

11 August 2024

India | Equity Research | Q1FY25 results review

## J B Chemicals & Pharmaceuticals

Pharma

### India share on the rise

JB Chemical's (JB Chem) posted Q1FY25 results better than our expectation. India growth of 13% on base portfolio was higher than market growth of 9% while ophthalmology brands of Novartis further boosted growth to ~22% YoY. Exports continue to be a laggard with a slowdown in CMO (-11%) and South Africa biz. India's share in sales mix now stands at 59% of sales vs. 55% in FY24, fuelling a 76bps/206bps improvement in gross/EBITDA margins in Q1. Management maintains its growth guidance of 12–14% for India and double-digit growth in CMO business in FY25. We raise our FY25E/26E EPS by 3–4% to factor in better margins. Maintain **HOLD** with a higher target price of INR 1,870 on 24x FY26E EV/EBITDA.

### Traction in India boost margins

Revenue grew 12.1% YoY (+16.6% QoQ) to INR 10bn (I-Sec: INR 9.9bn), mainly driven by India biz while growth in international business and API was tepid. Gross margin expanded 76bps YoY (+102bps QoQ) to 66.2% due to higher share of India biz (~59% of sales vs. 55% last year). EBITDA grew 20.8% YoY (+41.5% QoQ) to INR 2.8bn (I-Sec: INR 2.5bn). EBITDA margin expanded 201bps YoY (+492bps QoQ) to 27.9% (I-Sec: 24%) due to cost rationalisation and favourable product mix. PAT rose 24.2%YoY (+40.2% QoQ) to INR 1.8bn (I-Sec: INR 1.6bn).

### Exports to lift growth from H2FY25

Domestic formulations grew 21.7% YoY (+28% QoQ) to INR 5.9bn. Barring sales of Novartis' ophthalmology portfolio (~INR 425mn), growth was 13%. Ophthalmic portfolio had sales of INR 1.6bn in FY24 and should grow in mid-teen to INR 1.8bn in FY25. Management expects its India business to grow at 12–13%. We see the India business growing at a CAGR of 14.6% over FY24–26E. Export formulations grew 5.5% YoY (9% excluding South Africa) to INR 2.9bn driven by growth across Russia and RoW markets, partly offset by a dip in the South Africa tender biz. We expect export formulations to grow at a CAGR of 11.1% over FY24–26E. CMO declined 10.9% YoY (-2.8% QoQ) to INR 1.1bn due to muted season. Order book, though, is healthy and growth should bounce back in H2FY25. API revenue was flat YoY at INR 130mn.

### Financial Summary

| Y/E March (INR mn) | FY23A  | FY24A  | FY25E  | FY26E  |
|--------------------|--------|--------|--------|--------|
| Net Revenue        | 31,493 | 34,842 | 40,210 | 44,764 |
| EBITDA             | 6,958  | 8,969  | 10,990 | 12,585 |
| EBITDA Margin (%)  | 22.1   | 25.7   | 27.3   | 28.1   |
| Net Profit         | 4,098  | 5,526  | 7,115  | 8,324  |
| EPS (INR)          | 26.5   | 35.6   | 45.8   | 53.6   |
| EPS % Chg YoY      | 6.2    | 34.5   | 28.7   | 17.0   |
| P/E (x)            | 72.9   | 54.2   | 42.1   | 36.0   |
| EV/EBITDA (x)      | 43.4   | 33.3   | 26.7   | 22.8   |
| RoCE (%)           | 16.3   | 17.8   | 19.8   | 20.2   |
| RoE (%)            | 17.8   | 20.5   | 22.4   | 22.4   |

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#### Market Data

|                     |               |
|---------------------|---------------|
| Market Cap (INR)    | 300bn         |
| Market Cap (USD)    | 3,568mn       |
| Bloomberg Code      | JBCP IN       |
| Reuters Code        | JBCH.BO       |
| 52-week Range (INR) | 2,010 / 1,244 |
| Free Float (%)      | 46.0          |
| ADTV-3M (mn) (USD)  | 4.6           |

| Price Performance (%) | 3m    | 6m   | 12m  |
|-----------------------|-------|------|------|
| Absolute              | 9.3   | 11.9 | 42.4 |
| Relative to Sensex    | (0.7) | 0.5  | 21.6 |

| Earnings Revisions (%) | FY25E | FY26E |
|------------------------|-------|-------|
| Revenue                | 0.4   | 0.5   |
| EBITDA                 | 4.5   | 4.9   |
| EPS                    | 3.0   | 3.7   |

#### Previous Reports

22-05-2024: [Q4FY24 results review](#)  
08-02-2024: [Q3FY24 results review](#)

## Valuation and risks

JB Chem's organic growth of 13% for the last couple of quarters in India has been maintained despite sluggish market growth (8–9%). India biz got a fillip with the distribution agreement with Novartis' for its ophthalmology brands. Share of India biz (excluding Novartis brands) has surged to 57% of sales, as against 55% in FY25, which has helped the company improve its gross margin profile despite lower margins in Novartis brands. CMO business will likely take one more quarter to rebound to growth as the company has a healthy order book for H2FY25. Better order inflow and capacities are likely to drive a 19% CAGR in CMO sales to USD 100mn in the next three years. Gross debt on balance sheet has been reduced from INR 5.7bn in FY23 to ~INR 1.1bn at end-Q1FY25 (repaid INR 2.5bn in Q1). We believe the company will likely generate annual FCF of INR 7–8bn in each of the next two years, which may be deployed towards acquisition to further improve its scale in India.

We expect JB Chem to register earnings CAGR of 22.7% over FY24–26E driven by revenue CAGR of 13.3% and 237bps improvement in EBITDA margin (between 26–28% ex-ESOP). RoE/RoCE are expected to climb to 22.4%/20.2% in FY26E.

We raise our EBITDA estimates by 4–5% for FY25–26E to factor in better margins led by improved product mix. The stock trades at 26.7x FY25E and 22.8x FY26E EV/EBITDA. We value the company using EV/EBITDA due to the increased amortisation charge on account of the acquisitions. We retain our **HOLD** rating and raise our target price to INR 1,870 (earlier INR 1,800) based on 24x FY26E EV/EBITDA (unchanged).

**Key upside risks:** Better traction in chronic therapies; cost rationalisation for margin improvement; and M&A in India.

**Key downside risks:** Slowdown in India; more products under price control; and currency volatility.

## Q1FY25 conference call highlights

### India

- JB Chem's base business grew 13% YoY (excluding ophthalmology portfolio).
- It has added 70 employees from Novartis to its ophthalmic field force and shall further add 105 MRs to strengthen its presence.
- Ophthalmic portfolio had sales of INR 1.6bn in FY24 and should grow in mid-teens to INR 1.8bn in FY25.
- The company may also launch line extension of the ophthal brands next year.
- Volumes of key brands like Cilacar, Cilara T grew at 13%/20%.
- Metrogyl volumes grew in single-digit.
- Azmarda market has consolidated and is now a 4–5 player market. It is generating volumes of 125,000 per month, which is expected to grow in double-digits.
- Paediatric and probiotics are key areas of focus for new launches, as these segments are growing faster than the domestic pharma market. Targeting 1–2 new products every month.
- New products account for 2–3% of overall growth.
- It has 2,300 MRs and may not add further.
- JB Chem's dapagliflozin brand is generating annual sales of INR 150mn.
- Domestic market should grow at 8–10%; JB Chem should outpace at 12–13%.
- In mid to long-term share of chronic portfolio to rise to 60%.

### CDMO

- CDMO business should see recovery from Sep'24. The company has good order book in place for H2FY25.

- Management has maintained double-digit revenue growth guidance for FY25.
- Melatonin lozenges will be launched in South Asia by end-FY25.

#### International generics

- South Africa biz had annual sales of INR 2.5bn and should grow in mid-teens from Q2FY25.
- Overall exports should grow at double-digit from Q3FY25.

#### Guidance

- India/CDMO businesses should account for 75–80% of sales in the medium term.
- Maintain gross margins guidance of 65–66%.
- The company is likely to see EBITDA margins at the higher-end of its guidance of 26–28%.
- ESOP charge for FY25 will be INR 420–450mn.
- Management aims to repay entire debt by Mar'25.
- Interest cost is likely to come to INR 30mn from Q2FY25 vs. INR 60mn in Q1.

#### Q1FY25 highlights

- Gross margins improved due to supplies to Russia and CIS countries, price increases and low RM cost.
- Better control on overheads and marketing spends resulted in 130bps improvement in EBITDA margins.

### Exhibit 1: Quarterly review

| Y/E Mar (INR mn)         | Q1FY25 | Q1FY24 | YoY(%)  | Q4FY24 | QoQ (%) | FY24   | FY23   | YoY(%) |
|--------------------------|--------|--------|---------|--------|---------|--------|--------|--------|
| Net Sales                | 10,044 | 8,962  | 12.1    | 8,617  | 16.6    | 34,842 | 31,493 | 10.6   |
| Gross Profit             | 6,647  | 5,862  | 13.4    | 5,615  | 18.4    | 23,021 | 19,811 | 16.2   |
| Gross Profit Margins (%) | 66.2   | 65.4   | 76bps   | 65.2   | 102bps  | 66.1   | 62.9   | 317bps |
| Employee Expenses        | 1,669  | 1,488  | 12.2    | 1,527  | 9.3     | 6,014  | 5,435  | 10.7   |
| Other expenses           | 2,174  | 2,054  | 5.8     | 2,106  | 3.2     | 8,038  | 7,419  | 8.4    |
| EBITDA                   | 2,804  | 2,321  | 20.8    | 1,981  | 41.5    | 8,969  | 6,958  | 28.9   |
| EBITDA Margins (%)       | 27.9   | 25.9   | 201bps  | 23.0   | 492bps  | 25.7   | 22.1   | 365bps |
| Other Income             | 59     | 56     | 4.6     | 166    | (64.6)  | 373    | 99     | 274.9  |
| Interest                 | 56     | 121    | (53.2)  | 94     | (40.1)  | 443    | 361    |        |
| Depreciation             | 408    | 314    | 30.0    | 407    | 0.1     | 1,383  | 1,144  | 20.9   |
| PBT                      | 2,398  | 1,943  | 23.4    | 1,646  | 45.7    | 7,515  | 5,552  | 35.4   |
| Tax                      | 630    | 520    | 21.2    | 384    | 63.9    | 1,989  | 1,452  | 36.9   |
| Tax Rate (%)             | 26.3   | 26.8   | (48bps) | 23.4   | 292bps  | 26.5   | 26.2   | 31bps  |
| PAT                      | 1,768  | 1,423  | 24.2    | 1,262  | 40.2    | 5,526  | 4,100  | 34.8   |
| Minority Int             | -      | -      | -       | -      | -       | -      | 2      |        |
| Net Income               | 1,768  | 1,423  | 24.2    | 1,262  | 40.2    | 5,526  | 4,098  | 34.8   |
| NPM (%)                  | 17.6   | 15.9   | 173bps  | 14.6   | 297bps  | 15.9   | 13.0   | 285bps |

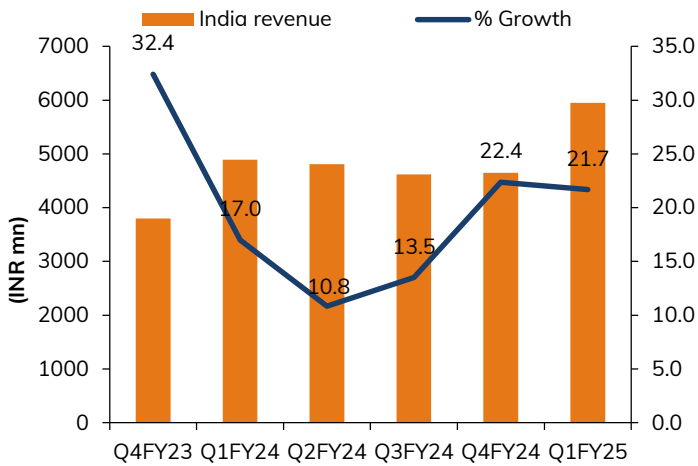
Source: I-Sec research, Company data

### Exhibit 2: Business mix

| (INR mn)            | Q1FY23       | Q2FY23       | Q3FY23       | Q4FY23       | Q1FY24       | Q2FY24       | Q3FY24       | Q4FY24       | Q1FY25        | % YoY       | % QoQ       |
|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|-------------|-------------|
| India               | 4,180        | 4,340        | 4,070        | 3,800        | 4,890        | 4,810        | 4,620        | 4,650        | 5,950         | 21.7        | 28.0        |
| Export formulations | 2,450        | 2,420        | 2,670        | 2,550        | 2,750        | 2,630        | 2,650        | 2,670        | 2,900         | 5.5         | 8.6         |
| CMO                 | 1,000        | 1,100        | 960          | 1,000        | 1,190        | 1,150        | 890          | 1,090        | 1,060         | (10.9)      | (2.8)       |
| API                 | 210          | 230          | 230          | 270          | 130          | 230          | 290          | 210          | 130           | -           | (38.1)      |
| <b>Total</b>        | <b>7,850</b> | <b>8,090</b> | <b>7,930</b> | <b>7,620</b> | <b>8,960</b> | <b>8,820</b> | <b>8,450</b> | <b>8,620</b> | <b>10,040</b> | <b>12.1</b> | <b>16.5</b> |

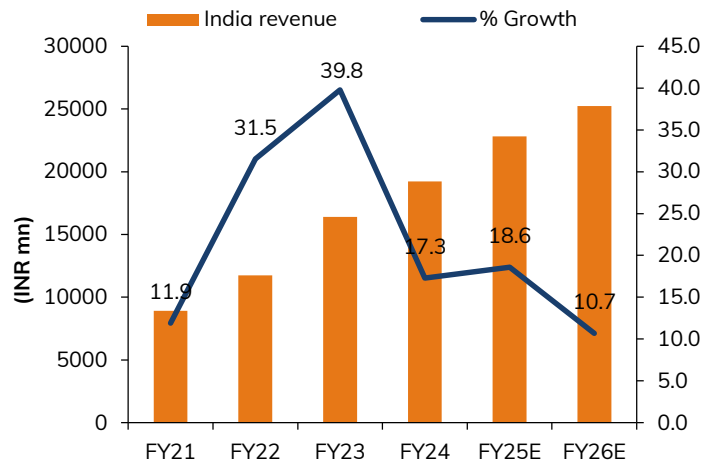
Source: I-Sec research, Company data

**Exhibit 3: Growth led by strong performance in chronic portfolio**



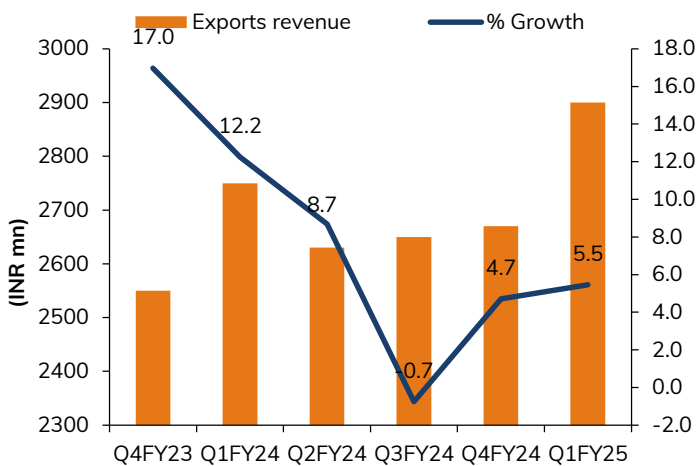
Source: I-Sec research, Company data

**Exhibit 4: India business to grow 14.6% over FY24–26E**



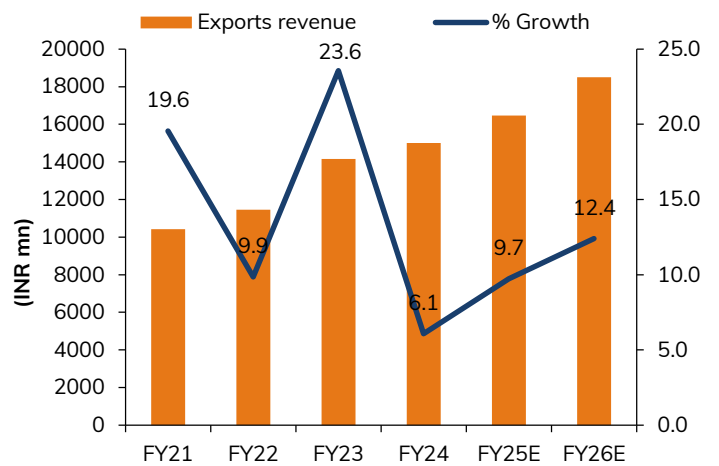
Source: I-Sec research, Company data

**Exhibit 5: Revenue driven by growth across Russia and RoW markets**



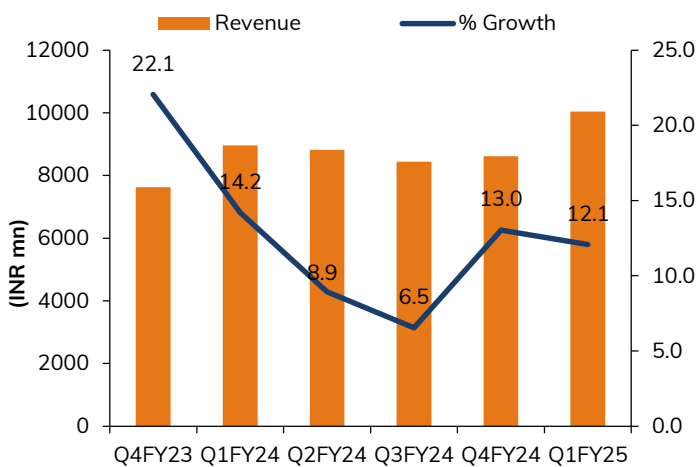
Source: I-Sec research, Company data

**Exhibit 6: Healthy pipeline of CDMO projects likely to support exports going forward**



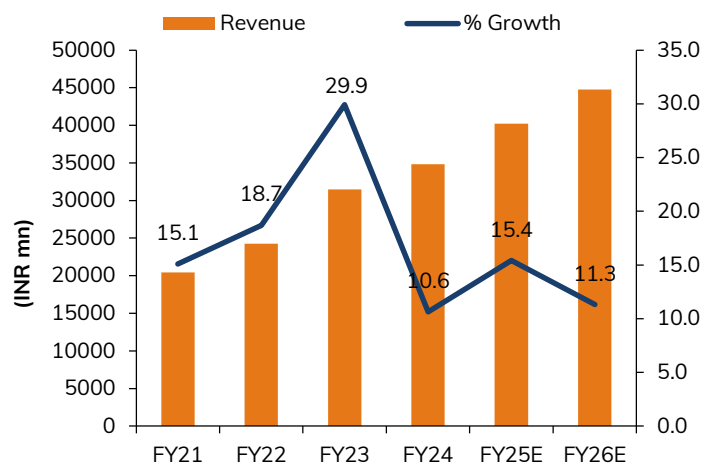
Source: I-Sec research, Company data

**Exhibit 7: India business drives growth**



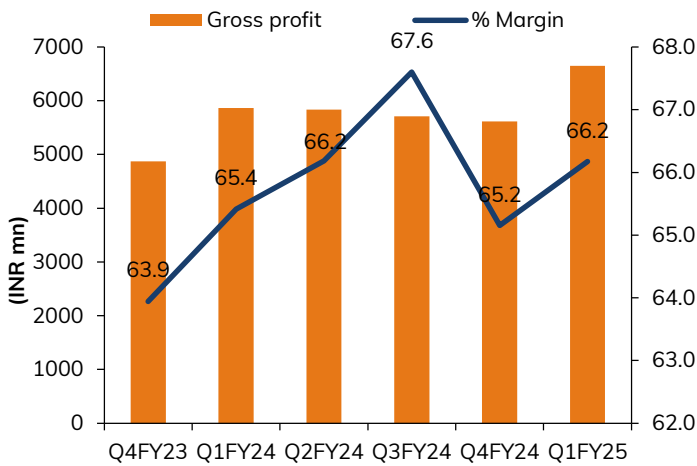
Source: I-Sec research, Company data

**Exhibit 8: Revenue to grow 13.3% over FY24–26E**



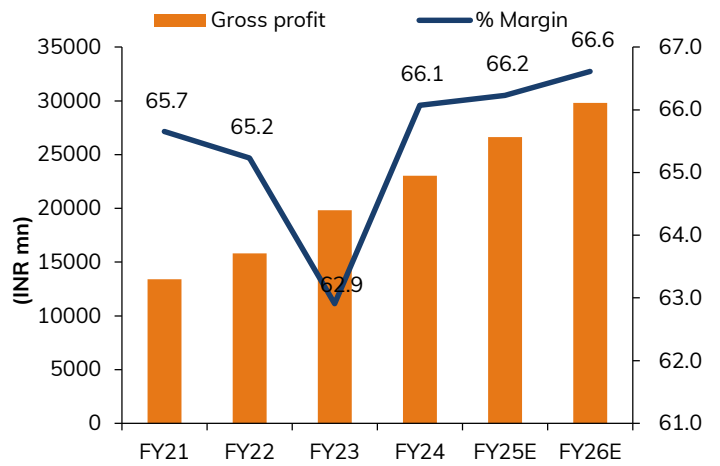
Source: I-Sec research, Company data

**Exhibit 9: Gross margin expanded due to higher share of India business**



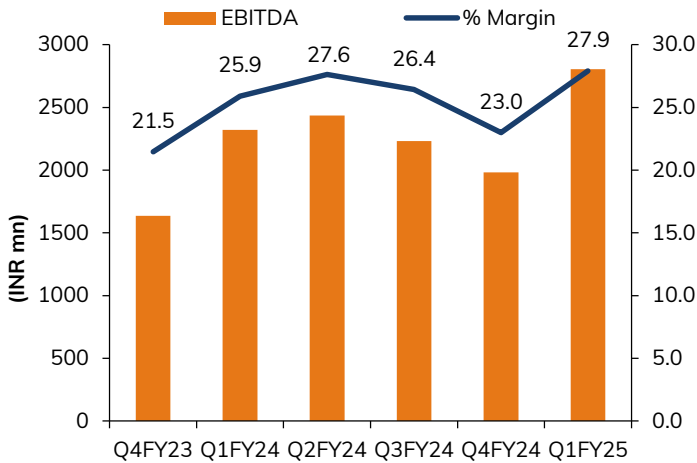
Source: I-Sec research, Company data

**Exhibit 10: Gross margin to improve 50bps over FY24-26E**



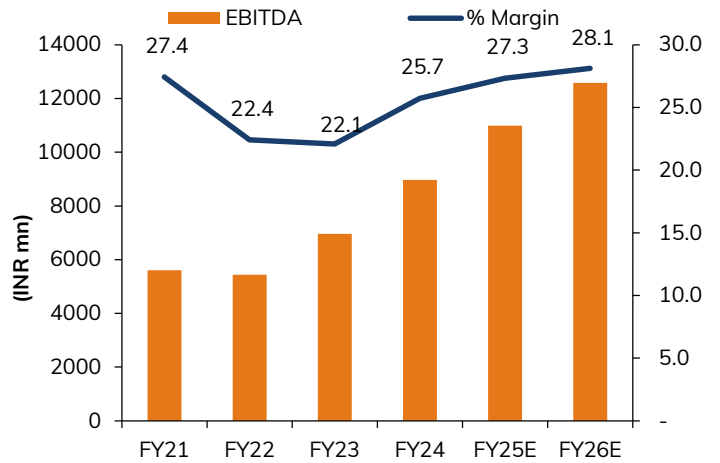
Source: I-Sec research, Company data

**Exhibit 11: Favourable product mix and rationalisation of costs improved EBITDA margins**



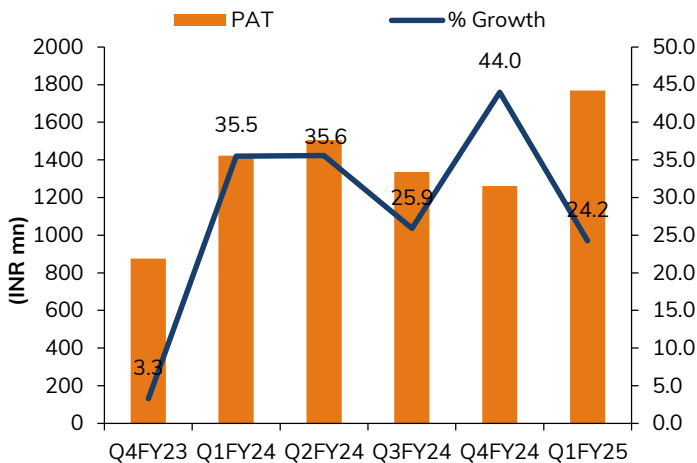
Source: I-Sec research, Company data

**Exhibit 12: Expect ~240bps margin expansion to ~27-28% by FY26E**



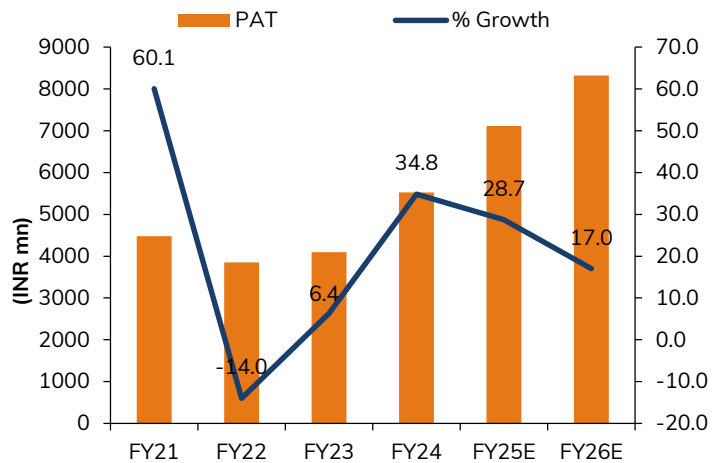
Source: I-Sec research, Company data

**Exhibit 13: PAT rose 24.2% YoY**



Source: I-Sec research, Company data

**Exhibit 14: PAT to register CAGR of 22.7% over FY24-26E**



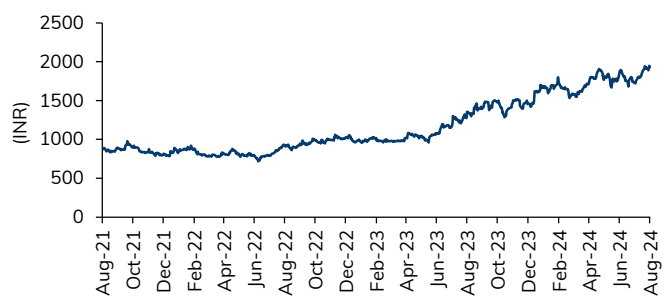
Source: I-Sec research, Company data

### Exhibit 15: Shareholding pattern

| %                       | Dec'23 | Mar'24 | Jun'24 |
|-------------------------|--------|--------|--------|
| Promoters               | 53.8   | 53.8   | 53.8   |
| Institutional investors | 28.9   | 29.4   | 29.7   |
| MFs and others          | 15.7   | 15.4   | 15.0   |
| FIs/Banks               | 0.0    | 0.0    | 0.6    |
| Insurance               | 2.3    | 2.4    | 1.9    |
| FII                     | 10.9   | 11.6   | 12.2   |
| Others                  | 17.3   | 16.8   | 16.5   |

Source: Bloomberg

### Exhibit 16: Price chart



Source: Bloomberg

## Financial Summary

### Exhibit 17: Profit & Loss

(INR mn, year ending March)

|  | FY23A         | FY24A         | FY25E         | FY26E         |
|--|---------------|---------------|---------------|---------------|
| Net Sales                              | 31,493        | 34,842        | 40,210        | 44,764        |
| <b>Operating Expenses</b>              | <b>24,535</b> | <b>25,873</b> | <b>29,220</b> | <b>32,179</b> |
| EBITDA                                 | 6,958         | 8,969         | 10,990        | 12,585        |
| <b>EBITDA Margin (%)</b>               | <b>22.1</b>   | <b>25.7</b>   | <b>27.3</b>   | <b>28.1</b>   |
| Depreciation & Amortization            | 1,144         | 1,383         | 1,612         | 1,634         |
| EBIT                                   | 5,813         | 7,586         | 9,378         | 10,951        |
| Interest expenditure                   | 361           | 443           | 283           | 283           |
| Other Non-operating Income             | 99            | 373           | 391           | 430           |
| Recurring PBT                          | 5,552         | 7,515         | 9,486         | 11,098        |
| <b>Profit / (Loss) from Associates</b> | <b>-</b>      | <b>-</b>      | <b>-</b>      | <b>-</b>      |
| <b>Less: Taxes</b>                     | <b>1,452</b>  | <b>1,989</b>  | <b>2,372</b>  | <b>2,775</b>  |
| PAT                                    | 4,100         | 5,526         | 7,115         | 8,324         |
| Less: Minority Interest                | 2             | -             | -             | -             |
| Extraordinary (Net)                    | -             | -             | -             | -             |
| Net Income (Reported)                  | 4,098         | 5,526         | 7,115         | 8,324         |
| <b>Net Income (Adjusted)</b>           | <b>4,098</b>  | <b>5,526</b>  | <b>7,115</b>  | <b>8,324</b>  |

Source Company data, I-Sec research

### Exhibit 18: Balance sheet

(INR mn, year ending March)

|  | FY23A         | FY24A         | FY25E         | FY26E         |
|--|---------------|---------------|---------------|---------------|
| Total Current Assets                   | 13,626        | 14,887        | 21,801        | 29,440        |
| of which cash & cash eqv.              | 788           | 955           | 6,066         | 11,923        |
| Total Current Liabilities & Provisions | 3,805         | 5,239         | 5,970         | 6,591         |
| <b>Net Current Assets</b>              | <b>9,820</b>  | <b>9,649</b>  | <b>15,831</b> | <b>22,849</b> |
| Investments                            | 2,060         | 3,884         | 3,884         | 3,884         |
| Net Fixed Assets                       | 5,320         | 5,716         | 4,730         | 3,723         |
| ROU Assets                             | -             | -             | -             | -             |
| Capital Work-in-Progress               | 552           | 764           | 764           | 764           |
| Total Intangible Assets                | 13,690        | 14,328        | 14,154        | 13,977        |
| Other assets                           | 220           | 298           | 306           | 312           |
| Deferred Tax Assets                    | 65            | 59            | 59            | 59            |
| <b>Total Assets</b>                    | <b>31,733</b> | <b>34,703</b> | <b>39,733</b> | <b>45,575</b> |
| <b>Liabilities</b>                     |               |               |               |               |
| <b>Borrowings</b>                      | <b>5,725</b>  | <b>3,777</b>  | <b>3,777</b>  | <b>3,777</b>  |
| <b>Deferred Tax Liability</b>          | <b>1,028</b>  | <b>1,492</b>  | <b>1,492</b>  | <b>1,492</b>  |
| provisions                             | 152           | 184           | 184           | 184           |
| other Liabilities                      | 25            | 17            | 60            | 67            |
| Equity Share Capital                   | 155           | 155           | 155           | 155           |
| Reserves & Surplus                     | 24,649        | 29,078        | 34,065        | 39,900        |
| <b>Total Net Worth</b>                 | <b>24,804</b> | <b>29,233</b> | <b>34,221</b> | <b>40,055</b> |
| Minority Interest                      | -             | -             | -             | -             |
| <b>Total Liabilities</b>               | <b>31,733</b> | <b>34,703</b> | <b>39,733</b> | <b>45,575</b> |

Source Company data, I-Sec research

### Exhibit 19: Cashflow statement

(INR mn, year ending March)

|  | FY23A          | FY24A        | FY25E        | FY26E        |
|--|----------------|--------------|--------------|--------------|
| <b>Operating Cashflow</b>              | <b>4,815</b>   | <b>7,748</b> | <b>7,581</b> | <b>8,648</b> |
| Working Capital Changes                | 3,112          | 690          | (286)        | 1,037        |
| Capital Commitments                    | 7,749          | 2,630        | 451          | 450          |
| <b>Free Cashflow</b>                   | <b>(2,934)</b> | <b>5,119</b> | <b>7,130</b> | <b>8,198</b> |
| <b>Other investing cashflow</b>        | <b>1,932</b>   | <b>1,824</b> | <b>-</b>     | <b>-</b>     |
| Cashflow from Investing Activities     | (9,681)        | (4,454)      | (451)        | (450)        |
| Issue of Share Capital                 | 0              | 0            | -            | -            |
| Interest Cost                          | -              | -            | -            | -            |
| Inc (Dec) in Borrowings                | 5,461          | (1,948)      | -            | -            |
| Dividend paid                          | (1,225)        | (1,652)      | (2,127)      | (2,489)      |
| Others                                 | 833            | 473          | 108          | 147          |
| Cash flow from Financing Activities    | 5,070          | (3,127)      | (2,019)      | (2,342)      |
| <b>Chg. in Cash &amp; Bank balance</b> | <b>203</b>     | <b>168</b>   | <b>5,111</b> | <b>5,857</b> |
| Closing cash & balance                 | 788            | 956          | 6,066        | 11,923       |

Source Company data, I-Sec research

### Exhibit 20: Key ratios

(Year ending March)

|                             | FY23A | FY24A | FY25E | FY26E |
|-----------------------------|-------|-------|-------|-------|
| <b>Per Share Data (INR)</b> |       |       |       |       |
| Reported EPS                | 26.5  | 35.6  | 45.8  | 53.6  |
| Adjusted EPS (Diluted)      | 26.5  | 35.6  | 45.8  | 53.6  |
| Cash EPS                    | 33.9  | 44.5  | 56.2  | 64.2  |
| Dividend per share (DPS)    | 7.9   | 10.6  | 13.7  | 16.0  |
| Book Value per share (BV)   | 160.2 | 188.4 | 220.5 | 258.1 |
| Dividend Payout (%)         | 29.9  | 29.9  | 29.9  | 29.9  |
| <b>Growth (%)</b>           |       |       |       |       |
| Net Sales                   | 29.9  | 10.6  | 15.4  | 11.3  |
| EBITDA                      | 28.0  | 28.9  | 22.5  | 14.5  |
| EPS (INR)                   | 6.2   | 34.5  | 28.7  | 17.0  |
| <b>Valuation Ratios (x)</b> |       |       |       |       |
| P/E                         | 72.9  | 54.2  | 42.1  | 36.0  |
| P/CEPS                      | 57.0  | 43.4  | 34.3  | 30.1  |
| P/BV                        | 12.0  | 10.2  | 8.8   | 7.5   |
| EV / EBITDA                 | 43.4  | 33.3  | 26.7  | 22.8  |
| P / Sales                   | 9.5   | 8.6   | 7.4   | 6.7   |
| Dividend Yield (%)          | 0.0   | 0.0   | 0.0   | 0.0   |
| <b>Operating Ratios</b>     |       |       |       |       |
| Gross Profit Margins (%)    | 62.9  | 66.1  | 66.2  | 66.6  |
| EBITDA Margins (%)          | 22.1  | 25.7  | 27.3  | 28.1  |
| Effective Tax Rate (%)      | 26.2  | 26.5  | 25.0  | 25.0  |
| Net Profit Margins (%)      | 13.0  | 15.9  | 17.7  | 18.6  |
| NWC / Total Assets (%)      | -     | -     | -     | -     |
| Net Debt / Equity (x)       | 0.1   | 0.0   | (0.2) | (0.3) |
| Net Debt / EBITDA (x)       | 0.4   | (0.1) | (0.6) | (1.0) |
| <b>Profitability Ratios</b> |       |       |       |       |
| RoCE (%)                    | 16.3  | 17.8  | 19.8  | 20.2  |
| RoE (%)                     | 17.8  | 20.5  | 22.4  | 22.4  |
| RoC (%)                     | 15.2  | 19.6  | 24.7  | 28.7  |
| Fixed Asset Turnover (x)    | 5.8   | 6.3   | 7.7   | 10.6  |
| Inventory Turnover Days     | 56    | 55    | 60    | 59    |
| Receivables Days            | 75    | 76    | 74    | 73    |
| Payables Days               | 31    | 39    | 40    | 39    |

Source Company data, I-Sec research

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