

June 6, 2021

## CDMO growth offset by Radiopharma decline...

**Note:** Erstwhile Jubilant Life Sciences has demerged its life science ingredients business into Jubilant Ingrevia. Subsequently, the remaining business comprising Jubilant Pharma, Biosys and Therapeutics India was renamed Jubilant Pharmova on February 1, 2021 (Exhibit 2).

Q4FY21 revenues were flat at ₹ 1580 crore, up 0.7% YoY amid continued Covid-19 induced impact on radiopharma segment. Specialty pharma (which comprises Radiopharma) de-grew 23.5% YoY to ₹ 602 crore. Generics remained flat at ₹ 309 crore whereas CDMO segment grew 48% YoY to ₹ 574 crore. Contract research & development grew 10% YoY to ₹ 94 crore. EBITDA margins were down 419 bps YoY at 23.7% amid higher other expenditure. EBITDA de-grew 14.4% YoY to ₹ 375 crore. Adjusted PAT de-grew 13.7% to ₹ 183 crore.

### Key conference call takeaways

- Radiopharma - To launch one product in FY22 and two more in FY23
- Two lungs scan related radiopharma products were impacted due to lower diagnostic testing and patient footfall amid Covid-19
- Radiopharmacy business is expected to breakeven in two to three years
- Allergy business is already back to pre-Covid levels in Q1FY22
- CDMO - Realised around ₹ 535 crore out of ₹ 500 crore in revenues indicated earlier from the five CMO deals for Covid related products signed in FY21, further ₹ 200 crore expected in FY22
- CDMO has a strong visible order book of ₹ 3,600 crore to be serviced over the next three years
- Generics segment – The management expects to launch three to five products in FY22 through in-licensing and contract manufacturing
- Subject to lifting of warning letter of Roorkee formulation plant, strong number of generic launches likely from FY23
- Doubling chemistry research capacity to be commissioned by Q2FY22
- Capex for FY22 to be in the range of ₹ 700-800 crore

### Valuation & Outlook

While the impact on Radiopharma segment moderated FY21 performance, the management expects a gradual recovery in the segment supported by one new launch in FY22 and normalcy in the base business. Going ahead, we expect the company to post better margin performance and to be back on the growth track thanks to cost rationalisation measures and strong order book visibility in the CDMO segment along with partnerships for generic products. A key monitorable for the company would be developments on the CDMO agreements that the company has signed for Covid treatment and vaccine candidates. We maintain **BUY** rating on the stock with a TP of ₹ 1000 (earlier ₹ 850 pre-demerger) based on 12x on FY23E EPS of ₹ 83.3.

#### Key Financial Summary

(₹ crore)	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E) %
Revenues	5975.8	6098.5	7508.0	9068.5	21.9
EBITDA	1548.0	1396.5	1868.0	2359.6	30.0
EBITDA Margins (%)	25.9	22.9	24.9	26.0	
Adjusted Net Profit	710.7	595.3	992.1	1327.0	49.3
Reported EPS (₹)	42.6	36.0	62.3	83.3	
Adjusted EPS (₹)	44.6	37.4	62.3	83.3	
PE (x)	19.7	23.2	13.4	10.0	
EV/EBITDA (x)	10.8	11.1	8.1	6.0	
RoE (%)	12.7	12.6	17.4	19.1	
RoCE (%)	11.7	13.7	18.7	22.0	

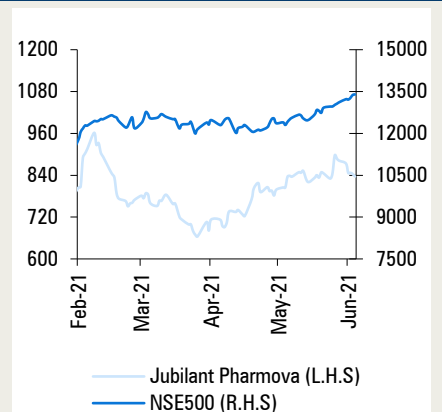
Source: ICICI Direct Research; Company



#### Particulars

Particular	Amount
Market Capitalisation	₹ 13319 crore
Debt (FY21)	₹ 2846 crore
Cash (FY21)	₹ 671 crore
EV	₹ 15493 crore
52 week H/L (₹)	₹ 982/₹ 452
Equity capital	₹ 15.9 crore
Face value	₹ 1

#### Price Performance



#### Key risks to our call

- Continued impact on Radiopharma segment
- Delay in resolution of Roorkee facility warning letter

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Exhibit 1: Variance Analysis

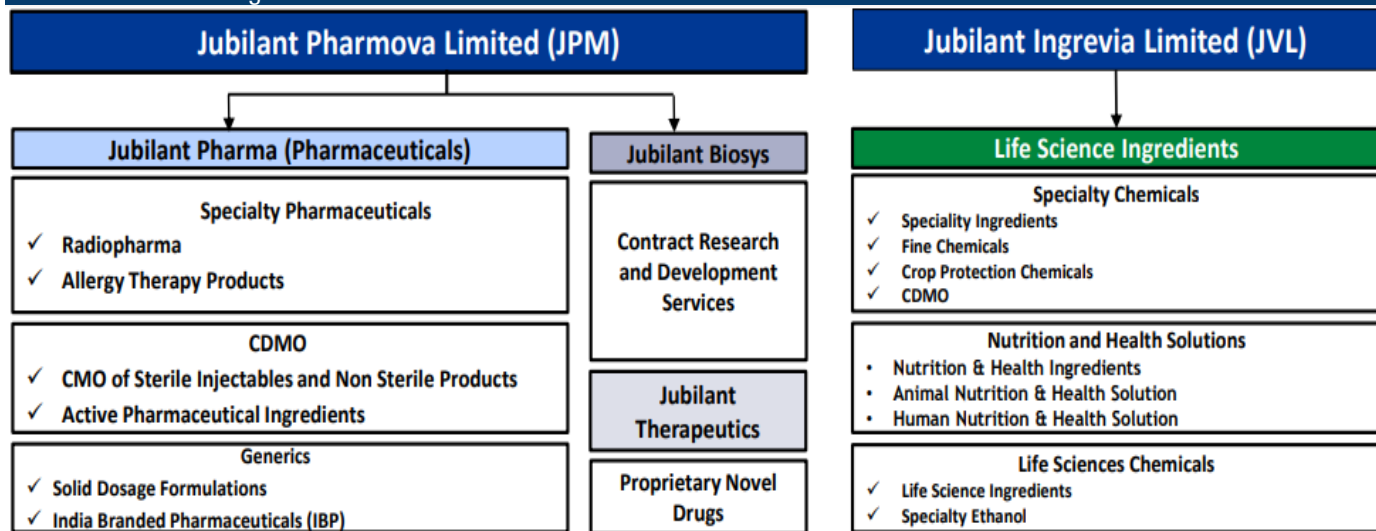
	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	Comments
Revenue	1,579.8	1,568.5	1,771.3	0.7	-10.8	Strong YoY growth in CMO business being nullified by decline in radiopharma business amid Covid-19
Raw Material Expenses	389.1	406.6	458.4	-4.3	-15.1	
Gross margins (%)	75.4	74.1	74.1	129 bps	125 bps	YoY contraction mainly due to better product mix
Employee Expenses	475.9	490.1	482.1	-2.9	-1.3	
Other Expenditure	311.3	207.7	310.7	49.9	0.2	
Power cost	28.9	26.5	27.4	9.3	5.7	
Total Expenditure	1,205.2	1,130.8	1,278.6	6.6	-5.7	
EBITDA	374.6	437.7	492.8	-14.4	-24.0	
EBITDA (%)	23.7	27.9	27.8	-419 bps	-411 bps	YoY decline mainly due to higher other expenditure
Interest	43.3	47.0	46.4	-7.7	-6.5	
Depreciation	86.2	98.1	95.9	-12.1	-10.1	
Other income	6.7	17.3	3.6	-61.3	86.4	
Exceptional Items	10.3	0.0	10.9	0.0	-5.1	
PBT after Exceptional Items	241.4	310.0	343.2	-22.1	-29.7	
Tax	83.1	97.7	121.2	-15.0	-31.4	
Tax Rate (%)	34.4	31.5	35.3			
PAT before MI	158.3	212.3	222.0	-25.4	-28.7	
MI	-0.3	0.0	-0.1	0.0	NA	
Adj. Net Profit	183.3	212.3	229.9	-13.7	-20.3	Decline mainly in sync with operational performance

Key Metrics

Generics	309.0	309.0	460.0	0.0	-32.8	Muted YoY growth and sharp decline sequentially amid decline in Remdesivir sales and pricing pressure in a few products in the US
Specialty Pharma	602.0	787.0	582.0	-23.5	3.4	Radiopharma business impacted by 1) Covid-19 and 2) competition in radiopharma
CDMO	574.0	388.0	650.0	47.9	-11.7	YoY growth led by healthy customer demand
Drug Discovery Solutions	94.0	85.4	79.0	10.0	19.0	Growth due to higher demand from biotech companies

Source: ICICI Direct Research

Exhibit 2: Post-demerguer business structure



Source: ICICI Direct Research, Company

## Conference Call Highlights continued...

### Pharma

- **Specialty Pharma** segment continues to be impacted due to
  - **Radiopharma** - Impacted by 1) Covid-19 and 2) competition in radiopharma
    - One ANDA already filed, some ANDAs close to filing
    - Pipeline products market size of US\$300 million
    - Two products were impacted amid Covid - DTPA was at one point at 20% volumes, but now at 50%; The other one was impacted lower
    - Ruby-fill - received a favourable ruling in US in Q4
      - Expect ramp of US installs starting Q2FY22
      - Launched in Europe in Q3FY21, now expanding distribution network
    - Radiopharmacy
      - initiated execution of detailed turnaround plan of radiopharmacy business
      - Steady state EBITDA margins to be at high single digits
  - **Allergy** - Volumes had normalised to 100% of pre-Covid levels by August 2020, volumes came down in Q3FY21
    - remained at 90-95% of pre-Covid levels in Q4
    - well positioned to expand volumes and grow in both venom and non-venom extracts across markets
  - Continues to maintain majority market share in products with long-term contracts
  - Expanding pipeline through strategic partnerships
  - R&D for the quarter is ₹ 50 Crore – 3.3% to segment sales
- **CDMO**
  - Q4FY21 growth led by healthy customer demand
  - API - strong order book and plan to enhance volumes via new customer lock-ins
- **Generics**
  - Lower Remdesivir sales, pricing pressure in few US products
  - Roorkee plant - USFDA inspected in March 2021 with some observations

### Contract Research & Development

- Higher demand from biotech companies for integrated services, functional chemistry and DMPK
- **Proprietary Novel drugs:** Plan to take one drug candidate to Phase I clinical trials in H2FY22
  - Looking to raise external investments through private equity to fund R&D and Ind filings, by Q3FY22

### Others

- FY22 capex breakup
  - Spokane US\$92 million over the next two to three years - addition of a new high speed fill and finish line with lyophilizer (+50% capacity by end CY24)
  - Expanding/remodelling some of existing Radiopharmacies
  - Expanding API capacity through debottlenecking
- Cash tax for FY22-24 – 24%; Post MAT utilisation ETR to come to 25% in three years

## Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Revenues</b>	<b>5,975.8</b>	<b>6,098.5</b>	<b>7,508.0</b>	<b>9,068.5</b>
Growth (%)	-34.4	2.1	23.1	20.8
Raw Material Expenses	1,455.2	1,536.0	1,877.0	2,267.1
Employee Expenses	1,843.2	1,922.9	2,195.7	2,591.0
Selling & Admin expenses	1,017.2	1,137.4	1,426.5	1,677.7
Power cost	112.2	105.8	140.8	173.1
Total Operating Expenditure	4,427.8	4,702.1	5,640.0	6,708.9
<b>EBITDA</b>	<b>1,548.0</b>	<b>1,396.5</b>	<b>1,868.0</b>	<b>2,359.6</b>
Growth (%)	-11.0	-9.8	33.8	26.3
Depreciation	339.8	349.0	372.1	441.4
Interest	199.7	184.1	142.9	112.4
Other Income	37.4	17.6	44.3	63.2
PBT before EO	1,045.8	881.1	1,397.3	1,869.0
Less: Exceptional Items	32.9	21.2	0.0	0.0
Total Tax	335.1	297.2	405.2	542.0
Minority Interest	0.0	-0.3	0.0	0.0
<b>PAT</b>	<b>677.8</b>	<b>574.1</b>	<b>992.1</b>	<b>1,327.0</b>
Growth (%)	18.0	-15.3	72.8	33.8
EPS	42.6	36.0	62.3	83.3
Adjusted PAT	710.7	595.3	992.1	1,327.0
<b>EPS (Adjusted)</b>	<b>44.6</b>	<b>37.4</b>	<b>62.3</b>	<b>83.3</b>

Source: Company, ICICI Direct Research

Exhibit 4: Cash Flow Statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	961.9	817.9	992.1	1,327.0
Add: Depreciation	461.9	451.7	372.1	441.4
Add: Interest paid	287.4	247.3	142.9	142.9
(Inc)/dec in Current Assets	-154.6	21.6	-574.5	-532.7
Inc/(dec) in CL and Provisions	-25.1	228.3	348.0	211.7
Other Operating Activities	0.0	0.0	0.0	0.0
<b>CF from operating activities</b>	<b>1,531.5</b>	<b>1,766.7</b>	<b>1,280.5</b>	<b>1,590.2</b>
(Purchase)/Sale of FA	-567.6	-514.3	-700.0	-500.0
Deferred Tax Liability	0.0	0.0	7.4	7.6
Minority Interest	0.0	0.0	0.0	0.0
Investments	19.9	-202.4	0.0	0.0
Other Investing Activities	84.6	-86.7	-13.8	-15.3
<b>CF from investing activities</b>	<b>-463.1</b>	<b>-803.4</b>	<b>-706.3</b>	<b>-507.6</b>
Inc/(Dec) in Equity Capital	0.0	-10.1	0.0	0.0
Inc/(Dec) in Loan Funds	-572.8	-1,405.6	-500.0	-500.0
Dividend & Dividend tax	-152.8	-1.5	-47.8	-47.8
Less: Interest Paid	-287.4	-247.3	-142.9	-142.9
Others	-37.4	-44.9	0.0	0.0
<b>CF from financing activities</b>	<b>-1,050.4</b>	<b>-1,709.4</b>	<b>-690.7</b>	<b>-690.7</b>
Net Cash flow	18.1	-746.1	-116.5	391.9
Opening Cash	1,370.4	1,399.9	671.3	554.8
<b>Closing Cash</b>	<b>1,388.5</b>	<b>653.8</b>	<b>554.8</b>	<b>946.7</b>
<b>Free Cash Flow</b>	<b>963.9</b>	<b>1,252.4</b>	<b>580.5</b>	<b>1,090.2</b>

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	15.9	15.9	15.9	15.9
Reserve and Surplus	5,588.0	4,725.6	5,669.9	6,949.1
Total Shareholders funds	5,603.9	4,741.5	5,685.8	6,965.0
Total Debt	4,808.4	2,845.6	2,345.6	1,845.6
Deferred Tax Liability	263.4	247.3	254.7	262.4
Minority Interest	0.0	0.0	0.0	0.0
Other Non CL & LT Provision	159.5	121.1	124.7	128.4
<b>Total Liabilities</b>	<b>10,835.2</b>	<b>7,955.4</b>	<b>8,410.8</b>	<b>9,201.4</b>
Gross Block - Fixed Assets	5,952.3	4,529.6	4,829.6	5,729.6
Accumulated Depreciation	1,701.8	2,050.8	2,422.8	2,864.2
Net Block	4,250.5	2,478.8	2,406.7	2,865.3
Capital WIP	768.4	897.0	1,297.0	897.0
Total Fixed Assets	5,018.9	3,375.8	3,703.7	3,762.3
Investments	69.4	241.0	241.0	241.0
Goodwill on Consolidation	2,089.5	2,130.0	2,130.0	2,130.0
Inventory	1,845.4	1,129.4	1,396.7	1,686.9
Debtors	1,293.2	819.9	1,117.2	1,349.4
Cash	1,399.9	671.3	554.8	946.7
Other current Assets	499.9	331.9	341.9	352.1
Total Current Assets	5,038.4	2,952.5	3,410.5	4,335.2
Creditors	1,090.3	520.5	836.2	1,010.0
Provisions	98.8	89.8	111.5	138.5
Other Current Liabilities	497.4	352.4	363.0	373.8
Total Current Liabilities	1,686.4	962.7	1,310.7	1,522.4
Net Current Assets	3,351.9	1,989.8	2,099.8	2,812.8
Deferred Tax Assets	211.2	154.7	170.2	187.2
LT L & A, Other Non CA	94.3	64.2	66.1	68.1
<b>Application of Funds</b>	<b>10,835.2</b>	<b>7,955.4</b>	<b>8,410.8</b>	<b>9,201.4</b>

Source: Company, ICICI Direct Research

Exhibit 6: Ratio Analysis				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
Reported EPS	42.6	36.0	62.3	83.3
Adjusted EPS	44.6	37.4	62.3	83.3
BV per share	351.8	297.7	357.0	437.3
Dividend per share	5.9	5.0	3.0	3.0
Cash Per Share	87.9	42.1	34.8	59.4
<b>Operating Ratios (%)</b>				
Gross Profit Margins	75.6	74.8	75.0	75.0
EBITDA Margins	25.9	22.9	24.9	26.0
PAT Margins	11.9	9.8	13.2	14.6
Inventory days	112.7	67.6	67.9	67.9
Debtor days	79.0	49.1	54.3	54.3
Creditor days	66.6	31.2	40.7	40.7
Asset Turnover	1.0	1.9	1.5	1.4
EBITDA conversion Rate	98.9	126.5	68.6	67.4
<b>Return Ratios (%)</b>				
RoE	12.7	12.6	17.4	19.1
RoCE	11.7	13.7	18.7	22.0
RoIC	13.1	14.7	19.5	23.8
<b>Valuation Ratios (x)</b>				
P/E	19.7	23.2	13.4	10.0
EV / EBITDA	10.8	11.1	8.1	6.0
EV / Net Sales	2.8	2.5	2.0	1.6
Market Cap / Sales	2.2	2.2	1.8	1.5
Price to Book Value	2.4	2.8	2.3	1.9
<b>Solvency Ratios</b>				
Debt / Equity	0.9	0.6	0.4	0.3
Debt / EBITDA	3.1	2.0	1.3	0.8
Current Ratio	2.2	2.4	2.2	2.2

Source: Company, ICICI Direct Research

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