26 September 2024

INDIA | HEALTHCARE | COVERAGE INITIATION

JM FINANCIAL

J. B. Chemicals & Pharmaceuticals

Success story to continue

A dominant domestic franchise; legacy brands continue to grow

Diversifying via M&A, growing by execution

Initiate BUY with a TP of INR 2,210 (17% upside)

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KKR and the new management (Mr. Nikhil Chopra CEO) have transformed JB Chemical from a company with modest growth and suboptimal profitability (~9% CAGR and 15-18% margins over FY15-20) into one of India's fastest-growing pharmaceutical firms over FY20-24, achieving over 18% revenue CAGR and 26% margins. Key drivers of this success include strategic leadership hires from Cipla, streamlining of operations, targeted M&As, and a revival of the CMO business. Over the past three years, JBCL has risen seven places to rank 21st in the Indian pharmaceutical market. The company holds significant market shares in its top four brands: Cilacar (46%), Metrogyl (40%), Nicardia (92%), and Rantac (80%). It is also expanding into new therapeutic areas through acquisitions, replicating its success with products like Razel, Sporlac, and Azmarda. Transitioning from a four-brand domestic player, JB Chemical is evolving into a multi-brand, multi-therapy entity. We anticipate organic growth CAGR of 13-14% in India over the next three years. Ex-India markets, particularly CMO, Russia, and South Africa, are expected to grow at 9-12% during the same period. JB leads the USD 4.6bn lozenges market and is expanding its global presence. We project revenue, EBITDA, and APAT to grow at 14%/18%/19% CAGR from FY24-27, with EBITDA and PAT growth outpacing the previous period as newly acquired assets stabilize. ROIC would expand to 25% and cumulative free cash flow generation of INR 23.4bn by FY27, providing ample room for further acquisitions. We assign a multiple of 36x to Sep-26 EPS (peers at 34x), arriving at a target price of INR 2210. Initiate with 'BUY'.

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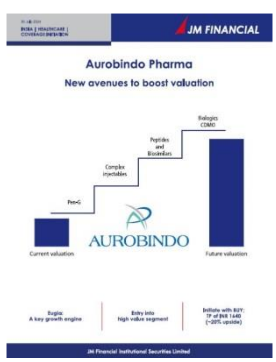

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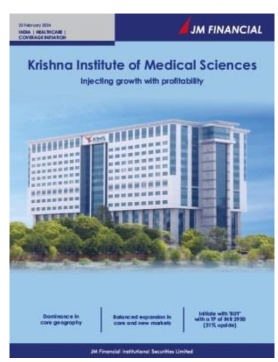

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Success story to continue

KKR and the new management (Mr. Nikhil Chopra CEO) have transformed JB Chemical from a company with modest growth and suboptimal profitability (~9% CAGR and 15-18% margins over FY15-20) into one of India's fastest-growing pharmaceutical firms over FY20-24, achieving over 18% revenue CAGR and 26% margins. Key drivers of this success include strategic leadership hires from Cipla, streamlining of operations, targeted M&As, and a revival of the CMO business. Over the past three years, JBCL has risen seven places to rank 21st in the Indian pharmaceutical market. The company holds significant market shares in its top four brands: Cilacar (46%), Metrogyl (40%), Nicardia (92%), and Rantac (80%). It is also expanding into new therapeutic areas through acquisitions, replicating its success with products like Razel, Sporlac, and Azmarda. Transitioning from a four-brand domestic player, JB Chemical is evolving into a multi-brand, multi-therapy entity. We anticipate organic growth CAGR of 13-14% in India over the next three years. Ex-India markets, particularly CMO, Russia, and South Africa, are expected to grow at 9-12% during the same period. JB leads the USD 4.6bn lozenges market and is expanding its global presence. We project revenue, EBITDA, and APAT to grow at 14%/18%/19% CAGR from FY24-27, with EBITDA and PAT growth outpacing the previous period as newly acquired assets stabilize. ROIC would expand to 25% and cumulative free cash flow generation of INR 23.4bn by FY27, providing ample room for further acquisitions. We assign a multiple of 36x to Sep-26 EPS (peers at 34x), arriving at a target price of INR 2,210. Initiate with 'BUY'.

Legacy brands will continue to grow

JB has built a strong domestic franchise which is primarily driven by volume and price growth. JB's domestic business comprises of 4 legacy brands – Metrogyl, Nicardia, Rantac and Cilacar (+ Cilacar-T) which contribute 53% to domestic sales. Some of these brands were introduced decades ago – Metrogyl (1977), Nicardia (1980), Rantac (1989) and Cilacar (2007). Despite being old, Metrogyl continues to remain gold standard treatment for anaerobic infection. With brand extensions and presence in fast growing segments, JB has improved its leadership position over the years. We expect 16% domestic CAGR over FY24-27.

Stellar track record of M&A – aids therapeutic diversification

Post KKR acquisition, JB has chosen M&A as route to fill up gaps in existing therapies and to enter new therapies. JB closed 4 deals in 2022 for a total consideration of INR 12.9bn. Most of these were to enter therapies such as probiotics, pediatric and cardiac (to fill up gaps in offering – Rosuvastatin and sacubitril-valsartan). Post acquisition, JB has successfully up-scaled these brands. Recently, JB entered into an arrangement with Novartis for 3y distribution and subsequent purchase of perpetual license for INR 10.9bn. Given the cumulative FCF generation of INR 23.4bn over FY24-27, we expect more such successful M&A deals ahead.

International business growth in double digits

International business will grow at 11.5% CAGR over FY24-27 led by Russia, South Africa, US and CMO. JB expects double digit growth in Russia (currency volatility risk)/South Africa (higher private focus) and single digit US growth (cost plus model with Rising Pharma). JB has a leading position in USD 4.6bn lozenges market supplying to marquee clients such as J&J, P&G, Reckitt, iNova, etc. New launches in US/Europe will drive operating leverage here. Overall growth will still be lower than India segment, helping improving business mix over FY24-27.

Superior growth and metrics; Initiate with BUY

We forecast Revenue/EBITDA/PAT CAGR of 14%/18%/19% over FY24-27. In FY24, JB's ROIC was 18%, lower as it digests its recent acquisitions it is will improve to 25% by FY27, in our view. Cumulative FCF generation is likely to be at INR 23.4bn (7-8% of market cap) over FY24-27. With healthy earnings growth, improving profitability, high FCF generations and growing contribution of India business, premium valuations are likely to sustain. We assign a multiple of 36x (peers at 34x) on Sep'26 earnings to arrive at TP of INR 2,210. Initiate with BUY.

Recommendation and Price Target	
Current Reco	BUY
Current Price Target (12M)	2,210
Upside/(Downside)	17.0%

Key Data – JBCP IN	
Current Market Price	INR1,889
Market cap (bn)	INR293.3/US$3.5
Free Float	46%
Shares in issue (mn)	155.2
Diluted share (mn)	155.2
3-mon avg daily val (mn)	INR382.4/US$4.6
52-week range	2,030/1,244
Sensex/Nifty	85,836/26,216
INR/US$	83.6

Price Performance			
%	1M	6M	12M
Absolute	-0.7	16.9	34.2
Relative*	-5.5	-0.6	3.4

*To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	31,493	34,842	40,314	45,559	51,488
Sales Growth (%)	29.9	10.6	15.7	13.0	13.0
EBITDA	6,958	8,969	10,926	12,621	14,624
EBITDA Margin (%)	22.1	25.7	27.1	27.7	28.4
Adjusted Net Profit	4,445	6,021	7,465	8,805	10,238
Diluted EPS (INR)	28.7	38.8	48.1	56.7	66.0
Diluted EPS Growth (%)	14.1	35.1	24.0	18.0	16.3
ROIC (%)	17.1	18.3	21.6	24.8	24.8
ROE (%)	19.3	22.3	23.0	22.4	21.5
P/E (x)	65.8	48.7	39.3	33.3	28.6
P/B (x)	11.8	10.0	8.2	6.8	5.6
EV/EBITDA (x)	42.8	32.9	26.6	22.7	19.9
Dividend Yield (%)	0.1	0.6	0.3	0.4	0.4

Source: Company data, JM Financial. Note: Valuations as of 26/Sep/2024

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