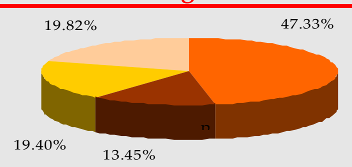
Jubilant Organosys

CMP: Rs342 | **BUY**

Key Data

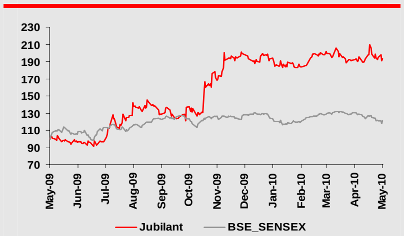
Date	2 June 2010
BSE Sensex	16,572
S&P CNX Nifty	4,970
BSE Code	530019
NSE Code	JUBILANT
Bloomberg	JOL IN
Sector	Pharmaceuticals
Market Cap (Rs mn)	54,310
Equity (Rs mn)	158.8
Face Value (Rs)	1.0
52 Wk H/L (Rs)	372/155

Shareholding Pattern (%)



As on March 31, 2010

Price Performance



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Strong traction in Contract Research and Manufacturing Services (CRAMS) and life sciences segments, huge business potential from tie-ups with global MNCs in Drug Discovery and Development Services (DDDS) segment, and expanding radio pharma business are likely to drive earnings momentum for Jubilant going forward. We expect valuation discount to peers to narrow given strong cash flows, reducing debt repayment concerns, and demerger of low margin APP business. We initiate coverage with a Buy and a target price of Rs439.

Strong revenue visibility from US$1bn CRAMs order book: Jubilant has emerged as the largest CRAMs player in India with order book expanding to US$1bn in FY10. This coupled with strong traction in life sciences business (US$883mn order book) lends high revenue visibility for at least next five years. We expect Jubilant to be one of the biggest beneficiaries of the sustained growth in global outsourcing market (as innovator pharma cuticals companies continue to face challenges like patent expiries and lower success rate in drug discoveries and development).

Collaboration with key MNCs in DDDS – a growth engine: Jubilant has established itself as a leading DDDS player with over 40 collaborations with major global pharmaceutical entities like Eli Lily, Forest labs, Amgen, Astra Zeneca and Endo Pharmaceuticals. We expect the huge business potential from these tie-ups to help maintain earnings momentum. We believe Jubilant would also use this opportunity to expand its drug development capabilities leveraging expertise of global pharmaceutical giants.

Radio pharma – potential revenue driver: While radio pharma market (mainly US) is still nascent, it is expected to grow to US$2.6bn in CY12 from US$2bn currently. The major revenue driver for the company in this segment is I 131, which is also the market leader in US, having more than 70% market share. We believe, Jubilant, with products like I 131, MIBG, Lyo Kits and Sestamibi (a pharmaceutical agent used in nuclear medicine imaging) is well placed to capitalize on the fast growing radio pharma segment.

Reducing debt burden: Jubilant raised Rs3,870mn through QIP in March 2010 to be utilized mainly for repayment of FCCBs, which would reduce debt burden of the company in FY11. This would dilute the equity by 5-6% (11.2 mn shares of FV of Re 1). We expect debt equity to come down to 1.2x in FY11 and 0.7x in FY12 from 1.5x in FY10.

Valuation discount to peers likely to narrow; BUY: The stock trades at 9.9x FY11E EPS of Rs34.4 and 8.7x FY12E EPS of Rs39.6, which is at discount to peers. We expect valuation discount to narrow given strong traction in earnings, rich cash flows, reducing debt repayment concerns, and demerger of low margin APP business. Recommend Buy with target price of Rs439 per share. At target price, the stock would trade at 12.8x FY11E.

Key Financials

Year	Net Sales (Rs Mn)	PAT (Rs Mn)	EPS (Rs)	P/E (X)	EV/ EBITDA (X)	ROCE (%)	ROE (%)
FY09	35179.8	2698.5	19.3	17.7	18.4	7.8	22.3
FY10	37986.7	4548.1	26.5	12.9	10.0	13.5	20.7
FY11E	42735.0	5468.4	34.4	9.9	8.2	14.6	21.5
FY12E	46969.8	6295.3	39.6	8.7	7.1	15.6	20.1

Source: Mata Research

MATA RESEARCH

PLSPS: key revenue driver

Investment Rationale

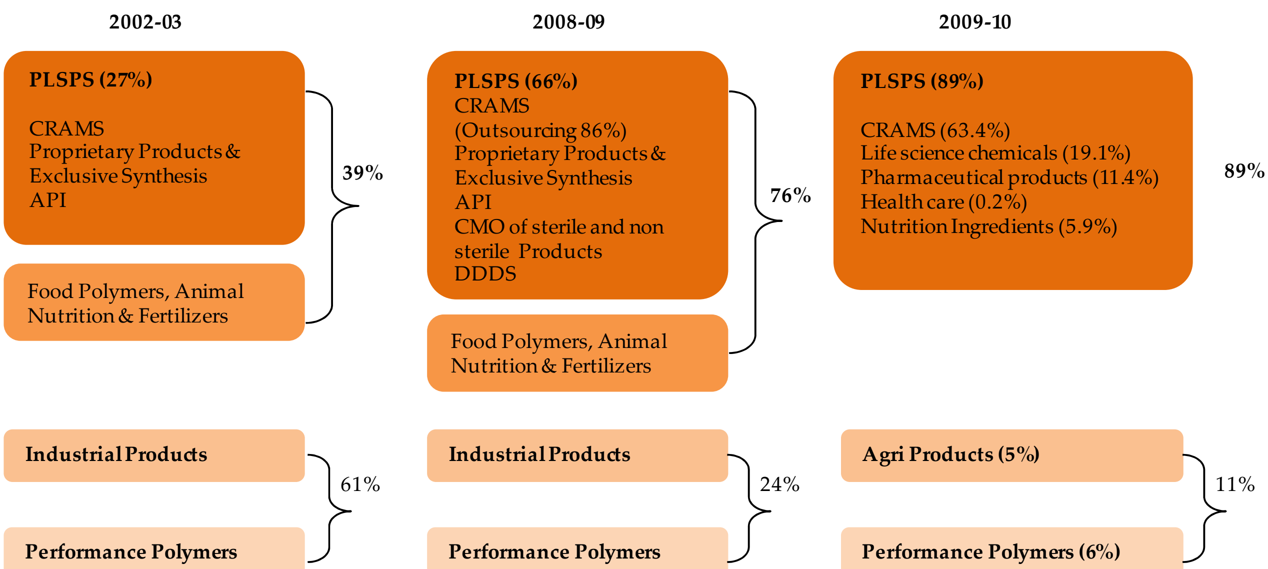
Strong traction in Pharma and Life science Products and Services

High revenue visibility from US$1bn CRAMs order book

Jubilant has emerged as a major player in the Pharma and Life science Products and Services (PLSPS) segment with strong focus on niche areas such as CRAMs, contract manufacturing operations (CMO) of sterile injectables, specialty pharma and DDDS. These categories are likely to grow at 15-20% over next three to four years. We expect Jubilant to post 16.4% CAGR in PLSPS segment over FY09-12E led by US$1bn order book in CRAMs (64% contribution to PLSPS in FY10) and US$883mn order book in life sciences chemical (19% contribution to PLSPS in FY10) coupled with robust growth in other sub segments. This lends strong revenue visibility for at least next five years.

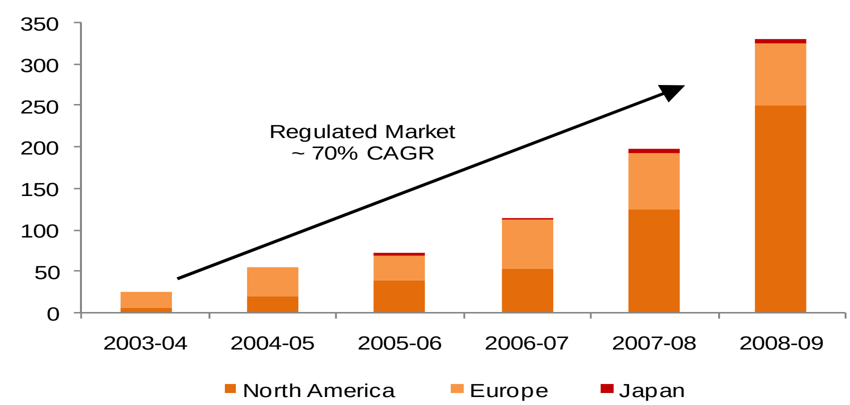
The high margin PLSPS segment contributed around 89% in FY10 v/s 84% in FY09 to company's revenue with the rest coming from APP business. We expect the trend to continue with PLSPS contributing 89% of revenue in FY11E.

Change in business mix – moving towards more profitable segments



Source: Mata Research

PLSPS revenue in regulated markets



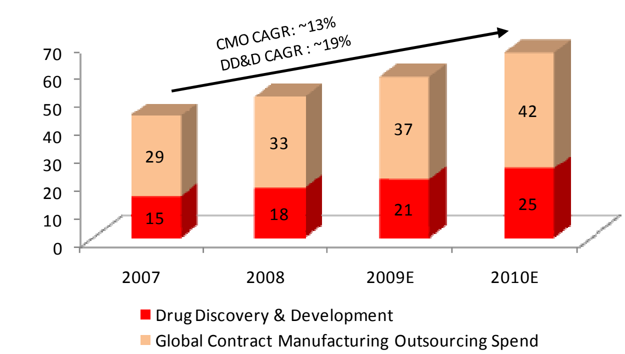
Source: Company

Well placed to address opportunities in pharma outsourcing

CRAMs: Significant growth opportunity in outsourcing

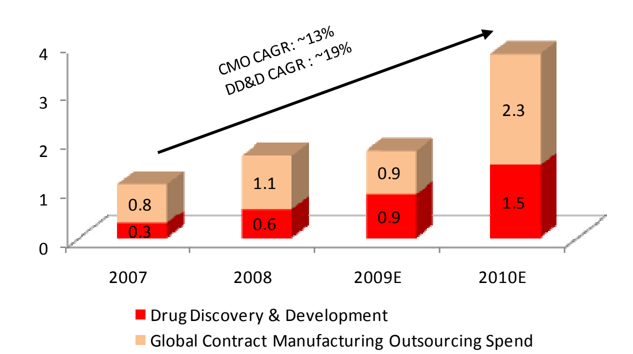
Jubilant is India's largest CRAMs entity with revenue of more than Rs20bn in FY10. The global outsourcing market is estimated at US$51bn and growing at 14%, whereas the outsourcing market in India is projected at US$3bn in CY10. With its focus on costs and deep knowledge of chemicals, we expect Jubilant to be one of the biggest beneficiaries of the sustained growth in global outsourcing market (as innovator pharma companies continue to face challenges like patent expiries and lower success rate in drug discoveries and development). The company's CRAMS order book has expanded to US$1bn in FY10, which reposes our faith in the company's ability to grab a bigger pie of pharma outsourcing.

Global Outsourcing spend (US$ bn)



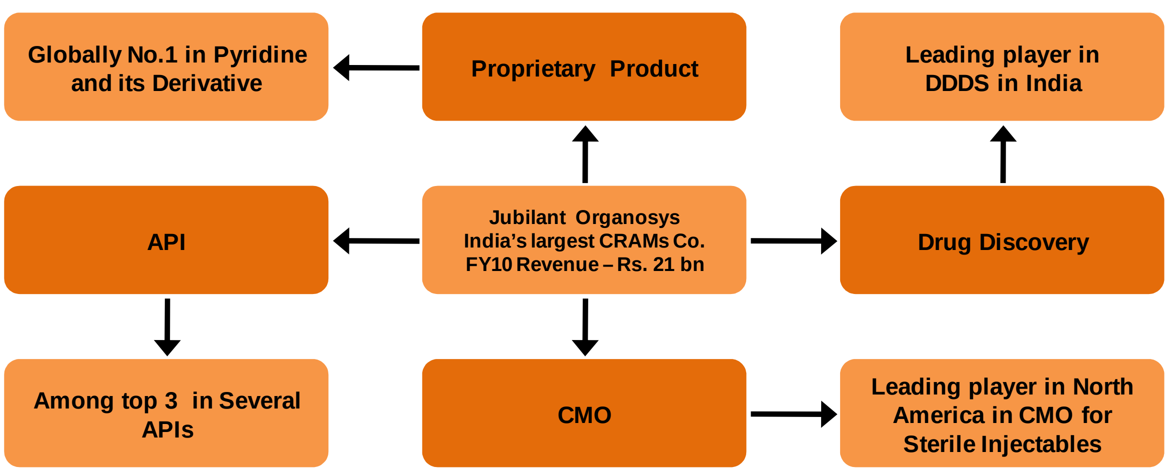
Source: Company, Mata Research

Indian CRAMS Market (US$ bn)



Source: Company, Mata Research

Jubilant: Leader in CRAMs



Source: Mata Research

Note: Market positions sourced from company's analysis and estimates

Strong product pipeline – potential growth driver

Jubilant has strong pipeline of products in segments like CRAMs, API, dosage forms, and radiopharmaceuticals to support its future growth. Some of these products are in phase III and the company has made timely investments to expand key capacities. We believe, going forward, these contracts would present huge opportunity for volume growth in exclusive synthesis and contract manufacturing segments.

Product pipeline

CRAMs	Pre-clinical	Phase I	Phase II	Phase III	Total	Launched
Exclusive synthesis	0	1	2	5	8	2
CMO	0	30	15	11	56	28
Total	**0**	**31**	**17**	**16**	**64**	**30**
API						
Number of DMFs filed	36 (4 in FY10)					
Commercialized products	19					
Products to be commercialized	10					
Products in R&D pipeline	19					
To file 8-10 DMFs each year						
Dosage Forms	**ANDAs**	**Dossiers**	**Total**			
Products Approved	18	17	35			
Products Filed and under approval	13	10	23			
Products Filed in H1 FY10	7	8	15			
To file 18-20 ANDAs/Dossiers each year						
Radio pharmaceuticals						
Products to be commercialized	Ruby Fill in 2012					
	Magnevist in 2013					
	Moly Fill in 2015					

Source: Company

New contracts in CMO to strengthen revenue stream

New contracts with global pharma MNCs to boost revenue

Jubilant has signed multiple contracts with large global pharmaceutical companies like Eli Lily and Forest Labs, which would not only boost global acceptance for Jubilant's CRAMs but would also result in earning traction. These collaborations would help Jubilant expand its drug development capabilities leveraging the expertise of global pharmaceutical giants. The company has signed contracts in (CMO) worth US$102mn for FY11 – equivalent to 97% of FY09 sales.

Jubilant entered into CMO business primarily through acquisitions of Hollister and Draxis in June 2007 and April 2008 respectively, which has positioned the company among top 10 players in the world in the injectable CMO space (it is the largest Indian injectable contract manufacturer). Jubilant has capacity of 180mn vials with 60mn at Draxis (Kirkland, Canada) and 120mn at Hollister (Stier, Spokane, US). The capacity at Hollister site has been expanded from 42mn vials at the time of acquisition to 120mn. It has also increased capacity utilisation in CMO to 120mn vials (fully operational from FY11) in FY10 from 60mn in FY09. The CMO business contributes 15% to total revenue.

Leading player in Pyridine

Focus on fast growing key therapeutic areas like CNS, CVS, gastrointestinal, anti infectives in API

Proprietary products and exclusive synthesis (PPES) – leveraged by huge order book

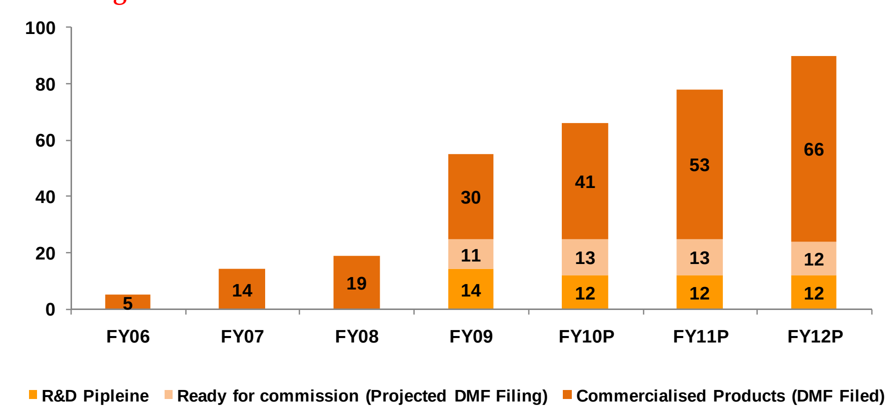
The PPES segment offers research, development and manufacturing services for intermediates and APIs for New Chemical Entities (NCEs) and in-market products. Jubilant with strong chemistry experience of 25 years offers a basket of 150 products and is a leading player in Pyridine and its derivatives.

The company has a strong pipeline of products which, we believe, would act as future growth driver. There is strong possibility that eight projects, which are currently in phase III, could receive regulatory approval over next one to two years leading to commercialization and, thereby enhancing earnings. The order book of the company in proprietary products stands at US$259mn. It has signed contracts worth US$ 77mn for FY11 – equivalent to 39% of FY09 sales.

Steady growth in API

Jubilant is among top three players in India in drug master file (DMF) space with focus on fast growing key therapeutic areas like CNS, CVS, gastrointestinal, anti infectives. Its products like carbamazepine, oxcarba-mazepine, lamotrigines are ranked number one and citalopram, risperidone ranked number two globally. We expect the company's API segment to post healthy growth over FY09-12 as DMF portfolio would grow 3x during the period. Jubilant has 28 molecules in different phases which have market size of US$52bn. Of these, 9 have completed lab work, 9 are in R&D phase, and 10 have been identified for development. The company has a strong global customer base of 150 in developed countries like USA, Europe, and Japan, and RoW.

DMF filing details



Source: Company, Mata Research

Collaborations with major global pharmaceutical entities in DDDS – huge opportunity

Collaboration with key MNCs in DDDS – a growth engine

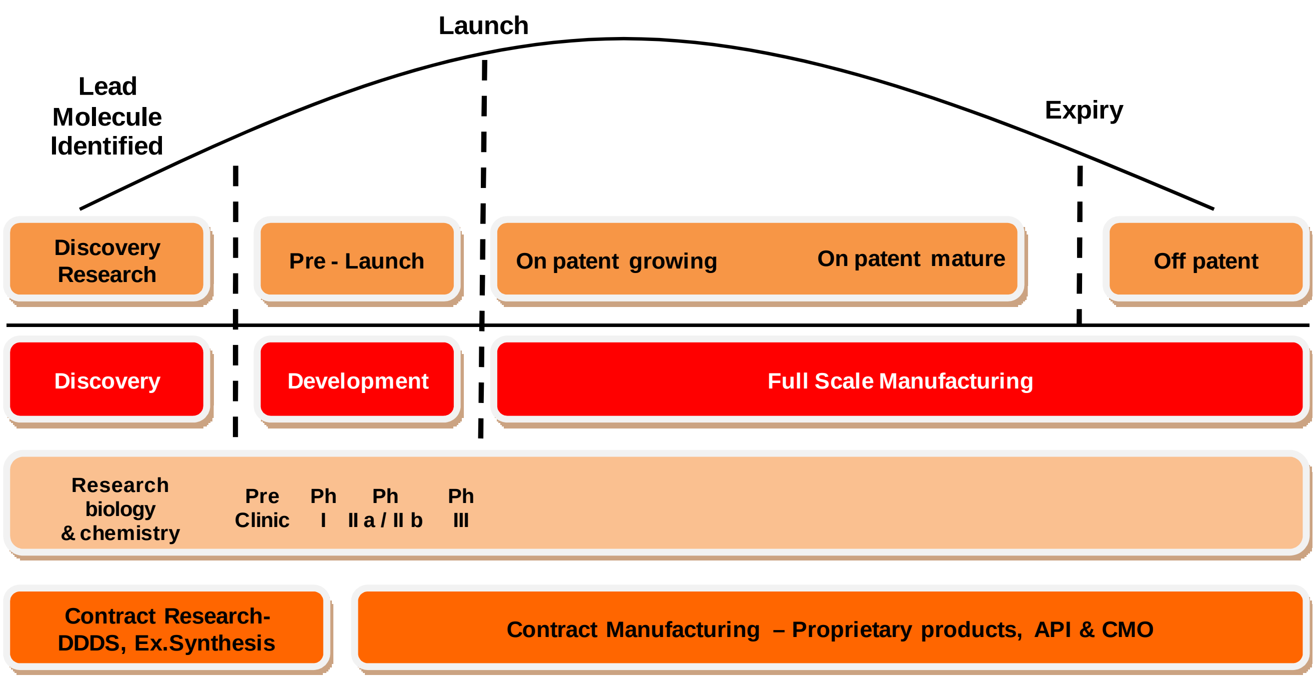
Jubilant has emerged as one-stop shop for MNC pharma companies in DDDS segment. It provides services right from early stage of development, chemical synthesis, clinical trials and contract manufacturing to innovator companies. It provides these services through its subsidiaries Biosys, Chemsys and Clinsys. Jubilant has over 40 collaborations with major global pharmaceutical entities like Eli Lily, Forest labs, Amgen, Astra Zeneca and Endo Pharmaceuticals which would support revenue growth going forward. The company has signed contracts worth US$43mn for FY11 – equivalent to 83% of FY09 sales.

DDDS – Key collaborations

Company	Details
Eli Lily	• Clinical Research support in India • Joint venture for drug development
Forest Labs	• Integrated collaboration in metabolic disorders • Discovery efforts at Jubilant, development efforts at Forest labs
Astra Zeneca	• Focus on neuroscience area • Jubilant eligible for initial 5 year research funding
Endo Pharmaceuticals	• Focus on oncology • Research funding, development funding and sales royalties
Amgen	• Integrated collaboration in multiple therapeutic areas • Research funding besides milestone payments

Source: Company, Mata Research

Jubilant: Presence across pharma outsourcing value chain



Source: Company, Mata Research

Well placed to capitalize on radio pharma segment

Radio pharma - US$2.6bn opportunity by CY 12 in US alone

Jubilant entered into radio pharma segment with acquisition of Draxis. It develops and markets radio pharma products for diagnostics and therapeutic use. The usage is in scanning and imaging of various body parts and it is focusing on key therapeutic areas like cardiology, oncology, thyroid uptake and scan, lung scan, kidney and brain imaging, bone scan, etc.

Expect contribution from radio pharma segment to increase to 10% in FY12 v/s 3% in FY10

The segment contributed around 3% to total revenue in FY10. We expect 5-10% of revenue to come from radio pharma in FY12 led by large product pipeline and strong customer relationships. Currently, the company has presence in developed markets like North America through an exclusive distribution agreement to distribute and sell its products in the US. We believe with more such distribution agreements with leading global healthcare entities, Jubilant will soon make its presence felt in Asia as well as RoW markets.

While radio pharma market (mainly US) is still nascent, it is expected to grow to US$2.6bn in CY12 from US$2bn currently. The major revenue driver for the company is I 131, which is also the market leader in US, having more than 70% market share. We believe, Jubilant, with products like I 131, MIBG, Lyo Kits and Sestamibi (a pharmaceutical agent used in nuclear medicine imaging) is well placed to capitalize on the fast growing radio pharma segment.

Radio pharma product profile

Products	Indication / Market size
Generic Cardiolite Sestamibi kit	• Myocardial perfusion imaging • US market US$631mn / EU market US$ 69mn • Product going off patent US & EU 2008, Canada 2009
MOLY-FILL ™ Technetium generator	• Nextgen for nuclear medical applications • Target US market: US$ 167mn • Licence or co-develop product & file for FDA approval
Ruby Fill ™	• Cardiac imaging • US market : Current US$ 25mn • Potential US$ 100mn

Source: Company

Sestamibi – significant milestone for radio pharma business

Attractive upside potential from Sestamibi from FY11 due to limited competition in the market and operationalisation of Canadian nuclear reactor

Sestamibi was approved by the USFDA in May 2009. The product with market size of US$800mn will be manufactured at the sterile injectible facility of Draxis (Jubilant's US subsidiary) at Montreal. Draxis has an exclusive distribution agreement with GE Healthcare to distribute and sell generic Sestamibi through GE Healthcare's nuclear pharmacy network in the US. Though the product has not been able to perform owing to issues related to the isotope supply on account of the nuclear reactor shutdown, the operationalisation of Canadian nuclear reactor from March 2010 would not only boost sales of Sestamibi but that of all radio pharma products. We believe limited competition in the market due to the existence of only three players besides the branded player, Bristol Myers Squibb (BMS), offers attractive upside potential.

Other PLSPS segments

Among top 4 in acetic anhydride globally and No 1 in India

Life sciences chemicals

Life sciences chemicals pertains primarily to production of intermediates (like acetyls), crop protection chemicals and textiles, which is used in wide range of industries like pharmaceuticals, textiles, adhesives, etc. This is the oldest business of the company where it has established global leadership in production of acetic acid, acetic anhydride, and ethyl acetate. It ranks among the top 4 in acetic anhydride globally and has No 1 position in India. It is among top 10 in ethyl acetate globally.

Allergenic extracts

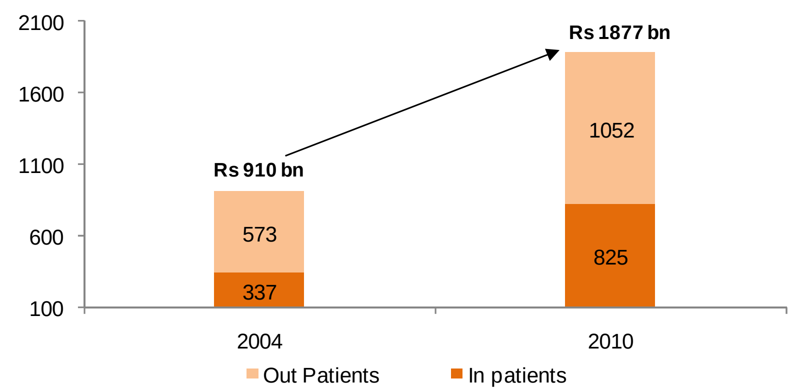
Allergenic extracts business contributes around 3% of total revenue. The majority of therapeutic and diagnostic extracts are derived from pollens, animals and stinging insect venoms. Jubilant is focusing not only on high margin products such as venom allergen but also on gaining cost efficiencies through production optimization. Jubilant is working towards development and launch of a new "sublingual delivery system" in North America by 2014-15.

Tapping healthcare opportunity

To spend Rs1,800mn over next three years to set up an integrated, hub-and spoke model of hospitals in West Bengal with 1,000 beds

Jubilant forayed into healthcare business by buying majority stake in First Trust Healthcare in West Bengal for US$32mn and renamed it as Jubilant First Trust Healthcare. Jubilant would spend Rs1,800mn over next three years to set up an integrated, hub-and spoke model of hospitals in West Bengal with 1,000 beds involving one 400-bed tertiary, super specialty hospital (hub) at Howrah, and 600-bed (spoke) hospitals in towns of South Bengal. Two hospitals with 265-bed are already operational.

Health Care Delivery: Market size



Source: Company

Nutritional ingredients

Jubilant is a leading producer of nutritional ingredients for human as well as animal applications such as Niacin, Niacinamide and Chlorine Chloride. It ranks top 3 globally in Nicotinates. This segment represents 6% of PLSPS business and 5% of overall revenue.

Reducing debt burden

Jubilant issued FCCBs worth US$35mn in FY05, US$75mn in FY06, and US$200mn in FY07. In accordance with the Reserve Bank of India's guidelines, it bought back FCCBs amounting to US$60.9mn at a discount and cancelled them.

FCCBs data (US$ mn)

Year of Issue	Maturity date	Size of issue	Converted	Bought Back	Outstanding	Conversion Price	Premium	Effective Conversion price	Redemption Amount
FY05	2009	35	34.7	0	0.3	163.6	13.7%	186.0	0.3
FY06	2010	75	22.3	3	49.7	273.1	38.4%	378.4	68.8
FY07	2011	200	0	57.9	142.1	413.4	42.4%	588.7	202.4
Total	**-**	**310**	**57.0**	**60.9**	**192.1**	-	-	-	271.5

Source: Company, Mata Research

The company has total debt of Rs31.20bn as on 31 March 2010, of which FCCBs comprise Rs8.61bn.

Repayment of FCCBs

Jubilant has repaid its FCCBs maturing in CY10. The repayment was done through the money raised (Rs3,870mn) through QIP in March 2010. The total repayment amount was US$69mn (~Rs3,174mn) including US$19mn YTM.

QIP proceeds

Jubilant raised Rs3,870mn through QIP in March 2010 to be utilized mainly for repayment of FCCBs, which would reduce debt burden of the company in FY11. The QIP would dilute equity by 5-6% (11.2mn shares of FV of Re 1). We expect debt equity to come down to 1.2x in FY11 and 0.7x in FY12 from 1.5x in FY10.

APP demerger to enable focus on core business

Demerger of APP would enable management to focus on core business

Agri and Performance Polymers (APP) comprises agri products, food polymers, and performance polymers and contributes around 11% (FY10) to revenue. Jubilant is demerging APP business into a separate and listed entity, which would reduce dependency on chemical business and enable the company to focus on core business.

Robust expansion of margin due to change in business mix and strong performance across segments

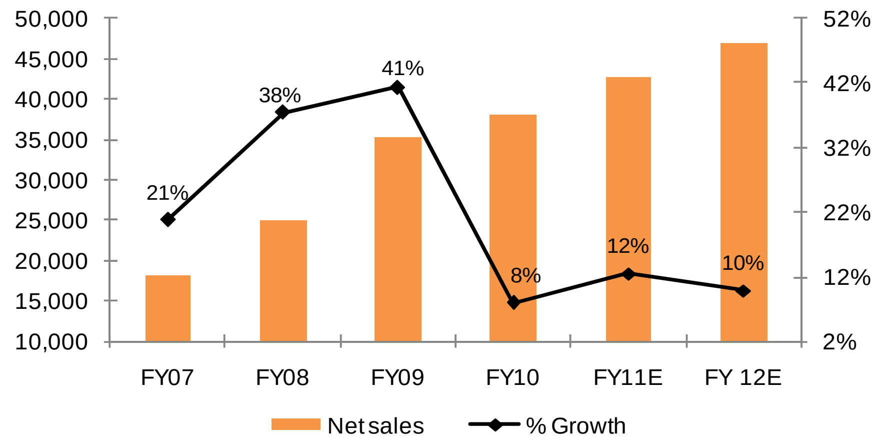
PAT and margin expected to improve going forward due to improvement in operating income and reduction in interest cost

Financials and Valuations

11.2% sales CAGR over FY10-12E

We expect Jubilant to post sales CAGR of 11.2% over FY10-12 led by robust growth in PLSPS - new contracts signed in CMO segment, huge pipeline of products, collaborations with key MNCs in DDDS segment and new launches in radio pharma segment. We expect net sales at Rs42,735mn in FY11 and Rs46,969mn in FY12 (v/s Rs37,987mn in FY10).

Sales on growth trajectory

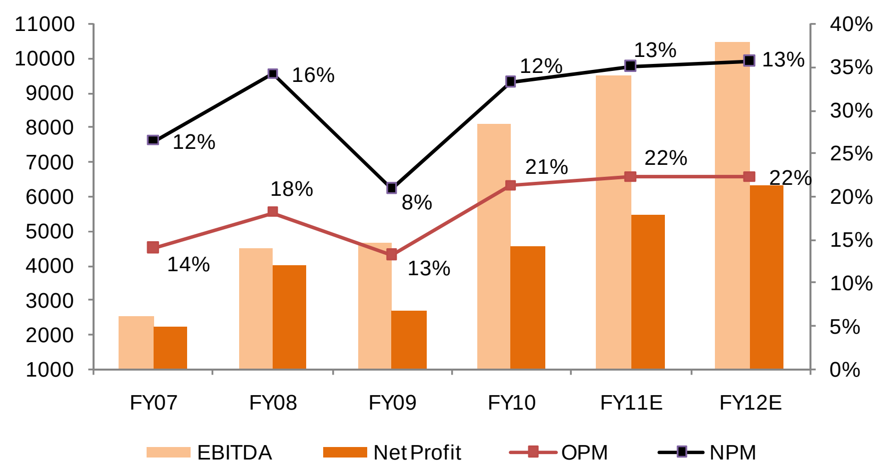


Source: Mata Research

14% EBITDA CAGR over FY10-12E; margin to expand 105bps in FY12

We expect EBITDA CAGR of 14% over FY10-12 at Rs10, 450mn. Margin would expand 105bps to 22.3% in FY12 (v/s 21.2% in FY10) led by strong performance from PLSPS segment, declining contribution from low margin APP business, and improved capacity utilisation. PAT is expected to post CAGR of 17.7% over FY10-12 at Rs6,295mn.

Trend analysis



Source: Mata Research

Q4 and FY10 analysis

CMO and API led revenue growth

In Q4FY10, Jubilant posted revenue growth of 17% yoy to Rs9,943mn mainly due to strong performance in PLSPS (grew by 21%). In FY10, PLSPS business grew by 13% to Rs 33,620mn against Rs29,720mn in FY09.

Segmental revenue breakup (FY10)

(Rs mn)	FY10	% share	FY09	% Share	Growth %
PLSPS	33,620	89.0%	29,720	84.0%	13.1%
APP	4,190	11.0%	5,460	16.0%	-23.3%
Total	37,810	100.0%	35,180	100.0%	7.5%

Source: Company

73% expansion in EBITDA, margin driven by PLSPS

EBITDA margin grew 224bps to 22.4% in Q4FY10 against 20.2% in the corresponding quarter of last year. The increase in operating margin is mainly due to strong revenue inflow from PLSPS segment. In FY10, the operating profit increased by 73.3% to Rs8,060mn v/s Rs4,653mn in FY09.

Strong performance from CMO and pharmaceutical products led PLSPS revenue to grow 13% in FY10

Pharma and Life Science Products and Services (FY10)

Particulars (Rs mn)	FY10	% share	FY09	% Share	Growth %
CRAMs					
PPES	9390	44.0%	9120	48.1%	3.0%
API	2820	13.2%	2550	13.4%	10.6%
CMO of Sterile Injectables & Non-Sterile Products	6620	31.1%	4900	25.8%	35.1%
DDDS	2490	11.7%	2410	12.7%	3.3%
Total	***21320***	***63.4%***	***18980***	***63.9%***	***12.3%***
Pharmaceuticals Products					
Specialty Pharmaceuticals	2310	60.3%	1930	63.1%	19.7%
Generics	1520	39.7%	1130	36.9%	34.5%
Total	***3830***	***11.4%***	***3060***	***10.3%***	***25.2%***
Health Care	6420	**19.1%**	5970	**20.1%**	7.5%
Life Science Chemicals	1970	**5.9%**	1650	**5.6%**	19.4%
Nutrition Ingredients	80	**0.2%**	60	**0.2%**	33.3%
Total	***33620***	***100.0%***	***29720***	***100.0%***	***13.1%***

Source: Company

PAT up 49%

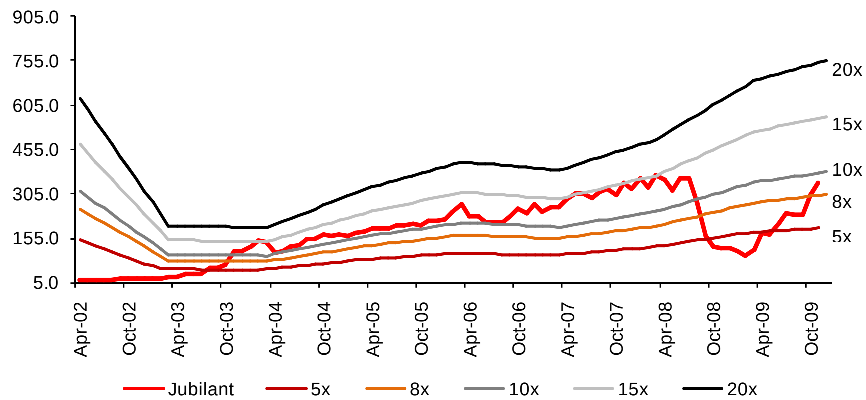
Jubilant posted adjusted net profit growth of 48.8% to Rs4,214mn in FY10. In Q4FY10, net profit grew 34% yoy to Rs1,336mn. We believe reduction in interest cost coupled with depreciation led the growth.

Valuation attractive; Buy

Valuation discount to peers to narrow

Historically, Jubilant has traded at P/E of 10x-15x, except during the 2008 crisis when it traded at 2x–8x. The stock trades at 9.9x FY11E EPS of Rs34.3 and 8.7x FY12E EPS of Rs39, which is at discount to peers. We expect valuation discount to peers to narrow given strong traction in earnings, rich cash flows, reducing debt repayment concerns, and demerger of low margin APP business. Recommend Buy with target price of Rs439 per share. At target price, the stock would trade at 12.8x FY11E EPS.

1-year forward P/E Band



Source: Mata Research

Peer Comparison

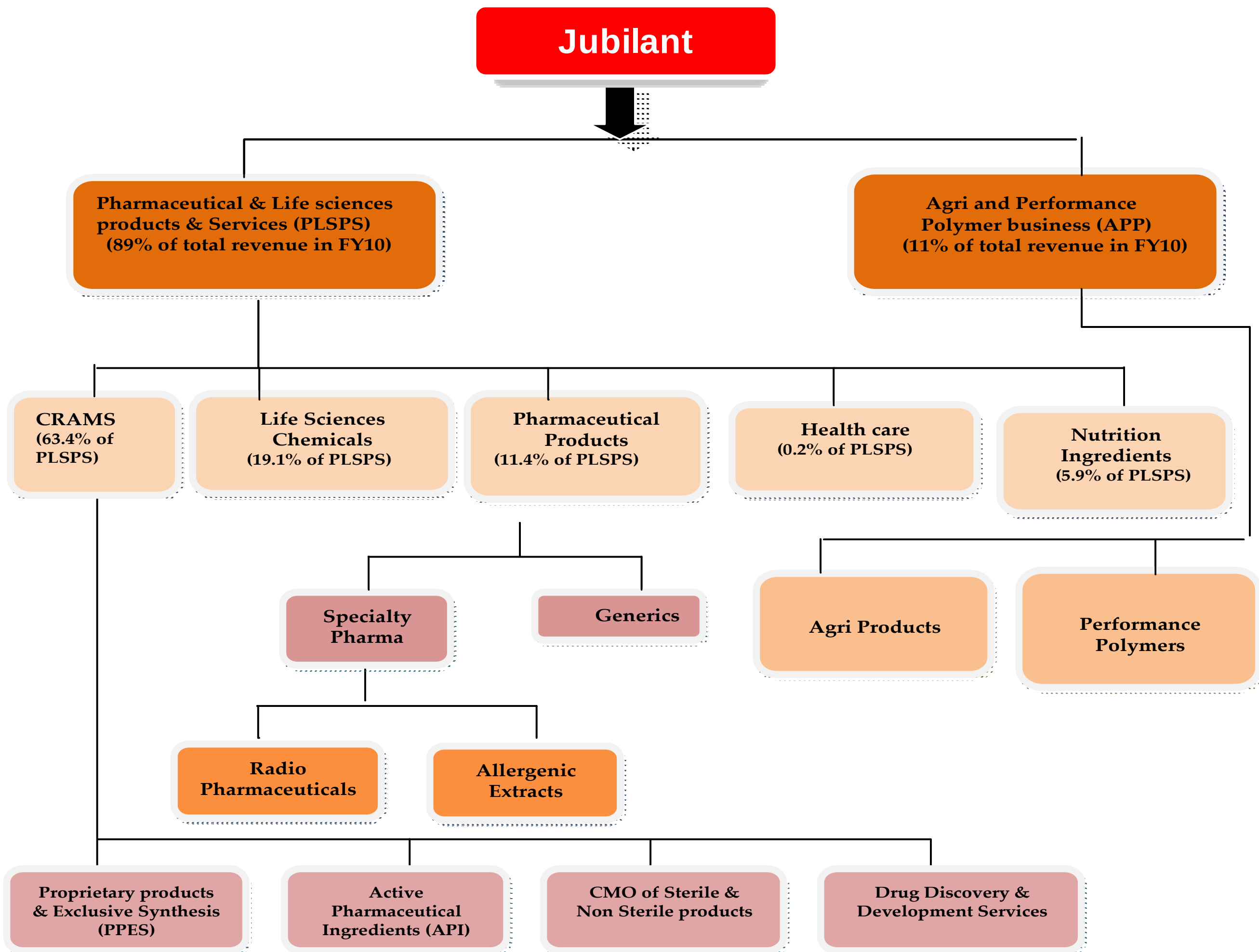
Companies	EV/EBITDA (x) (FY10)	EV/EBITDA (x) (FY 11)	P/E (x) (FY10)	P/E (x) (FY 11)	EPS (Rs) (FY 11)	ROE (%)	ROA (%)
Domestic Peers							
CRAMs							
Biocon	NA	11.2	18.5	16.0	16.9	18.2	13.4
Dishman	11.0	8.7	14.5	11.5	18.8	16.7	5.5
Divis	NA	16.5	27.8	20.7	30.0	24.3	20.1
Jubilant	10.5	9.1	13.0	11.1	31.0	25.0	8.6
Diversified, Formulation , API, CRAMs							
Piramal	NA	10.2	18.8	15.4	27.2	29.7	16.3
Dr Reddys	15.9	13.0	27.6	18.9	63.6	22.3	14.1
Average	***12.5***	***11.4***	***20.0***	***15.6***	***31.2***	***22.7***	***13.0***
International Peers							
Lonza	8.1	7.3	15.6	12.3	6.5	12.8	5.6
Patheon	5.5	4.7	16.8	9.3	0.3	0.0	0.0
DSM	6.7	6.0	14.8	15.1	2.7	8.9	5.2
Global CRO							
Charles River	9.8	8.7	16.9	13.8	2.7	10.8	8.9
Covance	10.6	9.0	22.9	17.6	3.3	12.0	10.2
Pharma Product Dev	8.5	6.5	21.7	15.1	1.4	12.4	10.0
Parexel	9.1	7.5	22.4	16.4	1.3	15.0	7.7
Baxter	9.0	8.3	13.6	12.2	4.7	29.6	NA
Average	***8.4***	***7.3***	***18.1***	***14.0***	***2.9***	***12.7***	***6.8***

Source: Mata Research, Bloomberg

Company Background

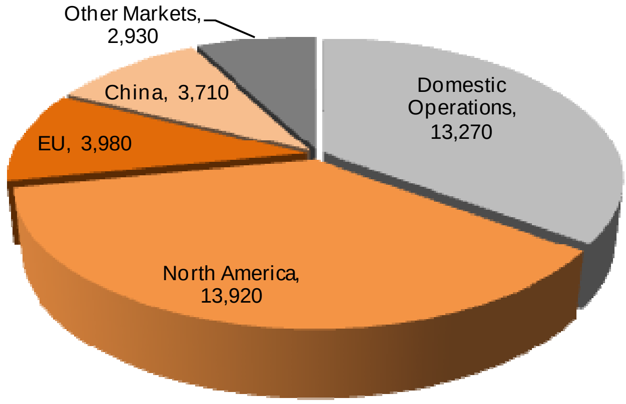
Jubilant Organosys has presence across the pharmaceutical value chain. The company's business can be broadly divided under two segments — Pharmaceutical Life Sciences Products and Services (PLSPS) segment, which makes up more than 89% of its revenue pie and the APP segment that accounts for the rest. It is one of the largest Custom Research and Manufacturing Services (CRAMS) and Drug Discovery and Development Services (DDDS) companies out of India. The company has successfully positioned itself as a preferred outsourcing partner for leading global pharma and life sciences companies. Jubilant has geographically diversified manufacturing facilities at 10 locations worldwide. Together, these help it to cater to 150 customers across 50 countries.

Business Model



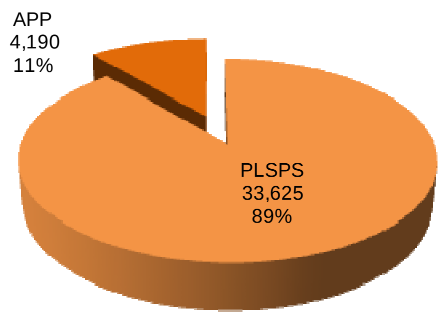
Source: Mata Research

Revenue break up (Geographical distribution - FY10) (Rs Mn)

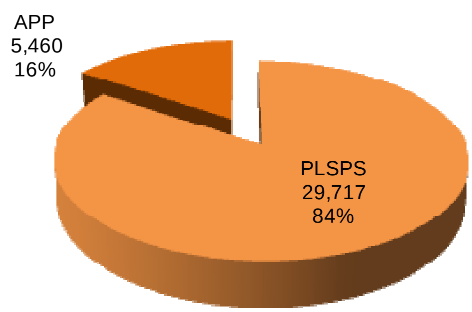


Source: Company, Mata Research

Revenue model (FY10) (Rs Mn)

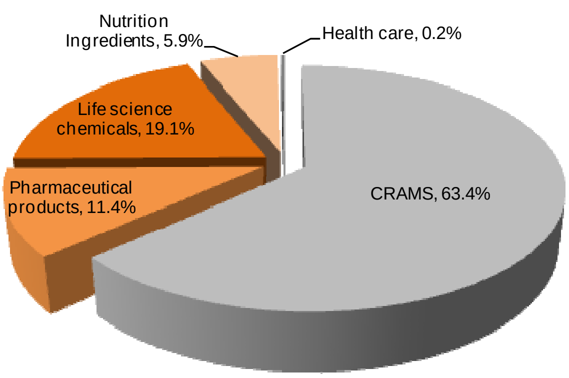


Revenue model (FY09) (Rs Mn)

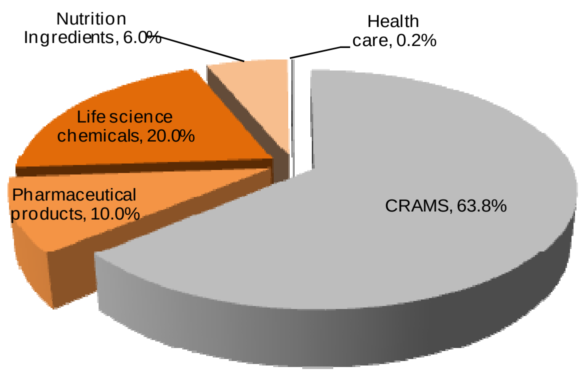


Source: Mata Research

PLSPS revenue break up (FY10)



PLSPS revenue break up (FY09)



Source: Mata Research

Management Background

Shyam Bhartia, Chairman and Managing Director

Shyam S Bhartia is the Chairman and Managing Director of Jubilant Organosys Ltd. After graduating in Commerce, he did his ICWA from the Institute of Cost and Works Accountants of India (ICWAI) and is a fellow member of the ICWAI. A leading industrialist of India, he has rich industrial experience in Pharmaceuticals & Speciality Chemicals, Food, Oil and Gas (Exploration & Production), Aerospace and Information Technology sectors.

Hari S Bhartia, Co-Chairman and Managing Director

Hari S Bhartia is the Co-Chairman and Managing Director of Jubilant Organosys Ltd. He is a leading industrialist of India with more than 20 years of experience in Pharmaceuticals & Speciality Chemicals and Biotechnology, Food, Oil and Gas (Exploration & Production), Aerospace, Information Technology and other sectors. He has led his business group into strategic alliances and affiliations with some of the leading global corporations.

Jag Mohan Khanna, Executive Director and President - Life Sciences

Dr Jag Mohan Khanna is an internationally recognized scientist in the field of pharmaceutical research. He has done some novel work in the field of development of APIs, New Chemical Entities, New Drug Delivery Systems, Biotechnology and herbal drugs. He is also considered to be an expert in the field of International Drug Regulatory Affairs and Intellectual Property.

S Bang, Executive Director – Manufacturing and Supply Chain Operations

Shyam Bang is the Executive Director of Jubilant Organosys Ltd. He graduated as Chemical Engineer from Nagpur University in 1971 and further did his Masters in Chemical Engineering from UDCT, Mumbai in 1973. He has rich experience of 34 years with various industries.

Surendra Singh, Director

Surendra Singh, a reputed member of the Civil Services for more than 35 years, held key senior positions in the Indian government, earlier as Special Secretary to the Prime Minister of India and then as Cabinet Secretary to the Government of India.

Industry Overview

Developed economies constituted ~85% of global pharma sales in CY08

The global pharmaceutical industry has grown at 5-6% in CY08 to US$770bn. North America, Europe and Japan turned out to be key contributors to growth and accounted for nearly 85% of global pharma sales in CY08.

India's pharmaceutical market stood at US$19bn in CY09 and is expected to cross US$50bn mark by CY20. India is one of the top five active pharmaceutical ingredients (API) producers in the world with a share of about 6.5%. Almost 30% of demand for active ingredients is imported and all the country's demand for formulations is met from domestic manufacturers only.

Indian pharma industry is among top five global markets in the world

India: Gaining space in the top 5 global markets

Indian pharma industry is emerging as a key destination for all players across the globe. With its fast pace of growth and cost competitiveness, we expect it to be among the top five global pharma markets by CY15.

Indian generics: Expanding foothold

The Indian pharma industry is a leading producer of high quality, low cost generic drugs. It has significant market share in the US$87bn world generic market. India is conveniently placed, with the advantage of cost competitiveness, ability and experience in reverse engineering, availability of skilled scientific and engineering personnel and the capability to produce raw materials for a wide range of drugs from the basic stage.

Indian generic segment is well placed to tap the billion dollar opportunity arising due to patent expiry of block buster drugs

The Indian generic manufacturers are expected to grow at a faster clip as drugs worth approximately US$20bn in annual sales will face patent expiry in 2011. Nearly US$80bn worth patent-protected drugs will go off-patent (including 30 of the best selling US patent-protected drugs) by 2012. The generic penetration in Europe has increased manifold over last seven years. UK, which is second largest market in EU, has grown by two times during last seven years. Europe's generics market is expected to grow from an estimated US$18.7bn in 2006-07 to over US$30bn in 2011-12.

Indian pharmaceutical industry: Key destination for global pharma companies

Indian market has emerged as a key destination for global pharma companies, thanks to its high growth prospects and conducive regulatory environment. According to industry experts, MNC pharma companies are likely to witness a sea change in their strategy and are aggressively scouting for growth options. The MNCs have embarked on a multi-pronged strategy to establish their stronghold in Indian market by introducing patented products, divesting non-core businesses, going in for acquisitions, strengthening sales and distribution network as well as developing India-centric portfolios.

CRAMs – potential yet to tap!

India ready to eat bigger pie of global outsourcing

India is a major destination for contract research and manufacturing services, owing to its low costs (as drug development and manufacturing can be done in India at 40% of the expenses in the US and Europe), skilled manpower and manufacturing capability, with a number of USFDA-approved plants operating in the country. API manufacturing, clinical research and basic research are major facilities currently offered by domestic service providers. According to Frost & Sullivan, the pharma outsourcing in India will grow to around US$7bn by 2013, as global firms seek to leverage advantages related to cost and quality the country possess. The MNC pharma and biotech companies spend significant portion of their R&D budgets on the outsourcing services offered by CRO (Contract Research Organization) industry, which was approximately US$15bn in 2007 and is expected to grow at 15% over the next few years to touch US$20bn by 2010.

CRAMs – one of the fastest growing segment in Indian pharma industry

CRAMS is the fast growing segment in Indian pharmaceutical sector. During 2004-08, the segment has grown at 39%. The growth in this sector is mainly due to acquisitions and global outsourcing. Indian CRAMS is divided into contract research and contract manufacturing. Contract research contributes 29% whereas contract manufacturing contributes 66%. Globally, the outsourcing trend is expected to grow further with the contract manufacturing market size at US$45bn (US$29bn from dosage forms and US$16bn from APIs), whereas the contract research market size is estimated to be at US$38bn (US$11bn from Drug Discovery and US$27bn from clinical research).

Our View

Expect Indian pharma industry to post 13.1% CAGR to touch US$11.2bn by 2011-12

Going forward, we expect better health insurance coverage, more government funds, and introduction of mass healthcare projects such as the National Rural Health Mission (NRHM) and increasing rural penetration by pharmaceutical companies to contribute to domestic drug sales growth. We expect Indian pharma industry to post 13.1% CAGR to touch US$11.2bn by 2011-12, The future demand for domestic formulations would be driven by chronic therapeutic segments such as anti-diabetic, central nervous system, cardio-vascular systems and gastrointestinal drugs on account of changing lifestyles.

Improved earnings visibility

The increased earnings visibility on the back of good growth expected from the core base business and better visibility from Para IV, complex molecule pipelines helped to improve the outlook on Indian pharma companies. Moreover, the Indian generic players are more diversified compared to global peers, which places them in a comfortable position and makes them relatively less exposed to changes in the industry dynamics.

Financials (Consolidated)

Profit & Loss (Rs mn)	FY09	FY10	FY11E	FY12E
Net Sales	35179.8	37986.7	42735.0	46969.8
% Growth	41.4	8.0	12.5	9.9
Cost of material consumed	13148.8	12904.3	15384.6	17144.0
(Inc)/Dec of Stock	(781.3)	(203.8)	(534.2)	(704.5)
Staff/Personnel Expenses	5612.3	7452.6	6837.6	7515.2
Purchase of Trading goods	1134.9	2018.5	1068.4	1291.7
Selling & distribution	3378.5	4571.9	3846.1	4227.3
Manufacturing & Other exp	8033.9	3182.3	6623.9	7045.5
Total Expenses	30527.1	29925.8	33226.4	36519.0
EBITDA	4652.8	8060.9	9508.5	10450.8
% Growth	3.2	73.2	18.0	9.9
Depreciation	1632.4	1246.8	1949.3	2085.8
Other Income	1015.7	198.6	192.3	211.4
EBIT	4036.1	7012.7	7751.5	8576.3
Interest	1070.4	1505.2	1143.2	1059.6
PBT	2965.7	5507.5	6608.4	7516.8
Taxation	267.2	959.4	1139.9	1221.5
PAT	2698.5	4548.1	5468.4	6295.3
Extra ordinary items	(133.2)	333.5	0.0	0.0
Adjusted PAT	2831.7	4214.6	5468.4	6295.3
% Growth	(29.3)	48.8	29.7	15.1

Balance Sheet (Rs mn)	FY09	FY10E	FY11E	FY12E
Shareholders' Funds				
Share Capital	147.6	158.8	158.8	158.8
Reserves & Surplus	12527.8	20244.4	25312.9	31147.9
Net worth	**12675.3**	**20403.2**	**25471.7**	**31306.6**
Minority Interest	319.5	319.5	319.5	319.5
Loan Funds				
Secured Loans	29026.2	22591.2	22591.2	20591.2
Unsecured Loans	9754.9	8954.9	4954.9	2954.9
Total Loans	38781.1	31546.1	27546.1	23546.1
Deferred Tax Liability	1150.6	1150.6	1150.6	1150.6
Total Liability	**52926.6**	**53419.4**	**54487.9**	**56322.9**
Application of Funds				
Gross Block	46482.6	47482.6	49982.6	53482.6
Less: Depreciation	9032.6	10279.4	12228.7	14314.5
Net Block	**37450.0**	**37203.2**	**37753.9**	**39168.1**
Add: Capital WIP	5031.2	5031.2	5031.2	5031.2
Investments	2713.6	2213.6	2213.6	2213.6
Current Assets, Loans & Advances				
Inventories	5956.1	6129.6	6978.1	7529.7
Sundry Debtors	5044.1	5161.7	5800.5	6315.2
Cash & Bank Balances	3816.5	5065.3	3872.9	3895.7
Loans & Advances	4854.9	5014.2	5555.5	6106.1
Current Liabilities & Provisions				
Sundry Creditors	5360.8	5565.0	5669.7	6072.3
Other Liabilities	2003.8	2184.2	2243.6	2583.3
Provisions	4578.5	4653.4	4807.7	5284.1
Net current Assets	**7728.6**	**8968.2**	**9486.1**	**9906.8**
Miscellaneous Expenses	3.3	3.3	3.3	3.3
Total Assets	**52926.6**	**53419.4**	**54487.9**	**56322.9**

Ratios	FY09	FY10E	FY11E	FY12E
Basic (Rs)				
EPS	19.3	26.5	34.4	39.6
Growth (%)	(29.0)	37.7	29.4	13.6
Cash EPS	30.3	34.4	46.7	52.8
Book value	85.9	128.5	160.4	197.2
DPS	1.5	2.0	2.0	2.5
Valuation (x)				
P/E	17.8	12.9	10.0	8.7
Cash P/E	11.3	10.0	7.3	6.5
Price/Book value	4.0	2.7	2.1	1.7
EV/Sales	2.4	2.1	1.8	1.6
EV/EBITDA	18.4	10.0	8.2	7.1
Profitability ratios (%)				
EBITDA	13.2	21.2	22.3	22.3
PAT	8.0	11.1	12.8	13.4
RoE	22.3	20.7	21.5	20.1
RoCE	7.8	13.5	14.6	15.6
Leverage ratio				
Debt/Equity (x)	3.1	1.5	1.1	0.8
Net Debt/Equity (X)	2.8	1.3	0.9	0.6

Cash Flow (Rs mn)	FY09	FY10E	FY11E	FY12E
Net income	2965.7	5507.5	6608.4	7516.8
Depreciation	1632.4	1246.8	1949.3	2085.8
Other Op cash items	826.6	0.0	0.0	0.0
Interest	1070.4	1505.2	1143.2	1059.6
Changes in WIP	(555.3)	(324.4)	(1710.3)	(398.0)
Cash inflow from ops.	**5939.7**	**7935.1**	**7990.6**	**10264.2**
Interest paid	(1010.8)	(1505.2)	(1143.2)	(1059.6)
Direct taxes paid	(419.9)	(959.4)	(1139.9)	(1221.5)
Interest Income received	61.0	0.0	0.0	0.0
Operating Cash Flow	**4570.0**	**5470.5**	**5707.5**	**7983.1**
Capex	(6677.5)	(1000.0)	(2500.0)	(3500.0)
Other investments	(13629.8)	500.0	0.0	0.0
Investing Cash Flow	**(20307.3)**	**(500.0)**	**(2500.0)**	**(3500.0)**
Issue of equity cap.	8.7	11.2	0.0	0.0
Borrowing	15202.0	(7235.0)	(4000.0)	(4000.0)
Misc items	(4.0)	3847.2	0.0	0.0
Dividend Paid	(257.6)	(345.2)	(399.9)	(460.3)
Buy Back of FCCBs	(2431.6)	0.0	0.0	0.0
Financing Cash Flow	**12517.4**	**(3721.8)**	**(4399.9)**	**(4460.3)**
Forex & Other ops	1796.9	0.0	0.0	0.0
Net increase in cash	(1423.0)	1248.7	(1192.4)	22.8
Beginning cash	5239.5	3816.5	5065.3	3872.9
Closing cash	**3816.5**	**5065.3**	**3872.9**	**3895.7**

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