

J.B.Chemicals & Pharmaceuticals (JBCP)

Pharmaceuticals | Plant visit update

BUY
CMP: Rs2,973 | Target Price (TP): Rs3,450 | Upside: 16%
September 15, 2023

CDMO business on growth trajectory

Key Points

- We recently visited JB Chemicals and Pharmaceuticals Ltd's (JB Pharma) Lozenges, Tablet and Oral Powder Manufacturing facility (Sachet) at Daman, Gujarat and interacted with the Operation and Production head to understand the CDMO business' future growth outlook and manufacturing capabilities.
- JB Pharma remains sanguine about future growth prospects in the CDMO space which will be led by geographical expansion, new client additions and growth in business from existing partners. The company has already initiated the debottlenecking process by acquiring an adjacent land parcel for new Lozenges Packaging lines.
- JB Pharma remains our preferred pick, mainly underpinned by aggressive growth focus in the Domestic+CDMO 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 from inorganic opportunities is boosting overall domestic growth. Growth in margin accretive CDMO business is also expected to remain strong on the back of geographical expansion and entry into new Chronic segments. We maintain BUY on JB Pharma with a rolled over revised target price (TP) of Rs3,450, valuing it at 23x Sept'25E EV/EBITDA.

Facilities overview

- The Daman facility is ~21,000 sq.mt in size and is equipped with 2 manufacturing lines, 9 packaging lines and 1 R&D line. The facility has an annual manufacturing capacity of ~2bn lozenges and ~1bn tablets.
- The company has secured approvals from 18 organizations (including MHRA, SA regulatory authority, WHO etc.) except for the USFDA.

Lozenges portfolio

- The company manufactures and exports ~50 different types of lozenges, including center filed lozenges in the areas of cough & cold, wellness and sleep disorder. Additionally, tablets Cilacar (including brand extensions) and Rantac are manufactured from this facility.
- For Lozenges, ~70-80% of the products are packed in blister strips, which imparts better aesthetic appeal compared to traditional strip packaging.
- Developed products contribute 40% to sales while the rest of the sales are from pure manufacturing.
- Till now, the company had not applied for USFDA approval, but it can apply for the same with minor modifications in plant whenever it requires.
- The company caters to a diverse set of marquee consumer healthcare brands globally, with the top 5 customers contributing ~80% to the CDMO business.

Est Change	-
TP Change	Upward
Rating Change	-

Company Data and Valuation Summary

Reuters:	JBCH.BO
Bloomberg:	JBCP IN Equity
Mkt Cap (Rsbn/US\$bn):	230.5 / 2.8
52 Wk H / L (Rs):	3,049 / 1,750
ADTV-3M (mn) (Rs/US\$):	336.0 / 4.1
Stock performance (%) 1M/6M/1yr:	11.2 / 53.3 / 51.3
Nifty 50 performance (%) 1M/6M/1yr:	3.5 / 7.2 / 12.4

Shareholding	3QFY23	4QFY23	1QFY24
Promoters	54.0	53.9	53.9
DII's	18.5	19.1	18.7
FII's	8.8	8.6	9.5
Others	18.7	18.4	17.9
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY22	FY23	FY24E	FY25E
Net sales	24,242	31,493	35,453	39,912
EBITDA	5,435	6,958	8,884	10,412
Net profit	3,854	4,093	5,493	6,851
EPS (Rs)	49.9	53.0	71.1	88.6
EPS growth (%)	(5.5)	6.2	34.2	24.7
EBITDA margin (%)	22.4	22.1	25.1	26.1
PER (x)	59.6	56.1	41.8	33.5
EV/Sales (x)	9.5	7.4	6.5	5.6
EV/EBITDA (x)	42.2	33.4	25.8	21.6
RoCE (%)	18.6	16.1	17.7	19.4
RoE (%)	19.5	17.7	20.1	20.9

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

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

Debottlenecking the manufacturing process

- Most of the machinery has been imported from Germany. The company has automated the whole lozenges manufacturing process with high-speed packaging lines. It is one of the oldest automated lozenges facility.
- The packaging process remains a key bottleneck for the company and it intends to debottleneck the process. To resolve this, the company has acquired the adjacent 8-acre land parcel for debottlenecking of its packaging line. But, the area can be utilized for manufacturing and warehousing as well due to capacity constraints in the existing facility.

Others

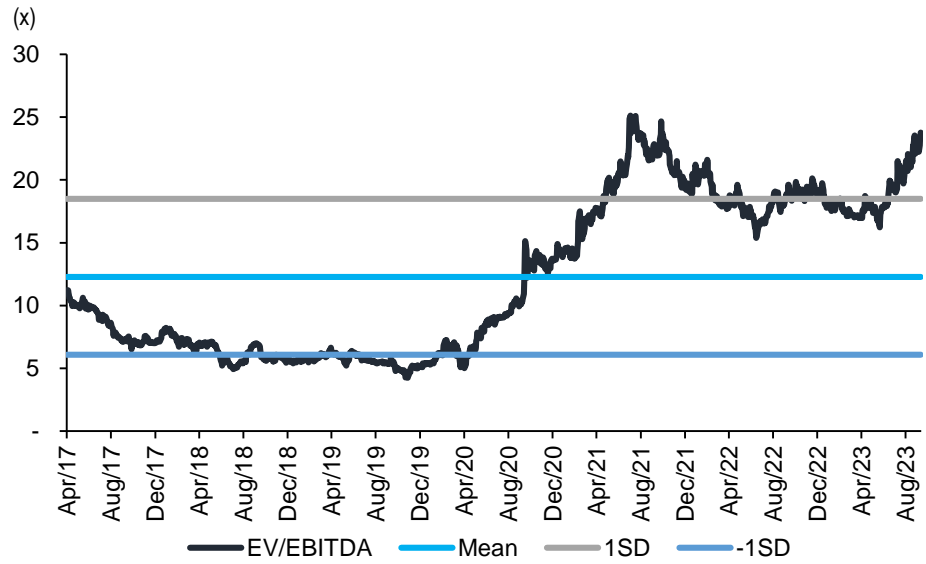
- The company has implemented the ERP system across the facility and has set up an affluent treatment plant with focus on ESG considerations.
- The facility generally maintains average inventory of ~60 days.
- What has changed post KKR's stake acquisition? The company is more professionally run now and is also getting aggressive. Additionally, it has started investing in infrastructure.

Valuation and Outlook

JB Pharma's net profit is expected to clock 29.4% CAGR over FY23-FY25E, driven by 12.6% CAGR in revenue and ~400bps improvement in EBITDA margin. Revenue growth is expected to be driven by continued strong growth in India and CDMO segments, besides consolidation of the recent acquisitions. The domestic business is expected to clock 13.4% CAGR over FY23-FY25E, mainly underpinned by consolidation of recent acquisitions, continuous industry-beating growth in legacy brands and new launches. We expect Export Formulations, CDMO and API segments to clock 9%/20%/5% CAGR over FY23-FY25E. While the Formulations business will be driven by new launches and geographical expansion, the CDMO 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 41.8x/33.5x PE on FY24E/FY25E and 25.8x/21.6x on FY24E/FY25E EV/EBITDA. We estimate healthy FCF generation of ~Rs9.7bn over FY24E-FY25E with minimal capex requirement for organic growth. ROE and ROCE are expected to remain healthy at 20.9% and 19.4%, respectively by FY25E. We maintain BUY on JB Pharma with a revised TP of Rs3,450, valuing it at 23x Sept'25E EV/EBITDA. JB Pharma remains our preferred pick, mainly underpinned by aggressive growth focus in the domestic market, high return ratios and healthy FCF generation.

Exhibit 1: One-year Rolling Forward EV/EBITDA Chart



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

Financial statements

Exhibit 2: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Net sales	20,425	24,242	31,493	35,453	39,912
% growth	15.1	18.7	29.9	12.6	12.6
Raw material costs	7,015	8,429	11,682	12,408	13,969
Staff costs	3,406	3,772	4,745	5,931	6,642
ESOP cost	0	620	690	440	320
Other expenditure	4,400	5,986	7,419	7,790	8,569
Total expenditure	14,821	18,808	24,535	26,569	29,500
Gross profit	13,410	15,813	19,811	23,044	25,943
% growth	17.2	17.9	25.3	16.3	12.6
EBITDA	5,604	5,435	6,958	8,884	10,412
% growth	48.4	-3.0	28.0	27.7	17.2
EBITDA margin (%)	27.4	22.4	22.1	25.1	26.1
Other income	589	392	99	177	399
Interest costs	72	51	361	317	135
Depreciation	687	727	1,144	1,312	1,410
Profit before tax & Exceptional Items	5,434	5,049	5,552	7,432	9,267
Exceptional Items	535	0	0	0	0
Profit before tax	5,969	5,049	5,552	7,432	9,267
% growth	71.1	-15.4	10.0	33.9	24.7
Tax	1,484	1,189	1,452	1,932	2,409
Effective tax rate (%)	27	24	26	26	26
Minority Interest	6	7	7	7	7
PAT	4,480	3,854	4,093	5,493	6,851
Adjusted PAT	4,078	3,854	4,093	5,493	6,851
% growth	64.7	-14.0	6.2	34.2	24.7
Adjusted EPS (Rs)	52.8	49.9	53.0	71.1	88.6
% growth	45.7	-5.5	6.2	34.2	24.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Equity	155	155	155	155	155
Reserves	17,943	21,187	24,649	29,592	35,758
Net worth	18,097	21,341	24,804	29,747	35,913
Minority Interest	37	45	0	7	14
Net deferred tax liabilities	498	411	963	963	963
Total Loans	0	0	3,832	1,332	832
Other Long Term Liabilities	226	375	329	351	377
Liabilities	18,859	22,173	29,928	32,401	38,098
Net Block	5,441	5,529	5,320	5,508	5,598
CWIP	256	139	444	444	444
Intangible Assets and Goodwill	896	7,241	13,690	13,690	13,690
Intangible assets under development	0	48	107	107	107
Other Non Current Assets	64	177	494	522	553
Non-Current Investments	129	127	138	138	138
Inventories	3,474	4,100	4,305	4,988	5,649
Debtors	3,890	5,557	5,758	6,482	7,297
Cash	309	585	788	552	1,419
Other current assets	7,853	2,507	4,429	4,823	8,178
Total current assets	15,526	12,749	15,280	16,845	22,543
Creditors	1,869	2,245	2,386	2,611	2,939
Other current liabilities	1,584	1,592	3,159	2,242	2,036
Total current liabilities	3,453	3,837	5,546	4,853	4,975
Net current assets	12,073	8,911	9,735	11,992	17,568
Total assets	18,859	22,173	29,928	32,401	38,098

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Cash flow

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
PBT	5,969	5,049	5,552	7,432	9,267
Depreciation	687	727	1,144	1,312	1,410
Net Chg in WC	-938	-3,025	-299	-1,183	-1,148
Taxes	-1,417	-1,346	-955	-1,932	-2,409
Others	-1,152	297	814	80	-133
CFO	3,148	1,701	6,256	5,709	6,986
Capex	-79	-6,990	-7,641	-1,500	-1,500
Net Investments made	-2,243	7,002	-1,864	-78	-3,000
Others	15	-53	-113	0	0
CFI	-2,307	-41	-9,618	-1,578	-4,500
Change in Share capital	0	0	0	0	0
Change in Debts	-82	-3	5,232	-3,500	-800
Div. & Div Tax	-732	-1,276	-1,276	-549	-685
Others	-28	-105	-391	-317	-135
CFF	-842	-1,384	3,564	-4,367	-1,620
Total Cash Generated	-1	277	203	-236	867
Cash Opening Balance	309	309	585	788	552
Cash Closing Balance	309	585	788	552	1,419

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Key ratios

Y/E March	FY21	FY22	FY23	FY24E	FY25E
Profitability & return ratios					
EBITDA margin (%)	27.4	22.4	22.1	25.1	26.1
Net profit margin (%)	21.9	15.9	13.0	15.5	17.2
RoE (%)	25.1	19.5	17.7	20.1	20.9
RoCE (%)	23.9	18.6	16.1	17.7	19.4
Working capital & liquidity ratios					
Receivables (days)	66	71	66	63	63
Inventory (days)	56	57	49	48	49
Payables (days)	32	31	27	26	25
Current ratio (x)	4.5	3.3	2.8	3.5	4.5
Quick ratio (x)	3.5	2.3	2.0	2.4	3.4
Leverage ratios					
Net Debt/Equity (x)	-0.4	0.0	0.1	0.0	-0.1
Interest Cover (x)	67.9	91.9	16.1	23.9	66.9
Net Debt/EBITDA (x)	-1.2	-0.1	0.4	-0.1	-0.5
Valuation ratios					
EV/sales (x)	10.9	9.5	7.4	6.5	5.6
EV/EBITDA (x)	39.8	42.2	33.4	25.8	21.6
P/E (x)	56.3	59.6	56.1	41.8	33.5
P/BV (x)	12.7	10.8	9.3	7.7	6.4

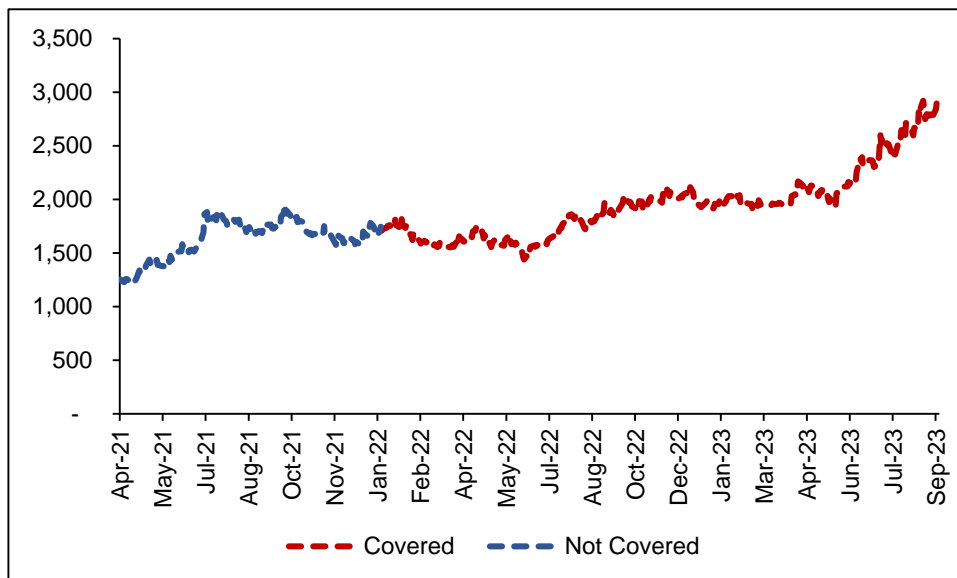
Source: Company, Nirmal Bang Institutional Equities Research

Rating Track

Date	Rating	Market price (Rs)	Target price (Rs)
12 January, 2022	Buy	1,708	1,974
16 February, 2022	Buy	1,619	1,988
21 February 2022	Buy	1,621	1,988
25 February 2022	Buy	1,584	1,988
29 May 2022	Buy	1,619	1,946
7 August 2022	Accumulate	1,815	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

Coverage was transferred to Mitesh Shah with effect from 9th October 2022

Rating Track Graph



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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Krishnan Sambamoorthy	Head of Research	krishnan.s@nirmalbang.com	+91 22 6273 8210
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010