

J.B. Chemicals & Pharmaceuticals Ltd. | BUY



Solid quarter; success story to continue

JB Pharma (JBCP) reported solid results for 2QFY25, with Revenue/EBITDA/PAT growing 13.5%/11%/16% YoY respectively. The India segment led the performance, posting a 22% YoY growth (in line), while export formulations grew by 14% YoY (5% beat). However, both the CDMO and API segments saw decline of 17%/18% YoY respectively. Management guided for a recovery in the CDMO segment in 2HFY25 (20%+ growth) as some sales got deferred to 3Q. Domestic business grew 12% YoY ex-acquisition, driven by 6%/5% price and volume growth respectively. Domestic formulations are expected to maintain above market growth, supported by both legacy products and the recently acquired ophthal portfolio. Notably, brands such as Cilacar, Cilacar-T and Nicardia continue their impressive performance growing 20%/31%/16% YoY as of MAT Sep'24. We remain positive on JBCP due to its evolving business mix, with an increasing focus on the India market, supported by strategic shifts introduced by the professional management team appointed by KKR. The company is strengthening its presence in cardio-metabolic therapies and expanding into new therapeutic areas such as paediatric, ophthalmology, and urology. We forecast a 14% CAGR in revenue growth and 19% earnings growth over the next few years. Following 2QFY25, we maintain a BUY rating with a target price of INR 2277.

- Domestic in-line:** Domestic formulations grew 22% YoY (in line) aided by ophthalmology portfolio, excluding which topline grew 12% YoY led by 6%/5% price and volume growth respectively. The company continued its outperformance of the IPM growing 340bps ahead of the market as of MAT Sep'24. Major brands continued to grow well with Cilacar, Cilacar-T, Rantac, Nicardia, Metroglol and Sporlac gained ranks as per IQVIA. The ophthal portfolio strong growth with secondary sales growth at 18-19%, the management plan to increase doctor coverage to 16-17k (13.5k at present) and have expanded their MR team to 105 (from 65) to achieve this target. Going ahead, JBCP is expected to grow faster than the IPM driven by improving market share, focus on chronic brands and high growth segments across key brands.
- Export formulations beat estimates:** International formulations grew 14% YoY to INR 3bn (5% beat) driven by double digit growth in USA & South Africa, while Russia and BGx export markets recorded high single digit growth. The company will see better traction in their RoW BGx markets with close to 20 product filings complete. The first batch of 10 products will be launched from 3QFY26 and the remaining in FY27. JBCP maintain its run rate of three filings a year for the US market as they have done on the pst two years and approvals for the same should start coming through in the next 9-12 months.
- CDMO deferred and API miss:** CDMO segment declined 19% YoY as sales of ~USD 2mn for the quarter got deferred to 3Q due to challenges in availability of raw material. The management indicated a strong revival with 20%+ growth in 2H. The management maintained their aim of growing the CDMO segment to USD 100mn over the next 3-5

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,277
Upside/(Downside)	22.4%
Previous Price Target	2,210
Change	3.0%

Key Data – JBCP IN

Current Market Price	INR1,860
Market cap (bn)	INR288.9/US\$3.4
Free Float	46%
Shares in issue (mn)	155.2
Diluted share (mn)	155.2
3-mon avg daily val (mn)	INR370.9/US\$4.4
52-week range	2,030/1,371
Sensex/Nifty	79,542/24,199
INR/US\$	84.4

Price Performance

%	1M	6M	12M
Absolute	9.3	3.2	28.0
Relative*	11.3	-4.6	4.5

* To the BSE Sensex

Financial Summary

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	31,493	34,842	39,990	45,243	51,209
Sales Growth (%)	29.9	10.6	14.8	13.1	13.2
EBITDA	6,958	8,969	10,838	12,533	14,544
EBITDA Margin (%)	22.1	25.7	27.1	27.7	28.4
Adjusted Net Profit	4,445	6,021	7,417	8,741	10,176
Diluted EPS (INR)	28.7	38.8	47.8	56.3	65.6
Diluted EPS Growth (%)	14.1	35.1	23.2	17.8	16.4
ROIC (%)	17.1	18.3	21.4	24.6	24.7
ROE (%)	19.3	22.3	22.9	22.2	21.5
P/E (x)	64.8	47.9	38.9	33.0	28.4
P/B (x)	11.6	9.9	8.1	6.7	5.6
EV/EBITDA (x)	42.1	32.4	26.4	22.5	19.7
Dividend Yield (%)	0.1	0.7	0.3	0.4	0.4

Source: Company data, JM Financial. Note: Valuations as of 07/Nov2024

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years. This will be achieved through 1. Entering newer categories in lozenges; 2. Bringing in new dosage forms such as stick packs and throat sprays; 3. Tie-up with new partners and 4. Entering newer markets such as Brazil, Europe and USA. The API segment declined 17% YoY to INR 190mn ahead of our estimate of INR 150mn.

■ **Key Financials:**

- Revenue/EBITDA/APAT grew +13.5%/+11%/+16% to INR 10bn/2.7bn/1.7bn were +1%/in line/+6% vs JMFe;
- Gross margin were flat YoY at 66% (JMFe: 67%)
- EBITDA margin contracted by 60 bps YoY at 27% (JMFe: 27.4%) due to higher ESOP charges and elevated freight costs for the international business;
- The company held higher levels of inventory were on account of anticipated increases in API costs and ophthalmology inventory
- Gross debt reduced to INR 820mn (vs. INR 3.6bn as of Mar'24)
- Cash and equivalents were at INR 4.2bn

Exhibit 1. 2QFY25 review

Particulars (Rs mn)	2QFY24	2QFY25	YoY (%)	2QFY25E	% change	2QFY25E (cons.)	% change	1QFY25	QoQ (%)
Net Sales	8,817	10,006	13.5	9,904	1.0	10,024	(0.0)	10,044	(0.4)
Material Expenses	2,982	3,384	13.5	3,300	2.6			3,398	(0.4)
Gross Profit	5,836	6,622	13.5	6,604	0.3			6,647	(0.4)
Gross Margin (%)	66%	66%	0 bp	67%	-50 bp			66%	1 bp
Employee Expenses	1,483	1,706	15.0	1,680	1.5			1,669	2.2
Other Expenses	1,918	2,211	15.3	2,210	0.0			2,174	1.7
EBITDA	2,435	2,705	11.1	2,714	(0.3)	2,765	(0.0)	2,804	(3.5)
EBITDA Margin (%)	27.6%	27.0%	-59 bp	27.4%	-37 bp	28%	-55 bp	27.9%	-88 bp
Depreciation	322	419	30.2	410	2.1			408	
EBIT	2,114	2,286	8.2	2,304	(0.8)			2,396	(4.6)
Other Income	77	100		77				59	
Interest Cost	104	21		50				56	
PBT	2,087	2,365	13.4	2,331	1.5			2,398	(1.4)
Tax	581	620		680				630	
RPAT	1,506	1,746	15.9	1,651	5.8	1,718	0.0	1,768	(1.3)
EPS	10	11	15.9	11	5.8			11	
Margin Analysis	2QFY24	2QFY25	YoY (bps)	2QFY25E	change (bps)			1QFY25	QoQ (bps)
Material Expenses % Net Sales	33.8	33.8	(0)	33.3	50			33.8	(1)
Employee Expenses % Net Sales	16.8	17.0	(23)	17.0	8			16.6	20
Other Expenses % Net Sales	21.7	22.1	(35)	22.3	(22)			21.6	10
Tax Rate (%)	27.8	26.2	163	29.2	(298)			26.3	156
Sales break-up	2QFY24	2QFY25	YoY (%)	2QFY25E	% change	2QFY25E (cons.)	% change	1QFY25	QoQ (%)
Total Domestic Formulations	4,810	5,880	22.2	5,900	(0.3)			5,950	(1.2)
Total Export Formulations	2,630	3,000	14.1	2,850	5.3			2,900	3.4
API	230	190	(17.4)	150	26.7			130	46.2
CDMO	1,150	940	(18.3)	1,000	(6.0)			1,060	(11.3)

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	31,493	34,842	39,990	45,243	51,209	
Sales Growth	29.9%	10.6%	14.8%	13.1%	13.2%	
Other Operating Income	0	0	0	0	0	
Total Revenue	31,493	34,842	39,990	45,243	51,209	
Cost of Goods Sold/Op. Exp	11,682	11,821	13,396	15,020	16,898	
Personnel Cost	5,435	6,014	6,638	7,510	8,501	
Other Expenses	7,419	8,038	9,118	10,180	11,266	
EBITDA	6,958	8,969	10,838	12,533	14,544	
EBITDA Margin	22.1%	25.7%	27.1%	27.7%	28.4%	
EBITDA Growth	28.0%	28.9%	20.8%	15.6%	16.0%	
Depn. & Amort.	1,144	1,383	1,571	1,640	1,712	
EBIT	5,813	7,586	9,267	10,894	12,833	
Other Income	99	373	264	345	357	
Finance Cost	361	443	115	22	22	
PBT before Excep. & Forex	5,552	7,515	9,417	11,217	13,168	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	5,552	7,515	9,417	11,217	13,168	
Taxes	1,452	1,989	2,492	2,968	3,485	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	2	0	0	0	0	
Reported Net Profit	4,098	5,526	6,925	8,248	9,683	
Adjusted Net Profit	4,445	6,021	7,417	8,741	10,176	
Net Margin	14.1%	17.3%	18.5%	19.3%	19.9%	
Diluted Share Cap. (mn)	154.8	155.2	155.2	155.2	155.2	
Diluted EPS (INR)	28.7	38.8	47.8	56.3	65.6	
Diluted EPS Growth	14.1%	35.1%	23.2%	17.8%	16.4%	
Total Dividend + Tax	386	1,901	931	1,086	1,242	
Dividend Per Share (INR)	2.5	12.3	6.0	7.0	8.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	5,552	7,515	9,417	11,217	13,168	
Depn. & Amort.	1,144	1,383	1,571	1,640	1,712	
Net Interest Exp. / Inc. (-)	101	399	-149	-323	-336	
Inc (-) / Dec in WCap.	-299	-56	-1,004	-1,176	-1,350	
Others	713	90	493	493	493	
Taxes Paid	-955	-1,325	-2,492	-2,968	-3,485	
Operating Cash Flow	6,256	8,006	7,835	8,881	10,203	
Capex	-726	-1,269	-1,067	-1,279	-1,289	
Free Cash Flow	5,530	6,737	6,768	7,603	8,913	
Inc (-) / Dec in Investments	-1,864	-1,496	-1,500	-2,000	-2,500	
Others	-7,029	-1,273	264	345	-9,283	
Investing Cash Flow	-9,618	-4,038	-2,302	-2,934	-13,072	
Inc / Dec (-) in Capital	85	200	0	0	0	
Dividend + Tax thereon	-1,276	-1,570	-1,089	-1,271	-1,452	
Inc / Dec (-) in Loans	5,232	-1,916	-3,300	0	0	
Others	-475	-569	-115	-22	-22	
Financing Cash Flow	3,565	-3,855	-4,505	-1,293	-1,474	
Inc / Dec (-) in Cash	204	113	1,028	4,655	-4,344	
Opening Cash Balance	566	769	882	1,910	6,565	
Closing Cash Balance	769	882	1,910	6,565	2,221	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	24,804	29,233	35,561	43,031	51,755	
Share Capital	155	155	155	155	155	
Reserves & Surplus	24,649	29,078	35,406	42,876	51,600	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	5,482	3,571	271	271	271	
Def. Tax Liab. / Assets (-)	963	1,433	1,433	1,433	1,433	
Total - Equity & Liab.	31,249	34,238	37,266	44,736	53,460	
Net Fixed Assets	19,562	20,808	20,304	19,943	29,161	
Gross Fixed Assets	12,680	14,459	15,559	16,759	17,959	
Intangible Assets	13,797	14,459	14,459	14,459	24,099	
Less: Depn. & Amort.	7,360	8,743	10,313	11,953	13,664	
Capital WIP	444	633	600	679	768	
Investments	138	237	1,737	3,737	6,237	
Current Assets	15,774	18,837	22,375	29,177	27,255	
Inventories	4,305	5,025	5,662	6,353	7,121	
Sundry Debtors	5,758	6,869	7,884	8,920	10,096	
Cash & Bank Balances	788	955	1,983	6,638	2,294	
Loans & Advances	0	0	0	0	0	
Other Current Assets	4,923	5,988	6,846	7,266	7,743	
Current Liab. & Prov.	4,225	5,644	7,150	8,121	9,193	
Current Liabilities	2,565	3,676	4,128	4,618	5,163	
Provisions & Others	1,660	1,968	3,022	3,503	4,031	
Net Current Assets	11,550	13,193	15,225	21,056	18,062	
Total - Assets	31,249	34,238	37,266	44,736	53,460	

Source: Company, JM Financial

Dupont Analysis		FY23A	FY24A	FY25E	FY26E	FY27E
Net Margin		14.1%	17.3%	18.5%	19.3%	19.9%
Asset Turnover (x)		1.2	1.1	1.1	1.1	1.0
Leverage Factor (x)		1.2	1.2	1.1	1.1	1.0
RoE		19.3%	22.3%	22.9%	22.2%	21.5%

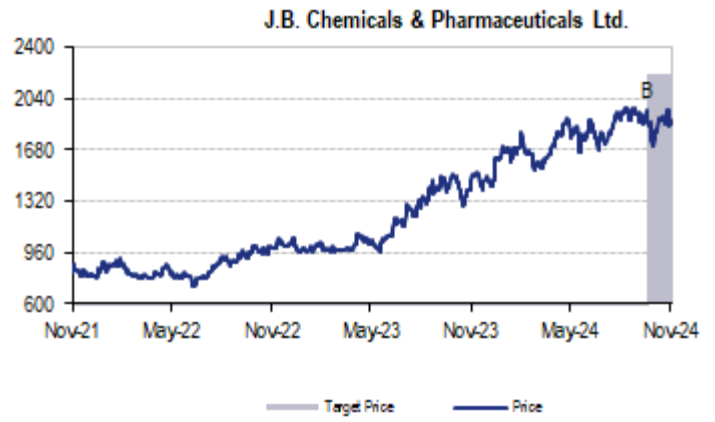
Key Ratios		FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)		160.2	188.4	229.1	277.3	333.5
ROIC		17.1%	18.3%	21.4%	24.6%	24.7%
ROE		19.3%	22.3%	22.9%	22.2%	21.5%
Net Debt/Equity (x)		0.2	0.1	0.0	-0.1	0.0
P/E (x)		64.8	47.9	38.9	33.0	28.4
P/B (x)		11.6	9.9	8.1	6.7	5.6
EV/EBITDA (x)		42.1	32.4	26.4	22.5	19.7
EV/Sales (x)		9.3	8.3	7.2	6.2	5.6
Debtor days		67	72	72	72	72
Inventory days		50	53	52	51	51
Creditor days		36	50	50	50	50

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
26-Sep-24	Buy	2,210	

Recommendation History



APPENDIX I

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Corporate Identity Number: U67100MH2017PLC296081

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