chemicals, margins of these brands may be identical to those of the existing brands in India.

Valuation

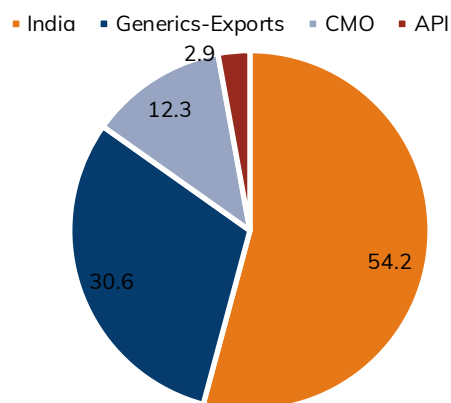
JB Chemicals has completed five acquisition/in-licensing deals in the last 2 years in a bid to diversify its India revenue base. These deals have cumulatively cost the company ~INR 23bn. India business revenue has increased at a CAGR of 27% in the last 3 years led by organic and inorganic initiatives. Further, Novartis deal may ensure growth trajectory in India is maintained for the next couple of years. The present in-licensing deal is unlikely to have a material impact on our FY25 estimates as incremental EBITDA/PAT growth may be between 1-2%. We maintain our **HOLD** rating on the stock but raise the target price to INR 1,595, valuing the company at 20x FY26E EV/EBITDA (earlier 20x on FY25E EV/EBITDA). **Key upside risks:** Better traction in chronic therapies, cost rationalisation for margin improvement, M&A in India. **Key downside risks:** Slowdown in India, more products under price control and currency volatility.

Exhibit 1: Acquired brands registered 8% CAGR in last 2 years



Source: I-Sec research, Company data

Exhibit 2: Domestic contribution to inch up to 54%



Source: I-Sec research, Company data

Exhibit 3: Key brands licenced from Novartis

Brands	Molecule	Annual sales as per IQVIA (INR mn)	Market size as per IQVIA (INR mn)	Growth YoY	Brand Rank
Vigamox	MOXIFLOXACIN	620	2750	22%	1
Nevanac	NEPAFENAC	330	1590	11%	1
Travatan	TRAVOPROST	330	760	9%	1
Simbrinza	BRIMONIDINE+ BRINZOLAMIDE	190	630	22%	1
Travacom	TIMOLOL + TRAVOPROST	160	290	9%	1
Azopt	BRINZOLAMIDE	160	410	10%	2
Vigadexa	DEXAMETASONE+ MOXIFLOXCIN	100	920	20%	2
Pataday	OLOPATADINE	90	720	19%	3
Ilevro	NEPAFENAC	60	1590	11%	8
Azarga	BRINZOLAMIDE + TIMOLOL MALEATE	20	180	24%	3

Source: I-Sec research, Company data

Exhibit 4: JB Chemicals has done 5 deals in last 2 years

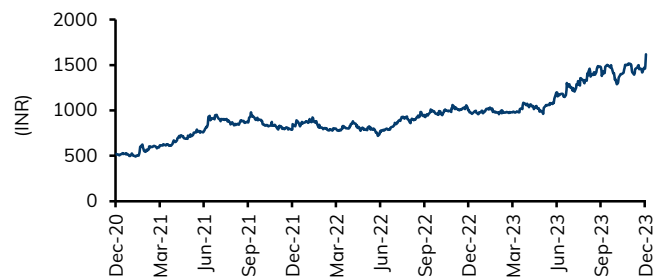
Date of Acquisition	Acquired brands	Brands Acquired from	Consideration (INR mn)	Annual revenue of brand as per IQVIA (INR mn)	EV/Sales
Dec-23	Ophthalmic brands	Novartis	10890	2078	5.2x
Dec-22	Razel	Glenmark pharma	3137	661	4.7x
Jul-22	Pediatric brands	Dr. Reddy's	980	330	2.9x
Apr-22	Azmarda	Novartis	2460	768	3.2x
Jan-23	Sanzyme	Dr. Reddy's	6280	1600	3.9x

Source: I-Sec research, Company data

Exhibit 5: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	53.9	53.9	53.9
Institutional investors	27.7	28.2	28.6
MFs and others	16.2	15.6	15.6
FIs/Banks	0.0	0.0	0.0
Insurance	2.4	2.6	2.5
FII	9.1	10.1	10.6
Others	18.4	17.9	17.5

Source: Bloomberg

Exhibit 6: Price chart


Source: Bloomberg

Financial Summary

Exhibit 7: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	31,493	35,800	41,716	46,660
Operating Expenses	24,535	26,220	30,364	33,857
EBITDA	6,958	9,580	11,352	12,803
EBITDA Margin (%)	22.1	26.8	27.2	27.4
Depreciation & Amortization	1,144	1,456	1,589	1,620
EBIT	5,813	8,124	9,762	11,183
Interest expenditure	361	314	244	174
Other Non-operating Income	99	189	213	235
Recurring PBT	5,552	7,999	9,732	11,244
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	1,452	2,000	2,433	2,811
PAT	4,100	5,999	7,299	8,433
Less: Minority Interest	2	5	5	5
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	4,098	5,994	7,294	8,428
Net Income (Adjusted)	4,098	5,994	7,294	8,428

Source Company data, I-Sec research

Exhibit 8: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	13,626	16,657	21,853	27,602
of which cash & cash eqv.	788	1,807	4,548	8,247
Total Current Liabilities & Provisions	3,894	5,031	5,792	6,428
Net Current Assets	9,732	11,626	16,061	21,174
Investments	2,060	2,540	3,141	3,891
Net Fixed Assets	5,320	4,351	3,335	2,290
ROU Assets	-	-	-	-
Capital Work-in-Progress	552	552	552	552
Total Intangible Assets	13,690	15,402	15,479	15,554
Other assets	220	180	209	234
Deferred Tax assets	65	65	65	65
Total Assets	31,644	34,727	38,854	43,774
Liabilities				
Borrowings	5,482	4,482	3,482	2,482
Deferred Tax Liability	1,028	1,028	1,028	1,028
provisions	152	152	152	152
other Liabilities	178	54	63	70
Equity Share Capital	155	155	155	155
Reserves & Surplus	24,649	28,851	33,964	39,872
Total Net Worth	24,804	29,005	34,118	40,026
Minority Interest	-	5	10	15
Total Liabilities	31,644	34,727	38,854	43,774

Source Company data, I-Sec research

Exhibit 9: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	5,057	6,615	7,203	8,558
Working Capital Changes	3,112	448	965	1,716
Capital Commitments	7,749	2,199	650	650
Free Cashflow	(2,692)	4,416	6,553	7,908
Other investing cashflow	1,932	480	601	751
Cashflow from Investing Activities	(9,681)	(2,680)	(1,251)	(1,401)
Issue of Share Capital	0	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	5,219	(1,000)	(1,000)	(1,000)
Dividend paid	(1,225)	(1,792)	(2,181)	(2,520)
Others	833	(125)	(30)	61
Cash flow from Financing Activities	4,828	(2,917)	(3,211)	(3,459)
Chg. in Cash & Bank balance	203	1,019	2,741	3,699
Closing cash & balance	788	1,807	4,548	8,247

Source Company data, I-Sec research

Exhibit 10: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	26.5	38.7	47.1	54.4
Adjusted EPS (Diluted)	26.5	38.7	47.1	54.4
Cash EPS	33.9	48.1	57.4	64.9
Dividend per share (DPS)	7.9	11.6	14.1	16.3
Book Value per share (BV)	160.2	187.4	220.4	258.6
Dividend Payout (%)	29.9	29.9	29.9	29.9
Growth (%)				
Net Sales	29.9	13.7	16.5	11.9
EBITDA	28.0	37.7	18.5	12.8
EPS (INR)	6.2	46.3	21.7	15.5
Valuation Ratios (x)				
P/E	61.1	41.8	34.4	29.7
P/CEPS	47.8	33.6	28.2	24.9
P/BV	10.1	8.6	7.3	6.3
EV / EBITDA	36.3	26.1	21.7	18.8
P / Sales	7.9	7.0	6.0	5.4
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	62.9	65.4	64.1	63.8
EBITDA Margins (%)	22.1	26.8	27.2	27.4
Effective Tax Rate (%)	26.2	25.0	25.0	25.0
Net Profit Margins (%)	13.0	16.7	17.5	18.1
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.1	0.0	(0.1)	(0.2)
Net Debt / EBITDA (x)	0.4	0.0	(0.4)	(0.8)
Profitability Ratios				
RoCE (%)	16.4	19.0	20.5	20.9
RoE (%)	17.8	22.3	23.1	22.7
RoC (%)	15.3	20.6	24.1	27.2
Fixed Asset Turnover (x)	5.8	7.4	10.9	16.6
Inventory Turnover Days	56	60	60	59
Receivables Days	75	73	74	73
Payables Days	31	36	36	36

Source Company data, I-Sec research

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