



More acquisitions; organic growth concerns persist

Elara Diet Report—Your Swift and Savvy Guide to a ‘Breaking News or a Development’

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Pharmaceuticals: JB Chemicals & Pharmaceuticals

As per media reports, JB Chemicals & Pharmaceuticals (JBCP IN) is set to acquire a portfolio of eye care (ophthalmology) products from Novartis India. Media reports suggest that portfolio has an annual revenue of INR 4-5bn and the price will be ~INR 10bn. This works out to 2.0-2.5x sales, broadly in line with the recent deals in the domestic market. We downgraded our rating on JBCP to Reduce after the Q2FY24 results based on rich valuations and organic growth expectations, which are unlikely to be met. The high-priced acquisitions continue to expose organic growth pressures in the domestic pharmaceuticals market.

Acquisition could be earnings accretive ex-of Amortization

Ophthalmology will be a new therapeutic area for JBCP; we expect the eye care business acquisition from Novartis India to include the sales force and product supply arrangements. If we were to assume a 30% EBITDA margin for the acquired portfolio, the acquisition would be ~5% EPS-accretive, excluding potential amortization and slightly EPS-dilutive, including amortization. However, the valuation suggests profitability of the portfolio could be lower than anticipated, in which case the deal could be earnings-neutral or dilutive after even excluding amortization.

IPM passing through a consolidation phase

The continuing spate of acquisitions in the domestic market exposes organic growth pressures in the domestic pharmaceuticals market, in our view. Organic growth in JBCP’s domestic business was at just 7% in Q2FY24, well below the low mid-teens that is built into valuation, in our view. In the past 18 months, the company has already undertaken three acquisitions – one from Novartis itself, and the others from Dr. Reddy’s and Glenmark.

Organic growth pressure an industry-wide issue

We have seen several deals between foreign companies with a local presence and domestic firms in the recent years. This makes strategic sense, as 1) the reach of foreign companies in the domestic pharmaceuticals market is low compared to the domestic firms, and 2) cost of operations for foreign companies is higher, which limits their reach beyond high volume, high affordability areas. However, until recently, a few companies have explored these synergies. Over the past decade, the ability of the domestic companies to launch new products has steadily come off, due to a stricter patent regime and the tighter regulations around fixed-dose combinations.

Valuation: retain Reduce with a TP of INR 1,515

After ~37% run-up in the past six months (vs Nifty up 13%), JBCP stock trades at 34.4x FY25E core earnings. We see little value and we retain our Reduce rating with a TP of INR 1,515 (32x FY26E core earnings plus cash per share) after the recent Q2FY24 results. We have not revised our estimates and rating at this stage.

JBCP valuation matrix

	FY22	FY23	FY24E	FY25E	FY26E
Core EPS (INR)	22.5	25.4	36.1	41.8	46.6
Core EPS growth (%)	(2.5)	13.1	42.1	15.7	11.5
Cash per share (INR)	3.8	17.2	8.9	29.7	59.9
Current Core P/E (INR)	63.9	56.5	39.7	34.4	30.8
Core ROIC (%)	41.0	27.3	28.8	30.5	33.1

Source: Company, Elara Securities Estimate

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