

Attractive Valuation

OUTPERFORMER

J B Chemicals & Pharmaceuticals (JBCPL) has reported excellent results for 4QFY06. Net sales for the quarter grew by 38%, operating profit by 74% and net profit by 35%. The operating margin improved by 360 bps from 13.5% to 17.1%. Both Domestic and Export sales reported healthy growth of 63% and 26% respectively. JBCPL is giving thrust to Russia and CIS business due to the good economic growth of these countries.

- JBCPL has reported 63% YoY growth in domestic sales from Rs. 304 million to Rs. 495 million with strong growth in the API segment. The higher domestic growth is partly attributed to the lower sales in 4QFY05 due to uncertainties of VAT introduction and issues related to MRP-based excise duties. Export sales grew by 26% from Rs. 540 million to Rs. 682 million. The ratio of Export: Domestic sales were 58: 42 for the quarter. Export of formulations was up by 29% from Rs. 489 million to Rs. 629 million. This is attributed to strong growth of **Rinza** in Russia and CIS countries. The sales composition is shown in the following table:

Table 1: Sales Composition

PARTICULARS (Rs. Million)	4QFY06	4QFY05	% CHANGE	FY06	FY05	% CHANGE
DOMESTIC-FORMULATIONS	455	296	54	1903	1519	25
DOMESTIC-API	40	8	410	217	83	161
DOMESTIC-TOTAL	495	304	63	2121	1603	32
EXPORT-FORMULATIONS	629	489	29	2495	1984	26
EXPORT-API	37	44	-17	138	126	9
EXPORT-GAIN	16	8	116	63	3	1750
EXPORT-TOTAL	682	540	26	2696	2114	28
TOTAL	1177	844	39	4816	3716	30

- The sales of API in the domestic market exhibited strong YoY growth of 410% on a low base. The formulation business in the domestic and export market grew by 54% and 29% respectively.

Operating Margin Improved

- JBCPL's operating profit was up by 74% from Rs. 112 million to Rs. 195 million. The operating margin grew by 360 bps from 13.5% to 17.1%. JBCPL's material cost increased by 540 bps from 25.8% to 31.2% of net sales due to the change in the product mix with higher domestic sales. Other expenses declined by 840 bps from 46.4% to 38.0% of net sales due to the cost reduction measures and strong sales growth.
- The company's interest cost increased by 73% from Rs. 11 million to Rs. 19 million due to the increase in working capital.

Improvement in Net Profit

- JBCPL's net profit grew by 35% from Rs. 115 million to Rs. 155 million due to the improvement in operating margin.

Table 2: Quarterly Results

PARTICULARS (in Rs. Million)	4Q06 MAR 2006	4Q05 MAR 2005	% CHANGE	CONSO.YEAR MAR 2006	END MAR 2005	% CHANGE
Gross sales	1177	844	39.5	4824	3735	29.2
Excise duty	36	14	157.1	167	142	17.6
Net sales	1141	830	37.5	4657	3593	29.6
Total expenses	946	718	31.8	3783	2920	29.6
as % of Net Sales	82.9%	86.5%		81.2%	81.3%	
Raw & Pkg Materials	343	215	59.5	1673	1237	35.2
(Inc.)/Dec. in stock	12	-1	NA	-57	-77	NA
Personnel Expenses	157	119	31.9	592	495	19.6
Other Expenses	434	385	12.7	1575	1265	24.5
Operating Profit	195	112	74.1	874	673	29.9
as % of Net Sales	17.1%	13.5%		18.8%	18.7%	
Other Income	29	26	11.5	114	129	-11.6
EBIDTA	224	138	62.3	988	802	23.2
as % of Net Sales	19.6%	16.6%		21.2%	22.3%	
Interest	19	11	72.7	54	35	54.3
Depreciation	25	17	47.1	107	105	1.9
PBT	180	110	63.6	827	662	24.9
Prov. for Tax-current	12	-19	NA	98	49	102.1
Prov. for Tax-deferred	5	14	-64.3	12	30	-60.0
Tax prov. FBT/earlier year	8	0	NA	15	0	NA
as % of PBT	13.9%	-4.3%		15.1%	11.9%	
PAT	155	115	35.1	702	583	20.4
Equity Capital	161	161	0.1	161	161	0.1
EPS Rs. (annualised)	7.7	5.7	35.0	8.7	7.3	20.3

- For FY06, on consolidated basis, JBCPL reported 30% YoY growth in net sales from Rs. 3.59 billion to Rs.4.66 billion. Operating profit was up by 30% from Rs. 673 million to Rs. 874 million. However, operating margin was marginally up by 10 bps from 18.7% to 18.8%. Net profit grew by 20% from Rs. 583 million to Rs. 702 million.

Preferential Issue

- **JBCPL issued 3.9 million equity shares to New Vernon Equity on preferential basis @ Rs. 114 per share (Rs. 2 face value+ Rs. 112 premium) aggregating to Rs.445 million.** The funds are likely to be utilized for the company's growth plans. The promoter's holding has come down from 58% to 55% after the preferential issue.
- JBCPL has set up 100% subsidiary in Russia and has plans to invest \$3 million (Rs. 137 million) in creating a warehouse and hospital field force for Russia and CIS countries.

Other Developments

- JBCPL has plans to introduce new products through in licensing and is likely to introduce one product in 2QFY07 for the treatment of osteoporosis. The company has plans to open new division in July'06 for the domestic market.
- The company has licensed it Doktor Mom brand to Ranbaxy Labs for the Romanian markets. JBCPL has plans to license Doctor Mom in countries where it does not have presence.
- JBCPL generated revenues of Rs. 2.14 billion (29% growth) from Russia and CIS countries in FY06. The company has 52 distributors and 160 MRs for Russia and CIS markets. It has spent Rs. 131 million on TV advertisement in Russia and CIS countries.
- Doktor Mom and Rinza have generated sales of Rs. 740 million (17% growth) and 592 million (48% growth) respectively. Both these products collectively contribute around 29% to the company's top line.
- JBCPL is developing 2 products for Taro, US and 15 OTC products for Pharm-a-care, Australia.
- JBCPL has plans to invest Rs. 650 million on Capex for new SVP/LVP facility and multipurpose API facility at Panoli. The company has spent Rs. 180 million for these projects in FY06.
- The CMP of Rs. 97 discounts the FY07E EPS of Rs. 11.2 by 8.7x and FY08E EPS of Rs. 14.4 by 6.7x. We expect the scrip to be **Market Outperformer**.

Income Statement- Consolidated

Particulars	FY04A	FY05A	FY06A/E	FY07E	FY08E
(Rs. Million)					
Net sales	3019	3593	4657	5934	7281
Operating expenses	2371	2920	3783	4783	5805
Operating profit	648	673	874	1151	1476
Other income	118	129	114	135	150
EBIDTA	766	802	988	1286	1626
Depreciation	94	105	107	115	125
Interest	22	35	54	55	46
PBT	649	662	827	1116	1455
Tax-current+deferred+FBT	142	79	125	175	240
Net profit	508	584	702	941	1215
EPS Rs.	6.3	7.3	8.7	11.2	14.4

Source: Company, HDFC Sec. Estimates

Balance Sheet-Consolidated

Particulars (Rs. Million)	FY04A	FY05A	FY06A/E	FY07E	FY08E
Share Capital	161	161	161	168	168
Reserves & surplus	2317	2681	3145	4254	5181
Total debt	429	650	800	650	500
Deferred tax	113	143	155	170	190
Capital employed	3019	3635	4260	5242	6039
Net block	1282	1344	1466	1901	2126
Capital WIP	0	4	20	25	10
Investments	28	29	30	40	50
Current assets, loans & adv.	2259	2736	3496	4185	4901
Less: Current liability & prov.	549	478	751	909	1048
Misc. expenses	0	0	0	0	0
Capital deployed	3019	3635	4260	5242	6039

Source: Company, HDFC Sec. Estimates

Ratio

Particulars (Rs. Million)	FY04A	FY05A	FY06A/E	FY07E	FY08E
Revenue growth (%)	9.8%	19.0%	29.6%	27.4%	22.7%
Operating margin (%)	21.5%	18.7%	18.8%	19.4%	20.3%
EBIDTA margin (%)	25.4%	22.3%	21.2%	21.7%	22.3%
Net margin (%)	16.8%	16.2%	15.1%	15.9%	16.7%
P/E (x)	15.3	13.3	11.1	8.7	6.7
ROCE (%)	17.6%	17.0%	17.7%	19.0%	20.9%
RONW (%)	20.5%	20.5%	21.2%	21.3%	22.7%
EV/EBIDTA	10.7	10.5	8.7	6.9	5.3
Book Value	30.9	35.4	41.2	52.5	63.5
P/BV (x)	3.1	2.7	2.4	1.8	1.5
EPS growth (%)	4.6%	14.9%	20.3%	27.8%	29.1%

Source: Company, HDFC Sec. Estimates

Cash Flow

Particulars	FY04A	FY05A	FY06A/E	FY07E	FY08E
(Rs. Million)					
PBT	649	662	827	1116	1455
Less: current tax	134	71	113	160	220
Add: depreciation	94	105	107	115	125
Add: interest exp.	22	35	54	55	46
Changes in WC	-284	-505	-1096	-738	-1239
Operating cash flow	348	226	-209	403	187
Change in debt	278	228	150	-150	-150
Dividend	-247	-244	-238	-269	-288
Financing cash flow	31	-16	442	182	184
Investing cash flow	-420	-173	-212	-545	-365
Total cash flow	-41	37	21	39	6
Opening balance	99	58	95	116	155
Closing balance	58	95	116	155	161

Source: Company, HDFC Sec. Estimates

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