

15th September 2021

CMP – ₹774/-

View – Accumulate on dips

Company Background

Jubilant Ingrevia Limited (JIL) is a global integrated Life Science products and Innovative Solutions provider serving Pharmaceutical, Nutrition, Agrochemical, Consumer and Industrial customers with customized products and solutions that are innovative, cost-effective and conforming to excellent quality standards. The Company offers a broad portfolio of high-quality ingredients that find application in a wide range of industries. Its business segments include specialty chemicals, nutrition and health solution and life science chemicals each contributing 34%, 18% and 48% to overall topline as of FY21.

Important Statistics

M.Cap (₹)	₹12,489cr
52 Week H/L (₹)	803.35/243.60
NSE Code	JUBLINGREA
BSE Code	543271

Specialty Chemicals (34% of Sales)

- Specialty Ingredients
- Fine Chemicals
- Crop Protection Chemicals
- CDMO

Nutrition & Health Solutions (18% of Sales)

- Nutrition & Health Ingredients
- Animal Nutrition & Health Solution
- Human Nutrition & Health Solution

Life Science Chemicals (48% of Sales)

- Life Science Ingredients
- Speciality Ethanol

Investment Thesis

- Market leadership in many of its products
- New growth plans to enhance company's margin profile
- De-risking and forward integration helped improve financials
- Vertical integration across value chain enables cost advantage
- Healthy balance sheet with strong return ratios provides comfort

Leading producer with high entry barriers in most of its products

- Company is amongst top 2 in Pyridine Beta and 1st in 11 pyridine derivatives globally and also lowest cost producer of Pyridine Beta & all value-added products.
- While in nutrition and health solution, it is amongst top 2 in Vitamin B3 (Niacinamide) globally, top 1 in Vitamin B4 (Choline Chloride) domestic market and top 2 in Acetic Anhydride globally.
- Complete backward integration to key RM i.e., Beta Picoline and differentiated niche technology (air oxidation) for manufacturing of Niacinamide – leading to lowest cost and hence provides an edge over peers.

New capex initiatives to tap long term opportunities

- Company is expected to embark on ₹9000mn (₹5500mn/1000mn/2500mn in the specialty chemicals/nutritional products/life science chemicals segments respectively) capacity expansion initiative over the next 3 years, expected to commercialize from 3QFY22.
- In the specialty chemicals segment, besides expanding CDMO capacity, the company is expected to invest in a new facility for the launch of 6 Diketene derivatives and in a multi-product facility for agro-actives. While animal feed has historically been the largest contributor to growth in the nutritional products business, it is now increasingly focusing on human nutrition, pharmaceuticals and personal care which have higher realizations.

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- Going forward, growth in the nutritional products business is expected to be driven by volume uptick (Vitamin B3 capacity to be expanded by 20% & plans to enter regulated pharma markets) as well as an improving product mix.
- Jubilant, which had expanded its Acetic Anhydride capacity by commissioning a new plant at Bharuch in FY20, is expected to further expand capacity by 35% to drive growth in the life science chemicals segment.

De-risking and forward integrating improved financials

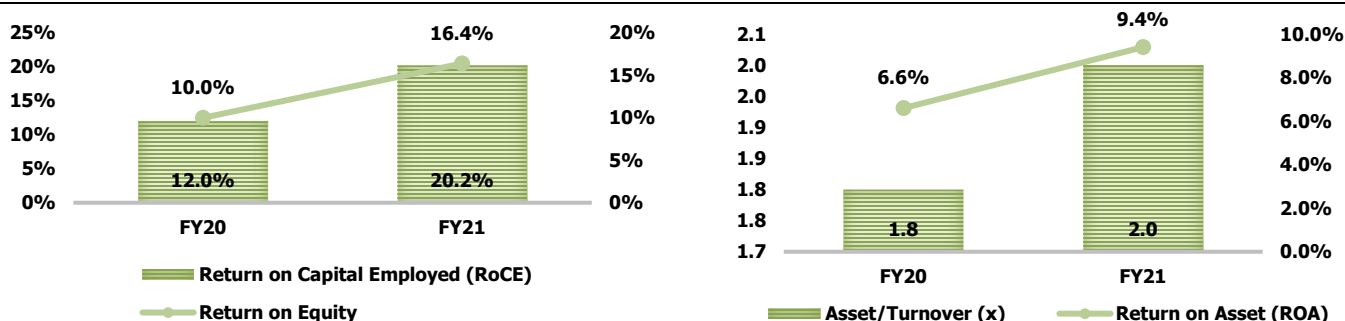
- Jubilant Ingrevia has experienced significant volatility in its Top-line and EBITDA margins over a decade on account of external shocks such as Paraquat ban, Vitamin B3 & Acetic acid prices etc. Thus, in order to de-risk, it has diversified itself w.r.t clients, products and application.
- Further leveraging on its scale & cost efficiency, it benefits by forward integrating into Diketene, Pyridines (leveraging capacities in Pyridine derivatives), Vitamins etc.

Vertical integration across value chain enables cost competitive advantage

- For products such as Vitamin B3 (Niacinamide & Niacin) company produces 100% in-house sourcing of Seta Picoline (Key RM) while ~45% of Pyridine & Picolines volume is used in-house for value-added products in Specialty Chemicals. 25% of overall volume of Life Science Chemicals is in-house consumed by Specialty Chemicals segment thereby providing cost competitive advantage and independency.

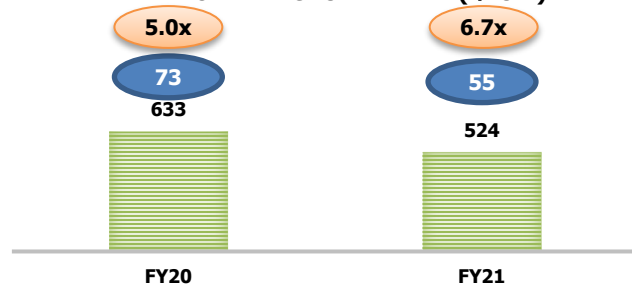
Healthy balance sheet and superior return ratios comforts us

- Company's successful performance helped lower debt over FY17-FY20. Net debt (₹5940 mn at the end of Dec'20) to EBITDA has declined from 2.4x in FY20 to 0.7x in FY21.
- Company's ROE increased from 10% in FY20 to 16% in FY21 while ROCE grew from 12% in FY20 to 20% in FY21 with improving performance.
- The management has guided for a double-digit revenue growth in the business in the near-term with growth expected to be driven by an improvement in the demand scenario for specialty intermediates, stabilization in pricing & demand for Acetic Anhydride and favour.

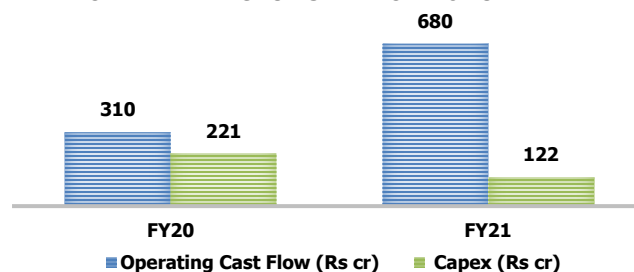


Source – Company, Way2Wealth Research

NET WORKING CAPITAL (₹ CR)



OPERATING CAST FLOW & CAPEX



Source – Company, Way2Wealth Research

Key Concerns

- Prices of chemicals such as Acetic Acid tend to be extremely volatile and since this is key raw material, Company is exposed to pricing risk and supply side constraints which can have meaningful impact on its operations.
- Higher competitive intensity is likely to impact the overall margins in the segment.
- Any adverse impact on its client end product has a potential impact on the operations. Company has been previously impacted on account of product specific bans / recalls (Paraquat).

View

Company is leading manufacturer in most of the products such as Pyridine Beta and 1st in 11 pyridine derivatives, Top 2 in Vitamin B3 (Niacinamide) globally, 1st in Vitamin B4 (Choline Chloride) domestic market and top 2 in Acetic Anhydride globally and has a strong connect with many global leaders as well. Company's successful performance helped lower debt over FY17-FY20 as Net debt to EBITDA has declined from 2.4x in FY20 to 0.7x in FY21. Company's ROE increased from 10% in FY20 to 16.4% in FY21 while ROCE grew from ~12% to 20% over same period with improving performance. Management remains confident of delivering double-digit top line growth and strong margin expansion (EBITDA margin of 20% vs. 17.9% in FY21) over the next 3 years on the back of growth drivers such as expansion into agro-actives including a favourable competitive landscape in Diketene derivatives, to benefit from the diversification of global supply chains. **At CMP of ₹774 Jubilant Ingrevia Ltd is trading at ~13x FY21 EV/EBITDA which is at discount to its peers (Laxmi Organic Ltd) thus recommend investors to ACCUMULATE the stock on dips.**

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Financial Highlights

Particulars	Q1FY21	Q1FY22	YoY (%)
Total Revenue from Operations	737	1145	55%
Speciality Chemicals	257	305	18%
Nutrition & Health Solutions	148	167	13%
Life Science Chemicals	331	673	103%
Total Expenditure	614	863	-41%
Other Income	4	6	
Segment EBITDA			
Speciality Chemicals	69	84	22%
Nutrition & Health Solutions	31	27	-15%
Life Science Chemicals	24	184	677%
unallocated Corporate (Expenses)/income	3	-7	
Reported EBITDA	127	287	126%
Depreciation and Amortization	31	32	-3%
Finance Cost	28	13	54%
Profit before Tax (After Exceptional Items)	68	243	255%
Tax Expenses (Net)	16	75	-79%
PAT	53	168	220%
EPS (₹)	3.3	10.6	220%
Segment EBITDA Margins			
Speciality Chemicals	26.8%	27.7%	
Nutrition & Health Solutions	21.0%	15.9%	
Life Science Chemicals	7.1%	27.3%	
Reported EBITDA Margin	17.3%	25.1%	
Net Profit Margin	7.1%	14.7%	

Source: Company Data, Way2Wealth Research

Particulars	FY20	FY21	YoY (%)
Revenue			
Speciality Chemicals	1104	1124	2%
Nutrition & Health Solutions	537	630	17%
Life Science Chemicals	1537	1738	13%
Total Revenue from Operations	3179	3491	10%
Reported EBITDA	409	627	53%
Speciality Chemicals	237	268	13%
Nutrition & Health Solutions	95	130	37%
Life Science Chemicals	99	236	138%
Unallocated Corporate (Expenses)/Income	-22	-8	
PAT	220	310	43%
EP5	13.8	19.9	43%
Reported EBITDA Margins	12.9%	17.9%	
Speciality Chemicals	21.4%	23.9%	
Nutrition & Health Solutions	17.7%	20.7%	
Life Science Chemicals	6.5%	13.6%	
Net Margin	6.9%	9.1%	

Source: Company Data, Way2Wealth Research

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Disclosure of Interest Statement Jubilant Ingrevia Ltd. as on September 15th, 2021

Name of the Security	Jubilant Ingrevia Ltd.
Name of the analyst	Yogita Desai
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst:	No
Analyst's Relative: Yes / No	No
Analyst's Associate/Firm: Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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