

November 1, 2011

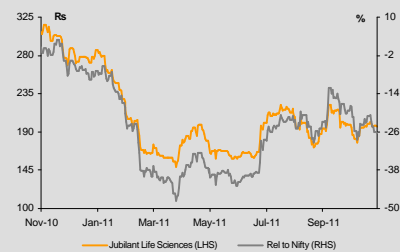
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs200	Rs359
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,258
Sensex	17,481

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	(8)	15	(34)
Rel. to Nifty	(5)	(4)	22	(24)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Bloomberg	JOL@IN
Equity Capital (Rs mn)	159
Face Value(Rs)	1
No of shares o/s (mn)	159
52 Week H/L	319/148
Market Cap (Rs bn/USD mn)	32/649
Daily Avg Volume (No of sh)	176443
Daily Avg Turnover (US\$m)	0.7

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	48.9	47.2	47.2
FII/NRI	28.6	30.4	30.2
Institutions	2.1	2.0	2.7
Private Corp	8.3	8.6	8.2
Public	12.1	11.8	11.8

Source: Capitaline

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- **Jubilant's Q2FY12 numbers were above expectations with Revenues at Rs10.5bn (up 22% YoY), EBITDA at Rs2.4bn (up 61% YoY) and APAT at Rs794mn (up 8% YoY)**
- **Top-line growth and EBITDA margin expansion was primarily led by ramp-up in Cadista business & favorable impact of INR depreciation since company has no forward covers**
- **Going forward, new capacity additions in pyridine & vitamin business, momentum in Cadista and +ve impact of currency depreciation will boost the top-line and the bottom-line**
- **Maintain Buy with a target price of Rs359 (10x FY13E EV/EBITDA)**

Q2FY12 Result Highlights

- Product business (contributes 79%) grew by 25% YoY
 - Generic business (contributes 23%) grew by 119% due to ramp-up in Methylpredisone, Lamotrigine and Meclizine
 - Ingredients business (contributes 56%) grew by 6.5% led by strong API sales on back of launch of new products i.e. Valsartan, Donepezil and Irbesartan
 - EBITDA margins expanded 260bps YoY and 368bps QoQ to 26.8%
- Service business (contributes 21%) grew by 12% YoY
 - CMO business (contributes 15%) grew by 12% on account of commencement of US\$70mn contract for an MNC. DDDS business (contributes 6%) grew by 14% YoY and 12% QoQ
 - EBITDA margins increased by 1394 bps YoY and remained flat QoQ to 16.7%

Debt as on Sep30th, 2011 has increased from Rs32.8bn in Q1FY12 to Rs36.2bn in Q2FY12 – an increase of Rs3.4bn. This was mainly due to MTM on foreign currency loans of US\$414mn. Average cost of Re debt (Rs15.9bn) has gone up to 11.5% from 9.5% in Q1FY12.

Future Outlook

- Jubilant has set up a 10,000 mt plant for Vitamin B3 (Niacin/ Niacinamide) and has commenced trial batches in Q2'11. It is the largest producer of Beta-picoline, which is the key raw material used for production of Niacin/Niacinamide. Cost advantage owing to scale, vertical integration in Beta picoline and tax incentives (as this plant is set up in an SEZ in Gujarat) should help it to gain market share
- Company is increasing the Pyridine capacity by 20% - to come on-stream in H2'12. This will help Jubilant in backward integration for Symtet and Vitamin B3 production
- Commissioning of Symtet plant by Q1FY13 for which the company has already signed the long term supply contract with a leading international life science co.

Valuations

We expect Jubilant to report 12% revenue growth in FY12 and 20% growth in FY13. We expect EBITDA margins to improve from 16.1% in FY11 to 19.1% in FY12 and 19.3% in FY13. Earnings will grow by 21% CAGR over FY11-13E. We value the company at 10x FY13 EV/EBITDA with a target price of Rs359 and BUY rating. At CMP, the stock trades at 11x FY12E EPS of Rs17.7 and 8x FY13E EPS of Rs25

Financials

YE-	Rs mn									
	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY10	33,686	8,064	23.9	4,348	27.4	22.0	22.9	7.3	6.8	1.4
FY11	34,420	5,541	16.1	2,711	17.1	(37.6)	10.3	11.7	11.7	1.4
FY12E	38,505	7,368	19.1	2,810	17.7	3.6	12.7	11.3	9.0	1.4
FY13E	46,325	8,919	19.3	3,967	25.0	41.2	16.6	8.0	7.3	1.2

Key Financials – Quarterly

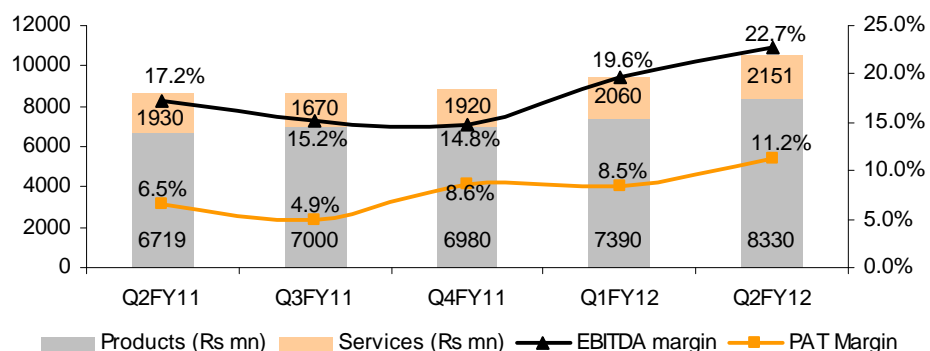
Rs mn

Rs mn	Q1FY11	Q2FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Revenue	8,186	8,603	8,944	9,485	10,501	22.1	10.7	19,986	16,789	19.0
Expenditure	6,771	7,121	7,620	7,623	8,120	14.0	6.5	15,743	13,892	13.3
<i>as % of sales</i>	<i>82.7</i>	<i>82.8</i>	<i>85.2</i>	<i>80.4</i>	<i>77.3</i>	-	-	<i>78.8</i>	<i>82.7</i>	-
Consumption of RM	3,655	3,786	3,901	4,183	4,380	15.7	4.7	8,564	7,441	15.1
<i>as % of sales</i>	<i>44.6</i>	<i>44.0</i>	<i>43.6</i>	<i>44.1</i>	<i>41.7</i>	-	-	<i>42.8</i>	<i>44.3</i>	-
Employee Cost	1,770	1,808	1,830	1,898	2,060	13.9	8.6	3,958	3,578	10.6
<i>as % of sales</i>	<i>21.6</i>	<i>21.0</i>	<i>20.5</i>	<i>20.0</i>	<i>19.6</i>	-	-	<i>19.8</i>	<i>21.3</i>	-
Other expenditure	1,347	1,527	1,890	1,542	1,680	10.0	9.0	3,221	2,873	12.1
<i>as % of sales</i>	<i>16.4</i>	<i>17.7</i>	<i>21.1</i>	<i>16.3</i>	<i>16.0</i>	-	-	<i>16.1</i>	<i>17.1</i>	-
EBITDA	1,415	1,482	1,323	1,862	2,381	60.6	27.8	4,243	2,897	46.4
Depreciation	484	493	331	498	508	3.1	2.1	1,006	977	3.0
EBIT	931	990	992	1,364	1,873	89.2	37.2	3,237	1,921	68.5
Other Income	23	42	47	37	34	-	(7.4)	71	66	7.6
Interest	195	248	323	434	497	100.7	14.5	931	442	110.4
PBT	759	785	716	967	1,410	79.7	45.7	2,377	1,544	54.0
Total Tax	58	26	(54)	152	93	257.7	(38.7)	245	84	191.9
Adjusted PAT	702	759	770	816	1,317	73.6	61.4	2,132	1,460	46.0
(Profit)/loss from JV's/Ass/MI	(10.7)	(5.2)	(1.1)	2.7	97.1	-	-	99.8	(15.9)	-
APAT after MI	690	763	771	806	1,179	54.6	46.3	1,985	1,453	36.6
Extra ordinary items	-208	-29	154	-42	-426	-	-	-468	-237	-
Reported PAT	504	735	616	771	794	8.0	2.9	1,565	1,239	26.3
Reported EPS	3.2	4.6	3.9	4.8	5.0	8.0	2.9	9.8	7.8	26.3

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	17.3	17.2	14.8	19.6	22.7	544	304	21.2	17.3	397	
EBIT	11.4	11.5	11.1	14.4	17.8	633	345	16.2	11.4	476	
EBT	9.3	9.1	8.0	10.2	13.4	431	323	11.9	9.2	270	
PAT	8.4	8.9	8.6	8.5	11.2	237	273	9.9	8.7	128	
Effective Tax rate	7.6	3.3	(7.5)	15.7	6.6	328	(908)	10.3	5.4	486	

Revenue Break-up

Rs mn	Q1FY11	Q2FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Life Sciences Ingredients	5230	5560	5730	6080	5920	6.5%	-2.6%	12000	10790	11.2
Generics	980	1100	1250	1310	2410	119.1%	84.0%	3720	2080	78.8
Life Sciences Products	6210	6660	6980	7390	8330	25.1%	12.7%	15720	12870	22.1
CMO	1400	1390	1330	1510	1540	10.8%	2.0%	3050	2790	9.3
DDDS	540	510	560	520	580	13.9%	11.6%	1100	1050	4.8
Others	30	30	30	30	30	2.1%	1.5%	60	60	1.1
Life Sciences Services	1970	1929	1920	2060	2151	11.5%	4.4%	4211	3899	8.0
Total Sales	8180	8589.4	8900	9450	10481	22.0%	10.9%	19931	16769	18.9

Quarterly revenue & profitability trend**Operating margin improved 544bps YoY to 22.7%**

- Margin increase in product segment to 26.8% compare to 23.1% in Q1FY12 and 24.2% in Q2FY11
- Margins in Services segment increased to 16.7% compared to 17.3% in Q1FY12 and 2.8% in Q2FY11
- Staff cost increased by 14% YoY and 9% QoQ to Rs2bn due to addition of 237 people this quarter

RPAT at Rs794mn increased by 8 % YoY

- RPAT increased by 8% YoY on account of strong operating performance
- Interest cost increased by 101% YoY and 15% QoQ to Rs500mn due to increase in the average cost of Re debt from 9.5% in Q1FY12 to 11.5% in Q2FY12

Forex adjustments

The company has total foreign currency loans of USD414mn on which there is a MTM loss of Rs1.77bn (Re/\$ rate as on Sept 30th 2011 was 48.98 vs. 44.70 on June 30th, 2011)

- In this MTM loss of Rs800mn (on forex loans taken for investments in subsidiaries) is booked in FCMITDA and of this 1/3rd i.e. Rs264mn has been amortized in this quarter in P&L. Rest Rs520mn remains in the FCMITDA a/c
- MTM loss of Rs970mn (on forex loans taken for capex) is booked as increase in the Fixed Assets
- The company has incurred capex of ~Rs2.3bn during H1FY12

Valuations

With the signing of new contracts and commissioning of new capacities, business is turning around. The improved performance was visible in Q1 & Q2FY12 and will get better going ahead. Full impact will be visible in FY13. We expect Jubilant to report 12% revenue growth in FY12 and 20% growth in FY13. We expect EBITDA margins to improve from 16.1% in FY11 to 19.1% in FY12 and 19.3% in FY13. Earnings will grow by 21% CAGR over FY11-13E. We value the company at 10x FY13 EV/EBITDA with a target price of Rs359 and BUY rating. At CMP, the stock trades at 11x FY12E EPS of Rs17.7 and 8x FY13E EPS of Rs25.

Risk to our call

- **Currency Risk** – The Company has 81% of its total debt in USD at an average rate of Rs48.98, which is not hedged. If the Rupee depreciates from this levels then there will be translational losses which will pass through P&L
- **Delay in commissioning of new facilities** – We have assumed the commissioning of Vitamin plant in Q4FY12 and Syntet plant in Q1FY13. Delay in commissioning of these facilities will impact our estimates

Financial Snapshot

Rs mn	FY11	FY12E	YoY %	FY13E	YoY %
1. Products	2684	3009	12.1%	3616	20.2%
i) Ingredients	2233	2494	11.7%	3023	21.2%
a) Proprietary Prod. & Excl. Synthesis	949	1043.9	10.0%	1351	29.4%
b) Nutritional Ingredients	192	230.4	20.0%	311	35.0%
c) Life Science Chemicals	755	815	8.0%	856	5.0%
d) API	337	404	20.0%	505	25.0%
ii) Generics(Specialty Pharma)	452	515	14.1%	593	15.1%
a) Radio Pharmaceuticals	129	142	10.0%	156	10.0%
b) Allergenic Extracts	120	120	0.0%	120	0.0%
a) Dosage Forms	203	254	25.0%	317	25.0%
2. Services	749	833	11.2%	1008	21.0%
i) CMO	527	587	11.5%	724	23.4%
ii) DDDS	210	231	10.0%	266	15.0%
iii) Healthcare	12	14	20.0%	17	20.0%
Total (1 + 2)	3433	3842	11.9%	4624	20.4%
EBITDA	5,541	7,368	33.0%	8,919	21.1%
EBITDA %	16.1	19.1		19.3	
PAT	2,711	2,810	3.6%	3,967	41.2%
PAT %	7.9	7.3		8.6	
EPS	17.1	17.7	3.6%	25.0	41.2%
PE @ CMP	11.7	11.3		8.0	

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	33,686	34,420	38,505	46,325
<i>Growth (%)</i>	13.4	2.2	11.9	20.3
Expenditure	25,622	28,879	31,137	37,405
Raw Materials	15,853	15,426	16,884	20,067
Manufacturing exp	-267	3,550	4,575	4,850
Employee Cost	6,453	7,184	7,338	9,016
Other Exp	3,583	2,719	2,340	3,473
EBITDA	8,064	5,541	7,368	8,919
<i>Growth (%)</i>	31.2	-31.3	33.0	21.1
EBITDA margin (%)	23.9	16.1	19.1	19.3
Depreciation	1,247	1,800	2,100	2,200
EBIT	6,817	3,741	5,268	6,719
EBIT margin (%)	20.2	10.9	13.7	14.5
Other Income	0	130	0	0
Interest expenses	1,505	1,051	1,842	1,882
PBT	5,312	2,820	3,426	4,838
Tax	959	134	617	871
<i>Effective tax rate (%)</i>	19.3	5.6	18.0	18.0
Adjusted PAT	4,352	2,686	2,810	3,967
(Profit)/loss from JV's/Ass/MI	-5	-25	0	0
Adjusted PAT after MI	4,348	2,711	2,810	3,967
<i>Growth (%)</i>	31.3	-37.6	3.6	41.2
Net Margin (%)	12.9	7.9	7.3	8.6
E/O items	-329	-414	0	0
Reported PAT	4,019	2,297	2,810	3,967
<i>Growth (%)</i>	41.9	-42.8	22.3	41.2

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	5,485	2,819	3,426	4,838
Depreciation	1,247	1,800	2,100	2,200
Interest Provided	1,505	1,051	1,842	1,882
Other Non-Cash items	0	0	0	0
Chg in working cap	-528	-548	-1,115	-1,976
Tax paid	-959	-134	-617	-871
Operating Cashflow	6,750	4,987	5,637	6,072
Capital expenditure	-2,011	-4,980	-5,000	-3,000
Free Cash Flow	4,739	7	637	3,072
Other income	0	0	0	0
Investments	149	2,237	0	0
Investing Cashflow	-1,861	-2,744	-5,000	-3,000
Equity Capital Raised	3,598	-1,284	-2,605	0
Loans Taken / (Repaid)	-7,691	7,518	-5,137	-800
Interest Paid	-1,505	-1,051	-1,842	-1,882
Dividend paid (incl tax)	-279	-319	-319	-319
Income from investments	0	0	0	0
Others	2,208	-1,688	0	0
Financing Cashflow	-3,668	3,176	-9,902	-3,001
Net chg in cash	1,220	5,420	-9,266	72
Opening cash position	3,817	5,037	10,457	1,191
Closing cash position	5,037	10,457	1,191	1,263

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	159	159	159	159
Reserves & surplus	21,855	21,563	21,449	25,098
Net worth	22,013	21,723	21,609	25,257
Minority Interest	379	418	418	418
Secured Loans	23,117	32,908	34,108	33,308
Unsecured Loans	8,610	6,337	0	0
Loan Funds	31,727	39,245	34,108	33,308
Net deferred tax liability	1,924	1,712	1,712	1,712
Total Liabilities	56,044	63,098	57,847	60,695
Gross Block	48,453	51,633	63,410	66,410
Less: Depreciation	10,264	11,722	13,822	16,022
Net block	38,189	39,911	49,588	50,388
Capital work in progress	5,056	6,778	0	0
Investment	2,564	328	328	328
Current Assets	22,315	28,228	19,829	24,591
Inventories	6,910	6,913	7,191	9,784
Sundry debtors	5,186	5,205	5,321	6,840
Cash & bank balance	5,037	10,457	1,191	1,263
Loans & advances	5,183	5,654	6,126	6,704
Other current assets	0	0	0	0
Current lia & Prov	12,201	12,145	11,897	14,611
Current liabilities	10,371	10,466	9,400	11,375
Provisions	1,831	1,679	2,497	3,237
Net current assets	10,114	16,082	7,932	9,980
Misc. exp & Def. Assets	121	0	0	0
Total Assets	56,044	63,098	57,847	60,695

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	23.9	16.1	19.1	19.3
Net Margin	12.9	7.9	7.3	8.6
ROCE	15.0	7.2	9.2	11.3
ROE	22.9	10.3	12.7	16.6
RoIC	20.4	10.1	11.0	11.6
Per Share Data (Rs)				
EPS	27.4	17.1	17.7	25.0
CEPS	37.3	31.0	30.9	38.8
BVPS	139.5	139.5	138.7	161.7
DPS	2.1	2.0	2.0	2.0
Valuations (x)				
PER	7.3	11.7	11.3	8.0
P/CEPS	5.4	6.4	6.5	5.1
P/BV	1.4	1.4	1.4	1.2
EV / Sales	1.6	1.9	1.7	1.4
EV / EBITDA	6.8	11.7	9.0	7.3
Dividend Yield (%)	1.0	1.0	1.0	1.0
Gearing Ratio (x)				
Net Debt/ Equity	1.2	1.3	1.5	1.3
Net Debt/EBIDTA	3.3	5.2	4.5	3.6
Working Cap Cycle (days)	75	77	88	94

Recommendation History: Jubilant Life Sciences – JOL IN

Date	Reports	Reco	CMP	Target
26/09/2011	Pharma Sector Report Domestic			
16/09/2011	Jubilant Life Sciences Company Update	Buy	216	359
10/08/2011	Jubilant Life Sciences Q1FY12 Result Update	Accumulate	207	248
24/06/2011	Jubilant Life Sciences Company Update	Accumulate	163	208

Recent Research Reports

Date	Reports	Reco	CMP	Target
31/10/2011	IPCA Lab Q2FY12 Result Update	Buy	254	392
25/10/2011	Dr Reddys Lab Q2FY12 Result Update	Hold	1,580	1,604
24/10/2011	Unichem Labs Q2FY12 Result Update	Hold	132	148
19/10/2011	Torrent Pharma Q2FY12 Result Update	Hold	577	618

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