



J.B. Chemicals and Pharmaceuticals Ltd

India and CDMO to drive momentum, retain Buy

JB Chemicals' (JBCP) Q1FY25 revenue growth was largely in line with our estimates. Slightly higher-than-expected revenue from the domestic business and improved gross margins resulted in expansion of EBITDA margins. Revenue witnessed growth of 12% YoY and 17% QoQ to ~Rs10Bn. The YoY increase was mainly driven by 22% YoY growth in the domestic formulations business whereas flat growth witnessed in the overall export business. Despite limited margin on ophthalmology portfolio, gross margin improved by 76bps YoY and 102bps QoQ to 66.2% on continuous cost optimization efforts, favourable product mix and realization growth. We expect that with the pick-up in export business and healthy CDMO order book in H2FY25 will lead to accelerated growth in FY25. We strongly believe that JBCP's domestic business is likely to register 18% CAGR over FY24-26E, on the account of market share gain and Rx increase in the acquired portfolio, successful lifecycle management of key brands and improvement in MR productivity. We anticipate an EPS CAGR of 30% over FY24-FY26E aided by 1) strong growth from domestic business expansion and diversification into new therapies, 2) increased contribution from new acquisitions, 3) scaling up of high margin CDMO business and 4) robust FCF generation. We maintain our Buy rating on the stock with upgraded target price of Rs 2,215, valuing the company at 25x FY26E EV/EBITDA.

Domestic formulations business - The domestic business grew 22% YoY, while excl. the ophthalmology portfolio it has registered growth of 13% YoY. JBCP continued to outperform the IPM and reported growth of 12% YoY vs IPM growth of 9% in Q1FY25. Each of the major brands have witnessed market beating growth with improved ranking. Sporlac franchise crossed MAT of Rs 1bn sales in June'24 and grew at 3-year CAGR of 32%. Razel franchise also recorded strong double-digit growth of 29% to Rs 890 Mn. We expect domestic formulations business revenue to deliver CAGR growth of 18% from FY24 to FY26E.

Export formulations and CDMO - Exports formulations business witnessed growth of 5.5% YoY and 8.6% on QoQ basis to Rs. 2,900 Mn in Q1FY25. Excluding South Africa business, export formulations grew by 9% YoY led by strong growth from Russia and ROW business. CDMO business declined by 11% YoY. Muted CDMO business due to seasonality and strategic choices made for South Africa impacted the growth of international business. International business including CDMO is expected to pick-up in the H2FY25. We expect the company to deliver revenue growth of 14% over FY24-FY26E in the overall export business. CDMO business with promising growth outlook, backed by the healthy order book, aim to expand in new categories like motion sickness, pain mgt., sleep disorder etc. and management guidance for CDMO business to become 20% of sales in coming years. We expect a 15% CAGR over FY24-26E.

EBITDA Margins - EBITDA came in at Rs 2,804 Mn up 21% YoY with OPM of 27.9%, up 201bps YoY much ahead of our estimates. We expect EBITDA margins for FY25 and FY26 to see a sharp pick up from 25.7% in FY24 to 27%-29%. This improvement will be driven by improved gross margin, continuous cost optimization efforts, and a stronger product mix from domestic as well as exports business.

Valuation: JBCP is well-positioned to capitalize on immediate growth opportunities. We expect 30% EPS CAGR over FY24-26E aided by 1) Strong growth from domestic business (CAGR of 18% in FY24-FY26E), 2) 35% growth over FY24-FY26E from acquired portfolios, 3) scaling up of high margin CDMO business on the back of new therapy launches and 4) robust FCF generation. We maintain our Buy rating on the stock but raise target price to Rs 2,215, valuing the company at 25x FY26E EV/EBITDA (earlier 24x FY25E).

Y/E Mar (Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Q1FY25E	Var. (%)
Revenues	10,044	8,962	12.1	8,617	16.6	9,798	2.5
Cost of raw materials	3398	3100	9.6	3003	13.1		
Employee expense	1669	1488	12.2	1527	9.3		
Other expense	2174	2054	5.8	2106	3.2		
EBITDA	2,804	2,321	20.8	1,981	41.5	2,469	13.6
EBITDA Margin (%)	27.9%	25.9%	201 bps	23.0%	492 bps	25.2%	272 bps
Depreciation	408	314	30.0	407	0.1		
Interest	56	121	-53.2	94	-40.1		
Other Income	59	56	4.6	166	-64.6		
PBT	2,398	1,943	23.4	1,646	45.7		
Tax	630	520	21.2	384	63.9		
Effective Tax Rate (%)	26.3	26.8	(48) bps	23.4	292 bps		
Consolidated PAT	1,768	1,423	24.2	1,262	40.2	1,589	11.3
PAT Margin %	17.6%	15.9%	173 bps	14.6%	297 bps		

Source: Company, SMIFS research

Y/E Mar (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	41,218	18.3	11,567	28.1	7,574	37.1	48.8	23.8	20.7	39.5	25.4
FY26E	46,934	13.9	13,441	28.6	9,306	22.9	60.0	24.6	21.1	32.2	21.4

Source: Company, SMIFS research estimates

Rating: Buy Return: 15%
 Current Price: 1,930 Target Price: 2,215

Earlier recommendation

Previous Rating: Buy
 Previous Target Price: 1,987

Market data

Bloomberg: JBCP:IN
 52-week H/L (Rs): 2,009 / 1,246
 Mcap (Rs bn/USD bn): 299 / 3.6
 Shares outstanding (mn): 155
 Free float: 46%
 Avg. daily Vol (3M Avg.): 2.5 Mn
 Face Value (Rs): 1

Source: Bloomberg, SMIFS research

Shareholding pattern (%)

	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	53.7	53.7	53.8	53.8
FII's	12.1	11.0	10.3	10.0
DII's	17.6	18.3	18.5	18.5
Public/others	16.4	16.7	17.2	17.5

Promoters Pledging

Pledge share 0.0 0.0 0.0 0.0

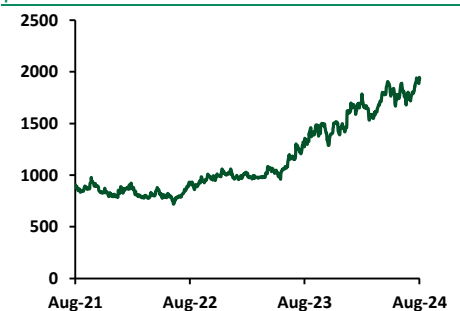
Source: BSE

Price performance (%) *

YE Mar (R)	1M	3M	12M	36M
NIFTY 50	-0.2	10.9	24.1	49.8
NIFTY 500	-0.6	12.6	34.8	64.5
JBCP IN	11.9	9.3	42.4	113.4

* As on 9th Aug 2024; Source: AceEquity, SMIFS research

3 Year Price Performance Chart



Source: NSE

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Key takeaways from the management call

Financial highlights:

- 1) Q1FY25 recorded its first ever quarterly revenue of Rs10 bn, up by 12% YoY.
- 2) The domestic to international business mix was 59:41 during the quarter.
- 3) The gross margin improved to 66.2% from 65.4% despite limited margin from Ophthalmology portfolio, driven by cost optimization efforts, favorable product mix, and price increases.
- 4) ESOP costs accounted for 12% of total employee expenses.
- 5) Freight costs for the international market remain elevated on red sea crisis.
- 6) The company had a net cash position of Rs 3.1 bn as of June'24.

Domestic formulations business: During the quarter growth in domestic business driven by increased chronic mix. The growth was comprised of 4% volume growth, 6% price growth and 2% from new products. Company continues to launch new products in every 2 months in pediatrics, GI and pro-biotic segment which contributes 2-3% to the overall growth.

Export formulations business: Exports formulations business remained steady with 5.5% YoY growth to Rs 2.9 Bn. Russia and ROW market reported robust growth while South Africa's tender business declined on strategic changes. Excluding South Africa, international business grew by 9% YoY in Q1FY25.

CDMO: Muted cough and cold season across the globe dragged the growth in to CDMO business. However, JB has healthy order book and expect pick-up from September 2024. The company started supplying immunity and wellness lozenges to four EU countries and plans to expand this to additional countries by the end of CY24. Branded lozenges will be produced through a US partner by the end of FY25.

Key brands performance:

- **Major brands:** Cilacar, Cilacar-T, Nicardia, Metrogyl, and Sporlac gained ranking as per IQVIA MAT June 2024 data. Cilacar grew by 13%, while Cilacar-T saw a 20% increase in volume for the quarter. Rantac experienced subdued demand recently.
- **Sporlac:** it is now become Rs 1 Bn brand and has gained consistent ranks in the IPM. Sporlac brand grew at 3-year CAGR of more than 20%.
- **Razel:** Razel franchise is growing at more than 20% YoY and witness 20% volume growth during Q1.
- **Azmarda:** Steady demand continue with stable pricing expect double digit volume growth. Azmarda witnessed monthly sales volume between 100-125k units. With market consolidation JBCP dominate the market among the top 3 players.

Ophthalmic business: Company is focus on brand expansion and completed smooth transition. It was very optimistic about business growth over the past six months and observed increase in secondary demand for the portfolio. Invested in field force expansion from 70 people to 105 people team. Expects mid teen growth for the portfolio and anticipated Rs 1.85 Bn revenue for FY25 vs Rs 1.6 Bn sale in FY24. JBCP focused on new product introduction with commercial opportunities in the portfolio.

Other guidance:

- Organic business growth expected between 12-14%, ahead 300bps growth of IPM.
- Mid teen growth expected for South Africa business from Q3 onwards.
- Expects gross margin between the range of 65-66% for FY25 with ophthalmology portfolio while operating margins guidance remain between 26-28% for FY25.
- ESOP charge for FY25 is projected to be between Rs 420-450 Mn.
- Debt of Rs 1,080 Mn is expected to be paid off by March'25 in equal installment.
- No significant expansion in MR count in the near term.
- Continue to evaluate M&A opportunities in domestic market through dedicated team.

Quarterly financials & key performance indicators

Fig 1: Quarterly Financials

Y/E March (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Sales	8,094	7,927	7,623	8,962	8,817	8,445	8,617	10,044
Raw Materials	3,016	2,990	2,749	3,100	2,982	2,736	3,003	3,398
Employee Costs	1,356	1,383	1,356	1,488	1,483	1,517	1,527	1,669
Other Expenditure	1,877	1,806	1,882	2,054	1,918	1,961	2,106	2,174
EBITDA	1,846	1,748	1,636	2,321	2,435	2,231	1,981	2,804
Other Income	13	31	46	56	77	74	166	59
Depreciation	281	284	318	314	322	340	407	408
EBIT	1,578	1,495	1,364	2,064	2,190	1,964	1,740	2,455
Interest	80	83	140	121	104	125	94	56
Exceptional items	0	0	0	0	0	0	0	0
PBT	1,498	1,412	1,225	1,943	2,087	1,840	1,646	2,398
Tax	388	351	348	520	581	504	384	630
Tax rate (%)	25.9	24.9	28.4	26.8	27.8	27.4	23.4	26.3
PAT before MI and Asso.	1,111	1,061	876	1,423	1,506	1,336	1,262	1,768
Share of Associate / JV	0	0	0	0	0	0	0	0
Minority Interest	0	0	0	0	0	0	0	0
Consolidated PAT	1,111	1,061	876	1,423	1,506	1,336	1,262	1,768
Adjusted PAT	1,111	1,061	876	1,423	1,506	1,336	1,262	1,768
YoY Growth (%)								
Revenue	36.5	32.0	22.1	14.2	8.9	6.5	13.0	12.1
EBITDA	45.6	36.4	31.0	34.4	31.9	27.7	21.1	20.8
Adj PAT	13.6	26.5	3.3	35.5	35.6	25.9	44.0	24.2
QoQ Growth (%)								
Revenue	3.1	-2.1	-3.8	17.6	-1.6	-4.2	2.0	16.6
EBITDA	6.8	-5.3	-6.4	41.8	4.9	-8.4	-11.2	41.5
Adj PAT	5.8	-4.5	-17.4	62.4	5.8	-11.3	-5.5	40.2
Margin (%)								
RMC/revenue (%)	37.3	37.7	36.1	34.6	33.8	32.4	34.8	33.8
Gross margin (%)	62.7	62.3	63.9	65.4	66.2	67.6	65.2	66.2
Employee cost/revenue (%)	16.8	17.5	17.8	16.6	16.8	18.0	17.7	16.6
Other expenses/revenue (%)	23.2	22.8	24.7	22.9	21.7	23.2	24.4	21.6
EBITDA margin (%)	22.8	22.0	21.5	25.9	27.6	26.4	23.0	27.9
Adj PAT margin (%)	13.7	13.4	11.5	15.9	17.1	15.8	14.6	17.6

Source: Company, SMIFS research

Fig 2: Quarterly sales break-up

Revenue in INR Mn	2QFY23	3QFY23	4QFY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Domestic Formulations	4,340	4,070	3,800	4,890	4,810	4,620	4,650	5,950
% growth	47%	46%	29%	17%	11%	14%	22%	22%
Export Formulations	2,420	2,670	2,550	2,750	2,630	2,650	2,670	2,900
% growth	17%	11%	17%	12%	9%	-1%	5%	5%
CDMO	1,100	957	1,000	1,190	1,150	890	1,090	1,060
% growth	64%	91%	18%	19%	5%	-7%	9%	-11%
APIs	230	230	270	130	230	290	210	130
% growth	10%	-4%	0%	-38%	0%	26%	-22%	0%
Total Revenue	8,094	7,927	7,623	8,962	8,817	8,445	8,617	10,044

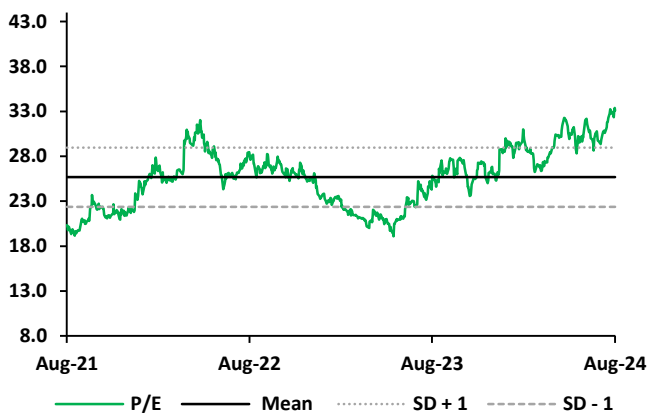
Fig 3: Key Assumptions

Segmental Revenue (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Base Business	8,830	11,270	12,268	13,790	15,746
Acquired Brands	-	2,758	3,658	5,632	6,641
Contrast Media + Other Brands	2,980	2,369	3,044	3,677	3,978
Total Domestic Revenue	11,810	16,397	18,970	23,099	26,365
Export Formulations	8,925	10,103	10,690	12,353	14,008
CDMO	2,527	4,058	4,320	4,959	5,709
API	908	936	860	807	851
Total Exports	12,360	15,096	15,870	18,119	20,569
Total Revenue	24,170	31,493	34,840	41,218	46,934

Source: Company, SMIFS Research Estimates

Fig 4: Change in Estimates

Particulars	New Estimates		Old Estimates		Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenues	41,218	46,934	40,152	46,546	2.7%	0.8%
Gross Profit	27,222	31,053	26,151	30,446	4.1%	2.0%
Gross Margin	66.0%	66.2%	65.1%	65.4%	92 bps	75 bps
EBITDA	11,567	13,441	10,583	12,745	9.3%	5.5%
EBITDA Margin (%)	28.1%	28.6%	26.4%	27.4%	171 bps	126 bps
PAT	7,574	9,306	7,073	8,789	7.1%	5.9%
Adj EPS	48.8	60.0	45.6	56.6	7.1%	5.9%

Fig 5: 1-year forward P/E


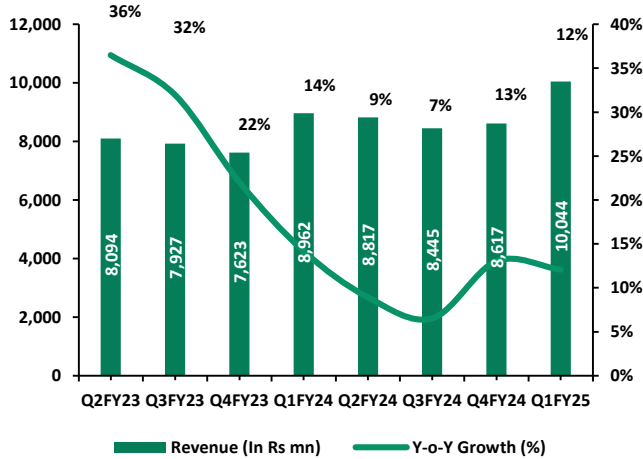
Source: AceEquity, SMIFS research

Fig 6: 1-year forward EV/EBITDA


Source: AceEquity, SMIFS research

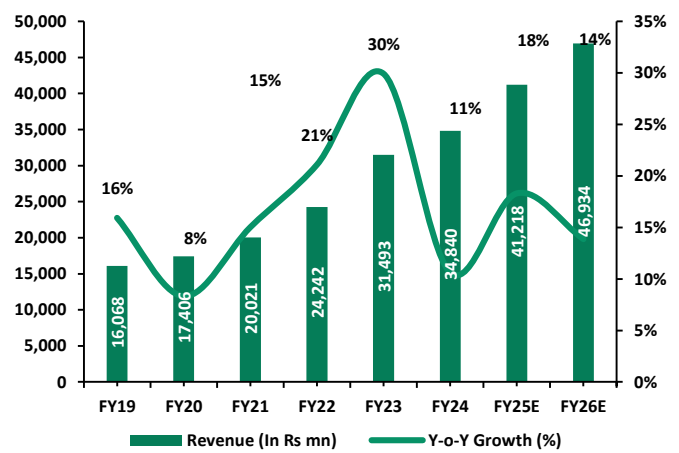
Story In Charts

Fig 7: Revenues (Quarterly)



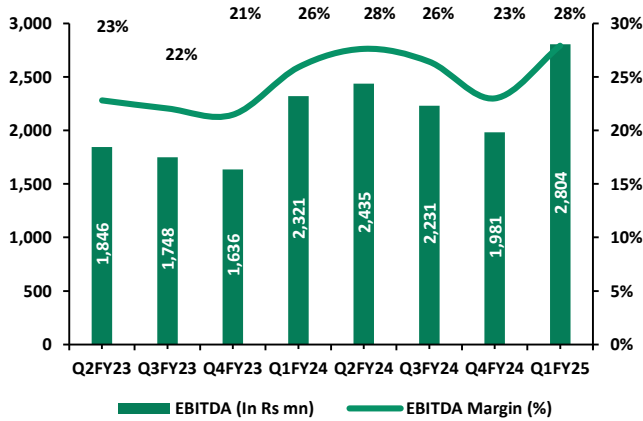
Source: AceEquity, SMIFS Research

Fig 8: Revenues (Yearly)



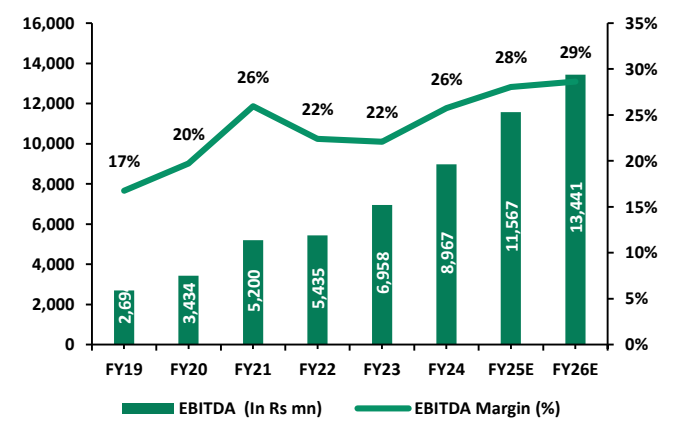
Source: AceEquity, SMIFS Research

Fig 9: EBITDA & Margin (Quarterly)



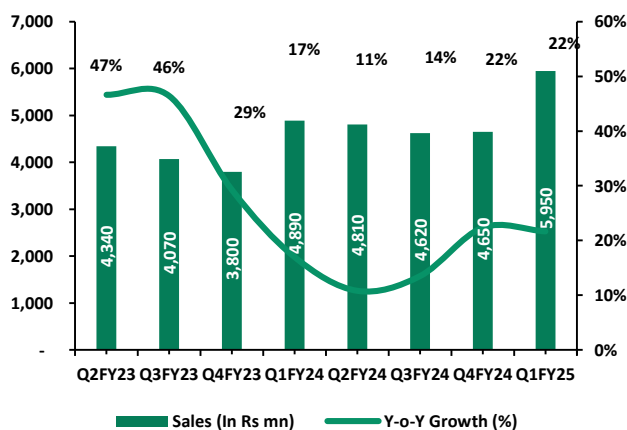
Source: AceEquity, SMIFS Research

Fig 10: EBITDA & Margin (Yearly)



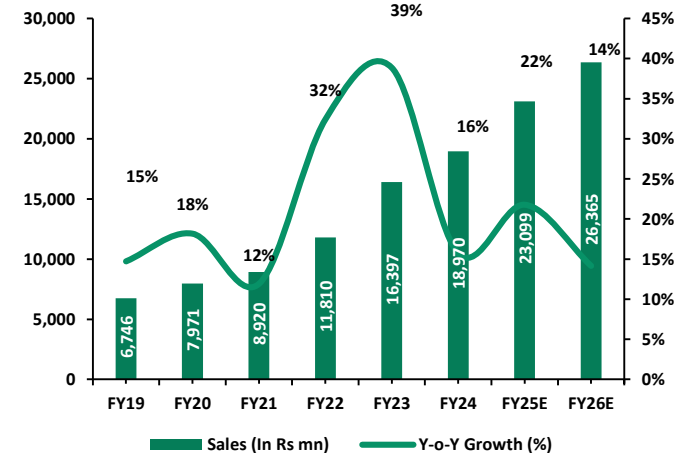
Source: AceEquity, SMIFS Research

Fig 11: Domestic Formulations Sales (Quarterly)

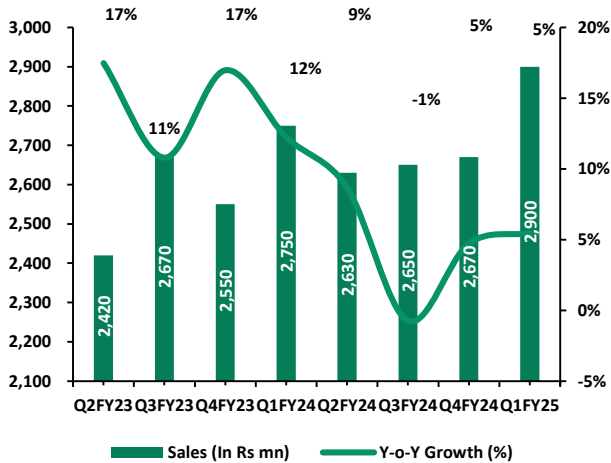


Source: AceEquity, SMIFS Research

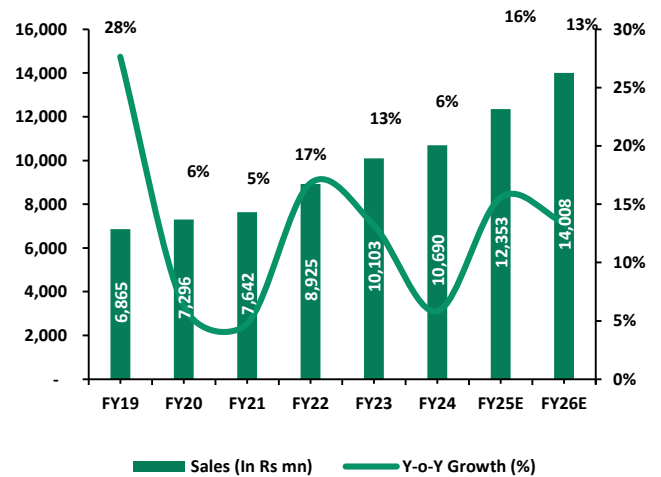
Fig 12: Domestic Formulations Sales (Yearly)



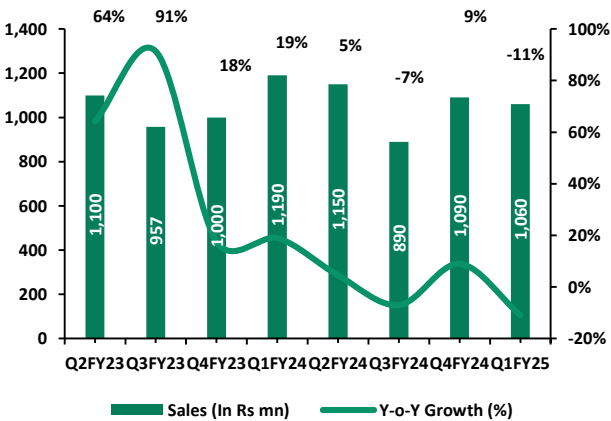
Source: AceEquity, SMIFS Research

Fig 13: Export Formulations Sales (Quarterly)


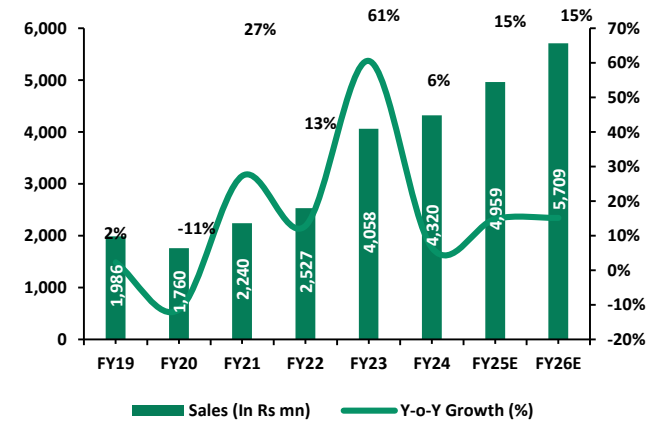
Source: AceEquity, SMIFS Research

Fig 14: Export Formulations Sales (Yearly)


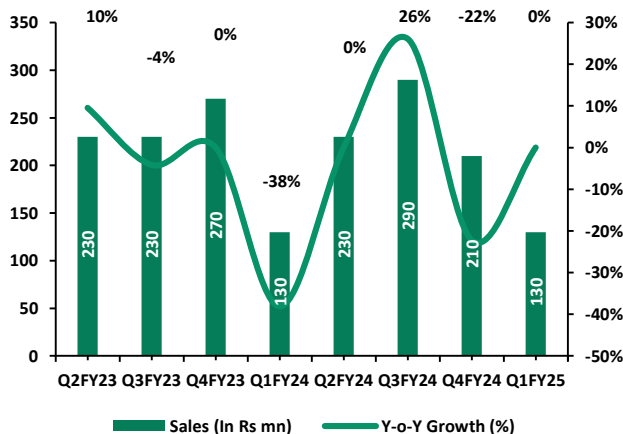
Source: AceEquity, SMIFS Research

Fig 15: CDMO Business Sales (Quarterly)


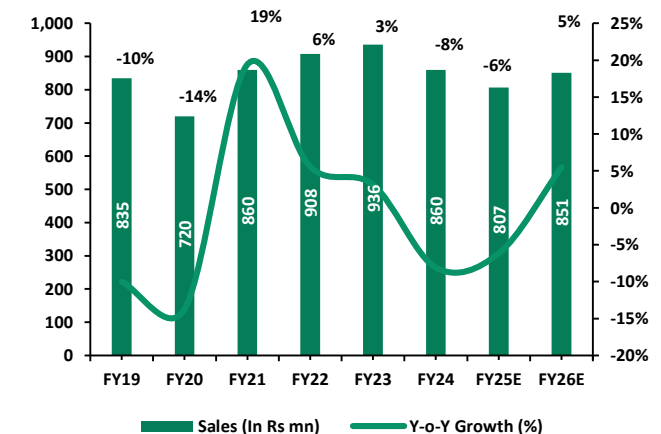
Source: AceEquity, SMIFS Research

Fig 16: CDMO Business Sales (Yearly)


Source: AceEquity, SMIFS Research

Fig 17: API Sales (Quarterly)


Source: AceEquity, SMIFS Research

Fig 18: API Sales (Yearly)


Source: AceEquity, SMIFS Research

Financial Statements

Income Statement					
YE March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenues	24,242	31,493	34,840	41,218	46,934
Raw Materials	8,429	11,682	11,821	13,995	15,881
% of sales	34.8	37.1	33.9	34.0	33.8
Personnel	4,392	5,435	6,014	6,779	7,626
% of sales	18.1	17.3	17.3	16.4	16.2
Other Expenses	5,986	7,419	8,038	8,876	9,986
% of sales	24.7	23.6	23.1	21.5	21.3
EBITDA	5,435	6,958	8,967	11,567	13,441
Other Income	392	99	373	330	704
Depreciation & Amortization	727	1,144	1,383	1,619	1,667
EBIT	5,100	5,913	7,957	10,278	12,478
Finance cost	51	361	443	179	70
Core PBT	4,657	5,453	7,141	9,769	11,704
Exceptional items	0	0	0	0	0
PBT	5,049	5,553	7,513	10,099	12,408
Tax-Total	1,189	1,452	1,989	2,525	3,102
Effective tax rate (%)	23.5	26.2	26.5	25.0	25.0
PAT	3,860	4,101	5,525	7,574	9,306
Share of Associates	0	0	0	0	0
Non-controlling interest	7	2	0	0	0
Consolidated PAT	3,854	4,099	5,525	7,574	9,306
Adjusted PAT	3,854	4,099	5,525	7,574	9,306

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY22	FY23	FY24	FY25E	FY26E
Growth Ratio (%)					
Revenue	18.7	29.9	10.6	18.3	13.9
EBITDA	-3.0	28.0	28.9	29.0	16.2
Adjusted PAT	-7.0	6.4	34.8	37.1	22.9
Margin Ratios (%)					
Gross Profit	65.2	62.9	66.1	66.0	66.2
EBITDA	22.4	22.1	25.7	28.1	28.6
EBIT	21.0	18.8	22.8	24.9	26.6
Core PBT	19.2	17.3	20.5	23.7	24.9
Adjusted PAT	15.9	13.0	15.9	18.4	19.8
Return Ratios (%)					
ROE	19.5	17.7	20.4	23.8	24.6
ROCE	16.4	14.1	16.7	20.7	21.1
ROIC	18.1	15.3	19.5	25.3	30.2
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	102.2	103.3
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	0.0	0.0
Net debt-equity	0.0	0.1	0.0	-0.2	-0.3
Gross Debt/EBITDA	0.1	0.8	0.4	0.1	0.1
Current Ratio	3.2	2.8	2.1	3.2	4.4
Interest coverage ratio	91.9	16.1	17.1	55.6	169.0
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	48.8	60.0
Adjusted EPS	24.9	26.5	35.6	48.8	60.0
CEPS	29.6	33.9	44.5	59.2	70.7
BV	138.4	160.2	188.4	222.2	265.1
Valuation (x)*					
Adj P/E	32.8	34.6	38.6	39.5	32.2
P/BV	5.9	5.7	7.3	8.7	7.3
EV/EBITDA	23.3	20.8	23.7	25.4	21.4
EV/Sales	5.2	4.6	6.1	7.1	6.1
Adjusted Market Cap /Core PBT	27.1	25.9	29.7	30.3	24.9
Adjusted Market Cap /Adj OCF	75.9	23.9	28.1	38.3	30.3

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	34,325	40,992
Minority Interest	45	0	0	0	0
Shareholders' Funds	21,386	24,804	29,233	34,480	41,147
Total Loan Funds	546	5,724	3,777	1,524	697
Other liabilities	645	1,205	1,693	1,693	1,693
Total Liabilities	22,576	31,733	34,703	37,696	43,537
Application of funds					
Gross Block	10,934	11,293	13,072	13,972	14,872
Net Block	5,529	5,320	5,716	4,997	4,230
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	5,945	6,769
Sundry Debtors	5,557	5,758	6,869	8,127	9,254
Current Investments	0	1,922	3,647	3,647	3,647
Cash & Bank Balances	585	788	955	3,218	8,470
Other current Assets	2,074	2,507	2,037	2,037	2,037
Total Current Assets	12,315	15,280	18,534	22,974	30,177
Sundry Creditors	2,245	2,386	3,563	4,291	4,886
Other Current Liabilities	1,253	1,419	1,675	1,675	1,675
Total Current Liabilities	3,498	3,805	5,239	5,967	6,562
Net Current Assets	8,818	11,475	13,295	17,007	23,616
Total Assets	22,576	31,733	34,703	37,696	43,537

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	11,897	14,145
Net changes in working capital	(3,024)	(299)	(56)	(1,449)	(1,356)
Tax Paid	(1,346)	(955)	(1,325)	(2,525)	(3,102)
Cash flow from operating activities	1,701	6,257	8,006	7,923	9,687
Adj. OCF	1,660	5,903	7,563	7,744	9,617
Capital expenditure	-629	-726	-1,269	-900	-900
Adj FCF	1,032	5,177	6,294	6,844	8,717
Cash flow from investing activities	23	-9,618	-4,038	-900	-900
Debt	-3	5,232	-1,916	-2,253	-827
Dividend	-1,276	-1,276	-1,570	-2,328	-2,638
Interest and Lease	-105	-419	-569	-179	-70
Cash flow from financing activities	-1,384	3,565	-3,855	-4,760	-3,535
Net change in cash	341	204	113	2,263	5,252

Source: Company, SMIFS Research Estimates

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