# Jubilant Lifesciences JULS.NS JOL IN

PHARMACEUTICALS

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## Gaining strength; 2QFY12 significantly strong

# First Look

Breaking news, market events and company announcements

November 1, 2011

| | |
|---|---|
| **Rating** Remains | **Buy** |
| **Target price** Remains | INR 290 |
| **Closing price** November 1, 2011 | INR 201 |

### Strong sequential improvement in sales

2QFY12 sales of INR10.5bn (23% y-y, 10.7% q-q) were significantly higher than our expectations. The key surprise was a strong pick-up in the generics business, which increased by US$24mn sequentially. As per company, growth in the generics segment was driven by new launches, market share gains in existing products (including some opportunistic market share gain on supply disruptions from the competition) and some price increases. The company expects to sustain the current momentum in the business.

### Outlook growth positive

Management sounded positive on the growth outlook for 2HFY12. It expects growth to be driven by new capacities and higher capacity utilisation. The company recently commissioned a 10000 TPA Niacinamide and intermediate facility at SEZ in Gujarat. The facility presents peak sales potential of US$75mn, as per the company, which is 1.76x the FY11 segment sales. The generic and API segment growth is expected to be driven by patent expiries. Sartans will likely be a key growth driver in the near term as patents expire over the next 24 months. JOL has installed one of the largest generic sartan capacities. The capacity is expected to generate a turnover of US$60mn at full utilisation at current prices, which is almost 80% of current sales, according to management.

### Margin improvement trend sustains in the quarter

The EBITDA margin in the Life Sciences product business recorded a substantial improvement of 366bps q-q. The Services business margins were stable at mid-high teens. The gross margin at 63.16% was the highest in the last 10 qtrs. A pick-up in volumes, better capacity utilisation, cost rationalisations and some price increases all contributed to outperformance at the EBITDA level. EBITDA at INR2.38bn was the highest ever recorded by the company and substantially higher than our expectations of INR1.85bn.

### MTM losses of INR426m in the quarter

Excluding the unrealised MTM losses in the quarter, the company reported PAT of INR1.42bn. The company hasn't taken any hedging position and hence should benefit if the INR remains at the current level. As per the company, every INR1 depreciation in the USD/INR exchange rate can add approximately INR150mn to EBITDA.

### Estimates are under review

With 1HFY12 EBITDA at 58% of our full-year projection and an expected stronger 2HFY12F aided by favourable currency movement, our estimates are under review. We retain our Buy rating.


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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

**Fig. 1: 2QFY12 review**

| (in INR mn) | Q2FY12 | YoY (%) | Q2FY11 | QoQ (%) | Q1FY12 | vs. Nom | Q2FY12E |
|---|---|---|---|---|---|---|---|
| **Net Sales** | **10,501** | **23%** | **8,533** | **11%** | **9,485** | **8%** | **9,718** |
| Total Expenditure | 8,120 | 15% | 7,073 | 7% | 7,623 | 3% | 7,871 |
| **Core EBITDA** | **2,381** | **63%** | **1,460** | **28%** | **1,862** | **29%** | **1,846** |
| *Core EBITDA Margins* | 22.7% | 556bps | 17.1% | 304bps | 19.6% | 367bps | 19.0% |
| Other Income | 34 | | 42 | | 37 | | 30 |
| EBITDA | 1,989 | 33% | 1,496 | 7% | 1,857 | 6% | 1,876 |
| | 18.9% | 141bps | 17.5% | -64bps | 19.6% | -37bps | 19.3% |
| Interest and Finance Charges | 497 | 101% | 248 | 15% | 434 | 10% | 450 |
| Depreciation | 508 | 3% | 493 | 2% | 498 | 2% | 500 |
| Profit before tax | 984 | 30% | 755 | 6% | 925 | 6% | 926 |
| Provision for Taxation | 93 | 258% | 26 | -39% | 152 | -37% | 148 |
| *Tax Rate* | 9.5% | 601bps | 3.4% | -693bps | 16.4% | -655bps | 16.0% |
| Net Profit | 891 | 22% | 729 | 15% | 774 | 14% | 778 |
| Minority Interest | 97 | | (5) | | 3 | | (2) |
| **Net Profit after minority interest** | **794** | **8%** | **735** | **3%** | **771** | **2%** | **780** |

Source: Company data, Nomura estimates

# Appendix A-1

## Analyst Certification

We, Saion Mukherjee and Aditya Khemka, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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**Mentioned companies**

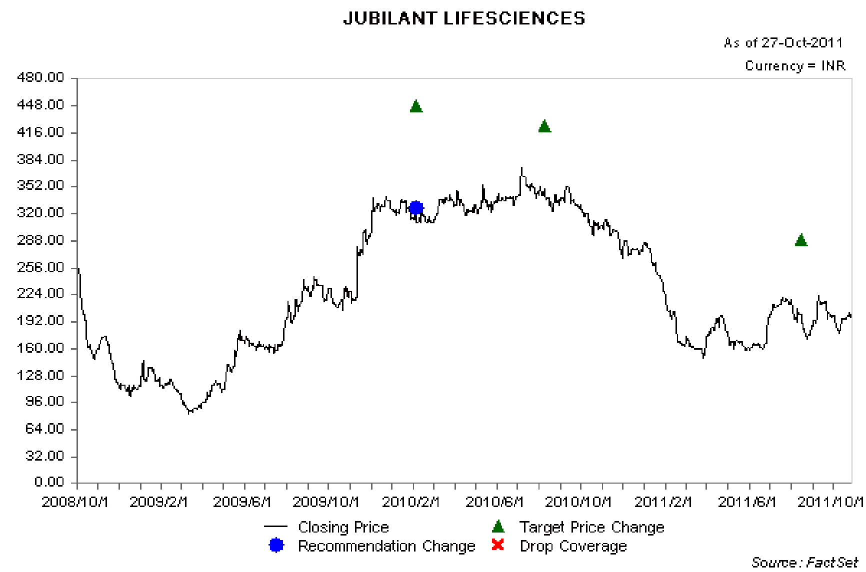
| Issuer name | Ticker | Price | Price date | Stock rating | Sector rating | Disclosures |
|---|---|---|---|---|---|---|
| Jubilant Lifesciences | JOL IN | INR 201 | 01-Nov-2011 | Buy | Not rated | |

**Previous Rating**

| Issuer name | Previous Rating | Date of change |
|---|---|---|
| Jubilant Lifesciences | Not Rated | 04-Feb-2010 |

**Jubilant Lifesciences (JOL IN)** **INR 201 (01-Nov-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)




| Date | Rating | Target price | Closing price |
|---|---|---|---|
| 15-Aug-2011 | | 290.00 | 200.70 |
| 10-Aug-2010 | | 425.00 | 352.30 |
| 04-Feb-2010 | | 448.00 | 326.70 |
| 04-Feb-2010 | Buy | | 326.70 |

For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We value JOL at 12x one-year forward earnings (FY12-13F blended), in line with the current trading multiple. We expect the fair valuation range at 11-13x one-year forward P/E. Our valuation implies 8.2x one-year forward EV/EBITDA. Our target price is INR290.

**Risks that may impede the achievement of the target price** (1) Foreign exchange risk: the company derives a large part of its revenues through exports and operations outside India. (2) Commodity risk: the company uses and supplies commodity products that are subject to price movements in the global market. (3) Isotope supply risk: a delay in availability of radioisotopes would present a risk to our earnings forecasts. (4) Regulatory risks: regulatory risks pertain to manufacturing, product quality and approval primarily of pharmaceutical products.

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## Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

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## Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

### STOCKS

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A '**Strong buy'** recommendation indicates that upside is more than 20%. A '**Buy'** recommendation indicates that upside is between 10% and 20%. A '**Neutral'** recommendation indicates that upside or downside is less than 10%. A '**Reduce'** recommendation indicates that downside is between 10% and 20%. A '**Sell'** recommendation indicates that downside is more than 20%.

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