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JB Chemicals and Pharmaceuticals

Currency devaluation may put pressure on Russia business; however, maintain BUY on valuation

JB Chemicals and Pharmaceuticals (JBCL) derives 5-6% of total sales from Russia market. Given the political turmoil, JBCL has been cautious in getting business from Russia market, which led to de-growth in sales from this market in past two quarters. Currency devaluation added further woes to this business. However, given the volatility in exchange rates, determining the adverse impact would depend on actual realization, assuming no hedging by JBCL. Assuming Ruble INR rate remaining at similar levels, FY16E sales may get adversely impacted by 4% and EPS may get adversely impacted by 3%.

Valuation

The stock has already corrected by 8% in past one month and we believe that CMP factors the adverse impact fully, assuming Ruble INR rate to remain at similar levels for next two years. At current market price of Rs201, the stock is trading at 11.2x FY15E EPS of Rs18 and 9.8x FY16E EPS of Rs21. The capex program is on track, allaying major concern of investors about usage of cash on books for capex worth Rs1.4bn. We expect sales as well as profitability to grow at higher rate once, this project is commissioned, which could be the trigger for re-rating of JBCL. We continue to value JBCL at 14x FY16 earnings to arrive at target price of Rs295 and maintain BUY on the stock.