

Initiating Coverage

Jubilant Ingrevia Ltd.

September 30, 2021





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Chemicals	Rs. 725.7	Buy at LTP & add more on dips at Rs. 650	Rs. 795	Rs. 844	2 quarters

HDFC Scrip Code	JUBLINGREAEQNR
BSE Code	543271
NSE Code	JUBLINGREA
Bloomberg	JUBLINGR IN
CMP Sep 29, 2021	725.7
Equity Capital (Rs cr)	15.9
Face Value (Rs)	1
Equity Share O/S (cr)	15.9
Market Cap (Rs cr)	11559
Book Value (Rs)	121
Avg. 52 Wk Volumes	1529080
52 Week High	803
52 Week Low	244

Share holding Pattern % (Jun, 2021)	
Promoters	50.9
Institutions	20.1
Non Institutions	29.0
Total	100.0



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Jubilant Ingrevia has presence across mainly three segments Speciality Chemicals (33% of revenue), Nutrition and Health Solutions (18%) and Life Science Chemicals (49%), with strong backward integration and a leading market position. About 25% of Life Science Chemicals (LSC) volumes and 45% of pyridine and picolines (speciality chemicals) are consumed in house, leading to retaining of higher profit across the value chain. During FY21, the company derived about 54% of its revenue through exports and deemed exports. Company has a diversified customer base with the top 10 customers accounting 20-25% of total revenue. Jubilant has 60+ products in pipeline across its business segment. It includes 32 in Speciality Chemicals, 24 in Nutrition & Health Solutions and 7 in Life Science Chemicals. Company is the largest producer of Niacinamide. It has 19% global market share in Vitamin B3 and 60% domestic share in Vitamin B4 market. In Speciality chemicals, the company serves 15 of top-20 global pharma and 7 of top-10 global agrochemical companies. It is a 'Partner of Choice' in CDMO services with a strong pipeline catering to 420 clients globally and has a strong track record of building diversified scale and capacities across niche categories. The company enjoys a strong moat of being a lowest cost producer of Pyridine –Beta & all value added products globally.

Jubilant has five manufacturing facilities across India and a diversified end-consumer base (pharma: 35%, Nutrition: 21%, Agro: 18%, Industrial: 23%). Company manufactures over 100 products and sells to 1,400 customers globally. Speciality Chemicals and Life Science Chemicals business tend to induce volatility in operating margin, given the cost-plus structure, however, the company is looking to invest in niche segments like Diketene products, which would lower volatility and improve margin in the segment. Currently, in India Diketene derivatives are imported however post the commissioning of the facility (i.e. from Q4FY22), the import dependence would reduce. Company has a strong research and development pipeline of over 60 molecules, which would ensure launch of new molecules over the next three-to-four years, aiding revenue growth. Jubilant has planned a capex outlay of around Rs 900cr over the next three years and out of that Rs 360cr to be spent in FY22. Company guides to double its revenue by FY26 led by scale up in the existing products and new products launches across its products segments.

Valuation & Recommendation:

Specialty Chemicals has high entry barriers on account of extensive R&D focus and long gestation period before getting approvals from customers. Life Science Chemicals business witnessed strong margin expansion over the past two quarters, which is expected to moderate in H2FY22. We estimate 14.5% CAGR in revenue led by double digit growth across all verticals. We project EBITDA/PAT CAGR of 20.5%/28% over FY21-23E led by strong margin and lower finance cost. Management has guided for strong growth in FY22 along with



margin improvement. The low leverage, despite capex, would be driven by a healthy EBITDA generation and cash flow from operations as benefits of capex incurred in the past begin to show from Q4FY22. The fluctuations in the margin would remain depending on the prices of key inputs and outputs given the cost-plus structure, particularly in the LSI segment.

We are positive on the company on the back of strong demand environment, healthy market share, strong capex programme in the medium term and new additions of products, healthy B/S, and China+1 policy adopted by the companies worldwide.

Jubilant will benefit from robust growth in specialty chemicals business and its focused initiatives to diversify from their animal feed (nutrition) business and move towards higher value added areas i.e. pharma and cosmetic-grade vitamins. As the proportion of sales of speciality products rises over the next two years, the stock could get rerated further. We feel investors can buy the stock at LTP and add more on dips to Rs 650 for base case target of Rs 795 (24.5x FY23E EPS) and bull case target of Rs 844 (26x FY23E EPS) over the next two quarters.

Financial Summary

Particulars (Rs cr)	Q1FY22	Q4FY21	QoQ (%)	FY21	FY22E	FY23E
Total Revenues	1145	684	67.3	3491	3990	4581
EBITDA	281	117	140.2	612	786	888
Depreciation	22	32	-30.4	125	137	158
Other Income	6	3	130.8	15	18	25
Interest Cost	13	7	75.3	71	47	39
Tax	75	23	225.2	102	179	201
APAT	168	54	209.4	316	438	517
EPS (Rs)				19.8	27.5	32.4
RoE (%)				18.2	20.5	20.0
P/E (x)				36.3	26.2	22.2
EV/EBITDA (x)				19.5	15.2	13.5

(Source: Company, HDFC sec)

Q1 FY22 result update

- Jubilant Ingrevia reported strong set of numbers in the quarter. Total revenue grew 55% YoY at Rs 1145cr. EBITDA margin expanded 790bps YoY and 580bps QoQ at 24.6% mainly led by strong margin surge in Life Science Chemicals business. Speciality chemicals revenue grew 18% YoY at Rs 305cr. Nutrition business grew ~13% YoY at Rs 167cr. Life Science Chemicals revenue surged 104% YoY at Rs 673cr.



- Life Sciences Chemical revenue growth was driven by higher volume as well as prices. EBITDA margin expansion was driven by improved product contribution driven by favorable market condition and Acetic Acid stock led benefit due to increase in prices. EBITDA margin surged at 27.3% as compared to 7.1% in Q1FY21.
- PAT surged 220% YoY and 209% QoQ driven by growth in EBITDA, reduction in finance cost by Rs 15cr through reduction in average debt by Rs 700cr and decrease in interest rate by 0.8%, partially set off by higher tax expenses. Company reduced its net debt by Rs 45cr in Q1FY22. Gross debt stood at Rs 457cr while net debt stood at Rs 386cr as on Jun-2021.
- Company expects to deliver better performance in FY22. Input prices continue to increase and the efforts to pass on the increase are being made continuously. The ongoing Diketene capex is as per schedule, and it will be commissioned during the quarter in Q3FY22. Company has planned capex outlay of ~Rs. 360cr for following growth expansion. At peak capacity these investments are expected to generate additional annual revenue of ~Rs. 900cr at prevailing prices.
- CDMO GMP Facility at Bharuch (Expected to be in operation during the quarter April to June 2022)
- Two Multi-Purpose plants of Speciality Chemicals (Expected to be in operation during the quarter April to June 2022)
- Food Grade Acetic Acid (Expected to be in operation during the quarter April to June 2022)
- Acetic Anhydride Plant (Expected to be in operation during the quarter Jan to March 2023)
- Agro Actives Phase-1 (Expected to be in operation during the quarter Jan to March 2023)
- In Sep-2021, Jubilant Ingrevia's subsidiary Jubilant Life Sciences International Pte. Limited, Singapore has divested its entire 10 percent stake held in Safe Foods Corporation for US\$ 18.2mn.
- It has Rs 160cr of MAT credit hence ETR will be > 30% for 2 years before reverting to lower tax rates. Cash tax rates will be 17-19%.
- Pricing environment in Acetyls remains extremely good; may continue over short term
- Utilization at > 90% in most of the plants, investing in de-bottlenecking should aid growth.

Demerged its LSI entity under Jubilant Ingrevia

In Dec-2020, Jubilant Lifescience had got the NCLT approval for its demerger plan of having two separate entities for pharma and LSI (Life Science Ingredients) businesses. Board had initially approved this re-organisation of the businesses in Oct-2019 and the approval from shareholders and creditors was received in Aug-2020. Key objectives of this reorganisation were: 1) Have separate focus business entities, 2) better management of risks and regulatory requirements, 3) enabling strategic growth with optimal capital allocation, and 4) unlocking of shareholder value.

As per the re-organisation plan, LSI business is demerged into a separate entity in order to simplify holding structures of the promoters with no change in ownership of promoters. The pharma entity (Jubilant Pharmova) includes businesses like radiopharma, allergy therapy products, CDMO of sterile & non-sterile products, API business, generic formulations, drug discovery services (DDS) and proprietary drug discovery business (biopharma). LSI includes specialty intermediates, nutritional products and life science chemicals. It got listed on bourses under name Jubilant Ingrevia. Ingrevia is born out of a union of 'Ingredients' and 'Life' ('Vie' in French).



FY21 business highlights

Revenue grew by 10% on YoY basis, driven by growth in volume and pricing together. Speciality Chemicals revenue grew 2% YoY driven by Fine Chemicals and new CDMO projects. Nutrition and Health Solutions revenue grew by 17% YoY driven by conducive market condition and robust growth in Niacinamide prices. Company has a portfolio of 165+ products across its business segments and caters to more than 1400 customers.

Life Sciences Chemicals revenue grew by 13% YoY driven by favorable market conditions from Pharma, Packaging, Industrial applications both in domestic as well as export markets. EBITDA increased 53% YoY at Rs 627cr, PAT grew 43% YoY led by strong growth in EBITDA and reduction in finance costs. Company derived 61% of revenue from domestic market which includes deemed exports, 19% from Europe, 16% from RoW and 5% from US in FY21. Company reduced gross debt by Rs 747cr and net debt by Rs 594cr in FY21.

Speciality Chemicals

Specialty Ingredient, Fine Chemicals and Crop Protection chemicals grew in high single digit through strong volume growth driven by demand from Pharma, Agri and Nutrition customers. CDMO revenue grew due to new projects of Pharma and Agro business.

Revenues from Speciality Chemicals business stood at Rs 1123cr in FY21 as against Rs 1104cr in FY20. The pandemic and lockdown impacted domestic sales due to customer plants not being operational in the first quarter of the year. EBITDA margin improved 250bps YoY at 23.9% in FY21 driven by price increase in key products, better product mix and higher margin from CDMO projects.

Company developed and commercialised six new products during the year which includes 3 in CDMO and 3 in Fine Chemicals and Crop Protection Chemicals. Among these, the company worked on and commercialised opportunities related to intermediates for Remdesivir. Jubilant has seven molecules in pharma CDMO pipeline out of which four are in phase-III for anti-viral and cosmetic applications and three are in phase-II for anti-neoplastic, anti-retroviral and anti-thrombotic applications.

Agrochemical CDMO pipeline includes four molecules, one in stage III for insecticides and three in stage II for insecticide and fungicide application. It is also planning to file DMFs for intermediates for regulated markets from Bharuch unit. Company has 9% global market share in Life Science Ingredients and 10% domestic market share in speciality alcohol segment.

Nutrition and Health Solutions

Nutrition and Health Solution revenue grew by 17% YoY in FY21. Nutrition and Health Ingredients business grew in double digit on YoY basis driven by robust price growth from favorable market conditions.



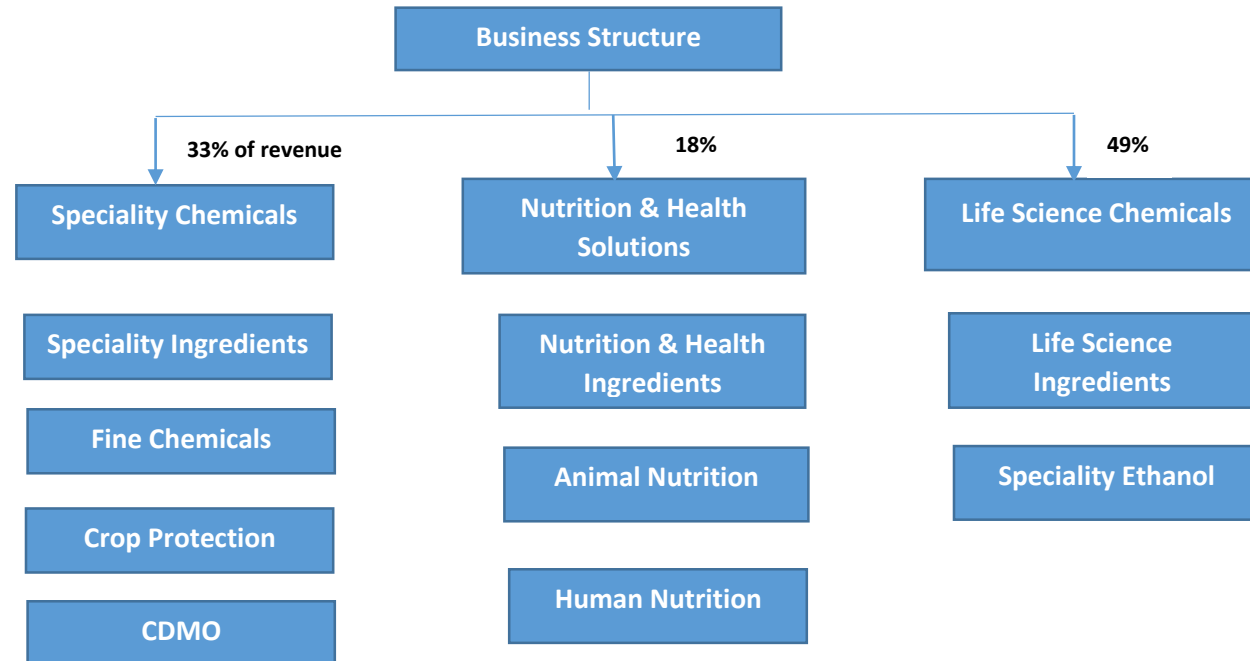
Animal Nutrition and Health solution business grew in double digit on YoY basis driven volume growth contributed by Choline Chloride and Specialty products.

EBITDA margin expanded 300bps YoY at 20.7% in FY21, driven by increase in price of Niacinamide and better product mix. It has 19% global market share in Vitamin B3 and 60% domestic share in Vitamin B4 market.

Life Science Chemicals

Life Science Chemicals revenue grew by 13% YoY in FY21. Life Sciences Ingredients grew in double digit and growth was led by double digit volume growth of Acetic Anhydride from Pharma and Agro segment and higher price driven by favorable market conditions. Specialty Ethanol grew by higher single digit on YoY basis, driven by higher volume growth in Pharma and Industrial Alcohol segment.

EBITDA margin surged 710bps YoY at 13.6% in FY21. It was driven by higher demand (From Pharma and Agro customers) and lower availability of Life Sciences Ingredients led to favorable market conditions and sharp price increase. In Q1FY22, Life Sciences Chemical revenue growth was driven by higher volume as well as prices. EBITDA margin expansion was driven by improved product contribution driven by favorable market condition and Acetic Acid stock led benefit due to increase in prices. EBITDA margin surged to 27.3% as compared to 7.1% in Q1FY21.





Business segments and its outlook

Speciality Chemicals

Company offers Speciality building blocks including Pyridine and Picolines (22% global market share), Cyanopyridines (26% global market share), Piperidine and Pyridine based value-added products for the production of a range of Agrochemicals, Pharmaceuticals, Nutrition, Fine chemicals, Oilfield chemicals, Electronics and Solvents. Besides being one of the largest global manufacturers in the Pyridine and Picolines value chain, the company is one of few companies with complete forward and backward integration. Jubilant is amongst the top two players in Pyridines and a leader in 11 Pyridine derivatives. The company has overall 85 pyridine based value-add products and has a capacity of 72k TPA as on FY21. The products find application in Pharmaceutical, Agrochemicals, Food, Personal Care and Cosmetics, Healthcare and Nutrition, Electronics, Oil field Chemicals, Flavours and Fragrance etc.

Speciality Chemicals businesses is organized across four verticals, namely Speciality Ingredients, Fine Chemicals, Crop Protection Chemicals and CDMO. Company is the largest manufacturer in the Pyridine based value chain, offering 85 value-added products using renewable starting materials.

Commercial production of Diketene is to start from Q4FY22; Company has active interest from many clients for value added business. Pricing environment for Diketene and its derivatives should be stable, focus more on Export business to service CDMO / AgroChem clients.

Speciality Ingredients

Speciality Ingredients vertical offers building blocks such as Pyridine, Beta Picoline, Alpha Picoline, Gamma Picoline (30% global market share), 3-Cyanopyridine, 4-Cyanopyridine, Piperidine, Alkyl Pyridine mixtures etc. Company has 30 years of experience in Pyridine chemistry and is the only manufacturer of Pyridines and Picolines with complete forward and backward integration.

While key end-use of Pyridine is for manufacturing herbicides in agrochemical industry, Beta Picoline finds its major application in the most important nutritional product Vitamin B3. While Alpha Picoline is used in manufacture of agrochemicals and many industrial applications, Gamma Picoline and its key derivative 4-cyano pyridine is used by customers in making anti-tuberculosis drugs which help in eradication of tuberculosis.

Fine Chemicals

Fine Chemicals Business offers value-added derivatives of Pyridines and Picolines such as Amino Pyridines, Acetyls of Pyridine, Carboxaldehydes of Pyridine, Carboxylates of Pyridine, Lutidines (55% global market share) & Collidines, metal complexes and other products. These products are used in several important therapeutic segments such as anti-ulcerative (Esomeprazole, Lanzoprazole and Rabiprazole), anti-diabetic (Alogliptin, Linagliptin), anti-thrombotic (Dabigatran), anti-histamine (Fexofenadine), anti-neoplastic (Palbociclib, Ribociclib), anti-idiopathic pulmonary fibrosis (Perfenidone), multiple anti-retroviral drugs, among others. The products also find applications in cosmetics, flavours and fragrance and electronics.



Crop Protection Chemicals

In Crop Protection Chemicals, the company offers value-added products, derived from speciality building blocks which have application in intermediates and actives used across insecticides, fungicides, herbicides and plant growth regulators. Some of agrochemical ingredients find application in popular active-nitrification inhibitors (Nitrpyrin), fungicides (such as Picoxystrobin), insecticides (such as Pyriproxyfen, Pymetrozine, Rynaxypyr) and herbicides (such as Diquat, Picloroam, Clopyralid, Fluroxypyr, Picolinafen, Haloxyfop) and growth regulators (Mepiquat chloride) which are supplied across multiple geographies.

Jubilant offers a range of safe and highly efficacious anti-microbial solutions for applications in paints, coatings, industrial, cosmetic and personal care industries. It has a range of antimicrobial offerings like Cetyl Pyridinium Chloride (52% global market share), Pyrithiones (Zinc, Copper, Sodium) as well as 8 formulated products which are popular amongst poultry, personal care, hair care, oral care, Marine anti-fouling and paint industries for their proven efficacy and effectiveness.

CDMO

Custom Manufacturing and Development portfolio provides customised solutions for the pharmaceutical and agrochemical industry. Strong synthetic, organic chemistry and manufacturing capabilities makes the company one-stop shop for CDMO services for global pharmaceutical and agrochemical customers.

Nutrition & Health Solutions

Jubilant is the largest producer of Niacinamide and amongst global top two manufacturers of Vitamin B3 and India's largest manufacturer of Vitamin B4. Nutrition & Health Solutions comprises Nutrition & Health Ingredients, Animal Nutrition & Health Solutions and Human Nutrition & Health Solutions segments. Jubilant offers health ingredients such as Chromium and Zinc Picolinate, Riboflavin Phosphate Sodium (RPS). Revenues from this business stood at Rs 630cr in FY21 against Rs 537cr in FY20.

Vitamin B3 (Niacinamide & Niacin) is one of the eight B-complex vitamins which plays an essential role in multiple physiological functions. Its global market size is 60,000 MT/ Year. Jubilant market share in vitamin B3 is 19% at a global level while in Vitamin B4 its market share is >50% in domestic markets. Going forward, the company plans to expand Vitamin B3 capacity by ~20% from current 13,000 MT/ Year and launch various value-added grades of Vitamin B3. It has envisaged an capex of Rs. 100Cr for the same over next 3 years,

It is used in the following applications:

Animal Feed: Increases nutrient absorption, thereby, weight gain and improved feed utilisation

Human Nutrition: Used in food premixes, dietary supplements, flour and rice fortification, energy drinks and infant nutrition.



Agrochemical: Niacinamide is also used in the production of insecticide formulations Picolinates (Chromium and Zinc) are popularly used in dietary supplements for glucose metabolism, insulin resistance, appetite control and weight management leading. Riboflavin Phosphate Sodium (RPS) and Inositol Hexa Nicotinate (IHN), find various applications in Food and Beverages (Energy Drinks, Jams, Juices), Dietary Supplements (multivitamin, B Complex, Syrups) and Pharmaceuticals. It has more than 24 product offerings used in Poultry, Dairy, Aqua and Pet food industries.

Vitamin B3 pricing is strong, focus is on value added segments including Pharmaceuticals / Cosmetics etc; adding capacity through de-bottlenecking and fresh investments.

In cosmetics the company expects to increase market share and in pharma wants to be US FDA auditable in 12-14 months. Animal nutrition segment contributed to growth in Q4FY21; momentum is likely to continue.

More than 18 offerings belong to the Health Ingredients category, which includes: Vitamin, Mineral Premix, Stress Regulator, Amino Acid, Non-antibiotic growth promoter and Egg quality enhancer. Six offerings are in Performance Ingredients category, which includes: Toxin Binder, Acidifiers, Enzymes and Emulsifiers.

Company offers Vitamin B4 (Choline Chloride) which helps maintain liver health in animals. Different variants of Vitamin B4 help various species like poultry, dairy, aqua, swine and pets. Jubilant holds the domestic market leadership position in Choline Chloride. Company has diversified into herbal replacer of Choline, Methionine, Non-antibiotic growth promoter (under brand 'Phytoshield') which is a plant-based natural offering for animal health.

Life Science Chemicals

This business deals in Acetyls and Alcohol derivatives which includes product range like Acetic Anhydride, Ethyl Acetate, Acetic Acid, Anhydrous alcohol, Acetaldehyde, Formaldehyde and Propionic Anhydride. These products constitute the key value chain as these are backward integrated for feedstock and forward integrated for further value chain products of the Company. Revenue stood at Rs 1738cr in FY21 vs. Rs 1537cr in FY20.

Acetic Anhydride finds applications across all key Life Sciences industries. Jubilant is among the top two global merchant market suppliers of Acetic Anhydride and are the largest supplier in India. It caters to all the major segments such as Pharma APIs (Paracetamol, Ibuprofen, Aspirin, Prazoles etc.), Agrochemicals, Vitamins, Speciality Polymers, Food ingredients, Aromatics, Dyes and other industrial use. The global demand of Acetic Anhydride has been healthy in domestic as well as international markets owing to encouraging growth in end-uses and versatility of the molecule.



In FY19, the company expanded Acetic Anhydride capacity by installing a plant at Bharuch, which achieved operating utilization of more than 80%, within one year of its commissioning. In order to further strengthen global position in the Acetic Anhydride market, it has announced additional expansion of Acetic Anhydride at Bharuch Special Economic Zone (SEZ) facility and the plant is expected to complete its commissioning in Q4FY23. This strengthens Jubilant Ingrevia's standing among the largest merchant market suppliers of Acetic Anhydride globally and helps to capture the downstream market growth.

Jubilant has been a leading supplier of Ethyl Acetate in the domestic market with significant presence in global markets. Ethyl Acetate is used by the Pharmaceutical, Packaging, Coating and Ink industries. Company is the largest producer of Bio-based Acetaldehyde which is backward integrated to Bio-Ethanol. This product is sold both in domestic and overseas markets and finds applications in Alkyd Resins, Pharma, Flavours and Fragrances.

Company offers Formaldehyde, which is the simplest of the aldehydes, produced on a large-scale in the industry. It is used in large quantities for production of many chemical compounds such as Urea Formaldehyde resin, Phenol Formaldehyde resin, Pentaerythritol, Pyridine and Picolines. It has successfully commissioned the global scale plant at Gajraula for supply across India and the global market. The demand for Propionic Anhydride is expected to grow on account of strong growth from agrochemical segment.

Speciality Ethanol business is supporting the Ethanol blending programme (EBP of Government of India), supplying Ethanol to six states in India. To further improve margins, the company has developed Speciality Ethanol for Pharma, Agro, Personal Care applications. Business is focused on continuous improvement and operational excellence initiatives, which is expected to sustain improvement in margins. The segment is seeing growing demand across the industries and with no new addition of facilities globally, the company would further consolidate its positioning. It is foraying into Extra Neutral Alcohol (ENA) facility to cater to Indian distilleries markets.

Capex plan of Rs 900cr over the next three years

Revenue volatility is largely a function of the LSI business, whose revenue is driven by the prices of key output products such as acetic anhydride and ethyl acetate, which in turn are driven by the input prices of acetic acid. In FY20, revenue from LSC business declined 10% yoy due to a continued decline in the pricing environment, resultant of a lower demand and significant price reduction of key raw material i.e. acetic acid. High margin, less volatile segments of nutrition health and speciality chemicals could drive growth, given nearly Rs 650cr of capex is directed towards these segments. If these segments grew at a faster pace with a higher share of revenue, the volatility in the revenue could reduce; although, the process would be gradual and multi-year. Overall demand and pricing environment improvement to remain conducive, given the supply disruption from China and dual source supply being considered by customers.



Jubilant has planned a capex outlay of around Rs 900cr over the next three years. It includes Rs 550cr in Speciality Chemicals, Rs 100cr in Nutrition & Health segment and Rs 250cr in Life Science Chemicals (LSC). In Speciality Chemicals, the capex would be towards Diketene & derivatives, CDMO and MPP (agrochemicals). In Life Science Chemicals, it would be for food grade Acetic acid facility and Acetic Anhydride capacity expansion.

Ethyl Acetate

Ethyl acetate is a very versatile solvent which is benign to human health and environment due to its high organic content. It is used in large quantities in the agro and pharma industries, flexible packaging, printing inks and coatings and paints. Ethyl acetate is progressively replacing other solvents like toluene, methyl isobutyl ketone, methyl ethyl ketone, acetone and cyclohexane in several applications. Global ethyl acetate market is expected to grow at a CAGR of more than ~5% over the next decade in terms of volume, from ~4mn MT in 2019 to ~5mn MT by 2024E, driven by consumption-led demand primarily from the APAC region.

In terms of revenue, the global ethyl acetate market stands approximately at US\$ 3.5bn and is expected to grow at 5.5-6% CAGR over the next half a decade. In terms of capacity, the Asia Pacific region dominates market with ~82% of ethyl acetate capacity, followed by Europe (8%), Latin America (6%), North America (2%) and MEA (2%).

China has been a leader in the supply of ethyl acetate, with ample availability of acetic acid, a primary raw material, and high end use growth. China is the largest producer and exporter of the product despite the fact that it has to import significant quantities of ethanol from the USA and Brazil. India is also a net exporter of ethyl acetate, mainly to Europe and the MEA (Middle East & Africa) region. North America & Europe are among the large consumers and have remained net importers of the product.

Diketene and its derivatives

The global market for ketene and diketene derivatives is valued at US\$ 3.5 to 4bn in 2019 and is expected to grow at a CAGR of 4-5% till 2024. One of the global trends observed is a shift towards APAC for consumption and product of Speciality Chemicals. As global supply chain look to hedge themselves from China, several countries in this region will look to benefit from this trend.

The ketene and diketene derivatives find wide application in pharmaceuticals, agrochemicals, industrial chemicals, polymers and resins, colours and pigments, flavours and fragrances and dyes. The Indian market for these chemicals is ~US\$ 230mn growing at 5-7% over the last five years, and is expected to grow at a similar rate till 2024. About 40% of this demand is serviced through imports from USA, China and Europe. In India, there are only few players in Diketene and its derivatives with Laxmi Organic (~55% market share), Lonza (30-35% market share).



Jubilant is venturing into Diketene Chemistry platform to develop 12-14 forward integrated products to cater to the needs of Pharma, Agro and other applications. The company is going to replace most of the imported volume. Overall capacity is going to be around 6,000-7,000 tons per annum. It will place this capacity in the next one and a half year time frame.

Chemical industry outlook

Chemical industry is characterised by high-entry barriers and also remains highly competitive. Most of the manufacturers are present in the bulk chemical segment, where economies of scale are critical to sustain business. This calls for high upfront capital investment, creating a barrier for smaller firms. Due to product differentiation, chemical industry has been transforming from commodity to speciality. The changing customer needs for specialty chemicals require strong R&D capabilities, technical knowhow, long gestation periods (12-24 months) and good customer relations, also work as high entry barriers restricting new entrants, blocking fresh competition.

Quarterly Financials

(Rs cr)	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22
Revenue	887	899	912	805	752	798	823	738	783	893	1077	1145
EBITDA	109	126	101	122	93	102	118	123	139	155	203	281
Margin (%)	12.3	14.0	11.1	15.2	12.4	12.8	14.3	16.7	17.8	17.4	18.8	24.6

(Rs cr)	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22
Speciality Chem	196	252	328	279	259	293	286	258	255	303	329	305
Nutrition	107	108	110	136	113	125	163	148	125	157	198	167
Life Science Chem	584	541	475	390	380	382	374	329	403	433	549	673

Key Concerns

Volatility in Acetic Acid prices / Vitamin B3 Prices

The prices of Acetic Acid tend to be extremely volatile and this remains one of the core input, Company is exposed to pricing risk and supply side constraints which may have meaningful impact on its operations.

There are significant overcapacities in the Vitamin B3 market, specifically in China which triggers a lot of pricing pressure on the product.

Large Capex programme

Production capacity may not be aligned with market demand. Insufficient capacity threatens ability to meet demand and be competitive while excess capacity threatens ability to generate competitive profit margins. Any significant time or cost overrun while executing the expansion of greenfield/brownfield project can lead to deterioration in the financial performance.



Product concentration and Customer concentration

Company depends on certain key products and customers for a significant portion of total revenue, cash flows and earnings and any events that adversely affect the markets for key products or key contracts may adversely affect the financial performance. It is to be noted that it is not dependent on any single customer and have a broad and diversified customer base across businesses, if any of long-term customers terminate their contracts, delay payments or breach payment obligations, reduce volume/do not renew such contracts on favourable terms or at all, overall revenue and profitability may be adversely affected.

Price fluctuations may lead to margin volatility

The impact of price volatility is not significant as the same is a pass through. Company is also exposed to foreign exchange fluctuations because it deals in commodities such as acetic acid and ethyl alcohol. However, given significant export sales, the company has a natural hedge.

Life Science Chemicals business witnessed strong margin expansion over the past two quarters, which is expected to moderate in H2-FY22. Any negative/positive surprise of operating margin would be key to its overall profitability.

Regulatory actions on products/raw materials by regulators across the globe including ADD, ban etc. could impact the operations of the company (e.g. Paraquat ban in Brazil and Thailand resulted in lower demand of Pyridine in Q4FY21 and early Q1FY22)

China disruptions by way of debt issues, power cuts, pollution clampdown etc. can have impact on the availability and spread on products – favourable or unfavourable for the company.

Company Background

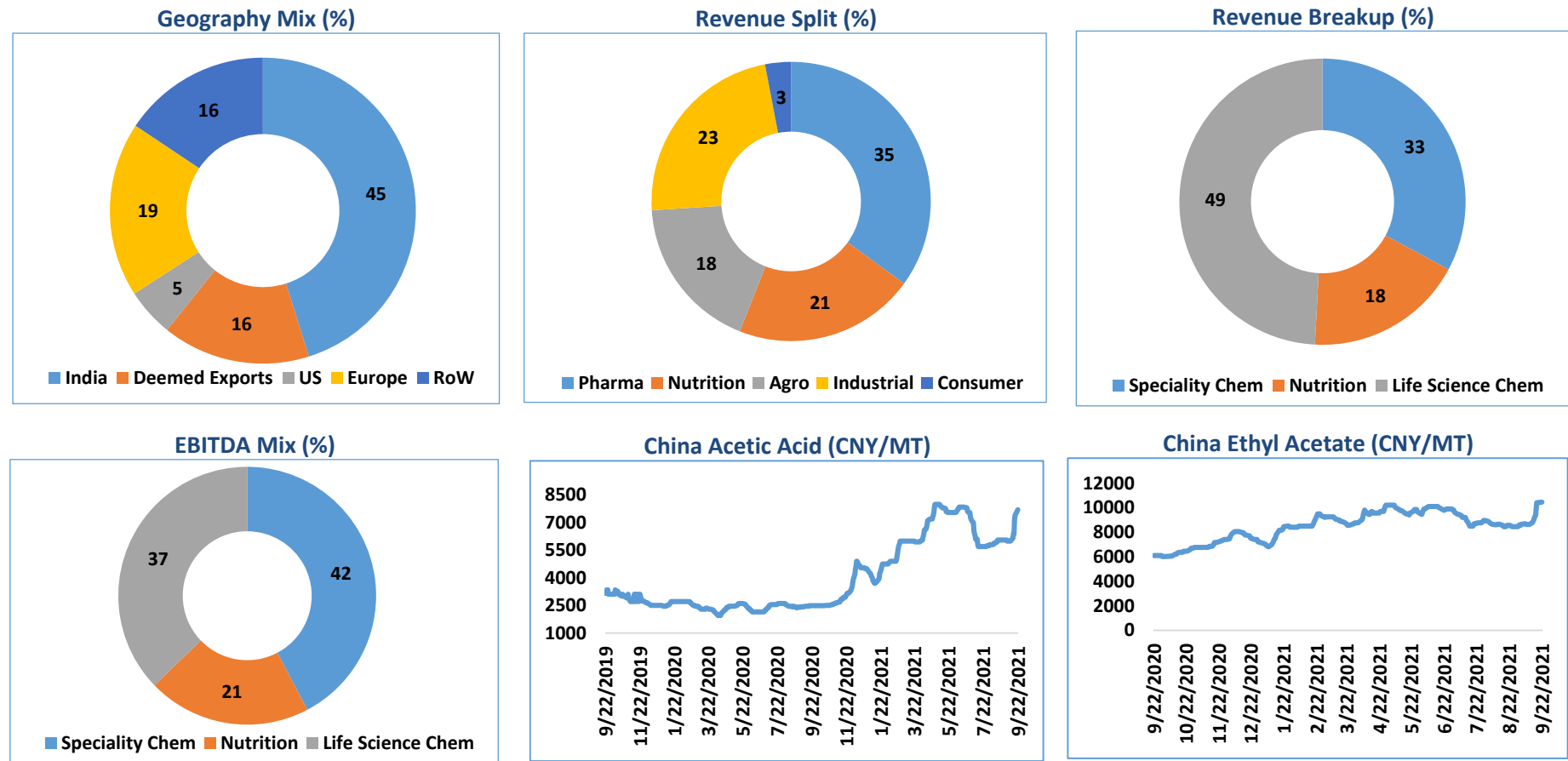
Jubilant Ingrevia is a part of the Jubilant Bhartia Group, a diversified global conglomerate with global workforce of around 45,000 employees, founded by Mr. Shyam S. Bhartia and Mr. Hari S. Bhartia. The group has a strong presence in various sectors such as Pharmaceuticals, Contract Research and Development Services, Life Science Ingredients, Agri Products, Performance Polymers, Food Service (QSR), Food, Auto, Consulting in Aerospace and Oilfield Services.

The group has four companies listed on Indian Stock Exchanges - Jubilant Ingrevia Limited, Jubilant Pharmova Limited, Jubilant FoodWorks Limited and Jubilant Industries Limited. It serves multiple downstream industries through broad portfolio of ingredients, while in-house Research Development and Technology (RDT) team is consistently striving to enhance offering by adding new value-added products and platforms. Additionally, the company is one stop shop for Custom Development and Manufacturing (CDMO) solutions for Pharmaceutical and Agro-industry from process development and clinical phase to commercial manufacturing.



Ingrevia is born out of a union of 'Ingredients' and 'Life' ('Vie' in French). Jubilant Ingrevia Limited is committed to offering high-quality and innovative life science ingredients to enrich all forms of life. Jubilant Ingrevia is a global integrated Life Science products and Innovative Solutions provider serving, Pharmaceutical, Agrochemical, Nutrition, Consumer and Industrial customers with customised products and solutions that are innovative, cost effective and conforming to excellent quality standards.

Jubilant has five manufacturing facilities across India and a diversified end-consumer base (pharma: 35%, Nutrition: 21%, Agro: 18%, Industrial: 23%). Company manufactures over 100 products and sells to 1,400 customers globally. Company derived 61% of revenue from domestic market which includes deemed exports, 19% from Europe, 16% from RoW and 5% from US in FY21.



(Source: Bloomberg, HDFC sec)



Financials (Consolidated)

Income Statement

(Rs Cr)	FY21	FY22E	FY23E
Total Income	3491	3990	4581
Growth (%)	9.8	14.3	14.8
Operating Expenses	2879	3204	3692
EBITDA	612	786	888
Growth (%)	53	28.4	13
EBITDA Margin (%)	17.5	19.7	19.4
Depreciation	125	137	158
EBIT	487	649	730
Other Income	15	18	25
Interest expenses	71	47	39
PBT	418	617	718
Tax	102	179	201
PAT	316	438	517
Growth (%)	43.6	38.7	17.9
EPS	19.8	27.5	32.4

Balance Sheet

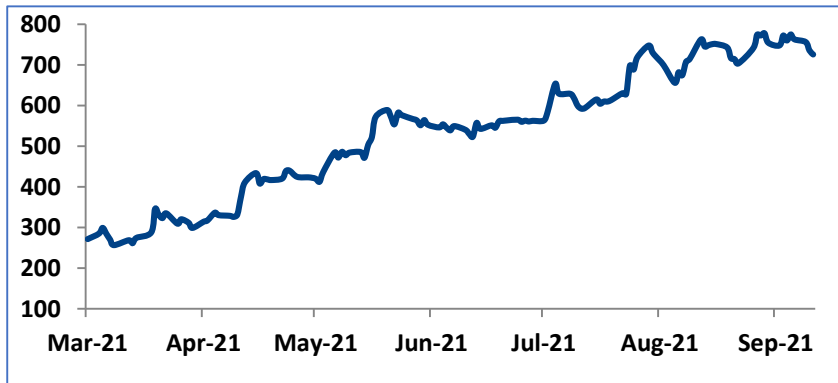
As at March	FY21	FY22E	FY23E
SOURCE OF FUNDS			
Share Capital	15.9	15.9	15.9
Reserves	1907	2326	2811
Shareholders' Funds	1923	2342	2827
Long Term Debt	464	329	280
Net Deferred Taxes	12	11	10
Long Term Provisions & Others	69	77	82
Total Source of Funds	2468	2759	3199
APPLICATION OF FUNDS			
Net Block (incl. CWIP)	1857	2094	2216
Intangible Assets	13	13	13
Long Term Loans & Advances	69	86	118
Total Non-Current Assets	1939	2193	2347
Inventories	609	798	929
Trade Receivables	471	585	718
Short term Loans & Advances	3	3	6
Cash & Equivalents	117	25	129
Other Current Assets	224	236	257
Total Current Assets	1423	1653	2042
Short-Term Borrowings	2	111	69
Trade Payables	694	767	894
Other Current Liab & Provisions	186	196	213
Short-Term Provisions	12	13	15
Total Current Liabilities	894	1087	1191
Net Current Assets	529	566	851
Total Application of Funds	2468	2759	3199



Cash Flow Statement

(Rs Cr)	FY22E	FY23E
Reported PBT	617	718
Non-operating & EO items	-18	-25
Interest Expenses	47	39
Depreciation	137	158
Working Capital Change	-122	-183
Tax Paid	-179	-201
OPERATING CASH FLOW (a)	482	507
Capex	-380	-280
Free Cash Flow	102	227
Investments	-21	-35
Non-operating income	18	25
INVESTING CASH FLOW (b)	-383	-290
Debt Issuance / (Repaid)	-124	-42
Interest Expenses	-47	-39
FCFE	-69	145
Share Issuance/MI	0	0
Dividend	-20	-32
FINANCING CASH FLOW (c)	-191	-114
NET CASH FLOW (a+b+c)	-91	103

Price Chart



Key Ratios

	FY21	FY22E	FY23E
Profitability			
Gross Margin	47.4	49	48.2
EBITDA Margin	17.5	19.7	19.4
EBIT Margin	14	16.3	15.9
APAT Margin	9.1	11	11.3
RoE	18.2	20.5	20
RoCE	19.6	23.3	22.7
Solvency Ratio			
Net Debt/EBITDA (x)	0.6	0.5	0.2
D/E	0.2	0.2	0.1
Net D/E	0	0	0
PER SHARE DATA			
EPS	19.8	27.5	32.4
CEPS	27.7	36.1	42.4
BV	121	147	177
Dividend	0.4	1.1	1.8
Turnover Ratios (days)			
Debtor days	49	54	57
Inventory days	70	73	74
Creditors days	100	98	99
VALUATION			
P/E	36.3	26.2	22.2
P/BV	6	4.9	4.1
EV/EBITDA	19.5	15.2	13.5
EV / Revenues	3.4	3	2.6
Dividend Payout	1.8	4	5.5

Source: Company, HDFC sec Research



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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