Jubilant Lifesciences

BSE SENSEX	S&P CNX
18,301	5,482

Bloomberg	JOL IN
Equity Shares (m)	170.0
52-Week Range (Rs)	406/182
1,6,12 Rel. Perf. (%)	-27/-47/-55
M.Cap. (Rs b)	31.5
M.Cap. (US$ b)	0.7

Rs185 — Neutral

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	37,813	4,215	26.5	38.3	7.0	1.3	24.4	12.7	1.5	7.4
03/11E	37,392	2,462	14.5	-45.5	12.8	1.3	10.5	7.0	1.5	9.9
03/12E	38,753	2,569	15.1	4.4	12.2	1.3	10.3	8.0	1.5	9.1
03/13E	44,705	3,650	21.5	42.1	8.6	1.1	13.9	10.5	1.3	7.2

Jubilant Lifesciences' 3QFY11 results were disappointing due to pricing pressure, delayed orders and a high base.

Key highlights:

- The company's 3QFY11 top-line was flat at Rs8.65b, EBITDA declined by 40.9% YoY to Rs1.3b and adjusted PAT declined by 56.2% YoY to Rs441m mainly due to poor operational performance.
- The life science products business' revenue grew 13% YoY to Rs7b (contributing 81% of revenue) led by volume growth of 17% YoY and the life science services business reported a 32% YoY decline in revenue to Rs1.67b mainly due to 34% de-growth in the CMO business and 29% de-growth in drug discovery and development services (DDDS).
- EBITDA declined by 40.9% YoY to Rs1.3b due to an adverse revenue mix leading to suboptimal cost absorption and EBITDA margins were 15% (down 1,040bp). Jubilant's life sciences products business faced YoY pricing pressure. In the services business, unabsorbed fixed cost due to postponement of orders, delayed milestone payments and underutilization of capacity impacted margins.
- Adjusted PAT declined by 56.2% YoY to Rs441m led by poor operational performance and higher tax expenses. However, a decline in PAT was partly restricted by a 25.6% YoY decline in interest costs due to transfer of some debt to the de-merged entity, Jubilant Industries.

We believe the de-merger of the APP business is a positive step, as it reflects the management's intention to adopt a focused approach for the PLSPS business. The de-merger will also lead to improvement in Jubilant's RoCE. We believe Jubilant is facing challenges in its key businesses led by pricing pressure and delayed customer orders and execution. The management needs to demonstrate it can reverse some of these headwinds in the coming quarters. We also believe some of the past acquisitions (like Draxis) have been made at expensive valuations, resulting in extended payback periods and lower returns ratios. High debt, large FCCB redemption (US$202m in May 2011 including YTM) and low RoCE (11-13%) are an overhang. Based on our revised estimates, the stock trades at 12.8x FY11E EPS, 12.2x FY12E EPS and 8.6x FY13E EPS. Our estimates take into account increased interest costs related to the re-financing of FCCB redemption (worth US$202m) for FY12E. Maintain **Neutral.**

QUARTERLY PERFORMANCE (Rs Million)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	**8,964**	**9,331**	**9,615**	**9,903**	**9,815**	**9,876**	**8,665**	**9,036**	**37,813**	**37,392**
YoY Change (%)	*8.4*	*-0.8*	*5.7*	*17.7*	*9.5*	*5.8*	*-9.9*	*-8.8*	*7.5*	*-1.1*
Total Expenditure	7,342	7,480	7,364	7,740	8,249	8,326	7,368	7,609	29,926	31,552
EBITDA	**1,622**	**1,851**	**2,251**	**2,163**	**1,567**	**1,549**	**1,297**	**1,427**	**7,887**	**5,840**
Margins (%)	*18.1*	*19.8*	*23.4*	*21.8*	*16.0*	*15.7*	*15.0*	*15.8*	*20.9*	*15.6*
Depreciation	308	308	313	318	496	505	493	546	1,247	2,039
Interest	407	363	390	345	198	249	286	301	1,505	1,033
Other Income	562	-362	-280	125	-147	81	19	21	44	-26
PBT after EO Expense	**1,469**	**818**	**1,268**	**1,624**	**726**	**877**	**537**	**602**	**5,179**	**2,741**
Tax	223	240	225	271	109	61	104	35	959	310
Rate (%)	*15.2*	*29.3*	*17.8*	*16.7*	*15.1*	*7.0*	*19.3*	*5.9*	*18.5*	*11.3*
PAT	**1,245**	**578**	**1,043**	**1,353**	**617**	**816**	**433**	**566**	**4,220**	**2,432**
Minority Interest	-13	1	35	-19	-11	-5	-8	-6	5	-30
Adjusted PAT	**1,258**	**577**	**1,008**	**1,372**	**627**	**821**	**441**	**572**	**4,215**	**2,462**
YoY Change (%)	*886.1*			*-61.1*	*-50.1*	*42.3*	*-56.2*	*-58.3*	*79.6*	*-41.6*
Margins (%)	*14.0*	*6.2*	*10.5*	*13.8*	*6.4*	*8.3*	*5.1*	*6.3*	*11.1*	*6.6*

E: MOSL Estimates

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Pricing pressure, delayed orders, a high base lead to disappointing results

Jubilant's 3QFY11 performance was disappointing. Its top-line was flat at Rs8.65b, EBITDA declined by 40.9% YoY to Rs1.3b and adjusted PAT declined 56.2% YoY to Rs441m mainly due to poor operational performance.

The life sciences products business posted revenue growth of 13% YoY to Rs7b (contributing 81% of revenue) led by volume growth of 17% YoY. The life science ingredients business grew 11% YoY to Rs5.82b (volume growth of 15% YoY) led by API business due to entry into new geographies and market share gains. The generics business grew 24% YoY to Rs1.18b (volume growth of 30% YoY) led by a ramp-up in sales of new launches and 31% growth in radio-pharma revenues (led by improved availability of isotope supplies). However, it seems most of the product categories in the life sciences segment faced pricing pressure with volumes leading growth.

The life science services business posted a disappointing performance with 32% YoY decline in revenue to Rs1.67b mainly due to 34% de-growth in the CMO business and 29% de-growth in the drug discovery and development services (DDDS) business. The decline in the CMO business was led by (i) a high base (boosted by one-time revenue of Rs550m from an H1N1 contract) and (ii) delays in customer product approvals. The DDDS business was adversely impacted by (i) a delay in signing deals for new CRO business, (ii) postponement of milestone payments from customers and delay in executing some new orders from key customers.

Sales mix (Rs m)

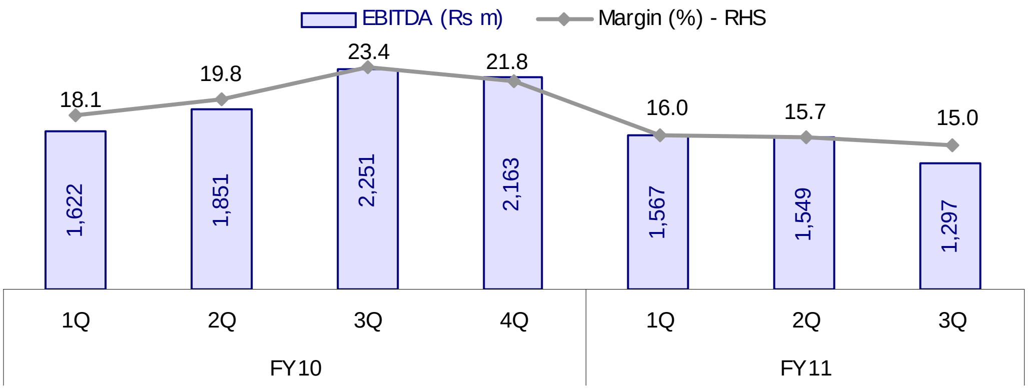
	3QFY11	3QFY10	% YoY
Life Science Ingredients	5,820	5,240	11.1
Generics	1,180	950	24.2
Life Science Products	7000	6190	13.1
CMO	1,150	1,750	(34.3)
DDDS	490	690	(29.0)
Others	27	20	33.0
Life Science Services	1667	2460	-32.2
Total	**8,667**	**8,650**	**0.2**

Source: Company

EBITDA down 40.9% YoY at Rs1.3b, below our estimates

EBITDA declined by 40.9% YoY to Rs1.3b due to an adverse revenue mix, leading to sub-optimal cost absorption and EBITDA margins were 15% (down 1,040bp). The life sciences products business faced pricing pressure though pricing improved sequentially. In the services business, unabsorbed fixed costs due to postponement of orders, delayed milestone payments and underutilization of capacity impacted margins.

EBITDA Margin Trend



Source: Company

Adjusted PAT declined by 56.2% YoY to Rs441m led by poor operational performance and higher tax expenses. However, the PAT decline was restricted by a 25.6% YoY decline in interest costs due to transfer of some debt to the de-merged entity, Jubilant Industries. Net debt as of December 2010 increased to Rs28.8b from Rs27.3b on 30 September 2010.

Key highlights of the conference call

- The life sciences products business ported revenue growth of 13% YoY led mainly by volume growth of 17% YoY. The company faced pricing pressure in this business. The realizations were affected by adverse currency movement. However, the management said it increased prices by 10% in some of the contracts and there would be sequentially improvement in the pricing scenario. New capacities for the pyridines, nutritional ingredients and API businesses will come on stream from March 2011, which will drive volumes.
- The life science services business posted disappointing performance with a 32% YoY decline in revenue. The management indicated there would be margin improvement going forward in this segment. The management expects normalized EBITDA margins of 16-18% for the business.
- A decline in the CMO business was mainly due to a high base (boosted by one time revenue of Rs550m from an H1N1 contract) and delays in customer product approvals. The management indicated that, excluding the revenues from H1N1 contracts last year, there would be sequential improvement in revenue from the CMO business as the delayed milestone payments would come in 4QFY11 and 1QFY12.
- The DDDS business was adversely impacted by a delay in signing deals for new CRO business, postponement of milestone payments by customers and delay in executing some new orders for key customers. The management said that due to the recent consolidation in the global pharmaceutical industry, large companies are rationalizating their R&D pipeline, which is impacting Jubilant's revenue. Although the management did not have clear visibility as to when the business would revert to normalcy, it mentioned that Jubilant was expecting a few clinical research contracts in 4QFY11.

High debt, FCCB redemption remain an overhang

- Jubilant raised US$310m in FCCBs in 2005 and 2006 to fund acquisitions and for capex.
- Of these, FCCBs worth US$142m (US$202m including YTM) are due for redemption in May 2011. We believe these are unlikely to be converted into equity given the high conversion price of Rs413 (effective conversion price of Rs589 taking into account YTM).

Cutting FY11 earnings estimates by 27%, 32% for FY12, 26% for FY13

- Based on poor 3QFY11 performance, we have cut our revenue and earning estimates.
- We have reduced revenue estimates for FY11 and FY12 by 7.7% each and for FY13 by 5.3%.
- FY11 EPS estimates have been cut by 27%, by 32% for FY12 and by 26% for FY13.

Outlook and valuation

We believe the de-merger of the APP business is a positive step as it reflects the management's intention to have a focused approach for the PLSPS business. The de-merger will also lead to improved RoCE for Jubilant as the APP business accounted for only 2% of its FY10 EBITDA but 6% of capital employed. We believe Jubilant is facing challenges for its key businesses led by pricing pressures, delayed orders and execution. The management needs to demonstrate it can reverse some of these headwinds in the coming quarters. We also believe some of the past acquisitions (like Draxis) have been made at expensive valuations, resulting in extended payback periods and lower return ratios. High debt, large FCCB redemption (US$202m in May 2011 including YTM) and low RoCE (11-13%) are an overhang. Based on our revised estimates, the stock trades at 12.8x FY11E EPS, 12.2x FY12E EPS and 8.6x FY13E EPS. Our estimates take into account increased interest costs related to the re-financing of FCCB redemption (worth US$202m) for FY12E. Maintain **Neutral.**

Jubilant Lifesciences: an investment profile

Company description

Jubilant Organosys Limited is the largest specialty chemicals company in India with high degree of vertical integration along with global scale and reach in almost all its key products. Its business model spans pharmaceuticals and life sciences, industrial chemicals and performance chemicals. It entered the API business (by acquiring Max India's API operations) and into formulations and regulatory services segment (by acquiring PSI nv and PSI supply).

Key investment arguments

- A composite and integrated player with offerings across the pharmaceuticals and specialty chemicals value chain.
- Continuous forward integration with global scale capacities in key products and widespread global presence put Jubilant on a high growth path.
- A growing share of the profitable pharmaceuticals business, driven by CRAMS, steriles and the radiopharmaceuticals business, ensures improved profitability and earnings visibility.

Recent developments

- Jubilant and Eli Lilly have extended their drug discovery collaboration on successful delivery of pre-clinical candidates.

Valuation and view

- A slowdown in some CRAMS products, declining realizations and product rationalization (for the chemicals business) is impacting Jubilant's top-line growth.
- We expect an improvement in the CRAMS business from FY12.
- The stock trades at 12.8x FY11E EPS, 12.2x FY12E EPS and 8.6x FY13E EPS. Net D/E as of December 2010 was high at 1.35x with US$202m of FCCBs coming up for redemption in May 2011.
- Maintain **Neutral.**

Sector view

- The CRAMS segment is likely to grow exponentially over the next few years.

Comparative valuations

		Jubilant	Divis	Dishman
P/E (x)	FY11E	12.8	23.4	13.4
	FY12E	12.2	19.3	22.1
P/BV (x)	FY11E	1.3	4.7	0.9
	FY12E	1.3	4.0	0.9
EV/Sales (x)	FY11E	1.5	7.3	1.8
	FY12E	1.5	6.1	1.7
EV/EBITDA (x)	FY11E	9.9	19.4	11.0
	FY12E	9.1	15.4	9.7

Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	47.2	47.3	50.8
Domestic Inst	3.9	7.6	2.0
Foreign	28.8	25.9	26.0
Others	20.2	19.2	21.2

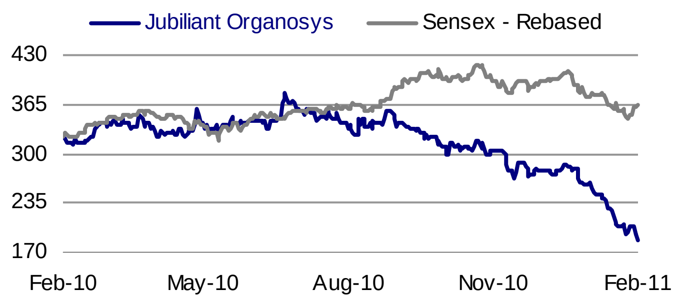
EPS: MOSL forecast v/s Consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	14.5	23.8	-39.0
FY12	15.1	29.6	-48.9

Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
185	181	-2.0	Neutral

Stock performance (1 year)



Financials and Valuation

INCOME STATEMENT					(Rs Million)
Y/E MARCH	**2009**	**2010**	**2011E**	**2012E**	**2013E**
Net Sales	**35,180**	**37,813**	**37,392**	**38,753**	**44,705**
Change (%)	*41.3*	*7.5*	*-1.1*	*3.6*	*15.4*
EBITDA	**6,766**	**7,887**	**5,840**	**6,495**	**8,046**
Margin (%)	*19.2*	*20.9*	*15.6*	*16.8*	*18.0*
Depreciation	1,632	1,247	2,039	2,200	2,387
EBIT	**5,133**	**6,640**	**3,801**	**4,295**	**5,659**
Int. and Finance Charges	1,070	1,505	1,033	1,310	1,404
Other Income - Rec.	-1,631	44	-26	49	51
PBT before EO Expense	**2,432**	**5,179**	**2,741**	**3,034**	**4,306**
Extra Ordinary Expense/(Incor	-534	0	0	0	0
PBT after EO Expense	**2,966**	**5,179**	**2,741**	**3,034**	**4,306**
Current Tax	394	959	310	455	646
Deferred Tax	-127	0	0	0	0
Tax Rate (%)	*9.0*	*18.5*	*11.3*	*15.0*	*15.0*
PAT	**2,699**	**4,220**	**2,432**	**2,579**	**3,660**
Less: Minority Interest	-133	5	-30	10	10
Reported PAT	**2,832**	**4,215**	**2,462**	**2,569**	**3,650**
Adj Net Profit	**2,346**	**4,215**	**2,462**	**2,569**	**3,650**
Change (%)	*-41.2*	*79.6*	*-41.6*	*4.4*	*42.1*
Margin (%)	*6.7*	*11.1*	*6.6*	*6.6*	*8.2*
Adjusted PAT	**2,832**	**4,215**	**2,462**	**2,569**	**3,650**

BALANCE SHEET					(Rs Million)
Y/E MARCH	**2009**	**2010**	**2011E**	**2012E**	**2013E**
Equity Share Capital	148	159	170	170	170
Total Reserves	12,528	21,734	24,958	24,497	27,599
Net Worth	**12,675**	**21,893**	**25,128**	**24,667**	**27,769**
Minority Interest	320	379	349	359	369
Deferred liabilities	1151	1924	1833	1833	1833
Total Loans	38,781	31,727	29,847	28,573	27,573
Capital Employed	**52,927**	**55,923**	**57,157**	**55,432**	**57,544**
Gross Block	30,638	32,608	36,511	40,011	43,011
Less: Accum. Depm.	9,033	10,264	12,303	14,503	16,890
Net Fixed Assets	**21,605**	**22,344**	**24,208**	**25,508**	**26,121**
Capital WIP	5,031	5,056	5,056	5,056	5,056
Goodwill	15,845	15,845	15,845	15,845	15,845
Investments	2,714	2,564	564	564	564
Curr. Assets	**19,672**	**22,315**	**21,795**	**19,039**	**22,252**
Inventory	5,956	6,910	7,271	6,975	8,072
Account Receivables	5,044	5,186	5,401	5,705	6,954
Cash and Equivalents	3,817	5,037	3,722	976	1,017
Loans & Advances	4,855	5,183	5,401	5,382	6,209
Curr. Liability & Prov.	**11,943**	**12,201**	**10,312**	**10,581**	**12,294**
Account Payables	7,365	7,535	5,770	6,028	7,451
Provisions	4,579	4,666	4,542	4,552	4,843
Net Current Assets	**7,729**	**10,114**	**11,484**	**8,458**	**9,958**
Misc Expenditure	3	0	0	0	0
Appl. of Funds	**52,927**	**55,923**	**57,157**	**55,432**	**57,544**

E: MOSL Estimates

RATIOS					
Y/E MARCH	**2009**	**2010**	**2011E**	**2012E**	**2013E**
Basic (Rs)					
EPS	**19.2**	**26.5**	**14.5**	**15.1**	**21.5**
Cash EPS	27.0	34.4	26.5	28.0	35.5
BV/Share	85.9	137.9	147.8	145.1	163.3
DPS	1.5	1.9	1.2	1.3	2.8
Payout (%)	9.2	8.8	10.0	10.0	15.0
Valuation (x)					
P/E (on fully diluted EPS)	9.6	7.0	12.8	12.2	8.6
Cash P/E	6.9	5.4	7.0	6.6	5.2
P/BV	2.2	1.3	1.3	1.3	1.1
EV/Sales	1.9	1.5	1.5	1.5	1.3
EV/EBITDA	9.8	7.4	9.9	9.1	7.2
Dividend Yield (%)	0.8	1.0	0.7	0.7	1.5
Return Ratios (%)					
RoE	22.5	24.4	10.5	10.3	13.9
RoCE	8.2	12.7	7.0	8.0	10.5
Working Capital Ratios					
Fixed Asset Turnover (x)	2.0	1.7	1.6	1.6	1.7
Debtor (Days)	52	50	53	54	57
Inventory (Days)	62	67	71	66	66
Working Capital Turnover (Day	80	98	112	80	81
Leverage Ratio (x)					
Current Ratio	1.6	1.8	2.1	1.8	1.8
Net Debt/Equity	2.8	1.2	1.1	1.1	1.0

CASH FLOW STATEMENT					(Rs Million)
Y/E MARCH	**2009**	**2010**	**2011E**	**2012E**	**2013E**
Oper. Profit/(Loss) before Tax	6,766	7,887	5,840	6,495	8,046
Interest/Dividends Recd.	-1,631	44	-26	49	51
Direct Taxes Paid	-267	-959	-310	-455	-646
(Inc)/Dec in WC	1,569	-1,165	-2,684	279	-1,459
CF from Operating incl EO	**6,970**	**5,806**	**2,820**	**6,368**	**5,992**
(inc)/dec in FA	-20,143	-2,011	-3,903	-3,500	-3,000
(Pur)/Sale of Investments	-2,257	149	2,000	0	0
CF from investments	**-22,400**	**-1,861**	**-1,903**	**-3,500**	**-3,000**
Change in Networth	-2,205	5,431	1,020	-2,773	0
Inc/(Dec) in Debt	17,545	-6,281	-1,971	-1,274	-1,000
Interest Paid	-1,070	-1,505	-1,033	-1,310	-1,404
Dividend Paid	-261	-370	-246	-257	-548
CF from Fin. Activity	**14,008**	**-2,725**	**-2,231**	**-5,614**	**-2,951**
Inc/Dec of Cash	**-1,421**	**1,220**	**-1,314**	**-2,746**	**41**
Add: Beginning Balance*	5,238	3,817	5,037	3,722	976
Closing Balance	**3,817**	**5,036**	**3,723**	**976**	**1,017**

N O T E S

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Disclosure of Interest Statement	Jubilant Lifesciences
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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