

26<sup>TH</sup> October 2009**BUY**

Price	Target Price
<b>Rs237</b>	<b>Rs322</b>

Sensex –	<b>16,811</b>
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**Price Performance**

(%)	1M	3M	6M	12M
Absolute	7	41	94	48
Rel. to Sensex	6	28	31	(14)

Source: Bloomberg

**Stock Details**

Sector	Pharmaceuticals
Reuters	JUBO.BO
Bloomberg	JOL@IN
Equity Capital (Rs mn)	148
Face Value (Rs )	1
No of shares o/s (mn)	148
52 Week H/L (Rs )	264/85
Market Cap (Rs bn /USD mn)	35/790
Daily Avg Vol (No of shares)	190381
Daily Avg Turnover (US\$ mn)	1.0

**Shareholding Pattern (%)**

	30/09/09	30/06/09	31/03/09
Promoters	50.8	50.4	50.4
FII/NRI	25.4	25.3	25.2
Institutions	2.5	2.8	3.2
Private Corp	8.2	8.2	8.3
Public	13.1	13.2	13.0

Source: Capitaline

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Jubilant Q2FY10 numbers are in-line with our expectations. Revenue was marginally down by 1% to Rs9.3bn (est. of Rs9.5bn). The pressure on the topline was mainly on the back of decline in the IPP business (down 21% YoY). However the growth of 11% in the PLS business during the quarter set off the pressure on the topline. On the operating front the EBIDTA margins for the quarter expanded by 100bps to 19.8% mainly aided by the PLS business which witnessed a significant expansion in margins to 27.4% in Q2FY10 from 21.2% in Q2FY09. However, The EBIDTA margins in IPP segment declined from 17.9% in Q2FY09 to 8.2% in Q2FY10. The contribution of PLS business in PBT has increased to 90%, thus reducing the dependency on highly volatile commodity business. APAT declined by 4% Y-o-Y and grew by 20% Q-o-Q to Rs1006mn (est. of Rs1064mn).

Despite temporary slowdown in the CRAMS space, Jubilant secured 5 new contracts in CMO and CRO space. These contracts not only demonstrate underlying strength in Jubilant's business model, but also have improved significant earning visibilities. On the back of these new contracts, company has revised operating margins guidance upwards by 50%. Moreover, strong cash flow, disciplined financial planning and enabling resolution to raise fresh capital will enable Jubilant to strengthen its balance sheet and address investors concern towards high debt. On the back of improved visibility and new contracts, we have revised our earning estimates by 11%/7% for FY10E/FY11E respectively. We have also revised our target price from Rs245 to Rs322 (8x FY11E EV/EBIDTA) and add Jubilant in our convincing buy list.

**Focus on core business & hiving of non-core business**

During Q2FY10, Jubilant decided to hive-off its performance polymer and consumer business into a separate company and renaming the company to Jubilant Life science. The company would be now primarily catering into PLS segment which contributes around 70% of the revenue and 90% of PBT. Over the period, Jubilant has emerged largest CRAMS companies in India and its strategic focus on high growth high margins PLS business has significantly reduced its dependency on highly volatile chemical business. We believe with the hiving off the performance polymer and consumed division (approx. revenue of Rs1500mn in FY09; 4% of FY09 revenue) into a separate company, will further strengthen its focus on the core business.

**New Contracts to aid growth and margins**

Jubilant, which had an order book of US\$ 883mn upto 2014, has been able to sign 5 new contracts during this quarter in the CMO and DDDS segment. Despite difficult operating environment, Jubilant's ability of getting new contracts demonstrates underlying strength in its business model. In fact these contacts are high margins contracts, which has not only improved the revenue visibility, but it has also enabled Jubilant to revised its operating margins guidance by 50% to 45% growth over last year compared to earlier guidance of 30% growth. The contracts in the DDDS segment will be primarily pertaining to delivering pre-clinical candidates. Management has indicated that revenue from these new contracts will start from Q3FY10 onwards.

**Expect strong 2HFY10E**

Jubilant has guided an EBIDTA of Rs875-900cr (50% upward revision) for FY10E, out of which in 1HFY10, they have achieved Rs360cr. This implies that in the second half, company will have EBIDTA growth of 70% YOY and 38% QOQ. This is mainly because of strong visibility in the PLS space and signing of new contracts which will add Rs125-130cr incremental EBIDTA. Moreover, company's drug discovery services (DDS) business has also started contributing profitably in this quarter and company is confident to sustain momentum in its DDS segment. Signing of new contracts endorse our view that CRAMS companies in India are coming out from de-stocking phase and probably Q2FY10 is a bottom out kind of quarter for these companies. Going forward, we will see improved traction in this space.

### Strengthening of Balance sheet

During the quarter the company has passed the enabling resolution to raise Rs500cr by way of equity/ equity linked instruments. In our opinion, the purpose of raising money would be primarily catering for debt repayment. The net debt equity of the company has already come down from 2.6x in FY09 to 2x in H1FY10. With strong cash flow in 2HFY10 and its intention to further raise capital, we believe the net DE will come down to 1.5-1.6x by FY10E. Going ahead company is looking to bring down its DE to comfortable level of 1x. We believe that this would strengthen its balance sheet and address the investor's concern of over leverage balance sheet to great extent.

### Revised estimates upward by 11% and 7% for FY10E/FY11E

On the back of strong visibility in PLS space and new contracts, we have revised our earning estimates by 11% and 7% for FY10E and FY11E. Our earning estimates for FY10E and FY11E are Rs30.1 and Rs 36.6 respectively.

Revised Table:	FY10E	FY11E
<b>Revenue (Rs mn)</b>		
Old Estimate	40092	45517
New Estimate	40092	45517
% Change	-	-
<b>EBIDTA Margins</b>		
Old Estimate	19.9	19.9
New Estimate	20.5	20.8
% Change	90 bps	90 bps
<b>PAT</b>		
Old Estimate	3999	5065
New Estimate	4442	5407
% Change	11%	7%
<b>EPS (Rs)</b>		
Old Estimate	27.1	34.3
New Estimate	30.1	36.6
% Change	11%	7%

### Outlook and Valuations

Despite temporary slowdown and de-stocking at customer end in CRAMS space, Jubilant has not only been able to report 14% growth in PLS business in H1FY10 but also able to garner 5 new contracts in CMO and DDS business. We believe this demonstrate the underlying strength in Jubilant's business model and its growing influence in the CRAMS space. On the back of these new contracts and strong visibility in the existing CRAMS business, management has revised its operating margins guidance by 50% to 45% growth over last year and maintained its revenue guidance of 15%.

Going forward, strong cash flow, disciplined financial planning and enabling resolution to raise fresh capital will enable Jubilant to strengthen its balance sheet and address investors concern towards high debt. Moreover, strong order-book and new contracts have improved revenue and earnings visibility. Its strategic decision to focus on high growth high margin PLS space and de-risk itself from commodity business has already started paying dividend. In Q2FY10, the contribution from PLS business in overall profitability is as high as 90%. Further company has also decided to hive-off its performance polymer division in order to have more focus on its core business.

On the back of improved visibility and new contracts, we have revised our earning estimates by 11%/7% for FY10E/FY11E respectively. We have also revised our target price from Rs245 to Rs322 (8x FY11E EV/EBIDTA) and add Jubilant in our convincing buy list. At CMP of Rs 237, the stock is trading at 7.9x FY10E PE/ 8.5x EV/EBIDTA and 6.5x FY11E PE / 6.7x FY11E EV/EBIDTA (30% discount to comparable peers). At our target price of Rs322, the stock provides an upside potential of 36%.

Peer Comparison

	CMP	EPS		EPS Growth		EV/EBIDTA		EV/Sales		P/E		P/BV		RoE	
		FY10	FY11	FY10	FY11	FY10	FY11	FY10	FY11	FY10	FY11	FY10	FY11	FY10	FY11
Dishman	260	20.4	24.5	98%	20%	9.4	7.7	2.3	1.9	12.8	10.6	2.5	2.0	21.3	21.0
Piramal	391	22.6	27.0	34%	19%	10.8	9.7	2.2	2.0	17.3	14.5	5.0	4.0	31.9	30.7
Divis	565	30	36	-57%	22%	15.3	12.6	6.0	5.0	18.9	15.6	4.6	3.6	27.5	26.1
				<b>Avg</b>		<b>11.8</b>	<b>10.0</b>	<b>3.5</b>	<b>3.0</b>	<b>16.3</b>	<b>13.6</b>	<b>4.0</b>	<b>3.2</b>		
Jubilant	237	30.1	36.6	37%	22%	8.5	6.7	1.8	1.4	7.9	6.5	2.1	1.6	24.9	24.5

Financials

Y/E, Mar (Rs. mn)	Q2FY10	Q2FY09	YoY Gr.(%)	Q1FY10	YoY Gr.(%)	H1FY10	H1FY09	YoY Gr.(%)	FY10E	FY11E
<b>Net Sales</b>	<b>9331</b>	<b>9405</b>	<b>-1%</b>	8964	<b>4%</b>	<b>18295</b>	<b>17671</b>	<b>4%</b>	<b>40092</b>	<b>45517</b>
<b>Expenses</b>	7480	7632	<b>-2%</b>	7318	<b>2%</b>	14822	14240	<b>4%</b>	<b>31873</b>	<b>36050</b>
<b>Raw Materials</b>	4221	4171	<b>1%</b>	4139	<b>2%</b>	8360	7998	<b>5%</b>	15155	17160
<b>% of sales</b>	45.2	44.3		46	<b>-2%</b>	45.7	45.3		<b>37.8</b>	<b>42.8</b>
<b>Employee cost</b>	1885	1716	<b>10%</b>	1832	<b>3%</b>	3717	2972	<b>25%</b>	7497	8512
<b>% of sales</b>	20.2	18.2		20	<b>-1%</b>	20.3	16.8		<b>19</b>	<b>19</b>
<b>Other expenses</b>	1375	1745	<b>-21%</b>	1371	<b>0%</b>	2745	3270	<b>-16%</b>	9221	10378
<b>% of sales</b>	14.7	18.6		15	<b>-4%</b>	15.0	18.5		<b>23</b>	<b>23</b>
<b>EBIDTA</b>	<b>1851.1</b>	<b>1772.6</b>	<b>4%</b>	1622	<b>14%</b>	<b>3473.2</b>	<b>3430.9</b>	<b>1%</b>	<b>8218.9</b>	<b>9467.6</b>
<b>EBIDTAM%</b>	<b>19.8%</b>	<b>19%</b>	<b>100 bps</b>	<b>18.1%</b>	<b>170 bps</b>	<b>19.0%</b>	<b>19.4%</b>	<b>(40) bps</b>	<b>20.5</b>	<b>20.8</b>
<b>Other income</b>	66	71	<b>-7%</b>	71	<b>-8%</b>	137	145	<b>-6%</b>	275	197
<b>Interest</b>	363	221	<b>65%</b>	407	<b>-11%</b>	770	358	<b>115%</b>	1581	1362
<b>Depreciation</b>	308	411	<b>-25%</b>	308	<b>0%</b>	616	747	<b>-18%</b>	1357	1485
<b>PBT core</b>	1246	1212	<b>3%</b>	978	<b>27%</b>	2224	2470	<b>-10%</b>	5556	6817
<b>Exceptional Items</b>	-428	-1742		490	<b>-187%</b>	63	-2818			
<b>PBT</b>	817.8	-529.7	<b>-254%</b>	1469	<b>-44%</b>	2286.5	-347.5	<b>-758%</b>	5556.1	6816.7
<b>Total Tax</b>	239.6	166.0	<b>44%</b>	223	<b>7%</b>	463.0	227.3	<b>104%</b>	1000	1295
<b>Effective tax rate (%)</b>	29.3	-31.3	<b>-193%</b>	15	<b>93%</b>	20.2	-65.4	<b>-131%</b>	18	19
<b>PAT</b>	578.2	-695.7	<b>-183%</b>	1245	<b>-54%</b>	1823.5	-574.8	<b>-417%</b>	4556	5522
<b>MI</b>	1.4	68.5	<b>-98%</b>	-13	<b>-111%</b>	-11.5	-75.2	<b>-85%</b>	16	17
<b>PAT (After MI)</b>	<b>576.8</b>	<b>-695.7</b>	<b>-183%</b>	1258	<b>-54%</b>	<b>1835.0</b>	<b>-499.6</b>	<b>-467%</b>	<b>4689</b>	<b>5655</b>
<b>Realized forex loss</b>	0	0		0		0	0		0	0
<b>APAT Ex Excp Item</b>	<b>1005.9</b>	<b>1046.2</b>	<b>-4%</b>	841	<b>20%</b>	<b>1847.2</b>	<b>2099.8</b>	<b>-12%</b>	<b>4689</b>	<b>5655</b>
<b>Net Margin (%)</b>	<b>10.8</b>	<b>11.1</b>		9.4		<b>10.1</b>	<b>11.9</b>		<b>11.7</b>	<b>12.4</b>
<b>FDEPS</b>	<b>6.8</b>	<b>7.1</b>	<b>-4%</b>	5.7	<b>20%</b>	<b>12.5</b>	<b>14.2</b>	<b>-12%</b>	<b>30.1</b>	<b>36.6</b>

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10E	FY11E	FY12E
<b>Net Sales</b>	<b>35180</b>	<b>40092</b>	<b>45517</b>	<b>50764</b>
Growth (%)	41	14	14	12
<b>Expenses</b>	<b>29457</b>	<b>31873</b>	<b>36050</b>	<b>39900</b>
Growth (%)	45	8	13	11
Raw Materials	13502	15155	17160	19036
% of sales	38	38	38	38
Employee cost	6575	7497	8512	9442
% of sales	19	19	19	19
Manufacturing exps	4958	5493	6190	6853
% of sales	14	14	14	14
Selling & Dist exps	4422	3729	4188	4569
% of sales	13	9	9	9
<b>EBIDTA</b>	<b>5723</b>	<b>8219</b>	<b>9468</b>	<b>10863</b>
Growth (%)	24	44	15	15
<b>EBIDTA %</b>	<b>16.3</b>	<b>20.5</b>	<b>20.8</b>	<b>21.4</b>
Other income	425	275	197	126
Interest	1070	1581	1362	1455
Depreciation	1632	1357	1485	1533
Non recu. Expenses	479	1375	1375	0
<b>PBT</b>	<b>2966</b>	<b>5556</b>	<b>6817</b>	<b>8001</b>
Total Tax	267	1000	1295	1520
Effective tax rate (%)	9	18	19	19
<b>PAT ( Before E/O items)</b>	<b>2698</b>	<b>4556</b>	<b>5522</b>	<b>6481</b>
Profit from Ass.	133	133	133	133
<b>RPAT</b>	<b>2832</b>	<b>3314</b>	<b>4280</b>	<b>6614</b>
<b>E/O Inc. (Forex Gain)</b>				
<b>Adjusted PAT</b>	<b>3239</b>	<b>4442</b>	<b>5407</b>	<b>6614</b>
Growth (%)	5	37	22	22
Net Margin (%)	9.2%	11.1%	11.9%	13.0%

## Cash Flow

Y/E, Mar (Rs. mn)	FY08	FY09E	FY10E	FY11E
<b>PBT- Core</b>	<b>3020</b>	<b>5281</b>	<b>6620</b>	<b>7876</b>
Other Income	424.9	275.2	196.9	125.7
<b>Pre-tax profit</b>	<b>3445</b>	<b>5556</b>	<b>6817</b>	<b>8001</b>
Depreciation	1632	1357	1485	1533
Pre-operative exp.	0	0	0	0
Chg in working cap	556	173	(530)	(3747)
Tax paid	(267)	(1000)	(1295)	(1520)
<b>Operating cash Inflow</b>	<b>5366</b>	<b>6086</b>	<b>6477</b>	<b>4267</b>
Investments	(2257)	0	0	0
Capital expenditure	(20142)	(2500)	(2000)	(1500)
Non recurring exp.	(479)	0	0	0
<b>Free Cash Flow</b>	<b>(17513)</b>	<b>3586</b>	<b>4477</b>	<b>2767</b>
Equity Capital Raised	-112	-535	-218	-3085
Loans Taken / (Repaid)	17697	-3550	-6536	0
Dividend (incl tax)	(257)	(259)	(259)	(259)
Others	-1117	133	28	235
Minority Interest	-106	0	0	0
Increase in Mlsc Exp	(13)	0	0	0
<b>Net chg in cash</b>	<b>(1421)</b>	<b>(625)</b>	<b>(2508)</b>	<b>(342)</b>
<b>Opening cash position</b>	<b>5238</b>	<b>3817</b>	<b>3192</b>	<b>684</b>
<b>Closing cash position</b>	<b>3816</b>	<b>3192</b>	<b>684</b>	<b>342</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10E	FY11E	FY12
Equity share capital	148	148	148	148
Share Application Money	0	0	0	0
Share Premium	3858	3333	3115	30
Other Reserves	8670	13090	18486	24841
<b>Networth</b>	<b>12675</b>	<b>16571</b>	<b>21748</b>	<b>25019</b>
<b>Deferred tax liability</b>	<b>1151</b>	<b>1151</b>	<b>1151</b>	<b>1151</b>
<b>Minority Int.</b>	<b>320</b>	<b>320</b>	<b>320</b>	<b>320</b>
Secured Loans	27097	23547	19547	26749
Unsecured Loans	1943	1943	1943	1943
FCCB	9741	9741	7100	0
<b>Loan Funds</b>	<b>39101</b>	<b>35551</b>	<b>28909</b>	<b>29011</b>
<b>Total Liabilities</b>	<b>52927</b>	<b>53272</b>	<b>51809</b>	<b>55181</b>
Gross Block	46483	54014	56014	57514
Less: Depreciation	9033	10389	11875	13407
<b>Net block</b>	<b>37450</b>	<b>43624</b>	<b>44139</b>	<b>44106</b>
<b>Capital work in progress</b>	<b>5031</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Investment</b>	<b>2714</b>	<b>2714</b>	<b>2714</b>	<b>2714</b>
<b>Current Assets</b>	<b>19672</b>	<b>19432</b>	<b>18930</b>	<b>20401</b>
Inventories	5956	6231	6881	7596
Sundry debtors	5044	5680	6448	6980
Cash & bank balance	3817	3192	684	342
Loans & advances	4855	4330	4916	5483
Other assets	0	0	0	0
<b>Current liabilities</b>	<b>11943</b>	<b>12502</b>	<b>13977</b>	<b>12044</b>
Current liabilities	7365	8031	9071	10013
Provisions	2236	1604	1821	2031
Prov. For FCCB	2342	2867	3085	0
<b>Net current assets</b>	<b>7729</b>	<b>6931</b>	<b>4953</b>	<b>8357</b>
<b>Misc. expenditure</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
<b>Total Assets</b>	<b>52927</b>	<b>53272</b>	<b>51809</b>	<b>55181</b>

## Key Ratios (%)

Y/E, Mar	FY08	FY09E	FY10E	FY11E
<b>Per Share Data (Rs)</b>				
DEPS	21.9	30.1	36.6	44.8
FDEPS (Consolidated)	22.0	30.1	36.6	44.8
Cash EPS (x)	33.0	41.0	48.8	55.8
Book Value (x)	88.0	114.4	149.5	171.7
<b>Valuations</b>				
PER (x) (consolidated)	10.8	7.9	6.5	5.3
Price / BV (x)	2.7	2.1	1.6	1.4
EV / Net Sales (x)	2.1	1.8	1.4	1.3
EV / EBITDA (x)	12.9	8.5	6.7	5.9
DPS (Rs)	1.5	1.5	1.5	1.5
Dividend Yield (%)	0.6	0.6	0.6	0.6
<b>Returns (%)</b>				
RoCE	9.6	13.2	15.5	17.8
RoNW	25.2	31.4	29.4	28.2
<b>Turnover (x) Days</b>				
Debtors T/O	51.6	51.0	51.0	49.5
Inventory T/O	69.0	67.5	66.0	66.0
<b>Gearing Ratio</b>				
Net debt/ Equity (x)	2.7	1.9	1.3	1.1
<b>Interest Coverage Ratio</b>	<b>3.8</b>	<b>4.3</b>	<b>5.9</b>	<b>6.4</b>

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