LSE Securities

Jubilant Organosys - Buy

Jubilant Organosys incorporated in 1978 is an integrated pharmaceutical industry player offering products and services to global life sciences companies. The Company is the largest Custom Research and Manufacturing Services Company, largest drug discovery service provider and a leading API player in India.

The Company has a presence across the pharmaceuticals value chain and offers products and services ranging from Life Sciences chemicals, Advance Intermediates & Fine Chemicals, Active Pharmaceutical Ingredients, Sterile Injectables, Generic Dosage Forms, Specialty Pharmaceuticals, to Drug Discovery, Medicinal Chemistry, Clinical Research services and Healthcare.

Management

The management of the company is led by Shyam S Bhartia- Chairman & Managing Director; Hari S Bhartia is the Co-Chairman & Managing Director, Dr J M Khanna and Shyamsundar Bang are Executive Director, while other directors include Arabinda Ray, Surendra Singh, H K Khan, Dr Naresh Trehan, Abhay Havaldar and Rahul Yadav.

Business Overview

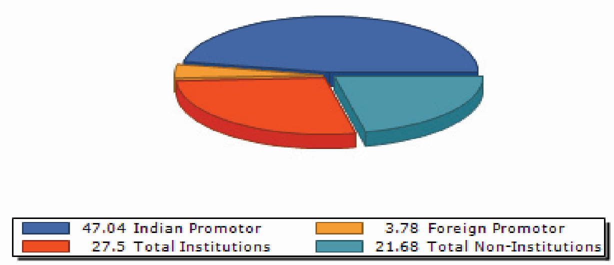
Jubilant delivers products and services to the global life sciences industry by leveraging its R&D expertise, knowledge driven operations and global scale manufacturing capacities. The Company's business is classified under two broad segments, Pharma and Life Sciences Products & Services (PLSPS) and Industrial and Performance Polymer Products (IPP).

Pharma and Life Sciences Products & Services (PLSPS) - This is a major building block of the Company constituting over 66% of the overall business. The business constitutes four key segments such as CRAMS, Drug Discovery and Development Services, Dosage Forms and Healthcare. CRAMS is the major growth driver for the Company and over the years it has successfully developed global delivery capabilities in key products.

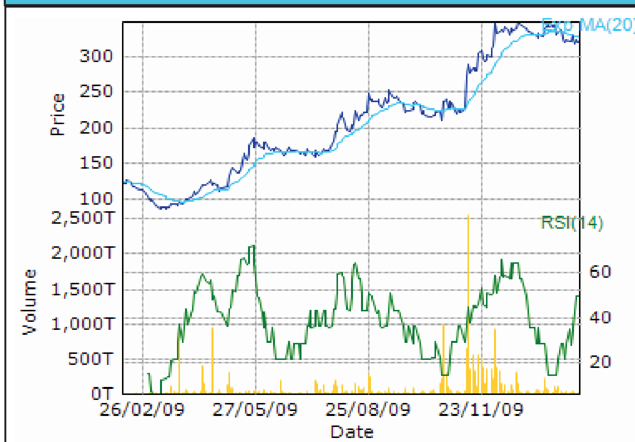
Product & Services Mix- It encompasses products and services across the pharmaceutical value chain such as Advance Intermediates, Custom Synthesis (Kilo to ton quantities), Proprietary products (150 products for more than 229 API and 17 Agrochemicals), Active Pharmaceutical Ingredients, Contract manufacturing of

Stock Data	10/02/2010
Current Mkt Price (Rs)	318.75
52 Week High	365.00
52 Week Low	85.00
Mkt Cap (Rs. in Million)	47029.09
Return in last one Month (%)	-3.07

Share Holding



Performance in last one year



Y-o-Y Performance

(Rs. in Million)

Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	24308.94	19762.16	23.01
Other Income	906.51	1198.30	-24.35
Total Expenditure	20972.40	15508.65	35.23
Operating Profit	4243.05	5451.81	-22.17
Interest	766.52	216.89	253.41
Profits After Tax	2607.41	3922.67	-33.53
Reserve & Surplus	0.01	0.01	-2.88
Reported EPS(Rs)	17.67	26.83	-34.14
Core EBITDA Margin (%)	13.08	20.10	-34.93

sterile injectables (liquids and lyophilized), non-steriles (ointments, creams and liquid), Specialty pharmaceuticals such as radiopharmaceuticals & allergenic products and manufacturing of generic dosage forms.

Industrial and Performance Polymer Products (IPP)-The IPP business comprises organic intermediates that includes Acetyls; Agrovet that includes fertilizers, vitamins, pest management products; Specialty gases and Performance polymers that include application polymers for textile, tyres, and food industry and consumer products in the adhesives and wood finishes area.

Jubilant Organosys has geographically diversified manufacturing facilities situated across India at Gajraula (UP), Nanjangud (Karnataka), Roorkee (Uttarakhand), Nira (Maharashtra), Udaipur (Rajasthan), Samlaya (Gujarat), Ambarnath (Mumbai) and internationally at Salisbury, state of Maryland (USA), Spokane, state of Washington (USA) and Kirkland, state of Quebec (Canada). Jubilant Organosys has ten geographically diversified manufacturing facilities in India, USA & Canada.

Latest result analysis

- The company has reported net profit of Rs 70.57 crore for the third quarter ended December, 2009 compared to a loss of Rs 21.16 crore in the corresponding quarter of the previous fiscal.
- The net sales of the company was marginally up by 4.46% to Rs 615.93 crore compared to Rs 589.61crore.
- The revenues of the company grew by 5.7 % to Rs 961.5 crore, against Rs 909.6 crore in the corresponding period.
- Other income of the company surged by 190.07% to Rs 4.09 crore compared to Rs 1.41 crore in the December 2008 quarter.
- Total income of the company was reported at Rs 620.02 crore compared to Rs 591.02 in the same quarter last fiscal, up by 4.90%.
- The operating profit margin of the company stood at 20.81% while the Net profit margin was at 11.46%.

Latest developments:

Jubilant Biosys, a subsidiary of Jubilant Organosys and Endo Pharmaceuticals (ENDP), of Chadds Ford, Pa.,

Q-o-Q Performance

(Rs. in Million)

Particulars	Dec 2009	Dec 2008	Change(%)
Net Sales	6159.30	5896.10	4.46
Expenditure	4527.20	4845.40	-6.57
Other Income	40.90	14.10	190.07
EBITDA	1673.00	1064.80	57.12
Interest	269.50	139.40	93.33
Net Profit	705.70	-211.60	-433.51
EBITDA Margin (%)	0.27	0.18	50.40
NPM (%)	0.11	-0.04	-419.26
EPS	4.78	-1.44	-431.94

Profit & Loss

(Rs. in Million)

Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	24308.94	19762.16	23.01
Total Income	25215.45	20960.46	20.30
Total Expenditure	20972.40	15508.65	35.23
Operating Profit	4243.05	5451.81	-22.17
Profits After Tax	2607.41	3922.67	-33.53

Balance Sheet

(Rs. in Million)

Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	147.56	146.21	0.92
Reserve & Surplus	13246.32	13639.66	-2.88
Total Liabilities	38650.29	30441.61	26.97
Investments	17095.36	13782.51	24.04
Current Liabilities	4037.64	2413.63	67.28
Net Current Assets	6158.49	5620.58	9.57
Total Assests	38650.29	30441.61	26.97

Key Ratios

Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	17.67	26.83
Core EBITDA Margin (%)	13.08	20.10
EBIT Margin (%)	13.70	22.75
ROA (%)	7.55	14.01
ROE (%)	19.20	33.61
ROCE (%)	10.13	17.21
Price/Book (x)	1.05	3.45
Net Sales Growth (%)	23.01	22.83
EBIT Growth (%)	-27.39	47.66
PAT Growth (%)	-33.53	69.45
Total Debt/Mcap (%)	1.79	0.35

U.S.A., have expanded their drug discovery partnership in oncology, following the successful delivery of an early stage milestone.

In order to strengthen the capital structure of the company and also to pursue growth momentum in the PLSPS space, the company will be raising fresh capital of Rs 1000 crore.

Industry Scenario

The Indian pharmaceutical industry ranks third worldwide by volume of production and accounts for around 10% of world's total pharmaceutical output in terms of volume. However, the country's pharma industry stands at 14th by value and ranks fourth in terms of generic production globally. As per the statistics of the ministry of commerce and industry, exports of drugs, pharmaceuticals & fine chemicals of India have grown at a compounded annual growth rate of 17.8% during the five-year period 2003-04 to 2007-08.

In 2005, India amended its patent laws back to product patent, thereby bringing them into conformance with the World Trade Organisation's TRIPs agreement. Under the new patent regime, Indian pharma companies could no longer manufacture drugs patented in international markets by using a different process. This however proved to be a blessing in disguise for Indian companies.

In order to compensate for sales lost to TRIPs compliance, India's leading pharmaceutical companies increased their exports of generic drugs to the developed markets like US and Western Europe and entered into research and development agreements, mergers and acquisitions, and other alliances with foreign pharmaceutical firms. This significantly increased both presence and recognition of Indian pharmaceutical industry in the world.

The Indian pharma industry has established its presence and determination to flourish in the changing environment. Domestic pharma companies export their products to more than 200 countries around the globe including highly regulated markets of USA, West Europe, Japan and Australia.

Global management consulting major Mckinsey has projected Indian pharma industry to grow at compounded annual growth rate (CAGR) of nearly 14% in the next few years. It has forecasted that Indian pharmaceutical market is expected to touch $40 billion by 2015.

The domestic market, which is growing at almost 10-14% at present, may provide $20-24 billion in 2015. Moreover, exports and contract manufacturing business, which are growing at 10% per annum, are expected to contribute in achieving the predicted growth.

Investment Rationale

- The company is having strong focus on niche areas such as CMO of sterile injectables, Specialty Pharma and Drug Discovery Development & Services. The company is having 11 Products of Advanced Intermediates at globally no.1 position and for 6 products it is at 2nd / 3rd position.
- The company expects 20% increase in capacity of pyridines and Picolines through process improvement and debottlenecking to be completed by June 2010. Debottlenecking of existing three plants is likely to increase capacity for existing products. Also it will be introducing 8 Advanced Intermediates in next two years.
- Jubilant Organosys has been delivering steady growth in its CRAMS, a key component of PLSPS business (having 88% or companies total revenue share) and has shown revenue growth of 45% CAGR in last five years.
- The company has been performing well in its CMO Life Sciences Chemicals and Nutritional products business and has continuously added new customers and is likely to perform good in these segments.
- The company is having a strong cash-flow and with disciplined financial planning the company will strengthen its position in the market, it is also planning to raise fresh fund to the tune of Rs 1000 crore.
- The company has given a revenue guidance of Rs 875-900 crore and even remaining at conservative side it is more than 10% from its last fiscal revenue of Rs793 crore which sounds quiet competitive keeping the current market scenario. At CMP of Rs 319, the stock is trading at an EV/EBITDA of 13.62x and a P/E multiple of 8.35. We would recommend a BUY in the stock with a price target of Rs 355.

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