J.B. Chemicals & Pharmaceuticals (JBCP)

Pharmaceuticals | 4QFY24 Result Update

BUY

CMP: Rs1,767 | Target Price (TP): Rs2,039 | Upside: 15.4%

May 21, 2024

Domestic business & CMO to drive future growth

Key Points

- JB Chem's 4QFY24 results missed NBIE estimates. Revenue was in-line with our estimate. EBITDA margin dropped due to increased other expenses and lower gross margin compared to the previous quarters.
- In 4QFY24, revenue grew by 13% YoY, driven by double-digit growth in Domestic Formulations, largely supported by the Chronic segment and the acquired Pediatric portfolio. There was also some contribution from the Ophthalmology portfolio (Novartis) and Razel (Glenmark). EBITDA margin guidance has been improved to 26-28% (excluding ESOPs), with a bias towards the higher end of the range.
- JB Chem remains our preferred pick within Pharma, mainly underpinned by aggressive growth focus in the Domestic+CMO business, high return ratios, lean B/S and healthy FCF despite acquisitions. In the Domestic market, it continues to outpace industry growth with Life Cycle management of legacy brands and new launches. Also, strong performance of the acquired businesses is boosting overall domestic growth. Recently, the company has entered into the Ophthalmology segment with an agreement with Novartis. Growth in margin-accretive CMO business is also expected to remain strong on the back of geographical expansion and product diversification. We maintain BUY on JB Chem with a revised target price (TP) of Rs2,039, valuing it at 23x FY26E EV/EBITDA.

4QFY24 business performance: Domestic revenue grew by 22.4% YoY to Rs4.6bn on the back of acquired brands, mid-teens growth in the Chronic segment and recovery in the Acute segment. The CMO segment improved by 9% YoY. The management expects 2-3 new launches in FY25. Export Formulations revenue was up by 4.7% at Rs2.67bn. South Africa's (SA) tender business declined due to change in the product mix and margin profile. API revenue declined by 22% YoY to Rs210mn. Gross margin improved by 121bps YoY on the back of a better product mix and softening raw material costs. Along with the enhanced gross margin, improved MR productivity and normalization of freight costs boosted EBITDA margin by 152bps YoY to 23%. The company has given EBITDA margin guidance of 26-28% (Ex-ESOPs) for FY25 with a bias towards the higher end of the range.

Outlook: We expect Revenue/EBITDA/PAT CAGR of ~14%/24%/30% over FY23-FY26E, led by continuous strong growth in India+CMO and consolidation of acquisitions, with ~626bps improvement in EBITDA margin. We estimate FCF generation of ~Rs6bn/Rs7.6bn over FY25E/FY26E with minimal capex requirement for organic growth. ROE and ROCE are expected to remain healthy at 22.7% and 20.7%, respectively by FY26E.

Valuation: We have trimmed down are revenue as well as gross margin expectations, thereby reducing our estimates by 9.4%/4.1% for FY25E/FY26E. We maintain BUY on JB Chem with a TP of Rs2,039, valuing it at 23x FY26E EV/EBITDA.

Est Change	Downward
TP Change	Downward
Rating Change	Maintain

Company Data and Valuation Summary

Reuters:	JBCH.BO
Bloomberg:	JBCP IN Equity
Mkt Cap (Rsbn/US$bn):	275.3 / 3.3
52 Wk H / L (Rs):	1,940 / 875
ADTV-3M (mn) (Rs/US$):	273.5 / 3.3
Stock performance (%) 1M/6M/1yr:	(0.3) / 18.5 / 78.3
Nifty 50 performance (%) 1M/6M/1yr:	1.7 / 1.8 / 22.8

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	53.9	53.8	53.8
DIIs	18.6	18.5	18.4
FIIs	10.1	10.4	11.1
Others	17.5	17.3	16.8
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24	FY25E	FY26E
Net sales	31,493	34,842	40,459	46,518
EBITDA	6,958	8,969	11,026	13,187
Net profit	4,093	5,519	7,219	8,918
EPS (Rs)	26.5	35.7	46.7	60.2
EPS growth (%)	*6.2*	*34.8*	*30.8*	*29.0*
EBITDA margin (%)	*22.1*	*25.7*	*27.3*	*28.3*
PER (x)	66.7	49.5	37.8	29.3
EV/Sales (x)	8.8	7.8	6.6	5.6
EV/EBITDA (x)	39.7	30.3	24.3	19.8
RoCE (%)	*16.1*	*17.6*	*19.9*	*20.7*
RoE (%)	*17.7*	*20.4*	*22.3*	*22.7*

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

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Exhibit 1: 4QFY24 consolidated performance

Particulars (Rsmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	FY23	FY24
Net Sales	**7,848**	**8,094**	**7,927**	**7,623**	**8,962**	**8,817**	**8,445**	**8,617**	**31,493**	**34,842**
YoY Change (%)	*29.5*	*36.5*	*32.0*	*22.1*	*14.2*	*8.9*	*6.5*	*13.0*	*29.9*	*10.6*
Gross Profit	**4,920**	**5,079**	**4,937**	**4,875**	**5,862**	**5,836**	**5,709**	**5,615**	**19,811**	**23,021**
Margin (%)	*62.7*	*62.7*	*62.3*	*63.9*	*65.4*	*66.2*	*67.6*	*65.2*	*62.9*	*66.1*
EBITDA	**1,728**	**1,846**	**1,748**	**1,636**	**2,321**	**2,435**	**2,231**	**1,981**	**6,958**	**8,969**
YoY Change (%)	*5.5*	*45.6*	*36.4*	*31.0*	*34.4*	*31.9*	*27.7*	*21.1*	*-4.6*	*2.8*
Margin (%)	*22.0*	*22.8*	*22.0*	*21.5*	*25.9*	*27.6*	*26.4*	*23.0*	*22.1*	*25.7*
Depreciation	261	281	284	318	314	322	340	407	1,144	1,383
Interest	58	80	83	140	121	104	125	94	361	443
Other income	9	13	31	46	56	77	74	166	99	373
Extraordinary Items	-	-	-	-	-	-	-	-	-	-
PBT (bei)	**1,417**	**1,498**	**1,412**	**1,225**	**1,943**	**2,087**	**1,840**	**1,646**	**5,552**	**7,515**
PBT	**1,417**	**1,498**	**1,412**	**1,225**	**1,943**	**2,087**	**1,840**	**1,646**	**5,552**	**7,515**
Tax	365	388	351	348	520	581	504	384	1,452	1,510
ETR (%)	*25.8*	*25.9*	*24.9*	*28.4*	*26.8*	*27.8*	*27.4*	*23.4*	*26.2*	*20.1*
Reported PAT	1,050	1,111	1,061	876	1,423	1,506	1,336	1,262	4,098	5,998
Adj. PAT	**1,050**	**1,111**	**1,061**	**876**	**1,423**	**1,506**	**1,336**	**1,262**	**4,098**	**5,998**
YoY Change (%)	*-11.6*	*13.6*	*26.5*	*3.3*	*35.5*	*35.6*	*25.9*	*44.0*	*6.4*	*46.3*
Adj. EPS	**6.8**	**7.2**	**6.9**	**5.7**	**9.2**	**9.7**	**8.6**	**8.2**	**26.5**	**38.8**

Source: Company, Nirmal Bang Institutional Equities Research

Conference Call Highlights

Financial performance

- Revenues was up by 13% YoY at Rs8.62bn. The topline was affected by strategic choices made in the South African business. Excluding these strategic changes, revenue increased by 17% YoY in 4QFY24.
- In terms of profitability, the company's cost optimization efforts and a favorable product mix significantly improved overall results. Gross margin expanded by 130bps YoY to 65.2% in 4QFY24. For FY24, gross margin expanded by 320bps to 65.2%, up from 56% in FY21.
- Net working capital is down from 98 days three years ago to 87 days in FY24.
- The company is now net cash positive, with gross debt reduced from Rs5.48bn in FY23 to Rs3.57bn in FY24. Return on Capital Employed (ROCE) improved to 27%, up from 21% in FY23.
- The cost of ESOPs was ~Rs400mn.

India Business

- The Domestic business was up by 22% YoY at Rs46.63bn, driven by a strong brand portfolio, meticulous execution in raising on-field productivities and a higher share of Chronic products.
- Excluding the recently added Ophthalmology portfolio, organic growth in the Domestic business was 13% YoY.
- The PCPM (Per Capita Per Month) doubled in four years to Rs7 lakhs by the end of FY24.

- JB Pharma ranks as the 25th fastest-growing company in the IPM and has outperformed the IPM by 10% as of March 2024 (source: IQVIA March 2024).
- Five brands now rank among the top 150 in the industry, according to IQVIA Mat, March'24 - Rantac, Metrogyl, Cilacar, Cilacar D and Nicardia.
- The Sporolac franchise recorded revenue of Rs12.2bn, clocking a 33% CAGR in three years.
- Azmarda achieved Rs750mn and Razel reported 24% YoY growth. The latest acquisition in Ophthalmology has been well integrated and recorded an 11% growth MoM in March'24, as per IQVIA data.
- Big Chronic brands registered strong volume growth, as per IQVIA March 2024. Cilacar registered volume growth of 10% in FY24, Nicardia registered 5% volume growth and Razel recorded 22% volume growth.
- The company is implementing overall efficiency programs, including productivity on the field and better vendor management, which will result in savings and improved gross margin.

International Business

- Revenue declined by 1% YoY to Rs3.97bn in 4QFY24. The international business was impacted by strategic choices made with respect to the South African business.
- Without including the South African business, the international business registered a growth of 15% YoY. The company has lowered its tender business and is emphasizing more on improving the mix and margin profile.
- The US and Russia delivered healthy growth, with international formulations business growing to Rs2.67bn in 4QFY24.
- CDMO (Contract Development and Manufacturing Organization) business grew by 9% YoY to Rs1.09bn in 4QFY24, closing the year at Rs4.32bn in FY24. CDMO accounted for 27% of the overall international business compared to 21% in FY21.
- The company has resolved packaging bottlenecks in the last 12 months.
- Additionally, the company has a high new product contribution to overall growth, at 3%.

CMO Business

- The company plans to enter the European market with cough and cold lozenges.
- For the last three years, JB Pharma has consistently delivered strong performance. Overall, revenue has clocked a CAGR of 19% since FY21 while the domestic business has more than doubled during the same period.

Guidance

- The company has raised its EBITDA margin guidance from 25-27% to 26-28%. This upper provision is despite the addition of the Ophthalmology portfolio, which will have limited gross margin in the near future.
- Guidance for the CDMO business indicates growth of 12-14% for the coming quarters, with high teens growth expected from 2HFY25 onwards.
- The company plans to add MRs for the promotion of the Ophthalmology portfolio. MR productivity is projected to improve by 8-10% in FY25, up from Rs7 lakhs PCM in FY24.

- The India CDMO and Emerging Markets, which includes the Rest of the World (ROW), should grow by 12-14%. The US, Russia and South Africa should grow at a high single-digit rate of ~8-9%. Overall, the company expects to achieve 12-14% top-line growth outside the Ophthalmology portfolio.

Capex

- The company has already covered its capex needs for the CDMO business.

  It has US$2bn annualized capacity in Los Angeles and is currently running at US$1bn run-rate.

Exhibit 2: Actual performance vs NBIE/Bloomberg consensus estimates

(Rsmn)	Actual	NBIE estimate	*Var. (%)*	Consensus estimate	*Var. (%)*
Revenue	8,617	8,534	*1.0*	9,038	*(4.7)*
EBITDA	1,981	2,117	*(6.4)*	2,372	*(16.5)*
EBITDA margin (%)	*23.0*	*24.8*	*(181) bps*	*26.2*	*(325) bps*
Adjusted PAT	1,262	1,285	*(1.8)*	1,406	*(10.3)*
PAT margin (%)	*14.6*	*15.1*	*(41) bps*	*15.6*	*(92) bps*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Revised estimates

(Rsmn)	New estimates		Old estimates		*Change (%)*	
	FY25E	FY26E	FY25E	FY26E	*FY25E*	*FY26E*
Revenue	40,459	46,518	41,449	47,425	*-2.4*	*-1.9*
EBITDA	11,026	13,187	11,911	13,908	*-7.4*	*-5.2*
Margin (%)	*27.3*	*28.3*	*29*	*29*	*(148) bps*	*(98) bps*
PAT	7,219	8,918	7,971	9,552	*-9.4*	*-6.6*
Margin (%)	*17.8*	*19.2*	*19*	*20*	*(139) bps*	*(97) bps*
EPS	46.7	60.2	51.6	62.8	*-9.4*	*-4.1*

Source: Nirmal Bang Institutional Equities Research

Exhibit 4: Segment revenue

Segmental Revenue (Rsmn)	4QFY23	3QFY24	4QFY24	*YoY (%)*	*QoQ(%)*
Domestic Formulations	3,800	4,620	4,650	*22.4*	*0.6*
International Formulations	2,550	2,650	2,670	*4.7*	*0.8*
CMO	1,000	885	1,090	*9.0*	*23.1*
API	270	290	210	*(22.2)*	*(27.6)*

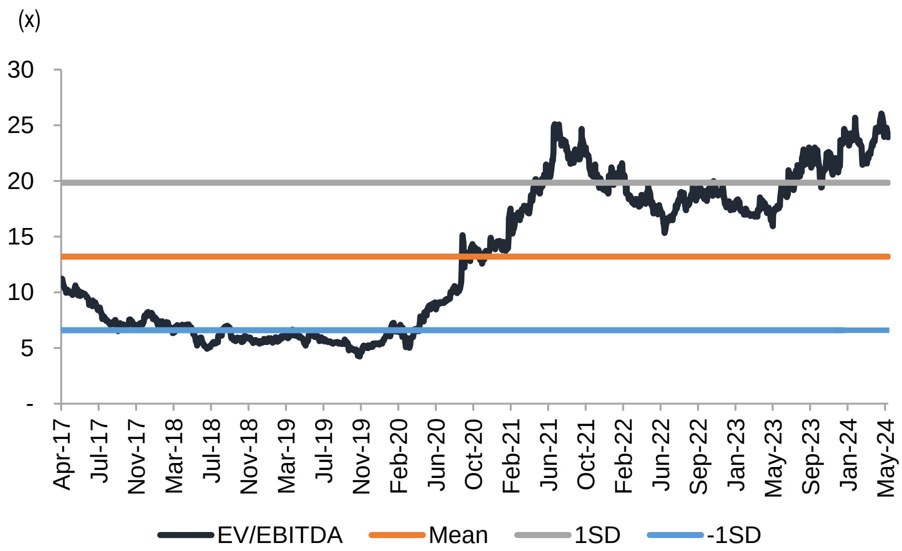
Source: Nirmal Bang Institutional Equities Research

Valuation and Outlook

JB Chem's net profit is expected to clock 30% CAGR over FY23-FY26E, driven by ~14% CAGR in revenue and 636bps improvement in EBITDA margin. Revenue growth is expected to be driven by continued strong growth in India and CMO segments, besides consolidation of the recent acquisitions. The Domestic business is expected to clock 16.4% CAGR over FY23-FY26E, mainly underpinned by consolidation of recent acquisitions, continuous industry-beating growth in legacy brands and new launches. We expect Export Formulations/CMO segments to clock ~11%/12.4% CAGR over FY23-FY26E. While the Formulations business will be driven by new launches and geographical expansion, the CMO business will be driven by multiple catalysts, including new launches in the Chronic segment, addition of new clients and geographical expansion.

The company is currently trading at 37.8x/29.3x PE on FY25E/FY26E and 24.3x/19.8x on FY25E/FY26E EV/EBITDA. We estimate healthy FCF generation of ~Rs6bn/Rs7.6bn in FY25E/FY26E with minimal capex requirement for organic growth. ROE and ROCE are expected to remain healthy at 22.7% and 20.7%, respectively by FY26E. We maintain BUY on JB Chem with a revised TP of Rs2,039, valuing it at 23x FY26E EV/EBITDA. JB Chem remains our preferred pick within Pharma, mainly underpinned by aggressive growth focus in the domestic market, high return ratios and healthy FCF generation.

Exhibit 5: One-year Rolling Forward EV/EBITDA Chart



Source: BSE, Bloomberg, Company, Nirmal Bang Institutional Equities Research

Financial statements

Exhibit 6: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Net sales	**24,242**	**31,493**	**34,842**	**40,459**	**46,518**
% growth	*18.7*	*29.9*	*10.6*	*16.1*	*15.0*
Raw material costs	8,429	11,682	11,821	13,958	16,049
Staff costs	3,772	4,745	5,614	6,064	6,670
ESOP cost	620	690	400	408	529
Other expenditure	5,986	7,419	8,038	9,003	10,083
Total expenditure	18,808	24,535	25,873	29,433	33,331
Gross profit	**15,813**	**19,811**	**23,021**	**26,501**	**30,469**
% growth	*17.9*	*25.3*	*16.2*	*15.1*	*15.0*
EBITDA	**5,435**	**6,958**	**8,969**	**11,026**	**13,187**
% growth	*-3.0*	*28.0*	*28.9*	*22.9*	*19.6*
EBITDA margin (%)	*22.4*	*22.1*	*25.7*	*27.3*	*28.3*
Other income	392	99	373	405	605
Interest costs	51	361	443	270	236
Depreciation	727	1,144	1,383	1,397	1,495
Profit before tax & Exceptional Items	**5,049**	**5,552**	**7,515**	**9,764**	**12,061**
Exceptional Items	0	0	0	0	0
Profit before tax	**5,049**	**5,552**	**7,515**	**9,764**	**12,061**
% growth	*-15.4*	*10.0*	*35.3*	*29.9*	*23.5*
Tax	1,189	1,452	1,989	2,539	3,136
Effective tax rate (%)	*24*	*26*	*26*	*26*	*26*
Minority Interest	7	7	7	7	7
PAT	**3,854**	**4,093**	**5,519**	**7,219**	**8,918**
Adjusted PAT	**3,854**	**4,093**	**5,519**	**7,219**	**8,918**
% growth	*-14.0*	*6.2*	*34.8*	*30.8*	*23.5*
Adjusted EPS (Rs)	**24.9**	**26.5**	**35.7**	**46.7**	**60.2**
% growth	*-5.5*	*6.2*	*34.8*	*30.8*	*29.0*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Equity	155	155	155	155	155
Reserves	21,187	24,649	29,078	35,286	43,045
Net worth	21,341	24,804	29,233	35,441	43,200
Minority Interest	45	0	0	7	14
Net deferred tax liabilities	411	963	1,433	1,433	1,433
Total Loans	0	3,832	236	(264)	(264)
Other Long Term Liabilities	375	329	297	330	365
Liabilities	**22,173**	**29,928**	**31,200**	**36,947**	**44,748**
Net Block	5,529	5,320	5,716	5,818	5,823
CWIP	139	444	633	633	633
Intangible Assets and Goodwill	7,241	13,690	14,328	14,328	14,328
Intangible assets under development	48	107	131	131	131
Other Non Current Assets	177	494	304	328	354
Non-Current Investments	127	138	237	237	237
Inventories	4,100	4,305	5,025	5,831	6,603
Debtors	5,557	5,758	6,869	7,977	9,171
Cash	585	788	955	3,443	4,649
Other current assets	2,507	4,429	5,684	7,366	12,720
Total current assets	12,749	15,280	18,534	24,617	33,144
Creditors	2,245	2,386	3,563	4,208	4,838
Other current liabilities	1,592	3,159	5,119	4,937	5,065
Total current liabilities	3,837	5,546	8,682	9,145	9,902
Net current assets	8,911	9,735	9,851	15,472	23,242
Total assets	**22,173**	**29,928**	**31,200**	**36,947**	**44,748**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Cash flow

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
PBT	5,049	5,552	7,515	9,764	12,061
Depreciation	727	1,144	1,383	1,397	1,495
Net Chg in WC	(3,025)	(299)	(56)	(1,269)	(1,337)
Taxes	(1,346)	(955)	(1,325)	(2,539)	(3,136)
Others	297	814	489	68	18
CFO	**1,701**	**6,256**	**8,006**	**7,422**	**9,101**
Capex	(6,990)	(7,641)	(2,604)	(1,500)	(1,500)
Net Investments made	7,002	(1,864)	(1,497)	(1,354)	(5,000)
Others	(53)	(113)	62	0	0
CFI	**(41)**	**(9,618)**	**(4,038)**	**(2,854)**	**(6,500)**
Change in Share capital	0	0	0	0	0
Change in Debts	(3)	5,232	(1,916)	(800)	0
Div. &Div Tax	(1,276)	(1,276)	(1,570)	(1,011)	(1,159)
Others	(105)	(391)	(369)	(270)	(236)
CFF	**(1,384)**	**3,564**	**(3,855)**	**(2,080)**	**(1,395)**
Total Cash Generated	**277**	**203**	**113**	**2,488**	**1,206**
Cash Opening Balance	309	585	788	955	3,443
Cash Closing Balance	585	788	955	3,443	4,649

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Key ratios

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Profitability & return ratios					
EBITDA margin (%)	22.4	22.1	25.7	27.3	28.3
Net profit margin (%)	15.9	13.0	15.8	17.8	19.2
RoE (%)	19.5	17.7	20.4	22.3	22.7
RoCE (%)	18.6	16.1	17.6	19.9	20.7
Working capital & liquidity ratios					
Receivables (days)	71	66	66	67	67
Inventory (days)	57	49	49	49	49
Payables (days)	31	27	31	35	35
Current ratio (x)	3.3	2.8	2.1	2.7	3.3
Quick ratio (x)	2.3	2.0	1.6	2.1	2.7
Leverage ratios					
Net Debt/Equity (x)	0.0	0.1	0.0	-0.2	-0.3
Interest Cover (x)	91.9	16.1	17.1	35.7	49.6
Net Debt/EBITDA (x)	-0.1	0.4	-0.1	-0.5	-0.9
Valuation ratios					
EV/sales (x)	11.3	8.8	7.8	6.6	5.6
EV/EBITDA (x)	50.2	39.7	30.3	24.3	19.8
P/E (x)	70.9	66.7	49.5	37.8	29.3
P/BV (x)	12.8	11.0	9.3	7.7	6.3

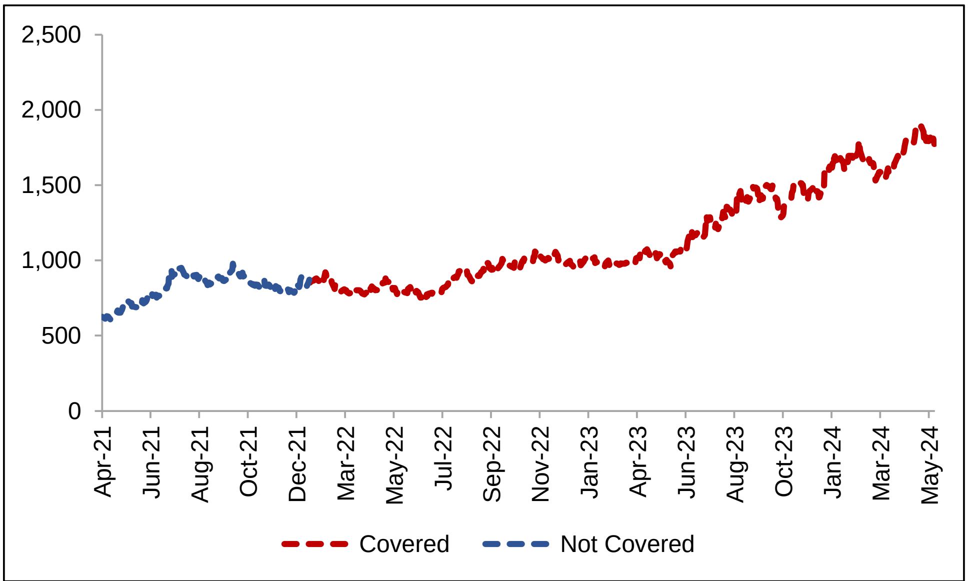
Source: Company, Nirmal Bang Institutional Equities Research

Rating Track

Date	Rating	Market price (Rs)	Target price (Rs)
12January, 2022	Buy	1,708	1,974
16February, 2022	Buy	1,619	1,988
21 February 2022	Buy	1,621	1,988
25 February 2022	Buy	1,584	1,988
29May 2022	Buy	1,619	1,946
7 August 2022	Accumulate	1815	2,041
29 September 2022	Buy	1,891	2,307
15 November 2022	Buy	1,980	2,394
9 February 2023	Buy	1,957	2,385
16 March 2023	Buy	1,961	2,349
25 May 2023	Buy	2,058	2,461
5 June 2023	Buy	2,121	2,461
10 August 2023	Buy	2,710	3,168
15 September 2023	Buy	2,973	3,450
8 November 2023	Buy	1,470	1,697
7 February 2024	Buy	1,783	2,053
21 May 2024	Buy	1,767	2,039

On 18th September Face value was split in ratio of 2:1

Rating Track Graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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