Profile

J. B. Chemicals & Pharmaceuticals Ltd (JBCP) is a 40-year-old pharma company, with several well-established brands in the domestic market and a wide geographical presence in export markets with focus on both regulated and semi-regulated territories. The company is ranked 34th by sales value and 19th by number of prescriptions in the India pharma market (IPM). Focused strategy around brand building has aided JBCP to consistently outperform IPM growth by 300-350bps p.a. during the past few years. Cardiac and Gastro are the major therapies for JBCP accounting for 90% of company’s India revenue. Company’s key export markets include Russia/CIS, South-Africa and the US. Healthy cash generation and minimal capex spends has allowed JBCP to remain a net cash company for the past 10 years.

Investment Rationale

Resilience of India business stems from a robust 8-10% volume growth:

Strong positioning in cardiac brands and low pricing for its legacy acute products (Rantac and Metrogyl cost only Rs1-1.2/tablet) have enabled JBCP to consistently deliver 8-10% volume CAGR for its India business over FY18-21 vs. 1-3% IPM volume CAGR over the same period. JBCP’s volume growth has been the highest in our pharma coverage universe, substantially ahead of the 5-7% volume growth for peers like IPCA, GNP, ALKEM & CIPLA. In fact, JBCP’s absolute India unit volumes are higher than that of some larger peers like GNP, BOOT, ALPM & ERIS.

India launches have materially increased post the re-aligned GTM strategy:

With JBCP focussed on driving better penetration in new therapies (diabetes, pediatrics, respiratory, nephrology), new-product launch momentum has significantly increased, with 17 launches in the past 18 months vs. only 6 p.a. in FY19/20. Management is also investing in ‘beyond the pill’ initiatives, tech-enabled solutions, and a ‘phygital’ approach to drive increased in-clinic effectiveness and improve visibility with specialists.

Patent expiries over FY23-25 in the cardio-diabetes segment in India will benefit JBCP:

Several upcoming patent expiries in the cardiac and diabetes segments will also help the company to sustain its strong growth momentum in these therapies. While JBCP has already launched Dapagliflozin and Vildagliptin which recently went off-patent in the India market, four other cardio-diabetes products—Sitagliptin, Linaglaptin, Dulaglutide, and Empagliflozin—are expected to lose patent protection in India during FY23-25.

Deeper penetration in existing markets, focus on CMO business and new launches in Russia & SA to drive export revenues over FY21-24ii:

JBCP intends to enhance profitability and growth in the export markets by consolidating its business through a deeper presence in existing markets, focus on the high-margin CMO business, expansion of OTC presence and launch of new products in Russia-CIS markets, portfolio augmentation in the private and public markets in South Africa, increased focus on ANDA filings in the US (currently, 2 ANDAs are pending for approval) and selective backward integration for the US business.
Strong volume-led growth, new launches & Rantac price-hike to drive Business: JBCP has consistently delivered 8-10% volume CAGR in its India formulations business over FY18-21, led by volume growth of 13-16% pa in its cardiac franchise and volume growth of 9-10% pa in its gastro-intestinal products. JBCP’s new product launch momentum in India has significantly increased, given the 17 new launches in FY21 & FY22 YTD vs. only 6 launches p.a. in FY19 & FY20. The Rantac price-hike benefit will also start reflecting in JBCP’s India business from 4QFY22. Rantac is ~Rs2.1bn brand for JBCP in the India market, and a 50% price-hike on 70% of the Rantac portfolio would entail addition of annualised revenue and EBITDA of Rs735m for JBCP. We believe strong volume-led growth in the domestic market, new launches and the Rantac price-hike will drive a ~19% CAGR (~16% CAGR, ex-Rantac benefit) in JBCP’s India business over FY21-24.

Export business grew 18% in FY21, strong growth in the US/SA business: JBCP’s export business growth of 18% in FY21 was driven by strong performance in the US, South-Africa, Branded Generic RoW markets and the API business. US revenue grew to USD31m in FY21 from USD20m in FY20, driven by growth in base products and launch of the limited-competition Carbamazepine (gTegretol XR) product during the year. Branded Generic exports to RoW markets also grew by a robust 10%, while the combined revenue from subsidiaries (contribution to consolidated financials) in Russia and South-Africa grew by 12%.
Higher inventories and strong growth in export business led to increase in WCap: JBCP’s NWC cycle increased to 115 days in FY21 from 110 days in FY20, as the strong 18% growth in the Export business led to an increase in receivables, while higher inventories also led to an increase in inventory days from 56 in FY20 to 62 in FY21. Although JBCP’s EBITDA grew 48% in FY21, OCF increased only 14% as higher WCap intensity led to Ebitda-to-OCF conversion declining from 73% in FY20 to 56% in FY21. Nonetheless, lower capex investment (~Rs480m in FY21 vs. ~Rs730m in FY20) led to adjusted FCF (excluding acquisitions and one-off income from sale of land parcel & a brand in Russia) increasing 34% to Rs2.74bn in FY21. Reported FCF increased ~50% to Rs3.06bn in FY21.

Well defined strategy for the near term: Management has highlighted 5 key strategic priorities for the India business, which are: 1. Focus will be on strengthening JBCP’s positioning in core chronic therapies such as cardio-metabolics, including hypertension and diabetes, through new launches and lifecycle management of flagship brands. 2. Leveraging the existing field force and prescriber relationships to expand in complimentary therapy areas such as pediatrics, respiratory, nephrology, and anti-infectives. 3. Expand the distribution of some of JBCP’s bigger brands, such as Rantac and Metrogyl, beyond tier-1 & tier-2 towns. 4. Improve in-clinic effectiveness of JBCP’s field force and visibility with specialists through digital & tech investments and focus on operating leverage to drive 12-14% pa improvement in India rep productivity. 5. Explore new partnerships for portfolio expansion in core therapy areas.

Risks
Rejection of Applications: The company currently has 2 ANDA filing in the US which are still waiting for approval. Any rejection for the current or future filings might have an impact on the company.

Outlook & Valuation:
JBCP’s FY21 AR lays emphasis on five key strategic priorities for the India business, including strengthening company’s position in core chronic segments such as cardio-metabolics and driving increased penetration in new therapies. We believe patent expiries over FY23-25 in the cardio-diabetes segment in India will benefit emerging players such as JBCP, while company’s strong volume-led growth and Rantac price-hike will drive ~19% CAGR in JBCP’s domestic formulation sales over FY21-24ii. We expect contribution of the high-margin India & CMO business to increase, from 75% of EBITDA in FY21 to 80% in FY23ii, which will continue driving strong margins & industry-leading return ratios (RoIC post-tax of 40% in FY23ii). With 20% EPS CAGR over FY21-24ii, JBCP remains our top-pick among India-focused pharma players. Thus, we initiate a Buy with a Target price of ₹2,074.
## Financial Summary

<table>
<thead>
<tr>
<th>Consolidated (INR in mn)</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22ii</th>
<th>FY23ii</th>
<th>FY24ii</th>
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<tbody>
<tr>
<td>Total Income</td>
<td>17,747</td>
<td>20,425</td>
<td>23,764</td>
<td>27,393</td>
<td>31,085</td>
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<td>YoY growth (%)</td>
<td>8.0</td>
<td>15.1</td>
<td>16.3</td>
<td>15.3</td>
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<td>EBITDA margin (%)</td>
<td>21.3</td>
<td>27.4</td>
<td>25.2</td>
<td>27.2</td>
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<td>Pre-exceptional PAT</td>
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<td>3,945</td>
<td>4,301</td>
<td>5,449</td>
<td>6,832</td>
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<tr>
<td>PAT margin (%)</td>
<td>15.3</td>
<td>22.0</td>
<td>18.1</td>
<td>19.9</td>
<td>22.0</td>
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<td>ROE (%)</td>
<td>19.3</td>
<td>24.3</td>
<td>21.6</td>
<td>22.6</td>
<td>23.4</td>
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<td>P/B (x)</td>
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<td>7.3</td>
<td>6.0</td>
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<td>EV/EBITDA (x)</td>
<td>33.9</td>
<td>22.3</td>
<td>20.4</td>
<td>15.8</td>
<td>12.5</td>
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<td>Net Debt/Equity (x)</td>
<td>(0.2)</td>
<td>(0.4)</td>
<td>(0.4)</td>
<td>(0.5)</td>
<td>(0.6)</td>
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Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%
Accumulate – Absolute return between 0% to +10%
Reduce – Absolute return between 0% to -10%
Sell – Absolute return below -10%

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