

Equities

1 November 2011 | 8 pages

Jubilant Life Sciences (JULS.BO)

Alert: Big Beat

- **Big Beat** — Adj net income beat Citi's estimate by 49%, led by strong traction across businesses. While the Products biz continued to see strong growth, the Services biz also registered double-digit growth and maintained margins. Management is confident of maintaining growth rates & profitability in 2H, as the newly commissioned facilities ramp up. While debt/equity remains high, we believe there could be upside risk to our earnings estimates, if current trends sustain. Valuations at 11x FY13E EPS remain attractive – maintain Buy.
- **Growth All Round** — Strong revenue growth (+22% YoY) was driven by Products biz (+25%, Generics grew 118% YoY) and was well supported by the Services biz (+11% YoY, both mfg & discovery did well). New launches and sharp increase in prices of some US generic products (some competitors exited) led to the Generics biz growth (volume + price variance of 120%), whereas the Life Sciences ingredients biz grew 7% growth (only price hikes).
- **Adj Net Income Boosted by Strong Operational Performance** — Higher gross margin (+272bps YoY, +266bps QoQ) was a result of lower RM/Sales (-229 bps YoY, -239bps QoQ) due to price hikes in the Products biz. EBITDA margin (+546bps YoY) improved on higher capacity utilization & better margins in Services (+1,145bps YoY - cost rationalization efforts paying off). Adj net income growth was relatively subdued due to higher interest, higher minority interest (US sub Cadista did well) and a higher tax rate - yet was higher than expected. Reported net income was subdued by an exceptional item (Rs426m, unrealized foreign exchange loss).
- **Key Earnings Call Takeaways** — a) Roorkee facility received ANVISA approval; b) Pyridine & nutrition ingredients facility commissioned; c) Capex: Rs5bn in FY12; d) DMFs: two filed, total 54; e) ANDAs: four filed; total 40 ANDAs filed; f) Initiated supplies of Atorva finished dosages to Japan; g) Restructured US/Canada subs for tax efficiencies; h) Average interest rate for outstanding loans at 6.1% per annum.
- **Potential Catalysts** — a) Ability to gain market share in Sestamibi; b) Approval and launch of sartans by its partners in the regulated markets – Jubilant is a leading API supplier for this product category; c) Sustenance of margins for the Services biz.
- **What Could Go Wrong?** — a) Future growth is dependent on several generic launches by partners - approval delays could hurt; b) Inability to integrate & exploit synergies with its acquired subsidiaries; and c) Increases in input prices.

Company Update

Buy	1
Price (01 Nov 11)	Rs200.25
Target price	Rs290.00
Expected share price return	44.8%
Expected dividend yield	1.0%
Expected total return	45.8%
Market Cap	Rs31,896M
	US\$655M

Price Performance (RIC: JULS.BO, BB: JOL IN)



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2QFY12 Financial Snapshot

Figure 1. Jubilant Life Sciences – Consolidated Income Statement (Rsm, %)

	2Q FY11	2Q FY12	YoY ch (%)	1Q FY12	QoQ Ch (%)	CIRA Comments
Net sales	8,590	10,481	22.0	9,443	11.0	Conclusion: Recurring PAT beats estimates on higher EBITDA (lower RM/Sales)
Other Operating Income	13	20	52.7	42	(52.3)	
Total Revenues	8,603	10,501	22.1	9,485	10.7	
Material cost	3,786	4,380	15.7	4,183	4.7	Strong Revenue growth on Products biz growth (radiopharma, solid dosages), Services biz recovering well (double digit growth)
% of sales	44.0	41.7	-229 bps	44.1	-239 bps	
Mfr cost	722	836	15.8	780	7.1	Gross margin improved both YoY & QoQ on lower RM/Sales – a factor of price increases in Generics & LS Ingredients businesses
% of sales	8.4	8.0	-43 bps	8.2	-27 bps	
Gross Profit	4,095	5,285	29.0	4,521	(14.4)	
Gross margin (%)	47.6	50.3	272 bps	47.7	266 bps	
Staff cost	1,808	2,060	13.9	1,898	8.6	EBIDTA margin improvement on better capacity utilization and gross margin improvement – Services biz EBITDA improved significantly
% of sales	21.0	19.7	-139 bps	20.1	-44 bps	
SG & A expenses	805	844	4.8	761	10.8	Interest cost higher YoY on higher debt on account of repayment of FCCBs
% of sales	9.4	8.0	-132 bps	8.1	-1 bps	
EBIDTA	1,482	2,381	60.6	1,862	27.8	
EBIDTA Margin (%)	17.3	22.7	546 bps	19.7	299 bps	
Interest	248	497	100.7	434	14.5	Adjusted Net Income growth strong due to overall growth – helped by a significantly lower QoQ tax rate
Depreciation	493	508	3.1	498	2.1	
Other income	42	34	(19.8)	37	(7.4)	Minority Interest significantly higher as US subsidiary (Cadista) did well
PBT	785	1,410	79.7	967	45.7	
Tax - recurring	26	93	257.7	152	(38.7)	Tax Rate for FY12 to stabilize in the 16-17% range
Effective tax rate (%)	3.3	6.6	328 bps	15.7	-908 bps	
PAT	759	1,317	73.6	816	61.4	
Minority Interest (MI)	(5)	97	(1,967.3)	3	3,496.3	
Adjusted Net Income	764	1,220	59.7	813	50.0	
Exceptional Items - net of tax	(29)	(426)	1,363.9	(42)	919.1	
Reported Net Income	735	794	8.0	771	2.9	

Source: Citi Investment Research and Analysis

Figure 2. Jubilant Life Sciences – Business wise Profitability (Rs m, %)

	2Q FY11	2Q FY12	YoYch (%)	1Q FY12	QoQ Ch (%)	CIRA Comments
Life Science Products	6,660	8,330	25.1	7,390	12.7	Products biz growth led by generics biz – volume as well as price increase drive growth
% of sales	77.5	79.5		78.3		
EBIDTA Margin	24.2	26.8	260 bps	23.1	363 bps	New launches as well as existing products drive growth
Life Science Services	1,930	2,150	11.4	2,050	4.9	
% of sales	22.5	20.5		21.7		Services biz witnessing a turnaround with double digit growth – witnessing margin improvement on capacity utilization & improving product mix
EBIDTA Margin	2.6	16.7	1,415 bps	17.1	-33 bps	
Total Revenues	8,590	10,480	22.0	9,440	11.0	

Source: Citi Investment Research and Analysis

Jubilant Life Sciences

Valuation

Given that pharma is a growth sector, we use P/E as our primary method to value the base business of every company. Our target multiple of 15x for Jubilant is at a 15% premium to the target multiple used for Dishman, given Jubilant's diversified model and hence lower dependence on a few specific contracts / businesses. At 15x Sept 12E EPS, we value the stock at Rs290/sh.

Risks

The key risks to our target price include: (1) Lower than expected pace of recovery in the services business; (2) Future growth is dependent on several generic launches by partners - approval delays could hurt; (3) Inability to integrate & exploit synergies with its acquired subsidiaries; and (4) Increases in input prices.

Appendix A-1

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Jubilant Life Sciences (JULS.BO)

Ratings and Target Price History

Fundamental Research

Analyst: Prashant Nair, CFA

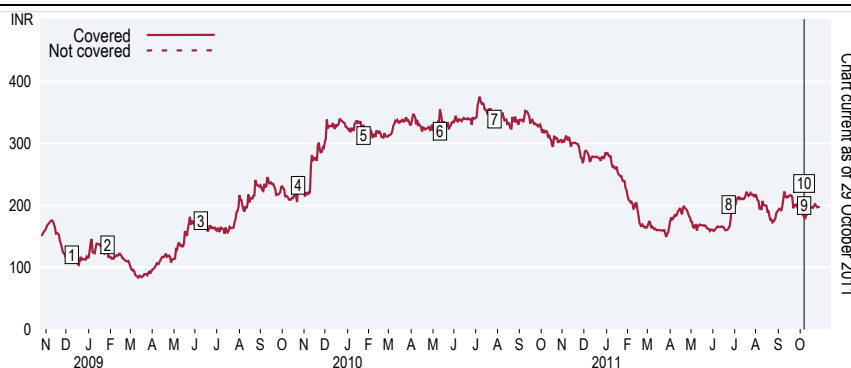


Chart current as of 29 October 2011

	Date	Rating	Target Price	Closing Price
1	9-Dec-08	*1H	*205.46	116.46
2	28-Jan-09	1H	*179.17	124.79
3	9-Jun-09	1H	*238.57	166.51
4	23-Oct-09	1H	*340.82	231.07

	Date	Rating	Target Price	Closing Price
5	24-Jan-10	1H	*428.45	327.57
6	12-May-10	*1M	*452.80	354.74
7	28-Jul-10	1M	*462.54	343.69
8	23-Jun-11	1M	*290.00	163.45

	Date	Rating	Target Price	Closing Price
9	7-Oct-11	Stock rating system changed		
10	7-Oct-11	*1	290.00	181.65

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Jubilant Life Sciences (JULS.BO)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Prashant Nair, CFA



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Data current as of 10 Oct 2011

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	Buy	Hold	Sell	Buy	Hold	Sell
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