

Jubilant Organosys

 BSE code: 530019
 NSE code: JUBILANT

CMP: Rs 351
Target: Rs 405
BUY
Alok Dalal

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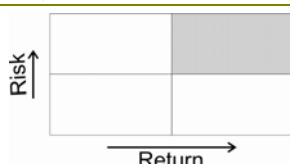
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Company data

Particulars	
Market cap (Rs bn / US\$ bn)	50.6/1.3
Outstanding equity shares (mn)	144.1
52-week high/low (Rs)	380/225
3-month average daily volume	76,993

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	18,097.5	23,668.0	29,376.1
Growth (%)	20.7	30.8	24.1
Rep net inc (Rs mn)	2,279.8	4,230.1	3,742.2
Growth (%)	73.9	27.8	32.9
FDEPS (Rs)	12.6	23.4	20.7
Growth (%)	75.8	85.5	(11.5)
P/E (x)	27.9	15.0	17.0
ROE (%)	25.9	25.4	25.1

Risk-return profile

Shareholding pattern

(%)	Dec-07	Sep-07
Promoters	51.6	51.9
FIs	10.4	11.4
Banks & FIs	19.4	19.0
Public	18.6	17.7

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Jubilant	351	(3.8)	11.6	13.3
Sensex	18,663	(9.8)	(3.8)	25.2
BSE HC	3,769	(14.2)	(2.8)	4.7

 Company website www.jubl.com
CRAMS continues to shine

Jubilant Organosys' Q3FY08 results were in line with estimates. Sales growth was driven by sustained momentum in the PLSC (Pharma & Life Sciences) segment, which increased by 73.6% YoY to Rs 4bn for the quarter. CRAMS, the largest contributor to PLSC, was up 98% YoY to Rs 3.4bn fuelled by the strong performance of Hollister. Increasing contribution from regulated markets and a favourable input cost scenario resulted in a 540bps YoY expansion in the EBITDA margin to 20.2% and a 40% YoY growth in PAT to Rs 894mn.

Jubilant has delivered consistent growth quarter-on-quarter driven by CRAMS. While contract manufacturing will remain a key performer over the next few years, other business segments like API, formulations, and drug discovery & development would also record an increasing contribution. We expect the company to achieve a revenue CAGR of 23.7% over FY07-FY10 with an earnings CAGR of 26.6% over the same period. We are introducing FY10 numbers for Jubilant and reiterate our Buy rating on the stock. Our target price of Rs 405 is based on 20x FY09E earnings, which signifies an upside potential of 18%.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	6,416.0	6335.6	1.3
EBITDA	1,295.0	1172.1	10.5
Adj net income	894.0	836.3	6.9
FDEPS (Rs)	4.9	4.6	6.9

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q3 FY08	Q3 FY07	YoY growth	9m FY08	9m FY07	YoY growth
Net Sales	6,416	4,693	36.7	17,999	13,464	33.7
Expenditure	5,121	3,999	28.1	14,619	11,250	29.9
Operating profit	1,295	694	86.6	3,380	2,214	52.7
Other income	231	388	(40.5)	1,612	603	167.3
Interest	123	49	151.0	316	141	124.1
Depreciation	247	158	56.3	678	457	48.4
PBT	1,156.0	875	32.1	3,998	2,219	80.2
Tax	244	236	3.4	593	590	0.5
APAT	894	637	40.3	3,423	1,642	108.5
OPM (%)	20.2	14.8	-	18.8	16.4	-
FDEPS (Rs)	4.9	3.5	40.3	18.9	9.1	108.5

Source: Company, Religare Research

Result highlights

CRAMS revenue up 98% YoY fuelled by sales from Hollister

Sales growth in line, strong performance from Hollister

Jubilant Organosys' Q3FY08 results were in line with estimates. Sales growth was driven by sustained momentum in the PLSC segment, which increased by 73.6% YoY to Rs 4bn for the quarter. CRAMS, the largest contributor to PLSC, was up 98% YoY to Rs 3.4bn fuelled by the strong performance of Hollister, its recently acquired sterile injectable company.

Hollister reported sales of Rs 811mn as against Rs 770mn in Q2FY08, a growth of 5.2% QoQ. The IPP (Industrial and Performance Products) division reported flat growth for the quarter. Contribution from regulated markets now stands at 37.7%, an increase of 790bps over Q3FY07.

Revenue break-up

(Rs mn)	Q3FY08	Q3FY07	% Growth	9mFY08	9mFY07	% Growth
Pharma & Life Science	3,978	2,292	73.6	10,693	6,673	60.2
Industrial & Performance Prods	2,438	2,401	1.5	7,306	6,791	7.6
Total	6,416	4,693	36.7	17,999	13,464	33.7

Source: Company

EBITDA margin increases 540bps to 20.2%

The company's EBITDA margin has increased by 540bps during the quarter to 20.2%. The gross margin for the quarter stood at 59.8%, an increase of ~1,000bps YoY. A strong operational performance, increasing contribution from Hollister and favourable raw material prices were key drivers for the margin expansion. Consequently, PAT increased by 40% YoY to Rs 894mn for the quarter.

Valuation

CRAMS to remain a key growth driver; contribution from other segments to increase as well

Steady growth trajectory

Jubilant has delivered consistent growth quarter-on-quarter driven by CRAMS. While contract manufacturing will remain a key performer over the next few years, other business segments like API, formulations, and drug discovery & development would also record an increasing contribution. We expect the company to achieve a revenue CAGR of 23.7% over FY07-FY10.

Higher sales to regulated markets and favourable material prices should result in EBITDA margin expansion of 230bps to 20% and an earnings CAGR of 26.6% over the same period. We note that reported PAT for FY09 will be lower than FY08 as Jubilant has recorded foreign exchange income of Rs 1.3bn for 9mFY08.

Maintain Buy with target of Rs 405

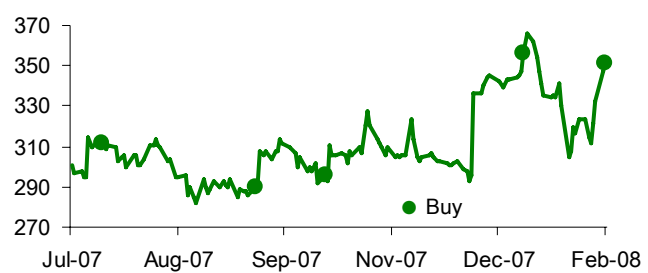
We introduce FY10 numbers and reiterate our Buy rating on the stock. Our target price of Rs 405 is based on 20x FY09E earnings, which signifies an upside potential of 18%.

Recommendation history

Date	Event	Reco price	Tgt price	Reco
19-Jul-07	Results Update	313	365	Buy
19-Sep-07	Company Update	290	388	Buy
18-Oct-07	Results Update	295	405	Buy
6-Feb-08	Results Update	351	405	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Revenues	18,097.5	23,668.0	29,376.1	34,258.8
Growth (%)	20.7	30.8	24.1	16.6
EBITDA	3,195.5	4,354.9	5,640.2	6,851.8
Growth (%)	47.2	36.3	29.5	21.5
Depreciation	623.0	947.7	1,096.7	1,237.2
EBIT	2,572.5	3,407.2	4,543.5	5,614.6
Growth (%)	55.3	32.5	33.3	23.6
Interest	195.0	463.2	592.1	699.0
Other income	576.0	426.0	528.8	616.7
EBT	2,953.5	3,370.1	4,480.2	5,532.3
Income taxes	712.5	505.5	672.0	829.8
Effective tax rate (%)	24.1	15.0	15.0	15.0
Adjusted net income	2,241.0	2,864.6	3,808.2	4,702.5
Growth (%)	73.9	27.8	32.9	23.5
Extra-ordinary items	-	1,420.5	-	-
Min. int / inc. from associates	38.8	(55.0)	(66.0)	(79.2)
Reported net income	2,279.8	4,230.1	3,742.2	4,623.3
Growth (%)	75.8	85.5	(11.5)	23.5
Shares outstanding (mn)	143.7	144.1	144.1	144.1
Basic EPS (Rs) (adj)	15.9	29.3	26.0	32.1
FDEPS (Rs) (adj)	12.6	23.4	20.7	25.5
DPS (Rs)	1.3	1.6	2.1	2.3

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY07	FY08E	FY09E	FY10E
Net income	2,241.0	2,864.6	3,808.2	4,702.5
Depreciation	623.0	947.7	1,096.7	1,237.2
Other adjustments, net	310.0	202.2	268.8	331.9
Changes in working capital	58.0	(2,348.9)	(3,351.0)	(2,102.7)
Cash flow from operations	3,232.0	1,665.5	1,822.7	4,168.8
Capital expenditure	(3,727.6)	(6,855.0)	(3,940.6)	(4,013.9)
Change in investments	(36.6)	-	-	-
Other investing inc/(exp)				
Cash flow from investing	(3,764.2)	(6,855.0)	(3,940.6)	(4,013.9)
Free cash flow	(532.2)	(5,189.5)	(2,117.9)	154.9
Issue of equity	1.3	0.4	-	-
Issue/repay debt	9,305.8	4,000.0	2,010.0	1,525.0
Dividends paid	(204.8)	(270.2)	(342.7)	(372.9)
Other financing cash flow	(1,210.6)	1,888.8	0.0	(0.0)
Cash flow from financing	7,891.6	5,619.0	1,667.3	1,152.1
Change in cash & cash eq	7,359.4	429.6	(450.6)	1,307.0
Opening cash & cash eq	1,389.7	8,749.1	9,178.7	8,728.1
Closing cash & cash eq	8,749.1	9,178.7	8,728.1	10,035.1

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY07	FY08E	FY09E	FY10E
Cash and cash eq	8,749.1	9,178.7	8,728.1	10,035.1
Accounts receivable	2,948.1	4,402.2	5,437.0	6,819.8
Inventories	3,532.4	5,639.4	6,408.9	8,266.8
Others current assets	2,424.7	2,958.5	3,965.8	4,796.2
Current assets	17,654.3	22,178.8	24,539.7	29,917.9
Long-term investments	38.8	38.8	38.8	38.8
Net fixed assets	12,279.0	18,864.8	22,047.9	24,994.2
CWIP	2,356.9	1,678.4	1,339.2	1,169.6
Intangible assets	-	-	-	-
Deferred tax assets, net	-	-	-	-
Other assets	40.9	40.9	40.9	40.9
Total assets	32,369.8	42,801.7	48,006.6	56,161.5
Accounts payable	2,917.8	5,090.6	4,307.9	6,094.6
Others	2,330.3	1,903.5	2,146.8	2,328.5
Current liabilities	5,248.1	6,994.1	6,454.7	8,423.2
Debt funds	16,526.2	20,526.1	22,536.1	24,061.1
Other liabilities	1,534.8	1,792.0	2,126.8	2,537.9
Equity capital	143.7	144.1	144.1	144.1
Reserves	8,917.1	13,345.4	16,744.8	20,995.2
Shareholder's funds	9,060.9	13,489.5	16,889.0	21,139.3
Total liabilities	32,369.8	42,801.7	48,006.6	56,161.5
BVPS (Rs)	63.0	93.6	117.2	146.7

Source: Company, Religare Research

Financial ratios

	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	17.7	18.4	19.2	20.0
EBIT margin (%)	14.2	14.4	15.5	16.4
Net profit margin (%)	12.4	12.1	13.0	13.7
FDEPS growth (%)	75.8	85.5	(11.5)	23.5
Receivables (days)	54.7	56.7	61.1	65.3
Inventory (days)	81.4	86.7	92.6	97.7
Payables (days)	68.7	75.7	72.3	69.3
Current ratio (x)	3.4	3.2	3.8	3.6
Quick ratio (x)	2.7	2.4	2.8	2.6
Interest coverage ratio (x)	12.5	7.2	7.4	7.7
Debt / equity (x)	1.8	1.5	1.3	1.1
ROE (%)	25.9	25.4	25.1	24.7
ROA (%)	8.5	7.6	8.4	9.0
ROCE (%)	11.7	10.8	11.7	12.6
EV/Sales (x)	3.4	2.6	2.1	1.8
EV/EBITDA (x)	19.4	14.2	11.0	9.0
P/E (x)	27.9	15.0	17.0	13.7
P/BV (x)	5.6	3.8	3.0	2.4

Source: Company, Religare Research

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Recommendation parameters

Large-caps*	> 10%	< - 5%	Returns	Absolute
	BUY	SELL		
Mid-caps**	> 25%	< 10%		

**Market cap over US\$ 1bn **Market cap less than US\$ 1bn*

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