

Ratings



Rating Rationale

June 25, 2018 | Mumbai

Jubilant Life Sciences Limited

'CRISIL AA/Stable' assigned to NCD

Rating Action

Rs.350 Crore Non Convertible Debentures	CRISIL AA/Stable (Assigned)
Rs.400 Crore Commercial Paper Programme	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has assigned its 'CRISIL AA/Stable' rating to the non-convertible debentures of Jubilant Life Sciences Limited (JLL) and reaffirmed its 'CRISIL A1+' rating on the commercial paper programme.

The ratings reflect JLL's strong business risk profile due to diversified revenue, healthy profitability driven by focus on regulated markets with niche products in the pharmaceuticals segment, and economies of scale and integrated operations in the life science ingredients (LSI) segment. This is also supported by an adequate financial risk profile, supported by improving gearing and debt-protection metrics. These strengths are partially offset by product concentration in some businesses, and exposure to regulatory risks and competitive pressures.

JLL's strong business risk profile is expected to be sustained over the medium term backed by its diversified revenue and healthy profitability in the pharmaceuticals and LSI segments; new product launches in these segments and ramp-up of recently launched products is expected to ensure annual revenue growth of 12-14% over the medium term. Earlier, JLL's revenues grew at about 28% for fiscal 2018, backed by strong growth in the LSI and the pharmaceutical segments.

The 29% growth in its pharmaceuticals business in fiscal 2018, was largely driven by the acquisition of Triad Isotopes Inc's (Triad) radiopharmacy business, in September 2017. With this, JLL now has presence in front-end radiopharmaceutical distribution in the US. Growth from new products and execution of existing contracts in radiopharmaceuticals, higher sales of existing products and new capacities in allergy therapy products, and a strong order book and new customer additions, in the contract manufacturing segment is expected to drive growth in its specialized pharmaceuticals business. Volume growth from new product launches and entering new markets will aid growth in generics business. This will partly offset pricing pressure in the generics segment, given the supply chain consolidation in the US. Backed by this, the pharmaceuticals segment is expected to grow at about 15% annually over the medium term.

The LSI segment grew at 29% in fiscal 2018, led by healthy growth in volumes and prices. The growth momentum is expected to remain strong over the medium term led by better demand for existing products, new capacities from ongoing investments and de-bottlenecking initiatives, and launch of new products.

CRISIL believes that JLL's operating profitability will sustain at about 20% over the medium term; higher revenue growth and better profitability of new pharmaceutical products, will enable better coverage of fixed costs, and also offset impact of higher input costs.

JLL's financial risk profile has benefited from its improving cash generation and prudent capital spending, which has enabled a significant improvement in its key credit metrics in the recent past. For instance, its gearing has improved sharply to 1.4 times as on March 31, 2018 (2.8 times as on March 31, 2016), while the ratio of debt to earnings before interest, tax, depreciation and amortization (EBITDA) has dropped to 2.3 times as on March 31, 2018 (3.6 times as on March 31, 2016).

Cash generation is expected to remain healthy at over Rs 1,200 crore per annum, leading to limited need for additional debt raising for capital expenditure (capex; estimated at ~Rs.600 crore per annum) or incremental working capital. Therefore, CRISIL expects JLL's improving trend in credit metrics will continue over the medium term; for instance, debt to EBITDA is expected to decline to ~1.5 times by end of fiscal 2020.

Analytical Approach

For arriving at its rating, CRISIL has combined the business and financial risk profiles of JLL and its subsidiaries, together referred to as JLL, as these companies have considerable operational and financial linkages. Furthermore, CRISIL has amortised the goodwill arising out of acquisitions over ten years from the date of the respective acquisition.

Key Rating Drivers & Detailed Description

Strengths

* **Strong business risk profile backed by diversified revenue:** The company has pursued significant diversification of businesses even while building onto its existing strengths of chemistry knowledge. The pharmaceuticals segment is expected to benefit from established market position of Triad in the US. About 53% of revenue was derived from the pharmaceuticals segment, while LSI contributed 44% in fiscal 2018. Pharmaceuticals and LSI segments further comprise multiple diversified sub-segments. Revenue is geographically diversified as well, with regulated markets contributing 62%, Indian market at 28%, and the balance by the rest of the world.

* **Focus on regulated markets with niche products support profitability in the pharmaceuticals segment:** JLL's profitability in the pharmaceuticals segment is supported by its focus towards regulated markets while having a healthy portfolio of niche products. For instance, in radiopharmaceuticals business, specialty product portfolio with limited competition presently drives profitability.

* **Economies of scale coupled with integrated operations underpin performance in the life science ingredients segment:** The business risk profile in the LSI segment is backed by high operating efficiencies. Economies of scale derived from global scale of capacities, high level of integrated manufacturing, deep chemistry knowledge, and continuous improvement leading to cost efficiencies have supported life sciences ingredients segment's profitability to an extent against price volatility in inputs as well as any shift in demand between different products in value chain.

* **Adequate and improving financial risk profile:** JLL's financial risk profile is expected to benefit from its strong cash generating ability, prudent capital spend and tight control over its working capital. Its balance sheet, which was moderately leveraged in the recent past, is expected to improve significantly, as term debt is paid down, and the net worth benefits from strong accretions. While the company could raise fresh debt to lower cost of existing debt, overall debt levels (Rs 3,469 crore at March 31, 2018) are expected to reduce sharply over the medium term, as capital expenditure, debt repayments and incremental working capital needs are expected to be largely met from internal accruals. This is expected to lead to sustained improvement in its credit metrics. Any large debt funded capex or acquisition, would remain a key monitorable.

Weaknesses

* **Product concentration in some businesses:** Operations witness product concentration in some of its businesses despite having an overall diversified business profile. In the radiopharmaceuticals business, significant revenue is derived from a single product. This product concentration risk is partially mitigated as the products have high entry barriers thereby limiting potential future competition. The company is also diversifying through niche product launches in the radiopharmaceuticals business. Also, in the LSI business, due to capacities of global scale, revenue contribution is high from ethyl acetate, acetic anhydride, Pyridine, and Vitamin B3.

* **Exposure to regulatory risks and intense competition:** The regulatory scrutiny that JLL is exposed to is manifested in its contract manufacturing facilities at Montreal (Canada) and Spokane (US) receiving warning letters from the United States Food and Drug Administration (US FDA) in 2013. While the company was able to resolve the issues in a timely manner and subsequent inspections have been successfully completed across all sites, the company remains exposed to regulatory risks in its pharmaceuticals business. JLL's facilities remain compliant as on March 31, 2018.

In the LSI business, JLL faced anti-dumping duty for its pyridine exports to China in 2015. The company has since entered into other geographies thereby derisking pyridine exposure in China. Any adverse impact of such regulatory actions on revenue and profitability will remain a key rating sensitivity factor. Furthermore, the solid dosage business is intensely competitive because of aggressive defence tactics by innovator companies through introduction of authorised generics, and healthcare cost containment measures by the US government. Also, solid dosage formulations players in the US and Europe are vulnerable to pricing pressure on account of increase in number of players and consolidation among distributors.

Outlook: Stable

CRISIL believes JLL's business risk profile will continue to benefit from revenue diversity, strong market position, large scale, and healthy profitability over the medium term. Financial risk profile will benefit from strong cash generation, prudent capex spend, and debt repayments, leading to continued improvement in credit metrics over the medium term.

Upside scenario:

* Stronger than anticipated business performance, led by new product launches

* Faster than anticipated debt reduction and improvement in credit metrics ' for instance debt to EBITDA of 1.1-1.3 time by end of fiscal 2020 ' led by superior cash generation or significant equity raising

Downside scenario:

* Regulatory issues or pricing pressures leading to lower than expected profitability, also impacting cash generation, and delay in envisaged improvement in credit metrics

* Any large debt funded capex or acquisition, leading to increase in leverage ' for instance with debt/EBITDA of ~2.5 times and more.

About the Company

JLL is an integrated global pharmaceutical and life sciences company engaged in pharmaceuticals, LSI and drug discovery solutions. The pharmaceuticals segment, through its wholly owned subsidiary, Jubilant Pharma Limited manufactures APIs,

solid dosage formulations, radiopharmaceuticals, allergy therapy products and contract manufacturing of sterile and non-sterile products through six US FDA approved manufacturing facilities in India, the US and Canada and a network of over 50 radiopharmacies in the US. The LSI segment, is engaged in specialty intermediates, nutritional products and life science chemicals through five manufacturing facilities in India. The drug discovery solutions segment, provides proprietary in-house innovation and collaborative research and partnership for out-licensing through three research centres in India and the US. JLL has a team of around 7,600 people across the globe with customers across 100 countries. As on March 31, 2018, the promoters held 50.68% stake in JLL, foreign portfolio investors held 23%, and the balance was held by the public and others.

JLL is part of the Jubilant Bhartia group which has interests across pharmaceuticals, LSI, performance polymers, food products and services, automobiles, consulting in aerospace and oilfield services. The group is promoted by Mr Shyam Sunder Bhartia and Mr Hari Bhartia.

Key Financial Indicators

Particulars	Unit	2018	2017
Revenue (Net of excise)	Rs crore	7,518	5,861
Profit After Tax (PAT)*	Rs crore	490	376
PAT Margin	%	6.5	6.4
Adjusted debt/adjusted networth*	Times	1.4	2.2
Interest coverage	Times	5.5	3.96

*Adjusting for goodwill amortization

Any other information: Not applicable