

**INTELSENSE**

J.B.CHEMICALS & PHARMACEUTICALS LTD

Scrip Code	NSE: JBCHEPHARM BSE: 506943
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Price	435.65

Research Report prepared by Abhishek Basumallick

SEBI Registered Research Analyst - Registration Number: INH300006607

What is interesting about the company?

- J.B Chemicals & Pharmaceuticals Ltd (JBCPL) is engaged purely in the pharmaceuticals segment.
- JBCPL is among the top 40 pharmaceutical companies in the local market and the top 20 pharmaceutical companies with India and exports business.
- JBCPL has a presence in 22 major therapeutic groups with 108 brands in the domestic market.
- Some of JBCPL's leading brands in India are in Amoebicides, Anti-peptic ulcerants, NSAID, Cardiac care, Quinolones and Antacids. They are among the top 300 brands in terms of units in the Indian pharmaceutical market.
- JBCPL's four popular brands include Rantac (anti-peptic ulcerant), Metrogyl (amoebicides), Cilacar (calcium channel blocker) and Nicardia (calcium channel blocker)
- Company is growing strongly in the domestic market.
- There has been some news report on stake sell, which has not been confirmed by the promoter.

Business Overview

- Mr. JB Mody launched partnership firm, M/s Unique Pharmaceutical Laboratories. Later, J. B. Mody Chemicals & Pharmaceuticals Ltd was incorporated in Dec 1976. Finally, the pharmaceuticals division of Ifiunik Pharmaceuticals Ltd. and Unique Pharmaceutical Laboratories Ltd was amalgamated into J.B Chemicals & Pharmaceuticals Ltd (JBCPL) w.e.f. 1st April, 2000.
- 3 Subsidiary Companies: (a) OOO Unique Pharmaceutical Laboratories, Russia; (b) Unique Pharmaceutical Laboratories FZE, UAE; (c) Biotech Laboratories (Pty.) Ltd. (through Unique Pharmaceutical Laboratories FZE), South Africa.
- JBCPL is ranked 34th in the domestic industry with Company's four brands viz., Rantac (anti-peptic ulcerant), Metrogyl (amoebicides), Cilacar (calcium channel blocker) and Nicardia (calcium channel blocker)
- Both domestic formulations business and Global exports (other than Russia-CIS) performed strongly.
- The Company has 13 approved ANDAs, while 6 ANDAs are pending with US FDA for approval.

Business Overview

- Favourable product mix in both domestic business and Global exports along with depreciation of Rupee helped improve operating profit during the past year.
- JBCP is improving revenue growth, led by improving MR productivity for the domestic business, market share gains in the US and change in distribution for the Russia business.
- API sales were lower than the previous year due to JBCPL's major customer's decision to source all Diclofenac salts from the Company in addition to Diclofenac Sodium for their formulation, which has forced a new registration process. The sales are expected to improve once the registration process is over which could run through the current year.
- JBCPL launched six new products across cardiac, gastro, wound healing and probiotic segments, all of which have performed well. During the current year, the Company plans to launch six more new products across cardiac and GI segments.
- During the year, JBCPL launched next-generation Macrocylic MRI contrast agent and re-launched ultrasound contrast media Definity TM manufactured by a US company, both of which contributed to growth and hold high potential.

Business Overview

- The strategy to increase size of field force and creation of four divisions in the domestic formulations business has strongly helped JBCPL's future prospects. The field force size as at the year-end was over 2,000.
- JBCP has entered into the nephrology therapy, although it expects a slow ramp up and remains focused on existing brands for driving growth.
- JBCPL prioritises the Russian market as highly potential and is currently investing in new products for this market to grow.
- JBCP has 6 commercial products in Russia and expects 4-5 filings over the next 1-2 years. New launches are expected to drive growth in the existing portfolio.
- The management is expecting 2-3 filings and 1-2 approvals per year in the US. The new facility at Panoli is intended to cater to export markets including US, and will enable faster turnarounds for new launches.
- NPPA notified one-time price increase of 50% from existing ceiling price of select 21 National List of Essential Medicines products. Metronidazole is one compound where price has been increased and JB Chemicals manufactures four formulation products based on it and these products contribute 10% of company's India revenue.

Industry / Competitive Landscape

- The domestic formulation industry is expected to continue to grow at a healthy rate in view of increasing per capita consumption of drugs, improved health care access, increasing health awareness and increasing penetration in Tier II, Tier III and rural market.
- The domestic formulations industry grew at 11%.
- At US\$20bn, the India pharma market (IPM) accounts for only about 2% of global pharmaceutical sales.
- Reasons for long term growth for domestic pharma:
 - India has the world's 2nd largest population.
 - Increase in awareness and spending on healthcare
 - Strong growth in the hospital sector and
 - Growth in the health insurance market including the government's flagship Ayushman Bharat
 - Low manufacturing costs
- Domestic focused companies are likely to benefit from the above changes more than the export-focused one.

Management

- Pharmaceuticals division of Ifiunik Pharmaceuticals Ltd. and Unique Pharmaceutical Laboratories Ltd was amalgamated into J.B Chemicals & Pharmaceuticals Ltd (JBCPL) w.e.f. 1st April, 2000.
- Mr. J.B. Mody is the Chairman and Managing Director.
- Mr. Shirish B. Mody is the Whole time Director (Marketing).
- Mr. Pranabh Mody is the President & Whole time Director (Operations)
- Mr. Dinesh B. Mody is the Whole time Director (Administration)
- Promoter holding is 56% with no pledging of shares.
- Promoter compensation at an individual level is reasonable.
- The company is also looking to sell as per news reports, though the management has not confirmed it. (ref: <https://economictimes.indiatimes.com/industry/healthcare/biotech/pharmaceuticals/jb-chemicals-promoters-to-offload-57-stake/articleshow/69529708.cms>)

Financials

	2014	2015	2016	2017	2018	2019
Sales	1021.87	1144.21	1210.36	1344.29	1408.38	1643.2
Sales growth (%)	18%	12%	6%	11%	5%	17%
OPM (%)	13%	16%	17%	17%	15%	19%
Net Profit	61.5	100.41	162.55	184.06	138.34	193.47
PAT growth (%)	-23%	63%	62%	13%	-25%	40%
NPM (%)	6%	9%	13%	14%	10%	12%
EPS	7.3	11.8	19.2	21.7	16.6	24.1
EPS growth (%)	-23%	63%	62%	13%	-24%	46%
ROCE (%)	6.9%	10.2%	13.2%	13.6%	11.0%	16.1%

Trends					
	10 yrs	7 yrs	5 yrs	3 yrs	Recent
Sales Growth	9.28%	10.79%	9.97%	10.73%	16.67%
OPM	16.46%	15.94%	16.91%	17.18%	19.92%
Net Profit	5.57%	-16.40%	25.76%	5.98%	39.85%
EPS	6.16%	-15.75%	27.14%	7.96%	45.66%

Problems and things that can go wrong

- For the domestic market, stiff competition in the market place, Government approach to drug pricing, generic drugs and its stand on fixed dose combinations are some of the challenges that JBCPL faces.
- Unknown issues can come up from time to time like impurities in products (e.g. NDMA in Ranitidine)
- For the international business, currency volatility and changing regulatory environment are the key challenges, to name a few.
- With focus on scaling up of domestic formulations business on one hand, and growing Global business in US, Australia, South Africa and other key markets and lucrative contract manufacturing business, we are hopeful of good growth going forward.

Investment Assumptions & Key Monitorables

- Continued growth in revenues and profits
- Improvement in IPM ranking
- Increase in margins
- Stake sale

Valuations & Price Chart

- JBCHEPHARM currently trades around Rs. 435 with a Market Capitalization of around Rs 3500 crore. It trades at around a PE of 13.9.
- It is nearly debt free and offers a dividend yield 1.1%.
- The company is likely to end FY21 with an EPS of 32-35. With strong growth, there is a possibility of a re-rating.



Disclosure

This report has been prepared by Abhishek Basumallick, SEBI Registered Research Analyst - Registration Number: INH300006607. **He is personally invested in the company. He has NOT made any transaction which is opposite of the view proposed in the report.**

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