

Dear Member,

We are pleased to inform you that Value Pick stock of Mar'15 is released by our team. Value Pick stock of Mar'15 is **JB Chemicals & Pharmaceuticals Ltd [BSE Code: 506943, NSE Code: JBCHEPHARM]**.

JB Chemicals & Pharmaceuticals Ltd is a mid cap company with market capital of Rs. 1759 crores operating in pharmaceutical sector. Company's is ranked at 36th position in the industry (ORG IMS) with its brands like Rantac (anti-peptic ulcerant), Rantac D (anti-peptic ulcerant), Metrogyl (amoebicides), Nor-Metrogyl (anti-diarrhoeal) and Nicardia Retard (calcium channel blocker) featuring among top 300 brands sold in the market.

1. Company Background:

JB Chemicals & Pharmaceuticals was established in 1976 and has 7 manufacturing sites in Gujarat and Maharashtra for formulations and APIs. JB Chemicals exports (45% of sales) to over 30 countries across the world. JB Chemicals manufactures a range of innovative specialty products that include various pharmaceutical dosage forms like tablets, injectable (vials, ampoules, form fill seal), creams & ointments, lozenges, herbal liquids and capsules. It exports to many countries worldwide with a strong presence in Russia, Ukraine, CIS countries and South Africa. It also continues to invest in growing its share in the regulated markets in USA, Europe and Australia.

JB Chemicals has a strong R & D and regulatory set-up for development of new drug delivery system and formulations, filing of DMFs and ANDAs. The top 4 therapeutic segments of the company are: Gastro-enterology, Cardiovascular, Pain management and Antibiotic. Acute segment contributes about 82% of total sales. Prescription business continues through wholly owned subsidiary in Russia. JB Chem divested OTC portfolio to Johnson & Johnson in May 2011.

2. Financial Performance:

i) JB Chemicals & Pharamaceuticals reports standalone net profit of Rs 24.17 crore in the Dec 2014 quarter

Net profit of J B Chemicals & Pharamaceuticals reported to Rs 24.17 crore in the quarter ended December 2014 as against net loss of Rs 6.47 crore during the previous quarter ended December 2013. Sales rose 9.64% to Rs 256.81 crore in the quarter ended December 2014 as against Rs 234.22 crore during the previous quarter ended December 2013.

ii) JB Chemicals & Pharamaceuticals standalone net profit declines 3.77% in the Sept 2014 quarter

Net profit of J B Chemicals & Pharamaceuticals declined 3.77% to Rs 31.89 crore in the quarter ended September 2014 as against Rs 33.14 crore during the previous quarter ended September 2013. Sales rose 11.08% to Rs 274.86 crore in the quarter ended September 2014 as against Rs 247.44 crore during the previous quarter ended September 2013.

3. Investment Rationale:

i) After selling its OTC Business in Russia in 2011, JB Chemicals & Pharmaceuticals Ltd reported ~9% decline in its sales turnover in FY2012. However the company was able to get into growth momentum from 2013 and expected to cross a Rs.1000 crore in FY2015. The domestic formulation business which is one of the key business area for the company achieved robust growth of 16% during FY2014, against industry growth of 10%. JB Chemicals has been growing faster than the industry growth on the domestic markets in the recent times and we believe company will continue to deliver better growth than industry average going forward.

ii) JB Chemicals & Pharmaceuticals is an investor-friendly company. In 2011, when company sold its OTC business in Russia, company rewarded its shareholders by sharing its earning from these proceedings by paying special dividend of Rs. 40 per share. At present, JB Chemicals cash & cash equivalent is more than Rs.400 crore (as on Sept.2014) which is about 25% of the current market cap of the company.

iii) JB Chemicals & Pharmaceuticals has a presence in 22 major therapeutic groups with 108 brands in the domestic market. Some of its 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. Even the company's South African joint venture, Biotech Laboratories (Pty.) Ltd. is among top 15 Pharma companies of South Africa.

iv) JB Chemicals & Pharmaceuticals exports to many countries worldwide with a strong presence in Russia, Ukraine, CIS countries and South Africa. JB Chemicals continues to invest in growing its market share in the regulated markets in USA, Europe and Australia. Company has a strong R & D and regulatory set-up for development of new drug delivery system and formulations, filing of DMFs and ANDAs.

v) JB Chemicals & Pharmaceuticals has enhanced its focus on the US market and has started investing in new ANDAs. The company's investment in manufacturing infrastructure of international standards for various pharmaceutical preparations, some of which is approved by health authorities such as US FDA, MHRA UK, TGA Australia, MCC South Africa and MOH Ukraine establish its quality credentials in this space.

Company plans to invest about 140 crore in the new capacity and related infrastructure in the next 12-18 months through internal accruals. This expansion will help company to strengthen its existing products portfolio, focus on new product launches and increase its productivity.

vi) Company's South African 49% joint venture - Biotech Laboratories (Pty.) Ltd is performing well. The acquisition of over 50 product dossiers as well as the veterinary business sometime back is expected to add to the growth of Biotech going forward. South Africa is a potential market and JB Chemicals is exploring opportunities to further grow in the region.

vii) Company has a good return on equity (ROE) track record, 3 Years ROE is 29.64%. With strong cash flows and better working capital management, the debt-equity ratio is negligible. There has also been consistency in dividend payout, company has been maintaining a healthy dividend payout of 41.85%.

4. Saral Gyan Recommendation:

JB Chemicals and Pharmaceuticals Ltd is a cash-rich pharmaceutical company with a turnover above Rs.1,000 crore is trading at 12X FY2016 with estimated EPS of Rs.17, which we consider as very reasonable compared to other pharmaceutical companies. Company's net enterprise value is merely 1.7x its FY2015 sales, whereas many other small and mid cap pharma companies are trading at 2 to 4x of their sales. Considering the same, Saral Gyan team recommends "Buy" on **JB Chemicals Pharmaceuticals Ltd** at current market price of Rs. 206.75 for target of Rs. 310 over a period of 12 to 24 months.

Buying Strategy:

- 70% at current market price of 206.75
- 30% at price range of 175-195 (in case of correction in stock price in near term)

Portfolio Allocation: 3% of your equity portfolio.

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- b. Hold recommendation: This means that the investor could consider holding on to the shares of the company until further update and not buy more of the stock at current market price.
- c. Buy at lower price: This means that the investor should wait