

JB Chemicals and Pharmaceuticals

18 December, 2022

Reuters: JBCH.BO; Bloomberg: JBCP IN

JB Chemicals – Company Update

We recently visited JB Chemicals and Pharmaceuticals Ltd's (JB Chem) oral solid (T20) and Injectable (IV17) facilities at Panoli, Gujarat and interacted with the Operation and Production heads across all plants to understand the company's manufacturing capacity and capability. While the T20 facility is USFDA approved and it is utilized for the US, South Africa (SA) and Indian markets, the IV17 facility is mainly for RoW markets. The company is also adding a separate Eye Drops line in the IV17 facility for the US market and is expected to start validation batches from April 2023. We like the company's idea of having a uniform production policy and almost similar compliance standard across all geographies. About capacity, as per the management, the company has sufficient capacity and expansion space in the existing plants for at least the next five years of production requirement. On the Ranzel brand acquisition, we believe that the deal complements the company's existing cardiac segment and the management believes that it is a strategic fit to enhance focus on the domestic market. The company will utilize its existing fieldforce to market these brands, but we expect that JB Chem will need to add more field strength to promote these brands. Hence, we believe that the deal would be margin-accretive but earning-neutral. JB Chem remains our preferred pick in the Pharma sector mainly due to its aggressive growth focus in the domestic market, strong financials and healthy FCF. We maintain a "BUY" recommendation on JB Chem with a revised target price (TP) of Rs2,427, valuing it at 20x Sept'24E EV/EBITDA.

Facilities Overview

- JB Chem has 7 formulations facilities and 1 API facility with most of the units approved by all major compliance agencies, including units T110 (OSD), T20 (OSD) and D9 (API), which are USFDA compliant as well.
- T20 is an oral solid dosages unit with a 15mn p.a. tablet production capacity and has close to one-third capacity utilization. The company intends to double its capacity by the end of June'23. 40% of the volume from this facility is directed towards the US and SA markets each and the balance caters to the domestic market. The facility was constructed at an investment of ~Rs1.50bn in 2018.
- IV17 is an injectable unit, which caters to RoW (including Russia) markets and Domestic market and has 70-80% capacity utilization. JB Chem is in the process of adding a new line for manufacturing eye drops for the US market and it will likely start validation batches from April'23.
- T110 is an oral solid dosage unit with 3 manufacturing lines. This facility largely caters to the US, Australia and SA markets and has 100% capacity utilization.
- L6 is a liquid dosage manufacturing unit and it is used for manufacturing Ayurvedic and Allopathy liquid dosages. There is some spare capacity and the same will be utilized for manufacturing Ayurvedic medicines.
- D9 is the company's API facility and has 6 blocks. The unit is used to produce high-volume APIs such as Glipizide, Diclofenac, Atenolol etc. Most of the output is used for captive consumption.
- The Ankleshwar facility was recently inspected by Kenya and Uganda compliance agencies. It manufactures ~100-150mn tablets annually and the facility also has spare capacity which can further be expanded.
- Lozenges facility has ~55-60% utilization. JB Chem is globally among the top 5 players in the manufacturing of lozenges.
- The company has sufficient capacity and does not expect any greenfield expansion in the near term. Growth would be led by brownfield expansion by adding additional lines in the existing facilities.

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Net sales	20,425	24,242	31,081	34,931	39,235
EBITDA	5,604	5,435	6,862	8,672	10,200
Net profit	4,078	3,854	4,050	5,278	6,491
EPS (Rs)	52.8	56.0	58.9	72.9	87.1
EPS growth (%)	45.7	6.1	5.2	23.7	19.4
EBITDA margin (%)	27.4	22.4	22.1	24.8	26.0
P/E (x)	40.0	37.7	35.8	28.9	24.2
EV/Sales (x)	7.7	6.7	5.5	4.8	4.1
EV/EBITDA (x)	27.9	29.9	24.7	19.2	15.9
RoCE (%)	23.9	18.6	15.5	16.1	17.7
RoE (%)	25.1	19.5	17.5	19.3	19.9

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Pharmaceuticals

CMP: Rs2,110

Target Price: Rs2,427

Upside: 15.2%

Mitesh Shah

Research Analyst

mitesh.shah@nirmalbang.com

+91-76668 04995

Bhavya Sanghavi

Research Associate

bhavya.sanghavi@nirmalbang.com

+91 22 6273 8188

Key Data

Current Shares O/S (mn)	77.4
Mkt Cap (Rsbn/US\$bn)	164/2
52 Wk H / L (Rs)	2,150/1,339
Daily Vol. (3M NSE Avg.)	78,829

Price Performance (%)

	1 M	6 M	1 Yr
J.B Chemicals	(0.2)	46.9	32.6
Nifty Index	(0.2)	19.5	7.6

Source: Bloomberg

[FY22 Annual Report](#)
[2QFY23 Result](#)

USFDA inspections

- JB Chem hasn't had inspections since 2019. USFDA follows a risk-based inspection approach and JB Chem units are low risk since it has had no product recall in the last 14 years or any serious complaints from customers/patients
- The company's API facility was last inspected 5 years ago
- The company does not expect any USFDA inspection in the near term

Key Products

- In Glipizide, the company has a volume market share of ~20%.
- JB Chem has a strong positioning in Diclofenac and produces various combinations of the products such as diclofenac sodium, diclofenac acid and diclofenac diethylamine. It has a production capacity of 40 tonnes/month for the product. The product is used for captive consumption and is also sold to other formulation players. Novartis and GSK are among the major players that the company supplies to. It has a market share of ~30% in Diclofenac.
- JB Pharma recently received an ANDA approval for Venlafaxine Hydrochloride Extended-Release Tablets from the USFDA and it expects to launch it in a couple of months.
- The company is working on receiving approval for sterile ointment for the US market. It expects to be ready with the exhibit batches by April'23-end. The manufacturing facility is already USFDA approved.
- JB Chem follows a partnership model to launch products in the US. Most of the products in the US are sold through Rising Pharma.

CMO business

- One of the important focus areas for the company is the CMO business. The company does CMO work in Lozenges, Syrup and Solid Dosages. Some of the major products for the CMO business include Doktor Mom, Zecuf and Vicks.
- For Herbal Liquids, the company is working on doubling its production capacity from 0.1mn bottle/day to 0.2mn bottle/day.
- The company does ~Rs1bn business with Innova, of which 70% is for Solid Dosages and the rest is for Lozenges.

Others

- Only domestic manufacturing is outsourced to third parties.
- The company imports ~30-40% of its raw materials.
- The company uses laser drilling technology for manufacturing controlled release tablets.

Update on JB Chem's acquisition of Sartan brands from Glenmark

- JB Chem has enhanced its presence in the fast-growing Sartan segment with the acquisition of Glenmark's Razel (Rousvastatin) franchise in India and Nepal.
- As per IQVIA MAT Oct'22, annual sales of this drug are ~Rs661mn. Growth has been muted in the past three years in the acquired brands.
- As per the management, the acquired brands will grow at low double digits in the near term and the company aims to increase the size to Rs1bn by FY25-FY26.
- The total covered market size of these brands is ~Rs24.4bn (growing at ~12% p.a.), as per IQVIA MAT Oct'22.

- Gross margin of the acquired brands is ~80% and it will be marketed by the company's existing fieldforce. Hence, considering the additional operational cost of ~Rs150-200mn, as per the management, the EBITDA margin of the acquired brands would be 50-60%.
- The consideration for this acquisition is Rs3.3bn (excluding working capital and taxes). Hence, valuation comes at 4.8x EV/Sales and ~10x EV/EBITDA.
- ~70-80% of the deal should be funded through long-term debt and the remaining from internal accruals.
- The transaction is expected to be closed within the next two weeks, subject to customary closing formalities.
- The acquisition is in line with management's focus to increase domestic presence, especially in the chronic segment. It will complement the existing cardiac portfolio as well.
- Also, due to the company's ability to work on the life cycle management of old brands, we believe that growth in the acquired brands will mainly come from better focus, life extension and deeper penetration.
- From financial point of view, we believe that the company will need to add to its existing field force to promote these brands, which will dilute the margin benefit of the acquired brands. Also, additional burden of amortization of brands and interest cost would neutralize the operational benefit. Hence, we expect this deal to be earning neutral for the company.

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



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

Financials (Consolidated)

Exhibit 2: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Net sales	20,425	24,242	31,081	34,931	39,235
% growth	15.1	18.7	28.2	12.4	12.3
Raw material costs	7,015	8,429	11,438	12,226	13,536
Staff costs	3,406	4,392	5,447	6,100	6,832
ESOP cost	0	620	680	480	320
Other expenditure	4,400	5,366	6,654	7,452	8,347
Total expenditure	14,821	18,808	24,218	26,258	29,035
Gross profit	13,410	15,813	19,643	22,705	25,699
% growth	-60.2	-53.0	-41.6	-32.5	-23.6
EBITDA	5,604	5,435	6,862	8,672	10,200
% growth	48.4	-3.0	26.3	26.4	17.6
EBITDA margin (%)	27.4	22.4	22.1	24.8	26.0
Other income	589	392	62	105	314
Interest costs	72	51	303	303	303
Depreciation	687	727	1,139	1,332	1,429
Profit before tax & Exceptional Items	5,434	5,049	5,482	7,142	8,781
Exceptional Items	535	0	0	0	0
Profit before tax	5,969	5,049	5,482	7,142	8,781
% growth	71.1	-15.4	8.6	30.3	22.9
Tax	1,484	1,189	1,425	1,857	2,283
Effective tax rate (%)	27	24	26	26	26
Minority Interest	6	7	7	7	7
PAT	4,480	3,854	4,050	5,278	6,491
Adjusted PAT	4,078	3,854	4,050	5,278	6,491
% growth	64.7	-14.0	5.1	30.3	23.0
Adjusted EPS (Rs)	52.8	56.0	58.9	72.9	87.1
% growth	45.7	6.1	5.2	23.7	19.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	155	155	155	155	155
Reserves	17,943	21,187	24,831	29,582	35,424
Net worth	18,097	21,341	24,986	29,736	35,578
Minority Interest	37	45	52	59	65
Net deferred tax liabilities	498	411	411	411	411
Total Loans	0	0	6,300	4,800	3,300
Other Long Term Liabilities	226	375	423	450	480
Liabilities	18,859	22,173	32,172	35,456	39,835
Net Block	5,441	5,529	5,890	6,058	6,128
CWIP	256	139	139	139	139
Intangible Assets and Goodwill	896	7,241	14,705	14,705	14,705
Intangible assets under development	0	48	48	48	48
Other Non Current Assets	64	177	225	252	282
Non-Current Investments	129	127	127	127	127
Inventories	3,474	4,100	5,279	5,724	6,329
Debtors	3,890	5,557	7,124	8,007	8,993
Cash	309	585	230	899	2,597
Other current assets	7,853	2,507	3,214	4,612	6,057
Total current assets	15,526	12,749	15,847	19,242	23,976
Creditors	1,869	2,245	3,046	3,256	3,605
Other current liabilities	1,584	1,592	1,763	1,858	1,966
Total current liabilities	3,453	3,837	4,809	5,114	5,570
Net current assets	12,073	8,911	11,038	14,127	18,406
Total assets	18,859	22,173	32,172	35,456	39,835

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Cash flow

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
PBT	5,969	5,049	5,482	7,142	8,781
Depreciation	687	727	1,139	1,332	1,429
Net Chg in WC	-938	-3,025	-1,946	-1,117	-1,243
Taxes	-1,417	-1,346	-1,425	-1,857	-2,283
Others	-1,225	256	-537	-302	-338
CFO	3,075	1,660	2,713	5,197	6,346
Capex	-79	-6,990	-8,964	-1,500	-1,500
Net Investments made	-2,243	7,002	0	-1,000	-1,000
Others	15	-53	0	0	0
CFI	-2,307	-41	-8,964	-2,500	-2,500
Change in Share capital	0	0	0	0	0
Change in Debts	-82	-3	6,300	-1,500	-1,500
Div. & Div Tax	-732	-1,276	-405	-528	-649
Others	44	-64	0	0	0
CFF	-770	-1,343	5,895	-2,028	-2,149
Total Cash Generated	-1	277	-356	669	1,697
Cash Opening Balance	309	309	585	230	899
Cash Closing Balance	309	585	230	899	2,597

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Key ratios

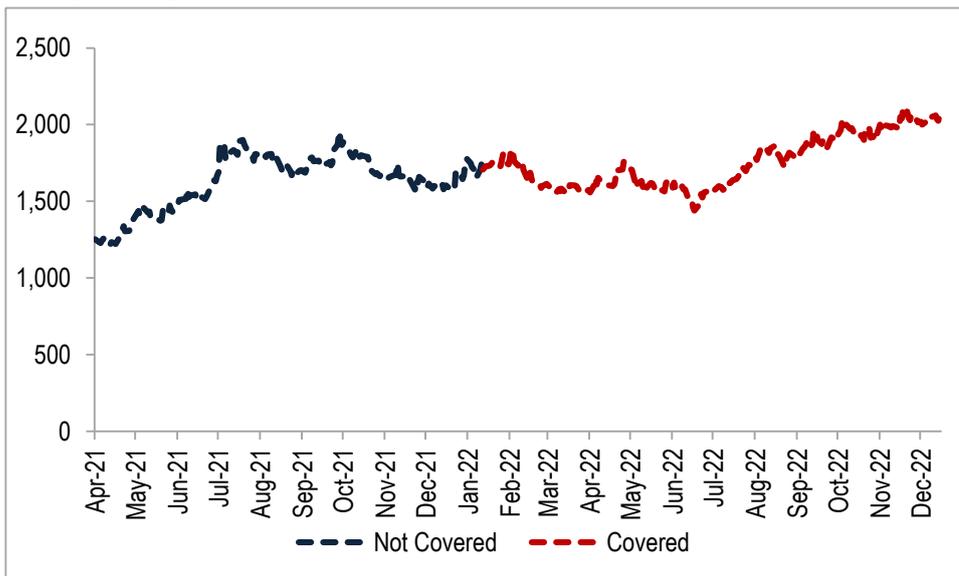
Y/E March	FY21	FY22	FY23E	FY24E	FY25E
Profitability & return ratios					
EBITDA margin (%)	27.4	22.4	22.1	24.8	26.0
Net profit margin (%)	21.9	15.9	13.0	15.1	16.5
RoE (%)	25.1	19.5	17.5	19.3	19.9
RoCE (%)	23.9	18.6	15.5	16.1	17.7
Working capital & liquidity ratios					
Receivables (days)	66	71	74	79	79
Inventory (days)	56	57	55	57	56
Payables (days)	32	31	31	33	32
Current ratio (x)	4.5	3.3	3.3	3.8	4.3
Quick ratio (x)	3.5	2.3	2.2	2.6	3.2
Valuation ratios					
EV/sales (x)	7.7	6.7	5.5	4.8	4.1
EV/EBITDA (x)	27.9	29.9	24.7	19.2	15.9
P/E (x)	40.0	37.7	35.8	28.9	24.2
P/BV (x)	9.0	7.6	6.5	5.5	4.6

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	1815	2,041
29 September 2022	Buy	1,891	2,307
15 November 2022	Buy	1,980	2,394
18 December 2022	Buy	2,110	2,427

Rating track graph



DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
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