INITIATING COVERAGE REPORT

J.B.Chemicals & Pharmaceuticals Ltd

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J.B.Chemicals & Pharmaceuticals Ltd

In the Spotlight: Maximizing therapy dominance

JB Chemicals and Pharmaceuticals Ltd (JBCP) is a rapidly growing mid-sized pharmaceutical company in India, focusing on expanding its domestic presence through strategic acquisitions and CDMO business scaling up. In India, JBCP's growth is accelerated by the market share gain and Rx increase in the acquired portfolio, successful lifecycle management of key brands, and increased contribution by domestic portfolio from 41.6% in FY18 to 54.4% in FY24. The recent Ophthalmology brands acquisition diversifies JBCP's India revenue base and solidifies its leadership in this therapy. The company places emphasis on its high-margin domestic business (we expect at 30% margins) and CDMO operations (we expect at 35% margins). In CDMO, 80% of revenue comes from Lozenges. JBCP is recognized as the preferred partner for leading MNCs and consumer healthcare companies globally in the field of Lozenges. By leveraging its strong presence in domestic markets and dedication to seizing emerging opportunities, along with strategic restructuring in the exports segment, JBCP is well-positioned to capitalize on immediate growth opportunities. We expect 25% EPS CAGR over FY24-26E aided by 1) Strong growth from domestic business (CAGR of 17% FY24-FY26E), 2) 32% growth over FY24-FY26E from new acquisitions, 3) scaling up of high margin CDMO business on the back of new therapy launches and 4) robust FCF generation. We assign a 24x EV/EBITDA on FY26E EBITDA (implied PE of 35x on FY26E EPS of Rs 56), arrive at a target price of Rs. 1,987 per share with a BUY rating on the stock.

The domestic business is primed for growth- JBCP has consistently outperformed the Indian Pharmaceutical Market (IPM) by growing at 5-year CAGR of 23% as compared to the IPM's growth rate of 10%. This was mainly driven by higher contribution from chronic therapies (51% of domestic revenue), acquisition of new products and line-extensions through life cycle management. The company has therapy dominance in Cardio and Gastro, which is a high margin business and contributes ~60% to the domestic revenue. The company's emphasis on expanding its brand portfolio within existing therapies, rather than venturing into new ones, has significantly bolstered revenue growth for flagship brands. The Company's biggest brand Cilacar franchise had sales of more than Rs. 6 Bn in FY24 (18% of sales). **Going ahead, we expect domestic business (ex-Ophthal) to grow at a CAGR of 14% from FY24-FY26E on the back of increased volume growth aided by price hike.**

Diversifying the domestic portfolio- JBCP's India business is currently concentrated in four primary therapeutic areas such as cardiac (41%), gastro (27%), antibiotic (8%) and Ophthal (8%). The top five brands: Cilacar, Cilacar-T, Metrogyl, Nicardia, and Rantac contributes ~65% to the domestic revenue. In a strategic move to broaden its revenue streams, the company has undertaken bolt-on acquisitions in Probiotics, Pediatrics, Statins, and Ophthalmology. Notably, the key brands from these acquisitions are already making significant strides in their respective markets. Through these strategic acquisitions, JBCP aims to diversify its product portfolio. **The contribution of top 5 brands is declining from 75% FY22 to 60% in FY26E, thus de-risking the domestic portfolio**.

CDMO business to double in next 5 years- JBCP is amongst the top 5 player in the world for medicated and herbal lozenges. The CDMO business which contributes 12% to the total revenue has grown at CAGR of 17% over FY19-FY24 and has experienced 60% YoY growth in FY23 due to increased demand from existing customers. The company has a capacity to manufacture 2 Bn lozenges annually and is running at a utilization level of 55%. **Due to healthy order book, new MNC clients, expansion into new geographies (ROW market), introducing new therapy lozenges and higher available capacities, CDMO business is poised to grow at a CAGR of 15% from FY24-FY26E and the revenues are expected to double from USD 50 Mn to USD 100 Mn in next five years.**

Initiatives for margin expansion and robust FCF generation- Over time, JBCP's high-margin domestic and CDMO segments have been experiencing improved growth. In FY24, the company's overall margins significantly improved to 25.7% from 22.1% in FY23, led by 1) cost optimization efforts, 2) favourable product mix, and 3) stabilized logistics and trade costs. With sufficient capacity for its projects, JBCP is well-positioned for future business growth. We anticipate JBCP's annual capex ranges between Rs 0.8bn to Rs 1bn. Despite acquisitions, JBCP maintains its cash-rich balance sheet and remains a net cash company driven by robust cash generation. This strong financial position enables JBCP to pursue growth opportunities through strategic acquisitions.

Valuation is reassuring!

Currently, the stock is trading at a reassuring valuation on EV/EBITDA of 20x and PE of 30x. Considering JBCP's strong position in the domestic market, expansion into the Ophthalmic segment, scaling up of high-margin CDMO business, and robust free cash flow generation (~Rs.21.6bn over FY26E), we assign a 24x EV/EBITDA (implied PE of 35x) on FY26E EBITDA and set a target price of Rs. 1,987 per share with a **BUY** rating on the stock, offering a 19% upside from current valuations.

Rating: **Buy**	Upside: **19%**
Current Price: **1,668**	Target Price: **1,987**

|Market data

Bloomberg:	JBCP:IN
52-week H/L (Rs):	1,935/960
Mcap (Rs bn/USD bn):	261/3.1
Shares outstanding (mn):	155.0
Free float:	46%
Daily vol. (3M Avg.):	0.2 Mn
Face Value (Rs):	1.0

Source: Bloomberg, SMIFS Research

|Shareholding pattern (%)

	Mar-24	Dec-23	Sep-23	Jun-23
Promoter	53.7	53.8	53.8	53.9
FIIs	11.0	10.3	10.0	9.5
DIIs	18.3	18.5	18.5	18.6
Public/others	16.7	17.2	17.5	17.9

Pro. Pledging

Pledging	0.0	0.0	0.0	0.0

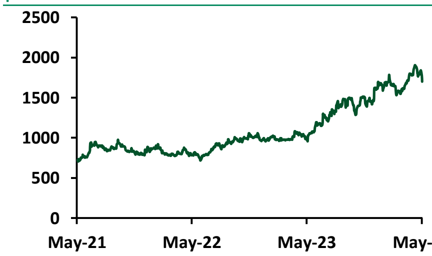
Source: BSE

|Price performance (%)*

	1M	3M	12M	36M
NIFTY 50	2.5	3.4	25.6	51.1
NIFTY 500	3.6	5.8	38.5	65.7
JBCP	-8.1	4.2	66.0	136.9

*as on 24th May 2024; Source: AceEquity, SMIFS Research

| 3 Year Price Performance Chart



Source: NSE

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Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	Adj P/E (x)	EV/EBITDA (x)
FY22	24,242	*18.7*	5,435	22.4	3,854	*-7.0*	24.9	19.5	16.4	32.8	23.3
FY23	31,493	*29.9*	6,958	22.1	4,099	*6.4*	26.5	17.7	14.1	34.6	20.8
FY24	34,840	*10.6*	8,967	25.7	5,525	*34.8*	35.6	20.4	16.7	38.6	23.7
FY25E	40,087	*15.1*	10,627	26.5	7,106	*28.6*	45.8	22.5	18.3	36.7	24.1
FY26E	46,089	*15.0*	12,575	27.3	8,655	*21.8*	55.8	23.4	19.1	30.1	19.9

Source: Company, SMIFS Research Estimates

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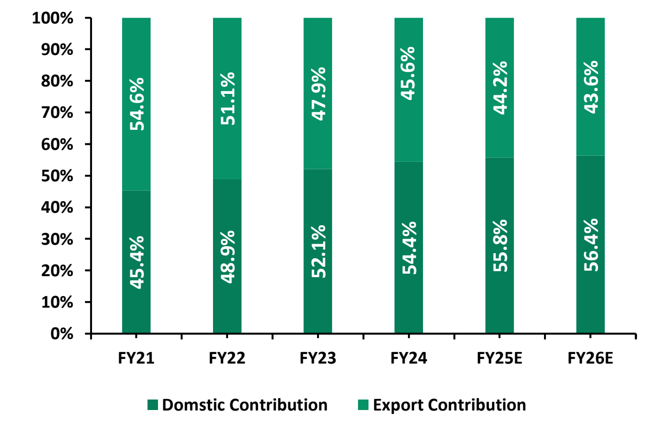
Company Background

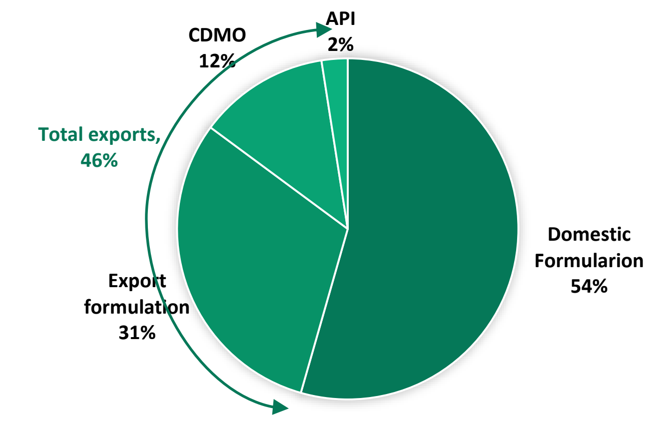
JB Chemicals and Pharmaceuticals Ltd (JBCP) was established by Mr. J.B. Mody in 1976 in Mumbai. Over the next 25 years, JBCP expanded its operations in the domestic market by introducing branded generics like Rantac (for heartburn and acid reflux); Metrogyl (an antibacterial for diarrhea); Cilacar (for angina and high blood pressure); and Nicardia (for blood pressure) in focus therapies of cardiac, gastro and antibiotics. Its export business comprises contract manufacturing for leading pharma/consumer firm for lozenges. It has direct presence in branded generics market of South Africa and Russia/CIS (entered in 1994) and has distributor led model in the USA, Asia, Africa and LatAM. **In 2020, leading private equity firm Kohlberg Kravis Roberts & Co. Inc. (KKR), acquired a controlling stake of 54% in JBCP.**

Fig 1: Share of domestic has increased over the years



Source: Company, SMIFS Research Estimates

Fig 2: And now is a major revenue contributor



Source: Company, SMIFS Research

What happened after KKR coming in?

To change the company's image from a four-drug company, it first hired a professional team and they appointed **Mr. Nikhil Chopra** who was heading Cipla's domestic business division for over 24 years.

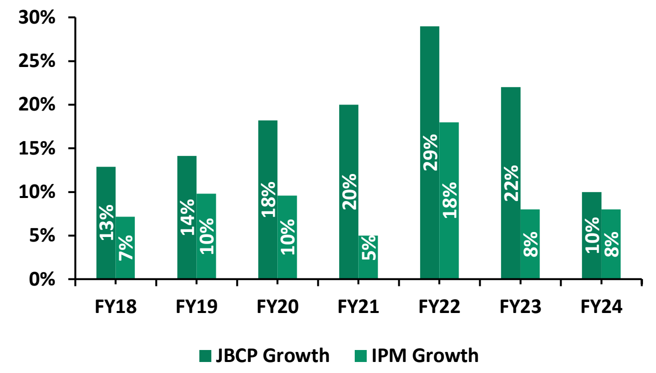
The followings changes were done:

1) **Adding line extensions:** For ex: Metrogyl 400mg was launched in a 600mg version, that increased the rate of compliance since the dose was cut to twice a day from thrice a day.
2) **Five acquisitions in 2 years:** Within just 24 months, five asset acquisitions were done starting with Sanzyme (Probiotic) which was acquired in Jan 2022, followed by Azmarda, Paediatric, Razel, and ophthalmology portfolio from Novartis.
3) **Increasing the MR productivity:** The company had 1600 MR's out of which 1000 were promoting just two drugs Rantac and Metrogyl. This led to duplication as two MR used to visit the same doctor (Gastroenterologist). By merging two divisions into a smaller pool of 500 MR's that sold Rantac and Metrogyl, the MR productivity increased significantly from Rs. 3.6 Lacs in FY20 to Rs. 7 Lacs in FY24.

All these initiatives have transformed the company and has helped them to grow faster than the market.

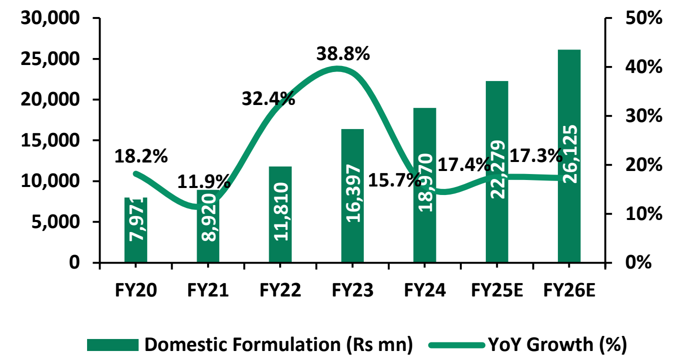
Story in Charts

Fig 3: JBCP Growth Vs IPM Growth



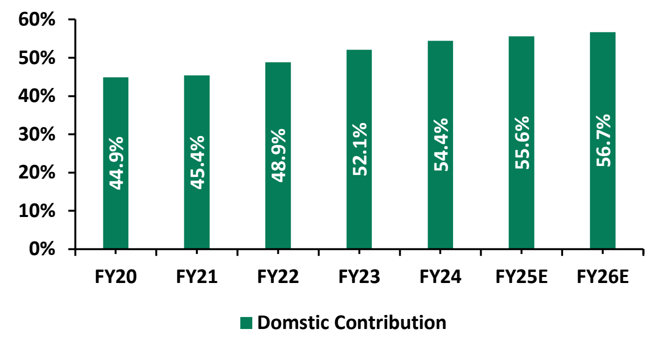
Source: Company, SMIFS Research

Fig 4: Domestic formulation poised for robust growth



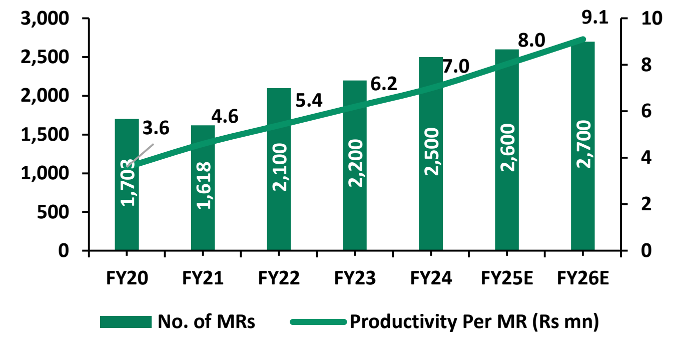
Source: Company, SMIFS Research Estimates

Fig 5: Surging Domestic Contribution



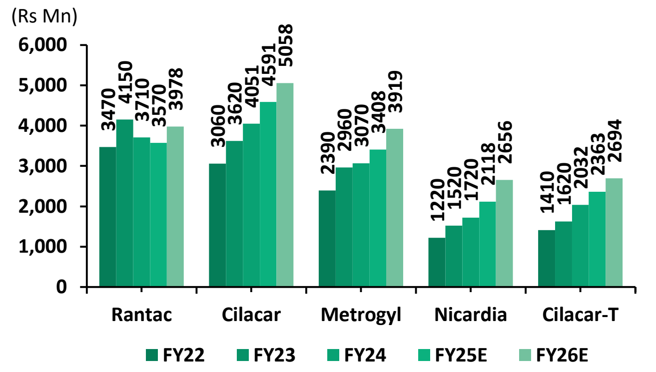
Source: Company, SMIFS Research Estimates

Fig 6: MR productivity on the rise over FY24-FY26E



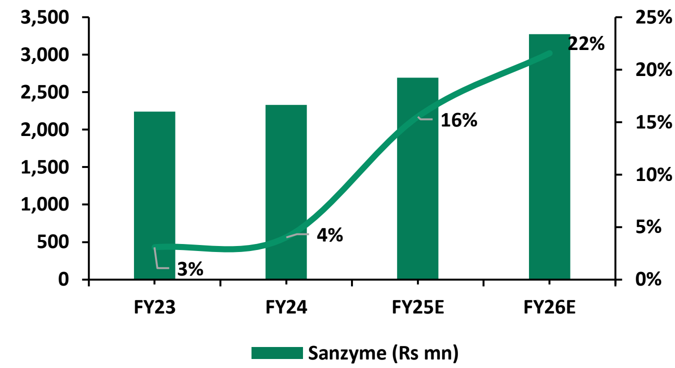
Source: Company, SMIFS Research Estimates

Fig 7: Top products growing at average of 15% YoY growth



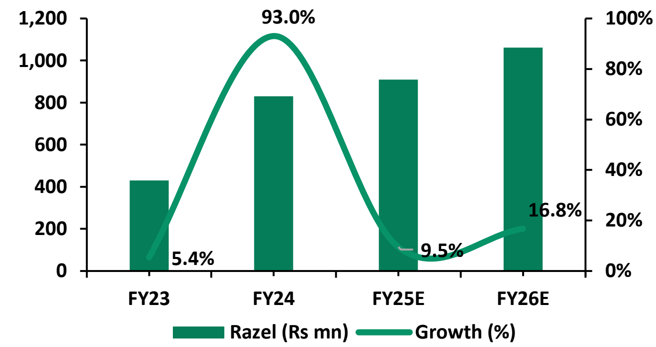
Source: Company, SMIFS Research Estimates

Fig 8: Sanzyme growing at 18.5% CAGR over FY24-FY26E



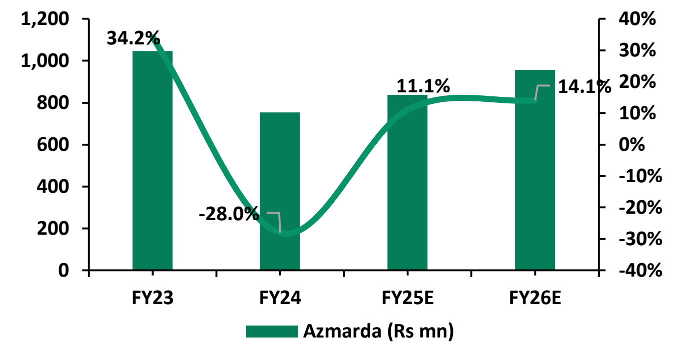
Source: Company, SMIFS Research Estimates

Fig 9: Razel growing at 13% CAGR over FY24-FY26E



Source: Company, SMIFS Research Estimates

Fig 10: 'AZMARDA' to recover after decline in FY24

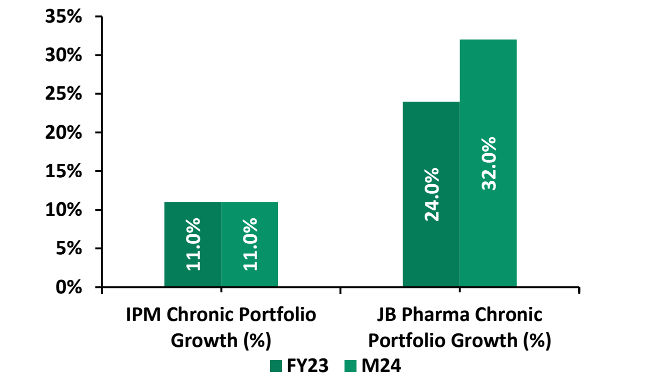


Source: Company, SMIFS Research Estimates

The domestic business is primed for growth

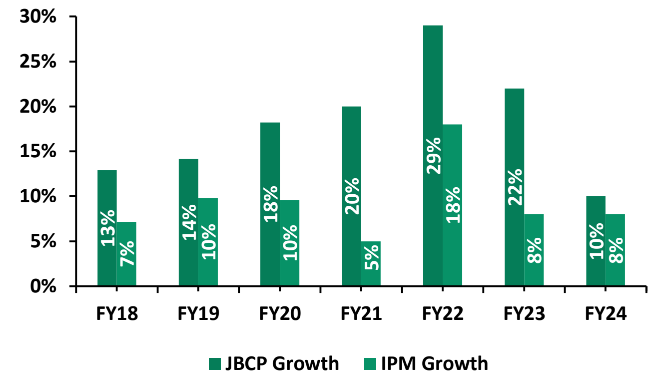
In India, the pharmaceutical market has traditionally favoured acute therapies. However, there has been a notable shift towards a greater reliance on chronic medications within the IPM consumption base. **The proportion of chronic therapies in the IPM has risen from 31% in FY13 to 40% in FY24.** This reflects a broader global trend observed in many economies, where lifestyle diseases are becoming more prevalent due to improved diagnoses and increased patient adherence to treatment regimens.

Fig 11: JBCP has always outpaced the IPM Market….



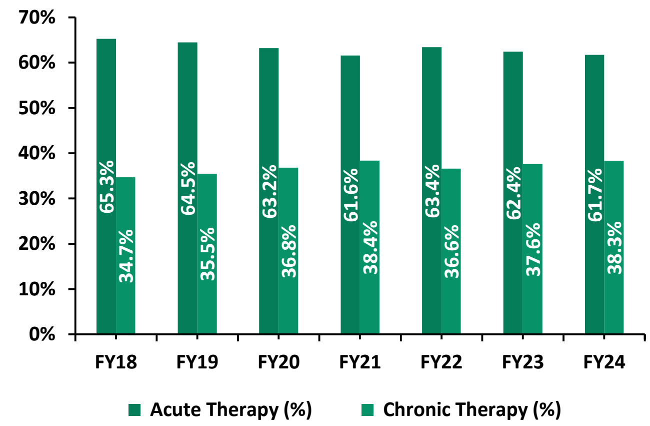
Source: Company, SMIFS Research

Fig 12: And has been consistently beating it over the years



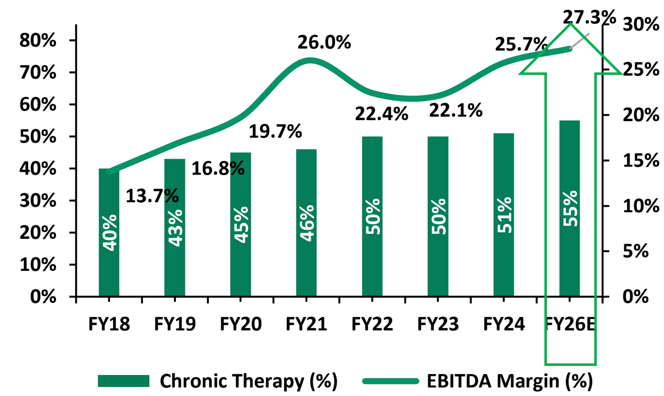
Source: Company, SMIFS Research

Fig 13: Chronic is gaining its market share in IPM…..



Source: Company, SMIFS Research

Fig 14: And a similar trend is being observed in JBCP as well

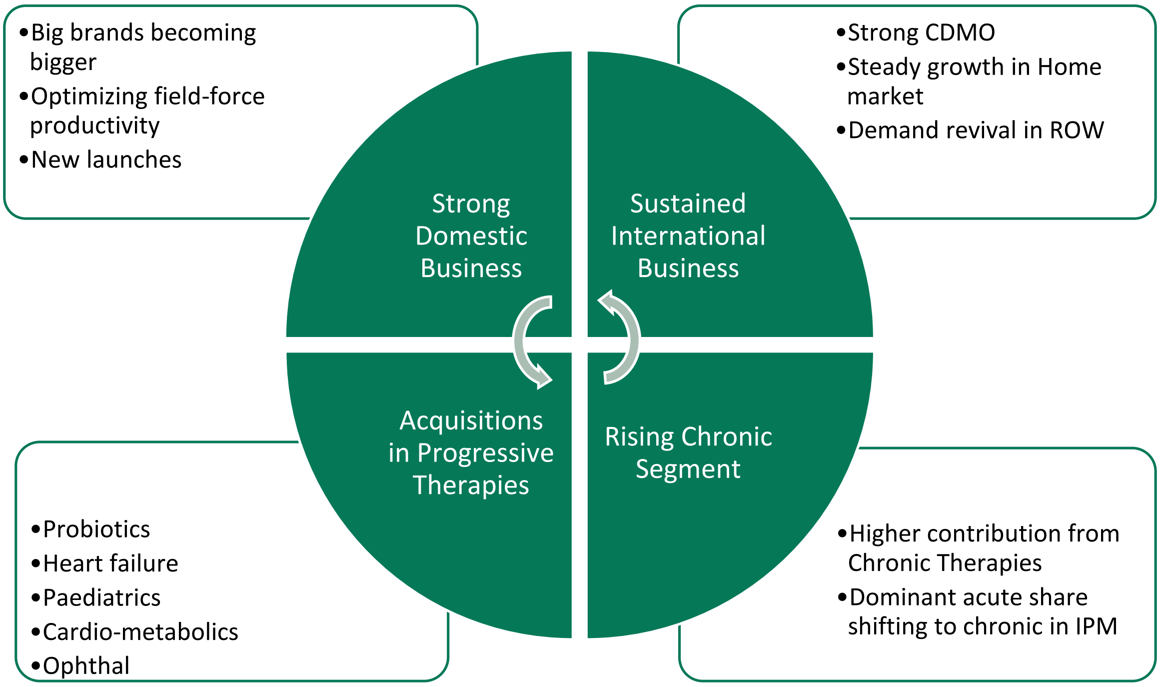


Source: Company, SMIFS Research Estimates

Chronic segment: In the sweet spot

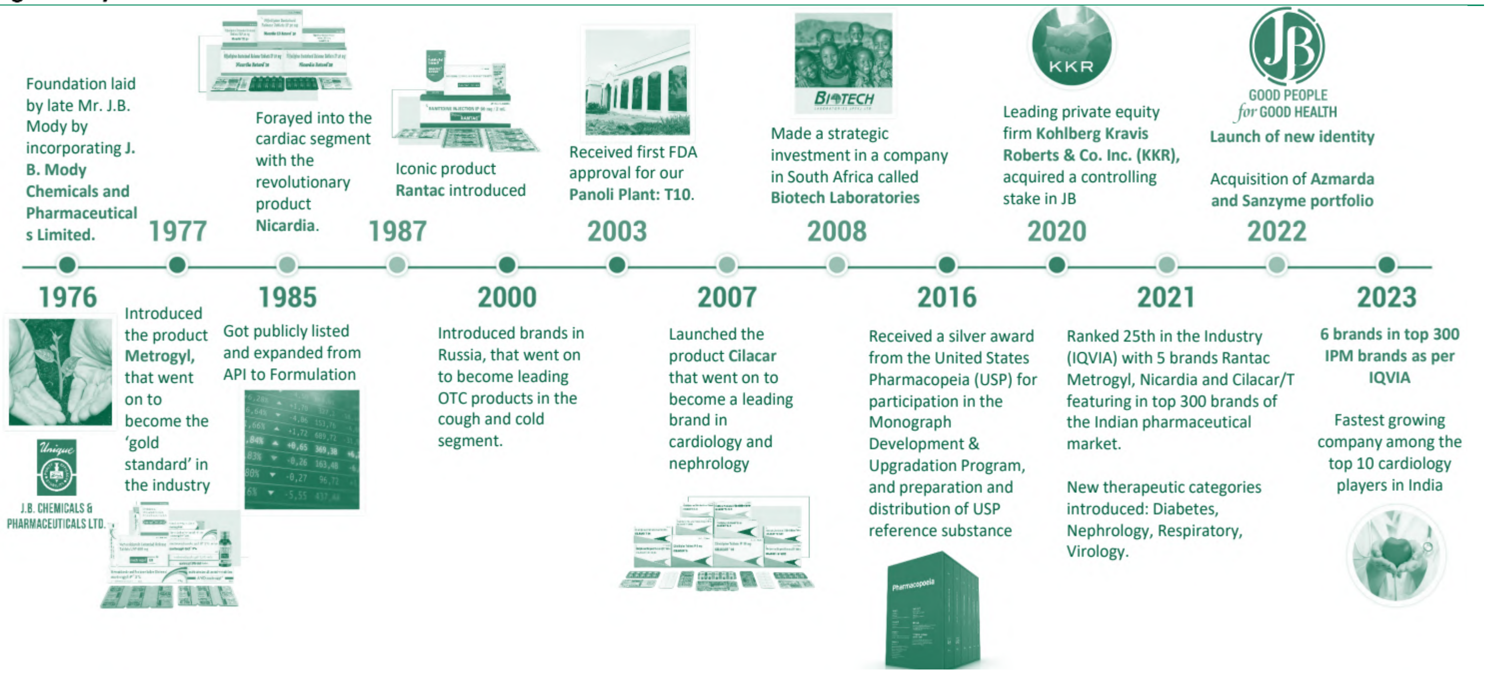
- ✓ Chronic segment has always remained a key focus area for JBCP in its domestic formulations business which has helped the company to consistently outpace industry growth. As per IQVIA, the 3-year chronic segment CAGR for JBCP is 23% vs 10% for industry.
- ✓ **Within chronic it is mainly focused on cardio segment where the company historically had 3 brands Cilacar, Nicardia and Cilacar-T and has added strong brands such as Azmarda, Razel in its cardiac portfolio.**
- ✓ The increasing share of chronic mix has enabled better margins for the JBCP's domestic business.
- ✓ **We expect, by FY26E JBCP is likely to increase its chronic contribution to 55% from 51%, currently at 26% of operating margins.**

Fig 15: Growth drivers of JBCP



Source: Company, SMIFS Research

Fig 16: Key milestones of JBCP



Source: Company, SMIFS Research

Fig 17: Key information of top performing brands and their competition

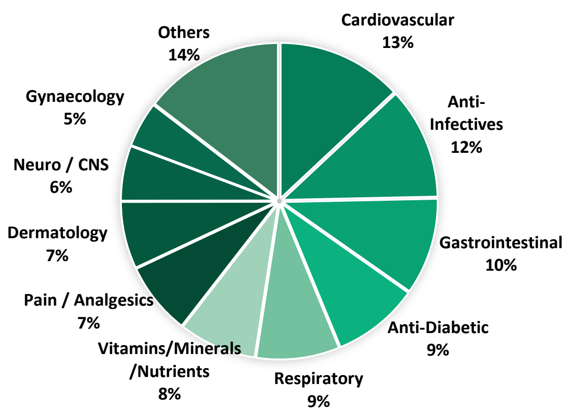
	CILACAR	RANTAC	METROGYL	NICARDIA
Launch Year	2007	1987	1977	1985
Molecule Name	Cilnidipine	Ranitidine	Metronidazole	Nifedipine
Therapy	Cardiovascular	Gastrointestinal	Gastrointestinal	Cardiovascular
Segment position	No. 1	No. 2	No. 1	No. 1
Market Share (in CVM)	50%	40%	80%	90%
Sales in FY23*	Rs 5,240mn	Rs 4,150mn	Rs 2,960mn	Rs 1,520mn
Growth	17% YoY	20% YoY	24% YoY	25% YoY
Contribution to India formulations	~25-28%	~20-23%	~12%	~10%
Line extension	Cilacar T Cilacar M Cilacar TM Cilacar TC	Rantac R Rantac RD Rantac DOM Rantac MPS/LA	Metrogyl M Metrogyl P Metrogyl O Metrogyl DG/LA	Nicardia XL
Competition	Nexovas (by Macleods) Cetanil (by Alembic) Cinod (by Ajanta) Dilnip (by Lupin)	Aciloc (by Cadila) Ranitin (by Torrent) R-Lock (by Zydus)	Flagyl (by Abbott)	Calcigard (by Torrent)
US FDA approval	To treat people with hypertension	To treat people with Acidity, heartburn, GERD	To treat people with bacterial and parasitic infections	To treat severe chest pain & hypertension.
Indication	Every day after meal (at fix time)	After meals	During or after meals	Every day with meal (at fix time)

*Source: Company, SMIFS Research, * IMS data*

Cardiac therapy: Placing the Heart Strategically

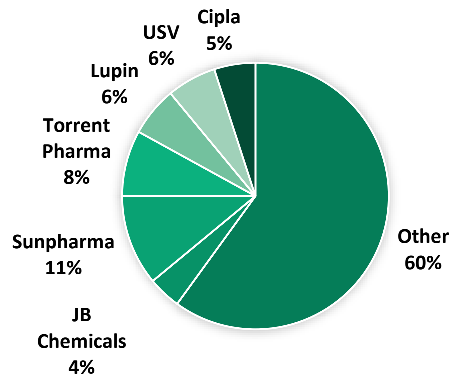
- ✓ Within chronic, Cardiac brings in 43% of JB Pharma's revenue and is its top revenue contributor. Cardiac market is Rs. 245 Bn market in India growing at a 5-year CAGR of 11% and JBCP has 4% market share in the overall Cardiac market with 90% coverage.
- ✓ However, this coverage is lower as compared to its peers such as Cipla (95%), Zydus (96%) and Sun Pharma (98%). **This is mainly because within cardiac segment, JB is still not present in anti-coagulant market which has 10% market share (Rs. 24 Bn) in the cardiac space. This indicates an opportunity for expansion by introducing new products in this segment and further increasing market presence.**
- ✓ However, it does hold a strong position in statins and Calcium Channel blockers CCB'S.
- ✓ Cilacar, Nicardia and Cilacar-T, Azmarda and Razel are the top brands of JBCP within the cardiac segment for JBCP.
- ✓ JB Pharma's progress in cardiology has been rapid. In 2020, it held 13th position in the Indian cardiology market. Post the acquisition of Azmarda and Razel it ascended to eighth place, expanding its market coverage from 40% to 90%. It aims to break into the top five in the cardiology market.

Fig 18: Cardiac has 13% market share in the overall IPM



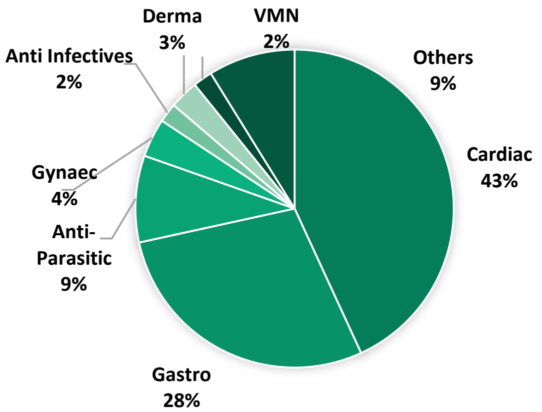
Source: Company, SMIFS Research

Fig 19: JBCP has 4% share in the overall cardiac market



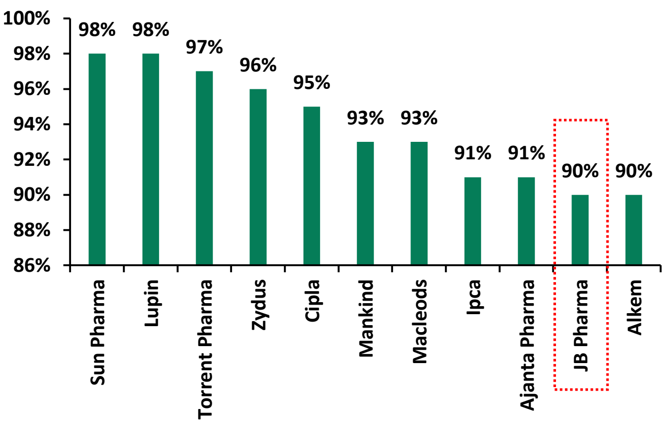
Source: Company, SMIFS Research

Fig 20: Cardiac - largest contributor to revenue for JBCP



Source: Company, SMIFS Research

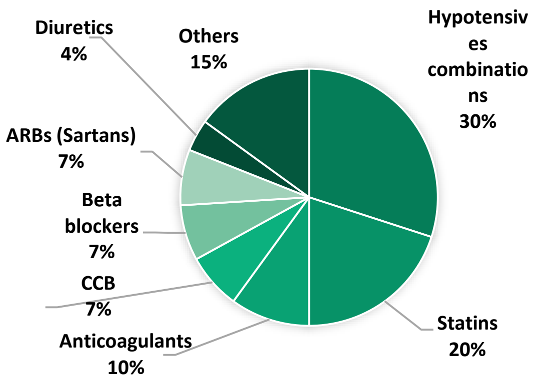
Fig 21: And has 90% coverage in the overall cardiac market



Source: Company, SMIFS Research

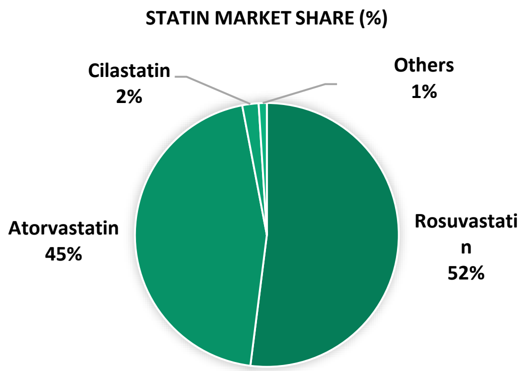
The Cardiovascular market (Rs. 245 Bn) is further classified into following categories and JB has its presence in most of the categories except anticoagulants.

Fig 22: Cardiac Market: Diving deep into it



Source: Company, SMIFS Research

Fig 23: Within statins JBCM has drugs in the major categories of Rosuva and Atorva



Source: Company, SMIFS Research

Higher coverage of JBCP in Statin market

How does a statin work?

- ✓ Statin drugs lower LDL cholesterol by slowing down the liver's production of cholesterol. They also increase the liver's ability to remove LDL cholesterol that is already in the blood.
- ✓ Rosuvastatin and Atorvastatin (Rs 50 Bn) categories cover almost 97% of the statin market and JB is present in both these categories.
- ✓ JBCP was already present in the atorvastatin category and was selling the drug through a brand name Vasolip. **But to increase its market coverage in the statin category it acquired the brand Razel (rosuvastatin) from Glenmark in Dec 2022 for Rs. 3,100 Mn. Razel clocked a Rs. 810 Mn in revenue as per MAT Feb 2024.**
- ✓ With this acquisition, JBCP saw a significant improvement in its cardiac coverage from 40% in FY20 to 90% in FY24.
- ✓ Since Razel complements the existing cardiac portfolio of JB, we believe that with minimal field force, **JBCP can scale up its cardiac brands and substantially increase its market size. We expect a growth rate of 20% for the Razel brand franchise in the years ahead**.

CCB is another cardiac category where JB has a strong presence

What are CCB's and how does it work?

Calcium channel blockers (CCBs) are a group of medicines commonly prescribed to treat conditions of the heart and blood vessels, such as hypertension (high blood pressure), angina, some abnormal heart rhythms.

- ✓ There are two distinct chemical classes of CCBs: the dihydropyridines (DHP, such as nifedipine and amlodipine) and the non-dihydropyridines (diltiazem and verapamil).
- ✓ JB has major presence in DHP CCB's which are further classified into four generations.
    - **First Generation:** Drugs such as short-acting nifedipine and nicardipine, which have a rapid onset and short duration of vasodilating activity
    - **Second Generation:** such as extended-release nifedipine, felodipine, benidipine, and efonidipine, which have a slow release and short duration of activity
    - **Third Generation:** such as amlodipine and azelnidipine, which exhibit stable pharmacokinetics (e.g., slow action and long duration of activity), higher vascular

selectivity, and less sympathoexcitation, resulting in less cardiac selectivity and thus, better tolerance in patients with heart failure.

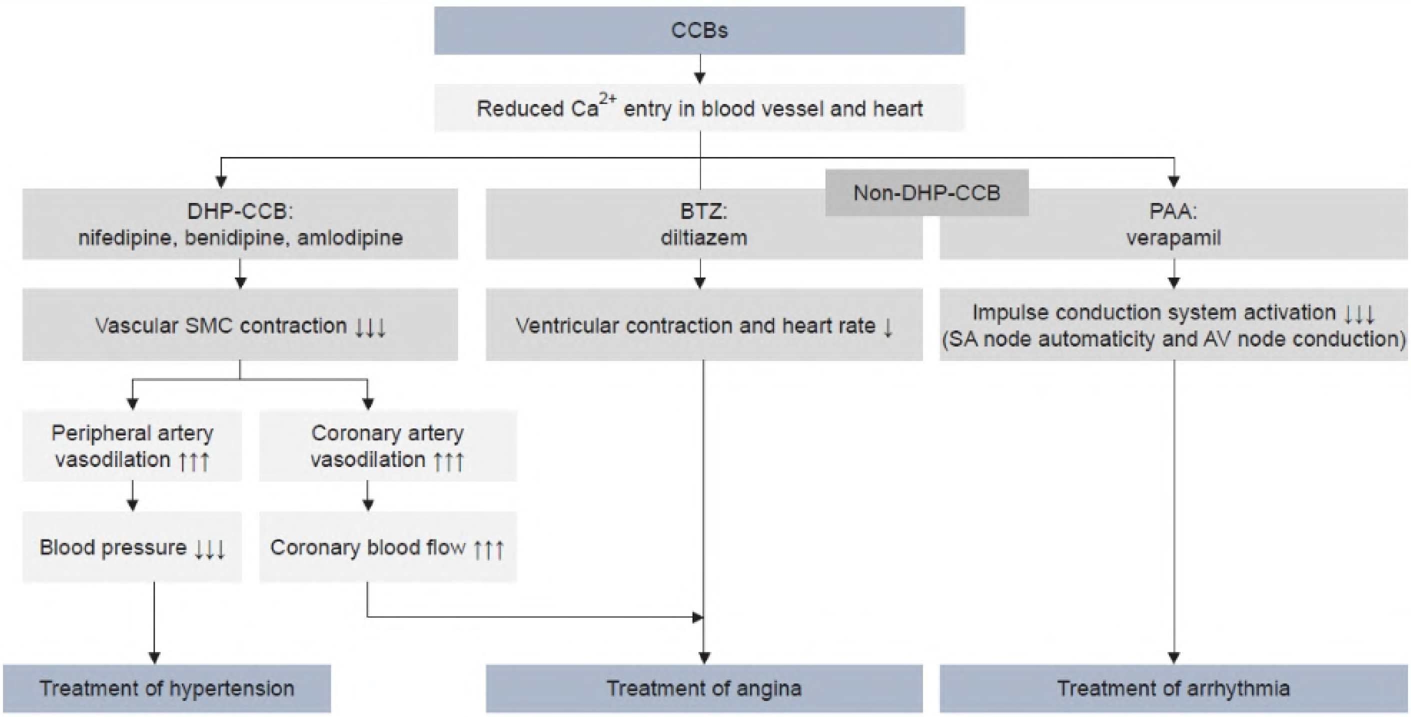
- **Fourth Generation:** Including lacidipine, lercanidipine, and cilnidipine, which have stronger lipophilicity, leading to stable activity, reduction in peripheral edema, and a broad therapeutic spectrum, especially for myocardial ischemia and HF.

Fig 24: Generations of DHP CCB's

	First Generation	Second Generation	Third Generation	Fourth Generation
Common CCB's	Verapamil, Diltiazem, Nifedipine	Amlodipine, Felodipine,	Azelnidipine, Barnidipine	Cilnidipine, Lercanidipine
Type of Channel blocker	L-type	N-type	L/T-type	L/N-type
Strengths	Effective for hypertension, angina, and arrhythmias	Effective for hypertension and angina	Effective for hypertension	Dual action, effective for hypertension
Duration of Action	Short to moderate	Long-lasting (24 hours)	Long-lasting (24 hours)	Long-lasting (24 hours)
Common Side Effects	Constipation, dizziness, edema	Peripheral edema, flushing, headache	Peripheral edema, headache, dizziness	Peripheral edema, headache, dizziness
Unique Characteristics	Negative inotropic effects, slows heart rate (negative chronotropy)	Selective for vascular smooth muscle, less effect on cardiac conduction and contractility	Dual action, blocks L-type and T-type calcium channels, slow onset and offset of action	Blocks both L-type and N-type calcium channels, High lipophilicity, selective for vascular smooth muscle

Source: Company, SMIFS Research

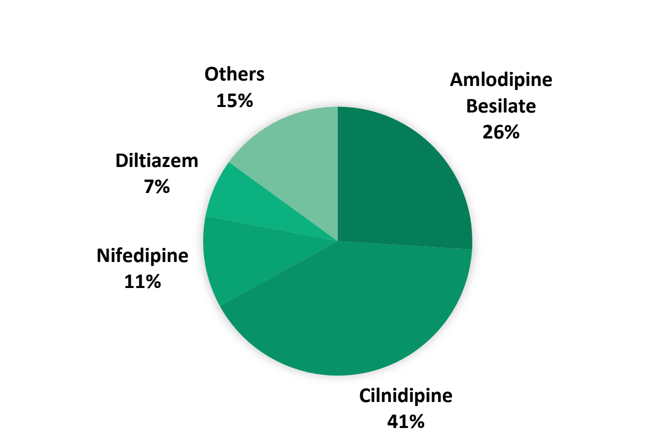
Fig 25: Classification of CCB's



Source: Company, SMIFS Research

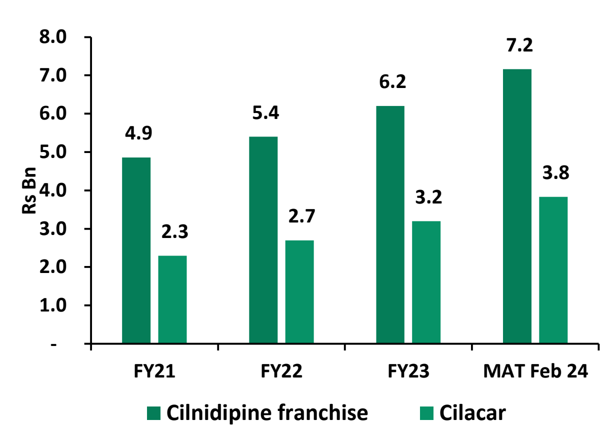
JBCP has 4 drugs in CCB category namely Cilacar, Cilacar T, Nicardia, Azovas.

Fig 26: Cilnidipine has the largest share in CCB's molecule in Feb 2024 (MAT Sales)



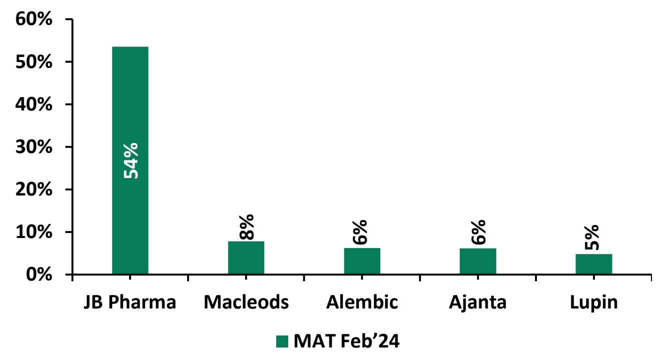
Source: Company, SMIFS Research

Fig 27: JB Pharma Sales for Cilacar vs cilnidipine franchise



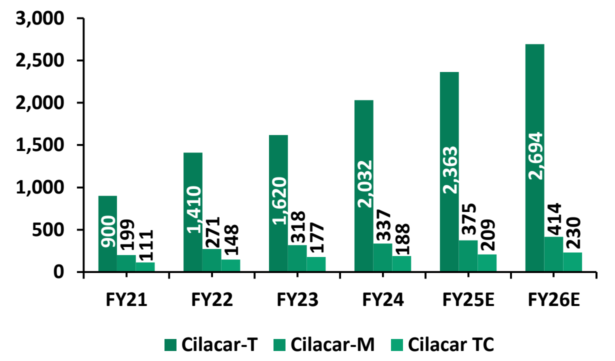
Source: Company, SMIFS Research

Fig 28: JBCP's Cilacar is leading the Cilnidipine market



Source: Company, SMIFS Research

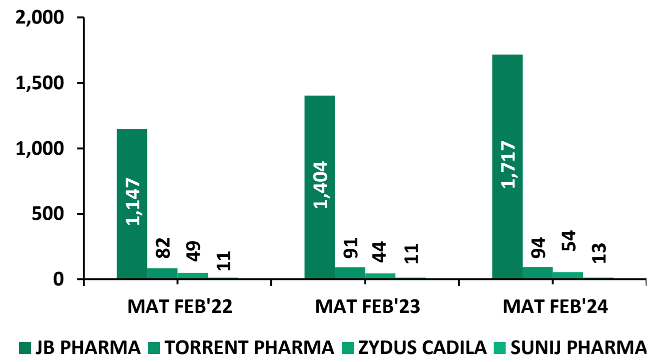
Fig 29: Cilacar-T is highest contributor amongst all for JBCP (Rs mn)



Source: Company, SMIFS Research Estimates

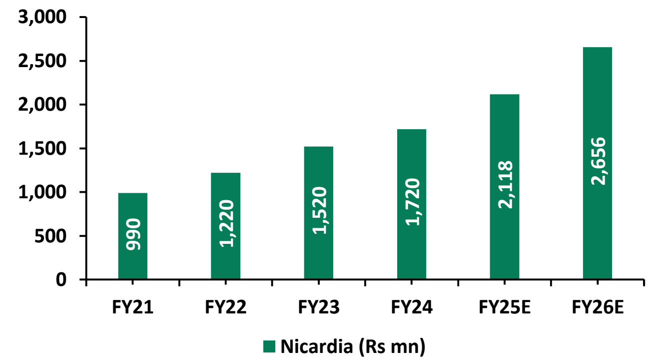
- JB has launched various combinations under the Cilnidipine franchise under the brand name of Cilacar which is now a franchise worth Rs. 5.6bn sales in MAT March'24 vs Rs. 3.5bn in FY21. Since JB is a leader with superior execution capabilities, we believe the company's Cilnidipine franchise can grow in line with Cilnidipine market growth rate of high single to low double digits.

Fig 30: JBCP's continued exceptional performance in the Nifedipine market (Rs mn)



Source: Company, SMIFS Research

Fig 31: Nicardia Leads Growth with 24% CAGR from FY24 to FY26E



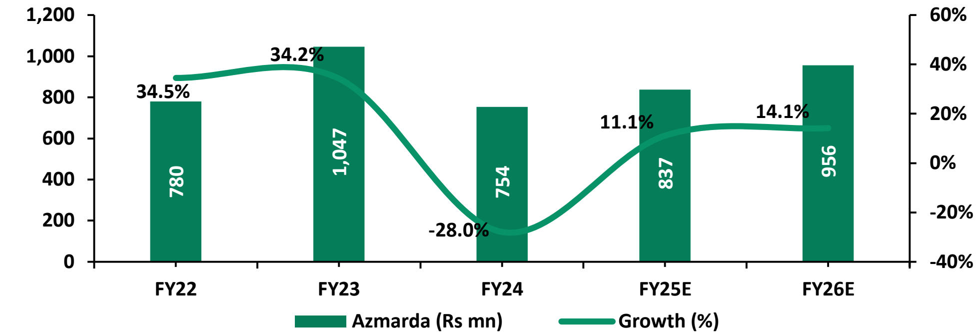
Source: Company, SMIFS Research Estimates

Azmarda – Another drug in Cardiac portfolio which is dominating the market

To improve its market coverage further in cardiac space, JB acquired Azmarda, yet another acquisition post Razel in 2020. It acquired Azmarda from Cipla (which was earlier acquired from Novartis AG), to market it in India.

- ✓ Azmarda - is a pharmaceutical composition comprising of Valsartan and Sacubitril,
- ✓ It expands JBCP cardiac portfolio to heart failure segment which helps patients with reduced ejection fraction.
- ✓ Sacubitril-Valsartan is one of the fastest growing molecules in the cardiology segment for the last few years and Azmarda has a sizeable market share in the segment.
- ✓ The drug, originally patented by Novartis, was marketed in India under three brands: Vymada, Cidmus, and Azmarda. Lupin marketed the in-licensed version of Cidmus, while Cipla marketed Azmarda. Novartis itself marketed Vymada.

Fig 32: Azmarda continue being market leader at moderate growth going ahead



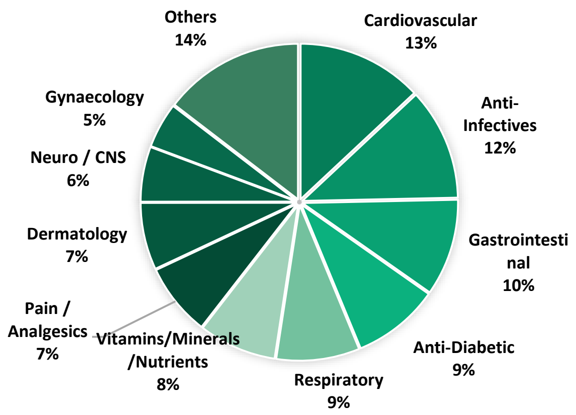
Source: Company, SMIFS Research Estimates

- ✓ In April 2022, **Dr. Reddy's acquired the Cidmus brand for Rs. 4.5 Bn, while JB acquired Azmarda for Rs. 2.5 Bn, approximately half the price of Cidmus.** The patent for Sacubitril Valsartan expired in January 2023, leading to the launch of generic equivalents by several companies. **To fight the cutthroat competition by cheaper generic versions, JB had already reduced the drug's price by 50% to Rs. 40 per tablet before the patent expiry.**
- ✓ With~50% price cut JBCP successfully maintained its highest market share in a competitive environment and maintained its leadership position.
- ✓ **We expect Azmarda to witness steady growth on a high base and grow with ~11-12% annually.**

Gastrointestinal Market: A runner up for JBCP

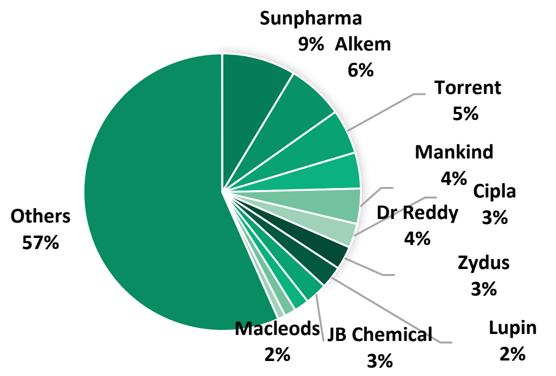
- **Gastrointestinal is the second largest revenue contributor for JBCP post cardiac** which contributes 28% to company's overall revenue. India's Gastro market **is the third largest therapy segment after Cardiac and anti-infectives with sales of Rs. 231 Bn as of Feb 2024** growing at a 5-year CAGR of 10% and JBCP has 2.5% market share in the overall Gastro market and has coverage of 79%.
- **However, this coverage is lower as compared to its peers such as Sunpharma (99%), Mankind (98%), Zydus (97%).** This is mainly because within gastro segment, JB is still not present in digestives and intestinal anti-infectives segment.
- However, the acquisition of Sanzyme portfolio has helped JB to improve its market coverage and fill up the gaps in the gastro market.
- Rantac, Metrogyl and Sporlac (a brand from Sanzyme) are the top brands of JBCP and together contributes 20% to FY24 total revenue.

Fig 33: Gastro has 10% market share in the overall IPM



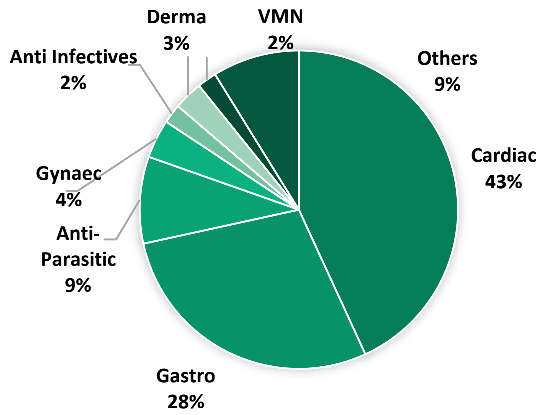
Source: Company, SMIFS Research

Fig 34: JBCP has 2.5% share in the overall gastro market



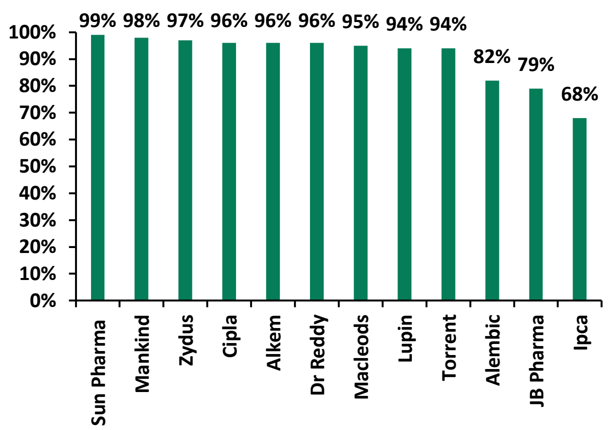
Source: Company, SMIFS Research

Fig 35: Gastro - contributes 28% to revenue



Source: Company, SMIFS Research

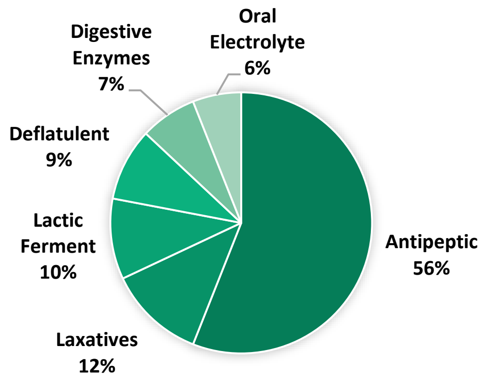
Fig 36: And has 78% coverage in the overall gastro market



Source: Company, SMIFS Research

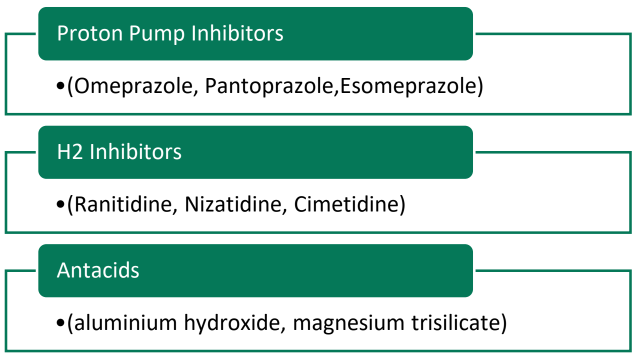
The Gastrointestinal market (Rs. 231 Bn) is further classified into following categories and JB has its presence in most of the categories except intestinal anti-infectives and digestives segment.

Fig 37: Gastro Market: Anti-peptic dominates the category



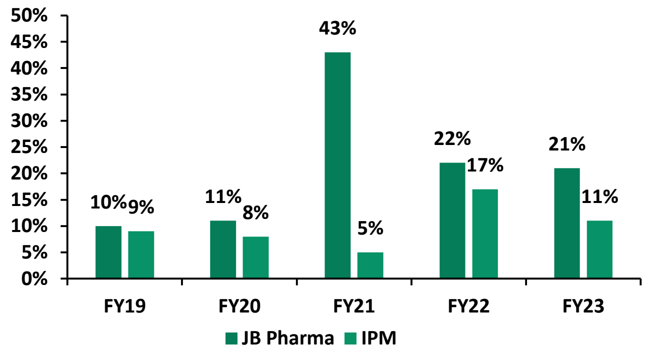
Source: Company, SMIFS Research

Fig 38: Within anti-peptic there are three drugs categories



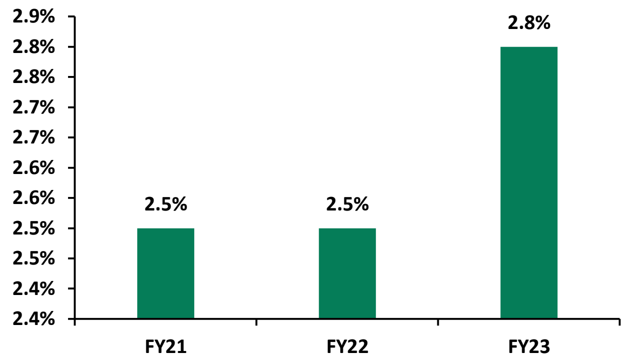
Source: Company, SMIFS Research

Fig 39: JBCP has always beaten the IPM Gastro market



Source: Company, SMIFS Research

Fig 40: And has consistently increased its market share



Source: Company, SMIFS Research

Fig 41: Available treatment options for stomach acid problems

	Antacids	Histamine Blockers (H2 Antagonists)	Proton Pump Inhibitors (PPIs)	Prokinetic Agents
Onset of Action	Rapid, within minutes	30 minutes to 1 hour	1-3 hours	Variable, within hours
Duration	Short-term (1-2 hours)	4-10 hours	24 hours or longer	Short-term
Result	Neutralizes stomach acid	Reduces acid production	Strongly reduces acid production	Increases gastric emptying
Efficacy	Moderate	Moderate to high	High	Variable
Dosage Form	Tablets, liquids, chewable	Tablets, capsules	Tablets, capsules	Tablets, capsules
Key Drug	Calcium carbonate, magnesium hydroxide, aluminum hydroxide	Ranitidine, Famotidine	Omeprazole, Esomeprazole	Metoclopramide, Domperidone
Side Effects	Constipation or diarrhea, electrolyte imbalances	Headache, dizziness, diarrhea, interactions with other drugs	Abdominal pain, nausea, vitamin deficiencies (long-term use)	Fatigue, restlessness, neurological side effects
Differentiating Factors	Fast-acting, symptom relief; short duration of action	Slower onset compared to antacids; longer duration of action	Potent acid suppression; best for frequent or severe symptoms	Used for acid reflux related to delayed gastric emptying

Source: Company, SMIFS Research

Rantac and Metrogyl dominates the Gastro portfolio of the company

Rantac and Metrogyl together contributes 35% the company's domestic portfolio and 19% to the total revenue.

Rantac – The total Ranitidine market in India is worth Rs. 9 Bn and JB Pharma has 41% market share as per MAT Feb 24 data. In the ranitidine segment, there are three formulations OSD, liquid and Injectables. The OSD formulations dominates with 78% share. JB has 40% market share in the molecule with Cadilla being the largest player in India.

Rantac overall franchise is expected to grow at 4% CAGR at Rs. 3.9 Bn for JBCP by FY26E.

How 'Ranitidine' Is No Longer a Cause for Concern?

Rantac, a trusted brand since 1987, effectively relieves GERD symptoms. Available over the counter, its affordability and reliability make it a popular choice for patients and healthcare professionals alike. Powered by ranitidine, Rantac is the go-to solution for GERD. Rantac is widely used in India but discontinued by the pharma companies in US and UK over risk benefit ratio.

Understanding the Safety of Ranitidine Amidst Cancer Concerns

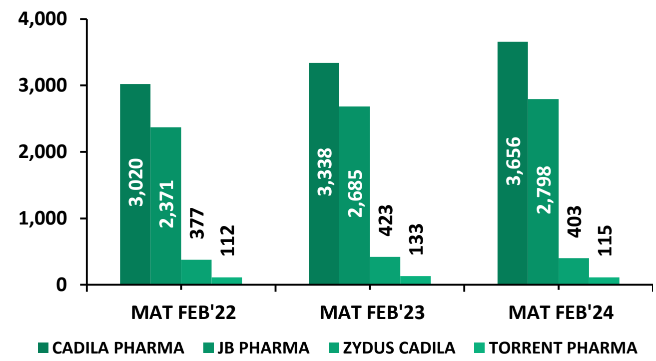
Ranitidine, a commonly prescribed salt for acidity and stomach-related issues, is utilized to treat conditions such as gastroesophageal reflux disease (GERD), gastric ulcers, duodenal ulcers, and to prevent stress ulcers. **Despite its widespread use in medications like Rantac and Zintac, recent scrutiny has raised concerns about its potential link to cancer.**

The scrutiny stems from the discovery of low-level N-Nitrosodimethylamine (NDMA) in both over the counter (OTC) and prescription formulations of ranitidine. NDMA, identified by the NIH as a human carcinogen, has been associated with cancers of the stomach, esophagus, nasopharynx, and bladder. **Studies suggest that heat and time may contribute to the contamination of the salt.**

Following the detection of this nitrosamine impurity, recalls of ranitidine products occurred. In the US, the drug was ultimately banned due to a risk-benefit assessment by the FDA, which concluded that sustained exposure to higher levels of NDMA may increase the risk of cancer in humans. **However, it's important to note that low levels of NDMA are commonly found in the diet, such as in foods and water, and are not expected to significantly elevate cancer risk**.

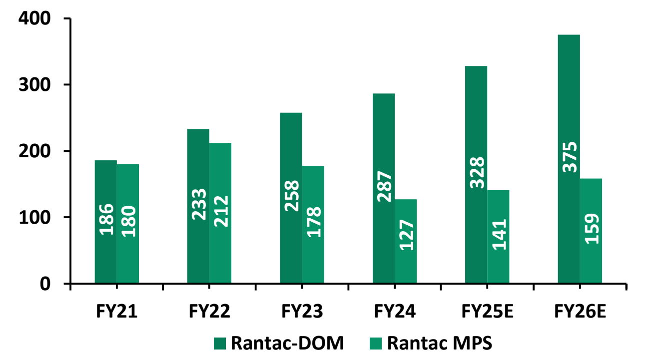
Given that low levels of NDMA are unlikely to pose a substantial cancer risk, ranitidine continues to be considered safe for use and is still promoted in India. After being removed from the NLEM, Rantac has reclaimed its pricing power and remains a popular choice despite experiencing some decline in volumes. **Nevertheless, we anticipate steady growth for Rantac, reinforcing its position as a top brand within JBCP's portfolio**.

Fig 42: JBCP's Rantac achieved 9% CAGR growth vs Cadila's 10% in the Ranitidine oral solids market (Rs mn)



Source: Company, SMIFS Research

Fig 43: Rantac-DOM line extension forecasted to grow rapidly at 14% CAGR from FY24 to FY26E (Rs mn)



Source: Company, SMIFS Research Estimates

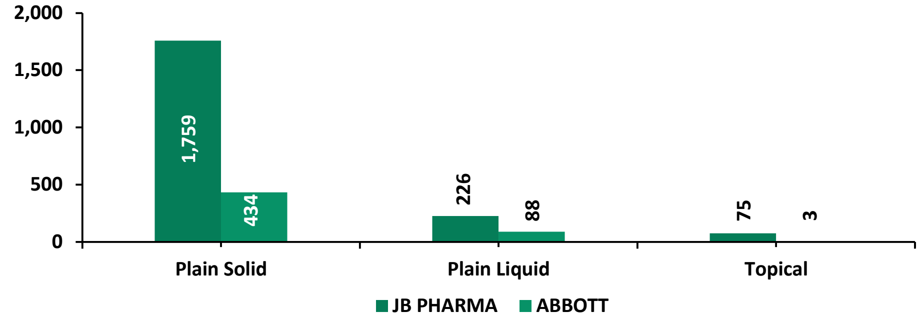
Metrogyl – Dominance via Strategic Life Cycle Management

Metrogyl (metronidazole), is used in the treatment of various infections caused by bacteria or other organisms, in different parts of the body.

In the metronidazole segment, there are three formulations OSD, liquid and tropical gels. The OSD formulations dominates with 84% share. JB commands an 80% market share in the molecule, with Abbott being the sole competitor in India.

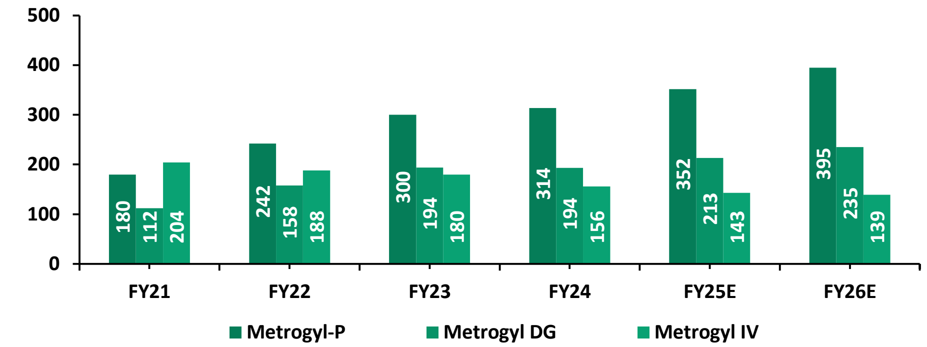
Metrogyl overall franchise has achieved sales of Rs. 3 Bn for JBCP in FY24.

Fig 44: JBCP's Metrogyl gaining competitive edge over industry leader Abbott (MAT Feb'24 sales)



Source: Company, SMIFS Research

Fig 45: Metrogyl-P line extension expected to grow faster at 13% CAGR from FY24-FY26E (Rs mn)

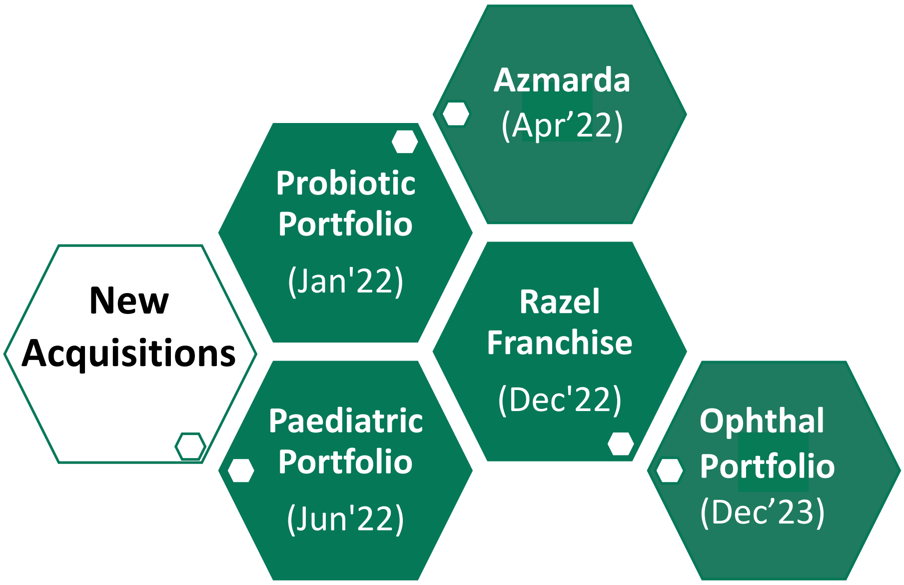


Source: Company, SMIFS Research Estimates

New acquisitions led to diversification

JBCP aims to grow beyond its existing portfolio and had identified robust opportunities in select therapeutic areas namely: Probiotics, Paediatric, Statins and Ophthalmology.

Fig 46: Successfully completed five acquisitions in past two years, deploying $200 Mn



Source: Company, SMIFS Research Estimates

JBCP's acquisitions represent wise investment

With strategic precision, JBCP has completed five acquisitions in the last two years, strategically venturing into burgeoning and forward-looking therapeutic sectors. **Their acquisition strategy targets companies where they already possess a therapeutic foothold, ensuring accelerated growth potential surpassing market standards.**

The acquisitions of Sanzyme (probiotics), Razel (statins), and ophthalmological brands, despite being acquired at higher side, are proving to be valuable investments as they demonstrate strong growth within the IPM. The company always judiciously focused on payback period not exceeding 6-7 years.

Fig 47: Details of the acquisitions

Date	Acquired Brand	Therapy	Amount	EV/Sales (x)	Sales
Jan'22	Sanzyme	Probiotic	6.28bn	4.8x	FY21 - 1.30bn
Apr'22	Azmarda	Cardiac	2.46bn	3.2x	FY22 - 0.78bn
Jun'22	DRL's 4 Brands	Paediatrics	0.98bn	3.0x	FY22 - 0.33bn
Dec'22	Razel Franchise	Cardiac (statins)	3.14bn	4.5x	MAT Oct'22 - 0.7Bn
Dec'23	Ophthalmic brands	Ophtholmology	10.9bn (1.3+9.6)	5.2x	MAT Sept'23 – 2.08bn

Source: Company, SMIFS Research Estimates

Probiotic Portfolio – Sporlac brand growing at 20% annually

In January 2022, JBCP bolstered its domestic portfolio by acquiring Sanzyme for Rs. 6.2 Bn. Specializing in probiotics and reproductive health, Sanzyme ranked among the top 5 players in the probiotics segment.

This acquisition enabled JBCP to diversify its presence into new therapeutic domains and broaden its scope in the Indian pharmaceutical market. Sanzyme operated through three primary divisions: Sporlac, Nephro & Urology (NU), and Mother & Child.

Fig 48: Details of top brands of Sanzyme portfolio

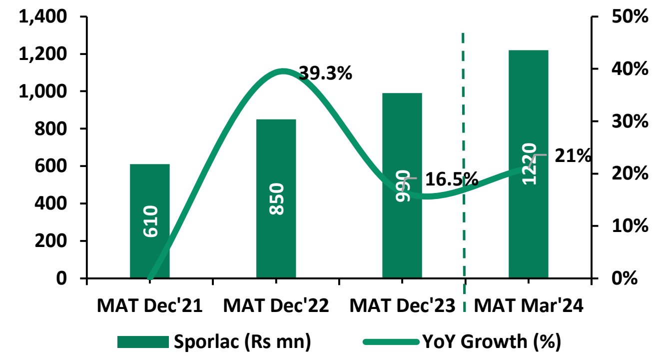
Brand	Therapy	Dosage Form	Description
Sporlac	Probiotic	Tablet	Works to restore a healthy flow of gut bacteria in the digestive tract.
Lobun	Probiotics* (multi-strain)	Capsule	Indicated for uremic detoxification and delays the progression of chronic kidney disease.
Gynogen	Hormones	Injection	Used to treat infertility in women & male infertility/hypogonadism
Pubergen	Hormones	Injection	Used in the treatment of infertility in women & male hypogonadism
Nano-Leo	Hormones	Capsule	Used to increase testosterone levels in the male body

Source: Company, SMIFS Research Estimates

Sanzyme portfolio growth opportunities:

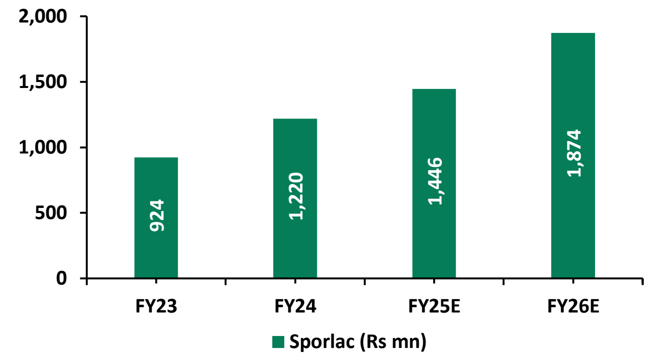
The acquisition synergized with JBCP's existing prescriber base in gastroenterology and nephrology, and integrated Sanzyme's field force into JBCP's operations. Notably, the addition of Sanzyme's portfolio enabled JBCP to introduce liquid formulations, catering to 40% of India's Rs 20bn probiotics market. This strategic move positioned JBCP for further growth and innovation in India's dynamic probiotics sector. **We expect growth at 19% revenue CAGR for Sanzyme portfolio over FY24-FY26E.**

Fig 49: Sporlac achieved mark of Rs 1bn brand in the IPM



Source: Company, SMIFS Research

Fig 50: Sporlac to grow at 24% CAGR over FY24-FY26E



Source: Company, SMIFS Research

Paediatric Portfolio – A Complementary addition in JBCP's portfolio

Following Sanzyme, JB acquired 4 brands from Dr Reddy's in June-22 for Rs.980 Mn. The acquired paediatric portfolio included 4 brands which complements the JBCP’s existing paediatric portfolio: 1) Z&D (zinc supplement), 2) Pecef (antibiotic), 3) Pedicloryl (insomnia medication), and 4) Ezinapi (used against diaper rashes).

With this acquisition JBCP’s FY23 paediatric portfolio sales improved by 19% YoY to Rs 540mn. There was a strong YoY Rx improvement in Z&D with 16%, Pedicloryl with 139% and Ezinappi with 50%. We expect this trend will persist in the years ahead and support in overall rank improvement and market share gain in the acquired portfolio.

Ophthalmology Portfolio – Expanding into the fastest growing therapy

Ophthalmology is 3rd fastest growing therapies in IPM with market size of around Rs 43 Bn in 2023, recording a 3 Year CAGR of 15% vs IPM CAGR of 9%. In this structurally attractive market major players have registered 10%+ value growth. By leveraging these top brands from Novartis JBCP has secured a leading position among the top 4 players. The 5 brands from the portfolio rank at no. 1 and 4 brands has ranking in Top 3. The portfolio has registered 11% MoM growth in the March'24 and is expected to grow at mid-teen digit over the near term.

Details of the deal:

JBCP entered in the Trademarks License Agreement with Novartis for US$116mn (Rs 9.64bn) payable by Dec'26, plus Initial payment of Rs 1.25bn under the Promotion and Distribution Agreement. The transaction is likely to complete in the year 2027.

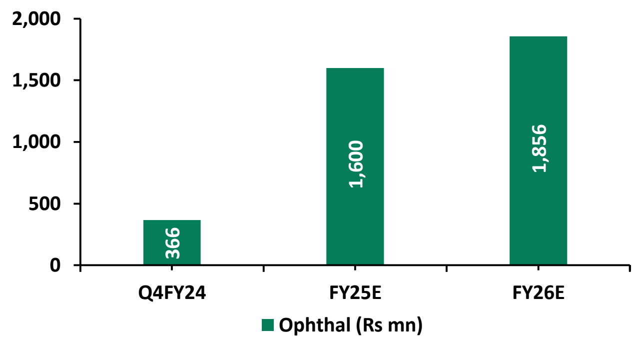
Synergy Benefits: JBCP has absorbed 100 MRs from Novartis and expects an annual revenue of Rs 1.5bn from portfolio and gain 2 positions and will rank #22 in the IPM. On receipt of Perpetual License gross margin of acquired portfolio will boost significantly.

Fig 51: Key brands with good growth prospective (Chronic + Acute)

Brands	Market Share	Market Size (IQVIA Mn)	Brand Size (Rs Mn)	Growth (YoY)	Brand rank in CVM
Azopt	55%	290	160	9%	# 1
Travacom	43%	760	330	9%	# 1
Travatan	39%	410	160	10%	# 2
Simbrinza	30%	630	190	22%	# 1
Vigamox	23%	2750	620	22%	# 1
Nevanac	21%	1590	330	11%	# 1
Pataday	13%	720	90	19%	# 3
Azarga	11%	180	20	24%	# 3
Vigadexa	11%	920	100	20%	# 2
Ilevro	4%	1590	60	11%	# 8

Source: Company, SMIFS Research Estimates

Fig 52: Ophthalmic brands to grow at 15% YoY in FY26E

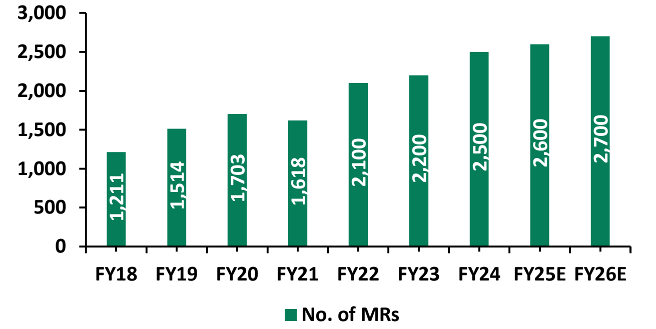


Source: Company, SMIFS Research Estimates

Optimizing MR Productivity and New Launches

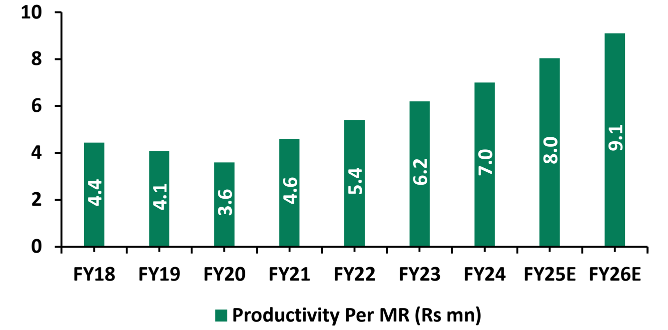
Over the past two years, JBCP has undergone a comprehensive restructuring of its field force, aligning it division-wise according to therapy to drive and support growth initiatives. Its field force expansion increased from ~1,211 MRs in FY18 to 2,200 in FY23 and 2,500 in 9MFY24 and we expect it to increase steadily. Notably there was no addition of MRs for organic business.

Fig 53: Strengthening distribution network with MR additions for Ophthalmic portfolio going ahead



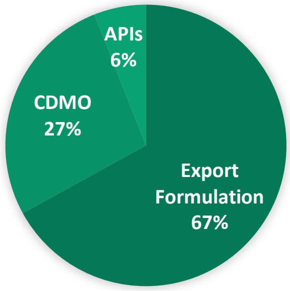
Source: Company, SMIFS Research

Fig 54: Robust improvement in MR productivity over FY24-FY26E



Source: Company, SMIFS Research

- ✓ The company is planning to add 30% additional field force of existing ophthalmic team of 100 MRs over next 15-18 months and is likely to appoint new leadership to scale-up.
- ✓ The advantage of achieving higher productivity per MR within the ophthalmic brands will ultimately contribute to the overall MR productivity for JBCP.
- ✓ The Go-to-Market model, coupled with digitalization initiatives aimed at evaluating new growth opportunities, will further enhance productivity.
- ✓ JBCP expects a strong increase in MR productivity on consolidated level on inclusion of ophthalmic products in its portfolio going ahead. We expect its overall productivity to grow at 13% CAGR over FY24-FY26E.



Strategic restructuring for export business optimization

JBCP's export business has Formulations, CDMO and APIs in over 40 countries which contributes 46% of total revenue. Export contribution is primarily dominated by formulations business (67% of exports) in home markets like Russia, CIS and South Africa followed by US (partnership model). Followed by 27% contribution from CDMO. Rest contributed by API, which serves various global markets through its WHO-GMP certified state-of-the-art API manufacturing facility.

Fig 55: Details of regulatory plant

Health Authority	Facility Approved
US FDA	Tablets, APIs
EU GMP	Tablets, Capsules, Lozenges, Ointments, Gel, Creams, Liquid
SAHPRA, South Africa	Tablets, Lozenges, Injections, Creams, Ointment, Liquid,Hard shell Capsules, Eye drops
TGA, Australia	Tablets, Lozenges, Liquid, Ointments, Gel, Creams
PIC/S (MOH, Ukraine)	Tablets, Lozenges, Injections, Ointments, Gel, Creams, Liquid, Powder
MOH, Japan	API
EAEU	Tablets, Hard shell Capsules, Lozenges, Injections, Ointments, Gel, Cream, Liquid
ANVISA, Brazil	API
MOH, Korea	Liquid, Lozenges
Health Canada	API

Source: Company, SMIFS Research Estimates

JBCP operates in South Africa's private and public markets, historically with a 40:60 share. To expand margins, JBCP reduced its tender business, increasing the private sector's contribution to 70% in FY24 from 40% in FY21. Ongoing rationalization in South Africa has impacted export revenue in FY24 and will continue until the end of Q1FY25, causing short-term revenue implications but expected long-term benefits.

In Russia, JBCP continue to introduce new products, while in the US, starting with branded lozenges with 2 projects in the pipeline. The focus in the US market is to maintain stable operations without frontline initiatives. JBCP owns 15 ANDAs and files 4-5 ANDAs each year. The company aims to reach a USD 50 Mn business in the US within the next 2-3 years. The export formulations are expected to grow at a CAGR of 12% from FY24 to FY26E.

Fig 56: Key financial details of Subsidiaries with 100% stake

Unique Pharma Laboratories, Russia	FY20	FY21	FY22	FY23
Sales (Rs mn)	713	582	719	980
YoY %	4%	-18%	23%	36%
PAT	2	-1	26	-3
Margin %	0.3%	-	4%	-

Biotech Laboratories (Pty) Ltd, South Africa	FY20	FY21	FY22	FY23
Sales (Rs mn)	1,705	2,184	2,894	3,069
YoY %	5%	28%	32%	6%
PAT	72	118	143	176
Margin %	4%	5%	5%	6%

Source: Company, SMIFS Research Estimates

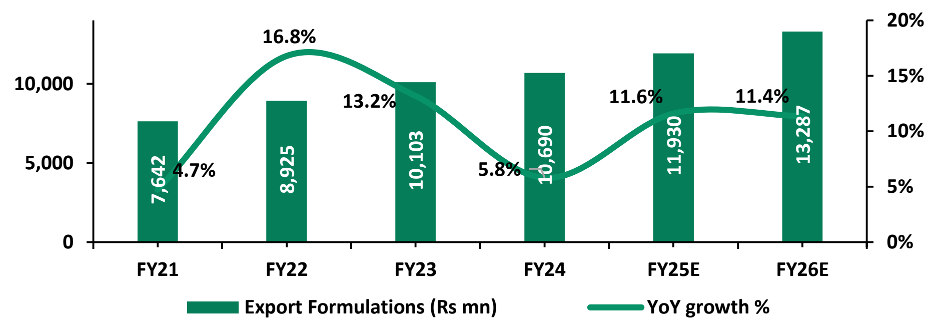
CDMO - a high margin export business driven by Lozenges

JBCP's 80% CDMO business comes from Lozenges. The CDMO segment is one of the high margin businesses which has healthy orderbook for forthcoming quarters mainly from MNC clients predominantly based in Australia, Europe, and South Africa.

JBCP is amongst the top 5 player in the world for medicated and herbal lozenges. The CDMO business, which contributes 12% to the total revenue, has grown at CAGR of 20% over FY19-FY24 and has experienced ~60% YoY growth in FY23 due to increased demand from existing customers. The company has a capacity to manufacture 2 Bn lozenges annually and is running at a utilization level of 55%.

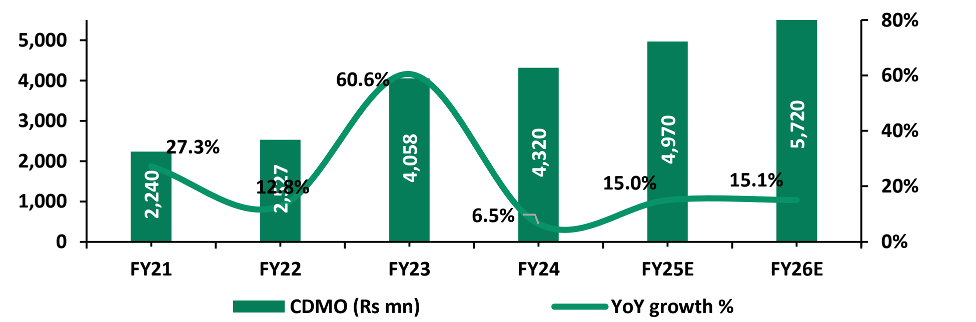
Due to healthy order book, new MNC clients, expansion into new geographies (ROW market), introducing new therapies for Lozenges and higher available capacities, this business is poised to grow at a CAGR of 15% from FY24-FY26E and the revenues are expected to double from USD 50 Mn to USD 100 Mn in next five years.

Fig 57: Export formulations to grow at 11% CAGR by FY26



Source: Company, SMIFS Research Estimates

Fig 58: CDMO growth will be driven by new therapy launches in Lozenges



Source: Company, SMIFS Research Estimates

Financial Analysis

Revenue growth driven by Domestic Formulations Business

In recent years, JBCP has notably enhanced its revenue mix by augmenting its domestic contribution. This contribution has rose from 35% in FY15 to 54.4% in FY24. The company aims to elevate this contribution to 60-65%, thereby sustaining its growth momentum.

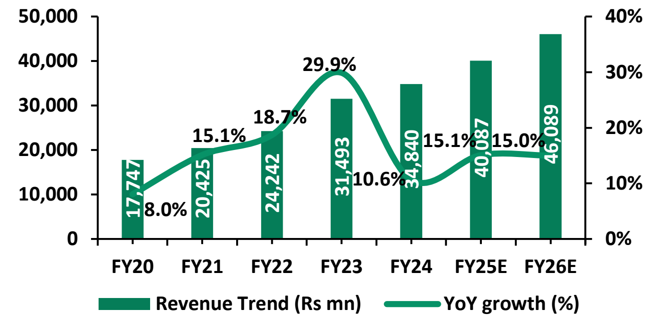
JBCP anticipates a 17% growth CAGR in domestic revenue from FY24 to FY26E, supported by several factors:

- Expansion of legacy brands
- Increasing demand for chronic therapies
- Consolidation of new acquisitions, including the Ophthalmic portfolio
- Enhanced MR productivity

Additionally, the company boasts a healthy order book in its CDMO business, expected to grow at an 15% CAGR from FY24 to FY26E. Furthermore, the restructuring strategy in the South Africa business is poised to sustain overall growth in export formulations business.

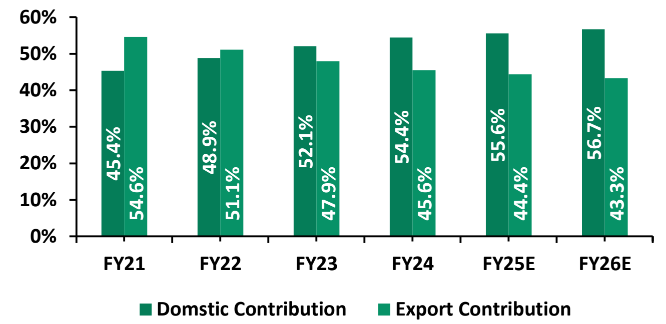
Going ahead, we expect JBCP's revenue to deliver CAGR growth of 15% from FY24 to FY26E on the back of robust growth from Domestic revenues (on account of increased contribution from chronic segment as well as scale-up in acquired portfolio), launch of new products and therapies, rising CDMO business and steady growth in exports formulations.

Fig 59: Revenue will grow at 15% CAGR from FY24-FY26E



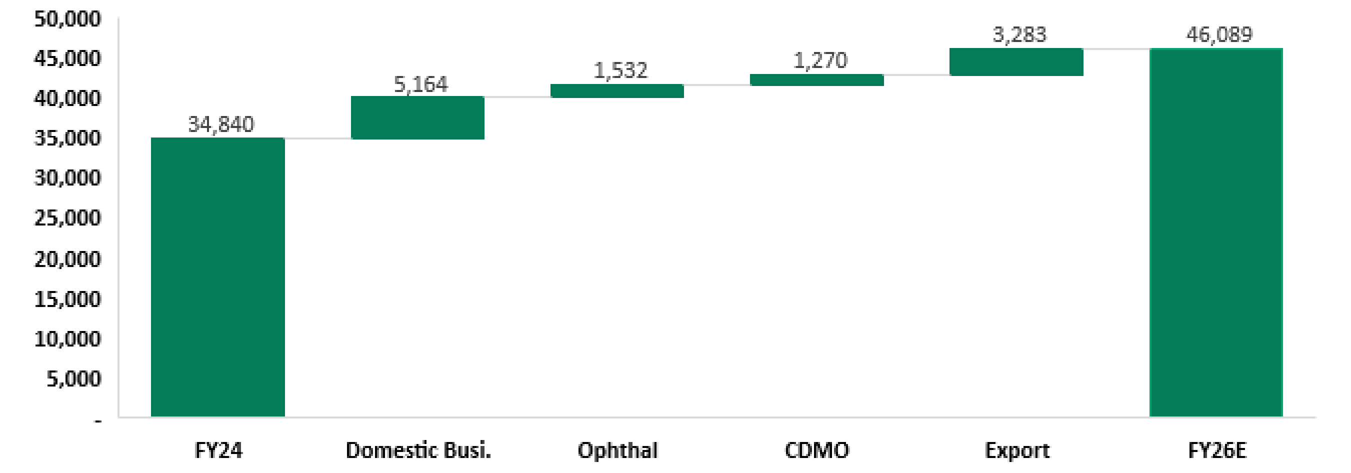
Source: Company, SMIFS Research Estimates

Fig 60: Domestic contribution to increase to 56.7% in FY26E



Source: Company, SMIFS Research Estimates

Fig 61: Segment wise revenue growing from FY24 to FY26E



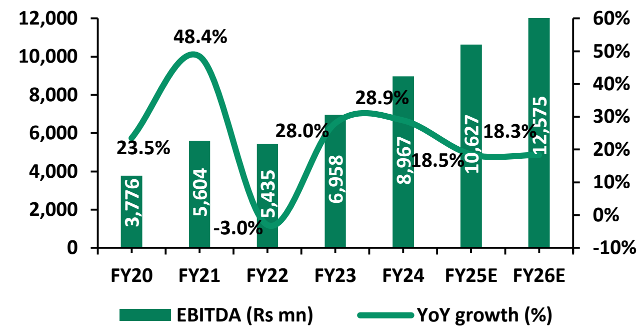
Source: Company, SMIFS Research Estimates

Margins are set to witness expansion over FY24 to FY26E.

JBCP's operating margins surged from 21.3% in FY20 to 25.7% in FY24, driven by increasing contribution from high margin domestic formulation business. Supported by improved product mix, cost optimisation initiatives and few synergies from increased MR productivity, which aided margins. **In FY24, JBCP's overall margins have significantly improved to 25.7% driven by a cost optimization effort, favourable product mix, and Higher chronic share.**

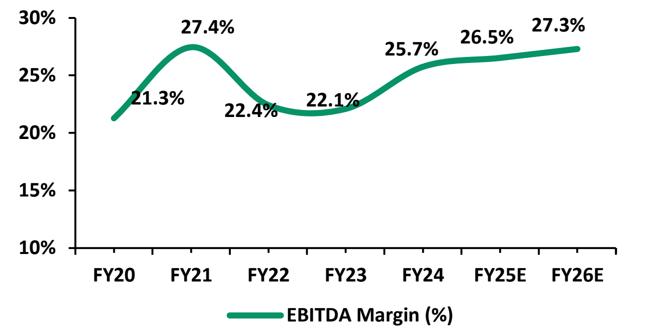
- We believe that the increased revenue from chronic segment which is a high margin business of the company (+30%) along with increased contribution of CDMO business will lead to further improvement in the margins to the tune of 27.4% in FY26E.
- JBCP has made strategic decisions in its international operations, particularly in South Africa, to boost its subsidiaries profitability. While these decisions may temporarily affect the top-line, they are expected to enhance JBCP's consolidated margin performance.
- **Overall, we expect EBITDA to grow at 18% CAGR over FY24-FY26E to Rs 12.6bn in FY26E and EBIDTA margins to improve from 25.7% in FY24 to 27.3% in FY26E.**

Fig 62: EBITDA to grow at 18% CAGR from FY24-26E



Source: Company, SMIFS Research Estimates

Fig 63: Margins to expand by 155bps from FY24-26E

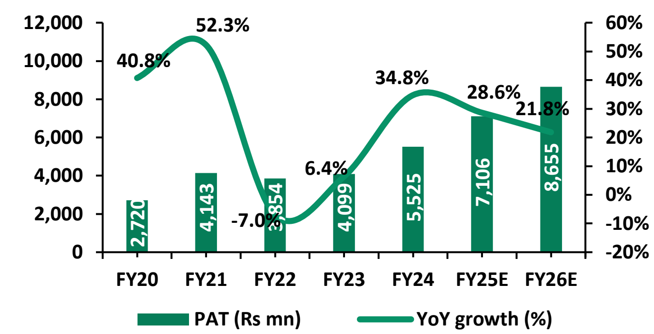


Source: Company, SMIFS Research Estimates

Improved profitability and healthy return ratios are sustainable

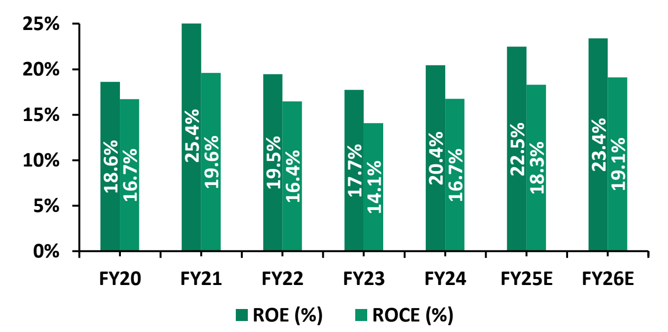
- JBCP profitability has grown consistently at ~20% CAGR over FY20-24.
- Going forward, led by strong growth in India and contract manufacturing businesses along with consolidation of newly acquired brands, we expect JBCP to clock ~23% PAT CAGR over FY24-26E.
- JBCP enjoys healthy ROE/ROCE and consistently generates strong cash flows. We expect JBCP to report ROE of 23% and ROCE of 19% by FY26E.

Fig 64: PAT to see 25% CAGR growth over FY24-FY26E



Source: Company, SMIFS Research Estimates

Fig 65: Expects healthy return ratios over FY24-FY26E



Source: Company, SMIFS Research Estimates

Robust Free Cash Flow Generation

JBCP is investing around Rs 1,450mn in capital expenditure in FY24 (which is mostly maintenance capex) of which Rs 500mn is primarily spent on expanding its lozenges facility in Daman. JBCP possesses sufficient capacity for its projects, positioning it well for future business growth. We anticipate JBCP's annual capex to remain modest, ranging between Rs 0.8bn to Rs 1bn.

Despite making five meaningful acquisitions in the last 2-3 years, JBCP's balance sheet remains robust and healthy. We anticipate JBCP to generate substantial free cash flow of Rs 21.6bn and maintain a resilient balance sheet over the next two years.

This will be propelled by the domestic business's outperformance and steady growth from exports, particularly driven by CDMO. The consistent generation of free cash flow by JBCP contributes to its strong return ratios.

Fig 66: Steady capex to be funded by internal accruals

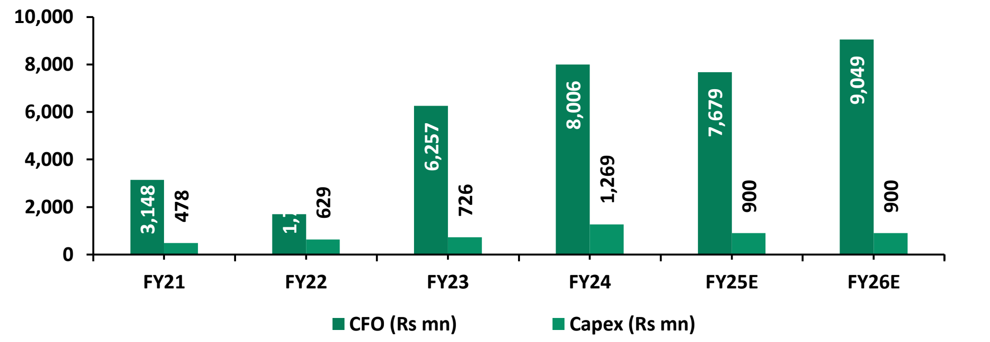
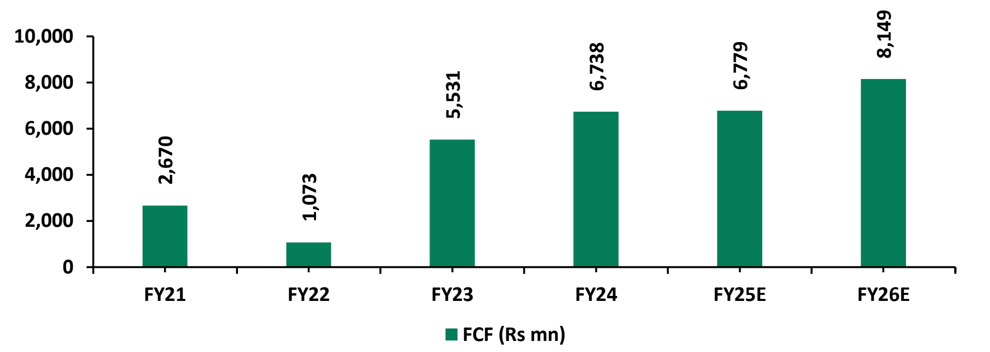
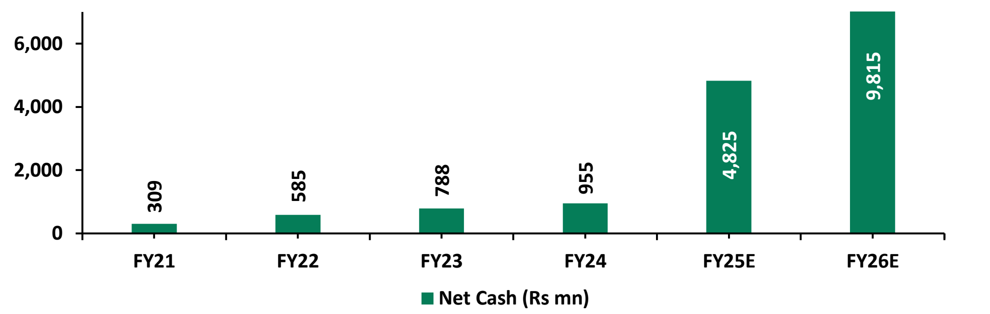


Fig 67: Healthy FCF generation on minimal Capex



Source: Company, SMIFS Research

***Fig 68:* Remain cash rich despite acquisitions**



Source: Company, SMIFS Research

Peer Comparison

Company Name	(1) Net Sales				(2) EBITDA				(3) PAT				EBITDA Margin %			
	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E
JB Chem	31,493	34,840	40,087	46,089	6,958	8,967	10,627	12,575	4,099	5,525	7,106	8,655	22.1	25.7	26.5	27.3
SUN	432,789	477,585	538,822	593,614	117,729	130,795	151,259	171,492	84,736	95,764	112,329	129,353	27.2	27.4	28.1	28.9
CIPLA	224,732	254,466	280,382	307,545	50,270	62,911	70,002	77,437	28,019	41,216	46,704	52,201	22.4	24.7	25.0	25.2
LUPIN	162,700	196,563	216,850	238,662	17,206	38,000	43,462	49,889	4,301	19,145	24,097	29,156	10.6	19.3	20.0	20.9
TORRENT	94,637	107,280	121,075	136,855	28,421	33,680	39,116	45,472	12,452	16,560	20,390	25,744	30.0	31.4	32.3	33.2
AJANTA	37,075	42,087	47,080	52,636	7,833	11,719	13,261	15,095	5,880	8,162	9,434	10,954	21.1	27.8	28.2	28.7
ALKEM*	114,404	128,959	142,559	157,396	16,283	22,751	26,274	30,331	9,842	18,967	21,709	25,257	14.2	17.6	18.4	19.3

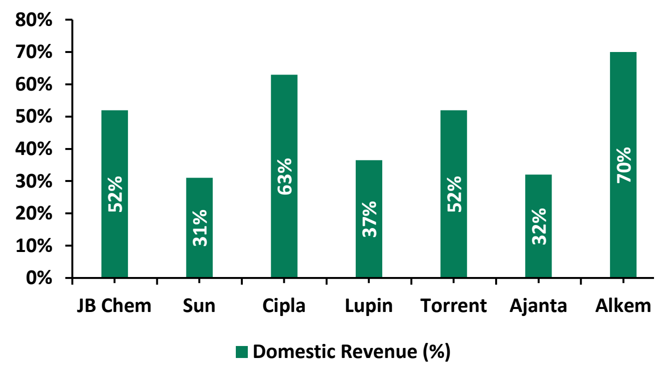
*Source: Bloomberg, SMIFS Research, *FY24E*

Company Name	CAGR FY23-26E			ROE %				P/E				EV/EBITDA			
	(1)	(2)	(3)	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E
JB Chemicals	13.5	21.8	28.3	17.7	20.4	22.5	23.4	34.6	38.6	36.7	30.1	20.8	23.7	24.1	19.9
SUN	11.1	13.4	15.1	16.3	15.9	16.7	16.5	27.8	40.6	32.9	28.6	28.3	26.8	23.8	21.0
CIPLA	11.0	15.5	23.0	12.7	16.4	16.1	15.6	25.9	29.3	25.9	23.2	18.8	16.4	14.8	14.6
LUPIN	13.6	42.6	89.3	3.5	14.3	15.8	16.6	68.5	38.4	32.1	26.7	26.6	20.8	18.2	15.8
TORRENT	13.1	17.0	27.4	20.5	25.4	27.0	28.5	41.8	53.1	43.4	34.3	30.4	27.1	23.4	20.1
AJANTA	12.4	24.4	23.0	17.7	23.5	23.7	23.4	26.3	34.5	31.9	27.5	31.2	25.2	22.3	19.6
ALKEM*	11.2	23.0	36.9	11.1	19.2	19.2	19.3	41.3	34.1	29.3	25.1	26.8	27.1	23.5	20.3

*Source: Bloomberg, SMIFS Research, *FY24E*

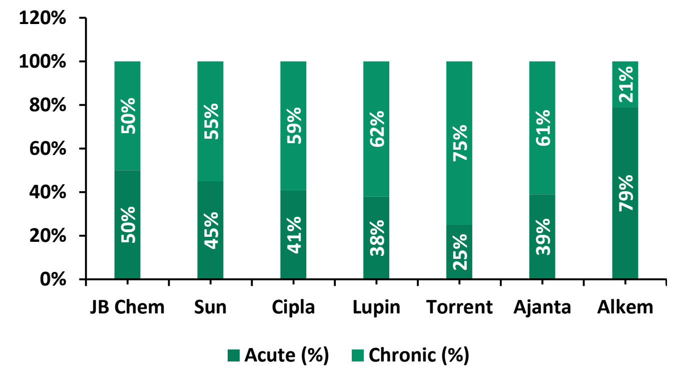
Competitive landscape

Fig 69: JBCP's FY23 revenue, domestic revenue was 52%



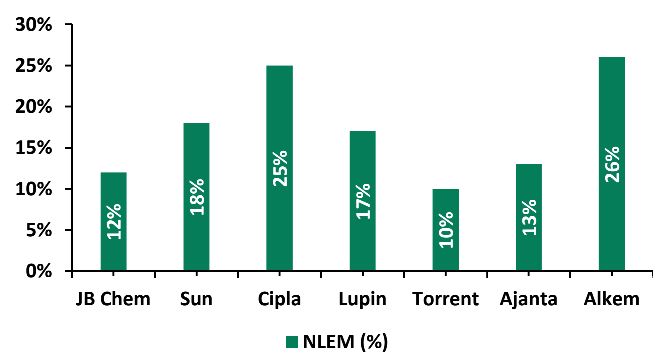
Source: Company, SMIFS Research

Fig 70: Acute and Chronic Split



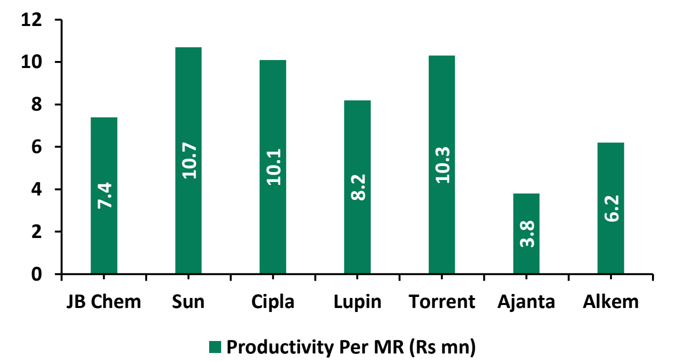
Source: Company, SMIFS Research, Mankind DRHP

Fig 71: Of JBCP's portfolio, 12% fall under NLEM



Source: Company, SMIFS Research, Mankind DRHP

Fig 72: JBCP's MR Productivity: Rs 7.4mn in FY23



Source: Company, SMIFS Research, Mankind DRHP

Valuation and Recommendations

JBCP's concentrated focus on growing its high-margin businesses, specifically the domestic formulations and global CDMO segments, instils strong confidence in its ability to sustain growth. This belief is supported by JBCP's strong position in the domestic market, expansion into the ophthalmic segment, scaling up of high-margin CDMO business, and robust free cash flow generation (~Rs.21.6bn over FY26E),

Currently, the stock is trading at a reassuring valuation with a FY26E EV/EBITDA of 20x, aligning with peers such as Torrent and Sun Pharma. JBCP's performance has improved with new acquisitions with operational efficiencies and optimal utilisation of MR resources. This assessment reflects our conviction in JBCP's ability to capitalize on its recent successes and drive sustained shareholder value in the foreseeable future.

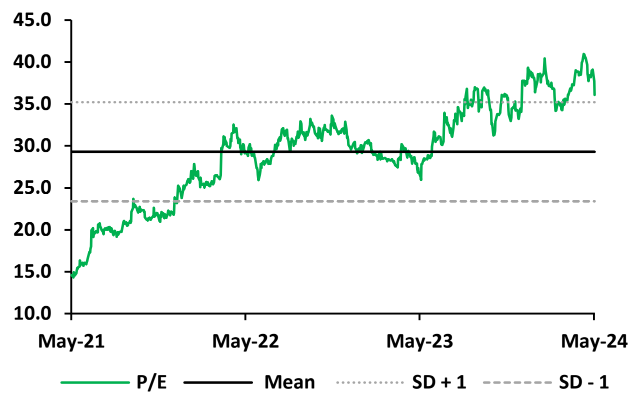
After acquiring five businesses, JBCP has experienced remarkable growth in its performance, hence we assign a 24x EV/EBITDA on FY26E EBITDA (implied PE of 35x FY26E) adjusted for ESOP and set a target price of Rs. 1,987 per share with a **BUY** rating on the stock, offering a 19% upside from current valuations.

Fig 73: EV/EBITDA Valuation

Particulars	Rs Mn
EBITDA	12,575
Applied EV / EBITDA	24.0
Computed EV	301,799
Less: Debt	3,210
Add: Cash	9,815
Computed Equity Value (Rs. mn)	308,404
No. of shares	155
Intrinsic Value per share	**1,987**

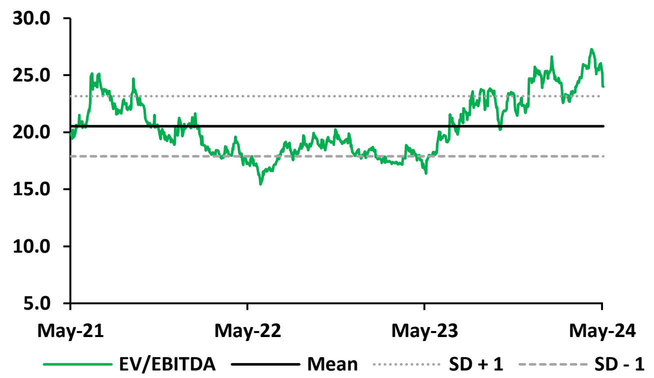
Source: Company, SMIFS Research

Fig 74: 1-year forward P/E



Source: Company, SMIFS Research Estimates

Fig 75: 1-year forward EV/EBITDA



Source: Company, SMIFS Research Estimates

Key Risks

Company Related Risk

Exit of PE investor KKR: The exit of PE investor KKR may reshape JBCP's strategies and decision-making, affecting its growth trajectory and market competitiveness. Without KKR's financial support and strategic guidance, JBCP's ability to fund growth initiatives, R&D projects, and expansions could be hindered. Additionally, KKR's departure may raise investor concerns about JBCP's stability and confidence in its future prospects.

Regulatory Risk Associated with NLEM Product: JBCP's domestic portfolio has a 12% exposure to NLEM products, mainly through Metrogyl. Consequently, any substantial pricing change in NLEM could raise concerns for the product, potentially impacting the company's overall revenue.

General Risk

Regulatory risk: The company derives a good chunk of revenue from exports, any change in regulation may dent growth and impact company's production and supply mechanism.

Foreign exchange risk: A company faces currency fluctuation risk due to a significant portion of its revenue coming from exports, particularly in non-US markets. Any adverse movement in currency rates can impact overall profitability.

Price control: The domestic business has been impacted by price erosion due to an increasing number of drugs falling under price control regulations.

Concentration risk: Company derives ~65% of the domestic business from its top-5 brands. Any adverse news flow (example Ranitidine issue) or competition may lead to lower growth.

The **risk of delays in launching new products** and low growth in acquired brands in domestic markets could potentially impact earnings growth.

Corporate Governance

We believe that good corporate governance is necessary for enhancing the trust of the shareholders. Hereby, we present a detailed framework on corporate governance for the comfort of the investors of JB Chemicals considering board of directors, remuneration of key managerial personnel, contingent liability etc.

Promoters' Shareholding

The promoters currently hold ~53.8% of the equity capital. The TAU Investment Holding Pte. Ltd. is the only holder of 53.81% in the company. The details of the shareholding and its movement are indicated in the following table and chart:

Fig 76: Latest Promoter Shareholding

Particulars	% Holding
TAU INVESTMENT HOLDINGS PTE. LTD. (Holding Company)	53.8
Total	**53.8**

Source: Company Annual Report, SMIFS Research

Fig 77: Promoter Shareholding

Source: Company Annual Report, SMIFS Research

Over the years from FY18 to FY21, the promoter has maintained their shareholding in the company at around 56%. Post Covid the few promoters have exited with 2% stake in FY22 (now considered as Public holding) and Tau Investments stake reduced by 0.2% in FY23.

Board Composition

Independent directors constitute 50% of the board composition. The details are below:

Fig 78: Board Composition

	FY18	FY19	FY20	FY21	FY22	FY23
Independent director	7	7	6	3	3	3
Non-Executive Directors	0	0	0	4	2	2
Executive (CEO)	1	1	1	1	1	1
Whole time director	4	4	3	0	0	0
Managing Director	1	1	0	0	0	0

Source: Company Annual Report, SMIFS Research

Fig 79: Key Management Person (Remuneration)

Name	FY 23 Compensation (Rs Mn)	% of PBT
Ranjit Shahani (Chairman + Independent director)	8.0	0.1%
Padmini Khare Kaicker (Independent director)	7.5	0.1%
Sumit Bose (Independent director)	7.5	0.1%
Nikhil Chopra (CEO and WTD)	65.4	1.2%

Source: Company Annual Report, SMIFS Research

Contingent Liabilities

The company's contingent liability as a % of net worth is always between 1-2%. A major portion of contingent liabilities is safe items, which we have taken into consideration in calculating total liability. The contingent liabilities are taxation related which is insignificant as a % of net worth. The Company does not expect the outcome of the matters stated to have a material adverse impact on the Company's financial condition, results of operations or cash flows.

The Company does not expect any reimbursements in respect of the contingent liabilities.

Fig 80: Contingent Liability *(Rs in mn)*

	FY19	FY20	FY21	FY22	FY23
Central Excise, Service Tax and GST demands/show causes	49	55	42	49	45
Income Tax	39	209	248	220	237
Sales Tax	1	0	0	0	0
Total	89	264	290	270	282
As a % of Net Worth	**0.6%**	**1.8%**	**1.6%**	**1.3%**	**1.1%**

Source: Company Annual Report, SMIFS Research

Related Party Transactions

While investigating the related party transactions we found that there is nothing major related party transactions of JB Chemicals.

Fig 81: Related Party Transactions *(Rs in mn)*

	FY22	FY23
Dividend Paid to holding company	689	689
Short-term employee benefits	93	98
Post-employment benefits	5	4
Share-based perquisites value	54	0
Other long-term benefits	0	6
Share option exercise price received	39	0
Sitting fees paid to Independent Directors	6	8
Commission paid to Independent Directors	17	6

Source: Company Annual Report, SMIFS Research

Key management personnel

Fig 82: Details of promoter and director

Name	Designation	Profile
Mr. Ranjit Shahani	**Chairman and Independent Director**	Mr. Ranjit Shahani is a global business leader over forty years of experience in industries healthcare, pharmaceuticals, health technology, special chemicals. He served as Vice Chairman Managing Director of Novartis, India.Mr. Ranjit holds a Bachelor of Technology in Mechanical Engineering from the Indian Institute of Technology, Kanpur and a Master's in Business Administration from the Jamnalal Bajaj Institute of Management Studies.
Mr. Nikhil Chopra	**CEO & Whole Time Director**	Mr. Nikhil Chopra is a business leader with over wenty years of experience with a consistent record of sustainable growth and shareholder value creation. For over two decades, he 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 Paediatric Care. He previously worked as CEO-India Business for Cipla Ltd. He holds an M.Sc. in Organic Chemistry from Gujarat University.
Mr. Gaurav Trehan	**Non-executive Director**	Mr. Gaurav Trehan is Partner and Head of the Private Equity business for KKR India. Prior to joining KKR, he spent more than 15 years with TPG Capital Asia and was a partner in its India office. Mr. Trehan acquired a BS in mathematics/applied science and economics from UCLA.
Mr. Prashant Kumar	**Non-executive Director**	Mr. Prashant Kumar is a Managing Director at KKR private equity team. Prior to joining KKR, Mr. Kumar was a Director and Member of the Investment Committee at Chrys Capital, an emerging market focused private equity firm. Mr. Kumar holds a B. Tech. from the Indian Institute of Technology, Delhi, a post-graduate diploma in management from the Indian Institute of Management, Kolkata, and a Master's in Business Administration from The Wharton School at the University of Pennsylvania.
Ms. Padmini Khare Kaicker	**Independent Director**	Ms. Padmini Khare Kaicker is the Managing Partner of B. K. Khare & Co., Chartered Accountants, one of the leading and reputed Indian Accounting Firms in the profession for more than five decades. Ms. Padmini has over 25 years of wide and varied experience serving large and mid-sized clients in variety of businesses such as Manufacturing, Oil and Gas, Banking and Financial services, Insurance, IT, Hospitality, Real estate and Retail sectors. She holds B.Sc. in Mathematics. Apart from being a Chartered Accountant from ICAI, she is also a Certified Public Accountant (USA) and holds a Diploma in Business Finance from Institute of Chartered Financial Analysts of India.
Mr. Sumit Bose	**Independent Director**	Mr. Sumit Bose was a member of the Indian Administrative Services. He served Government of India in several capacities such as Union Finance Secretary (as Secretary, Department of Revenue), Secretary (Expenditure), Secretary (Disinvestment) as well as Secretary in the Thirteenth Finance Commission. Mr. Bose holds a Master of Science (Social Policy and Planning) from the London School of Economics, a Master of Arts (History) from St. Stephen's College, University of Delhi and an Indian School Certificate from The Doon School, Dehradun.

Source: Company Annual Report, SMIFS Research

Auditors of the company

M/s. Deloitte Haskins & Sells LLP is the auditors of the company.

Fig 83: Auditors of the company (FY23)

Auditor Name	Type	Auditor Fees - (Rs mn)	As a % of PBT
Deloitte Haskins & Sells LLP	Statutory Auditors	7.8	0.1%

Source: Company Annual Report, SMIFS Research

Fig 84: CSR Activities

Company	Avg Net Profit (last 3 Yrs)	Prescribed Expenditure	Total Spends	Spend as % of prescribed limit
FY23	4,076	81.5	81.9	100.5
FY22	3,468	69.4	69.5	100.2
FY21	2,547	50.9	51.7	101.5

Source: Company Annual Report, SMIFS Research

Fig 85: Consolidated Quarterly Financials

Y/E March (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Sales	**7,848**	**8,094**	**7,927**	**7,623**	**8,962**	**8,817**	**8,445**	**8,617**
Raw Materials	2,928	3,016	2,990	2,749	3,100	2,982	2,736	3,003
Employee Costs	1,339	1,356	1,383	1,356	1,488	1,483	1,517	1,527
Other Expenditure	1,854	1,877	1,806	1,882	2,054	1,918	1,961	2,106
EBITDA	**1,728**	**1,846**	**1,748**	**1,636**	**2,321**	**2,435**	**2,231**	**1,981**
Other Income	9	13	31	46	56	77	74	166
Depreciation	261	281	284	318	314	322	340	407
EBIT	**1,476**	**1,578**	**1,495**	**1,364**	**2,064**	**2,190**	**1,964**	**1,740**
Interest	58	80	83	140	121	104	125	94
Exceptional items	0	0	0	0	0	0	0	0
PBT	**1,417**	**1,498**	**1,412**	**1,225**	**1,943**	**2,087**	**1,840**	**1,646**
Tax	365	388	351	348	520	581	504	384
Tax rate (%)	25.8	25.9	24.9	28.4	26.8	27.8	27.4	23.4
PAT before MI and Asso.	**1,052**	**1,111**	**1,061**	**876**	**1,423**	**1,506**	**1,336**	**1,262**
Share of Associate / JV	0	0	0	0	0	0	0	0
Minority Interest	2	0	0	0	0	0	0	0
Consolidated PAT	**1,050**	**1,111**	**1,061**	**876**	**1,423**	**1,506**	**1,336**	**1,262**
Adjusted PAT	**1,050**	**1,111**	**1,061**	**876**	**1,423**	**1,506**	**1,336**	**1,262**
YoY Growth (%)								
Revenue	-66.9	36.5	32.0	22.1	14.2	8.9	6.5	13.0
EBITDA	-38.5	45.6	36.4	31.0	34.4	31.9	27.7	21.1
Adj PAT	136.2	13.6	26.5	3.3	35.5	35.6	25.9	44.0
QoQ Growth (%)								
Revenue	25.7	3.1	-2.1	-3.8	17.6	-1.6	-4.2	2.0
EBITDA	38.3	6.8	-5.3	-6.4	41.8	4.9	-8.4	-11.2
Adj PAT	23.8	5.8	-4.5	-17.4	62.4	5.8	-11.3	-5.5
Margin (%)								
RMC/revenue (%)	37.3	37.3	37.7	36.1	34.6	33.8	32.4	34.8
Gross margin (%)	62.7	62.7	62.3	63.9	65.4	66.2	67.6	65.2
Employee cost/revenue (%)	17.1	16.8	17.5	17.8	16.6	16.8	18.0	17.7
Other expenses/revenue (%)	23.6	23.2	22.8	24.7	22.9	21.7	23.2	24.4
EBITDA margin (%)	22.0	22.8	22.0	21.5	25.9	27.6	26.4	23.0
Adj PAT margin (%)	13.4	13.7	13.4	11.5	15.9	17.1	15.8	14.6

Source: Company, SMIFS Research

Fig 86: Key Performance Indicators

Segmental Revenue (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Base Business	8,830	11,270	12,268	13,482	15,743
Acquired Brands	-	2,758	3,658	5,328	6,404
Contrast Media + Other Brands	2,980	2,369	3,044	3,469	3,978
Total Domestic Revenue	**11,810**	**16,397**	**18,970**	**22,279**	**26,125**
Export Formulations	8,925	10,103	10,690	11,930	13,287
CDMO	2,527	4,058	4,320	4,970	5,720
API	908	936	860	907	957
Total Exports	**12,360**	**15,096**	**15,870**	**17,808**	**19,964**
Total Revenue	**24,170**	**31,493**	**34,840**	**40,087**	**46,089**

Source: Company, SMIFS Research Estimates

Financial Statements

Income Statement

YE March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenues	**24,242**	**31,493**	**34,840**	**40,087**	**46,089**
Raw Materials	8,429	11,682	11,821	13,983	15,966
% of sales	34.8	37.1	33.9	34.9	34.6
Personnel	4,392	5,435	6,014	6,796	7,781
% of sales	18.1	17.3	17.3	17.0	16.9
Other Expenses	5,986	7,419	8,038	8,681	9,767
% of sales	24.7	23.6	23.1	21.7	21.2
EBITDA	**5,435**	**6,958**	**8,967**	**10,627**	**12,575**
Other Income	392	99	373	601	784
Depreciation & Amortization	727	1,144	1,383	1,476	1,561
EBIT	**5,100**	**5,913**	**7,957**	**9,752**	**11,797**
Finance cost	51	361	443	278	257
Core PBT	**4,657**	**5,453**	**7,141**	**8,873**	**10,757**
Exceptional items	0	0	0	0	0
PBT	**5,049**	**5,553**	**7,513**	**9,474**	**11,540**
Tax-Total	1,189	1,452	1,989	2,369	2,885
Effective tax rate (%)	23.5	26.2	26.5	25.0	25.0
PAT	**3,860**	**4,101**	**5,525**	**7,106**	**8,655**
Share of Associates	0	0	0	0	0
Non-controlling interest	7	2	0	0	0
Consolidated PAT	**3,854**	**4,099**	**5,525**	**7,106**	**8,655**
Adjusted PAT	**3,854**	**4,099**	**5,525**	**7,106**	**8,655**

Source: Company, SMIFS Research Estimates

Key Ratios

YE March	FY22	FY23	FY24	FY25E	FY26E
Growth Ratio (%)					
Revenue	18.7	29.9	10.6	15.1	15.0
EBITDA	-3.0	28.0	28.9	18.5	18.3
Adjusted PAT	-7.0	6.4	34.8	28.6	21.8
Margin Ratios (%)					
Gross Profit	65.2	62.9	66.1	65.1	65.4
EBITDA	22.4	22.1	25.7	26.5	27.3
EBIT	21.0	18.8	22.8	24.3	25.6
Core PBT	19.2	17.3	20.5	22.1	23.3
Adjusted PAT	15.9	13.0	15.9	17.7	18.8
Return Ratios (%)					
ROE	19.5	17.7	20.4	22.5	23.4
ROCE	16.4	14.1	16.7	18.3	19.1
ROIC	18.1	15.3	19.5	24.1	28.5
Turnover Ratios (days)					
Gross Block Turnover (x)	0.5	0.4	0.4	0.3	0.3
Adj OCF/Adj PAT (%)	43.1	144.0	136.9	104.2	101.6
Inventory	61.7	49.9	52.6	52.6	52.6
Debtors	83.7	66.7	72.0	72.0	72.0
Creditors	33.8	27.7	37.3	38.0	38.0
Cash conversion cycle	111.6	89.0	87.3	86.6	86.6
Solvency Ratio (x)					
Debt-equity	0.0	0.2	0.1	0.1	0.1
Net debt-equity	0.0	0.1	0.0	-0.1	-0.3
Gross Debt/EBITDA	0.1	0.8	0.4	0.3	0.3
Current Ratio	3.2	2.8	2.1	2.7	3.3
Interest coverage ratio	91.9	16.1	17.1	32.9	42.9
Dividend					
DPS	8.3	8.9	10.1	15.0	17.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.3	0.3	0.3	0.3	0.3
Per share Ratios (Rs)					
Basic EPS (reported)	24.9	26.5	35.6	45.8	55.8
Adjusted EPS	24.9	26.5	35.6	45.8	55.8
CEPS	29.6	33.9	44.5	55.3	65.8
BV	138.4	160.2	188.4	219.1	257.9
Valuation (x)*					
Adj P/E	32.8	34.6	38.6	36.7	30.1
P/BV	5.9	5.7	7.3	7.7	6.5
EV/EBITDA	23.3	20.8	23.7	24.1	19.9
EV/Sales	5.2	4.6	6.1	6.4	5.4
Adjusted Market Cap /Core PBT	27.1	25.9	29.7	28.8	23.3
Adjusted Market Cap /Adj OCF	75.9	23.9	28.1	34.6	28.5

Source: Company, SMIFS Research Estimates

Balance Sheet

YE March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Source of funds					
Capital	155	155	155	155	155
Reserves & Surplus	21,187	24,649	29,078	33,856	39,873
Minority Interest	45	0	0	0	0
Shareholders' Funds	**21,386**	**24,804**	**29,233**	**34,011**	**40,028**
Total Loan Funds	**546**	**5,724**	**3,777**	**3,474**	**3,210**
Other liabilities	645	1,205	1,693	1,693	1,693
Total Liabilities	**22,576**	**31,733**	**34,703**	**39,178**	**44,931**
Application of funds					
Gross Block	10,934	11,293	13,072	13,972	14,872
Net Block	5,529	5,320	5,716	5,140	4,478
Capital WIP	139	444	633	633	633
Quasi cash Investments	**0**	**0**	**0**	**0**	**0**
Other Investments	127	138	237	237	237
Other non-current assets	**7,963**	**14,356**	**14,822**	**14,822**	**14,822**
Inventories	4,100	4,305	5,025	5,782	6,648
Sundry Debtors	5,557	5,758	6,869	7,904	9,087
Current Investments	0	1,922	3,647	3,647	3,647
Cash & Bank Balances	585	788	955	4,825	9,815
Other current Assets	2,074	2,507	2,037	2,037	2,037
Total Current Assets	**12,315**	**15,280**	**18,534**	**24,195**	**31,234**
Sundry Creditors	**2,245**	**2,386**	**3,563**	**4,173**	**4,798**
Other Current Liabilities	1,253	1,419	1,675	1,675	1,675
Total Current Liabilities	**3,498**	**3,805**	**5,239**	**5,849**	**6,474**
Net Current Assets	**8,818**	**11,475**	**13,295**	**18,346**	**24,760**
Total Assets	**22,576**	**31,733**	**34,703**	**39,178**	**44,931**

Source: Company, SMIFS Research Estimates

Cash Flow

YE March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Operating profit before WC changes	**6,072**	**7,511**	**9,387**	**11,228**	**13,358**
Net changes in working capital	(3,024)	(299)	(56)	(1,181)	(1,424)
Tax Paid	(1,346)	(955)	(1,325)	(2,369)	(2,885)
Cash flow from operating activities	**1,701**	**6,257**	**8,006**	**7,679**	**9,049**
Adj. OCF	**1,660**	**5,903**	**7,563**	**7,401**	**8,792**
Capital expenditure	-629	-726	-1,269	-900	-900
Adj FCF	1,032	5,177	6,294	6,501	7,892
Cash flow from investing activities	**23**	**-9,618**	**-4,038**	**-900**	**-900**
Debt	-3	5,232	-1,916	-303	-264
Dividend	-1,276	-1,276	-1,570	-2,328	-2,638
Interest and Lease	-105	-419	-569	-278	-257
Cash flow from financing activities	**-1,384**	**3,565**	**-3,855**	**-2,909**	**-3,159**
Net change in cash	**341**	**204**	**113**	**3,870**	**4,990**

Source: Company, SMIFS Research Estimates

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