

Jubilant Organosys

Strong near-term outlook

Flat revenues growth: Jubilant Organosys (Jubilant) posted flat net sales for Q2FY10. The Pharma and Life Sciences Product and Services (PLSPS) business (70% of sales) reported an 11% YoY growth, down from 18% YoY growth in Q1FY10. The growth in this business was driven by a 13% YoY increase in revenues from proprietary products and exclusive synthesis business, and a 24% YoY growth in specialty pharmaceuticals. CRAMS business grew at 10%YoY. The Industrial and Performance Chemicals (IPP) division (30% of sales) reported a 21% YoY de-growth (as against an 8% YoY de-growth in Q1FY10) due to lower realisations in the fertilizers business.

EBITDA margins contract 140bps YoY: Jubilant's EBITDA margins contracted 140bps YoY due to higher staff costs (up 10% YoY). This lowered the EBITDA for the quarter by 8% YoY.

Adj. PAT drops 28%YoY: The company's adj. PAT declined 28% YoY on account of: a) an 8% fall in EBITDA; b) a 65% YoY rise in interest outgo (higher loans) and c) a 44% increase in higher tax outgo.

Performance improves QoQ: On a QoQ basis, Jubilant's net sales increased 4%, EBITDA 3%, and adj. PAT 10%.

New contracts to drive growth: We expect Jubilant's performance to improve, going ahead, as the company has secured three high-margin manufacturing contracts; addition in discovery services contracts is also likely to support future performance. The margin structure is expected to change significantly from H1FY10 to H2FY10E, largely due to strong visibility of high-margin contracts over the next three years. In line with this trend, we expect the company's EBITDA margins to jump from 18% in H1FY10 to over 24% in the second half of the fiscal.

Scope for re-rating - maintain Buy: The high-margin H2FY10 (with EBITDA 1.6x of H1) is likely to act as a near-term catalyst for the stock. We expect the stock to see a re-rating on account of a) high earnings visibility over the next two quarters and b) recovery in the overall CRAMS environment in the next few quarters. Currently, the stock trades at a PER of 7.9x FY10E earnings and 6.9x FY11E earnings, and at an EV/EBITDA of 8.2x FY10E and 6.9x FY11E. These valuations factor in the concerns related to the sluggishness in growth and the highly leveraged balance sheet. We maintain our Buy rating on the stock.

What's New?

Target

Rating

Estimates

CMP	TARGET	RATING	RISK
Rs 237	Rs 308	BUY	HIGH

BSE	NSE	BLOOMBERG
530019	JUBILANT	JOL IN

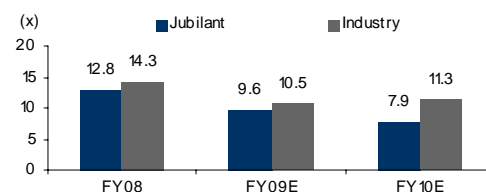
Company data

Market cap (Rs mn / US\$ mn)	35,019/497
Outstanding equity shares (mn)	148
Free float (%)	69.0
Dividend yield (%)	0.7
52-week high/low (Rs)	385 / 84
2-month average daily volume	95,636

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Jubilant	237	(3.4)	36.9	16.1
BSE HC	4,402	8.6	14.5	44.9
Sensex	16,811	0.5	10.4	51.0

P/E comparison



Valuation matrix

(x)	FY08	FY09	FY10E	FY11E
P/E @ CMP	12.8	9.6	7.9	6.9
P/E @ Target	16.6	12.5	10.2	9.0
EV/EBITDA @ CMP	15.5	10.0	8.2	6.9

Financial highlights

(Rs mn)	FY08	FY09	FY10E	FY11E
Revenue	24,889	35,423	40,398	45,650
Growth (%)	37.5	42.3	14.0	13.0
Adj net income	3,172	4,221	5,145	5,855
Growth (%)	76	33	22	14
FDEPS (Rs)	18.5	24.6	30.0	34.2
Growth (%)	75.8	33.1	21.9	13.8

Profitability and return ratios

(%)	FY08	FY09	FY10E	FY11E
EBITDA margin	18.1	19.8	21.2	22.2
EBIT margin	13.9	15.2	17.8	18.0
Adj PAT margin	12.7	11.9	12.7	12.8
ROE	13.4	17.4	19.5	28.9
ROIC	11.4	10.9	11.2	11.5
ROCE	11.7	12.2	12.1	12.4





Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	9,366	9,469	(1.1)
EBITDA	1,680	1,750	(4.0)
Adj net income	798	849	(6.1)
FDEPS (Rs)	4.7	5.0	(6.1)

Source: RHH

Fig 2 - Quarterly performance

(Rs mn)	Q2FY10	Q2FY09	% Chg YoY	Q1FY10	% Chg QoQ
Revenue	9,366	9,462	(1)	9,013	4
Expenditure	7,687	7,632	1	7,385	4
Operating profit	1,680	1,830	(8)	1,628	3
Other income	30	14	119	21	41
Interest	363	221	65	407	(11)
Depreciation	308	411	(25)	308	(0)
PBT	1,039	1,212	(14)	935	11
Tax	240	166	44	223	7
PAT	798	1,115	(28)	724	10
EBITDA margin (%)	17.9	19.3	-140bps	18.1	-13bps
FDEPS (Rs)	4.7	6.5	(28)	4.2	10

Source: Company, RHH

Results in line with expectations

Drop in IPP revenues lead to flat revenue growth

Margin pressure and high interest costs translate into a 28% YoY fall in adj. PAT



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Revenues	24,889	35,423	40,398	45,650
Growth (%)	37.5	42.3	14.0	13.0
EBITDA	4,506	7,009	8,551	10,119
Growth (%)	73.3	55.5	22.0	18.3
Depreciation & amortisation	1,039	1,632	1,350	1,916
EBIT	3,467	5,377	7,202	8,203
Growth (%)	75.3	55.1	33.9	13.9
Interest	350	1,070	1,560	1,746
Other income	404	182	248	260
EBT	3,521	4,488	5,890	6,718
Income taxes	365	267	883	1,008
Effective tax rate (%)	10.4	6.0	15.0	15.0
Extraordinary items	(832)	1,522	-	-
Min into / inc from associates	(16)	(133)	(139)	(144)
Reported net income	4,004	2,699	5,145	5,855
Adjustments	832	(1,522)	-	-
Adjusted net income	3,172	4,221	5,145	5,855
Growth (%)	75.8	33.1	21.9	13.8
Shares outstanding (mn)	171.3	171.3	171.3	171.3
FDEPS (Rs) (adj)	18.5	24.6	30.0	34.2
Growth (%)	75.8	33.1	21.9	13.8
DPS (Rs)	1.5	1.8	2.0	2.0

Cash flow statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Net income + Depreciation	5,043	4,331	6,494	7,770
Non-cash adjustments	(594)	(2,046)	1,184	455
Changes in working capital	(1,851)	1,732	(2,803)	(3,980)
Cash flow from operations	2,598	4,016	4,875	4,246
Capital expenditure	(5,131)	(12,012)	(4,709)	(4,217)
Change in investments	(418)	(2,257)	-	-
Other investing cash flow	(5,868)	(7,500)	-	-
Cash flow from investing	(11,416)	(21,769)	(4,709)	(4,217)
Issue of equity	14	(112)	-	-
Issue/repay debt	6,179	17,700	805	500
Dividends paid	(208)	(257)	(259)	(345)
Other financing cash flow	(56)	-	-	-
Change in cash & cash eq	(2,889)	(421)	712	183
Closing cash & cash eq	5,237	3,817	4,529	4,712

Economic Value Added (EVA) analysis

Y/E March	FY08	FY09	FY10E	FY11E
WACC (%)	11.3	15.8	15.8	15.8
ROIC (%)	11.4	10.9	11.2	11.5
Invested capital (Rs mn)	31,531	52,206	57,437	63,416
EVA (Rs mn)	42	(2,524)	(2,633)	(2,670)
EVA spread (%)	0.1	(4.8)	(4.6)	(4.2)

Balance sheet

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Cash and cash eq	5,237	3,817	4,529	4,712
Accounts receivable	4,258	5,044	6,383	7,806
Inventories	4,350	5,956	6,842	8,869
Other current assets	3,548	4,855	6,554	8,520
Investments	456	2,714	2,714	2,714
Gross fixed assets	18,223	30,051	35,066	39,429
Net fixed assets	12,656	21,447	25,113	27,559
CWIP	4,847	5,031	4,725	4,580
Intangible assets	6,470	16,003	16,003	16,003
Deferred tax assets, net	(1,302)	(1,151)	(2,582)	(2,884)
Other assets	17	3	3	3
Total assets	40,536	63,719	70,285	77,883
Accounts payable	3,066	5,361	5,806	6,882
Other current liabilities	651	2,004	2,180	2,540
Provisions	2,961	4,579	4,779	4,787
Debt funds	21,081	38,781	39,587	40,087
Other liabilities	214	320	458	602
Equity capital	146	148	148	148
Reserves & surplus	12,415	12,528	17,328	22,837
Shareholder's funds	12,561	12,675	17,475	22,985
Total liabilities	40,536	63,719	70,285	77,883
BVPS (Rs)	87.8	85.9	118.5	155.8

Financial ratios

Y/E March	FY08	FY09	FY10E	FY11E
Profitability & Return ratios (%)				
EBITDA margin	18.1	19.8	21.2	22.2
EBIT margin	13.9	15.2	17.8	18.0
Net profit margin	12.7	11.9	12.7	12.8
ROE	13.4	17.4	19.5	28.9
ROCE	11.7	12.2	12.1	12.4
Working Capital & Liquidity ratios				
Receivables (days)	53	48	52	57
Inventory (days)	125	120	131	140
Payables (days)	89	98	114	113
Current ratio (x)	4.7	2.7	3.0	3.2
Quick ratio (x)	1.2	1.1	0.8	0.8
Turnover & Leverage ratios (x)				
Gross asset turnover	1.6	1.5	1.2	1.2
Total asset turnover	0.7	0.7	0.6	0.6
Interest coverage ratio	9.9	5.0	4.6	4.7
Adjusted debt/equity	0.5	1.3	1.1	0.9
Valuation ratios (x)				
EV/Sales	2.8	2.0	1.7	1.5
EV/EBITDA	15.5	10.0	8.2	6.9
P/E	12.8	9.6	7.9	6.9
P/BV	2.7	2.8	2.0	1.5



Quarterly trend

Particulars	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
Revenue (Rs mn)	9,462	9,209	8,437	9,013	9,366
YoY growth (%)	52.4	43.1	21.9	8.5	(1.0)
QoQ growth (%)	13.9	(2.7)	(8.4)	6.8	3.9
EBITDA (Rs mn)	1,830	1,523	1,703	1,628	1,680
EBITDA margin (%)	19.3	16.5	20.2	18.1	17.9
Adj net income (Rs mn)	1,115	548	1,242	724	798
YoY growth (%)	35.6	(30.3)	36.8	(37.1)	(28.4)
QoQ growth (%)	(3.3)	(50.9)	126.8	(41.7)	10.1

DuPont analysis

(%)	FY07	FY08	FY09	FY10E	FY11E
Tax burden (Net income/PBT)	68.9	90.1	94.0	87.4	87.1
Interest burden (PBT/EBIT)	119.3	101.5	83.5	81.8	81.9
EBIT margin (EBIT/Revenues)	10.9	13.9	15.2	17.8	18.0
Asset turnover (Revenues/Avg TA)	71.7	69.6	68.0	60.3	61.6
Leverage (Avg TA/Avg equitiy)	291.5	330.9	413.1	444.4	366.2
Return on equity	18.8	29.3	33.4	34.1	28.9

Company profile

Jubilant is an integrated pharmaceutical player with a presence in pharma life sciences (PLSC, which includes CRAMS, API, and finished dosage and drug discovery), industrial products, and hospitals. It has four manufacturing facilities in India and one in the US. The company achieved a 29% revenue CAGR over FY05-FY08 through a series of acquisitions, which include Target Research (2005, US\$ 33mn), Trinity (2005, US\$ 12mn), Hollister Stier (2007, US\$ 122mn) and Draxis (2008, US\$ 255mn).

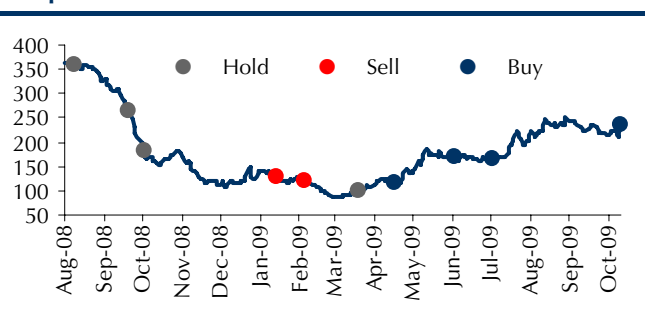
Shareholding pattern

(%)	Mar-09	Jun-09	Sep-09
Promoters	50.4	50.4	50.8
FIs	9.1	16.2	16.2
Banks & FIs	20.4	11.6	11.2
Public	20.2	21.8	21.8

Recommendation history

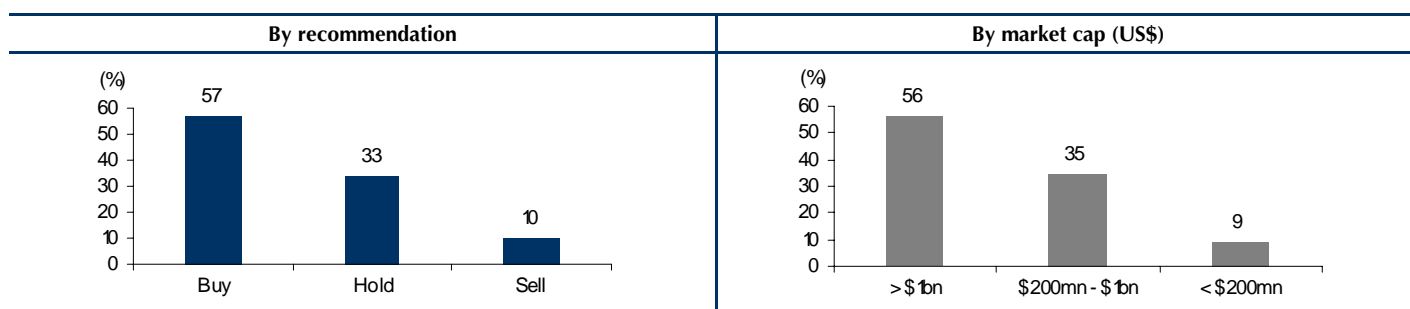
Date	Event	Reco price	Tgt price	Reco
21-Aug-08	RHH Compendium	358	403	Hold
6-Oct-08	Quarterly Preview	264	345	Hold
16-Oct-08	Results Review	184	220	Hold
28-Jan-09	Results Review	124	128	Sell
20-Feb-09	Company Update	120	128	Sell
6-Apr-09	Quarterly Preview	98	128	Hold
30-Apr-09	Results Review	117	128	Buy
16-Jun-09	Company Update	170	222	Buy
15-Jul-09	Results Review	164	222	Buy
23-Oct-09	Results Review	237	308	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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