

December 23, 2023

Event Update

■ Change in Estimates | Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,800		1,675	
Sales (Rs. m)	39,655	44,955	39,655	44,955
% Chng.	-	-	-	-
EBITDA (Rs. m)	10,763	12,656	10,763	12,656
% Chng.	-	-	-	-
EPS (Rs.)	46.7	56.5	46.7	56.5
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	31,493	34,994	39,655	44,955
EBITDA (Rs. m)	6,958	9,001	10,763	12,656
Margin (%)	22.1	25.7	27.1	28.2
PAT (Rs. m)	4,098	5,659	7,228	8,741
EPS (Rs.)	26.5	36.6	46.7	56.5
Gr. (%)	(46.9)	38.1	27.7	20.9
DPS (Rs.)	12.0	15.0	15.0	15.0
Yield (%)	0.7	0.9	0.9	0.9
RoE (%)	17.8	21.4	23.6	24.1
RoCE (%)	22.4	25.3	28.6	30.0
EV/Sales (x)	8.0	7.2	6.2	5.3
EV/EBITDA (x)	36.4	27.8	22.8	18.9
PE (x)	61.1	44.3	34.7	28.7
P/BV (x)	10.1	8.9	7.6	6.4

Key Data

JBCB.BO | JBCP IN

52-W High / Low	Rs.1,631 / Rs.875
Sensex / Nifty	71,107 / 21,349
Market Cap	Rs.251bn/ \$ 3,019m
Shares Outstanding	155m
3M Avg. Daily Value	Rs.224.96m

Shareholding Pattern (%)

Promoter's	53.86
Foreign	10.05
Domestic Institution	18.58
Public & Others	17.50
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.8	35.3	62.5
Relative	0.1	20.3	39.0

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Entry into high growing ophthal segment

JB Chemical's (JBCP) has entered into Trade Mark License agreement with Novartis Innovative Therapies AG, beginning Jan'27, for a portfolio of 10 ophthalmic brands in Indian market. Initially the company will in-license all 10 brands (generic in nature) from Novartis for a period of 3 years starting Dec'23 for Rs 1.25bn and later acquire all 10 brands for a consideration of \$116mn (Rs 9.64bn) payable on or before 31st Dec26. JBCP holds Rs 26bn worth of highly profitable sales (70% of total sales; including Novartis brands). In the near term we expect this acquisition to dilute return ratios, however, will be EPS neutral in year 1 and gets entry into highly growing ophthal segment.

JBCP's long term growth drivers remain intact led by 1) geographical expansion of legacy brands 2) improvement in MR productivity 3) scale-up in acquired portfolio 4) launch of new products & therapies 5) rise of contract manufacturing business and 6) improvement in FCF generation. Our FY24/25E EPS stands broadly remains unchanged. We expect EPS CAGR of 29% over FY23-26E. At CMP, the stock is trading at 27x FY26E P/E adjusted for ESOP and amortization charges. We maintain 'BUY' rating with revised TP of Rs1,800/share (Rs1,675 earlier) as we roll forward, valuing at 30x FY26E EPS adjusted for ESOP and amortization charges.

- Ophthal remains a progressive segment:** Overall Ophthalmology market stands at Rs 43bn as per IQVIA MAT Oct'23 where JBCP (Novartis brands) holds 6-7% market share. It remains the third fastest growing therapy with 3 year CAGR of 15% vs IPM CAGR of 9%. Out of 10 brands acquired, 8 brands have grown between 10%-20% CAGR in the past 3 years.
- Margins to scale-up post-acquisition of brands:** Initially JBCP will likely enjoy lower OPM, as sourcing will be done from Novartis. Post grant of perpetual license, standalone margin from this portfolio will be significantly higher than the current domestic margin profile as the company will enjoy flexibility in sourcing. Assuming mid-teens growth of acquired portfolio till FY27, acquisition cost works to be 3.5x sales. We expect JBCP to generate +40% OPM with likely EBITDA generation of Rs 1.1bn (8-10% addition to our FY26E EBITDA) from acquired portfolio post FY27. The acquisition cost works 8-9x EV/EBITDA, likely EPS neutral in year 1.
- Concall highlights:** (1) 5 of the acquired brands rank in #1 category, whereas another 4 brands in Top 3. (2) Acquired portfolio gives entry in growing space like anti-glaucoma, anti-allergic & antibiotics within ophthalmology space. Acquired brands capture Rs25-30bn of overall covered ophthal market. (3) Mgmt intends to work on life cycle of existing brands and improve geographical reach to aid growth. JBCP will add 25-30% additional field force over next 15-18 months to existing 90-100 MRs; also appoint new leadership to overlook and scale this portfolio plus have full control. (4) Gross margins for first 3 years will be similar to the way that in-licensing portfolio enjoys in the industry. Operating margin profile will be significantly higher than the domestic business margins post receipt of perpetual license. (5) Mgmt cited cumulative EBITDA over next 3 years to remain at Rs 750-1000mn. JBCP will amortize initial amount paid for distribution over next 6 years (6) Trade-marks being acquired from Novartis are global trade marks and this will not have any royalty obligation. (7) Overall funding of the deal will be done through internal accrual. Currently company is net cash positive.

Exhibit 1: Acquisition of ophthalmic brands to strengthen portfolio

Brand	Molecule	Brand Size (Rs in Mn)	Type
Vigamox	Moxifloxacin	620	Acute
Travatan	Travoprost	330	Chronic
Nevanac	Nepafenac	330	Acute
Simbrinza	Brimonidine + Brinzolamide	190	Chronic
Travacom	Timolol + Travoprost	160	Chronic
Azopt	Brinzolamide	160	Chronic
Vigadexa	Dexametasone + Moxifloxacin	100	Acute
Pataday	Olopatadine	90	Acute
Lievro	Nepafenac	60	Acute
Azarga	Brinzolamide + Timolol Maleate	20	Chronic

Source: Company, PL

Exhibit 2: Execution has been healthy with recent acquisitions

Date	Transaction	Amount (Rs mn)	P/S (x)	Remarks
Jan-22	Sanzyme	6280	4.8	Gets entry in high growing probiotic segment. Manage to scale up Sporlac brand with +Rs1bn from Rs600mn at time of acquisition
Apr-22	Azmarda	2460	3.2	As per IQVIA Azmarda sales went up to Rs1.2bn from Rs800mn within 1 year of acquisition
Jun-22	DR Reddy's 4 brands	980	3.0	Acquired four paediatric brands
Dec-22	Razel	3140	4.8	Monthly sales went up to +Rs70m with 2-3 months of acquisition from Rs55mn

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	31,493	34,994	39,655	44,955
YoY gr. (%)	29.9	11.1	13.3	13.4
Cost of Goods Sold	11,682	12,003	13,483	15,195
Gross Profit	19,811	22,991	26,172	29,760
Margin (%)	62.9	65.7	66.0	66.2
Employee Cost	5,435	5,978	6,636	7,365
Other Expenses	7,419	8,012	8,773	9,739
EBITDA	6,958	9,001	10,763	12,656
YoY gr. (%)	28.0	29.4	19.6	17.6
Margin (%)	22.1	25.7	27.1	28.2
Depreciation and Amortization	1,144	1,262	1,331	1,399
EBIT	5,813	7,738	9,432	11,258
Margin (%)	18.5	22.1	23.8	25.0
Net Interest	361	351	150	75
Other Income	99	260	420	550
Profit Before Tax	5,552	7,647	9,702	11,733
Margin (%)	17.6	21.9	24.5	26.1
Total Tax	1,452	1,988	2,474	2,992
Effective tax rate (%)	26.2	26.0	25.5	25.5
Profit after tax	4,100	5,659	7,228	8,741
Minority interest	2	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,098	5,659	7,228	8,741
YoY gr. (%)	6.4	38.1	27.7	20.9
Margin (%)	13.0	16.2	18.2	19.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,098	5,659	7,228	8,741
YoY gr. (%)	6.4	38.1	27.7	20.9
Margin (%)	13.0	16.2	18.2	19.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,098	5,659	7,228	8,741
Equity Shares O/s (m)	155	155	155	155
EPS (Rs)	26.5	36.6	46.7	56.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	25,795	26,092	26,389	26,687
Tangibles	12,572	13,289	14,007	14,724
Intangibles	13,223	12,803	12,383	11,963
Acc: Dep / Amortization	7,252	8,514	9,845	11,244
Tangibles	7,252	8,514	9,845	11,244
Intangibles	-	-	-	-
Net fixed assets	18,543	17,578	16,544	15,443
Tangibles	5,320	4,775	4,162	3,480
Intangibles	13,223	12,803	12,383	11,963
Capital Work In Progress	444	444	444	444
Goodwill	575	575	575	575
Non-Current Investments	138	129	129	129
Net Deferred tax assets	(963)	(963)	(963)	(963)
Other Non-Current Assets	227	227	227	227
Current Assets				
Investments	1,922	1,922	1,922	1,922
Inventories	4,305	5,273	5,975	6,774
Trade receivables	5,758	6,711	7,605	8,622
Cash & Bank Balance	788	1,209	4,961	10,129
Other Current Assets	2,761	2,761	2,761	2,761
Total Assets	35,539	36,907	41,222	47,104
Equity				
Equity Share Capital	155	310	310	310
Other Equity	24,649	27,831	32,737	39,155
Total Networkth	24,804	28,140	33,046	39,464
Non-Current Liabilities				
Long Term borrowings	3,832	2,832	1,832	832
Provisions	-	-	-	-
Other non current liabilities	330	330	330	330
Current Liabilities				
ST Debt / Current of LT Debt	1,650	-	-	-
Trade payables	2,386	3,068	3,477	3,941
Other current liabilities	1,508	1,508	1,508	1,508
Total Equity & Liabilities	35,539	36,907	41,222	47,104

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	5,552	7,647	9,702	11,733
Add. Depreciation	1,144	1,262	1,331	1,399
Add. Interest	361	351	150	75
Less Financial Other Income	99	260	420	550
Add. Other	508	-	-	-
Op. profit before WC changes	7,565	9,261	11,183	13,206
Net Changes-WC	(354)	(1,240)	(1,188)	(1,351)
Direct tax	(955)	(1,988)	(2,474)	(2,992)
Net cash from Op. activities	6,256	6,033	7,521	8,864
Capital expenditures	(7,641)	(717)	(717)	(717)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Inv. activities	(7,641)	(717)	(717)	(717)
Issue of share cap. / premium	-	-	-	-
Debt changes	5,232	(2,650)	(1,000)	(1,000)
Dividend paid	(1,276)	(2,322)	(2,322)	(2,323)
Interest paid	(322)	(351)	(150)	(75)
Others	(2,046)	429	420	420
Net cash from Fin. activities	1,588	(4,895)	(3,052)	(2,978)
Net change in cash	203	421	3,752	5,169
Free Cash Flow	(1,385)	5,315	6,804	8,147

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	7,927	7,623	8,962	8,817
YoY gr. (%)	32.0	22.1	14.2	8.9
Raw Material Expenses	2,990	2,749	3,100	2,982
Gross Profit	4,937	4,875	5,862	5,836
Margin (%)	62.3	63.9	65.4	66.2
EBITDA	1,748	1,636	2,321	2,435
YoY gr. (%)	36.4	31.0	34.4	31.9
Margin (%)	22.0	21.5	25.9	27.6
Depreciation / Depletion	284	318	314	322
EBIT	1,464	1,318	2,007	2,114
Margin (%)	18.5	17.3	22.4	24.0
Net Interest	83	140	121	104
Other Income	31	46	56	77
Profit before Tax	1,412	1,225	1,943	2,087
Margin (%)	17.8	16.1	21.7	23.7
Total Tax	351	348	520	581
Effective tax rate (%)	24.9	28.4	26.8	27.8
Profit after Tax	1,061	876	1,423	1,506
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,061	876	1,423	1,506
YoY gr. (%)	26.5	3.3	35.5	35.6
Margin (%)	13.4	11.5	15.9	17.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,061	876	1,423	1,506
YoY gr. (%)	26.5	3.3	35.5	35.6
Margin (%)	13.4	11.5	15.9	17.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,062	876	1,424	1,507
Avg. Shares O/s (m)	155	155	155	155
EPS (Rs)	6.9	5.7	9.2	9.7

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	26.5	36.6	46.7	56.5
CEPS	33.9	44.7	55.3	65.5
BVPS	160.2	181.8	213.5	254.9
FCF	(8.9)	34.3	44.0	52.6
DPS	12.0	15.0	15.0	15.0
Return Ratio(%)				
RoCE	22.4	25.3	28.6	30.0
ROIC	17.7	22.9	27.5	32.1
RoE	17.8	21.4	23.6	24.1
Balance Sheet				
Net Debt : Equity (x)	0.1	0.0	(0.2)	(0.3)
Net Working Capital (Days)	89	93	93	93
Valuation(x)				
PER	61.1	44.3	34.7	28.7
P/B	10.1	8.9	7.6	6.4
P/CEPS	47.8	36.2	29.3	24.7
EV/EBITDA	36.4	27.8	22.8	18.9
EV/Sales	8.0	7.2	6.2	5.3
Dividend Yield (%)	0.7	0.9	0.9	0.9

Source: Company Data, PL Research

Key Operating Metrics

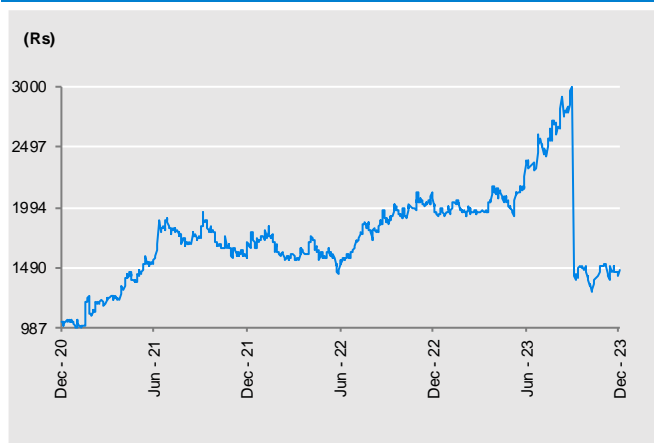
Y/e Mar	FY23	FY24E	FY25E	FY26E
Domestic Formulations	15,670	18,148	20,493	23,120
Contrast Media	730	818	916	1,026
Sanzyme	1,890	2,230	2,609	3,053
Export Formulations	10,090	10,718	12,069	13,606
Contract Manufacturing	4,060	4,507	5,318	6,275
API business	940	800	856	924

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Nov-23	BUY	1,675	1,462
2	07-Oct-23	BUY	1,500	1,500
3	10-Aug-23	BUY	3,000	2,711
4	06-Jul-23	BUY	2,450	2,314
5	25-May-23	BUY	2,450	2,055
6	06-Apr-23	BUY	2,350	1,975
7	10-Feb-23	BUY	2,350	1,965
8	06-Jan-23	BUY	2,350	1,992

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	6,000	5,279
2	Aster DM Healthcare	BUY	430	395
3	Aurobindo Pharma	Accumulate	1,065	980
4	Cipla	BUY	1,350	1,174
5	Divi's Laboratories	Reduce	3,150	3,522
6	Dr. Reddy's Laboratories	Reduce	5,300	5,397
7	Eris Lifesciences	BUY	1,050	912
8	Fortis Healthcare	BUY	400	359
9	Glenmark Pharmaceuticals	Reduce	570	794
10	HealthCare Global Enterprises	BUY	420	374
11	Indoco Remedies	BUY	385	350
12	Ipca Laboratories	Hold	1,060	1,052
13	J.B. Chemicals & Pharmaceuticals	BUY	1,675	1,462
14	Jupiter Life Line Hospitals	BUY	1,310	1,098
15	Krishna Institute of Medical Sciences	BUY	2,000	1,870
16	Lupin	Hold	1,200	1,205
17	Max Healthcare Institute	BUY	675	601
18	Narayana Hrudayalaya	BUY	1,250	1,133
19	Sun Pharmaceutical Industries	BUY	1,280	1,116
20	Sunteck Realty	BUY	565	436
21	Torrent Pharmaceuticals	BUY	2,250	1,877
22	Zydus Lifesciences	Accumulate	670	599

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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