

J. B. CHEMICALS & PHARMACEUTICALS LTD.

From Russia, with love...

Q2 FY 2007 update

COMPANY DETAILS

Auditors	M/S J. K. Shah & Co.
Chairman	Mr. J. B. Mody
Regd. Office	Neelam Centre, 4th Floor, B Wing, Hind Cycle Road, Worli, Mumbai - 400025, Maharashtra.
Website	www.jbcpl.com

SCRIPT DETAILS

Market Capitalisation	Rs. 7.4 bn.
Book Value per share	Rs. 41
Equity Shares O/S (F.V. Rs 2)	84.3 mn.
Median Volumes (12 mths)	74,400 (BSE+NSE)
52 Week High/Low	Rs. 140 / 74
BSE Scrip Code	506943
NSE Scrip Code	JBCHEMPHARM
Reuters Code	JBCH.BO
Bloomberg Code	JBCP@IN

SHAREHOLDING PATTERN (%)

Qtr. Ended	Mar-06	Jun-06	Sep-06
Promoters	58.9	55.5	55.5
MFs/FIs	4.9	4.2	4.1
FIIIs/NRIs/OCBs	3.4	8.7	8.8
PCB	5.1	4.7	4.7
Indian Public/ Others	27.7	26.9	27.1
Eq, Shares (Mn nos.)	80.4	84.3	84.3

KEY FINANCIALS (STANDALONE)

Rs Mn	Quarter Ended			Year Ended (March)		
	Mar-06	Jun-06	Sep-06	2006	2007E	2008E
Net Sales	1,141	1,063	1,481	4,660	5,350	6,050
YoY Gr (%)	37.5	12.3	16.6	30.1	14.8	13.1
Op. Profits	195	150	336	879	1,040	1,178
Op. Marg. (%)	17.1	14.1	22.7	18.9	19.4	19.5
Net Profit	155	130	276	709	810	923
Eq Capital	161	169	169	161	169	169

KEY RATIOS

Year Ended (March)	EPS (Rs.)	ROCE (%)	RONW (%)	P/E (x)	EV/Sales (x)	EV/EBIDT (x)
2006	8.8	15.3	22.9	10.4	1.7	7.8
2007E	9.6	16.1	22.6	9.6	1.4	6.7
2008E	10.9	16.0	22.3	8.4	1.3	5.9

SUMMARY

- JB Chemicals & Pharmaceuticals Ltd (JBCPL) reported a 17% YoY growth in net sales to Rs 1.5 bn in Q2FY07. Both domestic and exports business contributed to the growth.
- Despite a mere 12% rise in material costs and 9% increase in other expenditure, OPM fell 60 bps to 22.7%, mainly due to a 63% rise in staff costs to Rs 211 mn. This was a result of the company increasing its field force in domestic and overseas markets, in a bid to counter the slowing sales growth. Thus, operating profits grew by 14% to Rs 336 mn, driven by the volume growth.
- A 9% increase in other income to Rs 45 mn was negated by increase in capital charges. Interests costs more than doubled to Rs 25 mn, whereas depreciation increased by 18% to Rs 36 mn. As a result, PBT grew at 8% to Rs 320 mn in Q2FY07.
- However, a decline in effective tax rate by 300 bps, led to a 12% rise in net profit to Rs 276 mn.
- The equity capital has increased by 5% to Rs 169 mn, following the preferential allotment of 3.9 mn shares to M/s New Vernon Pvt. equity Ltd, at a price of Rs 114, in Apr '06.
- During Q2FY07, JBCPL set up a 100% subsidiary in Russia called "OOO Unique Pharmaceutical Laboratories" to service small and regional distributors and to increase availability of its products in the Russian markets.
- *At the CMP of Rs 92, the stock is trading at a P/E of 9.6x, EV/Sales of 1.4x and EV/EBIDTA of 6.7x, discounting its FY07E numbers. This is at a discount vis-a-vis it's peers and also on an absolute basis given the double digit growth expected in sales and earnings. Hence, we maintain our 'BUY' recommendation.*

Nov 10, 2006

Sensex :13283

Nifty : 3835

CMP : Rs . 92

Recomm : BUY

JB Chemicals and Pharmaceuticals Ltd (JBCPL) is India's leading second-tier pharma company with strong focus on exports. Promoted by the Mody family, the company boasts an extremely competent and conservative management.

In domestic market, *Metrogyl* (amoebicide), *Nicardia* (hypertension), *Rantac* (anti-ulcerant) and *OF* (Anti-infectives) are among the leading brands in their respective segments and contribute ~80% of sales. Due to onset of product patent regime, the share of these four strong brands should remain high going forward despite single digits growth rates. However, the company is also looking for in-licensing of brands for the domestic market to boost growth prospects.

Meanwhile, Russia and CIS markets are likely to remain the growth driver and contribute ~44% of the company's revenues. JBCPL operates in 13 countries in the region with 3 offices, 52 distributors and 160 medical representatives. It is also the second largest Indian pharmaceutical company after Dr Reddys and is in the top 30 companies in the Russian market.

JBCPL has a strong sales force in these countries for servicing trade channel and prescription drugs. JBCPL is a steady advertiser in the Russian market as 70% of its sales accrue from OTC (Over the Counter) products, which do not require doctor prescriptions.

Of this region's sales, ~35% are accounted for by 'Doktor Mom'—a cough and cold syrup, cold rub and lozenges, which is well recognised in Russia.

The other growth plank of the company's business is the semi-regulated markets. The largest markets in this business unit for the company currently are—Vietnam, Algeria, Sri Lanka, Malaysia and Thailand.

JBCPL is entering the high growth CRAMS business in a bid to further diversify its revenue stream. Its main

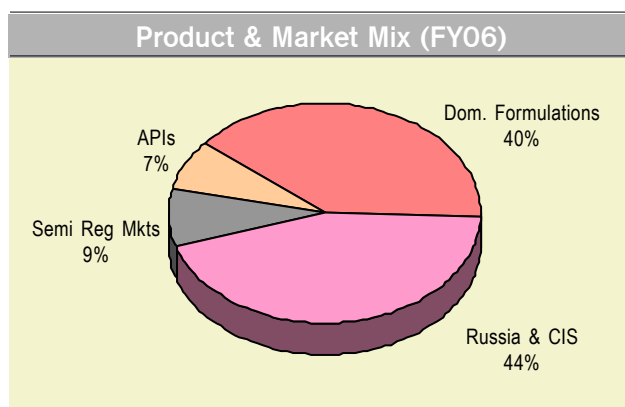
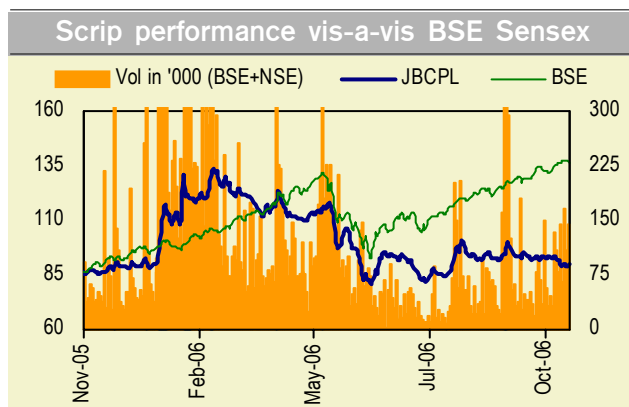
focus will be two-fold viz. contract development of dossiers or even finished dosages for other generic companies operating in regulated markets and contract manufacturing of OTC products for multinational pharmaceutical companies. The company already has a couple of projects in hand and is likely to scale up this business. Orders in hand include contract development for generic companies in USA and EU as well as contract manufacturing of 15 OTC products for an Australian company and 4 products for a South African client.

Management expects ticket size of each order to be in the region of \$1–2 mn with net margins in the 15%-20% range. While order size is low, the margins are reasonable and helps to optimally utilize its various manufacturing facilities.

During Q2FY07, JBCPL set up a 100% subsidiary in Russia called "OOO Unique Pharmaceutical Laboratories" to service regional distributors and to ensure availability of its products in the markets. As there is a lack of product pipeline for the domestic market, it is taking steps to increase marketshare in its key exports markets like Russia and CIS.

We have marginally reduced our FY07 estimates. We now expect the company to report net sales of Rs 5.4 bn (15% growth) and net profit of Rs 810 mn (14% growth). Net sales are expected to grow by 13.1% in FY08 to Rs 6 bn, while net profits are expected to rise by 14% to Rs 923 mn.

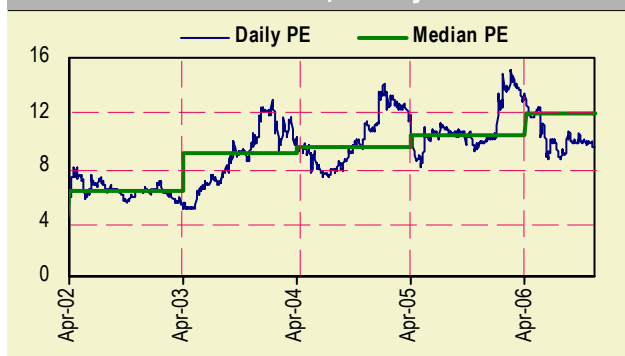
At the CMP of Rs 92, the stock is trading at a P/E of 9.6x and EV/EBIDTA of 6.7x, discounting its FY07E numbers. Despite the slightly lower growth in H1FY07, the stock continues to be attractively priced given its double digit growth prospects in the medium term. Hence we maintain our 'BUY' recommendation.



Financial results for the quarter & half year ended Sep 30, 2006 (Standalone)

Particulars (Rs mn)	Quarter Ended			Half Year Ended			Yr Ended
	30/09/06	30/09/05	Gr %	30/09/06	30/09/05	Gr %	31/03/06
Gross Sales	1,549	1,315	17.8	2,612	2,304	13.4	4,816
Less: Excise Duty	68	44		118	87		156
Net Sales	1,481	1,271	16.6	2,494	2,217	12.5	4,660
Total Expenditure	1,145	975	17.5	2,008	1,774	13.1	3,781
(inc) / Dec in Stock	45	(25)		27	(57)		(56)
Materials	494	509		923	946		1,715
Staff Cost	211	129	63.4	365	258	41.4	572
Other Exp	395	362	9.2	693	627	10.4	1,549
Operating Profit	336	296	13.6	486	443	9.9	879
Other Income	45	41	9.0	94	74	28.4	116
PBIDT	381	337	13.0	581	516	12.5	994
Interest	25	10	157.7	46	22		54
Depreciation & Amortisation	36	30	18.3	63	60	4.2	107
PBT	320	297	7.7	472	434	8.8	833
Provision for Tax	32	45		52	62		98
Deferred Tax	10	4		10	4		12
Fringe Benefit Tax	3	4		5	5		15
Net Profits	276	245	12.4	406	364	11.6	709
Equity Capital	169	161		161	161		161
Reserves & Surplus	-	-		-	-		3170
EPS for the period (Rs)	3.3	3.1	7.1	5.1	4.5	11.6	8.8
Book Value per share (Rs)	-	-		-	-		41.4
OPM (%)	22.7	23.3		19.5	20.0		18.9
NPM (%)	18.6	19.3		16.3	16.4		15.2
Exp (% of Sales)							
Materials consumed (net of stock adjust.)	36.4	38.1		38.1	40.1		35.6
Staff Cost	14.2	10.1		14.6	11.7		12.3
Other Exp	26.7	28.5		27.8	28.3		33.2

Median PE v/s Daily PE



PE Band



Team

Equity Desk

R. Baskar Babu - *Head - Equity Broking* baskarb@pinc.co.in 91-22-66186400

Research

Bhavin Chheda - *Metals & Mining* bhavinc@pinc.co.in 91-22-66186375
(Head of Research)
Sameer Ranade - *Capital Goods / Utilities* sameerr@pinc.co.in 91-22-66186381
Nirjhar Handa - *FMCG / Pharma* nirjharh@pinc.co.in 91-22-66186400
Sujit Jain - *Fertilisers / Agro products* sujitj@pinc.co.in 91-22-66186379
Amol Rao - *Hospitality / Pipes* amolr@pinc.co.in 91-22-66186378
Nirav Shah - *Sugar* niravs@pinc.co.in 91-22-66186383
Nakul Dharmawat - *Cement* nakuld@pinc.co.in 91-22-66186382
Kalpesh Makwana - *Specialty Chemicals / Pharma* kalpeshm@pinc.co.in 91-22-66186377
Rishabh Bagaria - *Auto / Auto Ancillary* rishabhb@pinc.co.in 91-22-66186391
Ruchir Desai - *Technology* ruchird@pinc.co.in 91-22-66186372
Syed Sagheer - *Logistics / Light Engineering* syeds@pinc.co.in 91-22-66186390
Chandana Jha - *Associate - Banking* chandanaaj@pinc.co.in 91-22-66186398
Dipti Solanki - *Associate - Media* diptis@pinc.co.in 91-22-66186392
Rahhul Aggarwal - *Associate - Steel* rahhula@pinc.co.in 91-22-66186388
Faisal Memon - *Associate - Logistics* faisalM@pinc.co.in 91-22-66186389
Abhishek Gangwani - *Associate* abhishekg@pinc.co.in 91-22-66186385

Institutional Sales:

Jaykrishna Gandhi jaykrishnag@pinc.co.in 91-22-66186327
Rajesh Khanna rajeshk@pinc.co.in 91-22-66186328

Dealing

Bhavik Broker / Chetan Trivedi equity@pinc.co.in 91-22-66186306
Manoj Parmar / Raju Bhavsar equity@pinc.co.in 91-22-66186323

Business Development / New initiatives:

Sachin Kasera sachink@pinc.co.in 91-22-66186384

Derivative Desk

Sailav Kaji - *Strategy* sailavk@pinc.co.in 91-22-66186341
Anand Kuchelan - *Analyst* anandk@pinc.co.in 91-22-66186349
Nilesh G. Inamdar - *Dealer* nileshg@pinc.co.in 91-22-66186347

PMS Desk

Vivek Agrawal viveka@pinc.co.in 91-22-66186373
Hormasd Sumariwalla hormasds@pinc.co.in 91-22-66186389

Directors

Gaurang Gandhi gaurangg@pinc.co.in 91-22-66186400
Girish Bakre girishb@pinc.co.in 91-22-66186400
Hemang Gandhi hemangg@pinc.co.in 91-22-66186400
Ketan Gandhi ketang@pinc.co.in 91-22-66186400
Rakesh Bhatia - *Head Compliance* rakeshb@pinc.co.in 91-22-66186400

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