JB Chemicals & Pharma (JBCP)

Pharmaceuticals

BUY

CMP(₹): **1,755** Fair Value(₹): **2,025** Sector View: **Neutral** NIFTY-50: **24,011** **June 28, 2024**

A potent fusion

JB Pharma offers a healthy cocktail of a robust domestic franchise, niche CMO presence and measured exports strategy, aided by peerless execution. Having primarily grown organically until FY2022 and later on aided by benefits from acquired brands, JB has handsomely outperformed the IPM in the past decade by ~600 bps and currently ranks 22 in the IPM. Backed by improved MR productivity in India amid a healthy CMO order book and steady exports traction, we expect strong 17%/19% EBITDA/PAT CAGRs over FY2024-27E for JB. We initiate coverage on JB with BUY and FV of Rs2,025 (36X Sep 2026E EPS), implying a 15% upside to CMP.

Initiate with BUY; FV at Rs2,025 provides 15% upside to CMP

We initiate coverage on JB with a BUY rating and FV of Rs2,025/share, based on 36X Sep 2026E EPS—a slight premium to Mankind, but a discount to TRP's implied domestic P/E multiple. We expect JB to trade at a premium to other domestic-focused companies, owing to its (1) leading market share across its legacy brand families, (2) imminent ramp-up of the acquired portfolios, (3) robust CMO traction, (4) lesser exposure to the US, EU and other regulated markets and (5) unparalleled execution track record. While the stock has had a phenomenal run over the past five years (up 10X), we believe current valuations of 21X FY2026E EV/EBITDA and 33X FY2026E P/E are yet to fully encapsulate the growth potential of the business. We believe the 16% 10-year overall EBITDA CAGR implied by our reverse DCF model (Exhibit 5) capture the company's potential success in the domestic and CMO segments.

Focused efforts in India and CMO to propel earnings further

JB is the 22nd largest player in the IPM (used to hold the 32nd rank three years ago), with a strong franchise in therapies such as cardiac, gastrointestinal and antiparasitic. While the five deals since FY2022 have propelled reported domestic sales, our analysis of IQVIA data (Exhibit 45) suggests JB has also demonstrated a solid ~19% CAGR in its base portfolio over FY2020-24. Aided by strong brands driving higher MR productivity, we bake in a robust ~13% organic domestic sales CAGR over FY2024-27E. We expect the high-margin CMO vertical to double by FY2028E, led by a healthy order book and enhanced capacity. Overall, we forecast a 14% sales CAGR and 17% EBITDA CAGR for JB over FY2024-27E. We expect a 230 bps expansion in JB's EBITDA margins over FY2024-27E, driven by higher domestic productivity and higher branded/CMO mix, despite factoring in compression due to the Novartis deal. In the absence of any meaningful capex, we expect JB to generate cumulative FCF of Rs13.4 bn over FY2024-27E, with healthy 21.1% RoAE and 24.8% RoIC in FY2027E.

Key risks—any senior management exits, NDMA issues and sales concentration

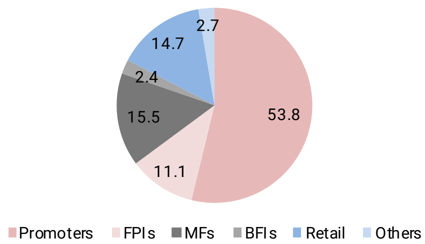
Any senior management exits (ESOP policy is critical [see Exhibit 71]), resurfacing of NDMA concerns relating to Rantac, high domestic sales concentration and aggressive amortization policy of the acquired brands are some key risks for JB.

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	1,755/2,025/BUY
52-week range (Rs) (high-low)	1,940-1,132
Mcap (bn) (Rs/US$)	272/3.3
ADTV-3M (mn) (Rs/US$)	331/4.0

Shareholding pattern (%)



Price performance (%)	1M	3M	12M
Absolute	(1)	6	49
Rel. to Nifty	(6)	(1)	23
Rel. to MSCI India	(5)	(4)	13

Forecasts/Valuations	2024	2025E	2026E
EPS (Rs)	35.3	42.7	52.4
EPS growth (%)	34.8	21.0	22.9
P/E (X)	49.7	41.1	33.5
P/B (X)	9.4	8.0	6.7
EV/EBITDA (X)	30.3	26.0	21.4
RoE (%)	20.5	21.1	21.9
Div. yield (%)	0.6	0.6	0.6
Sales (Rs bn)	35	40	45
EBITDA (Rs bn)	9	10	12
Net profits (Rs bn)	6	7	8

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of June 28, 2024

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We expect JB to report a healthy RoE of 21.1% in FY2027E

Exhibit 1: Financial snapshot, March fiscal year-ends, 2020-27E (Rs mn, %)

	Net revenues		EBITDA			EPS (reported)		RoIC	RoE	P/E	EV/EBITDA
	(Rs mn)	Growth (%)	(Rs mn)	Margin (%)	Growth (%)	(Rs mn)	Growth (%)	(%)	(%)	(X)	(X)
2020	17,747	8.0	3,776	21.3	23.7	17.1	45.3	21.2	19.2	102.6	71.9
2021	20,425	15.1	5,604	27.4	48.4	29.0	69.5	31.5	27.6	60.5	48.5
2022	24,242	18.7	5,435	22.4	(3.0)	24.9	(14.1)	21.4	19.5	70.4	50.0
2023	31,493	29.9	6,958	22.1	28.0	26.2	5.1	17.5	17.8	67.0	39.0
2024	34,842	10.6	8,969	25.7	28.9	35.3	34.8	20.6	20.5	49.7	30.3
2025E	40,272	15.6	10,301	25.6	14.8	42.7	21.0	23.4	21.1	41.1	26.0
2026E	45,420	12.8	12,217	26.9	18.6	52.4	22.9	26.6	21.9	33.5	21.4
2027E	51,090	12.5	14,324	28.0	17.2	60.1	14.5	24.8	21.1	29.2	19.0

Source: Company, Kotak Institutional Equities estimates

We forecast 14% overall sales CAGR for JB, over FY2024-27E

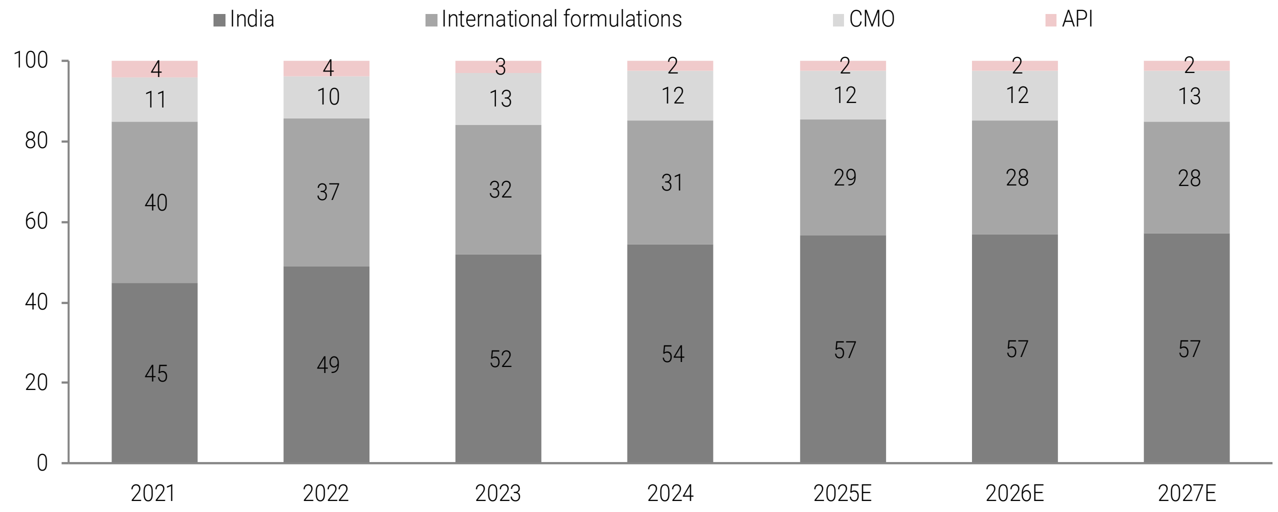
Exhibit 2: Business segments, March fiscal year-ends, 2022-27E (Rs mn, %)

	Units	2022	2023	2024	2025E	2026E	2027E
Overall							
Domestic business	Rs mn	11,883	16,397	18,973	22,798	25,843	29,163
yoy growth	%	*29.8*	*38.0*	*15.7*	*20.2*	*13.4*	*12.8*
International business	Rs mn	12,360	15,096	15,869	17,474	19,577	21,928
yoy growth	%	*9.7*	*22.1*	*5.1*	*10.1*	*12.0*	*12.0*
Net revenues	**Rs mn**	**24,242**	**31,493**	**34,842**	**40,272**	**45,420**	**51,090**
yoy growth	%	*18.7*	*29.9*	*10.6*	*15.6*	*12.8*	*12.5*
Domestic business							
Top brands revenues	Rs mn	9,094	13,940	16,397	19,952	22,669	25,576
yoy growth	%	*40.3*	*53.3*	*17.6*	*21.7*	*13.6*	*12.8*
Other brands revenues	Rs mn	2,789	2,456	2,576	2,847	3,174	3,587
yoy growth	%	*165.5*	*(11.9)*	*4.9*	*10.5*	*11.5*	*13.0*
Net revenues	**Rs mn**	**11,883**	**16,397**	**18,973**	**22,798**	**25,843**	**29,163**
Gross margin	%	*73.8*	*69.1*	*72.2*	*70.0*	*71.0*	*72.0*
International business							
International formulations revenues	Rs mn	8,925	10,103	10,698	11,596	12,845	14,183
yoy growth	%	*9.3*	*13.2*	*5.9*	*8.4*	*10.8*	*10.4*
CMO revenues	Rs mn	2,527	4,058	4,318	4,922	5,661	6,566
yoy growth	%	*11.9*	*60.6*	*6.4*	*14.0*	*15.0*	*16.0*
API revenues	Rs mn	908	936	854	956	1,071	1,178
yoy growth	%	*7.4*	*3.1*	*(8.8)*	*12.0*	*12.0*	*10.0*
Net revenues	**Rs mn**	**12,360**	**15,096**	**15,869**	**17,474**	**19,577**	**21,928**
Gross margin	%	*54.4*	*56.2*	*58.8*	*58.0*	*59.0*	*59.8*

Source: Company, Kotak Institutional Equities estimates

We expect sales contribution from the domestic business to increase to 57% for JB in FY2027E

Exhibit 3: Business mix, March fiscal year-ends, 2021-27E (%)



Source: Company, Kotak Institutional Equities estimates

We forecast 17% and 19% EBITDA and EPS CAGRs, respectively, for JB over FY2024-27E

Exhibit 4: Consolidated summary financials, March fiscal year-ends, 2021-27E (Rs mn)

	2020	2021	2022	2023	2024	2025E	2026E	2027E
Profit and loss								
Net revenues	17,747	20,425	24,242	31,493	34,842	40,272	45,420	51,090
Gross profit	11,439	13,410	15,813	19,811	23,021	26,094	29,899	34,110
EBITDA	3,776	5,604	5,435	6,958	8,969	10,301	12,217	14,324
Depreciation & amortisation	(663)	(687)	(727)	(1,144)	(1,383)	(1,646)	(1,730)	(2,365)
EBIT	3,113	4,917	4,708	5,813	7,586	8,654	10,487	11,958
Interest expense	(30)	(72)	(51)	(361)	(443)	(296)	(243)	(190)
Profit before tax	3,489	5,969	5,049	5,552	7,515	8,935	10,982	12,578
Tax & deferred tax	(765)	(1,484)	(1,189)	(1,452)	(1,989)	(2,250)	(2,768)	(3,173)
Net income (reported)	2,799	4,480	3,853	4,100	5,526	6,685	8,213	9,405
EPS (reported) (Rs)	17.6	29.0	24.9	26.2	35.3	42.7	52.4	60.1
Balance sheet								
Fixed assets (incl. goodwill)	5,987	5,771	12,048	18,701	19,986	19,620	19,326	28,243
Cash & equivalents	290	287	565	769	882	1,971	4,916	562
Inventories	2,747	3,474	4,100	4,305	5,025	5,808	6,551	7,369
Total assets	18,206	22,381	26,074	35,539	39,941	44,765	51,211	58,825
Borrowings	295	326	263	5,482	3,571	2,585	1,835	1,085
Total liabilities	3,826	4,247	4,688	10,735	10,708	10,495	10,459	10,485
Shareholders' equity	14,355	18,097	21,341	24,804	29,233	34,270	40,752	48,340
Total liabilities and equity	18,206	22,381	26,074	35,539	39,941	44,765	51,211	58,825
Cash flow statement								
Operating cash flow before working capital changes	2,660	4,090	4,726	6,555	8,063	8,449	9,788	11,439
Changes in working capital	97	(942)	(3,024)	(299)	(56)	(1,373)	(1,302)	(1,434)
Capex	(730)	(478)	(629)	(726)	(1,269)	(1,250)	(1,400)	(1,600)
Acquisitions	—	(85)	(6,439)	(6,924)	(1,345)	—	—	(9,640)
Other income	37	15	9	22	41	577	738	809
Payment of lease liabilities	932	(1,759)	7,082	(1,990)	(1,466)	(1,960)	(1,774)	(825)
Free cash flow to firm	1,963	2,521	(5,438)	(1,469)	5,307	6,263	7,674	(585)
Free cash flow to equity	2,002	2,470	(5,480)	3,497	3,065	5,055	6,743	(1,477)
Ratios								
Gross margin (%)	64.5	65.7	65.2	62.9	66.1	64.8	65.8	66.8
EBITDA margin (%)	21.3	27.4	22.4	22.1	25.7	25.6	26.9	28.0
RoAE (%)	19.2	27.6	19.5	17.8	20.5	21.1	21.9	21.1
RoCE (%)	15.9	21.7	17.5	16.4	18.2	19.2	19.9	19.3
RoIC (%)	21.2	31.5	21.4	17.5	20.6	23.4	26.6	24.8
Net debt / EBITDA (X)	(0.9)	(0.9)	(0.6)	0.2	0.1	(0.3)	(0.6)	(0.6)

Source: Company, Kotak Institutional Equities estimates

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Valuation: Initiate with BUY and FV of Rs2,025/share

We initiate coverage on JB with a BUY rating and FV of Rs2,025/share, based on 36X September 2026E EPS, a ~10% premium to the P/E multiple we ascribe to Mankind, but a discount to TRP's implied domestic P/E multiple. We expect JB to trade at a premium to most other domestic-focused companies, owing to its (1) ability to create strong brands with leading market shares in the IPM, as evident across its legacy brand families, (2) imminent ramp-up of the acquired portfolios, (3) robust traction in the CMO portfolio, (4) relatively lesser exposure to the US, EU and other regulated markets and (5) unparalleled execution track record. Over the past five years, JB's stock price has surged ~10X. Yet, in our view, current valuations of 21X FY2026E EV/EBITDA and 33X FY2026E P/E are yet to fully encapsulate the growth potential of the business. We believe the 16% 10-year overall EBITDA CAGR implied by our reverse DCF model captures the company's potential success in the domestic and CMO segments.

Scale-up of acquired brands to complement strong legacy brand franchise

JB is the 22nd largest player in the IPM (used to hold the 32nd rank three years ago), with a strong franchise in therapies such as cardiac, gastrointestinal and antiparasitic. JB's robust performance has been historically driven by its key brand franchisees, namely Cilacar, Rantac, Metrogyl and Nicardia, wherein, it posted sales CAGRs of 10-30% over FY2015-21. Even after FY2021, with the stake sale by the erstwhile promoters and entry of Mr Nikhil Chopra and his team, JB's performance has remained robust. The new management team's ability to ramp up existing franchises through line extensions and optimization of the field force clearly stands out. For instance, within the cardiac segment, JB is now present across segments, with leading market shares in the respective molecule groups. As of FY2024, JB has three brand families with domestic sales in excess of Rs2 bn, two brand families with domestic sales in the range of Rs1-2 bn and three brand families with domestic sales in the range of Rs0.5-1 bn. Following the recent inorganic forays, which include five deals over the past three years, we bake in further outperformance over the IPM for JB's domestic branded portfolio, driven by improved sales productivity of its ~2.3k field force. Accordingly, we expect a ~15% sales CAGR over FY2024-27E for JB's overall domestic business, with organic domestic CAGR being ~13%.

Our FV implies a 10-year EBITDA CAGR of 16%

We initiate coverage on JB with a BUY rating and FV of Rs2,025, based on 36X September 2026E EPS, implying 10-year sales/EBITDA CAGRs of 14%/16%, respectively. We expect JB to deliver 14%, 17% and 19% revenue, EBITDA and PAT CAGRs, respectively, over FY2024-27E, driven by the robust uptick across branded Rx, especially in its core therapies, scale-up of recent acquisitions and anticipated doubling of the CMO business by FY2028E. Within branded Rx, we expect primarily volume-led ramp-up of legacy franchises and in acquired portfolios to drive higher productivity for JB. Led by improved revenue productivity, slight moderation in RM prices and reduction in ESOP expenses, JB is guiding for 26-28% operating EBITDA margins in FY2025E (without factoring in ESOP costs). We note the ophthals in-licensing deal with Novartis would impose a drag on the domestic business until January 2027, and accordingly factor in 26.6% operating EBITDA margin in FY2025E. On the other hand, we forecast improved productivity to gradually offset this impact and bake in an overall 230 bps reported EBITDA margin expansion over FY2024-27E. On the international front, we expect the CMO business to provide a significant impetus to growth. JB has also highlighted that it does not intend to be as aggressive as it has been over the past 2-3 years on the M&A front. Accordingly, in our view, given the absence of any large-scale capex initiatives, the business would be generating robust FCF (KIE estimate of cumulative FCF of Rs13.4 bn over FY2025-27E). Considering the business model is characterized by healthy growth, robust margins, low working capital requirements and low capex, we expect return ratios to remain strong and forecast 21-22% RoAEs over FY2025-27E.

Our FV of Rs2,025/share implies ~14% and ~16% 10-year sales and EBITDA CAGRs, respectively

Exhibit 5: Reverse DCF valuation, March fiscal year-ends, 2023-44E (Rs mn)

	2023	2024	2025E	2026E	2027E	2028E	2030E	2032E	2034E	2036E	2037E	2039E	2040E	2042E	2044E
Reverse DCF model															
Net sales	**31,493**	**34,842**	**40,272**	**45,420**	**51,090**	**58,994**	**77,945**	**101,599**	**130,121**	**163,499**	**181,680**	**220,411**	**240,623**	**280,502**	**317,371**
%yoy growth	*29.9*	*10.6*	*15.6*	*12.8*	*12.5*	*15.5*	*14.8*	*13.9*	*12.9*	*11.8*	*11.1*	*9.8*	*9.2*	*7.6*	*6.0*
Pre-Ind AS-116 EBITDA	**6,861**	**8,842**	**10,161**	**12,068**	**14,165**	**16,813**	**22,916**	**30,784**	**40,598**	**52,483**	**59,137**	**73,728**	**81,571**	**97,615**	**113,302**
Pre-Ind AS-116 EBITDA margin (%)	*21.8*	*25.4*	*25.2*	*26.6*	*27.7*	*28.5*	*29.4*	*30.3*	*31.2*	*32.1*	*32.6*	*33.5*	*33.9*	*34.8*	*35.7*
Gross block	25,610	28,051	29,401	30,901	42,241	44,011	48,722	55,457	64,477	76,176	83,170	99,704	109,209	130,589	154,955
Depreciation & amortisation	(1,144)	(1,383)	(1,646)	(1,730)	(2,365)	(2,465)	(2,728)	(3,050)	(3,417)	(3,885)	(4,159)	(4,786)	(5,133)	(5,876)	(6,663)
%gross block	*(4.5)*	*(4.9)*	*(5.6)*	*(5.6)*	*(5.6)*	*(5.6)*	*(5.6)*	*(5.5)*	*(5.3)*	*(5.1)*	*(5.0)*	*(4.8)*	*(4.7)*	*(4.5)*	*(4.3)*
EBIT	5,716	7,459	8,514	10,337	11,799	14,349	20,187	27,734	37,181	48,598	54,978	68,942	76,438	91,738	106,638
EBIT margin (%)	*18.2*	*21.4*	*21.1*	*22.8*	*23.1*	*24.3*	*25.9*	*27.3*	*28.6*	*29.7*	*30.3*	*31.3*	*31.8*	*32.7*	*33.6*
NOPAT	**4,221**	**5,485**	**6,370**	**7,731**	**8,823**	**10,905**	**15,342**	**21,078**	**28,257**	**36,935**	**41,784**	**52,396**	**58,093**	**69,721**	**81,045**
Tax rate (%)	*(26.2)*	*(26.5)*	*(25.2)*	*(25.2)*	*(25.2)*	*(24.0)*	*(24.0)*	*(24.0)*	*(24.0)*	*(24.0)*	*(24.0)*	*(24.0)*	*(24.0)*	*(24.0)*	*(24.0)*
Capex	(726)	(1,269)	(1,250)	(1,400)	(1,600)	(1,770)	(2,572)	(3,658)	(4,814)	(6,213)	(6,995)	(8,706)	(9,505)	(11,080)	(12,536)
%sales	*(2.3)*	*(3.6)*	*(3.1)*	*(3.1)*	*(3.1)*	*(3.0)*	*(3.3)*	*(3.6)*	*(3.7)*	*(3.8)*	*(3.9)*	*(4.0)*	*(4.0)*	*(4.0)*	*(4.0)*
Change in working capital	(305)	4	(1,373)	(1,302)	(1,434)	1,121	(2,006)	(2,483)	(2,978)	(3,443)	(3,636)	(3,942)	(4,042)	(3,948)	(3,576)
Free cash flow to firm	**4,335**	**5,603**	**5,393**	**6,760**	**8,154**	**12,721**	**13,492**	**17,988**	**23,882**	**31,163**	**35,311**	**44,533**	**49,679**	**60,570**	**71,596**
Discount factor				0.50	1.50	2.50	4.50	6.50	8.50	10.50	11.50	13.50	14.50	16.50	18.50
Discounted free cash flow to firm				**6,387**	**6,878**	**9,578**	**8,097**	**8,602**	**9,102**	**9,465**	**9,575**	**9,623**	**9,583**	**9,312**	**8,772**

Asset valuation	
WACC (%)	**12.0**
Sum of discounted free cash flows	**167,512**
Terminal growth rate (%)	*5.5*
Terminal value	**141,990**
Enterprise value	**309,502**
Net debt	(7,650)
Equity value	**317,151**
Minority interest	—
Equity value attributable to parent	**317,151**
Number of shares (mn)	157
Fair value per share (Rs)	**2,025**
Current price per share (Rs)	1,755
Upside (%)	**15**

Source: Company, Kotak Institutional Equities estimates

We expect JB to continue to trade at a premium to most other domestic-focused pharma companies

Exhibit 6: Valuation of Indian pharma players, March fiscal year-ends, 2024-27E (X, %)

		Fair value	Current price	PER (X)				EV/sales (X)				EV/EBITDA (X)			
Indian formulations players	**Rating**	**(Rs)**	**(Rs)**	**2024**	**2025E**	**2026E**	**2027E**	**2024**	**2025E**	**2026E**	**2027E**	**2024**	**2025E**	**2026E**	**2027E**
Cipla	ADD	1,550	1,481	29.0	25.7	23.0	22.9	4.4	4.1	3.7	3.5	18.2	16.8	15.0	14.9
Dr. Reddy's	REDUCE	5,925	6,402	19.1	18.3	18.2	21.1	3.6	3.1	2.8	2.8	12.7	11.0	10.7	12.2
Lupin	SELL	1,400	1,621	34.9	29.8	25.9	24.3	3.7	3.4	3.1	2.9	19.7	17.0	15.2	14.3
Mankind	ADD	2,370	2,129	44.6	38.2	31.0	26.2	8.0	7.1	6.3	5.5	32.5	28.5	23.9	20.6
Sun	ADD	1,630	1,521	36.2	32.5	27.0	24.0	7.3	6.5	5.9	5.5	27.1	23.6	20.1	18.4
Torrent	REDUCE	2,575	2,787	60.1	47.1	36.3	30.3	9.1	8.0	7.1	6.4	28.9	24.8	21.4	19.2
JB	**BUY**	**2,025**	**1,755**	**49.7**	**41.1**	**33.5**	**29.2**	**7.8**	**6.7**	**6.0**	**5.3**	**30.3**	**26.0**	**21.4**	**19.0**
Ajanta	NR	NA	2,287	35.3	30.6	26.4	20.0	6.8	6.0	5.4	5.0	21.3	18.7	14.4	16.1
Alembic	NR	NA	877	28.0	24.7	19.9	15.9	2.8	2.5	2.3	2.0	15.3	12.8	10.6	9.4
Alkem	NR	NA	4,991	33.2	28.3	24.3	23.8	4.6	4.2	3.8	3.5	23.1	19.9	17.1	14.7
Eris	NR	NA	1,029	35.7	33.9	25.1	20.4	8.0	5.5	4.9	4.5	15.8	13.7	12.1	11.3
Glenmark	NR	NA	1,231	(24.2)	26.0	21.0	16.8	2.9	2.5	2.2	2.0	13.8	11.8	9.8	NA
Ipca	NR	NA	1,130	52.4	32.5	24.6	20.8	4.0	3.4	3.0	2.6	18.4	14.7	13.1	10.6
Zydus	NR	NA	1,074	28.2	25.9	24.5	24.5	5.8	5.0	4.7	4.6	18.4	17.5	18.9	12.4
Mean				**33.0**	**31.0**	**25.8**	**22.9**	**5.6**	**4.9**	**4.4**	**4.0**	**21.1**	**18.3**	**16.0**	**14.8**
Median				**35.1**	**30.2**	**24.8**	**23.3**	**5.2**	**4.6**	**4.2**	**4.0**	**19.0**	**17.2**	**15.1**	**14.7**

		Fair value	Current price												
MNC formulations players	**Rating**	**(Rs)**	**(Rs)**	**2024**	**2025E**	**2026E**	**2027E**	**2024**	**2025E**	**2026E**	**2027E**	**2024**	**2025E**	**2026E**	**2027E**
Abbott (India)	NR	NA	27,624	48.9	43.9	38.5	30.0	9.7	8.7	7.9	7.1	34.3	30.3	23.7	NA
GSK	NR	NA	2,651	76.1	53.2	NA	NA	12.5	11.3	NA	NA	47.4	38.9	NA	NA
Pfizer	NR	NA	4,529	37.6	34.5	NA	NA	8.5	8.0	NA	NA	29.4	26.7	NA	NA
Sanofi	NR	NA	6,500	NA	24.5	22.3	19.3	NA	5.0	4.7	4.0	17.4	15.9	13.7	12.5
Mean				**54.2**	**39.0**	**30.4**	**24.7**	**10.2**	**8.3**	**6.3**	**5.6**	**32.1**	**27.9**	**18.7**	**12.5**
Median				**48.9**	**39.2**	**30.4**	**24.7**	**9.7**	**8.4**	**6.3**	**5.6**	**31.8**	**28.5**	**18.7**	**12.5**

Notes:

(a) 2024, 2025, 2026, 2027 represent calendar year-ends for global companies and fiscal year-ends for domestic companies.

(b) Stocks under coverage values are based on KIE estimates, non-covered stocks are based on Bloomberg consensus estimates.

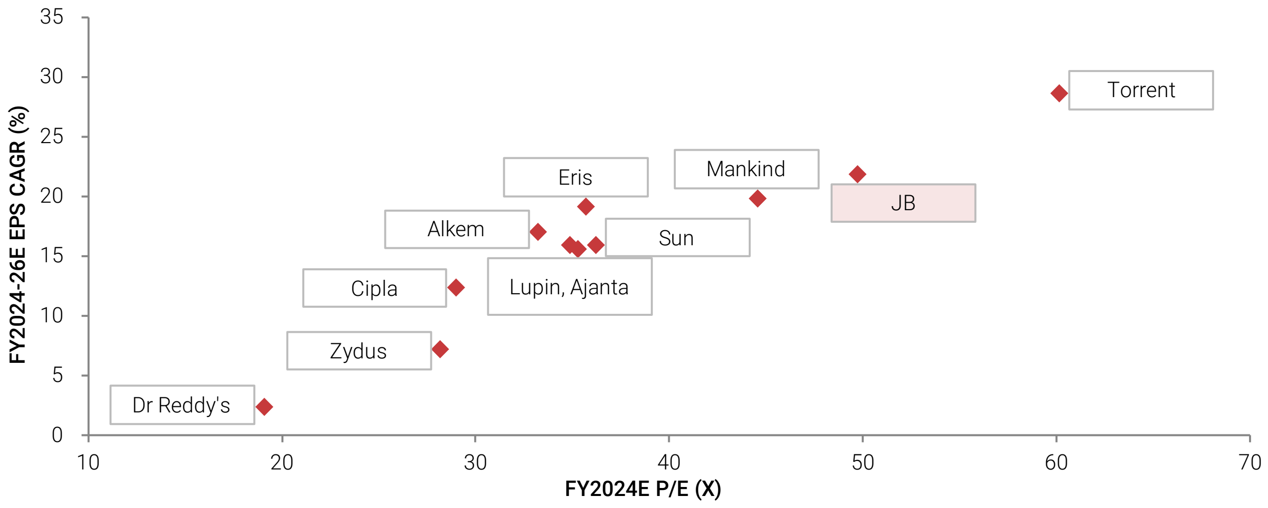
Source: Bloomberg, Kotak Institutional Equities estimates

We expect JB to trade at a premium to other domestic-focused pharma companies

Our ascribed multiple of 36X September-2026E EPS is at a ~10% premium to the P/E multiple we ascribe to Mankind, but at a discount to TRP's implied domestic P/E multiple. We expect JB to trade at a premium to most other domestic-focused companies, owing to its (1) ability to create strong brands, with leading market share in the IPM, as evident across its legacy brand families, (2) imminent ramp-up of the acquired portfolios, (3) robust traction in the CMO portfolio and (4) relatively lesser exposure to the US, EU and other regulated markets.

JB is trading at a premium to most domestic pharma companies due to superior growth and return metrics

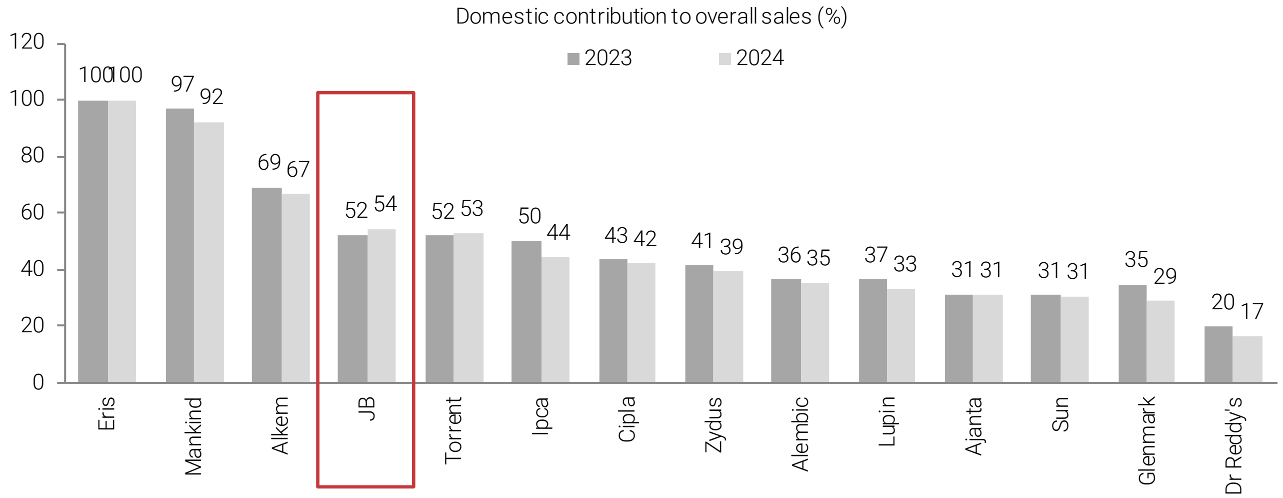
Exhibit 7: P/E multiple (X-axis) versus EPS CAGR (Y-axis), March fiscal year-ends, 2024-26E (X, %)



Source: Bloomberg, Kotak Institutional Equities estimates

As of FY2024, JB has the fourth-highest India contribution among comparable listed domestic peers

Exhibit 8: Domestic contribution to overall sales, March fiscal year-ends, 2023-24 (%)

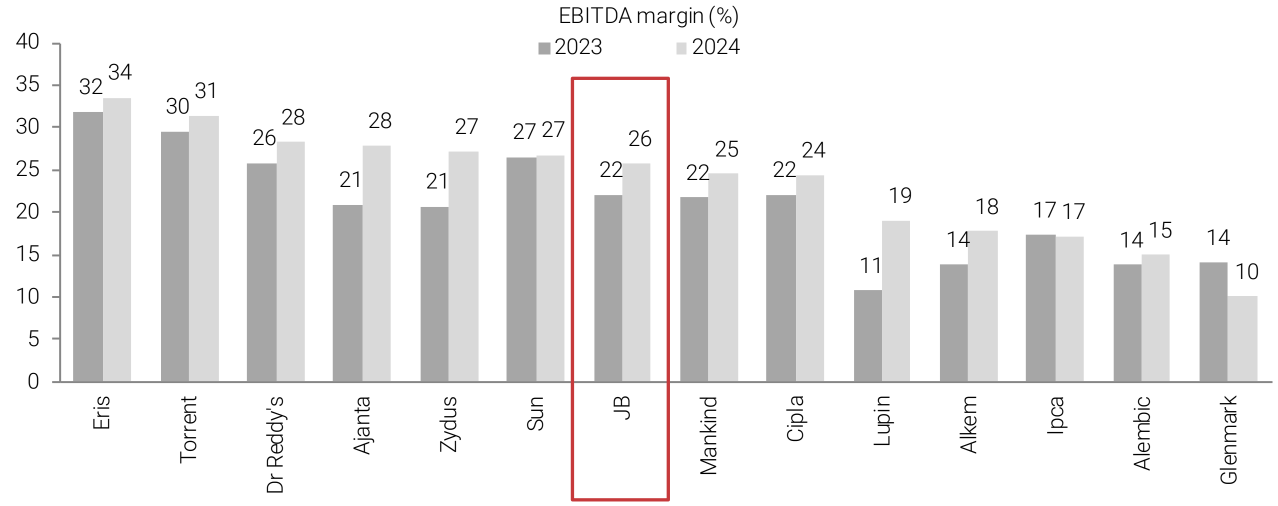


Source: Companies, Kotak Institutional Equities

In terms of profitability and return metrics, JB is one of the leading players among domestic peers. Owing to 50%+ sales contribution from the domestic business, which generates EBITDA margins of 30%+, a measured US presence and focused strategy of expanding in core areas through both organic and inorganic routes, JB generated 20.5% RoAE in FY2024, much higher than other large names such as Sun, Cipla, Alkem, Zydus, Torrent and Lupin.

As of FY2024, JB ranks seventh among comparable domestic peers in terms of overall EBITDA margins

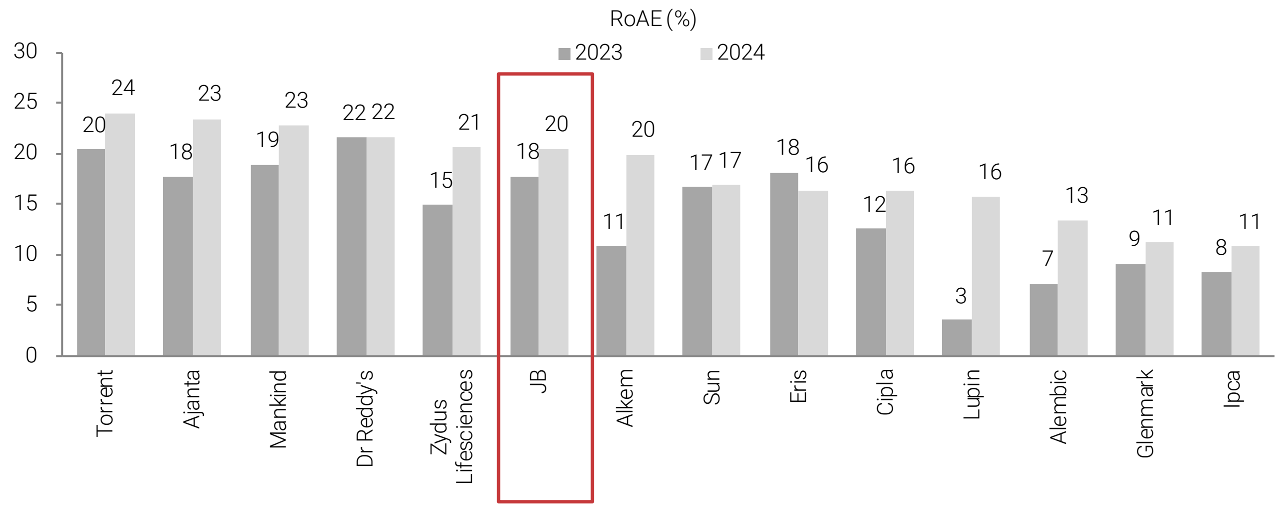
Exhibit 9: EBITDA margins, March fiscal year-ends, 2023-24 (%)



Source: Companies, Kotak Institutional Equities

As of FY2024, JB has the sixth-highest RoAE among comparable listed domestic peers

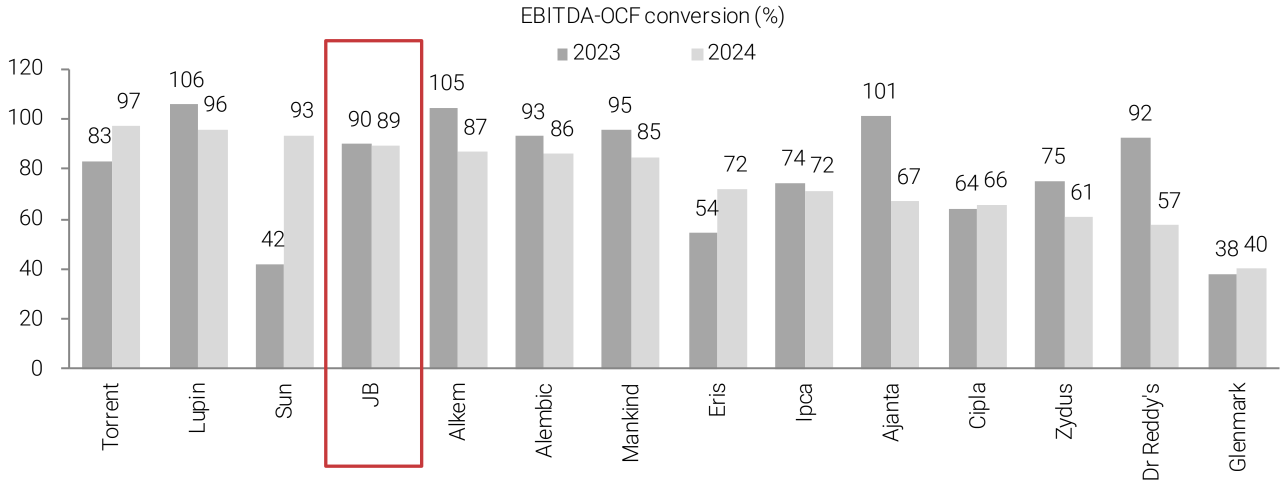
Exhibit 10: Return on equity, March fiscal year-ends, 2023-24 (%)



Source: Companies, Kotak Institutional Equities

JB enjoys a high EBITDA-OCF conversion

Exhibit 11: EBITDA-OCF conversion, March fiscal year-ends, 2023-24 (%)

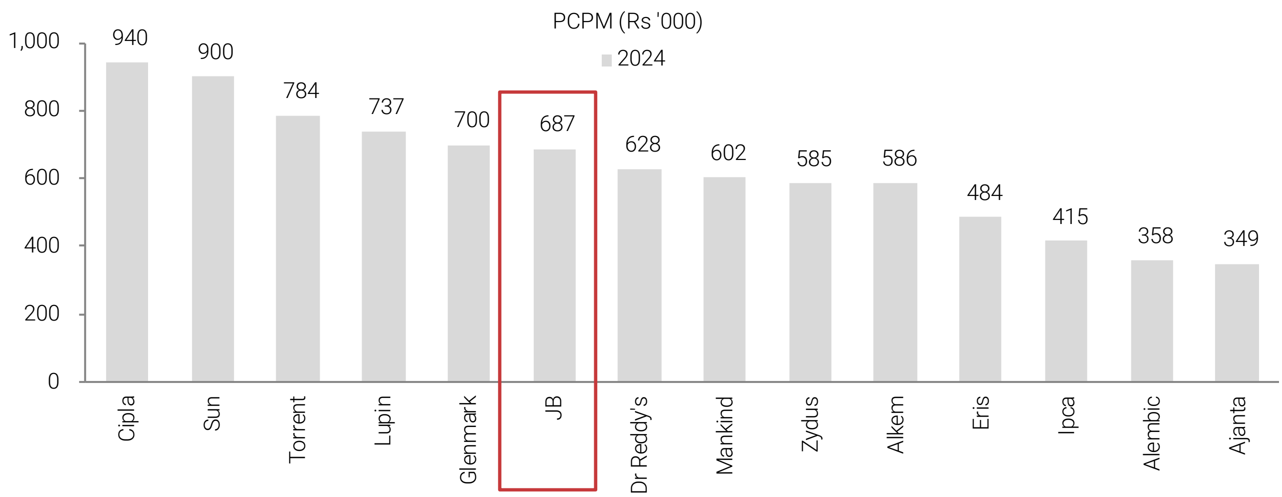


Source: Companies, Kotak Institutional Equities

Following the Novartis ophthalmic acquisition, JB has added ~100 MRs to its existing 2,200 strong field force. In the absence of any further significant MR additions in the coming years, we expect JB's PCPM to improve hereon. From current levels of Rs687k in FY2024, we expect JB to reach PCPM of Rs900k+ by FY2027E, which would place it among the leading players in the IPM, in terms of productivity.

As of FY2024, JB ranked sixth among key domestic peers in terms of per capita per month sales (PCPM)

Exhibit 12: PCPM, March fiscal year-ends, 2024 ('000)



Source: Companies, Kotak Institutional Equities

2

Domestic business: Healthy mix of legacy products and acquired brands

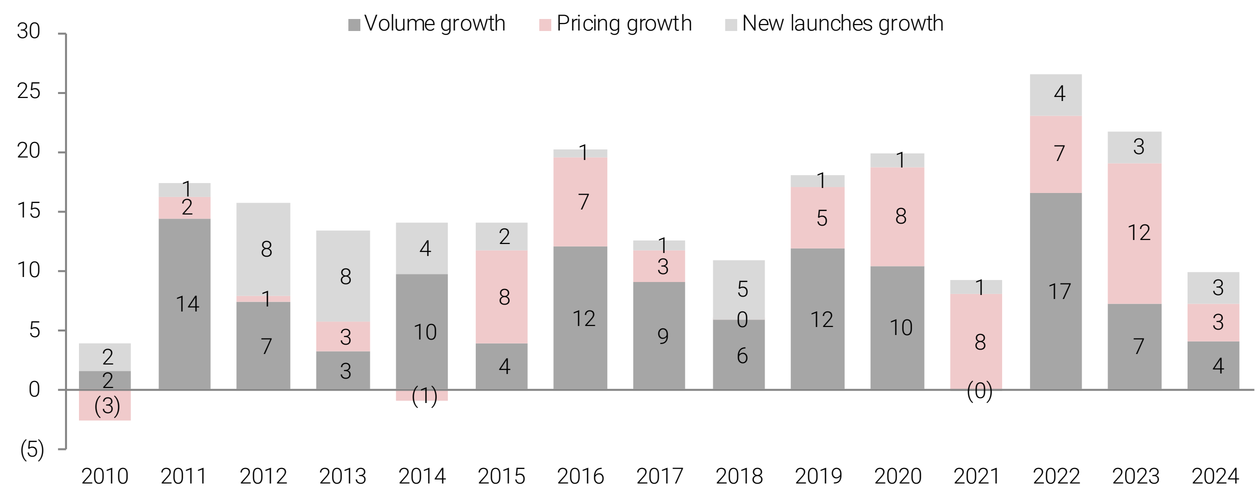
Having primarily grown organically until FY2022 and later on aided by benefits from acquired brands, JB has consistently outperformed the IPM and currently ranks 22 in the IPM, in terms of domestic sales. While the company has largely limited its marketing and branding efforts to scale up in its core therapies, it has been able to establish a towering presence in these therapies, especially in the cardiac segment. Its base portfolio has been reporting a robust sales CAGR of 17% over FY2015-24, with leading brand families posting 10-30% CAGRs over FY2015-21. The recent acquisitions would propel the topline growth further, and accordingly we bake in robust ~15% and ~13% overall and organic domestic sales CAGRs, respectively, over FY2024-27E.

Despite growing largely organically till FY2021, JB has consistently outperformed IPM growth

According to IQVIA, JB's domestic growth has been outperforming the IPM by ~1.4X since FY2010. Importantly, bulk of the outperformance has been driven by healthy volume growth. This continuous outperformance has been led by JB's power brands, significant market share gains and razor-sharp focus on execution. In its domestic pharma business, JB's product portfolio comprises a broad range of formulations across various acute and chronic therapeutic areas, including cardiovascular, gastrointestinal, antiparasitic, gynae, derma, anti-infectives and respiratory therapies. It leverages its brand and leadership positions in its key therapies to launch related products, thus capturing wider molecule coverage. Apart from consistently beating the IPM growth by 400-500 bps over FY2014-21, JB has also demonstrated market leadership in two therapeutic categories, namely cardiac and gastrointestinal. In particular, four major brand families, namely Cilacar, Rantac, Nicardia and Metrogyl, across two therapeutic categories, i.e., cardiac and gastro, contributed to ~60% of the domestic revenues in FY2024.

JB's annual domestic sales growth over FY2010-24 has been driven by a healthy mix of volumes and price hikes

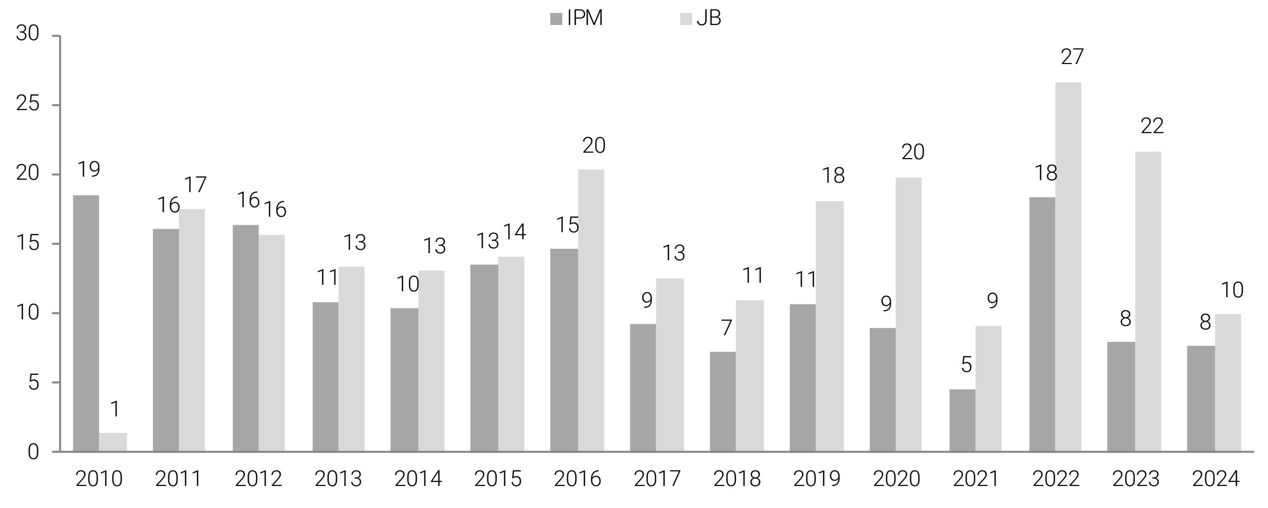
Exhibit 13: Annual overall domestic sales growth drivers, March fiscal year-ends, 2010-24 (%)



Source: IQVIA, Kotak Institutional Equities

JB's annual overall domestic sales growth has been higher than IPM in 13 out of the past 15 years

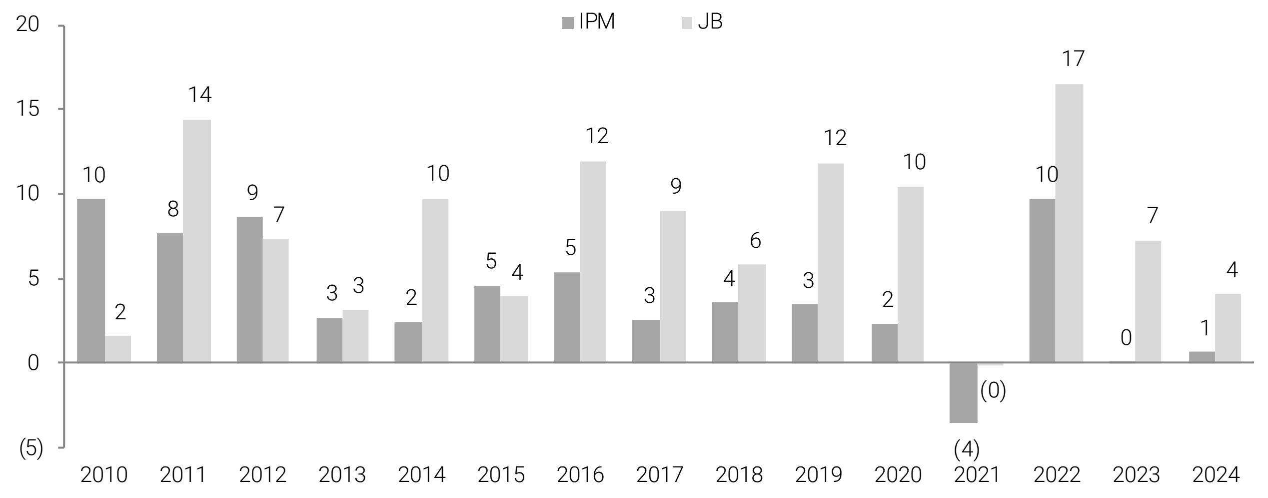
Exhibit 14: Annual overall domestic sales growth, March fiscal year-ends, 2010-24 (%)



Source: IQVIA, Kotak Institutional Equities

JB’s annual domestic sales growth includes ~800 bps contribution from volumes over FY2014-24

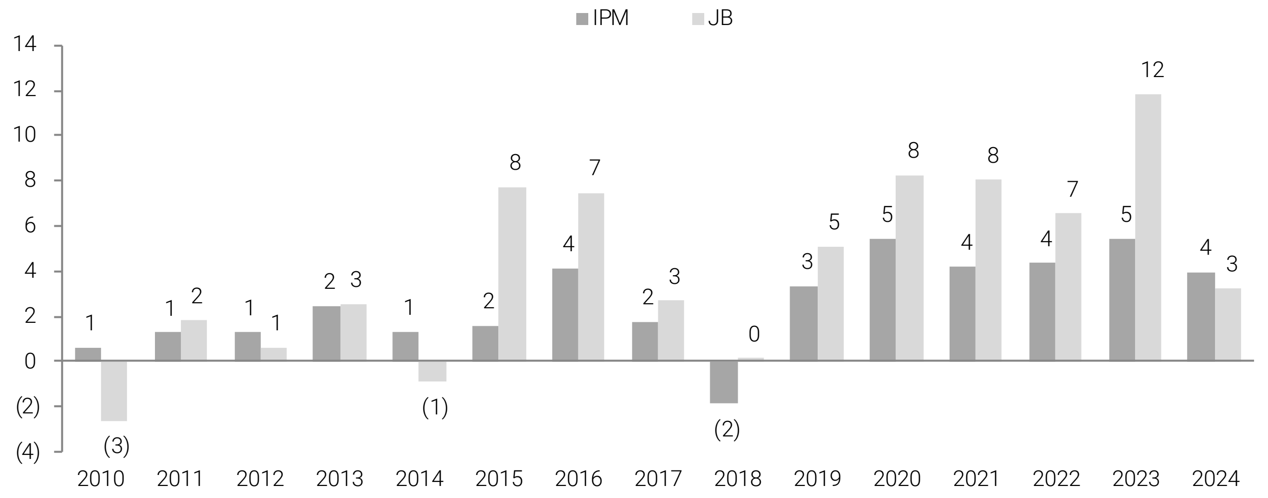
Exhibit 15: Annual overall domestic volume growth, March fiscal year-ends, 2010-24 (%)



Source: IQVIA, Kotak Institutional Equities

JB's annual domestic sales growth includes ~600 bps contribution from price hikes over FY2014-24

Exhibit 16: Annual overall domestic pricing growth, March fiscal year-ends, 2010-24 (%)



Source: IQVIA, Kotak Institutional Equities

JB has outperformed the IPM across most of its top therapies over FY2021-24

Exhibit 17: IPM versus JB therapy-wise growth, March fiscal year-ends, 2021-24 (%)

	IPM CAGR MAT Mar 2021-24 (%)	JB's CAGR MAT Mar 2021-24 (%)
Therapy growth vs IPM		
Cardiac	10	20
Gastro-intestinal	13	18
Opthal/otologicals	16	7
Anti-parasitic	10	24
Gynaec	13	32
Derma	8	19
Anti-infectives	15	0
Respiratory	16	100
VMN	10	8
Pain/analgesics	14	1
Total	**12**	**19**

Source: IQVIA, Kotak Institutional Equities

JB ranks within the top-10 in the IPM in its key therapeutic areas

Exhibit 18: JB—top therapies sales and market ranking, March fiscal year-ends, 2024 (Rs mn, %)

	MAT Mar-2024 domestic sales (Rs mn)	Ranking in covered markets	Market share in IPM (%)
Therapeutic areas			
Cardiac	10,133	8	3.8
Gastro-intestinal	6,571	9	2.9
Opthal/otologicals	2,004	5	4.7
Anti-parasitic	1,985	1	33.8
Gynaec	1,041	18	1.0
Derma	591	22	0.4
Anti-infectives	425	26	0.2
Respiratory	400	23	0.2
VMN	340	26	0.2
Pain/analgesics	273	26	0.2

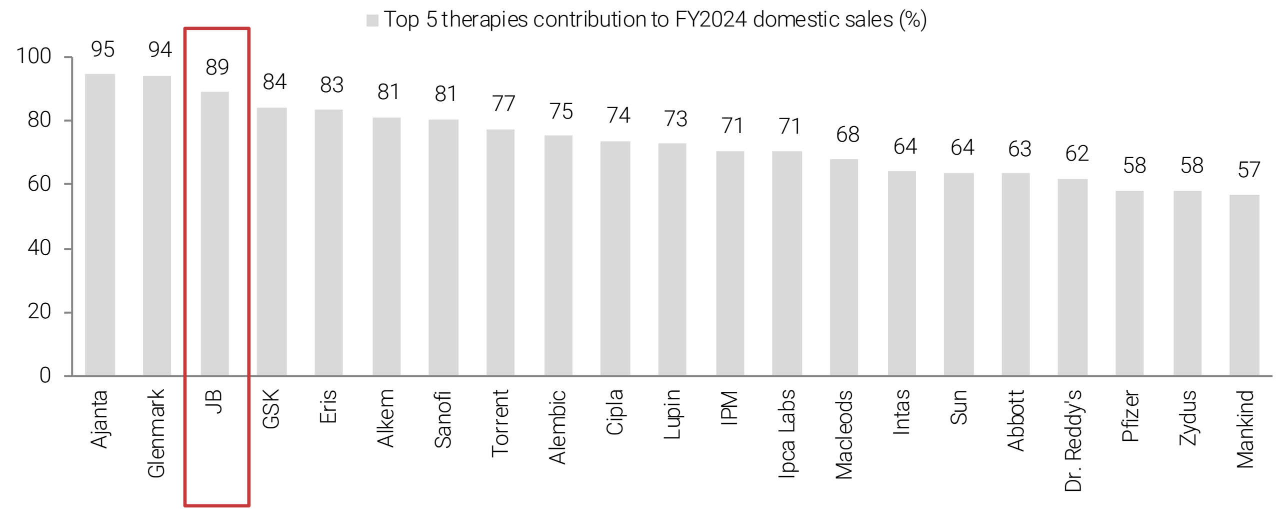
Source: IQVIA, Kotak Institutional Equities

Under the current management, JB is working toward therapy diversification

Our analysis of therapy concentration across leading companies in the IPM reveals that JB has one of the most concentrated portfolios among key domestic players. As of FY2024, JB's top-5 therapies (cardiovascular, gastrointestinal, ophthals, antiparasitic and gynae) contributed ~89% to overall domestic sales, much higher than all relevant peers.

JB has a much higher therapy concentration in its domestic portfolio, compared with peers

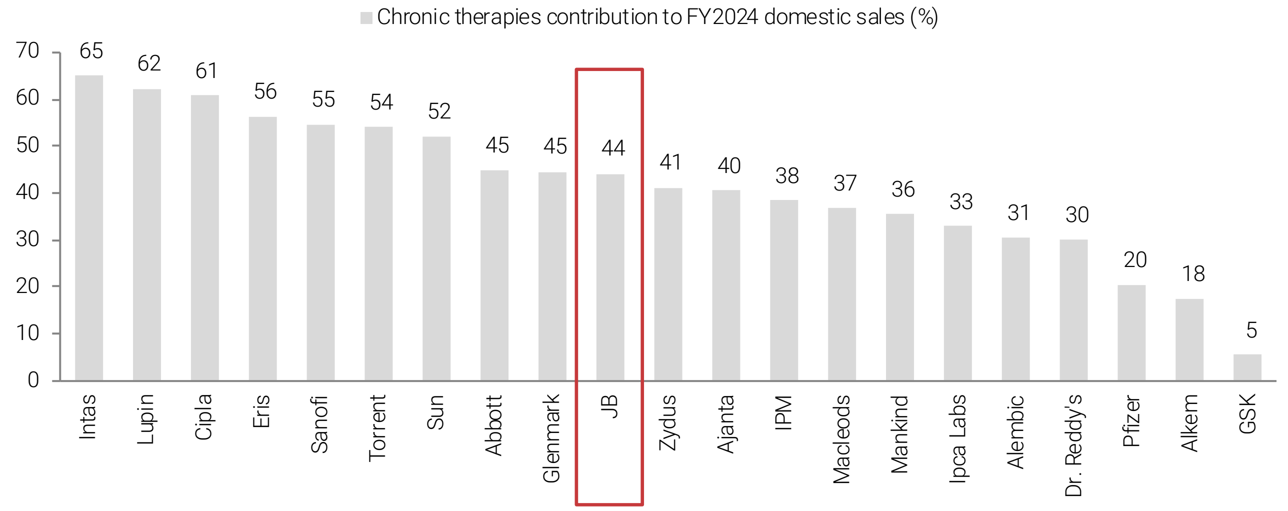
Exhibit 19: Contribution of top-5 therapies to domestic sales, March fiscal year-end, 2024 (%)



Source: IQVIA, Kotak Institutional Equities

As of FY2024, JB had a 44% chronic mix, higher than the IPM

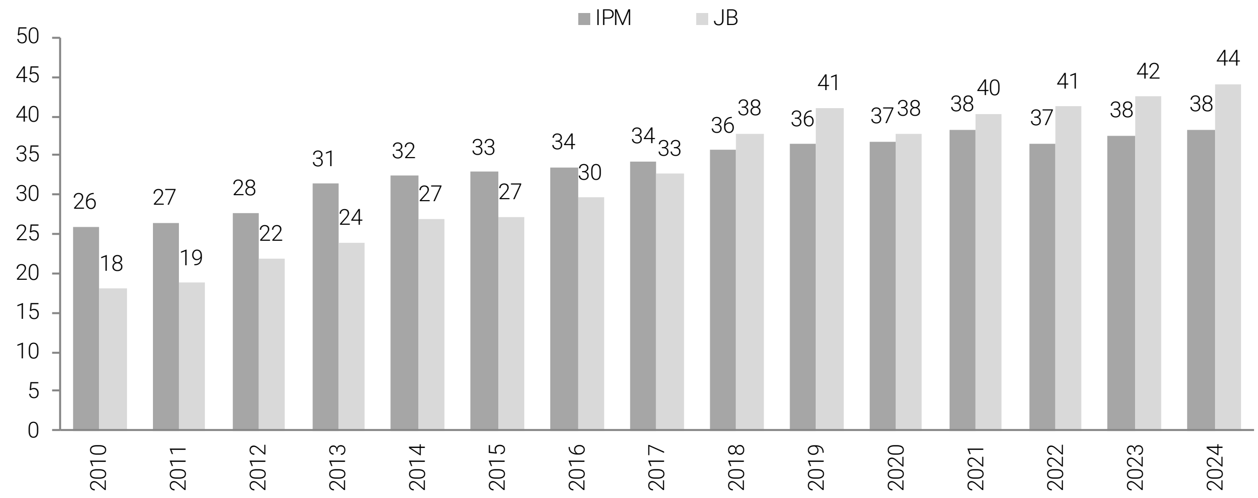
Exhibit 20: Chronic contribution to sales, March fiscal year-end, 2024 (%)



Source: IQVIA, Kotak Institutional Equities

Since FY2018, JB's chronic mix has surpassed the IPM

Exhibit 21: IPM versus JB chronic mix, March fiscal year-ends, 2010-24 (%)



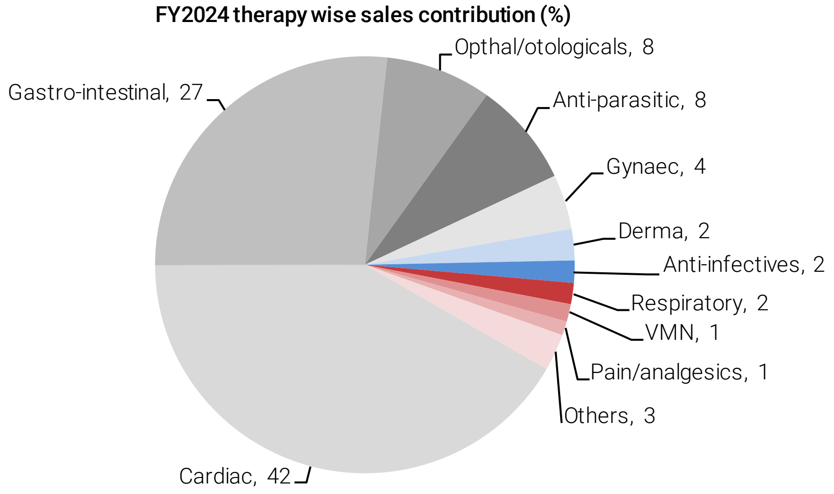
Source: IQVIA, Kotak Institutional Equities

After KKR's acquisition of a majority stake in JB in July 2020, the company geared more toward diversification into newer therapeutic categories under the new management, apart from fortifying existing brands. Under the purview of CEO Mr Nikhil Chopra, a veteran in the Indian pharma industry with a 25-year-long stint at Cipla, JB doubled down on its objective of growing its India business. From ranking 32nd in the IPM at the time of the acquisition, JB has gained 10 ranks and is currently the 22nd largest player in the IPM. Management devised a dedicated strategy to bolster this strong growth momentum, which is summarized as follows:

- **Newer therapeutic areas:** Addition of new therapeutic categories, including pediatrics, nephrology, respiratory disorders and diabetes.
- **Scale up existing brands:** Maintain the emphasis on big, established brands through line extensions.
- **Improve field force productivity:** Boost MR productivity, while managing the current sales staff more effectively and without significantly expanding the field force.
- **Lifecycle management of chronic portfolio brands:** Focus on lifecycle management to increase market shares in chronic categories.
- **Expansion into Tier 3 cities and beyond:** Increase distribution reach of existing portfolio beyond urban and Tier 1-2 cities to maximize growth potential.
- **Look out for acquisition opportunities:** Examine inorganic growth prospects that could complement the current portfolio and competencies. JB had completed five deals in recent times—Sanzyme, Azmarda, the pediatric brands of Dr. Reddy's Laboratories, Razel and ophthalmic brands of Novartis.

As of FY2024, cardiac, gastrointestinal and ophthals form a bulk of JB's domestic portfolio

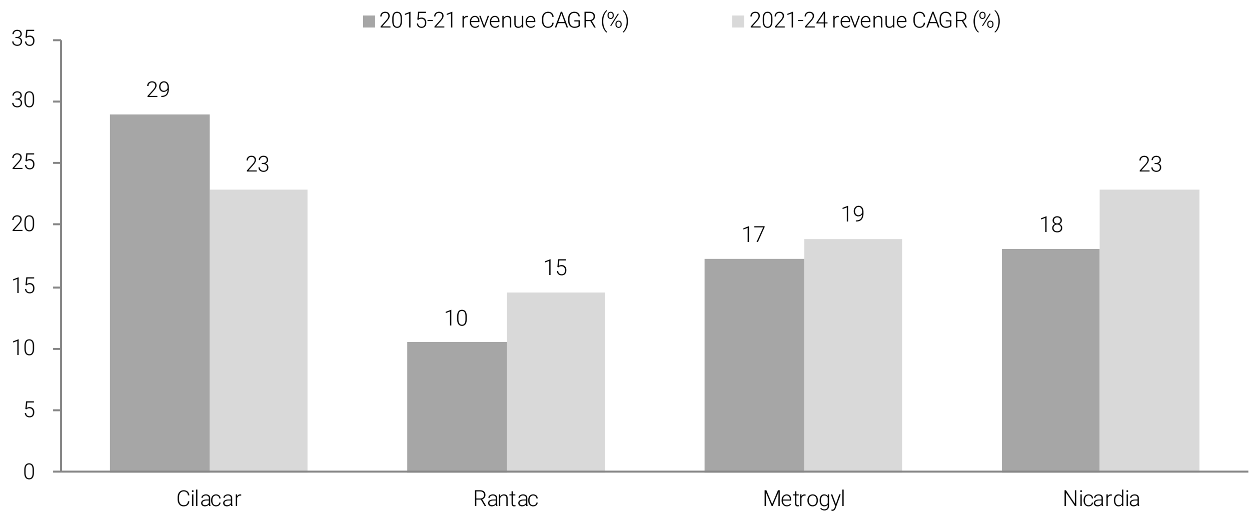
Exhibit 22: Therapy mix, March fiscal year-end, 2024 (%)



Source: IQVIA, Kotak Institutional Equities

Post-KKR's acquisition, JB's legacy brand families have posted robust CAGRs of 15-22% over FY2021-24

Exhibit 23: Key brand families' growth, March fiscal year-ends, 2015-24 (%)



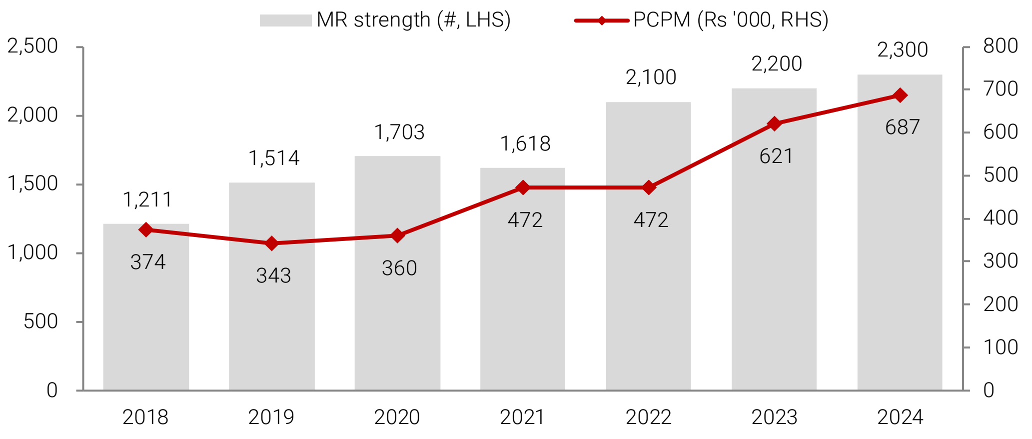
Source: IQVIA, Kotak Institutional Equities

Separate divisions with focused approach to drive higher productivity

Pre-FY2018, JB only had a single division to drive its domestic business. However, in FY2018, it commenced a field force restructuring exercise, with an aim to grow in its focus therapeutic areas. Since then, it has ramped up its MR strength from 1,211 MRs in FY2018 to ~2,300 MRs in FY2024, along with 200-250 managers. We highlight JB's PCPM improved from Rs374k in FY2018 to Rs687k in FY2024. We expect this to further improve, led by optimal utilization of the existing field force.

As of FY2024, JB had a PCPM of Rs687k

Exhibit 24: PCPM, March fiscal year-ends, 2024 ('000)



Source: Companies, Kotak Institutional Equities

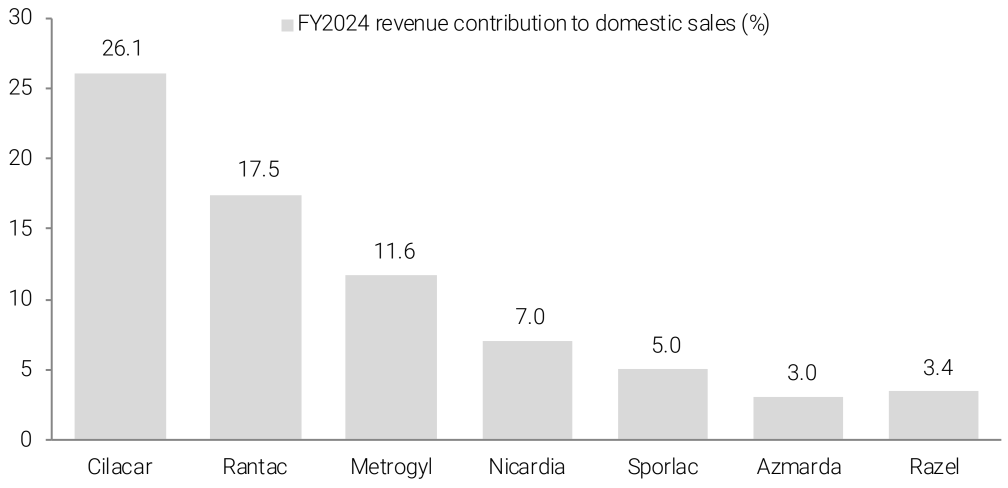
Currently, JB has seven therapy-focused divisions (versus one division until FY2017) namely, VIVA, IIVA, YUVA, NOVA, HF, RENOVA and Sanzyme. Among these divisions, VIVA (Cilacar) and IIVA (Nicardia) contain JB's top-four brands as the 'key anchor brand' for that division. Earlier, JB had two other divisions, namely DIVA (Metrogyl) and JIVA (Rantac). However, due to a significant overlap in prescribers for Rantac and Metrogyl, with dentists and GPs accounting for ~85% of Metrogyl prescribers and ~70% of Rantac prescribers, the company merged the two brands into the YUVA division. Consequently, the total reps for the YUVA division were also cut down to 600 from the total of 900 for both brands. This 600 MR count included 450 in the urban markets and the remaining 150 in the rural markets. Thereafter, in 1QFY22, JB launched its RENOVA division with a strength of ~50 MRs, announcing its foray into nephrology. At the same time, JB also came out with a new NOVA division to cater to its respiratory and pediatrics portfolios. It launched the Sanzyme division separately, post-acquisition of the probiotic brands, with a strength of ~350 MRs. In addition, after acquiring Azmarda, JB launched a separate division for heart failure, HF, with a strength of ~200 MRs.

Legacy brand franchises with market leadership

JB has four large brand families, which have primarily driven its robust growth over the past decade and consistent outperformance over the IPM.

JB's leading brand families contributed ~74% to domestic sales in FY2024

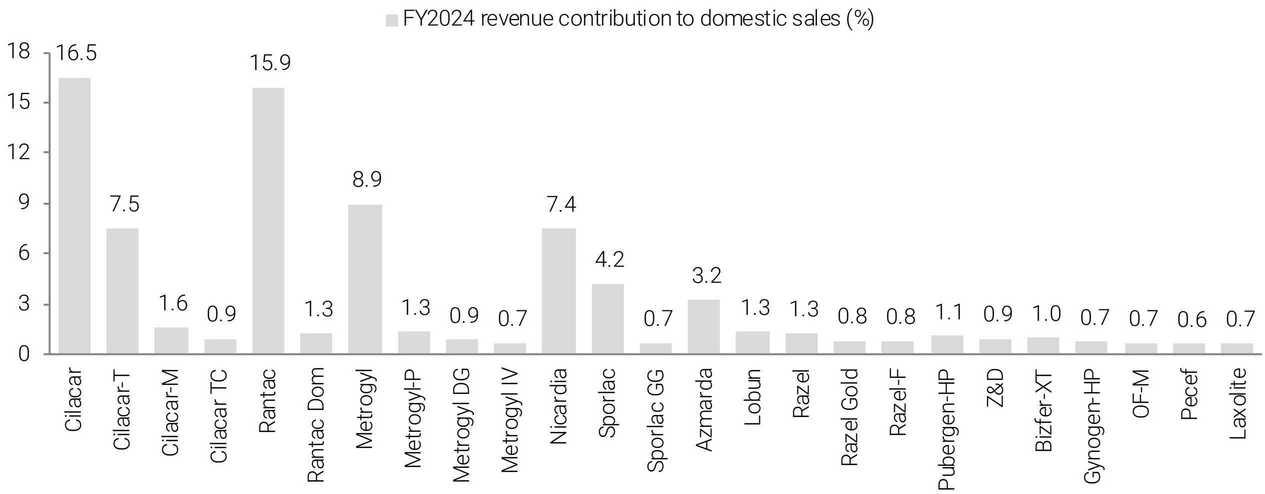
Exhibit 25: Top brand families' sales contribution, March fiscal year-end, 2024 (%)



Source: IQVIA, Kotak Institutional Equities

JB's top-25 brands contributed ~77% to JB's overall domestic sales in FY2024

Exhibit 26: Top-25 brands sales contribution, March fiscal year-end, 2024 (%)



Source: Company, Kotak Institutional Equities

Cilacar is the largest brand for JB, with a clear leadership in the cardiac space

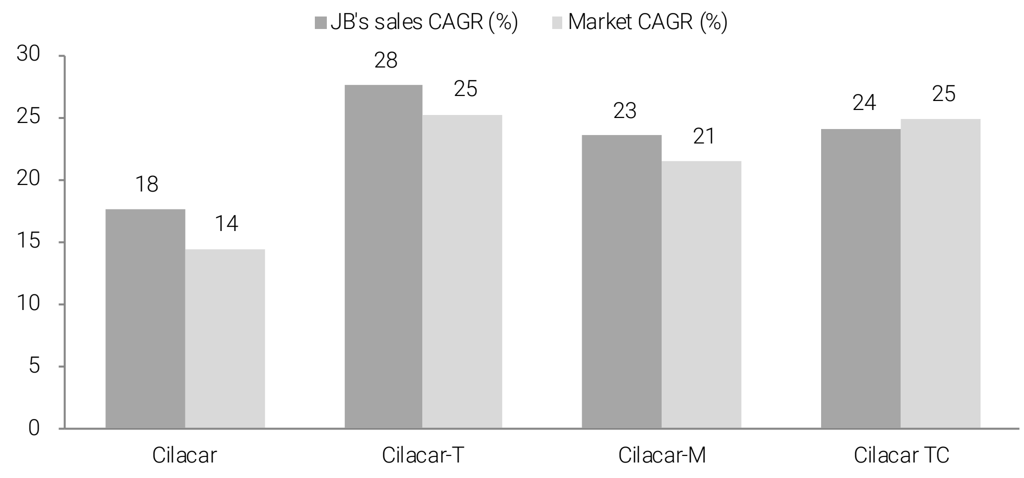
Launched by JB in CY2007, Cilacar has since grown to be the largest brand for the company. Cilnidipine, the base molecule for Cilacar, is used to treat hypertension, angina and stroke. There are a total of 200-300 mn hypertensive patients in India. Typically, Cilacar becomes more relevant for co-morbid patients and has been the fastest growing cardiac brand in the IPM. Heart diseases are usually associated with proteinuria, an indicator for kidney damage. Given the use of Cilnidipine for treating proteinuria, along with heart conditions, at times, it is preferred over sartans. Hence, both cardiologists and nephrologists prescribe the brand to patients.

Apart from growing the parent brand, JB has also launched several line extensions, which mainly include combination drugs with Telmisartan, Metoprolol and Chlorthalidone. JB markets the Cilacar franchise (including Cilacar, Cilacar-T, Cilacar-M and Cilacar TC) under its VIVA division, which is promoted by ~350 MRs and generates a PCPM of Rs800k+. For the overall Cilacar franchise, JB enjoys leadership with a ~40% market share. In the entire Cilnidipine (including combinations) market, the second-largest company has a market share of less than ~10%, thus demonstrating JB's excellent brand presence.

While the Cilnidipine base market size has reported a ~14% CAGR over the past four years, JB's parent brand, Cilacar has reported an ~18% CAGR over FY2020-24. In addition, most brands of JB's Cilacar franchise have outpaced market growth by 200-300 bps over FY2020-24. Currently, JB's brands are the market leaders in their respective segments, including the parent brand and combinations. As of FY2024, the Cilacar franchise generated sales of Rs6 bn+, and contributed to ~26% of JB's domestic revenues, thus reporting a robust CAGR of ~27% over FY2015-24. Aided by price hikes and further penetration across its prescriber base, we expect a 13-14% sales CAGR for JB's key brands in its Cilacar franchise, led by ~13% sales CAGR in the parent brand.

Across most Cilacar brands, JB has outpaced the market growth by 200-300 bps over FY2020-24

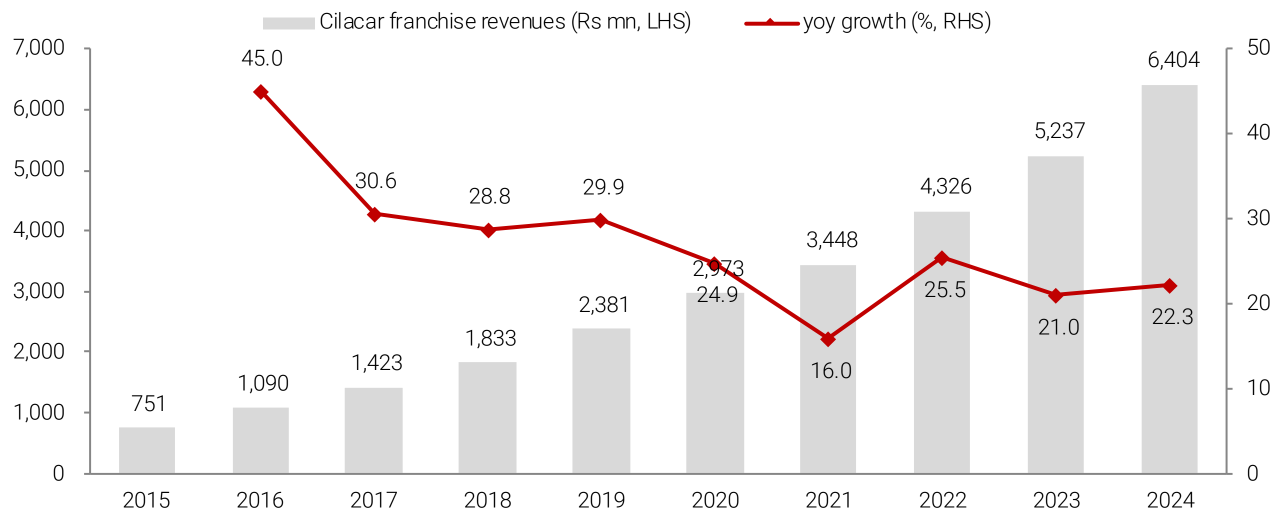
Exhibit 27: JB versus market sales CAGR, March fiscal year-ends, 2020-24 (%)



Source: IQVIA, Kotak Institutional Equities

The Cilacar franchise has reported a ~27% sales CAGR over FY2015-24

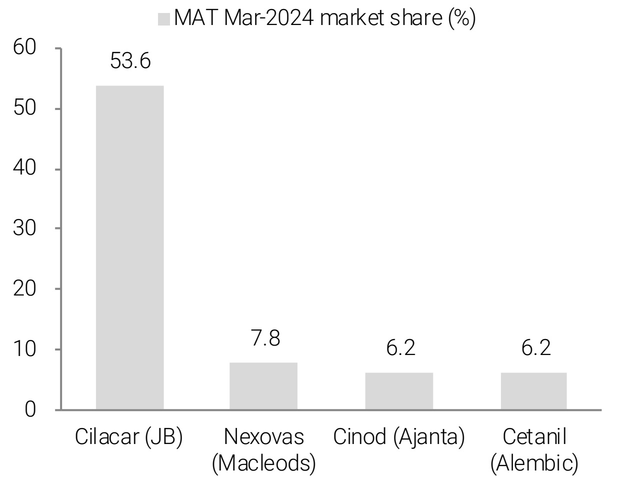
Exhibit 28: Cilacar brand's family revenues and growth, March fiscal year-ends, 2015-24 (Rs mn, %)



Source: IQVIA, Kotak Institutional Equities

Cilacar: ~54% market share in FY2024

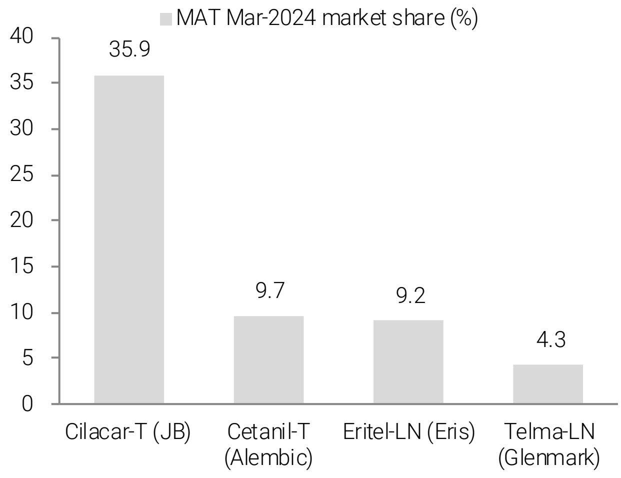
Exhibit 29: March fiscal year-end, 2024 (%)



Source: IQVIA, Kotak Institutional Equities

Cilacar-T: ~36% market share in FY2024

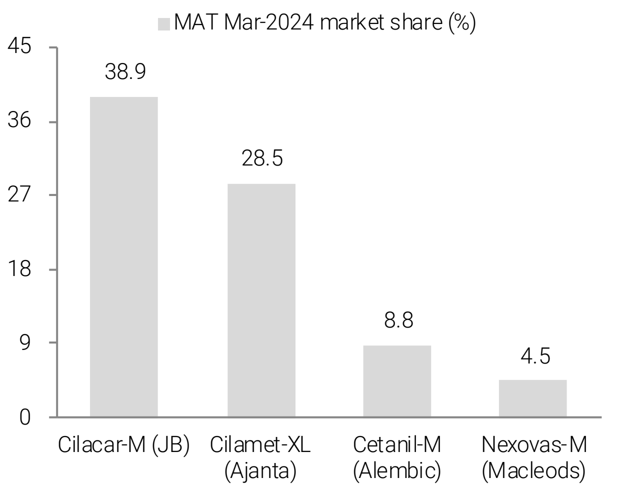
Exhibit 30: March fiscal year-end, 2024 (%)



Source: IQVIA, Kotak Institutional Equities

Cilacar-M: ~39% market share in FY2024

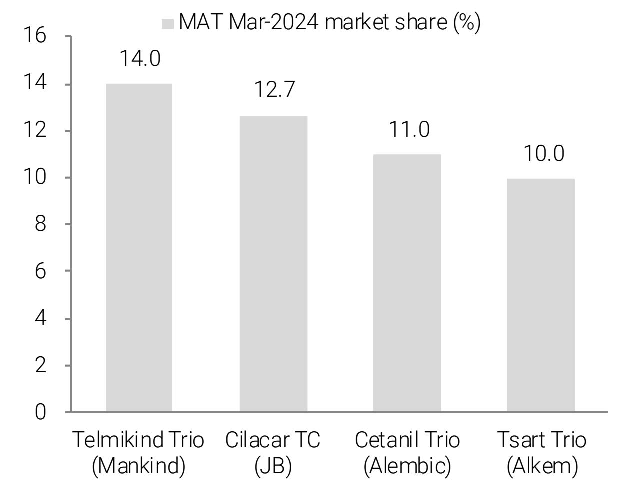
Exhibit 31: March fiscal year-end, 2024 (%)



Source: IQVIA, Kotak Institutional Equities

Cilacar TC: ~14% market share in FY2024

Exhibit 32: March fiscal year-end, 2024 (%)



Source: IQVIA, Kotak Institutional Equities

Despite the NDMA scare, Rantac remains one of JB's biggest revenue contributors

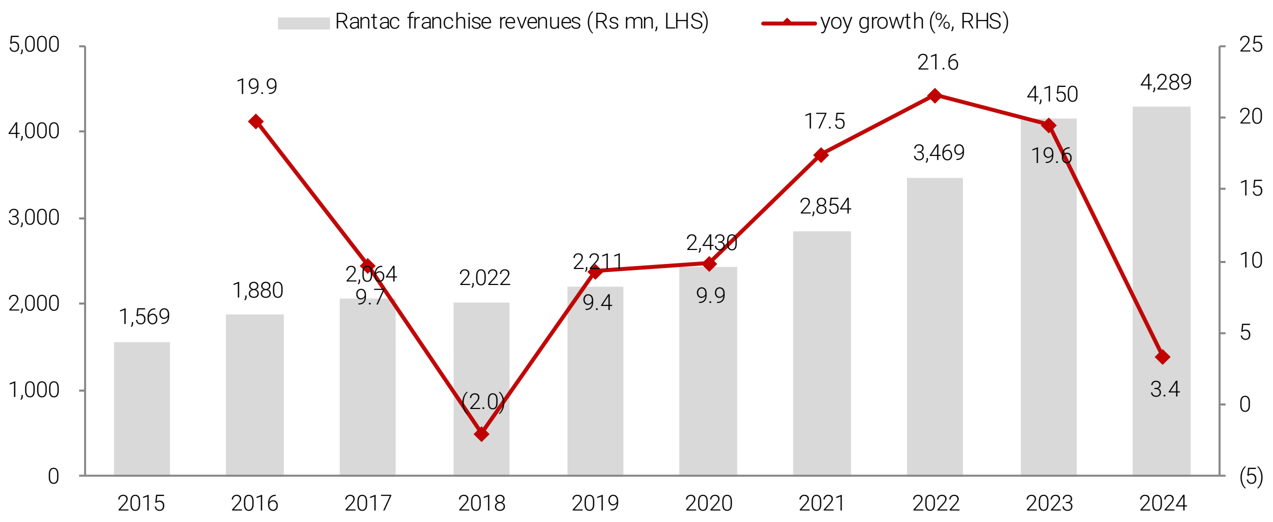
With the launch of Rantac in CY1989, JB marked its foray into the gastrointestinal segment. Ranitidine, the base molecule for the brand, is used to treat indigestion, heartburn and acid reflux, gastroesophageal reflux disease, and to prevent and treat stomach ulcers. In April 2020, the US FDA (link), along with many other regulatory authorities, had highlighted the risk of NDMA contamination with Ranitidine. Nevertheless, the molecule continues to be sold in India, as the Indian drug regulator has not found any NDMA impurities in the Ranitidine drugs sold in India. However, MNC companies such as GSK, which was earlier the largest manufacturer of Ranitidine under its brand 'Zantac', no longer sells it in India.

JB has three dosage forms for Ranitidine, namely oral solids, oral liquids and injectables. As of FY2024, the market for Ranitidine stood at Rs9 bn+, with the oral solids' dosage form having a ~75% share. Within this segment, JB ranks second with a ~40% market share, behind Aciloc (Cadila). On the other hand, in the oral liquids segment, JB is the market leader with a market share of ~68%. In the injectables market, which is more nascent, JB's Rantac ranks second, with a market share of ~18%, behind Aciloc. With a focus on life cycle management for the Rantac brand, JB has also launched other extensions, one of them being a combination of Rantac + Domperidone, within which it enjoys a ~60% market share. JB also has a few smaller brands such as Ranraft and Rantac-MPS in the antacids and antiflatulence segment.

In the oral solids and liquids markets, JB has outpaced the market growth by far. Over FY2015-24, its Rantac franchise revenues increased at a ~12% CAGR, with the growth being subdued over FY2018-20, due to the NDMA impurity issues surrounding the molecule, which led to a downturn in prescriptions, despite the departure of competitors such as GSK. However, in July 2021, owing to an increase in API prices, the National Pharmaceutical Pricing Authority (NPPA) allowed a one-time price increase of 50% for Ranitidine. Due to higher API prices, this did not translate into higher profitability. After this, the NPPA removed Ranitidine from the NLEM list, which removed the restriction on limited price hikes. In FY2024, the Rantac franchise contributed to ~17.5% of JB's domestic sales. We expect continued market leadership in the liquids segment and ramp-up in the solids and injectables segments to drive a ~13% sales CAGR for the Rantac franchise over FY2024-27E.

Rantac franchise has reported a ~12% sales CAGR over FY2015-24

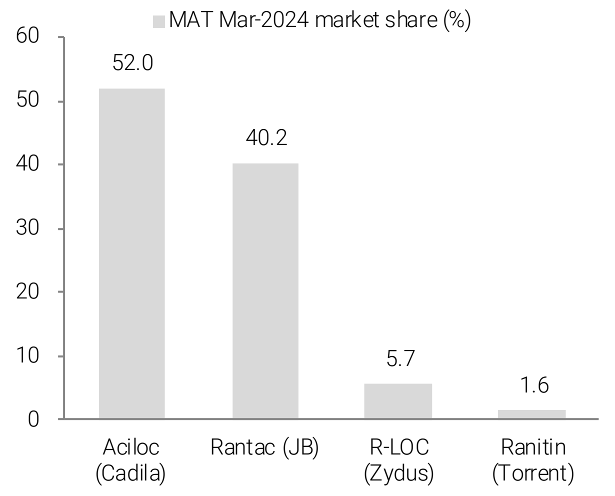
Exhibit 33: Rantac brand family's revenues and growth, March fiscal year-ends, 2015-24 (Rs mn, %)



Source: IQVIA, Kotak Institutional Equities

Rantac oral solids: ~40% market share in FY2024

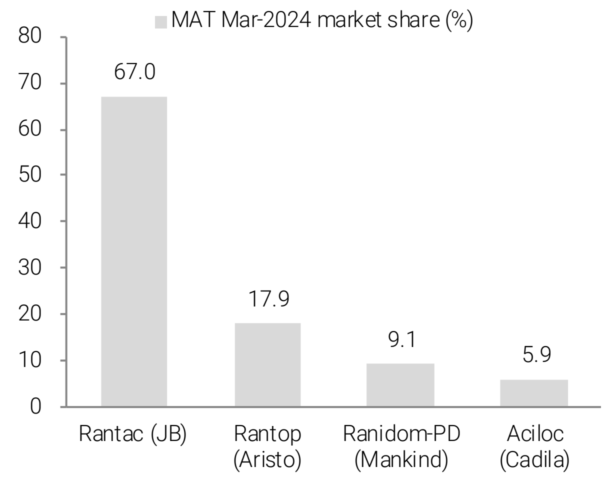
Exhibit 34: March fiscal year-end, 2024 (%)



Source: IQVIA, Kotak Institutional Equities

Rantac oral liquids: ~67% market share in FY2024

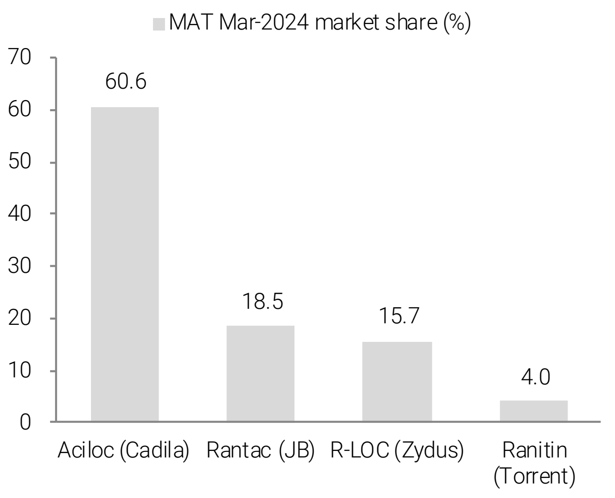
Exhibit 35: March fiscal year-end, 2024 (%)



Source: IQVIA, Kotak Institutional Equities

Rantac injectables: ~18% market share in FY2024

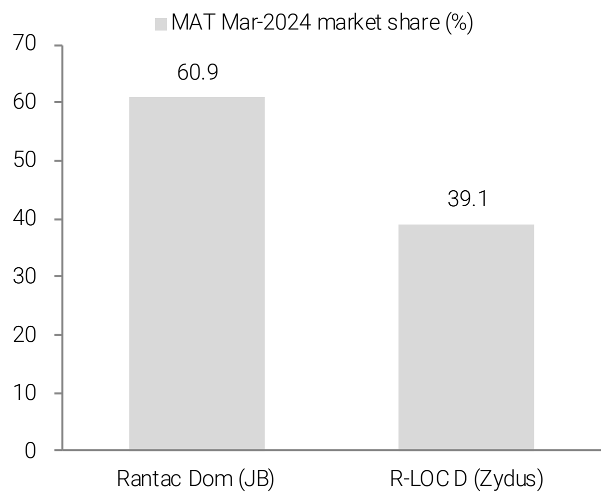
Exhibit 36: March fiscal year-end, 2024 (%)



Source: IQVIA, Kotak Institutional Equities

Rantac Dom: ~61% market share in FY2024

Exhibit 37: March fiscal year-end, 2024 (%)



Source: IQVIA, Kotak Institutional Equities

Being the oldest brand for JB, Metrogyl has carved a niche for itself in the antibiotic space

Launched in CY1977, only a year after the company's incorporation, Metrogyl has always been a key brand for JB. Metronidazole, the base molecule for Metrogyl is an antibiotic that belongs to a group of medicines called nitroimidazoles. It is used to treat certain bacterial infections and to prevent or treat certain infections that may occur during surgery.

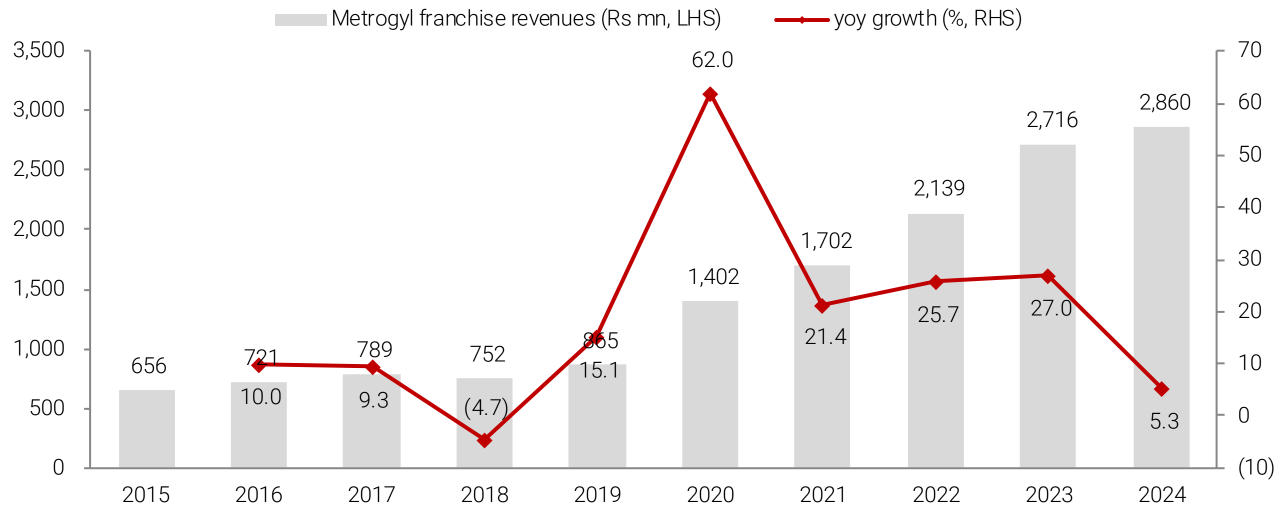
Within the parent molecule, there are primarily two dosage forms, i.e., Metronidazole solids and liquids. In both these categories, JB is the market leader with an ~80% market share in the solids category and a ~70% market share in the liquids category. The second-largest brand in both these categories is Flagyl, which belongs to Abbott. These two players combined control nearly ~100% of the market for the Metronidazole molecule. Being an acute medication, JB markets these brands under its YUVA division, with ~85% of its prescriber base comprising GPs and dentists. The company has outpaced the market growth for both these brands by ~200 bps, owing to its superior branding in the segment. Apart from these two brands, JB has also launched an ointment, i.e., Metrogyl-P, which is a combination of

Metronidazole + Povidone Iodine. This is mainly used for antiseptic purposes, akin to Dettol, but requires a prescription for disbursement, due to its antibiotic nature.

As of FY2024, the Metrogyl franchise generated sales of ~Rs3 bn, and contributed to ~12% of JB's domestic revenues, reporting a robust CAGR of ~18% over FY2015-24. We note a large part of its growth acceleration kicked in from FY2021, after the takeover by KKR. Aided by contribution from price hikes, ranging from 500-600 bps annually, and prescription volume ramp-up, we expect a ~13% sales CAGR for JB in its Metrogyl franchise, and the parent brand.

The Metrogyl franchise has reported an ~18% CAGR over FY2015-24

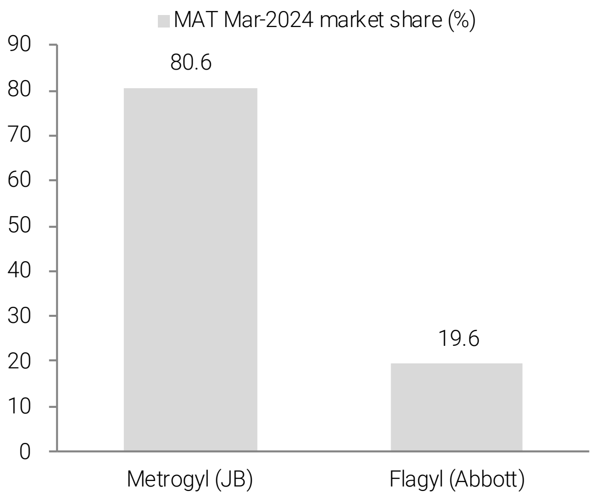
Exhibit 38: Metrogyl brand family's revenues and growth, March fiscal year-ends, 2015-24 (Rs mn, %)



Source: IQVIA, Kotak Institutional Equities

Metrogyl solids: ~81% market share in FY2024

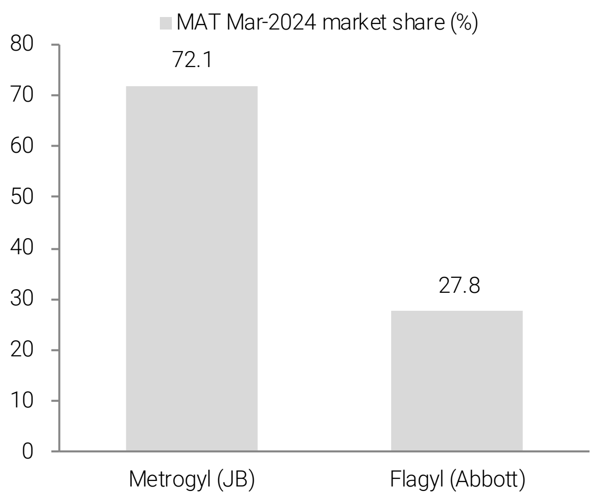
Exhibit 39: March fiscal year-end, 2024 (%)



Source: IQVIA, Kotak Institutional Equities

Metrogyl liquids: ~72% market share in FY2024

Exhibit 40: March fiscal year-end, 2024 (%)



Source: IQVIA, Kotak Institutional Equities

Nicardia marked JB's foray into the cardiology segment

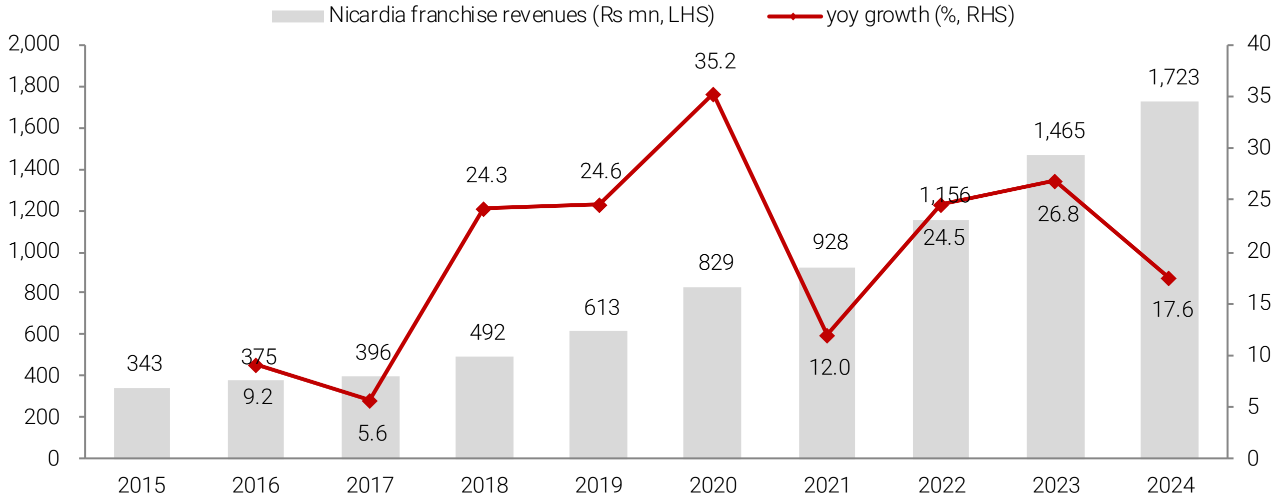
JB's launch of the Nicardia brand in CY1980 was the cornerstone of its strength in the cardiac segment in the years ahead. A calcium channel blocker, the base molecule, Nifedipine, is used to treat hypertension, angina and other heart-related ailments. However, after a couple of decades, following JB's foray into the Cilnidipine segment, which led to greater improvement of the activation in sympathetic nerve alpha and beta functions, Cilacar overtook Nicardia as JB's leading cardiac brand.

JB has two main brands for Nifedipine, namely Nicardia and Beta Nicardia (combination of Nifedipine + Atenolol). While JB holds a 90%+ market share in the core Nifedipine segment, it also enjoys a 50%+ market share in its other brand. Owing to its extensive coverage of cardiologists, JB's brands have grown faster than the IPM by ~200 bps, consistently, over the past four years. JB markets the Nicardia brands under its IIVA division, which has a field force strength of ~350 MRs.

Since FY2018, the Nicardia franchise has grown from a sub-Rs500 mn brand family into a ~Rs2 bn brand family, as of FY2024, thus delivering a robust CAGR of 23% over FY2018-24. This growth has been driven by volume contribution of 600-700 bps and price hikes of 800-1,000 bps, with the remaining from launches of newer SKUs such as OROS. We forecast a ~13% sales CAGR for JB's Nicardia brands over FY2024-27E.

The Nicardia franchise has reported a ~20% CAGR over FY2015-24

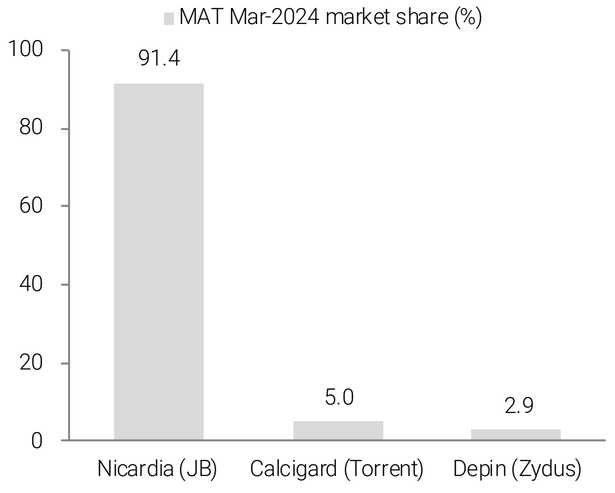
Exhibit 41: Nicardia brand family's revenues and growth, March fiscal year-ends, 2015-24 (Rs mn, %)



Source: IQVIA, Kotak Institutional Equities

Nicardia: ~91% market share in FY2024

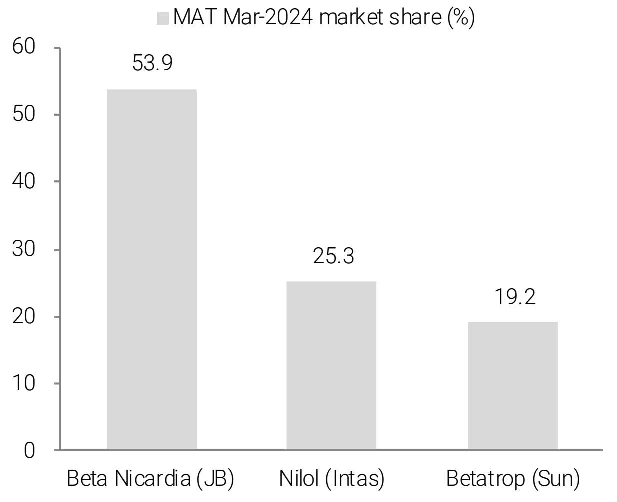
Exhibit 42: March fiscal year-end, 2024 (%)



Source: IQVIA, Kotak Institutional Equities

Beta Nicardia: ~54% market share in FY2024

Exhibit 43: March fiscal year-end, 2024 (%)



Source: IQVIA, Kotak Institutional Equities

Acquired brands to drive accelerated growth

With three acquisitions and two in-licensing deals in India, JB has been on a deal spree since FY2022, under the new management team. While the five deals since FY2022 have propelled reported domestic sales, our analysis of IQVIA data suggests JB has also demonstrated a solid ~19% CAGR in its base portfolio over FY2020-24.

JB has executed a series of in-licensing deals and acquisitions over FY2022-24

Exhibit 44: List of acquisitions and in-licensing deals, March fiscal year-ends, 2022-24

	Type of deal	Deal description	Partner/target company	Valuation (Rs bn)	Valuation multiple
List of JB's domestic acquisitions					
Jan-2022	Acquisition	Probiotic portfolio, including Sporlac	Sanzyme	6.3	3.9X TTM EV/Sales
Apr-2022	In-licensing	Sacubitril + Valsartan combination	Novartis	2.5	3.2X TTM EV/Sales
Jun-2022	Acquisition	Pediatric brands	Dr. Reddy's	1.0	3.0X TTM EV/Sales
Dec-2022	Acquisition	Razel portfolio, which provides access to the Rosuvastatin market	Glenmark	3.1	4.7X TTM EV/Sales
Dec-2023	In-licensing	15 Ophthalmology drugs from Novartis effective from January 2027. JB also entered into promotion & distribution agreement with Novartis for this portfolio for a period of three years starting December 2023. JB Pharma will pay Rs1.25 bn for this exclusive promotion and distribution agreement.	Novartis	9.6	4.6X TTM EV/Sales

Source: Company, Kotak Institutional Equities

Analysis of impact of all key acquired and in-licensed brands on JB's domestic growth over the past few years

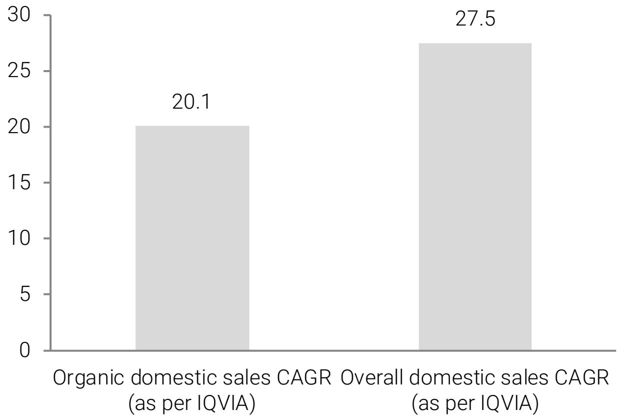
Exhibit 45: Sales from acquired and in-licensed brands, March fiscal year-ends, 2020-24 (Rs mn, %)

	Deal type	Date of consolidation/ divestiture	2020	2021	2022	2023	2024	CAGR % (FY2020-24)
Sales of JB's acquired, in-licensed and divested brands as reported by IQVIA (Rs mn)								
Revenues from acquisitions, in-licensing and divested brands			**—**	**—**	**395**	**3,705**	**5,218**	
Sanzyme portfolio	**Acquisition**	**Jan-22**	**1,233**	**1,264**	**1,580**	**1,956**	**2,440**	
Sporlac			495	485	648	924	979	
Sporlac GG			—	—	—	32	167	
Lobun			126	171	206	163	311	
Pubergen-HP			61	78	120	151	248	
Gynogen-HP			62	47	77	158	171	
Nano-Leo			113	76	90	82	86	
Others			375	408	439	446	478	
Azmarda portfolio	**In-licensing**	**Apr-22**	**430**	**581**	**784**	**1,142**	**747**	
Azmarda			430	581	784	1,142	747	
Dr. Reddy's pediatric portfolio	**Acquisition**	**Jun-22**	**480**	**332**	**453**	**512**	**552**	
Z&D			187	152	183	214	218	
Pecef			200	86	136	131	150	
Pedicloryl			51	57	89	116	131	
Ezinapi			43	37	45	51	53	
Razel portfolio	**Acquisition**	**Dec-22**	**644**	**652**	**640**	**672**	**834**	
Razel			265	255	233	275	291	
Razel Gold			161	173	175	155	189	
Razel-F			140	136	139	134	187	
Others			78	88	94	107	167	
Novartis' ophthalmology portfolio	**In-licensing**	**Dec-23**	**1,703**	**1,622**	**1,764**	**1,972**	**1,940**	
Vigamox			439	383	459	581	605	
Nevanac			374	318	345	350	336	
Travatan			309	321	322	328	320	
Simbrinza			142	166	176	191	185	
Travacom			131	150	157	158	171	
Azopt			124	138	139	166	159	
Pataday			111	81	82	86	85	
Vigadexa			73	66	84	111	79	
JB's domestic sales (Rs mn)								
IQVIA sales (as reported by IQVIA)			9,297	10,378	13,851	20,367	24,550	27.5
%yoy				*11.6*	*33.5*	*47.0*	*20.5*	
Reported sales			7,357	9,155	11,883	16,397	18,973	26.7
%yoy				*24.4*	*29.8*	*38.0*	*15.7*	
JB's domestic sales adjusted for acquisitions and in-licensing (Rs mn)								
IQVIA sales			**9,297**	**10,378**	**13,456**	**16,662**	**19,331**	**20.1**
%yoy				*11.6*	*29.7*	*23.8*	*16.0*	
Reported organic sales (assuming a 20% difference between primary and secondary sales)			**7,357**	**9,155**	**11,567**	**13,432**	**14,798**	**19.1**
%yoy				*24.4*	*26.3*	*16.1*	*10.2*	

Source: IQVIA, Kotak Institutional Equities

We estimate JB's organic domestic sales reported a 20.1% CAGR over FY2020-24

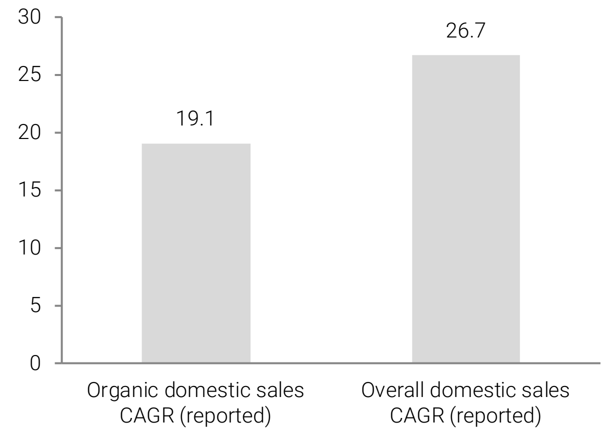
Exhibit 46: IQVIA's domestic sales CAGR, March fiscal year-ends, 2017-24 (%)



Source: IQVIA, Kotak Institutional Equities

JB's organic domestic sales reported a 19.1% CAGR over FY2020-24

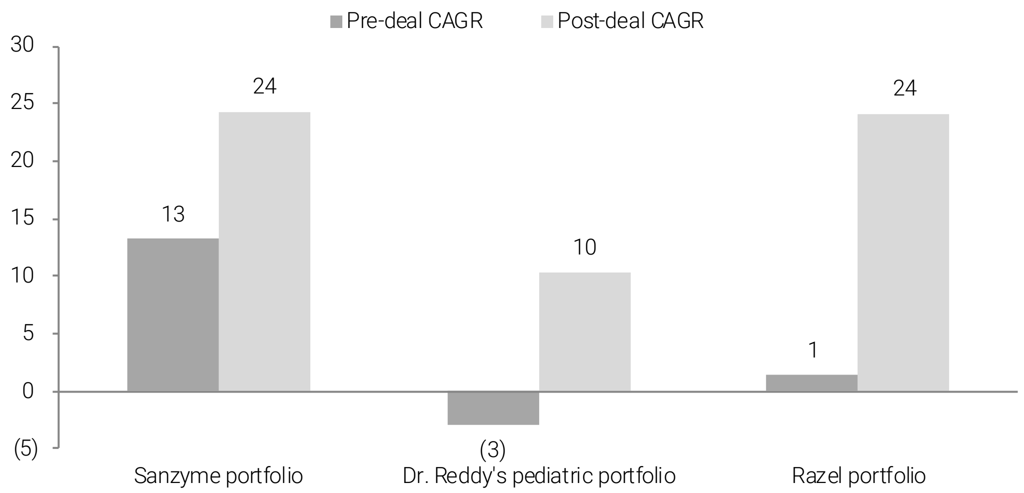
Exhibit 47: Reported domestic sales CAGR, March fiscal year-ends, 2017-24 (%)



Source: Company, Kotak Institutional Equities

Except Azmarda, JB has reported higher sales CAGR compared with prior growth of acquired brands

Exhibit 48: Pre-deal and post-deal sales CAGR, March fiscal year-ends, 2020-24 (%)



Source: IQVIA, Kotak Institutional Equities

Sanzyme acquisition provided JB a notable entry into the differentiated probiotic segment

In January 2022, JB made its first inorganic foray under the new leadership by acquiring a set of brands from Sanzyme for a total consideration of ~Rs6.3 bn (~3.9X TTM EV/sales). These brands were mainly part of Sanzyme's probiotics portfolio and reproductive health segment. The acquisition was executed with a defined strategy of expanding JB's reach beyond the cardiac and gastrointestinal therapeutic areas in the IPM.

Through the Sanzyme acquisition, JB expanded its presence in the probiotics segment of the IPM

Exhibit 49: Details of Sanzyme portfolio brands, March fiscal year-ends, 2024 (Rs mn)

	FY2024 IQVIA sales (Rs mn)	Therapy	Dosage form	Description
Key brands acquired from Sanzyme				
Sporlac	979	Probiotic	Tablet	Works to restore a healthy flow of gut bacteria in the digestive tract.
Lobun	311	Probiotics (multi-strain)	Capsule	Indicated for uremic detoxification and delays the progression of chronic kidney disease.
Pubergen-HP	248	Hormones	Injection	Used in the treatment of infertility in women; also treats male infertility and hypogonadism.
Gynogen-HP	171	Hormones	Injection	Used in the treatment of infertility in women and male hypogonadism.
Nano-Leo	86	Hormones	Capsule	Used to increase testosterone levels in the male body.

Source: IQVIA, Kotak Institutional Equities

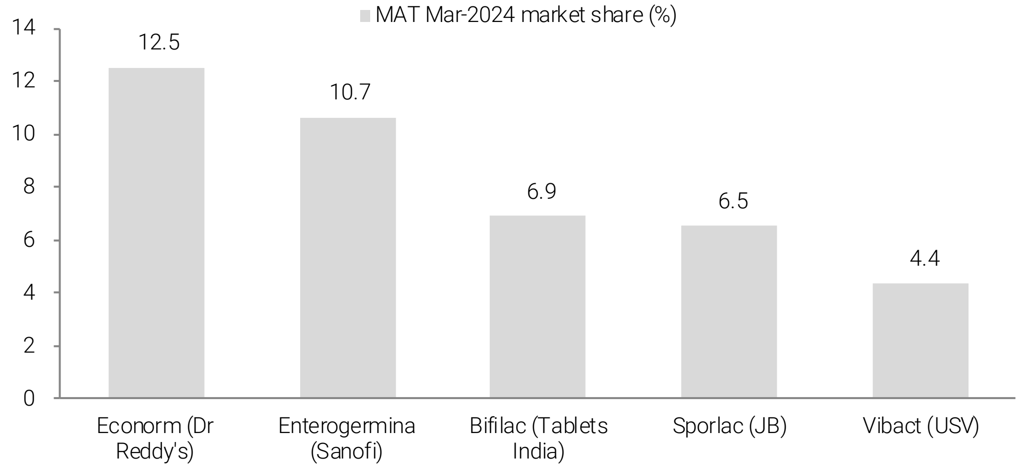
The highlight of the acquisition was the Sporlac brand, which was then, the fifth-largest probiotics brand in India (fourth-largest currently). Apart from Sporlac, some other brands acquired were Lobun, used for delaying the progression of chronic kidney disease and Oxalo, an alternate risk-free therapy to decalcify kidney stones. Other smaller brands included Pubergen, Nano-Leo and Gynogen. Within the gastrointestinal segment, probiotics is one of the largest categories, and these products are prescribed alongside H2 receptor antagonists to lower acid reflux. Owing to a robust safety profile, probiotics are sometimes co-prescribed with other medications. At the time of the acquisition, Sanzyme's productivity was ~70% of JB's PCPM, which provided an avenue to extract synergies by scaling up the brands. At the time of the acquisition, these acquired brands had a prescriber base of ~100k and a distribution network of ~300k chemists. Over the past two years, JB has leveraged its strong distribution network to scale up the Sanzyme portfolio, within which Sporlac has witnessed the most impressive traction.

The original Sporlac brand was launched in CY1973 by Sanzyme. It is a pediatric medication, used to improve the microflora in the gut and help in digestion. Led by JB's robust marketing capabilities, the Sporlac brand has gained 30 ranks in the past year, within the IPM. From a base of ~Rs600 mn, the parent brand has grown ~1.5X and generated sales of Rs1 bn+ in FY2024. To optimize marketing efforts and further grow the franchise, JB has launched other line extensions such as Sporlac GG, Sporlac Plus and Sporlac Eva. Among these brand extensions, JB plans to use Sporlac GG to cater to the pediatric segment. We note that while marketing the Sporlac portfolio, JB has gained significant synergies by leveraging the Rantac field force. While Sporlac and Rantac had relatively lower market shares in certain geographies, their regional footprints were complementary to one another. In addition, JB has also gained synergies by co-promoting it with Metrogyl. While antibiotics such as Metrogyl can induce diarrhea, the Sporlac strain is used to counter this side effect of Metronidazole. This has led to a scope for ramping up co-prescriptions for Sporlac.

Within probiotics, JB already had a presence, prior to the Sanzyme acquisition, through its brand, Gutpro, which is a probiotic nutritional supplement to promote healthy digestion. Gutpro generated revenues of ~Rs30 mn in FY2024, and is now a much less significant part of the overall probiotic portfolio for the company. As of FY2024, the probiotic franchise contributed ~5% to JB's domestic revenues. Within the probiotics segment, the largest brand for JB is Sporlac, which ranked fourth, with a market share of ~6.5%, behind brands such as Econorm, Enterogermina and Bifilac. JB is incrementally focusing on introducing more variants within the Sanzyme portfolio. Going forward, we bake in ~14% sales CAGR for the probiotic portfolio over FY2024-27E, led by newer launches and market share improvement in existing brands.

As of FY2024, Sporlac had a ~6.5% market share within the probiotics segment

Exhibit 50: Sporlac market share, March fiscal year-end, 2024



Source: IQVIA, Kotak Institutional Equities

Azmarda further solidified JB's presence in the heart failure market

After its foray into the probiotic segment, JB made its second deal in April 2022, wherein it acquired the Azmarda brand from Novartis for a total consideration of ~Rs2.5 bn (~3.2X TTM EV/sales). Azmarda is a combination medicine of Sacubitril + Valsartan indicated for treating heart failure patients with reduced ejection fraction (HFrEF). Novartis had the proprietary rights for marketing the combination drug in India under the brand 'Vymada' and used to out-license it to Cipla and Lupin, under two brand names, namely Azmarda and Cidmus, respectively. JB struck an in-licensing deal with Novartis and purchased rights for Azmarda, while Dr. Reddy's purchased the rights for Cidmus from Lupin. Following the deal, JB established a separate division for heart failure and deployed ~200 MRs to promote the division.

As of FY2024, the molecule had a total market size of ~Rs6 bn, and is one of the fastest-growing molecules in the cardiology segment. Less than 25% of the projected 15-20 mn heart failure patients in India are receiving this medication, indicating a large unrealized potential. In December 2022, the patent for the drug expired, and numerous other generic players entered the space, which led to a pricing drop of ~50%. Within this segment, Azmarda was the fastest-growing brand, with a robust ~40% sales CAGR over FY2020-23, outpacing the market growth by ~200 bps. As of FY2024, Azmarda ranks third in this space with a market share of ~12%, behind Vymada and Cidmus, and contributed ~3% to JB's domestic revenues. Although we expect increased competition in this underpenetrated space, in our view, JB's focused marketing strategy would drive a robust ~14% sales CAGR for Azmarda over FY2024-27E.

We expect Azmarda to contribute Rs33/share to JB's FV

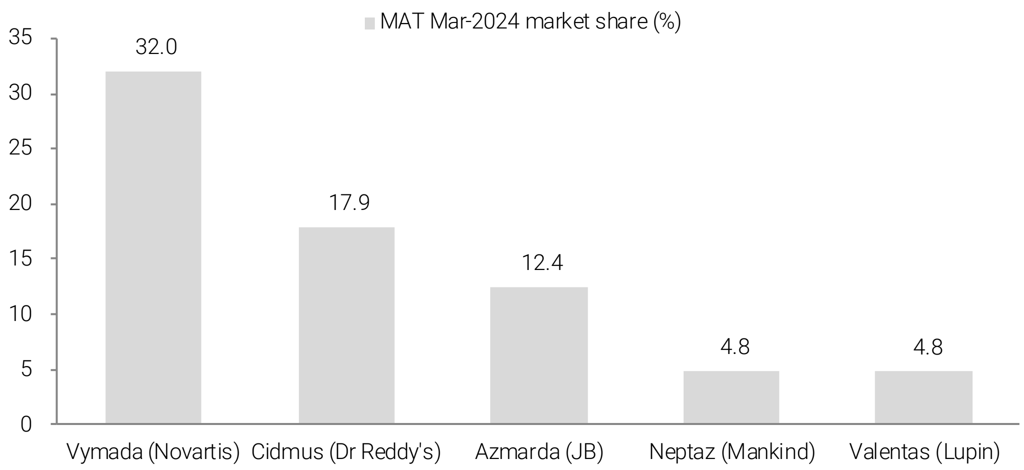
Exhibit 51: Azmarda NPV calculation, March fiscal year-ends, 2023-44E (Rs mn, %)

	2023	2024	2025E	2026E	2027E	2028E	2030E	2032E	2034E	2036E	2037E	2039E	2040E	2042E	2044E
Discounted cash flows															
Azmarda's IQVIA sales (Rs mn)	**1,142**	**747**	**877**	**1,020**	**1,173**	**1,334**	**1,676**	**2,042**	**2,435**	**2,857**	**3,084**	**3,569**	**3,826**	**4,366**	**4,936**
yoy growth (%)		*(34.6)*	*17.5*	*16.3*	*15.0*	*13.8*	*11.7*	*10.0*	*9.0*	*8.2*	*8.0*	*7.5*	*7.2*	*6.7*	*6.2*
EBITDA	**457**	**301**	**357**	**419**	**486**	**557**	**708**	**869**	**1,043**	**1,233**	**1,335**	**1,556**	**1,674**	**1,923**	**2,189**
EBITDA margin (%)	*40.0*	*40.4*	*40.7*	*41.1*	*41.4*	*41.8*	*42.3*	*42.6*	*42.9*	*43.2*	*43.3*	*43.6*	*43.8*	*44.1*	*44.4*
FCF	**365**	**241**	**286**	**335**	**389**	**446**	**566**	**695**	**835**	**986**	**1,068**	**1,245**	**1,339**	**1,539**	**1,751**
EBITDA-FCF conversion (%)	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*
Post tax FCF (Rs mn)	**271**	**179**	**212**	**249**	**289**	**331**	**421**	**516**	**620**	**733**	**794**	**925**	**995**	**1,143**	**1,301**
Tax rate (%)	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*
Cash outflows	(2,460)														
Total FCF	(2,460)	179	212	249	289	331	421	516	620	733	794	925	995	1,143	1,301
Discount factor	(2.5)	(1.5)	(0.5)	0.5	1.5	2.5	4.5	6.5	8.5	10.5	11.5	13.5	14.5	16.5	18.5
Discounted FCF	**(3,266)**	**212**	**225**	**235**	**244**	**249**	**253**	**247**	**237**	**223**	**216**	**200**	**192**	**176**	**160**
NPV calculation															
Discount rate (%)	12.0														
Sum of discounted cash flows (Rs mn)	**1,340**														
Terminal growth rate (%)	5.5														
Terminal value (Rs mn)	**3,841**														
Total value (Rs mn)	**5,181**														
No of shares	158														
NPV (Rs)	**33**														

Source: IQVIA, Kotak Institutional Equities estimates

As of FY2024, Azmarda had a ~12% market share

Exhibit 52: Azmarda market share, March fiscal year-end, 2024 (%)



Source: IQVIA, Kotak Institutional Equities

Brands acquired from Dr. Reddy's focused on expanding pediatric presence

In June 2022, JB made its third acquisition by purchasing four brands from Dr. Reddy's for a total consideration of Rs983 mn (~3.0X TTM EV/sales). The four brands are primarily focused on the pediatric segments across a variety of therapeutic areas, which include Z&D (zinc supplement), Pedicloryl (insomnia medication), Pecef (Antibiotic) and Ezinapi (diaper rashes). According to IQVIA, these four brands had a total covered market size of ~Rs18 bn. According to JB, the extensive market size fits well with its strategy to expand presence in the pediatric segment and leverage its distribution strength. In FY2024, these four brands together constituted of ~2% of JB's domestic revenues. Led by an increased focus in the pediatric segment, we expect a healthy mix of volume ramp-up and price hikes to drive ~15% sales CAGR for these brands over FY2024-27E.

The Razel portfolio marks JB's entry into the statin space

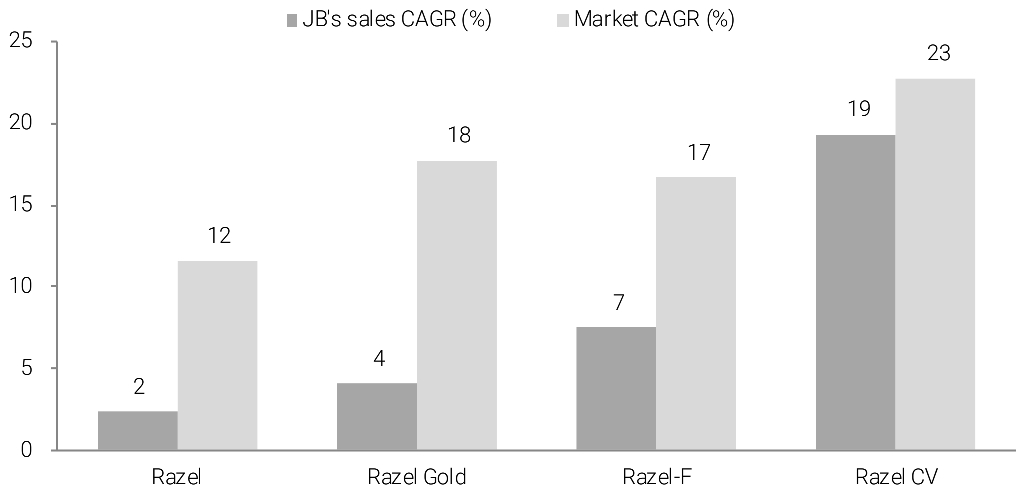
In December 2022, JB acquired the Razel franchise from Glenmark for a total consideration of Rs3.1 bn (~4.7X TTM EV/sales), thus making its fourth inorganic foray within a span of a year. The acquisition was in line with JB's strategy to establish a dominant presence in all cardiology segments, statins, hypertension and heart failure. Razel, the parent brand, is essentially Rosuvastatin, which is used to treat dyslipidemia, a condition where elevated cholesterol levels lead to clogged arteries and sometimes a heart attack.

Apart from the parent brand, JB also acquired a few other line extensions, which are combination drugs such as Rosuvastatin + Clopidogrel, Rosuvastatin + Clopidogrel + Aspirin, Rosuvastatin + Fenofibrate. Since acquiring the franchise, JB has dedicated its existing sales force in the cardiac segment to scale up the monthly sales run rate of Razel from Rs55 mn in December 2022 to current levels of Rs67 mn. As of FY2024, the Razel franchise contributed ~4% to JB's domestic revenues.

According to IQVIA, the total covered market size for JB's Razel franchise stood at ~Rs35 bn in FY2024. Within the Rosuvastatin space, JB's brands have market shares ranging 2-4%. While Razel's revenue growth has remained lower than the market in FY2024, JB has outpaced the market across other brand extensions in the Razel franchise. In our view, JB's robust network across cardiologists would drive a robust ~17% sales CAGR for the Razel franchise over FY2024-27E.

JB has outpaced the market growth in all its Razel brands, except the parent one, over FY2021-24

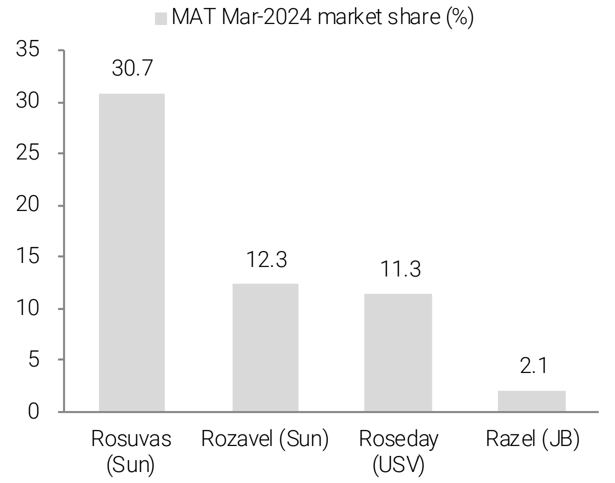
Exhibit 53: JB versus market growth, March fiscal year-ends, 2021-24 (%)



Source: IQVIA, Kotak Institutional Equities

Razel: ~2% market share in FY2024

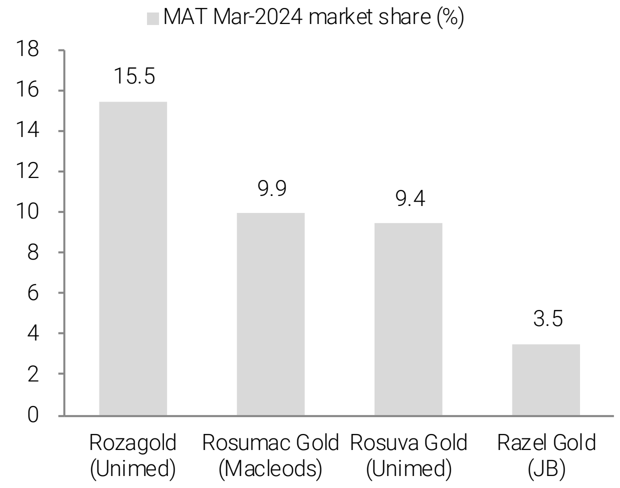
Exhibit 54: March fiscal year-end, 2024



Source: IQVIA, Kotak Institutional Equities

Razel Gold: ~4% market share in FY2024

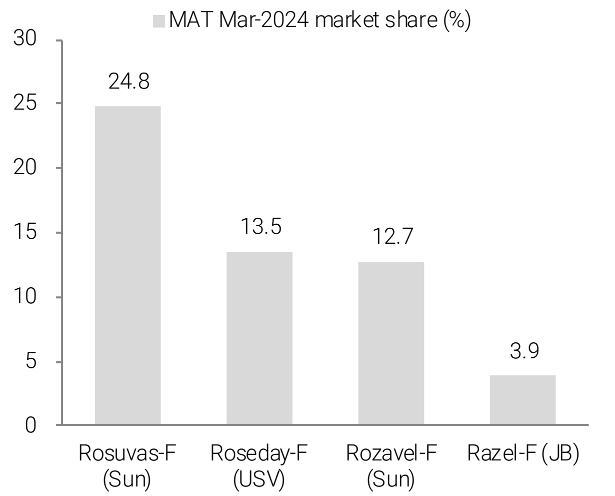
Exhibit 55: March fiscal year-end, 2024



Source: IQVIA, Kotak Institutional Equities

Razel-F: ~4% market share in FY2024

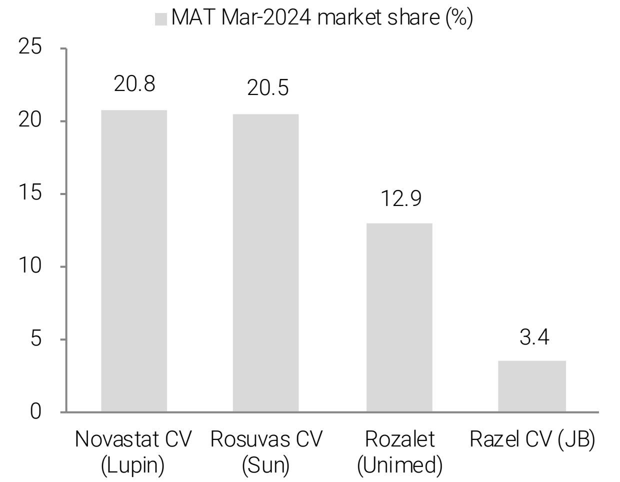
Exhibit 56: March fiscal year-end, 2024



Source: IQVIA, Kotak Institutional Equities

Razel CV: ~3% market share in FY2024

Exhibit 57: March fiscal year-end, 2024



Source: IQVIA, Kotak Institutional Equities

Announced in December 2023, acquisition of Novartis' ophthalmic brands is the latest deal for JB

JB entered into an agreement with Novartis to acquire 15 select ophthalmic brands from Novartis, effective January 2027, for a cash consideration of US$116 mn (Rs9.64 bn), to be paid in December 2026. It has also signed a promotion and distribution agreement with Novartis for the brands for a period of three years, starting December 2023, for a cash consideration of Rs1.25 bn, which has already been paid. We highlight that ophthalmology is the third-fastest growing therapy in the IPM. The portfolio mainly consists of eyedrops for glaucoma. Among the acquired brands, five of the brands are in top-5 and four brands are in top-3 within their covered markets. In addition, the underlying markets for these brands are also growing at 10-20% yoy. JB will absorb Novartis' field force of ~100 MRs and will further add 30-40 MRs over the next 12-18 months.

JB believes it can expand on the existing footprint and accordingly, expects mid-teens sales growth for these brands over the near-to-medium term. In our view, this portfolio has gross margins of 60-62%, with healthy EBITDA margins in the range of 25-27%. JB will absorb the manpower costs; hence, cumulative EBITDA accretion over the next three years would be Rs750 mn-Rs1 bn. We expect sales from these brands to report a ~13% CAGR over FY2024-27E, and expect EBITDA margins to be largely according to company guidance.

We expect the Novartis deal to contribute Rs82/share to JB's FV

Exhibit 58: Novartis deal NPV calculation, March fiscal year-ends, 2024-44E (Rs mn, %)

	2024	2025E	2026E	2027E	2028E	2030E	2032E	2034E	2036E	2037E	2039E	2040E	2042E	2044E
Discounted cash flows														
Novartis portfolio's IQVIA sales (Rs mn)	**2,078**	**2,410**	**2,778**	**3,181**	**3,618**	**4,590**	**5,680**	**6,904**	**8,241**	**8,941**	**10,381**	**11,133**	**12,717**	**14,390**
yoy growth (%)		*16.0*	*15.3*	*14.5*	*13.8*	*12.3*	*11.0*	*10.0*	*9.0*	*8.5*	*7.5*	*7.3*	*6.8*	*6.3*
EBITDA	**208**	**253**	**306**	**366**	**1,447**	**1,882**	**2,386**	**2,948**	**3,576**	**3,912**	**4,614**	**4,988**	**5,786**	**6,648**
EBITDA margin (%)	*10.0*	*10.5*	*11.0*	*11.5*	*40.0*	*41.0*	*42.0*	*42.7*	*43.4*	*43.8*	*44.5*	*44.8*	*45.5*	*46.2*
FCF	**166**	**202**	**244**	**293**	**1,158**	**1,505**	**1,909**	**2,359**	**2,861**	**3,129**	**3,691**	**3,990**	**4,629**	**5,318**
EBITDA-FCF conversion (%)	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*
Post tax FCF (Rs mn)	**124**	**150**	**182**	**217**	**860**	**1,118**	**1,418**	**1,752**	**2,126**	**2,325**	**2,743**	**2,965**	**3,439**	**3,952**
Tax rate (%)	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*	*25.7*
Cash outflows	(1,250)				(9,640)									
Total FCF	(1,250)	150	182	217	(8,780)	1,118	1,418	1,752	2,126	2,325	2,743	2,965	3,439	3,952
Discount factor	(1.75)	(0.5)	0.5	1.5	2.5	4.5	6.5	8.5	10.5	11.5	13.5	14.5	16.5	18.5
Discounted FCF	**(1,524)**	**159**	**172**	**183**	**(6,614)**	**672**	**679**	**669**	**647**	**632**	**594**	**573**	**530**	**486**

NPV calculation	
Discount rate (%)	12.0
Sum of discounted cash flows (Rs mn)	**2,204**
Terminal growth rate (%)	5.5
Terminal value (Rs mn)	**10,699**
Total value (Rs mn)	**12,903**
No of shares	158
NPV (Rs)	**82**

Source: IQVIA, Kotak Institutional Equities estimates

At ~3% of overall sales, JB is also present in the niche contrast media segment

In India, JB also sells contrast media formulations, apart from its branded Rx portfolio. Within this business, JB primarily manufactures iodine-based agents, which assist in distinguishing or 'contrasting' selected areas of human bodies from adjacent tissue by enhancing their visibility in medical imaging exams. It has remained one of the leading contrast media suppliers in India over the past three decades.

According to IQVIA, the global contrast media formulations market stood at ~US$5.9 bn in FY2023. The global contrast media formulations industry is highly concentrated, with four players garnering a ~75% share of global revenues. These four players are GE Healthcare (~27%), Bracco (~20%), Bayer (~17%) and Guerbet (~11%). The four key players are the innovators of a majority of contrast media products and continue to hold significant market share in the global contrast media market. These big pharma companies either have a forward integration play (they manufacture MRI/CT/X-ray equipment) or have long-standing relationships with existing equipment manufacturers. Given the capex associated with the equipment, the criticality of the output in determining patient treatment and the nature of cases where diagnostic imaging is used (high-end specialties such as cardiology, oncology and transplants); end users of contrast media (diagnostics labs and hospitals) typically prefer using the innovator's formulation product. Furthermore, the closed-system nature of the equipment (only a specific contrast media reagent is indicated for a given equipment) has ensured that these four players have been able to hold a 70%+ global market share consistently over the past decade.

Within India, contrast media is mostly tender-driven, which leads to pricing competition and hence, lower EBITDA margins. JB has been qualified as a preferred supplier for the government and corporate institutions, with a dedicated network of 100+ distributors and 20 C&Fs across India to establish connections with hospitals and radiologists. As of FY2024, this segment contributed to ~2% of JBs domestic revenues. Growth in this segment has generally remained lower than the branded Rx segment for JB (~10% CAGR over FY2014-19). However, in FY2019, JB launched two new products, driving higher sales growth in this business. In FY2021, revenues were impacted due to Covid, as many hospitals deferred planned procedures/surgeries. JB intends to expand its presence in Tier 3+ cities, which would subsequently help drive a high single-digit CAGR over FY2024-27E, in our view.

3

Robust CMO outlook stands out, amid measured exports strategy

Within its exports business, JB boasts of a robust CMO business, largely comprising medicated lozenges, and presence in pharma products across the value chain. Aided by increasing wallet share of existing clients, incremental deal wins with global customers and a superior return profile, we expect the CMO business to grow at a robust ~15% sales CAGR over FY2024-27E. In addition to the CMO segment, JB's measured presence across key international markets such as the US, South Africa and Russia would help drive a ~11% export sales CAGR over FY2024-27E.

Robust CMO track record, with global leadership in manufacturing of lozenges

The Contract Manufacturing (CMO) business, comprising ~12% of overall FY2024 sales, is the most profitable business for the company. Within this segment, JB largely manufactures medicated and herbal lozenges, mainly used to treat cold and cough symptoms. These lozenges constitute ~80% of JB's CMO revenues. Lozenges are flavored medicated dosage forms, containing one or more active ingredients, usually in a sweetened base. They are consumed orally and get dissolved in the mouth or pharynx. The sticky nature of the lozenge enables an increase in the retention time of the dosage form in the oral cavity, thus aiding in lower gastric irritation and bypassing first-pass metabolism. Apart from lozenges, JB is also involved in the contract-based manufacturing of liquid syrups and tablets.

Diverse portfolio of lozenges across myriad of forms, shapes and flavors demonstrates R&D expertise

Backed by two decades of experience in manufacturing lozenges, JB has mastered the production process, rooting out inefficiencies and driving innovation. In order to address a broader market, JB has utilized precise manufacturing techniques and stringent quality control methods to develop a diverse portfolio of lozenges, which it offers to its clients across a wide variety of forms, shapes and flavors. The latest technical processes deployed by JB include constigrav/thermograv, cookers with vacuum chambers, dynamic mixers/tempering belts, rope formers and sizers, cooling tunnels, sorter graders and metal detection. For preparing certain forms of lozenges, JB has imported a customized filling pump from Germany.

JB has developed different product forms to cater to various patient needs. It mainly offers four different kinds of lozenge forms, as follows:

- **Center-filled, soft-centered lozenges:** These lozenges have a viscous semi-liquid inner core and have an outer hard candy, which provides a cooling burst to the consumer.
- **Center-filled, powder lozenges:** These lozenges have a granular powdered filling, which allows mixing of powders with poor solubility properties to the core.
- **Herbal lozenges:** These lozenges are used in Ayurvedic practices, and are widely accepted globally, for health purposes.
- **Medicated lozenges:** These lozenges contain one or more active ingredients and are used for their topical effect, but may also have ingredients that produce a systemic effect. They are mostly solid preparations of sugar and gum, the latter providing strength and cohesiveness to the lozenge and facilitating the slow release of the medicament.

JB also offers its lozenges across several shapes such as square, oval, oblong and round, along with flavors such as orange, mint, lemon and strawberry. Currently, JB is working on novel concepts within this segment, which are more consumer-friendly, and it intends to market these new products to its existing top clients.

Healthy order book led by long-withstanding relationships with a marquee client base

JB markets these lozenges under its own brands, and offers them to customers, who have their own brand. It has also tapped into private label opportunities with pharmacy chain stores, where it sells these lozenges under the name of the pharmacy chain. Over the years, JB has established itself as a partner of choice for major FMCG giants and several other companies, across 40+ countries. As of FY2024, it was the fifth-largest global manufacturer of medicated lozenges, with a value market share of ~5%. Within the CMO segment, 80-85% of revenues for JB are attributable to 4-5 customers. Some of JB's major clients include players such as J&J, P&G, iNova, Reckitt-Benckiser and Adcock, of which J&J is its largest client. While J&J majorly operates in Russia/CIS, iNova and P&G sell their lozenges across the APAC region, and RB sells it in Australia. Among these major clients, JB added Reckitt-Benckiser in 1QFY22 and has started to supply Strepsils since then. We note that since JB mostly sells these lozenges to international MNC clients, domestic CMO revenues constitute just 1-2% of JB's CMO business.

In July 2011, JB spun off its Russia/CIS OTC business to Cilag International (J&J subsidiary) for a total consideration of ~Rs9.4 bn, which was subsequently reduced by ~Rs645m after a period of two years, owing to certain claims raised by the buyer. Following the sale, JB exited the OTC business, but this marked the start of its partnership with J&J. Since then, JB has a CMO agreement with J&J for manufacturing and supplying divested brands such as Doktor Mom and Rinza. The supply agreement with Cilag spans over a period of four years and was last renewed in FY2023. In our view, sales to J&J comprise ~20% of JB's CMO business. With another ~3 years to go until renewal, we expect J&J to remain one of the largest contributors for JB's CMO business.

JB manufactures a series of branded medicated lozenges for renowned global customers

Exhibit 59: List of medicated lozenges manufactured by JB, March fiscal year-end, 2024

	Client	Geography	Brief description
List of key medicated lozenges manufactured by JB			
Vicks	P&G	Asia Pacific	Vicks is a cough suppressant and/or oral anesthetic that provides relief against sore throat, blocked nose and cough.
Difflam	iNova	Asia Pacific	Difflam combines anti-inflammatory benzydamine with an antiseptic to help relieve pain and kill germs that cause throat infections.
Strepsils	Reckitt	Australia	Strepsils contains two antiseptics that provide fast-acting relief by soothing throat and fighting bacteria.
Doktor Mom	J&J	Russia/CIS	Doktor Mom provides relief from cough and sore throat.
Rinza	J&J	Russia/CIS	Rinza is a multi-symptom cough-and-cold remedy medication.

Source: Company, Kotak Institutional Equities

JB has recently increased its lozenges production and packaging capacity by 20-25%

In order to cater to its large demand for lozenges, JB has set up a dedicated lozenge manufacturing plant at Kadaiya, Daman, wherein it has received regulatory approvals from most international authorities such as EUGMP, Health Canada, TGA (Australia), SAHPRA (South Africa), MOH (Russia) and MOH (Ukraine). The quality and reference standards for this facility are similar to a normal US FDA inspection standard for pharma companies. As of FY2024, JB's existing facility has a capacity to produce ~2 bn lozenges annually. Most of the plant is automated, but currently there exists a bottleneck in a production line, especially in packaging. On account of this bottleneck, JB's current annual manufacturing and packaging capacity stands at 1.6-1.7 bn lozenges. Based on demand from its global clients, JB's production run rate stands at 1.2-1.3 bn lozenges. Hence, it has set up another packaging line on a land parcel, adjacent to its current facility, for which it has incurred a capex of ~Rs500 mn. JB has extended warehouse facilities to the new land parcel and incurred an additional Rs45-50 mn for installing the lines. According to JB, this would address the bottleneck and enhance its production and packaging capacity by 20-25% to ~2 bn lozenges. JB has already started to utilize the new facility, and we expect the benefits from incremental utilization to kick in from FY2025E.

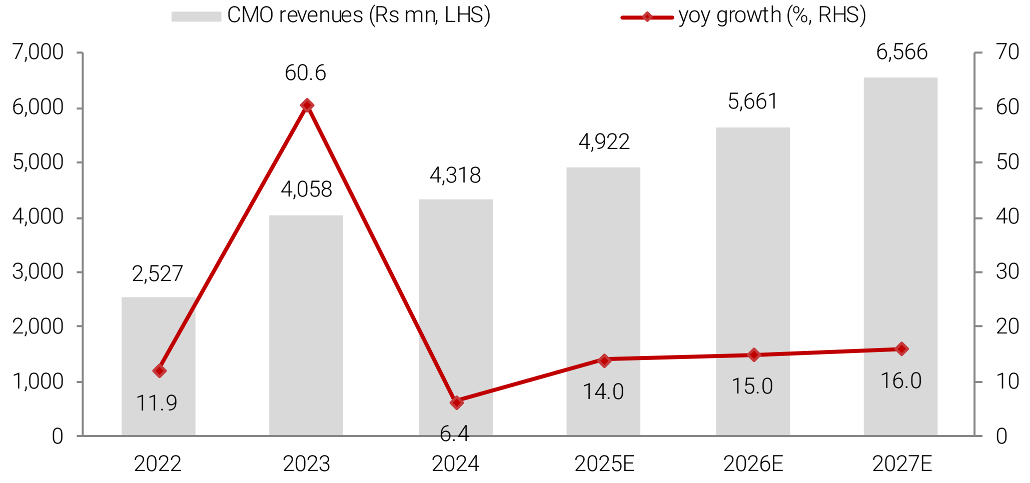
We expect ~15% CMO revenue CAGR with ~35% EBITDA margins over FY2024-27E

JB has a healthy CMO order book over the next few quarters and will be commercializing a new project from 1QFY25. In FY2024, ~12% of JB's total revenues were attributable to the CMO business. According to JB, the CMO business could grow from FY2024 levels of ~US$50 mn to ~US$100 mn over the next 3-5 years. While JB has incurred minimal capital outlay for installation of the new packaging line, we expect this to drive 20-25% higher turnover for the lozenges business over FY2024-27E. Aided by fixed contracts with existing global FMCG players, commercialization of novel products in new therapies such as immunity and wellness, entry into new geographies (parts of EU, SA and LatAM) and the addition of new clients, we forecast a ~15% CMO sales CAGR for JB over FY2024-27E.

Owing to lesser fixed costs, the scope of operating leverage is high in the CMO segment, which translates to higher EBITDA margins. In fact, across its business segments, JB generates the highest EBITDA margins in the CMO segment. At an operating level, we estimate the EBITDA margin for the CMO business to be ~35% in FY2024. In addition, due to the relatively lower quantum of capital investments and contract-based business model, the RoCE profile of the CMO business is the best-in-class across segments.

We forecast a ~15% CMO sales CAGR for JB over FY2024-27E

Exhibit 60: CMO revenues, March fiscal year-ends, 2022-27E (Rs mn, %)



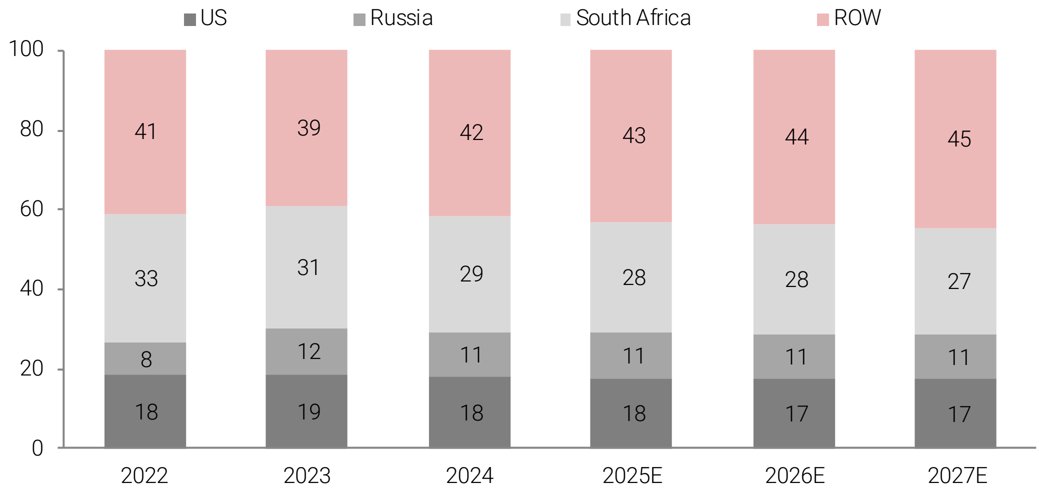
Source: Company, Kotak Institutional Equities estimates

Apart from the CMO segment, JB also exports formulations and APIs

Out of the 40+ countries within ROW (excluding the US), South Africa and Russia are JB's two key markets. With a direct front-end presence in the Russian market and a combination of its own front-end, distributor model and institutional enterprises in South Africa, JB has a hybrid business strategy in South Africa and Russia. The remaining markets are primarily distributor-led; however, its front-end partners have exclusive agreements with JB for marketing products in specific markets.

We expect the US, Russia and SA to comprise a bulk of the exports formulations sales over FY2024-27E

Exhibit 61: International formulations mix, March fiscal year-ends, 2021-27E (%)



Source: Company, Kotak Institutional Equities estimates

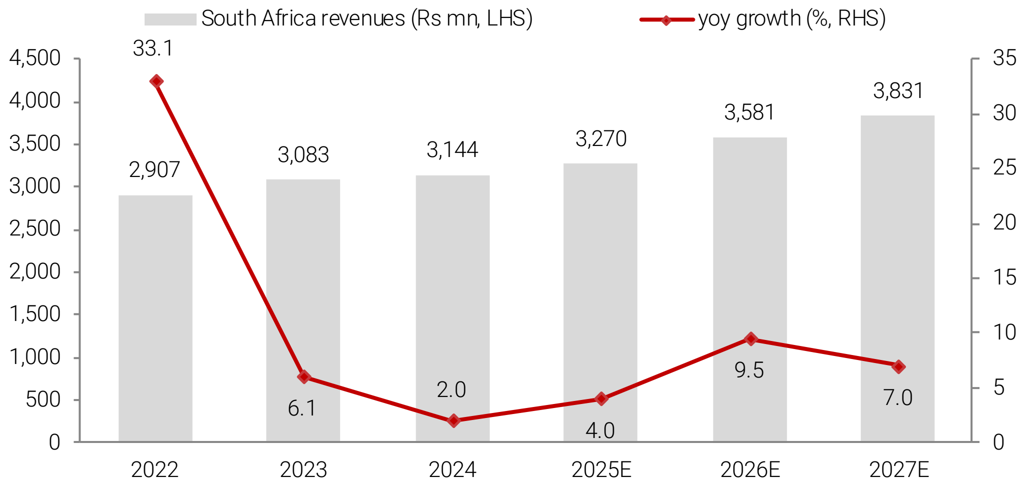
Recent haircut in South Africa to lead to more profitable growth ahead

Prior to the recent haircut, South Africa contributed ~10% to JB's overall revenues. JB made a strategic investment in a South African company called Biotech Laboratories in CY2008. It owns a 95% stake in this subsidiary. The business is well-established in the generics and public markets, with a sales force of 30 employees and good relationships with large retail pharmacy chains. The company intends to grow the present Gx model through portfolio development, broadening its base in the public market for acquired dossiers, and investigating OTC categories that make use of pharmacy relationships that are already in place. Recently, private chains such as Disc have come in and gained a decent market share. Tender market contributes 40% to the South Africa business for JB.

JB is looking to leverage its strong relationships in South Africa with pharmacy chains and augmenting its OTC portfolio. It is among the top-15 players in the South African market. Recently, it has taken some strategic decisions in the region such as taking a haircut of US$15 mn to improve EBITDA margins, the benefits of which would kick in largely from 2QFY25. Earlier, ~60% of South Africa revenues came from the public segment and had sub-par margins, which has now declined to ~40%. JB is also looking for new opportunities in this market. We expect the SA business to report a 7% CAGR over FY2024-27E.

We forecast a ~7% South Africa sales CAGR for JB over FY2024-27E

Exhibit 62: South Africa revenues, March fiscal year-ends, 2022-27E (Rs mn, %)



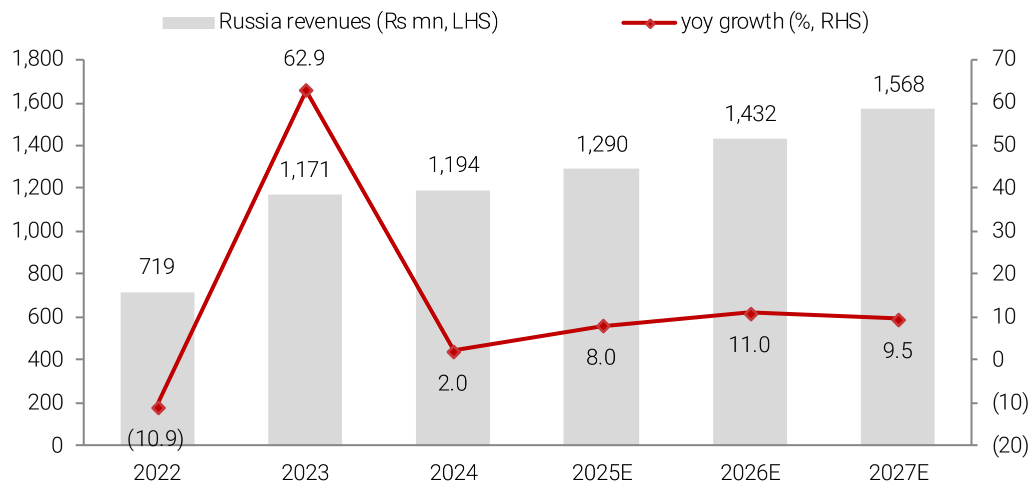
Source: Company, Kotak Institutional Equities estimates

JB also has an established presence in Russia

Of the two export markets in which JB is directly present at the front-end, one is Russia. It is one of the top companies in the over-the-counter cough and cold market, having been around for almost 40 years in Russia. After the sale of the OTC business to Cilag, JB markets only prescription products in Russia through its subsidiary and distributors in CIS markets. Additionally, it operates in the prescription branded generic market, where its products cover six different therapeutic areas—radiography, surgery, gynecology, pulmonology, gastroenterology and dermatology. With MOH-approved facilities in Panoli 1 (IV infusions, liquids and topicals), Panoli 2 (IV infusions, ampoules and vials) and Daman (lozenges, tablets and sachets), it markets a variety of dosage forms. JB has a history of working with pharmacy chains in Russia. Through its subsidiary LLC Unique Pharmaceutical Laboratories and distributors in other CIS nations, JB conducts business in the Russian market. While gross margins are high at ~80%, we note this business contributes just ~4% to overall sales. We expect the Russia business to report a 9% CAGR over FY2024-27E.

We forecast a ~9% Russia sales CAGR for JB over FY2024-27E

Exhibit 63: Russia revenues, March fiscal year-ends, 2022-27E (Rs mn, %)



Source: Company, Kotak Institutional Equities estimates

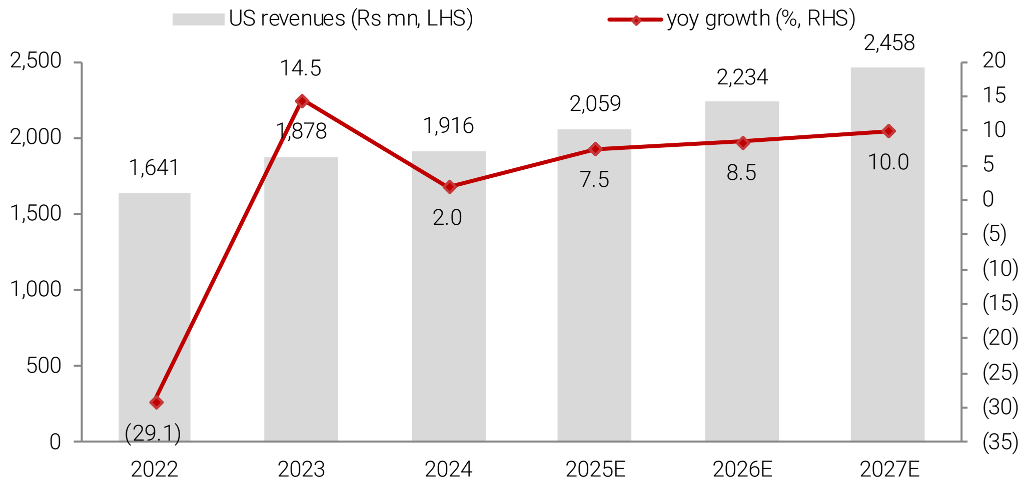
US to remain a limited focus segment

Through its marketing partner Rising Pharma, JB employs a cost-plus business model for its US operations. The company's USFDA-approved Panoli factory produces only oral solid medicines for the US market. Glipizide and Carbamazepine extended-release pills are the key molecules in JB's portfolio. JB's approach is to work on molecules, which are primarily backward integrated with internal API production, along with specialized and specific compounds, for which mild incremental competition would not be an issue. JB has presence in delayed release OSDs and has no intention to enter into complex generics.

In FY2024, the annual US sales stood at ~US$23 mn. JB owns 15 ANDAs, as of now. In the next 2-3 years, JB expects this business to expand to ~US$30 mn. JB plans to file 3-4 products per year. The US business currently constitutes ~5% to the overall revenues. We expect steady growth in this segment and bake in ~9% sales CAGR in the US over FY2024-27E.

We forecast a ~9% US sales CAGR for JB over FY2024-27E

Exhibit 64: US revenues, March fiscal year-ends, 2022-27E (Rs mn, %)



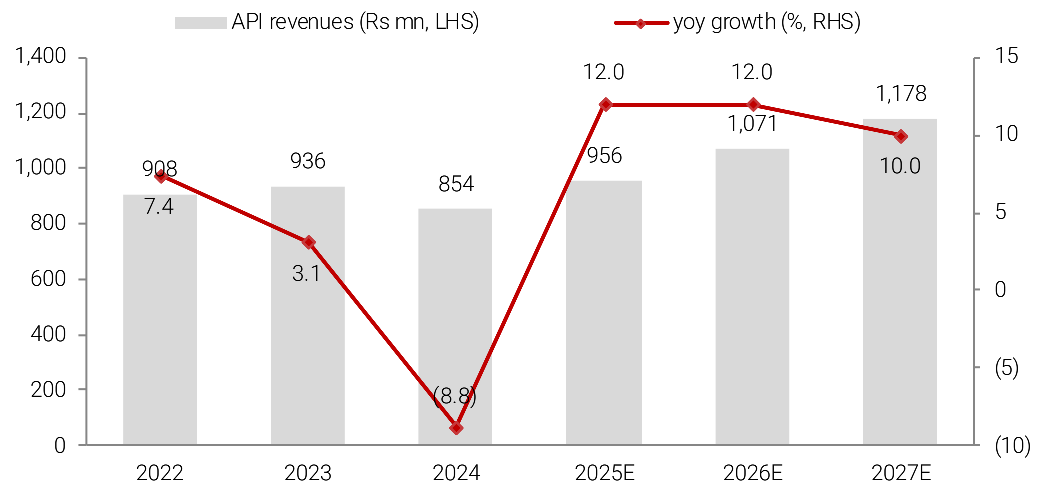
Source: Company, Kotak Institutional Equities estimates

Although small in scale, JB is also present in the API exports space

JB's external API business contributes ~2% to its overall revenues. The API segment also drives backward integration for some of JB's formulation products in the export business. Novartis is the largest customer in the API segment (major product sourced is Diclofenac), contributing two-thirds to JB's total API sales. JB has a leading position in the Diclofenac API market. It also sells Metronidazole API to domestic customers and ROW customers. JB's API facility is approved by the US FDA and PMDA. JB expects this business to grow at a steady pace, with minimal capex requirement over the foreseeable future. We expect JB's API business to report a ~11% CAGR over FY2024-27E.

We forecast a ~11% API sales CAGR for JB over FY2024-27E

Exhibit 65: API revenues, March fiscal year-ends, 2022-27E (Rs mn, %)



Source: Company, Kotak Institutional Equities estimates

4

Key risks: Any senior exits, NDMA issues and sales concentration

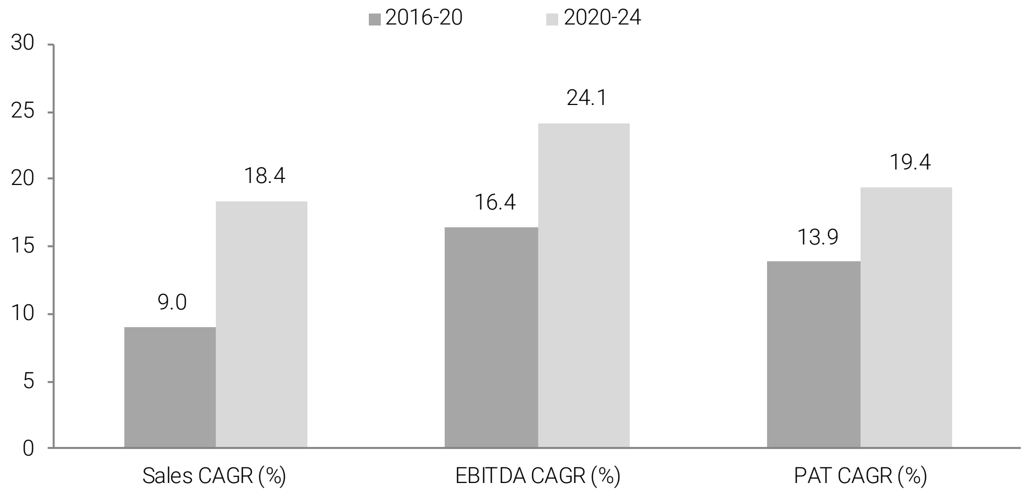
Any senior management exits, resurfacing of NDMA concerns leading to impact on Rantac volumes, high domestic sales concentration from core therapies and legacy brand franchises, aggressive amortization policy versus peers, and failure to capitalize on the acquisition-related synergies after a spree of recent deals are some key risks. In addition, the company is exposed to regulatory risks, along with unfavorable forex volatility and an overhang of a stake sale by KKR.

Any senior management exits and stake sale by KKR

Any senior management exits can play spoilsport given their strong execution track record. Nevertheless, we do not expect any meaningful change in the company's strategy and execution, post a potential stake sale by the promoter, KKR. In July 2020, Tau Investments Holding (KKR) acquired a 53.5% stake in JB at Rs745 per share, implying a ~4% premium to the prevailing stock price. Subsequently, it also announced an open offer at the same price to acquire an additional ~26% stake, which failed to materialize due to the stock rising significantly during the open offer period. Since the stake purchase by KKR and onboarding of the new management team with Mr Nikhil Chopra (CEO) and Mr Kunal Khanna (President – Operations) at the helm, there has been a marked shift in JB's strategy and significant improvement in execution. The stock price has also grown ~5X since KKR's purchase, led by robust execution by the company as exemplified by the sales, EBITDA and PAT CAGRs of 18%, 24% and 19%, respectively, over FY2020-24.

JB's reported sales and EBITDA have grown at a faster pace, post-takeover by the new management

Exhibit 66: JB—key financials CAGR, March fiscal year-ends, 2015-24 (%)



Source: Company, Kotak Institutional Equities

Adverse developments around NMDA contamination may impact the Rantac franchise

Any further adverse development pertaining to NDMA contamination levels could pose a threat to JB's Rantac franchise, which contributed ~18% of JB's domestic sales in FY2024. In April 2020, the US FDA asked manufacturers to withdraw all Rx and OTC Ranitidine drugs from the US market immediately due to the presence of higher-than-acceptable levels of a contaminant known as N-Nitrosodimethylamine (NDMA) in such medications. According to the US FDA, the content of NDMA in some Ranitidine products increases over time and when stored at higher than room temperatures may result in consumer exposure to unacceptable levels of this impurity. This urgent withdrawal request led to GSK, one of the largest manufacturers of Ranitidine, to stop selling Zantac in the US and India. Multiple other generic manufacturers also issued product recalls.

Among Indian companies, JB did not withdraw its Ranitidine brands in India, citing its compliance with the DGCI standards. According to JB, its API vendors meet the acceptable NDMA limits set by the US FDA (96 ng/day or 0.32 ppm). However, we note that any changes in the limits or non-adherence by the vendors or change in perception by prescribers could impact Rantac's volumes in the future. JB has three dosage forms for Ranitidine, namely oral solids, oral liquids and injectables, among which the oral solids dosage form is prone to the highest risk of NDMA contamination. The impact of the worldwide product recalls was evident in JB's growth for the Rantac franchise being subdued over FY2018-20.

Revenue concentration from therapies and brand families

The high therapy concentration is evident from the ~90% contribution to JB's domestic sales from its top-5 therapies over FY2020-24. In particular, the top-two therapies contributed ~70% to JB's domestic sales over the same period. These therapies include cardiac, gastrointestinal, ophthals, antiparasitic and gynae. This has been the result of a brand-driven strategy, followed by the erstwhile promoters, which led to the growth of four legacy brand franchises, namely Cilacar, Rantac, Metrogyl and Nicardia. These top-four brand families have contributed to ~60% of JB's domestic revenues over FY2020-24. We note that under the new management team, JB has undertaken five acquisitions since FY2022. These acquisitions have been in newer therapeutic areas. As these acquisitions scale up gradually, we expect JB's therapy concentration in the domestic business to reduce. In addition, led by the erstwhile Cipla team's strong track record in the respiratory portfolio, JB's respiratory sales have grown at a rapid pace (~8X over FY2021-24).

Amortization policy of acquired brands is more aggressive than peers

We highlight JB's amortization policy of acquired brands is aggressive compared with peers such as Mankind and Torrent. While Mankind acquired Panacea Biotec in FY2022, Torrent has acquired Elder, Unichem and Curatio over the past decade. JB has also executed three acquisitions, namely Sanzyme, Razel and Dr. Reddy's pediatric portfolio. We note that JB amortizes the acquired brands over a useful life of 25 years, which is much higher than peers (amortization life of 13 years for Mankind and 15 years for Torrent). A longer amortization life (4% of intangible assets amortized per annum) implies a lower cost on the P&L and inflated JB's FY2024 EPS by ~2%.

Failure to turn around acquired brands

JB will still need to continue to execute well to drive higher sales in acquired brands. Some acquired brands (particularly Sanzyme and ophthals) are in the relatively newer therapeutic areas. While JB has been able to scale up the Sporlac franchise by launching newer line extensions, there is surely scope for further ramp-up. The in-licensing deal with Novartis would also increase JB's presence in the ophthals segment, especially from FY2027E. A chunk of the EBITDA margin expansion in the upcoming years would be driven by a ramp-up of the field force in these newer therapies. For instance, from the acquired Novartis' portfolio, JB expects the operating EBITDA margin for the brands to be in the range of 25-27%. In our view, this would be driven by leveraging Novartis' field force (~100 MRs), increased coverage of ophthalmologists and life cycle management of these brands. Lower realization of such synergies could lead to lower EBITDA margin accretion from these acquisitions.

Regulatory risks in US and India

Due to its exposure in the US (~5% to overall FY2024 sales), any adverse outcome from facility inspections by the US FDA could be a negative for JB. JB provides tablets and capsules from the Panoli facility to its front-end partners in the US. Within India, ~12% of JB's portfolio comes under NLEM (lower than IPM), and is subject to annual price caps.

Unfavorable movement in forex rates could impact margins

While JB is sufficiently hedged across most markets, any negative forex movement in the Ruble rate could negatively impact its receivables and profitability. Most of JB's foreign transactions are carried out in US Dollars and Euros. However, for the Russian and South African subsidiaries, JB uses the respective local currencies. In FY2024, Russia and South Africa contributed ~4% and ~9% to JB's overall sales, respectively. Over the past couple of years, especially since the Ukraine war, the forex rates in Russia have been volatile. Hence, JB has not been able to meaningfully hedge its exposure in this market. In South Africa and ROW, the other relevant currencies used by JB are ZAR and AED, wherein it hedges ~80% of its receivables.

5

Financials: We bake in a robust 19% PAT CAGR, over FY2024-27E

We expect JB to deliver 14%, 17% and 19% revenue, EBITDA and PAT CAGRs, respectively, over FY2024-27E, driven primarily by a robust uptick across the branded Rx and the CMO segments. Within branded Rx, we expect a ramp-up of the legacy brand franchises and scale-up of the recent acquisitions through a healthy mix of price hikes and volumes to drive a ~15% domestic sales CAGR for JB over FY2024-27E. We expect the CMO business to report a robust ~15% sales CAGR over the same period, led by increased wallet share of existing clients and addition of new customers. In the absence of any significant MR hiring and meaningful capex, we bake in strong 17% EBITDA CAGR over FY2024-27E and expect JB to generate cumulative FCF of Rs13.4 bn over FY2024-27E, with strong 21.1% RoAE and 24.8% RoIC in FY2027E.

We build in ~14% revenue CAGR over FY2024-27E, driven by strong domestic and CMO traction

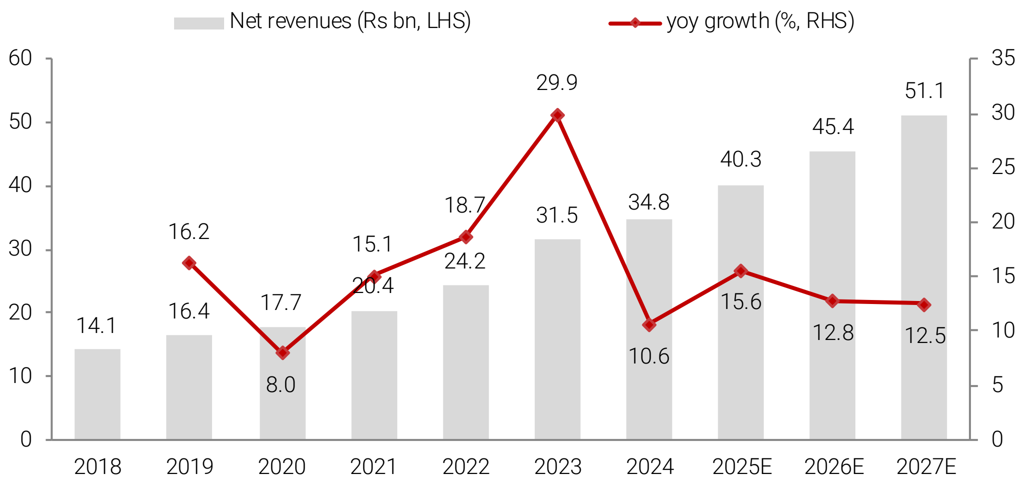
JB's overall sales reported a CAGR of ~13% over FY2014-24, primarily driven by a robust uptick in the domestic formulations business. Apart from strong traction in the domestic franchise over the past decade, JB has also scaled up its operations abroad.

Domestic business growth led by a healthy mix of pricing and volumes

Over the past decade, JB has witnessed strong growth in its domestic portfolio (~16% domestic sales CAGR over FY2014-24). Its consistent outperformance over the IPM in the past decade has been led by ~800 bps contribution from volumes, ~600 bps contribution from pricing and ~200 bps contribution from new launches. We expect JB to outperform the IPM by 250-300 bps, led by its strong brands and low exposure to NLEM, providing ample scope to take price hikes, strategy of therapy diversification outside its core areas of cardiac and gastrointestinal, and scale-up of the recently acquired portfolios.

We build in 14% overall sales CAGR for JB over FY2024-27E

Exhibit 67: Overall revenues, March fiscal year-ends, 2018-27E (Rs bn, %)



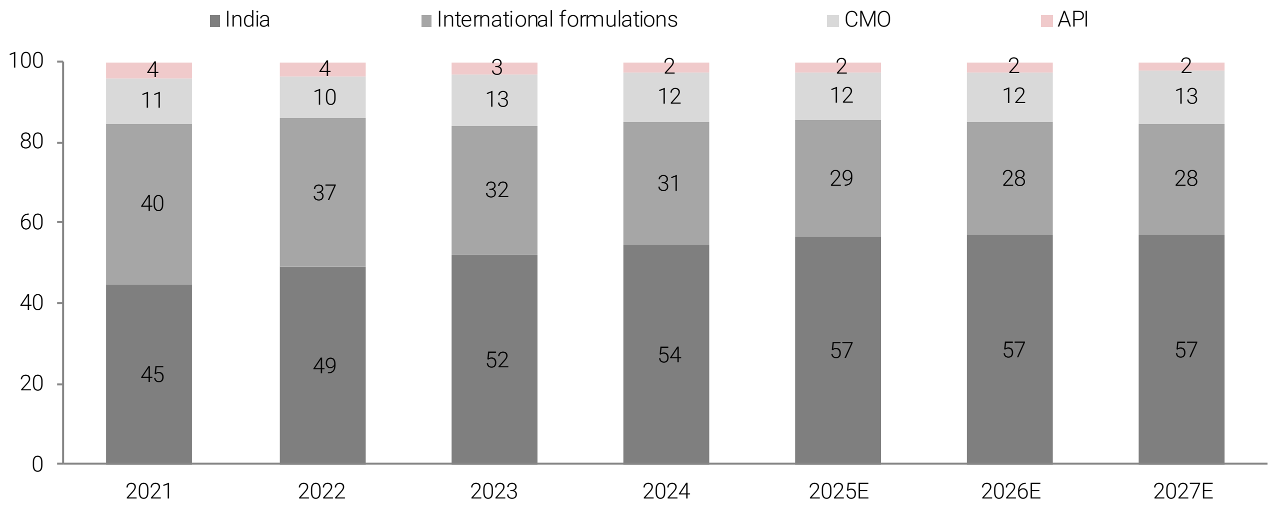
Source: Company, Kotak Institutional Equities estimates

We expect the CMO business to report a robust ~15% sales CAGR over FY2024-27E

Baking in a significant ramp-up of wallet share for its existing clients, addition of new customers and debottlenecking of operational capacities, we build in a ~15% CMO revenue CAGR over FY2024-27E for JB.

We expect sales contribution from the domestic business to increase to 57% in FY2027E

Exhibit 68: Business mix, March fiscal year-ends, 2021-27E (%)



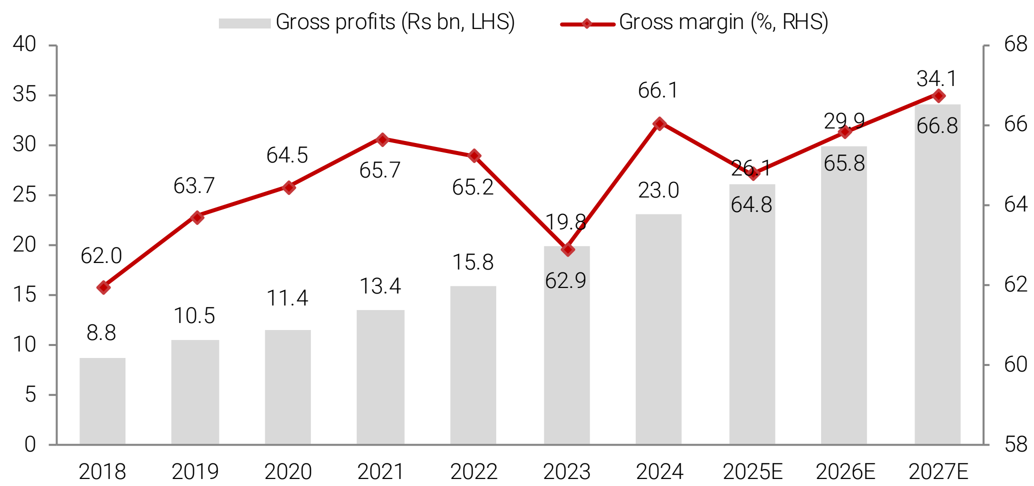
Source: Company, Kotak Institutional Equities estimates

We bake in ~17% EBITDA CAGR over FY2024-27E for JB

After the initial dip in FY2025E due to the Novartis deal, we expect a ~70 bps gross margin expansion over FY2024-27E, largely due to a favorable mix. Accordingly, as we expect JB to optimize its MR force after the recent acquisitions and forecast a gradual decline in ESOP costs, we build in a robust ~17% EBITDA CAGR over FY2024-27E. We expect JB's EBITDA margin to expand ~230 bps to 28.0% over FY2024-27E.

We expect a ~70 bps gross margin expansion over FY2024-27E, largely due to a favorable mix

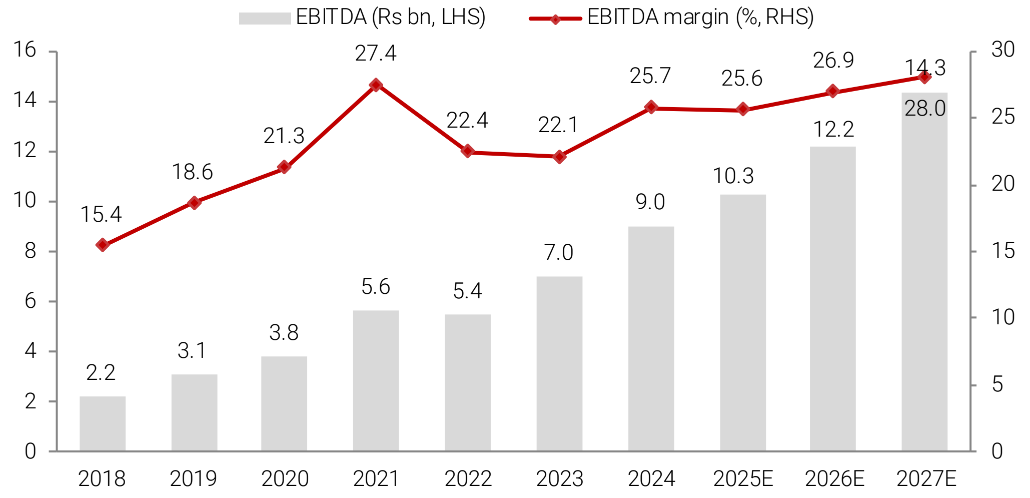
Exhibit 69: Overall gross profits, March fiscal year-ends, 2018-27E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We expect overall EBITDA margins for JB to be at 28.0% in FY2027E

Exhibit 70: Overall EBITDA, March fiscal year-ends, 2018-27E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

ESOP scheme is critical to incentivize the senior management

In order to incentivize performance and retention of employees in the firm, the Board of Directors had approved the 'Employee Stock Option Scheme 2021'. As part of this scheme, JB granted two types of options—performance-based and time-based (56% of the options granted are performance-based). The key features of the scheme are:

- **Quantity of ESOPs:** The Board approved a grant of 3,091,284 equity shares, representing 4% of the existing paid-up equity share capital of the company. A single employee can account for a maximum of 50% of the said options. So far, the company has granted ~91% of the approved quantity.
- **Exercise price:** The options had been granted at an exercise price of either Rs745 (67% of total grant quantity) or Rs1,200. After the stock 1:1 split, the effective exercise price is either Rs372.5 or Rs600.
- **Exercise period:** The exercise period has been set at 10 years from the date of grant.
- **Lock-in period:** The number of shares to the extent of 60% of time-vested options will remain locked for a period of five years from the date of grant.

JB has already granted ~91% of the approved quantity of options in two tranches. Of the total options, ~56% are performance-based, which would vest by August 2027, subject to achievement of certain business performance-related criteria. We note the decision to allocate a higher number of options with performance criteria bodes well for shareholders. The long exercise period (10 years) incentivizes retention of existing management. Nearly two-thirds of the total options have been granted at an exercise price of Rs745 (pre split), which represents KKR's acquisition price.

In FY2024, ESOP expenses stood at Rs420 mn, which we expect to decline by 5% yoy in FY2025E, thus leading to further EBITDA margin expansion. Based on data from AR2023, the cumulative P&L charge for the ESOPs granted would amount to ~Rs2.5 bn over the vesting period.

According to AR2023, exercise of all ESOPs would lead to a cumulative P&L charge of ~Rs2.5 bn

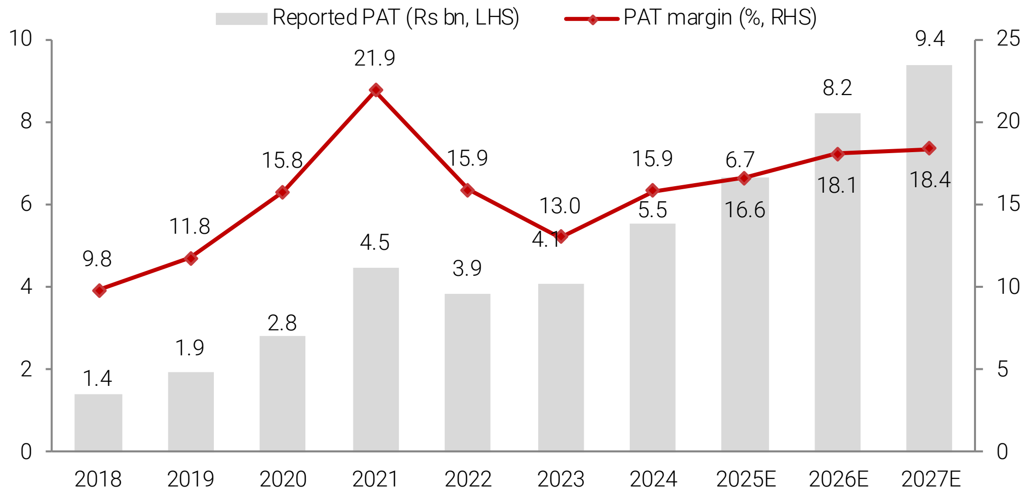
Exhibit 71: ESOP charge on P&L, March fiscal year-ends, 2021-22

	August-10, 2021	October-04, 2021	August-04, 2022	Overall
Number of options granted (#)				
Performance-based	1,451,666	121,095	16,000	1,588,761
Time-based	1,147,955	85,368	83,962	1,317,285
Total	**2,599,621**	**206,463**	**99,962**	**2,906,046**
Fair value per option (Rs)				
Performance-based	692	693	599	599
Time-based	1,090	1,006	930	930
Charge on P&L (Rs mn)				
Performance-based	1,005	84	10	1,098
Time-based	1,251	86	78	1,415
Total	**2,256**	**170**	**88**	**2,513**

Source: Company, Kotak Institutional Equities estimates

We forecast ~19% reported PAT CAGR over FY2024-27E

Exhibit 72: Overall PAT, March fiscal year-ends, 2018-27E (Rs bn, %)



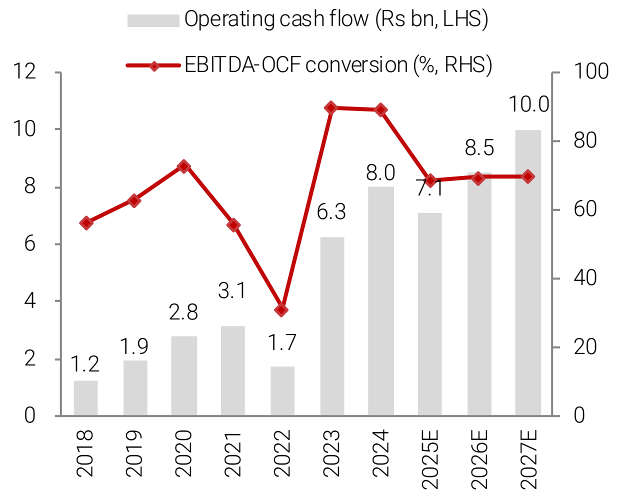
Source: Company, Kotak Institutional Equities estimates

Return ratios and cash flow profile to remain healthy

JB generated an OCF of ~Rs8 bn in FY2024, growing at ~28% yoy. OCF, as a percentage of EBITDA, remained at healthy levels of ~90%. We forecast cumulative OCF of Rs25.6 bn over FY2025-27E. Amid the absence of large capex spends over FY2025-27E, we expect healthy FCF generation to continue. While we bake in annual maintenance capex of ~Rs1.2 bn, we factor in the Novartis acquisition payout in FY2027E and forecast cumulative FCF generation of Rs13.4 bn over the same period. We expect the company to report healthy 21.1% RoAE and 24.8% RoIC in FY2027E.

JB—operating cash flow

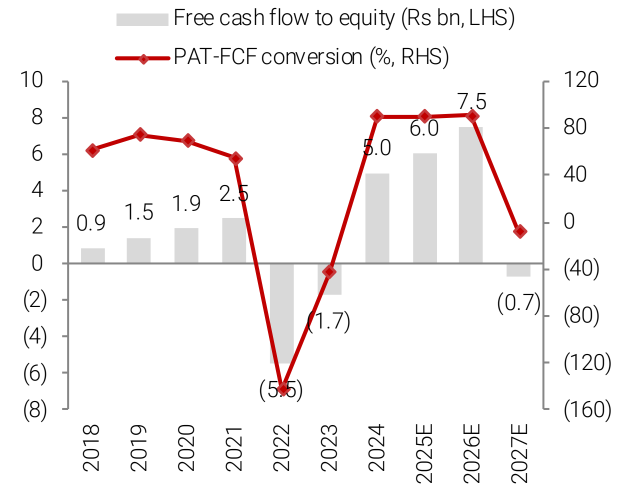
Exhibit 73: March fiscal year-ends, 2018-27E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

JB—free cash flow to equity

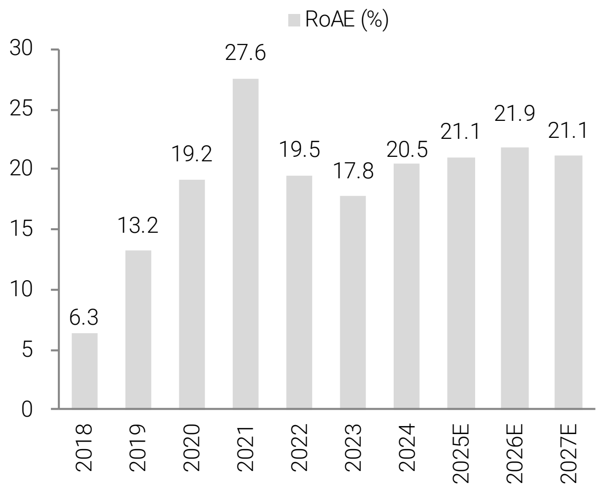
Exhibit 74: March fiscal year-ends, 2018-27E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

We forecast 21.1% RoAE by FY2027E

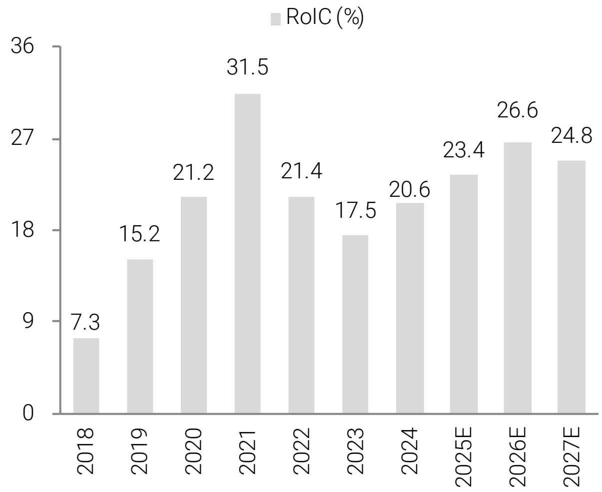
Exhibit 75: RoAE, March fiscal year-ends, 2018-27E (%)



Source: Company, Kotak Institutional Equities estimates

We forecast 24.8% RoIC by FY2027E

Exhibit 76: RoIC, March fiscal year-ends, 2018-27E (%)



Source: Company, Kotak Institutional Equities estimates

We bake in overall sales CAGR of 14% for JB over FY2024-27E

Exhibit 77: Consolidated profit and loss statement, March fiscal year-ends, 2019-27E (Rs mn, %)

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Profit and loss									
Net revenues	**16,432**	**17,747**	**20,425**	**24,242**	**31,493**	**34,842**	**40,272**	**45,420**	**51,090**
Cost of goods sold	(5,965)	(6,308)	(7,015)	(8,429)	(11,682)	(11,821)	(14,179)	(15,521)	(16,980)
Gross profit	**10,467**	**11,439**	**13,410**	**15,813**	**19,811**	**23,021**	**26,094**	**29,899**	**34,110**
Staff costs	(2,882)	(3,229)	(3,406)	(3,766)	(4,741)	(5,595)	(6,322)	(7,080)	(8,001)
ESOP expenses	—	—	—	(627)	(694)	(420)	(399)	(339)	(288)
SG&A expenses	(4,532)	(4,434)	(4,400)	(5,986)	(7,419)	(8,038)	(9,073)	(10,263)	(11,497)
EBITDA	**3,053**	**3,776**	**5,604**	**5,435**	**6,958**	**8,969**	**10,301**	**12,217**	**14,324**
Depreciation & amortisation	(556)	(663)	(687)	(727)	(1,144)	(1,383)	(1,646)	(1,730)	(2,365)
EBIT	**2,497**	**3,113**	**4,917**	**4,708**	**5,813**	**7,586**	**8,654**	**10,487**	**11,958**
Other income	414	507	1,124	392	99	373	577	738	809
Interest expense	(41)	(30)	(72)	(51)	(361)	(443)	(296)	(243)	(190)
Share in associates	—	—	—	—	—	—	—	—	—
Exceptional items	—	(100)	—	—	—	—	—	—	—
Profit before tax	**2,870**	**3,489**	**5,969**	**5,049**	**5,552**	**7,515**	**8,935**	**10,982**	**12,578**
Tax & deferred tax	(930)	(765)	(1,484)	(1,189)	(1,452)	(1,989)	(2,250)	(2,768)	(3,173)
Less: minority interest	(5)	(3)	(6)	(7)	—	—	—	—	—
Net income (reported)	**1,935**	**2,720**	**4,480**	**3,853**	**4,100**	**5,526**	**6,685**	**8,213**	**9,405**
FD no. of shares (mn)	164	159	155	155	157	157	157	157	157
EPS (reported) (Rs)	**11.8**	**17.1**	**29.0**	**24.9**	**26.2**	**35.3**	**42.7**	**52.4**	**60.1**
Growth (%)									
Revenue	16.2	8.0	15.1	18.7	29.9	10.6	15.6	12.8	12.5
EBITDA	40.2	23.7	48.4	(3.0)	28.0	28.9	14.8	18.6	17.2
PAT	39.8	44.7	60.1	(14.0)	6.4	34.8	21.0	22.9	14.5
Margins (%)									
Gross margin	**63.7**	**64.5**	**65.7**	**65.2**	**62.9**	**66.1**	**64.8**	**65.8**	**66.8**
Staff costs	17.5	18.2	16.7	15.5	15.1	16.1	15.7	15.6	15.7
ESOP expenses	—	—	—	2.6	2.2	1.2	1.0	0.7	0.6
SG&A expenses	27.6	25.0	21.5	24.7	23.6	23.1	22.5	22.6	22.5
EBITDA margin	**18.6**	**21.3**	**27.4**	**22.4**	**22.1**	**25.7**	**25.6**	**26.9**	**28.0**
Tax rate	32.4	21.9	24.9	23.5	26.2	26.5	25.2	25.2	25.2
PAT margin (reported)	**11.8**	**15.3**	**21.9**	**15.9**	**13.0**	**15.9**	**16.6**	**18.1**	**18.4**

Source: Company, Kotak Institutional Equities estimates

As of March-2024, JB had net cash of ~Rs1 bn

Exhibit 78: Consolidated balance sheet, March fiscal year-ends, 2019-27E (Rs mn, %)

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Assets									
PPE	5,444	5,524	5,194	5,195	5,034	5,468	5,957	6,518	7,189
CWIP	151	162	256	139	444	633	633	633	633
Intangibles	234	301	321	6,714	13,223	13,885	13,030	12,175	20,421
Goodwill	531	531	575	575	575	575	575	575	575
Right of use assets	—	156	247	334	286	247	316	380	438
Other non-current financial assets	996	721	183	183	331	343	343	343	343
Other non-current assets	123	235	250	403	366	257	257	257	257
Non-current assets	**7,479**	**7,631**	**7,026**	**13,542**	**20,258**	**21,408**	**21,111**	**20,881**	**29,855**
Cash & equivalents	354	290	287	565	769	882	1,971	4,916	562
Current investments	3,621	3,358	6,671	20	1,941	3,720	5,580	7,253	7,979
Debtors	3,082	3,454	3,890	5,557	5,758	6,869	7,940	8,955	10,073
Inventories	2,438	2,747	3,474	4,100	4,305	5,025	5,808	6,551	7,369
Other current financial assets	185	114	312	446	232	134	155	175	197
Other current assets	761	612	721	1,844	2,275	1,903	2,200	2,481	2,791
Current assets	**10,440**	**10,575**	**15,356**	**12,532**	**15,280**	**18,534**	**23,653**	**30,330**	**28,969**
Total assets	**17,919**	**18,206**	**22,381**	**26,074**	**35,539**	**39,941**	**44,765**	**51,211**	**58,825**
Liabilities and equity									
Long-term borrowings	—	—	—	—	3,832	236	—	—	—
Lease liabilities	—	62	123	282	242	205	180	138	80
Long-term provisions	57	74	126	137	152	184	184	184	184
Other non-current financial liabilities	—	—	—	—	—	—	—	—	—
Other non-current liabilities	591	607	617	507	1,053	1,509	1,509	1,509	1,509
Non-current liabilities	**648**	**743**	**866**	**927**	**5,280**	**2,135**	**1,873**	**1,831**	**1,773**
Short-term borrowings	258	295	326	263	1,650	3,335	2,585	1,835	1,085
Creditors	1,174	1,680	1,869	2,245	2,386	3,563	4,118	4,645	5,225
Short-term provisions	40	71	280	455	425	491	567	640	719
Income tax liabilities	39	60	79	61	50	118	118	118	118
Other current financial liabilities	756	681	684	588	708	825	954	1,076	1,210
Other current liabilities	175	296	142	148	237	242	280	315	355
Current liabilities	**2,442**	**3,083**	**3,381**	**3,761**	**5,456**	**8,574**	**8,622**	**8,628**	**8,712**
Total liabilities	**3,090**	**3,826**	**4,247**	**4,688**	**10,735**	**10,708**	**10,495**	**10,459**	**10,485**
Share capital	160	155	155	155	155	155	155	155	155
Other equity	14,641	14,200	17,943	21,187	24,649	29,078	34,115	40,597	48,185
Total equity	**14,801**	**14,355**	**18,097**	**21,341**	**24,804**	**29,233**	**34,270**	**40,752**	**48,340**
Minority interest	28	25	37	45	—	—	—	—	—
Total liabilities and equity	**17,919**	**18,206**	**22,381**	**26,074**	**35,539**	**39,941**	**44,765**	**51,211**	**58,825**

Source: Company, Kotak Institutional Equities estimates

We bake in cumulative FCF generation of Rs13.4 bn for JB over FY2025-27E

Exhibit 79: Consolidated cash flow statement, March fiscal year-ends, 2019-27E (Rs mn, %)

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Cash flow from operating activities									
Profit before tax	**2,870**	**3,489**	**5,969**	**5,049**	**5,552**	**7,515**	**8,935**	**10,982**	**12,578**
Depreciation & amortisation	556	663	687	727	1,144	1,383	1,646	1,730	2,365
Finance costs	41	30	72	51	361	443	296	243	190
Other income	(414)	(507)	(1,124)	(392)	(99)	(373)	(577)	(738)	(809)
Changes in working capital	(520)	97	(942)	(3,024)	(299)	(56)	(1,373)	(1,302)	(1,434)
Income taxes paid	(649)	(908)	(1,417)	(1,346)	(955)	(1,325)	(2,250)	(2,768)	(3,173)
Others	46	(107)	(97)	637	553	418	399	339	288
Net cash generated from / (used in) operating activities	**1,931**	**2,757**	**3,148**	**1,701**	**6,256**	**8,006**	**7,076**	**8,486**	**10,005**
Cash flow from investing activities									
Capex	(483)	(730)	(478)	(629)	(726)	(1,269)	(1,250)	(1,400)	(1,600)
Acquisitions	—	—	(85)	(6,439)	(6,924)	(1,345)	—	—	(9,640)
Other income	32	37	15	9	22	41	577	738	809
Others	183	932	(1,759)	7,082	(1,990)	(1,466)	(1,960)	(1,774)	(825)
Net cash generated from / (used in) investing activities	**(269)**	**239**	**(2,307)**	**23**	**(9,618)**	**(4,038)**	**(2,633)**	**(2,436)**	**(11,256)**
Cash flow from financing activities									
Dividend	(208)	(1,410)	(732)	(1,276)	(1,276)	(1,570)	(1,648)	(1,731)	(1,817)
Interest paid	(34)	(27)	(70)	(41)	(342)	(454)	(296)	(243)	(190)
Issuance of equity	(1,310)	(1,608)	—	—	85	200	—	—	—
Change in net debt	(1)	63	3	(3)	5,232	(1,916)	(986)	(750)	(750)
Principal payment of lease liabilities	—	(79)	(75)	(64)	(77)	(115)	(127)	(139)	(153)
Others	—	—	—	—	(56)	—	(297)	(242)	(192)
Net cash generated from / (used in) financing activities	**(1,553)**	**(3,061)**	**(874)**	**(1,384)**	**3,565**	**(3,855)**	**(3,355)**	**(3,105)**	**(3,102)**
Change in cash & equivalents	**109**	**(64)**	**(33)**	**341**	**204**	**113**	**1,088**	**2,945**	**(4,354)**
Beginning cash	279	354	290	287	565	769	882	1,971	4,916
Adjustments	(34)	(0)	30	(62)	0	(0)	—	—	—
Ending cash	**354**	**290**	**287**	**565**	**769**	**882**	**1,971**	**4,916**	**562**
Key cash flows									
Operating cash flow (ex-interest costs)	1,897	2,731	3,078	1,661	5,914	7,553	6,779	8,243	9,816
Free cash flow to firm	**1,479**	**1,963**	**2,521**	**(5,438)**	**(1,469)**	**5,307**	**6,263**	**7,674**	**(585)**
Free cash flow to equity	1,451	2,002	2,470	(5,480)	3,497	3,065	5,055	6,743	(1,477)
Free cash flow to equity (adjusted for net debt)	**1,451**	**1,939**	**2,466**	**(5,477)**	**(1,735)**	**4,981**	**6,041**	**7,493**	**(727)**
Cash conversion (%)									
OCF as % of EBITDA	63.2	73.0	56.2	31.3	89.9	89.3	68.7	69.5	69.8
FCFE as % of PAT	75.0	69.3	55.1	(142.1)	(42.3)	90.1	90.4	91.2	(7.7)
Capex as % of sales	2.9	4.1	2.3	2.6	2.3	3.6	3.1	3.1	3.1

Source: Company, Kotak Institutional Equities estimates

6

Company profile: Fusion of legacy brands and strategic acquisitions

JB is a domestic formulations-focused company, coupled with a significant presence in export formulations and a burgeoning CMO business. Share of domestic formulations and CMO in overall sales has together increased from ~55% in FY2020 to ~67% in FY2024. Ranked 22nd in the IPM as of FY2024, JB has five brands among India's top-300 brands, contributing 50%+ of domestic formulation sales.

History of the company

In July 2020, KKR purchased a 53.5% share in JB. KKR appointed a new management team, with Mr Nikhil Chopra being appointed as CEO on October 5, 2020. Having worked with Cipla for more than 24 years, he was previously CEO of Cipla's India operations. In addition to Mr Chopra, two other senior appointments were made from Cipla, who were Mr Kunal Khanna (President—Operations and 5 years of experience with Cipla) and Mr Dilip Singh Rathore (President—India Business and 11 years of experience with Cipla). The new management has made several acquisitions to expand into newer medications and has largely leveraged the existing sales force for expanding these therapies. In order to propel the company's growth at a faster rate, the new management team established clear priorities. The primary goals remain to accelerate growth and raise the company's ranking in the IPM. To this effect, efforts have been made to boost launch momentum, better manage lifecycle of the legacy portfolio, reach a wider audience of specialists, enter new therapies and increase sales force productivity.

Incorporated in CY1976, JB has largely grown organically until CY2022, since when it executed five acquisitions/in-licensing deals

Exhibit 80: Timeline of key events, December calendar year-ends, 1976-23

Calendar year	Events
1976	Incorporated as 'JB Mody Chemicals and Pharmaceuticals Limited' by the late JB Mody
1977	Launched Metrogyl, an antibiotic drug used to treat bacterial infections or infections during surgery
1985	Launched Nicardia, an antihypertensive to address acute hypertension; marked company's entry into the cardiac segment
1985	Publicly listed on stock exchange
1986	Launched Rantac, a gastrointestinal drug to treat indigestion
2000	Launched portfolio of cough and cold OTC brands in Russia
2003	Received US FDA approval for Panoli T10 manufacturing facility
2007	Launched Cilacar, an antihypertensive with a favorable kidney safety profile
2008	Strategic investment in Biotech Laboratories in South Africa; subsequently increased its stake to 95%
2011	Divested OTC brand portfolio in Russia and CIS countries to J&J for US$245 mn
2020	Acquisition of controlling stake (54%) by Kohlberg Kravis Roberts & Co. Inc., followed by induction of new professional management
2021	Launch of new therapies for diabetes, nephrology, respiratory diseases and virology
2022	Acquisition of the Sanzyme portfolio to enter the probiotics segment, Azmarda brand (Sacubitril + Valsartan), four pediatric brands from Dr. Reddy's and the Razel portfolio from Glenmark
2023	Executed an in-licensing deal with Novartis for ophthalmic brands in the IPM

Source: Company, Kotak Institutional Equities

JB is led by a professional management team

Exhibit 81: JB—key management personnel, March fiscal year-ends, 2023-24 (Rs mn)

	Position	Description	Aggregate compensation received in FY2023 (Rs mn)
Management			
Nikhil Chopra	Chief Executive Officer	He is a business leader, with over 20 years of experience and has spearheaded breakthrough ideas focused on creating greater access to high-quality treatment and medicines, and gained a significant competitive advantage over peers, especially in therapies such as respiratory, urology, HIV, and pediatric care. He previously worked as CEO-India Business for Cipla Ltd. He holds an MSc in Organic Chemistry from the Gujarat University.	65.4
Kunal Khanna	President–Operations	He comes with 16+ years of experience across sectors, including life sciences, healthcare services, logistics and strategy. He has completed his Bachelor's in Commerce and an MBA—Marketing from the Narsee Monjee Institute of Management Studies, Mumbai. Before joining JB, he was associated with Cipla as Cluster Head—Chronic & Emerging Divisions and led the Business Development & Portfolio Function for its India Business.	23.5
Dilip Singh Rathore	President—India Business	He has over two decades of sales and marketing experience in the pharmaceutical industry in India and global markets. He has completed his Masters in Science from Symbiosis University, Pune. He also has a degree in Business Marketing Strategy from Kellogg School of Management and Corporate Strategy from Wharton School of University of Pennsylvania. Before joining JB, he was associated with Cipla as Cluster Head and Senior Vice President for the Respiratory Business.	23.9
Narayan Saraf	Chief Financial Officer	He heads the Finance, Accounts, Taxation, Legal, Compliance and Corporate Secretarial at JB. He is a Chartered Accountant, Cost Accountant and CIMA. He has 20+ years of varied experience in the field of Finance (Risk Management, FP&A, Supply Chain, Corporate Accounts, Taxation & Treasury). Prior to joining JB, he was associated with Hygienic Research Institute and various other corporates such as Thermo Fisher Scientific India, Cipla Ltd, Hindustan Unilever Ltd and ONGC.	NA
Pradeep Kumar Singh	President—Global Business	He is a veteran with 35+ years of experience in the pharma industry. Currently, he leads Global Business Operations for JB, spanning 40+ countries, including the ROW, South Africa (Biotech) and CDMO segments. He is also a Non-Executive Director on the board of Biotech Labs (Pty) Ltd, South Africa—a fully owned subsidiary of JB Pharma. He has completed his Bachelor's and Master's in Pharmacy from Mumbai University. He has been associated with JB for 20+ years conceptualizing its US, South Africa and CDMO businesses.	NA
Sujay Rajhans	President—Research and Development	He has 23+ years of experience in Research and Development of pharmaceutical products for global markets. He has completed his Bachelor's, Master's and Doctorate in Pharmaceutical Sciences. He has previously been associated with Lupin Limited, Dr. Reddy's and Torrent Pharma at various leadership levels and has various patent publications at the US, EU and Indian patent offices.	12.3
Bhushan Sachdev	Executive Vice President—Supply Chain Operations	He has over three decades of experience in Production Planning & Coordination, Supply Chain Management, Procurement, Inventory Management, Shipping and Logistics. He leads Global Integrated Supply Chain Operations for JB. He has completed his Mechanical Engineering and Graduate Diploma in Materials Management. Before joining JB, he was associated with Balsara Home Products Limited.	17.6
Anurag Agrawal	Vice President—Regulatory Affairs	With 20+ years of experience, he leads the domestic and international regulatory management at JB, involving conceptualization, strategizing global regulatory pathways and actively collaborating for a robust pipeline of CDMO projects. Prior to this, he was associated with Sun Pharma, Ranbaxy and Torrent Research Centre. He has completed his Masters in Pharmacy from the MS University of Baroda and Executive MBA from Management Development Institute, Gurgaon.	9.4

Source: Company, Kotak Institutional Equities

Since the management change, there has been a clear shift in JB's strategy toward:

Diversification into newer therapies organically

- **Respiratory and pediatric care:** With a background in developing respiratory brands in the IPM during its previous stint at Cipla, the new management decided to build the respiratory franchise at JB from scratch. Hence, in 1QFY22, JB established the NOVA division, with 350 MRs, to handle respiratory and pediatric therapies. Areas such as idiopathic pulmonary fibrosis, pulmonary hypertension and other related topics were the division's primary focus. JB already had relationships with pediatricians, owing to its existing Rantac Syrup brand and utilized this to cross-sell some pediatric respiratory products and increase coverage across pulmonologists. Some major brands, which drove an ~8X sales growth over FY2021-24 for JB's respiratory portfolio are Akair LC (Levocetirizine + Montelukast), Nintabid (Nintedanib) and Viscojoy (Acetylcysteine + Acebrophylline).
- **Nephrology:** To support nephrology brands, the RENOVA division was established. Thanks to the Nicardia and Cilacar products, the company enjoys substantial brand equity with nephrologists. It intends to use this as leverage to market other brands in this industry. The division had 50 sales people, when it was first established.

Acquisitions also supplemented JB's entry into new therapies

- **Azmarda deal**: The Azmarda deal improved JB's access to cardiologists. JB purchased Azmarda (sacubitril + valsartan), a patented medication, from Novartis to bolster its position in the cardiology market and further improve JB's access to cardiologists. The company used its Nicardia division's sales force to market Azmarda to cardiologists.
- **Ophthalmology brands from Novartis**: JB entered into a Trade-Mark License Agreement with Novartis Innovative Therapies AG, Switzerland, which is perpetual in nature, for a portfolio of ophthalmology brands for the Indian market, effective from January 2027, for a consideration of US$116 mn payable on or before December 31, 2026. The deal also includes the promotion and distribution agreement with Novartis Healthcare Private Limited for the above-mentioned ophthalmology portfolio over a three-year period starting December 2023. JB Pharma has already paid Rs1.25 bn for this exclusive promotion and distribution agreement. According to IQVIA MAT October 2023, sales for these brands were at Rs2.1 bn.

Lifecycle management of legacy brands

Cilacar, Rantac, Metrogyl and Nicardia are four of JB's legacy brands that account for about half of its India revenue (~62% sales contribution, as of FY2024). Introduction of new line extensions has been expedited by the new management in an effort to boost volume growth of these older brands. Rantac MPS oral suspension, Rantac Dom (ranitidine + domperidone), Rantac RD (rabeprazole + domperidone) and Rantac 300mg are some of the latest Rantac combinations. Metrogyl P Ointment, Metrogyl + O pills and Metrogyl DG Forte Gel are among the recently launched Metrogyl products. Growing Cilacar T (cilnidipine + telmisartan), Cilacar TC (cilnidipine + telmisartan + chlorthalidone) and Cilacar TM (cilnidipine + telmisartan + metoprolol) has also been JB's focus.

As of FY2024, top-25 brands contributed to ~80% of JB domestic IQVIA sales

Exhibit 82: JB—top-25 brands' IQVIA revenues, March fiscal year-ends, 2020-24 (Rs mn, %)

	2020	2021	2022	2023	2024
Top brands IQVIA revenues (Rs mn)					
Cilacar	2,031	2,305	2,734	3,238	3,882
Rantac	1,981	2,438	2,892	3,528	3,672
Metrogyl	869	1,138	1,469	1,914	2,070
Cilacar-T	654	784	1,113	1,384	1,730
Nicardia	829	928	1,156	1,465	1,723
Sporlac	495	485	648	924	979
Azmarda	430	581	784	1,142	747
Vigamox	439	383	459	581	605
Cilacar-M	160	199	271	318	372
Nevanac	374	318	345	350	336
Travatan	309	321	322	328	320
Lobun	126	171	206	163	311
Metrogyl-P	166	180	242	300	307
Rantac-Dom	234	186	233	258	291
Razel	265	255	233	275	291
Pubergen-HP	61	78	120	151	248
Bizfer-XT	133	122	158	183	223
Z&D	187	152	183	214	218
Cilacar TC	91	111	148	177	216
Metrogyl DG	110	112	158	194	194
Razel Gold	161	173	175	155	189
Razel-F	140	136	139	134	187
Simbrinza	142	166	176	191	185
Gynogen-HP	62	47	77	158	171
Travacom	131	150	157	158	171
Domestic sales contribution (%)	**77**	**80**	**79**	**80**	**80**

Source: IQVIA, Kotak Institutional Equities

Building global CMO leadership in the niche lozenges segment

Apart from the domestic franchise, growing at a fast pace in its CMO business remains a key priority for JB. The company seeks to expand into new markets, grow its clientele globally, and create and introduce new product lines by utilizing its leadership in the lozenges CMO industry.

7

Industry overview: Branded Rx offers ample runway for growth

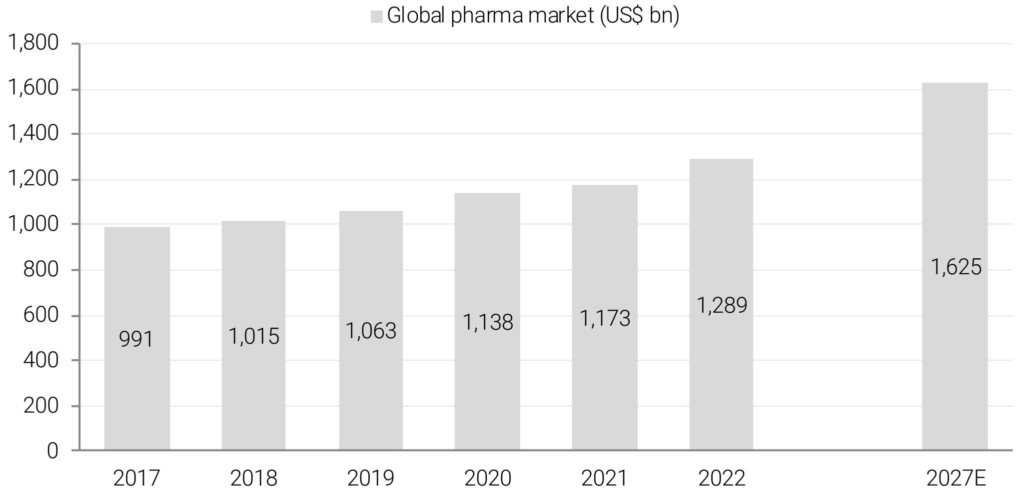
IQVIA expects the global pharma market to report a CAGR of 5% over CY2022-27E to ~US$1.7 tn, driven by an increase in the aging population, growing prevalence of chronic diseases, strong growth of global generic market and expansion of health insurance coverage. In the global landscape, IPM stands out with an expected CAGR of 11% over CY2022-27E, according to IQVIA. JB is among the top-25 players in this market, with extensive offerings across domestic formulations and a significant brand presence in select therapies. While JB largely dwells in branded generics, it has also established a strong base with clients abroad in its international formulations and lozenges manufacturing businesses.

Global pharma market is estimated to grow to US$1.6 tn by FY2027E

The global formulations market was estimated at US$1.3 tn in CY2022 and is expected to increase at a CAGR of 5% to reach US$1.6-1.7 tn by CY2027E.

Global pharma market is expected to increase at a CAGR of 5% over CY2022-27E

Exhibit 83: Global pharma market, December calendar year-ends, 2017-27E (US$ bn)



Source: IQVIA, Kotak Institutional Equities

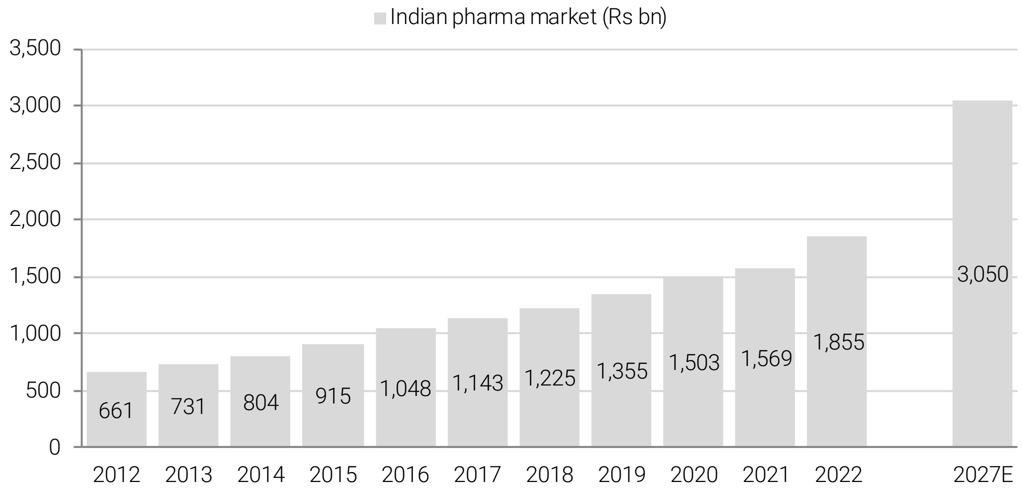
There are traditional and amplifying contributors of growth for the global pharma market, including but not limited to an aging population with increasing incidence of chronic diseases, sedentary lifestyles leading to obesity and diabetes, and other costly health conditions. In addition, there is improving healthcare infrastructure and access in the emerging markets, which are driving levels of demand.

IPM is estimated to increase at CAGR of 10-11% to Rs3 tn by FY2027E

The size of the IPM has increased from Rs660 bn in CY2012 to Rs1.9 tn in CY2022 at a CAGR of 11%. IQVIA expects the IPM to report a CAGR of 10-11% to reach Rs3 tn by CY2027E.

IPM is estimated to report CAGR of 10-11% to Rs3 tn by FY2027E

Exhibit 84: Indian pharma market, March fiscal year-ends, 2012-27E (Rs bn)



Source: IQVIA, Kotak Institutional Equities

Growth in the IPM is expected to be driven by the following factors:

- **Rising income levels:** Per capita income of India increased at a CAGR of ~4% from Rs66k in FY2013 to Rs87k in FY2021, resulting in improved living standards and healthcare awareness. As a result, people across income levels seek high-quality healthcare services in terms of better hospitals, medicines and pharmacy services.

- **Government initiatives:** Various schemes have been announced by the Indian government, including Ayushman Bharat and the National Commission for Allied and Healthcare Professions Bill 2021, which aims to create a body that will regulate and maintain educational and service standards for healthcare professionals. In addition to programs and schemes related to the core healthcare sector, the government has also launched programs to develop manufacturing infrastructure to support smooth and low-cost raw material supply to the pharma industry. The PLI scheme is designed to encourage domestic production of 50 key APIs. The list is dominated by anti-infectives, but also includes several cardiovascular drugs.

- **Increasing life expectancy:** According to the United Nations, the current life expectancy for India in CY2022 is estimated at 70.2 years, a 0.3% increase over CY2021. Life expectancy for India was 62.3 years in CY2000 and is expected to reach 74.9 years in CY2050. According to the National Health Profile, the average age of Indians is expected to be of 34.7 years in CY2036, as compared with 24.9 years in CY2011. As of CY2011, the proportion of population over the age of 60 years was 8%, which is set to increase to ~11.5% by CY2026 and ~15% by CY2036.

- **Growth in lifestyle diseases:** The chronic segment in IPM has grown at a relatively faster rate of ~12% CAGR, compared with the overall IPM (~10%) over FY2018-23. Market share of the chronic segment increased from 34.7% in FY2018 to 37.5% in FY2023. Major chronic therapies such as cardiovascular and anti-diabetic are expected to continue to increase at a CAGR of 11-13% over the next five years, driving the growth in IPM.

- **Growth in partnerships and co-marketing agreements:** Partnerships and co-marketing agreements between Indian and foreign companies are expected to increase over the next five years, reflecting benefits for both originator and local partners. Such alliances will drive rapid and broader market penetration for new brands or an increase in sales for more established products.

- **Increase in health insurance coverage:** The Indian government's Ayushman Bharat-Pradhan Mantri Jan Arogya Yojana (AB-PMJAY) health insurance scheme will drive healthcare access for patients and improve health outcomes over the forecast period. According to the Insurance Regulatory and Development Authority of India (IRDAI), more than 500 mn people (which is ~38% of the Indian population) were covered under some form of the health insurance policy, as of 2020. After the pandemic, there has been increased acceptance of health insurance among people, leading to further increase in insurance penetration.

Domestic manufacturers in IPM, characterized by high entry barriers, control over 80% of the market by value. Furthermore, domestic players stand to grow their share of this market, given the demand for high volumes, fit-for-local (in terms of cost proposition) nature of the market, increased penetration of government financing models such as universal healthcare coverage and the associated requirement to contain costs. Local companies are best positioned to benefit from these market dynamics.

Indian pharma market segments by genericization:

In developed markets such as the US, innovator drugs have typically contributed a significant majority of the value share (as high as 70-80% of the value during CY2017-21). IPM, on the other hand, is dominated by branded generics that accounted for ~96% share of the IPM, as of CY2022. Branded generics by virtue of the competitive dynamics, branding and high availability are likely to continue dominating the Indian market in the near future. Given that medical insurance penetration is low, product selection is largely driven by doctors and pharmacists, unlike in various global markets such as the US and EU, where product selection is mostly driven by consolidated entities such as governments and insurance companies. From such market conditions arises a need and opportunity for branding. As of now, trade generics led by substitutions and increased reach have created only a marginal shift thus far in the generics space in the Indian market.

As of MAT May 2024, top-25 companies in IPM enjoyed ~70% market share

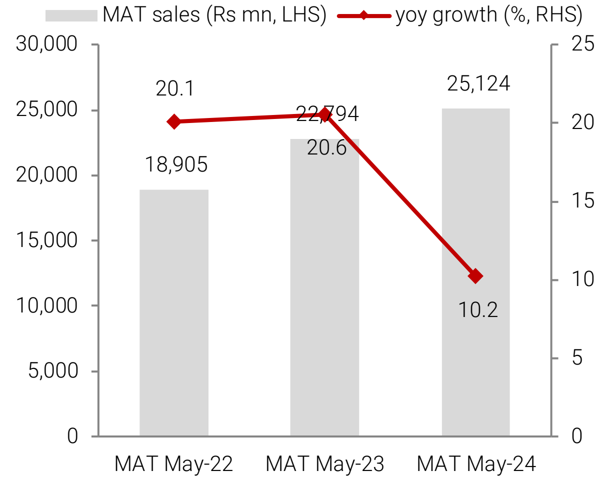
Exhibit 85: IPM—top-25 companies, MAT May year-ends, 2020-24 (Rs bn, %)

		MAT sales (Rs bn)				MAT sales yoy growth (%)			Monthly sales yoy growth (%)						Market share (%)
Rank	Company	MAT May-20	MAT May-21	MAT May-22	MAT May-23	MAT May-21	MAT May-22	MAT May-23	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	MAT May-23
	IPM	1,481	1,693	1,833	2,040	14.3	8.3	11.3	13.1	3.8	24.2	19.4	11.5	9.6	100.0
1	Sun Pharma	113	125	139	156	10.6	11.9	12.2	12.4	6.2	22.9	9.7	11.5	10.8	7.7
2	Abbott	94	104	113	126	10.4	8.9	11.8	11.0	7.7	20.1	17.6	11.7	10.4	6.2
3	Cipla	82	97	98	111	17.8	0.8	13.3	16.8	1.5	29.8	25.5	15.8	10.0	5.4
4	Mankind	63	71	78	90	12.6	10.3	15.9	23.9	9.7	35.5	31.2	19.5	13.9	4.4
5	Alkem	55	63	71	83	14.4	13.5	16.2	22.0	6.7	31.1	32.6	13.8	6.8	4.1
6	Lupin	54	60	65	70	10.8	7.9	8.4	8.6	5.6	18.7	10.6	5.5	8.9	3.5
7	Intas	47	53	60	70	12.6	14.2	15.9	15.0	16.5	18.7	15.1	11.2	16.5	3.4
8	Torrent	50	56	61	69	11.5	9.8	12.9	15.1	12.3	18.5	13.1	7.4	10.8	3.4
9	Macleods	46	51	58	68	10.9	13.7	16.0	19.6	7.9	36.3	29.5	16.1	10.5	3.3
10	Aristo	41	48	53	60	17.7	10.6	12.0	15.4	1.9	34.5	36.0	19.2	6.3	2.9
11	Zydus	44	50	53	59	14.5	6.2	10.4	10.5	4.3	18.4	17.7	9.4	9.9	2.9
12	Dr. Reddy's	43	51	55	59	17.2	9.0	6.1	3.8	(4.3)	24.0	13.2	7.2	7.4	2.9
13	GSK	42	44	47	52	6.2	6.8	9.1	12.4	(4.1)	28.5	19.7	8.4	7.7	2.5
14	Emcure	30	36	38	42	19.4	7.3	8.4	11.9	3.2	25.4	16.5	6.2	7.0	2.0
15	Glenmark	30	41	37	41	38.3	(9.6)	11.8	16.4	1.3	33.7	24.2	10.5	8.4	2.0
16	U S V	29	33	35	39	15.0	6.8	11.5	9.9	9.6	19.6	14.2	7.1	12.0	1.9
17	Ipca Labs	25	29	33	38	16.8	14.3	15.2	17.0	6.1	30.9	25.2	10.0	11.7	1.9
18	Micro Labs	24	26	32	34	11.7	19.4	7.6	13.9	(6.4)	25.6	19.2	7.2	4.9	1.7
19	Pfizer	29	33	33	33	14.6	(0.3)	0.9	5.2	(2.9)	12.6	14.3	2.2	(0.8)	1.6
20	Sanofi	27	30	31	32	9.5	3.6	1.7	(1.4)	(6.9)	10.5	9.3	4.8	4.4	1.6
21	Alembic	22	25	28	31	11.5	11.1	12.6	18.9	(6.4)	36.3	27.5	18.0	10.3	1.5
22	FDC	15	17	18	21	12.5	7.4	18.7	21.6	10.5	53.1	34.3	9.9	5.9	1.1
23	Eris	16	19	20	21	12.8	6.6	8.4	7.0	7.5	17.1	10.3	5.0	8.7	1.1
24	JB	12	14	17	21	17.8	21.2	21.7	26.4	20.4	34.8	35.5	17.6	9.4	1.0
25	Himalaya	13	16	16	16	21.4	(3.2)	5.0	6.9	(7.9)	4.5	14.0	1.0	5.4	0.8

Source: IQVIA, Kotak Institutional Equities

IPM—MAT May 2024 sales grew 10.2% yoy

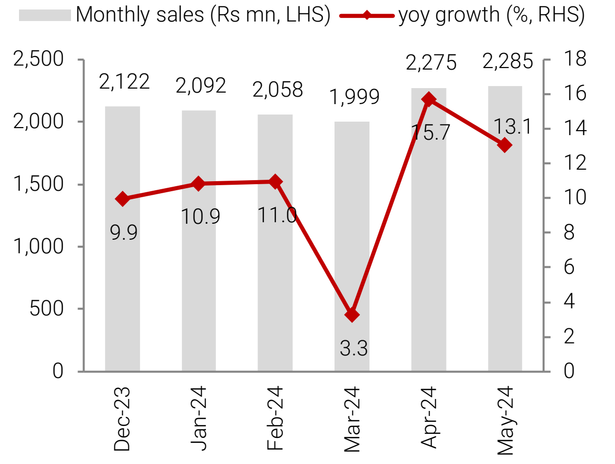
Exhibit 86: Annual sales, May MAT year-ends, 2022-24 (Rs bn, %)



Source: IQVIA, Kotak Institutional Equities

IPM – May 2024 sales grew 13.1% yoy

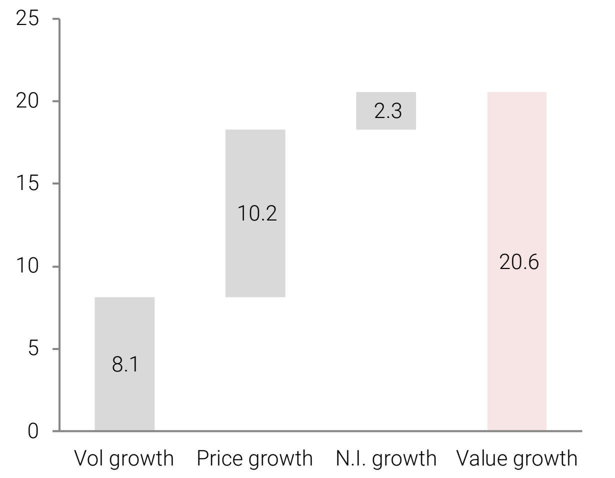
Exhibit 87: Monthly sales, May MAT year-ends, 2023-24 (Rs bn, %)



Source: IQVIA, Kotak Institutional Equities

IPM—key drivers of MAT May 2023 growth

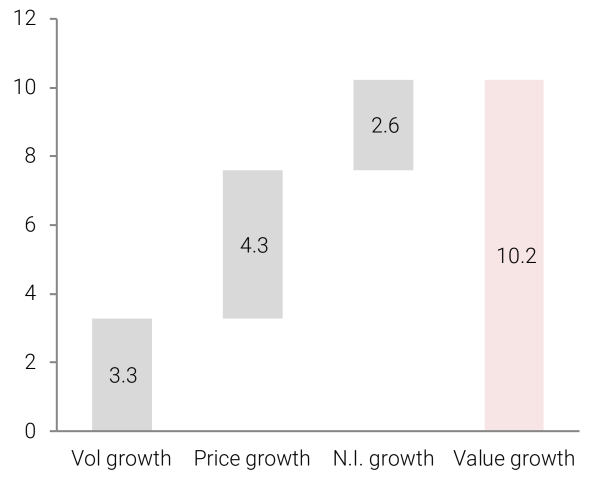
Exhibit 88: May MAT year-end, 2023 (%)



Source: IQVIA, Kotak Institutional Equities

IPM—key drivers of MAT May 2024 growth

Exhibit 89: May MAT year-end, 2024 (%)



Source: IQVIA, Kotak Institutional Equities

Indian pharma market segments by acute-chronic mix:

Chronic therapies have reported a CAGR of 12% over CY2018-22, as against acute growth of 9.1% over the same period in the IPM. Chronic therapies have grown at a rate higher than acute therapies, owing to increasing prevalence and treatment of chronic lifestyle diseases. According to the Institute for Health Metrics and Evaluation (IHME), prevalence of cardiovascular diseases in India has increased from approximately 54 mn in CY2011 to approximately 77 mn in CY2021, and is expected to reach approximately 91 mn by CY2030E. Similarly, for diabetes, prevalence has increased from approximately 53 mn in CY2011 to approximately 93 mn in CY2021 and is expected to reach approximately 134 mn by CY2030E. Furthermore, in addition to disease prevalence, in chronic therapies, patients have a higher lifetime value.

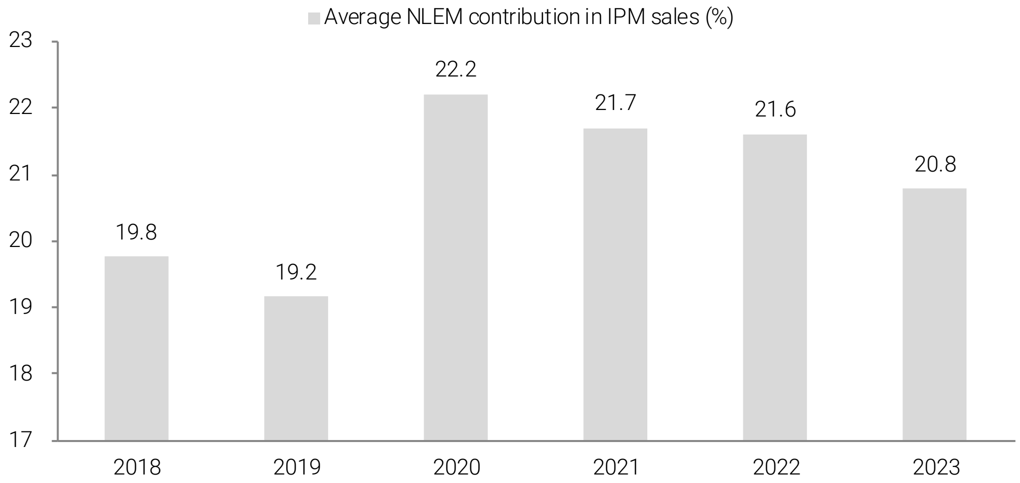
Significant regulations and announcements related to IPM:

- **Fixed-dose combinations (FDC) ban:** FDC drugs contain more than one approved API; these are manufactured as a fixed-dose and packed in a single dosage form. In March 2016, the Central Government announced a list of ~350 FDCs, following a report submitted by a committee that was set up to evaluate the rationality and safety of fixed dose combinations. However, based on several petitions from drugmakers, the resultant impact of such a ban was stayed/deferred. Courts in India directed the Drugs Technical Advisory Board (DTAB) to examine the rationality and safety of the initial set of FDC drugs. In September 2018, based on the recommendations of the DTAB, ~325 FDCs were banned, which was subsequently increased by an additional 80 FDCs being banned in January 2019. Recently, in June 2023, the government banned manufacturing, sale and distribution of 14 additional FDCs.

- **Drug price control regulations—National List of Essential Medicines (NLEM):** In India, the NLEM was developed in line with standard treatment guidelines to take into account (1) the priority healthcare needs of majority of the population, (2) address the disease burden of the nation and (3) increase access to commonly used medicines at the primary, secondary and tertiary healthcare levels. The National Pharmaceutical Pricing Authority (NPPA)—constituted by the Government of India's Department of Pharmaceuticals—has been tasked with periodic review and revision of the ceiling prices of the pharma products covered under the NLEM. NPPA has periodically issued ceiling prices for several molecules. Periodically, every April, these ceiling prices are revised in line with the changes in the wholesale price index (WPI) to factor the underlying inflation yoy. The pricing of pharma products that are not covered in the NLEM is determined by the respective pharma companies, based on several factors (such as relative benefit of the drug over the current standard of care and existing competition). For these non-NLEM products, pharma companies are allowed to increase the prices of drugs by up to 10% every year.

As of FY2023, NLEM products contributed to 20.8% of overall IPM sales

Exhibit 90: IPM—NLEM contribution, March fiscal year-ends, 2018-23 (%)



Source: IQVIA, Kotak Institutional Equities

Ratings and other definitions/identifiers

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BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5-+5% returns over the next 12 months.

SELL. We expect this stock to deliver <-5% returns over the next 12 months.

Our Fair Value estimates are also on a 12-month horizon basis.

Our Ratings System does not take into account short-term volatility in stock prices related to movements in the market. Hence, a particular Rating may not strictly be in accordance with the Rating System at all times.

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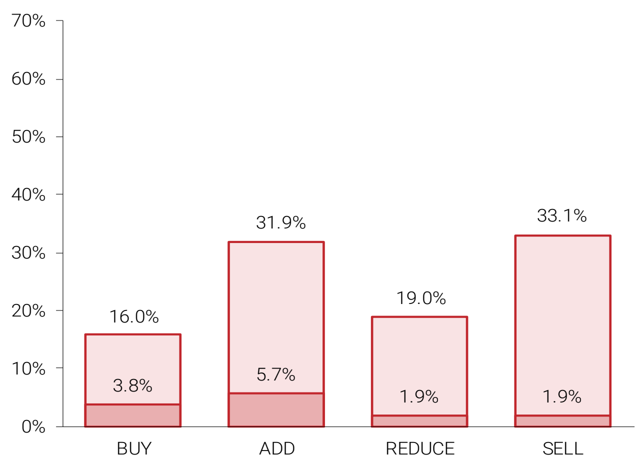
Kotak Institutional Equities Research coverage universe



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Source: Kotak Institutional Equities

As of March 31, 2024

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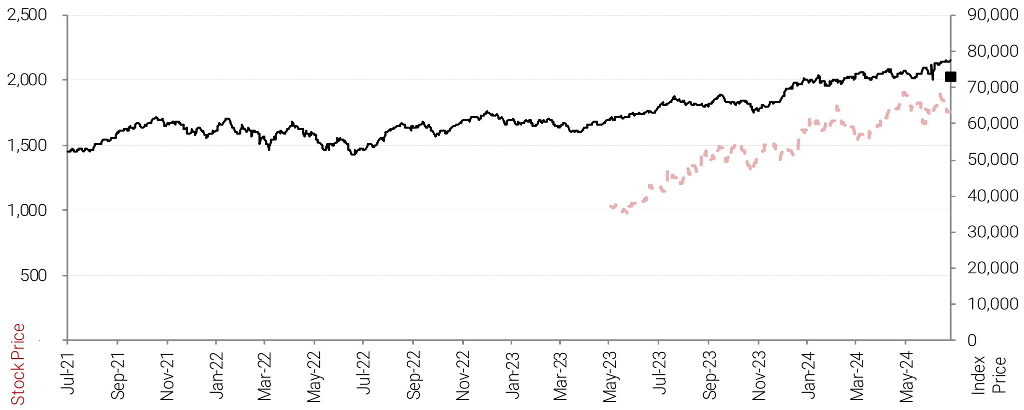

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Source: Kotak Institutional Equities

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