

India

**ADD** (Initiating coverage)

Consensus ratings\*: Buy 6 Hold 1 Sell 0

|                              |                          |
|------------------------------|--------------------------|
| Current price:               | Rs1,803                  |
| Target price:                | Rs2,105                  |
| Previous target:             | NA                       |
| Up/downside:                 | 16.7%                    |
| InCred Research / Consensus: | 20.9%                    |
| Reuters:                     | JBCH.BO                  |
| Bloomberg:                   | JBCP IN                  |
| Market cap:                  | US\$1,869m<br>Rs139,340m |
| Average daily turnover:      | US\$4.1m<br>Rs302.5m     |
| Current shares o/s:          | 77.3m                    |
| Free float:                  | 44.1%                    |

\*Source: Bloomberg



Source: Bloomberg

| Price performance | 1M   | 3M   | 12M   |
|-------------------|------|------|-------|
| Absolute (%)      | 19.6 | 46.7 | 152.2 |
| Relative (%)      | 18.2 | 34.8 | 73.0  |

| Major shareholders                    | % held |
|---------------------------------------|--------|
| Promoter and Promoter Group           | 55.9   |
| Invesco India Contra Fund             | 1.9    |
| Franklin India Smaller Companies Fund | 1.6    |

Analyst(s)



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# JB Chemicals & Pharmaceuticals Ltd

## Winds of change – Emerging catalysts

- With new management at the helm, JB Chemicals seems poised for strong growth in its domestic formulations business by expanding its chronic portfolio.
- The company has a healthy financial position, with a debt-free balance sheet and positive free cash flows.
- We initiate coverage on JB Chemicals & Pharmaceuticals (JBCPL) with an Add rating and a TP of Rs2,105, valuing the company at 28x FY23F P/E.

### Chronic therapies to drive domestic formulations outperformance

JBCPL's domestic formulations business was 44% of total revenue in FY21. Its top five brands contributed ~74% of the total domestic formulation revenues as at FY21. The domestic formulations business has consistently outperformed the Indian pharmaceutical market, driven by its chronic portfolio which contributes 45% to the total domestic formulations. Management guided for raising this share to 60% over the medium term through expansion into new therapies like nephrology and diabetes, and strong momentum in cardiac. We project 16% CAGR over FY21-24F in this business driven by 6-8 product launches annually, steady growth from the top five brands and improving MR productivity.

### International business growth to be fueled by CMOs & formulations

The international business comprising of export formulations, CMO and API business contributed 55% of total revenues in FY21. JBCPL has a direct presence in Russia and South Africa and uses a distributor-led model for business with the US and other geographies. It is one of the top five manufacturers of medical lozenges. We expect 20%/16% revenue CAGR over FY21-24F in the CMO/export formulations business led by new product launches, ramp-up of ANDA filings and scale-up of existing facilities.

### Positive free cash flows may support inorganic growth opportunities

With JBCPL's capacity utilisation at 60% and adequate capacities available, only maintenance capex would be required. With improving profitability and only lower capex spend, we expect free cash flows (FCFs) to continue improving over FY21-24F and FCF/EBITDA conversion of 55-56% over FY21-FY24F. We believe with strong free cash flows supporting it, JBCPL would explore inorganic opportunities as the next growth lever.

### Valuation and risks

We initiate coverage on JBCPL with an Add rating and a TP of Rs2,105, at 28x FY23F P/E, a 16% premium to its peers' average. Our Add rating on JBCPL is underpinned by i) the company's focus on the chronic segment which contributes significantly to operating profits, ii) debt-free balance sheet, iii) lower capex requirements, iv) healthy return ratios, and v) strong cash flows. **Key catalysts:** Higher-than-expected traction in launches. **Key risks:** Supply chain disruption due to COVID-19 lockdowns, price controls on key brands.

### Financial Summary

|                                   | Mar-20A | Mar-21A | Mar-22F | Mar-23F | Mar-24F |
|-----------------------------------|---------|---------|---------|---------|---------|
| Revenue (Rsm)                     | 17,747  | 20,425  | 23,944  | 27,751  | 32,171  |
| Operating EBITDA (Rsm)            | 3,776   | 5,604   | 6,800   | 7,881   | 9,169   |
| Net Profit (Rsm)                  | 2,720   | 4,480   | 4,952   | 5,791   | 6,782   |
| Core EPS (Rs)                     | 35.5    | 52.8    | 64.1    | 74.9    | 87.8    |
| Core EPS Growth                   | 50.4%   | 48.5%   | 21.4%   | 16.9%   | 17.1%   |
| FD Core P/E (x)                   | 50.74   | 34.17   | 28.14   | 24.06   | 20.55   |
| DPS (Rs)                          | 18.3    | 16.5    | 16.0    | 18.7    | 21.9    |
| Dividend Yield                    | 1.02%   | 0.92%   | 0.89%   | 1.04%   | 1.22%   |
| EV/EBITDA (x)                     | 36.91   | 24.87   | 20.45   | 17.66   | 15.17   |
| P/FCFE (x)                        | 54.81   | 39.58   | 32.82   | 27.48   | 24.12   |
| Net Gearing                       | (0.1%)  | 0.1%    | (1.4%)  | (0.7%)  | (1.1%)  |
| P/BV (x)                          | 9.71    | 7.70    | 6.39    | 5.33    | 4.46    |
| ROE                               | 19.2%   | 25.1%   | 24.8%   | 24.1%   | 23.6%   |
| % Change In Core EPS Estimates    |         |         |         |         |         |
| InCred Research/Consensus EPS (x) |         |         | 1.10    | 1.10    | 1.05    |

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, PRICED AS AT 15 JUL 2021

# Winds of change – Emerging catalysts

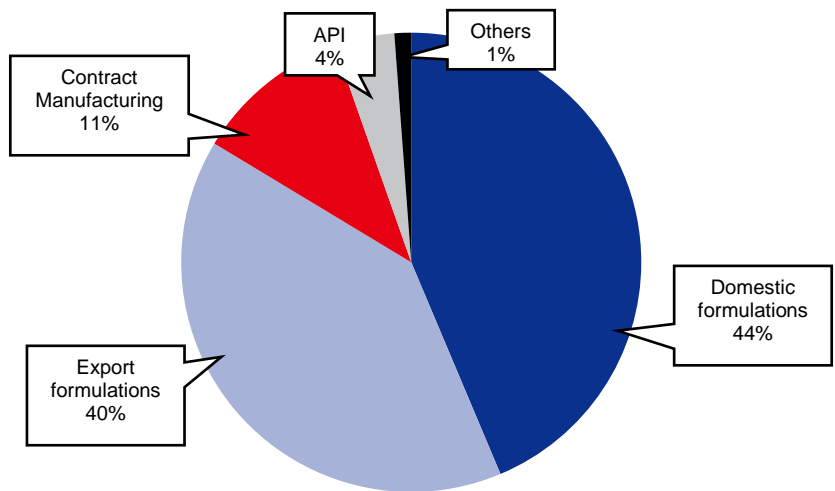
## Domestic formulations

### Strong chronic portfolio to drive growth >

JBCPL's domestic formulations contributed 44% of its total revenues in FY21 – the highest share of its total revenues. The company currently ranks 28<sup>th</sup> in terms of sales value in the Indian pharmaceutical market (IPM), moving up from 32<sup>nd</sup> rank in FY20, as per company reports. Its divisional teams cater to 300k healthcare professionals across India. Its top five brands – Cilacar (calcium channel blocker), Rantac (anti-peptic ulcerant), Nicardia (calcium channel blocker), Metrogyl (amoebicides) and Cilacar T (calcium channel blocker + angiotensin receptor blocker) – are in IPM's top 300 brands and contribute 74% of its domestic formulations revenue. In FY21, JB Chemicals was one of the best-performing Indian pharma companies, growing in terms of moving annual total (MAT) value Mar-2021 by 12.1% yoy, while the Indian pharmaceutical market (IPM) grew by a mere 2.1%.

JBCPL's top five brands continued to show strong growth in FY21, as Cilacar's revenue grew by 15.8% yoy, Rantac by 19.7% yoy, Metrogyl by 27.2% yoy, Cilacar T by 23.0% yoy, while Nicardia de-grew by 0.4% yoy (Source: All Indian Origin Chemists & Distributors Ltd. [AIOCD]). The company has been focusing on brand-building initiatives for its top five products. It has also intensified these initiatives for products across other segments, such as antibiotics, pain management, dermatological, tonics and respiratory.

**Figure 1: Domestic formulations contributed maximum share of total revenue in FY21**



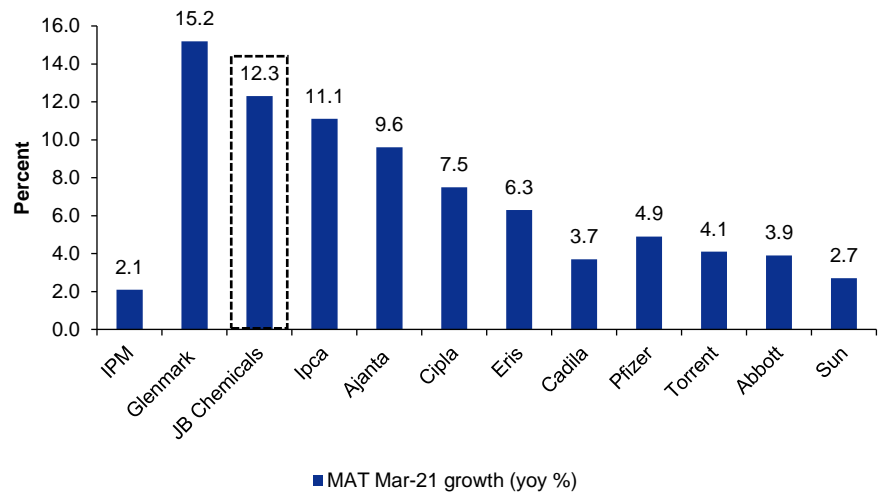
SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: JBCPL's extensive doctor and patient connect across India as at Mar 2021**

| Key specialists       | Unique DRs covered |
|-----------------------|--------------------|
| Cardiologists         | 5,000+             |
| Gastroenterologists   | 1,800              |
| Nephrologists         | 1,600+             |
| Consulting Physicians | ~18,000            |
| Gynacs                | ~20,000            |
| Pediatricians         | ~20,000            |

DR REFERS TO DOCTORS  
 SOURCES: INCRED RESEARCH, COMPANY PRESENTATION

**Figure 3: JBCPL's MAT Mar-21 yoy growth was one of the highest in the industry**



MAT: MOVING ANNUAL TOTAL  
SOURCES: INCRED RESEARCH, AIOCD

**Figure 4: Performance of JBCPL's top 5 brands**

| Brand     | Therapy          | FY21 (Rsm) | FY20 (Rsm) | yoy % | Market share % (MAT May-21) | 2M May-21 (Rsm) | 2M May-20 (Rsm) | yoy % |
|-----------|------------------|------------|------------|-------|-----------------------------|-----------------|-----------------|-------|
| Cilacar   | Cardiovascular   | 1,977      | 1,707      | 15.8  | 22.8                        | 334             | 312             | 7.1   |
| Rantac    | Gastrointestinal | 1,868      | 1,560      | 19.7  | 22.2                        | 345             | 260             | 32.7  |
| Metrogyl  | Gastrointestinal | 851        | 669        | 27.2  | 10.2                        | 188             | 144             | 30.6  |
| Nicardia  | Cardiovascular   | 876        | 880        | -0.5  | 9.8                         | 140             | 158             | -11.4 |
| Cilacar T | Cardiovascular   | 664        | 540        | 23.0  | 7.8                         | 126             | 106             | 18.9  |

MAT: MOVING ANNUAL TOTAL  
SOURCES: INCRED RESEARCH, ALL INDIAN ORIGIN CHEMISTS & DISTRIBUTORS LTD (AIOCD)

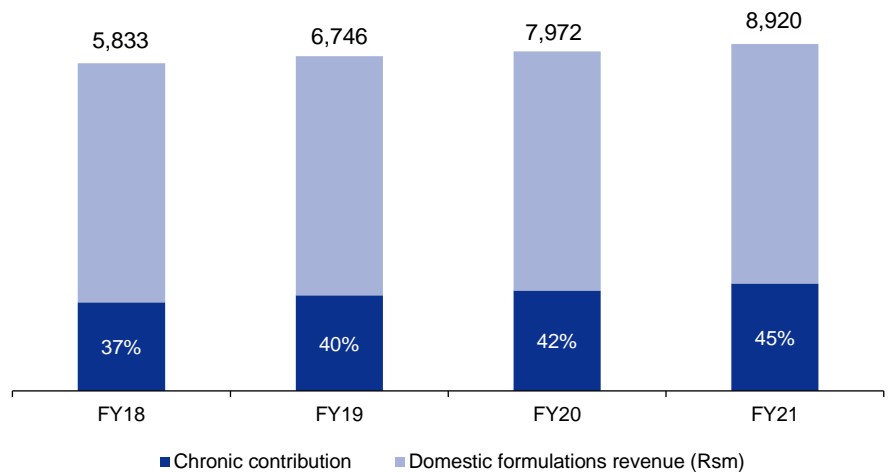
**Figure 5: JBCPL's consistent improvement in ranking of top 5 brands in the Indian Pharmaceutical Market (IPM)**

| Brand     | Rank       |            |            |            |
|-----------|------------|------------|------------|------------|
|           | MAT Mar-18 | MAT Mar-19 | MAT Mar-20 | MAT Mar-21 |
| Rantac    | 63         | 57         | 55         | 32         |
| Cilacar   | 86         | 62         | 49         | 36         |
| Metrogyl  | 302        | 297        | 291        | 188        |
| Nicardia  | 383        | 313        | 243        | 211        |
| Cilacar-T | 561        | 451        | 342        | 270        |

MAT: MOVING ANNUAL TOTAL  
SOURCES: INCRED RESEARCH, COMPANY

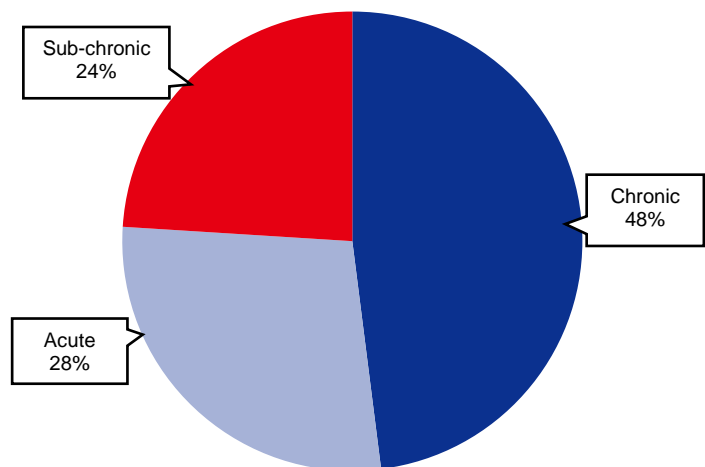
JBCPL currently has seven divisions in its domestic business – one for generics, one for nephrology, one for the pediatrics and respiratory segments, and four for its top five brands. The company has ~350 representatives in the pediatrics and respiratory division and ~50 representatives in the nephrology division, thus enabling better product reach in the market and high productivity. By creating these divisions, the company could increase the share of chronic therapies to the total domestic formulations business to 45% in FY21 from 37% in FY18. Chronic therapies in the company's domestic formulations business grew by 21% CAGR over FY17-21 (Source: Investor presentation, Jun 2021). Management aims to increase this share to ~60% in the medium term as it plans to diversify into newer therapies such as diabetes, nephrology, pediatrics and respiratory.

**Figure 6: Increasing contribution from chronic therapies**



SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 7: Acute, chronic and sub-chronic segment revenue split in FY21**



SOURCES: INCRED RESEARCH, ALL INDIAN ORIGIN CHEMISTS & DISTRIBUTORS LTD (AIOCD)

**Steady market share in Ranitidine ➤**

JB Chemicals manufactures Ranitidine under the brand name Rantac. Ranitidine is a prescription drug used to treat ulcers of the stomach and intestines and to prevent intestinal ulcers from coming back after they have healed. Ranitidine is also used to treat certain stomach and throat problems such as erosive esophagitis, gastroesophageal reflux disease or GERD, and Zollinger-Ellison syndrome. Other manufacturers of Ranitidine include Cadila Pharma (brand name Aciloc), Torrent Pharma (Ranitin) and GlaxoSmithKline (Zinetac).

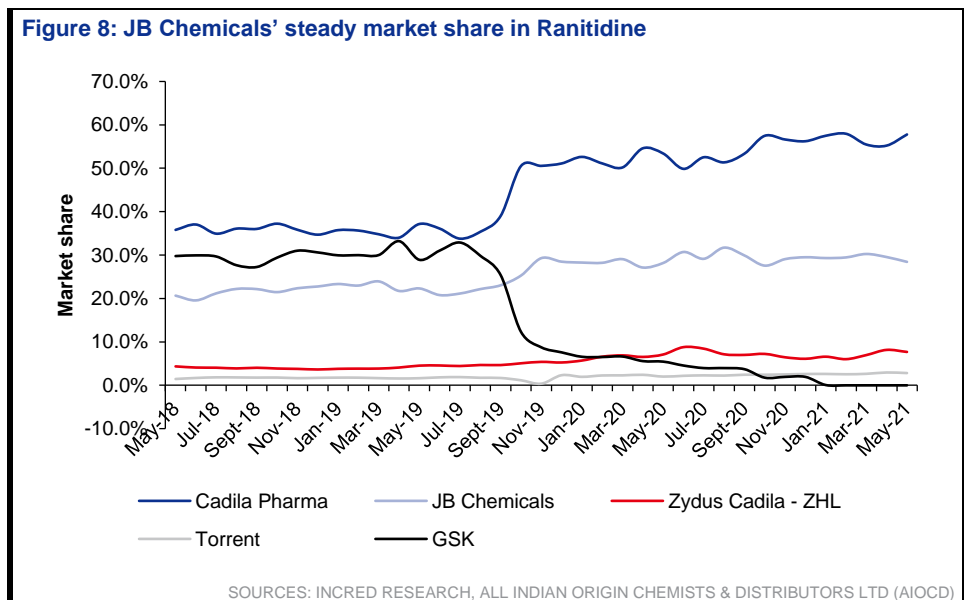
In Sep 2019, Ranitidine came into the limelight as excess levels of N Nitrosodimethylamine (NDMA), a probable human carcinogen or cancer-causing substance was found in some Ranitidine products in the US. NDMA is an environmental impurity also found in drinking water, food, including meat, dairy products, and vegetables. In view of this, the Drug Control Authority of India (DGCI) directed all manufacturers of Ranitidine to verify their products and take measures to ensure patient safety. GSK voluntarily decided to suspend its supply of Zinetac in the domestic and international markets. This news also impacted JBCPL’s sales of Rantac in 2HFY20. However, after it sent samples of the drug for testing, it reported that the NDMA was within prescribed limits.

As per the All Indian Origin Chemists & Distributors Ltd (AIOCD), the Ranitidine market size in India is Rs6.61bn as per moving annual total (MAT) May-21,

growing at a CAGR of 2% over MAT May-18 to MAT May-21. JB Chemicals ranks second in terms of sales value among Ranitidine manufacturers in India with MAT May-21 sales of Rs1.95bn, growing by 26% yoy, as per AIOCD. Cadila Pharma ranks first in this market with MAT May-21 sales of Rs3.64bn with a market share of ~58%. JB Chemicals increased its market share in Rantac steadily to ~29% in May 2021, from ~21% in May 2018, partially benefiting from GSK discontinuing its supply of its Zinetac brand of Ranitidine in Sep 2019. Going ahead, brand Rantac's growth would be driven by volume growth and life cycle management.

In July 2021, the National Pharmaceutical Pricing Authority (NPPA) allowed a one-time price increase of 50% for Ranitidine and two other drugs. It held that these were essential medicines for public health management, and pricing should not be the reason for their shortage, discontinuation, or unavailability. We have factored into our estimates a 15% price increase for the Rantac franchise, thus arriving at EPS of Rs64.1 for FY22F, Rs74.9 for FY23F and Rs87.8 for FY24F. However, given that it is difficult to gauge the exact quantum at this juncture, we have given the EPS sensitivity for FY22F/23F/24F at various potential price increases (Figure 25).

**Figure 8: JB Chemicals' steady market share in Ranitidine**



### Dominant player in Cilnidipine market ➤

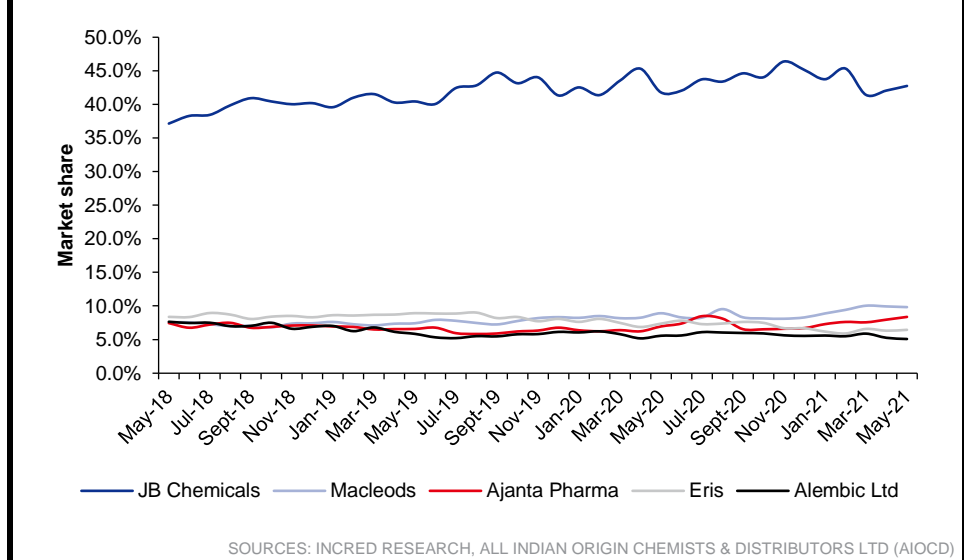
JB Chemicals manufactures Cilnidipine tablets under the brand name Cilacar. Cilnidipine 10mg Tablet is used to treat high blood pressure (hypertension). Cilacar is one of the fastest growing brands in the cardiology segment. It belongs to a class of medicines known as a calcium channel blocker, which helps to lower blood pressure. This helps prevent heart attacks and strokes. It may also be prescribed to prevent angina (heart-related chest pain). JBCPL is one of the leading players in the hypertension segment in India.

As per All Indian Origin Chemists & Distributors Ltd (AIOCD), the Cilnidipine market size in India is Rs4.57bn as per moving annual total (MAT) May-21, growing at 17% CAGR over MAT May-18 to MAT May-21. With ~43% market share in Cilnidipine in May 2021, JBCPL ranks No 1 in the Indian pharmaceutical market (IPM) in the brand ahead of Macleods (brand name Nexovas), Ajanta Pharma (Cinod), Eris Lifesciences (Lnbloc) and Alembic Ltd (Cetamil), according to AIOCD. As per MAT May-21, JBCPL's sales from Cilacar grew by 13.4% yoy at Rs2bn.

In Cilacar T, a combination of Cilnidipine + Telmisartan, the company recorded revenue of Rs684m as per moving annual total (MAT) May-21, growing by 21.5%.

We believe that brand Cilacar's growth would be driven by volume growth, price growth and life-cycle management.

**Figure 9: JB Chemicals is ahead of its peers in Cilnidipine**

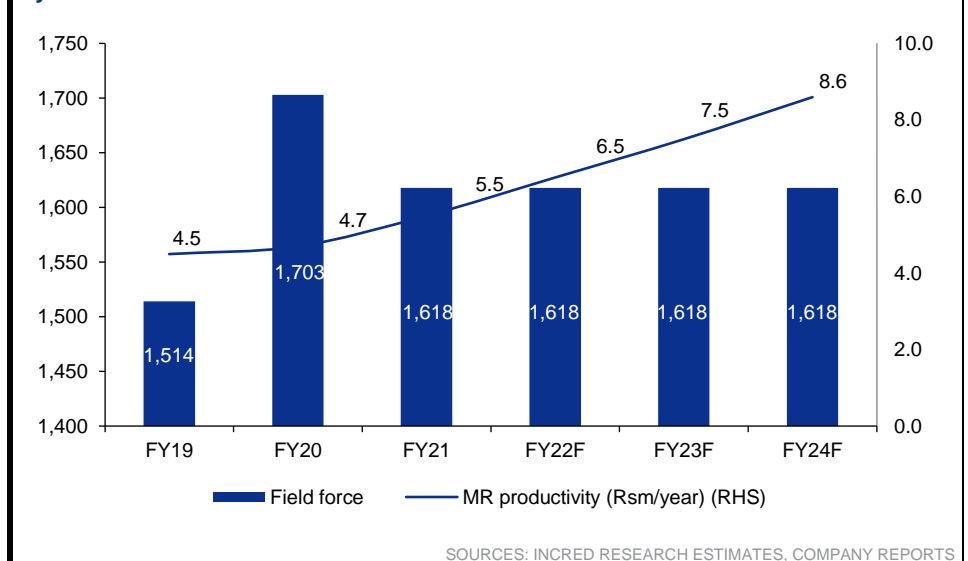


**Launch of Renova division for nephrology ➤**

In May 2021, JBCPL forayed into the nephrology space with the launch of a new division Renova which will cater to patients being treated for chronic kidney disease (CKD). The new division will focus exclusively on comprehensive renal care, ranging from the management of hypertension in CKD to end-stage renal disease. JBCPL plans to launch seven products in this division.

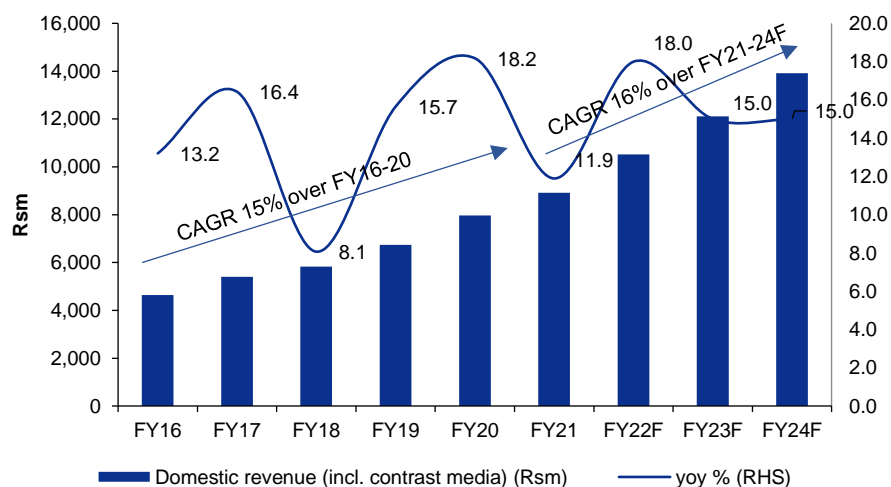
Going ahead, the domestic formulations business will continue to be the key growth driver for the company as it aims to improve its Indian Pharmaceutical Market (IPM) ranking from the top 30 to the top 20 in the medium term. In our view, this business will be JBCPL’s priority area as it will also focus on expanding into therapies such as pediatrics, respiratory and diabetes and thus will remain a strong growth driver for the company. With the roll out of its new go-to-market model with reorganization of field force and focus on an aggressive portfolio, we expect 16% CAGR over FY21-24F in the domestic business driven by 6-8 product launches annually, steady growth from the top five brands on the back of lifecycle management, expansion beyond tier-2 towns, and improving market representative (MR) productivity.

**Figure 10: Expect market representative (MR) productivity to increase to Rs8.6m/year by FY24F**



We expect 16% CAGR over FY21-24F in the domestic business driven by 6-8 product launches annually, steady growth from the top five brands on the back of lifecycle management, expansion beyond tier-2 towns, and improving market representative (MR) productivity.

**Figure 11: New product launches and increasing MR productivity to support domestic revenue growth**



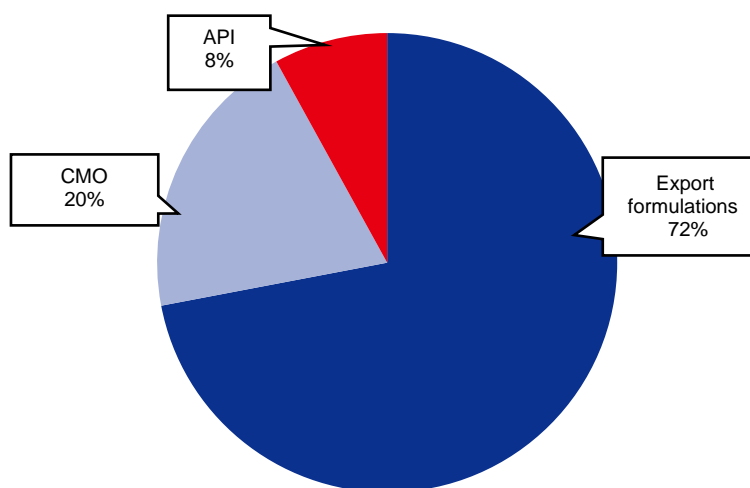
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

## International business

### Well established presence across geographies ►

JBCPL's international business comprises export formulations (Russia/ Commonwealth of Independent States [CIS], South Africa and the US), contract manufacturing organisations (CMO) and active pharmaceutical ingredients (API). The company is present in Russia-CIS and South Africa (home markets) and operates a distributor-led model in other geographies such as the US, Asia, Africa and Latin America (LATAM). The international business contributed 55% of the total revenues and grew by 23% yoy in FY21, aided by strong performances in South Africa and the US.

**Figure 12: International business revenue split as on FY21**



SOURCES: INCRED RESEARCH, COMPANY REPORTS

### Russia & CIS ►

The Russia-CIS market is a branded generics (Rx) one, with high entry barriers. FY21 saw a muted performance in Russia due to the COVID-19 pandemic, especially in the cough-and-cold segment which accounts for a major part of the Russia business. JBCPL has a field force of close to 100 representatives in Russia. Over the last three decades, JBCPL has built a strong portfolio of prescription-based products and developed well-established relationships with pharmacy chains in Russia. It has two more products in the pipeline for launch in



FY22. It also aims to look at in-licensing opportunities in Russia and enter the over-the-counter (OTC) segment mainly in anti-allergy and medicated lozenges.

### South Africa >

In South Africa, JBCPL has a subsidiary called Biotech Laboratories (Pty) Ltd, in which it holds a 95% stake. JBCPL markets its products in the South African private (50%) and public (tender) markets (50%). JBCPL appointed Biotech as its distributor in South Africa and other African countries.

The majority of this business contribution comes from branded generics and OTC products, and JBCPL is well entrenched in the generics and public market. It has a field force of 30 representatives and strong relationships with major retail pharmacy chains. The company has a diversified sourcing strategy of products from JBCPL itself and other companies.

Going forward, JBCPL is looking to expand its generics (Gx) market through portfolio augmentation, potential acquisition of registered dossiers, expand its base in the public market for acquired dossiers, and explore OTC categories by leveraging pharmacy relationships. The company has filed some dossiers awaiting approval in South Africa, which could be approved in the next one to two years, according to the company.

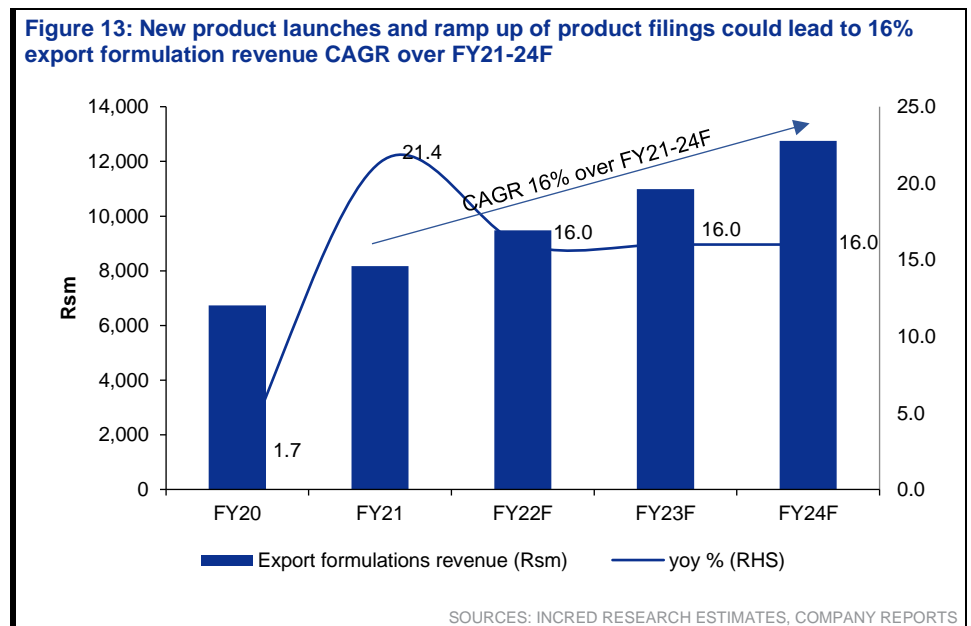
### US and Rest of the World (ROW) >

JBCPL operates via cost plus and asset-light distribution model in the US and largely focuses on delayed release oral solids as well as niche products. The company plans to continue its distribution-based model in the US as it is exposed to fewer risks. Currently, it has 19 ANDAs approved in the US and 14 commercialised products. It is scaling up its R&D efforts to ramp up the filing run rate from three to four filings p.a. from the existing one to two.

In RoW markets, the company will focus on deeper penetration in the existing geographies of Asia, Africa and LATAM and expand its current portfolio instead of adding new markets.

We project export formulations to grow by 16% CAGR over FY21-24F, driven by new product launches in Russia, South Africa and the US, deeper penetration of existing brands and ramp up of ANDA filings in the US.

*Expect export formulations to grow by 16% CAGR over FY21-24F, driven by new product launches in Russia, South Africa and the US, deeper penetration of existing brands and ramp up of ANDA filings in the US.*





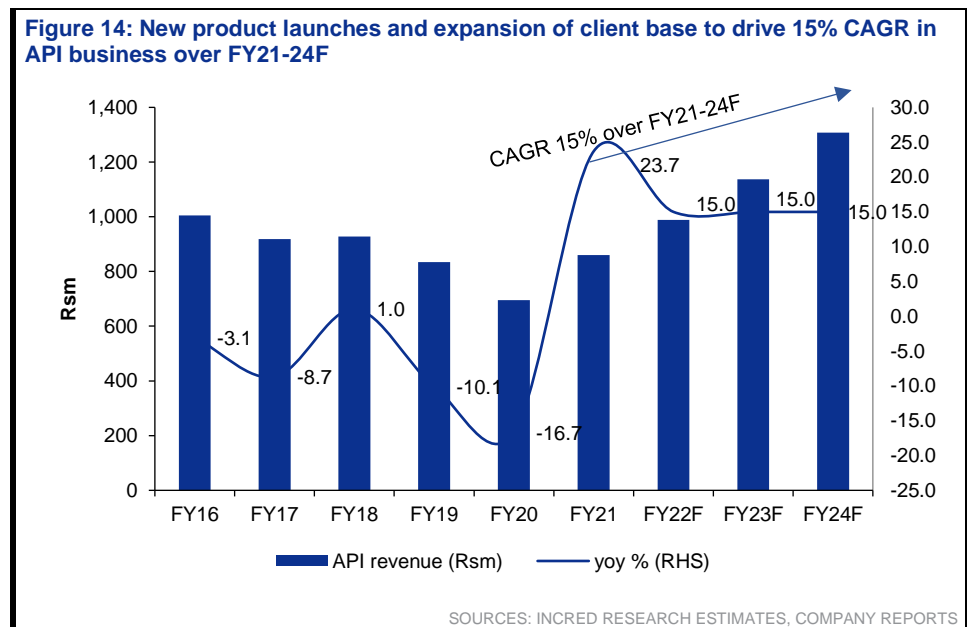
### Active Pharmaceutical Ingredients (API) >

JBCPL's Active Pharmaceutical Ingredients (API) business contributed to 8% of its total international revenues in FY21. The API business provides backward integration for the company's exports formulations. JBCPL is a very selective player in APIs and has a dominant position in the Diclofenac (non-steroidal anti-inflammatory drugs) market.

The API business de-grew by 10% in FY19 and 17% in FY20 as the company's most important Diclofenac customer was undergoing major process changes related to the product. However, supplies have now normalised.

In the analyst call in Mar 2021, management highlighted that it had identified certain products which would increase the current API pipeline from five to six to 10 over the next 12-18 months. Products like Atenolol, Cetirizine and Glipizide in the US will continue to get backward integration support from the company's API infrastructure.

We believe JBCPL's API business could grow at 15% CAGR over FY21-24F, driven by the expansion of its client base and launch of three to four new products in RoW markets in the medium term.



### Contract manufacturing organisation (CMO) >

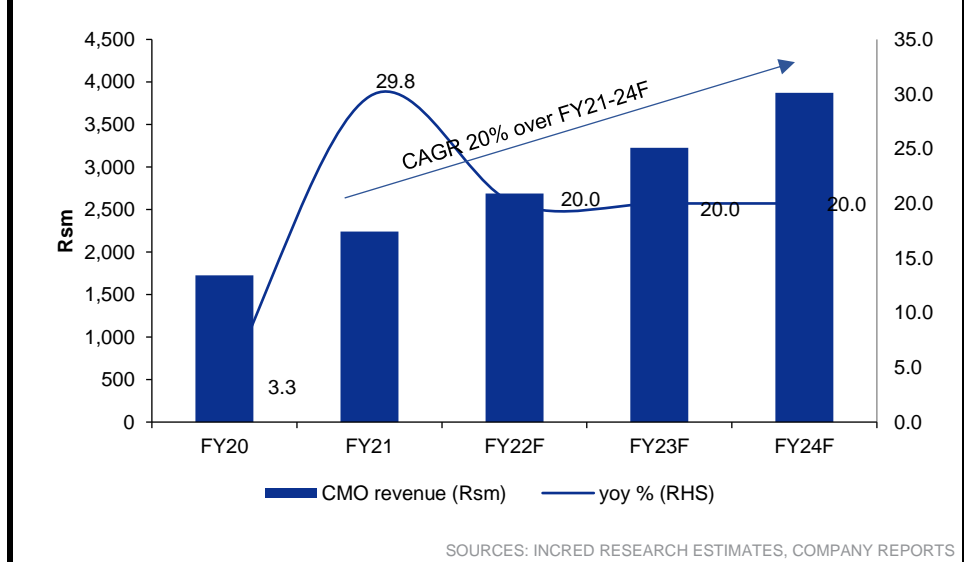
JBCPL's contract manufacturing business contributed 20% of its total international business revenue in FY21. The company's CMO capabilities allow it to partner large, international brands to develop a diverse range of innovative specialty products, including tablets, injectables, creams and ointments, lozenges, herbal liquids and capsules. Its manufacturing facility at Daman is wholly dedicated to lozenges and has received approvals from regulatory agencies such as United States Food and Drug Administration (USFDA), United Kingdom Medicines and Healthcare products Regulatory Agency (UK-MHRA), European Union- Good Manufacturing Practice (EU-GMP), Therapeutic Goods Administration (TGA) Australia, South African Health Products Regulatory Authority (SAPHRA), Ministry of Health (Russia) and Pharmaceuticals and Medical Devices Agency (PMDA), Japan. Its current plant capacity utilisation is around 60%.

The company is among the top five manufacturers of medical/herbal lozenges globally, as per company reports. Lozenges form a core part of the company's CMO business and is a US\$3bn-4bn global market opportunity, as per company reports. JBCPL's lozenges portfolio comprises nicotine, sugar and sugar-free, curcumin and vitamin C lozenges. For lozenges, JB Chemicals works closely with several multinational companies that focus on lifecycle management of the

product and becoming more competitive in the market. 70-80% of the total CMO business comes from lozenges as on FY21.

JBCPL will concentrate on scaling up the CMO business by penetrating existing customers more deeply, targeting new geographies, strengthening existing relationships and leveraging capabilities to manufacture new dosage forms. We project this business to grow by 20% CAGR over FY21-24F by scaling up existing facilities and expanding the lozenges business.

**Figure 15: We expect 20% revenue CAGR over FY21-24F for CMO business led by scale up of existing facilities and expansion of lozenges business**



## Business overview

J.B. Chemicals & Pharmaceuticals Ltd is one of the fastest-growing pharmaceutical companies in India and a leading player in the hypertension segment. Besides its strong India presence, which accounts for the majority of its revenue, its other home markets are Russia and South Africa. The company exports its finished formulations to over 30 countries, including the US. Besides supplying branded generic formulations to several countries, it is a leading manufacturer of medicated lozenges. Its state-of-the-art manufacturing facilities have approvals from various health authorities such as the United States Food and Drug Administration (USFDA), United Kingdom Medicines and Healthcare products Regulatory Agency (UK-MHRA), European Union Good Manufacturing Practice (EU GMP), South African Health Products Regulatory Authority (SAHPRA), Ministry of Health of the Russia Federation (MOH Russia) and others.

**Figure 16: Manufacturing facilities as at Mar 2021**

| Facility                        | Products          | Compliance approvals                                       |
|---------------------------------|-------------------|--|
| Panoli, Gujarat (Campus 1)      | Tablets, capsules | USFDA, UK-MHRA, TGA-AU, SAPHRA, EU-GMP                     |
|                                 | IV infusions      | SAPHRA, MOH Russia, EU-GMP                                 |
|                                 | Liquids           | TGA-AU, EU-GMP, MOH Russia, MOH Ukraine                    |
|                                 | Topicals          | TGA-AU, EU, MOH Russia, MOH Ukraine                        |
|                                 | Vials             | ANVISA-Brazil, MOH Russia, MOH Ukraine                     |
| Panoli, Gujarat (Campus 2)      | IV infusions      | MOH Russia, MOH Ukraine                                    |
|                                 | Tablets           | USFDA, UK-MHRA, SAPHRA, EU-GMP                             |
| Panoli, Gujarat (Campus 3)- API | Bulk drugs        | USFDA, EU-GMP, MOH Japan, MOH Korea                        |
|                                 | Tablets           | Semi-regulated markets                                     |
| Ankleshwar, Gujarat             | Liquids           | Semi-regulated markets                                     |
|                                 | Lozenges          | USFDA, SAPHRA, EU-GMP, PMDA Japan, MOH Russia, MOH Ukraine |
| Kadalya, Daman                  | Tablets           | MOH Russia, MOH Ukraine                                    |
|                                 | Sachets           | MOH Russia, MOH Ukraine                                    |

MOH: MINISTRY OF HEALTH  
 ANVISA: AGÊNCIA NACIONAL DE VIGILÂNCIA SANITÁRIA  
 SOURCES: INCRED RESEARCH, COMPANY REPORTS

## Acquisition by KKR ➤

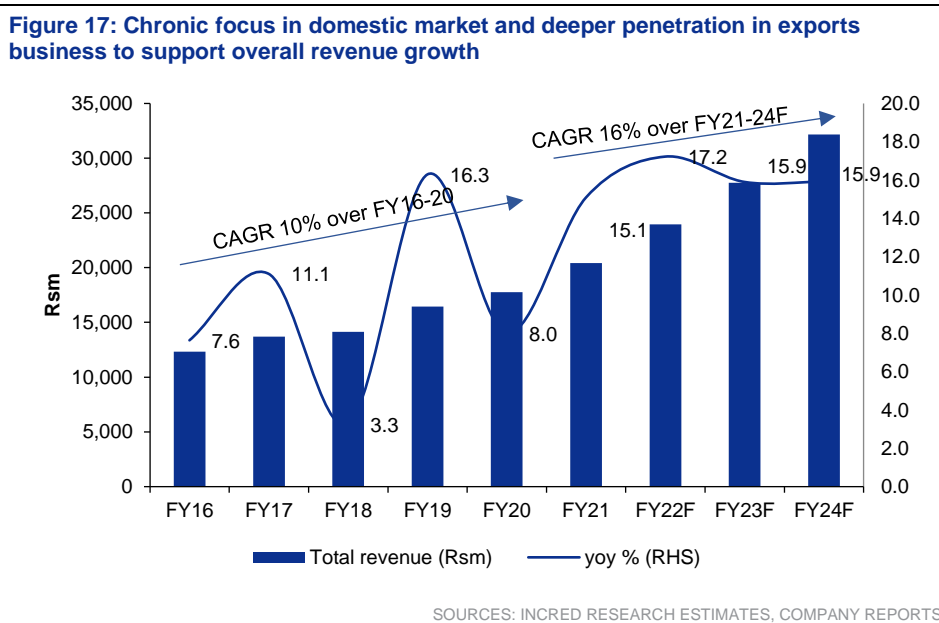
In Jul 2020, the private equity firm KKR, through Tau Investment Holdings Pte. Ltd – a wholly-owned subsidiary of KKR Asian Fund-III, acquired a 54% stake in JB Chemicals for Rs31bn. KKR is a leading global investment firm with a 44-year track record of private equity investing, having completed transactions worth over ~US\$630bn and had assets under management (AUM) of ~US\$252bn as of Dec 2020. This acquisition would enable JBCPL to penetrate new markets, expand its CMO business, work with new partners, and exploit potential M&A opportunities.

## Key financials

### Expect total revenue CAGR of 16% over FY21-24F ➤

JBCPL delivered 10% revenue CAGR over FY16-20 as it scaled up the domestic business with the help of its key brands, while its international business fared well in FY18 despite headwinds like currency fluctuations. With a) increasing penetration of key brands, new product launches, and the company's focus on chronic therapies in the domestic market, b) deeper penetration in export markets, and c) leveraging opportunities in the CMO and API segments, we project 16% total revenue CAGR over FY21-24F.

We project 16% total revenue CAGR over FY21-24F driven by increasing penetration of key brands, new product launches and the company's focus on chronic therapies in the domestic market, b) deeper penetration in export markets, and c) leveraging opportunities in the CMO and API segments.



**Figure 18: Annual revenue breakdown assumptions**

|                               | FY21          | FY22F         | FY23F         | FY24F         |
|-------------------------------|---------------|---------------|---------------|---------------|
| <b>Domestic formulations</b>  | <b>8,920</b>  | <b>10,526</b> | <b>12,104</b> | <b>13,920</b> |
| % of sales                    | 43.7          | 44.0          | 43.6          | 43.3          |
| yoy%                          | 11.9          | 18.0          | 15.0          | 15.0          |
| <b>International business</b> | <b>11,270</b> | <b>13,154</b> | <b>15,357</b> | <b>17,931</b> |
| % of sales                    | 55.2          | 54.9          | 55.3          | 55.7          |
| yoy%                          | 23.1          | 16.7          | 16.7          | 16.8          |
| Export formulations           | 8,170         | 9,477         | 10,994        | 12,753        |
| % of sales                    | 40.0          | 39.6          | 39.6          | 39.6          |
| % of international business   | 72.5          | 72.0          | 71.6          | 71.1          |
| yoy%                          | 21.4          | 16.0          | 16.0          | 16.0          |
| CMO                           | 2,240         | 2,688         | 3,226         | 3,871         |
| % of sales                    | 11.0          | 11.2          | 11.6          | 12.0          |
| % of international business   | 19.9          | 20.4          | 21.0          | 21.6          |
| yoy%                          | 29.8          | 20.0          | 20.0          | 20.0          |
| API                           | 860           | 989           | 1,137         | 1,308         |
| % of sales                    | 4.2           | 4.1           | 4.1           | 4.1           |
| % of international business   | 7.6           | 7.5           | 7.4           | 7.3           |
| yoy%                          | 23.7          | 15.0          | 15.0          | 15.0          |
| <b>Others</b>                 | <b>240</b>    | <b>264</b>    | <b>290</b>    | <b>319</b>    |
| % of sales                    | 1.2           | 1.1           | 1.0           | 1.0           |
| yoy%                          | (61.5)        | 10.0          | 10.0          | 10.0          |
| <b>Total revenue</b>          | <b>20,430</b> | <b>23,944</b> | <b>27,751</b> | <b>32,171</b> |
| yoy%                          | <b>15.1</b>   | <b>17.2</b>   | <b>15.9</b>   | <b>15.9</b>   |

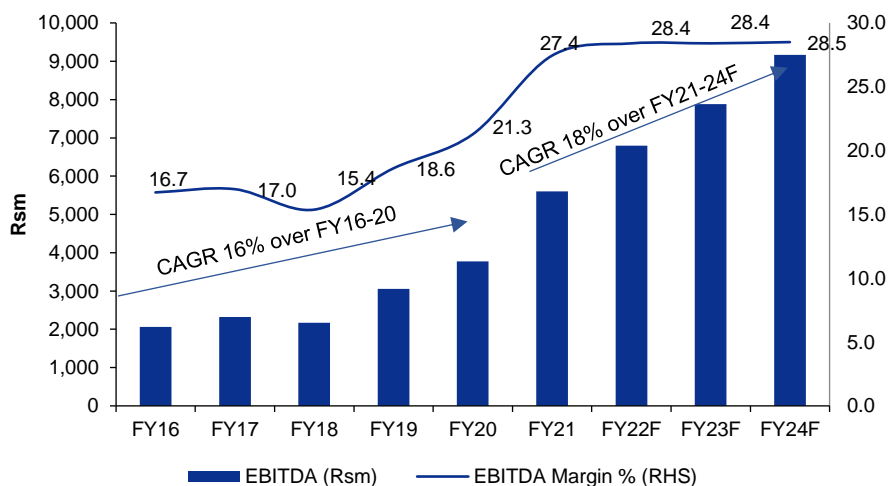
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

### Expect EBITDA CAGR of 18% over FY21-24F ➤

JBCPL's EBITDA margin expanded by 610bp over FY16-20, driven by better product mix and improving MR productivity. EBITDA margin was high in FY21 on account of cost savings on promotional and marketing expenses due to the COVID-19 lockdown. We expect EBITDA CAGR of 18% over FY21-24F on high base driven by cost optimization efforts, favorable product mix and improving MR productivity. and believe gross margin of FY21 to sustain in FY22F-FY24F.

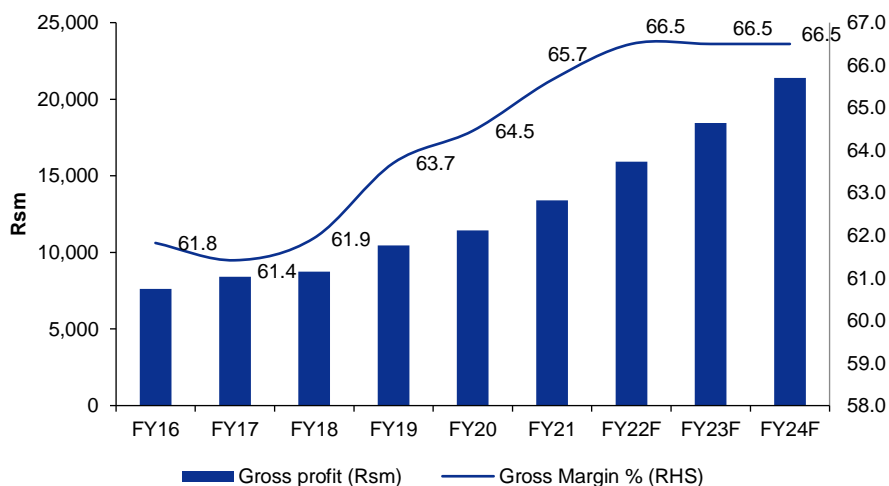
*We expect EBITDA CAGR of 18% over FY21-24F on high base driven by cost optimization efforts, favorable product mix and improving MR productivity.*

**Figure 19: We project 18% EBITDA CAGR over FY21-24F led by cost optimization, favorable product mix and improving MR productivity.**



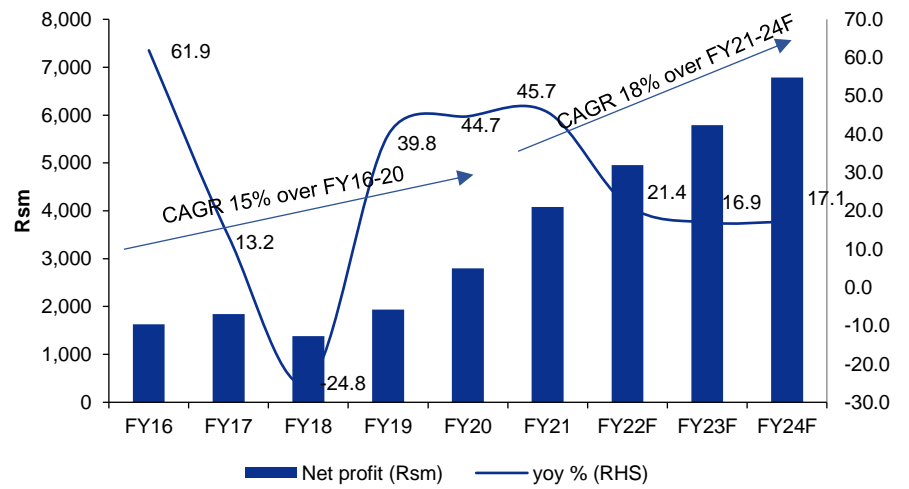
MR: MARKET REPRESENTATIVES  
 SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 20: Expect gross margins to remain steady at 66.5% due to better product mix**



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 21: With improving operating performance, we expect net profit CAGR of 18% over FY21-24F**

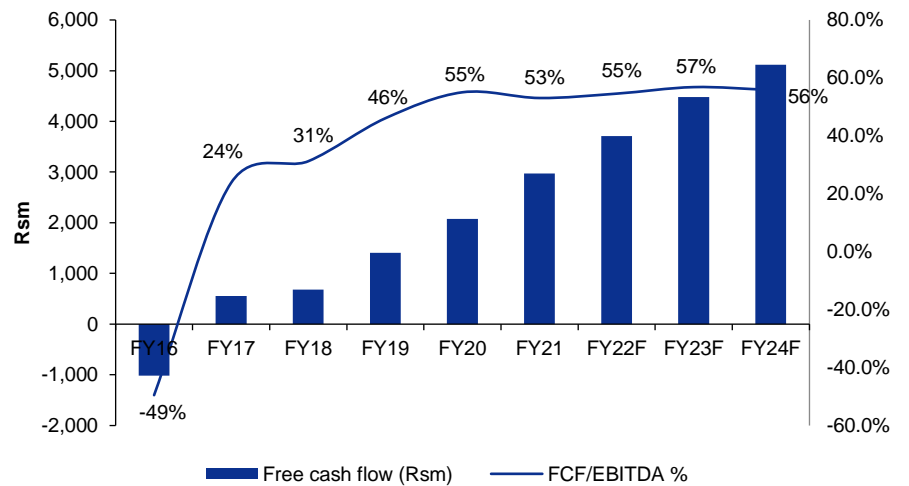


SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Strong FCFs could leverage inorganic opportunities ➤**

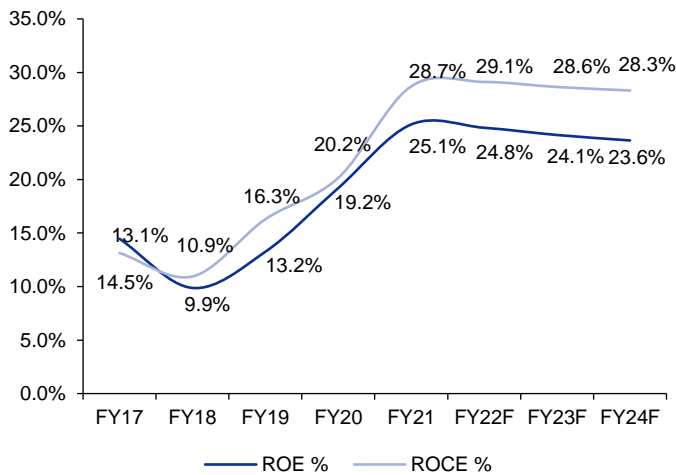
Currently, JBCPL does not have major capex plans as it has adequate capacities and will focus on utilizing these existing capacities. However, maintenance capex would continue to be incurred, as per the company. We believe that free cash flows (FCFs) could be used for potential inorganic growth of the company. With improving profitability and only lower capex spend, we expect free cash flows to remain strong and FCF/EBITDA conversion of 55-57% over FY21-FY24F.

**Figure 22: Free cash flow to improve with increasing profitability and lower capex**



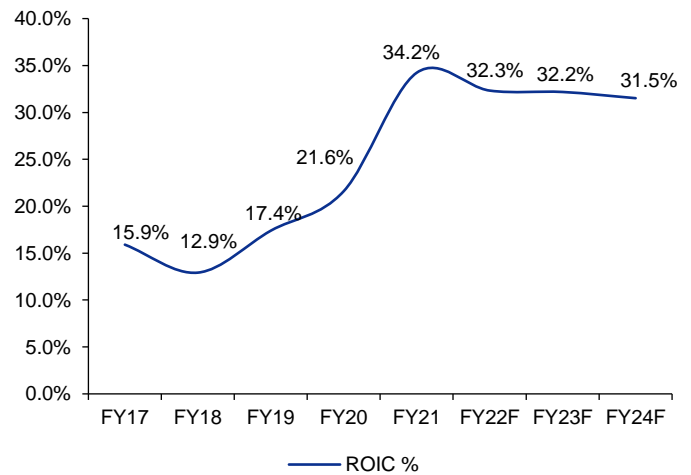
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 23: ROE and ROCE to remain strong**



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 24: ROIC to remain steady above 30%**



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

### Sensitivity analysis on price hike of Rantac to EPS ►

We have factored into our estimates a 15% price increase for the Rantac franchise, arriving at EPS of Rs64.1 for FY22F, Rs74.9 for FY23F and Rs87.8 for FY24F. Given that it is difficult to gauge the exact quantum at this juncture, we have given the EPS sensitivity for FY22F/23F/24F at various potential price increases.

**Figure 25: Sensitivity analysis on Rantac price hike to EPS**

| Year      | Price hike |      |      |      |
|-----------|------------|------|------|------|
|           | 15%        | 25%  | 35%  | 50%  |
| FY22F EPS | 64.1       | 66.5 | 68.6 | 71.9 |
| FY23F EPS | 74.9       | 77.9 | 80.4 | 84.2 |
| FY24F EPS | 87.8       | 91.2 | 94.1 | 98.5 |

SOURCES: INCRED RESEARCH ESTIMATES

### Valuation and recommendation ►

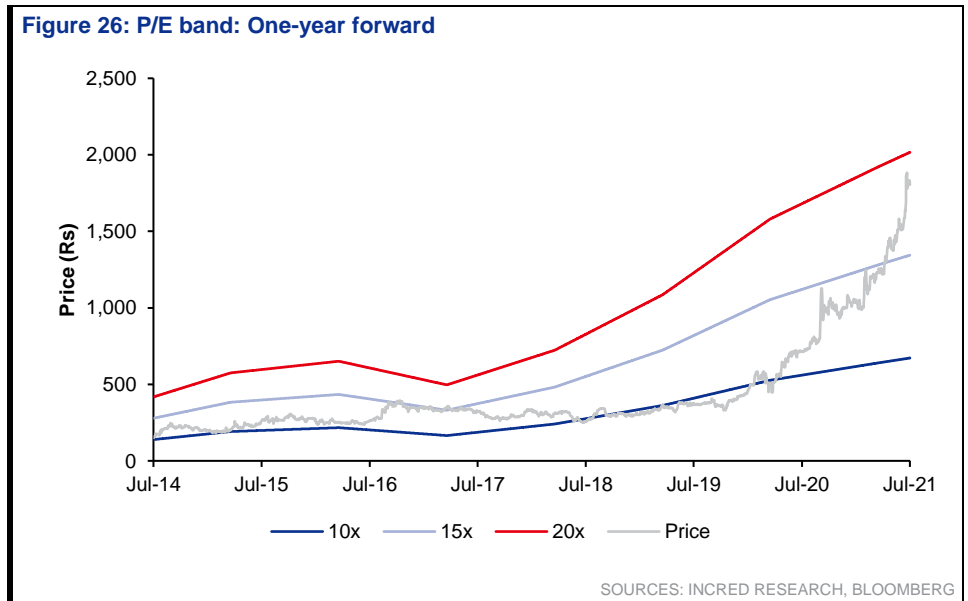
The stock traded in a P/E band of 10-21x over FY15-20, peaking at 21x in FY17. With the acquisition of KKR and new management at the helm, the stock has re-rated and is trading in a P/E band of 20-25x as the company focuses on ramping up its chronic formulations (high margin) in the domestic business with improving MR productivity, ramping up new product launches in export formulations, exploring newer geographies and deeper penetration with existing customers for the CMO and API segments, cost optimization measures, scaling up R&D activities and gaining market share in key brands. The company is debt free, and with healthy return ratios and strong cash flows it would be focusing on leveraging inorganic opportunities that could lead to portfolio expansion and additional growth levers, in our view.

We initiate coverage on JB Chemicals & Pharmaceuticals Ltd with an Add rating due to its strong and lean balance sheet as well as increasing focus towards the domestic business, which would help to generate better return ratios and cash flows as compared to other geographies, in our view. We ascribe a multiple of 28x on FY23F P/E, a 16% premium to its industry peer average to arrive at a target price of Rs2,105. We believe the valuation is justified given i) the company's focus on the chronic segment in the domestic business, which contributes significantly to operating profits, ii) debt-free balance sheet, iii) lower capex requirements, iv) healthy return ratios, and v) strong cash flows. Although we have not built in any acquisition on our estimates, we believe the company is well positioned to explore inorganic growth opportunities on the back of its strong cash flows. We remain confident of management's ability to drive synergies and scale up faster than expectations.



We prefer the P/E methodology for JB Chemicals & Pharmaceuticals as it does not have leverage issues and net profit gives a fair outlook on the strength of the company on a comparable basis.

**Figure 26: P/E band: One-year forward**



**Figure 27: P/E standard deviation: One-year forward**



### Key catalysts

- Higher-than-expected traction in launches, earlier-than expected launches in the international business and stronger-than-expected growth could lead to a better growth trajectory.
- Any price hike beyond 15% in the Rantac franchise would be an upside to our earnings estimates as Rantac contributes ~10% of total revenues.

### Key downside risks

- Any price control on the Cilacar brand could impact earnings growth as it is the top brand contributing 10% of total sales. Management believes that under price control it would be able to maintain volume growth as pricing is almost similar to peer brands which will not have an impact due to the ceiling price set. However, the brand coming under price control would limit price hikes every year which we believe could have an impact on our earnings growth assumption.

- As JBCPL exports its formulations to over 30 countries, any supply chain disruption due to another wave of COVID-19 infections and lockdowns would lead to decline in patient footfalls in the clinics, thus impact our earnings estimates.
- Any regulatory issue in the manufacturing facilities could impact production and lead to delay in product approvals and launches.
- Any price hike less than 15% or no price hike in the Rantac franchise would be a downside risk to our earnings estimates.

**Figure 28: Peer comparison**

| Company Name                              | Bloomberg Ticker | Closing Price (Rs) | Target Price (Rs) | Rating     | Mkt Cap (US\$ bn) | Revenue CAGR FY21-23F | EPS CAGR FY21-23F | P/E (x)     |             | EV/EBITDA (x) |             | ROE        |            | Net Debt FY21 (US\$ m) |
|---|------------------|--------------------|-------------------|------------|-------------------|-----------------------|-------------------|-------------|-------------|---------------|-------------|------------|------------|------------------------|
|   |                  |                    |                   |            |                   |                       |                   | FY22F       | FY23F       | FY22F         | FY23F       | FY22F      | FY23F      |                        |
| <b>JB Chemicals &amp; Pharmaceuticals</b> | <b>JBCP IN</b>   | <b>1,803</b>       | <b>2,105</b>      | <b>Add</b> | <b>1.9</b>        | <b>17%</b>            | <b>19%</b>        | <b>28.1</b> | <b>24.1</b> | <b>20.5</b>   | <b>17.7</b> | <b>25%</b> | <b>24%</b> | <b>-89</b>             |
| Alkem Laboratories                        | ALKEM IN         | 3,332              | 3,545             | Add        | 5.6               | 13%                   | 11%               | 24.5        | 20.1        | 18.4          | 14.8        | 23%        | 24%        | -59                    |
| Torrent Pharmaceuticals                   | TRP IN           | 3,001              | 2,790             | Hold       | 6.8               | 12%                   | 13%               | 39.3        | 31.4        | 20.3          | 17.3        | 27%        | 30%        | 392                    |
| Ipca Laboratories                         | IPCA IN          | 2,095              | 2,401             | Add        | 3.6               | 11%                   | 7%                | 24.5        | 20.9        | 17.6          | 14.7        | 25%        | 25%        | -24                    |
| Ajanta Pharma                             | AJP IN           | 2,174              | 2,284             | Add        | 2.5               | 12%                   | 11%               | 27.5        | 23.7        | 17.8          | 15.4        | 28%        | 27%        | -28                    |
| Indoco Remedies                           | INDR IN          | 437                | 410               | Add        | 0.6               | 21%                   | 41%               | 28.7        | 21.7        | 14.3          | 11.5        | 24%        | 28%        | 27                     |
| <b>Company average</b>                    |                  |                    |                   |            |                   |                       |                   | <b>28.8</b> | <b>23.6</b> | <b>18.1</b>   | <b>15.2</b> | <b>25%</b> | <b>26%</b> |                        |

SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG. PRICED AS AT 15 JUL 2021

**Figure 29: Key managerial personnel as at June 2021**

| Name              | Designation               | Background   |
|-------------------|---------------------------|--|
| Mr. Nikhil Chopra | CEO                       | Mr. Chopra has over 20 years of experience backed by a consistent record of sustaining growth in the business and creating shareholder value. He joined JBCPL after a 24-year stint at Cipla, including five years as CEO of Cipla's India business where he spearheaded several business transformation initiatives that drove greater access to medicines, digital transformation of the field force, direct-to-consumer, patient support and strategic partnerships with innovator companies. |
| Mr. Kunal Khanna  | President, Transformation | Mr. Khanna has over 17 years of experience in life sciences, healthcare services, logistics, strategy, and performance improvement. This includes five years with Cipla India where he headed the Chronic & Emerging Cluster, led business development, drove restructuring of the India business, set up a commercial excellence practice, and several strategic partnerships and in-licensing deals.   |
| Mr. Vijay Bhatt   | CFO                       | Mr. Bhatt is a senior finance professional with experience in strategic financial planning and controlling, fund raising, financial accounting, etc.   |

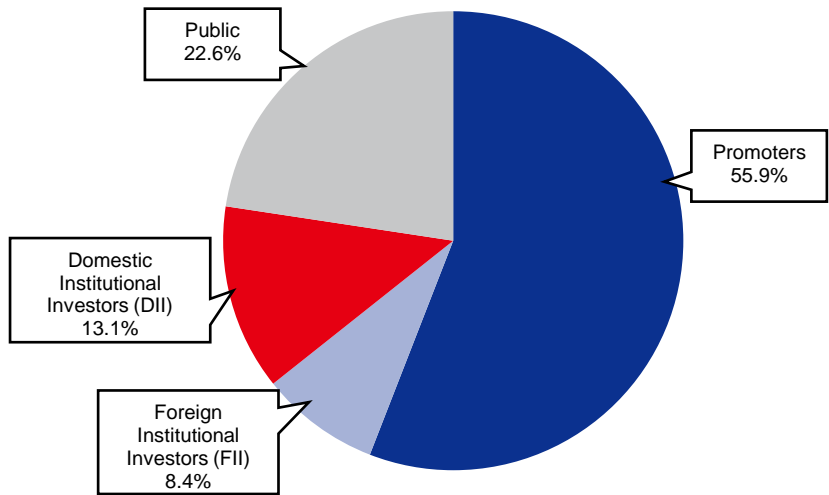
SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 30: SWOT analysis**

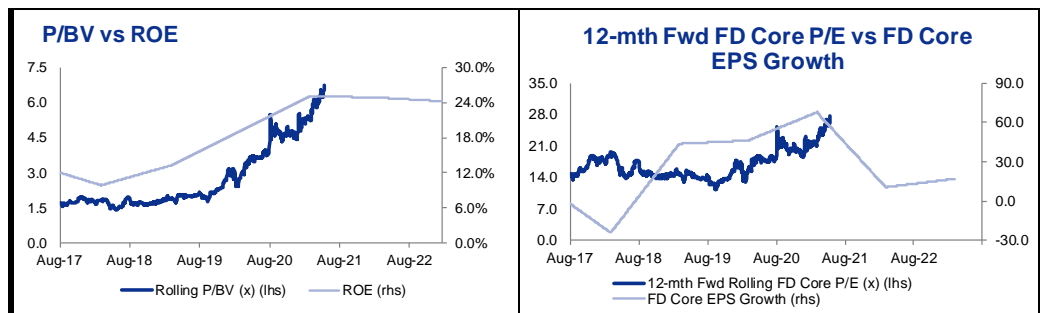
|   |   |
|---|---|
| <b>Strengths</b>  | <b>Opportunities</b>  |
| Strong domestic formulations business with market leadership among top brands.                                      | Expansion into new therapies and acquisition of brands/companies would steer growth.  |
| <b>Weaknesses</b>   | <b>Threats</b>  |
| High dependence on top 5 brands which contribute 80-85% of total domestic revenues.                                 | Adverse pricing regulations by the National Pharmaceuticals Pricing Authority (NPPA) on prices of key products may reduce our revenue and margin estimates. |
| High contribution of business from international markets which are prone to currency volatility and economic risks. |   |

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 31: Shareholding pattern as at June 2021**



SOURCES: INCRED RESEARCH, BOMBAY STOCK EXCHANGE WEBSITE

**BY THE NUMBERS**

**Profit & Loss**

| (Rs mn)                                   | Mar-20A       | Mar-21A       | Mar-22F       | Mar-23F       | Mar-24F       |
|---|---------------|---------------|---------------|---------------|---------------|
| <b>Total Net Revenues</b>                 | <b>17,747</b> | <b>20,425</b> | <b>23,944</b> | <b>27,751</b> | <b>32,171</b> |
| <b>Gross Profit</b>                       | <b>11,439</b> | <b>13,410</b> | <b>15,923</b> | <b>18,455</b> | <b>21,394</b> |
| <b>Operating EBITDA</b>                   | <b>3,776</b>  | <b>5,604</b>  | <b>6,800</b>  | <b>7,881</b>  | <b>9,169</b>  |
| Depreciation And Amortisation             | (663)         | (687)         | (716)         | (737)         | (766)         |
| <b>Operating EBIT</b>                     | <b>3,113</b>  | <b>4,917</b>  | <b>6,084</b>  | <b>7,144</b>  | <b>8,402</b>  |
| Financial Income/(Expense)                | (30)          | (72)          | (75)          | (77)          | (79)          |
| Pretax Income/(Loss) from Assoc.          |               |               |               |               |               |
| Non-Operating Income/(Expense)            | 507           | 589           | 601           | 661           | 727           |
| <b>Profit Before Tax (pre-EI)</b>         | <b>3,589</b>  | <b>5,434</b>  | <b>6,610</b>  | <b>7,728</b>  | <b>9,050</b>  |
| Exceptional Items                         | (100)         | 535           |               |               |               |
| <b>Pre-tax Profit</b>                     | <b>3,489</b>  | <b>5,969</b>  | <b>6,610</b>  | <b>7,728</b>  | <b>9,050</b>  |
| Taxation                                  | (765)         | (1,484)       | (1,653)       | (1,932)       | (2,263)       |
| Exceptional Income - post-tax             |               |               |               |               |               |
| <b>Profit After Tax</b>                   | <b>2,724</b>  | <b>4,485</b>  | <b>4,958</b>  | <b>5,796</b>  | <b>6,788</b>  |
| Minority Interests                        | (3)           | (5)           | (5)           | (5)           | (5)           |
| Preferred Dividends                       |               |               |               |               |               |
| FX Gain/(Loss) - post tax                 |               |               |               |               |               |
| Other Adjustments - post-tax              |               |               |               |               |               |
| <b>Net Profit</b>                         | <b>2,720</b>  | <b>4,480</b>  | <b>4,952</b>  | <b>5,791</b>  | <b>6,782</b>  |
| Recurring Net Profit                      | 2,799         | 4,078         | 4,952         | 5,791         | 6,782         |
| <b>Fully Diluted Recurring Net Profit</b> | <b>2,799</b>  | <b>4,078</b>  | <b>4,952</b>  | <b>5,791</b>  | <b>6,782</b>  |

**Cash Flow**

| (Rs mn)                          | Mar-20A        | Mar-21A        | Mar-22F        | Mar-23F        | Mar-24F        |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>EBITDA</b>                    | <b>3,776</b>   | <b>5,604</b>   | <b>6,800</b>   | <b>7,881</b>   | <b>9,169</b>   |
| Cash Flow from Invt. & Assoc.    |                |                |                |                |                |
| Change In Working Capital        | 223            | (1,140)        | (922)          | (955)          | (1,269)        |
| (Incr)/Decr in Total Provisions  |                |                |                |                |                |
| Other Non-Cash (Income)/Expense  |                |                |                |                |                |
| Other Operating Cashflow         | (100)          | 535            |                |                |                |
| Net Interest (Paid)/Received     | (30)           | (72)           | (75)           | (77)           | (79)           |
| Tax Paid                         | (844)          | (1,422)        | (1,653)        | (1,932)        | (2,263)        |
| <b>Cashflow From Operations</b>  | <b>3,025</b>   | <b>3,505</b>   | <b>4,151</b>   | <b>4,917</b>   | <b>5,558</b>   |
| Capex                            | (977)          | (605)          | (516)          | (517)          | (518)          |
| Disposals Of FAs/subsidiaries    |                |                |                |                |                |
| Acq. Of Subsidiaries/investments |                |                |                |                |                |
| Other Investing Cashflow         | 507            | 589            | 601            | 661            | 727            |
| <b>Cash Flow From Investing</b>  | <b>(471)</b>   | <b>(16)</b>    | <b>85</b>      | <b>144</b>     | <b>209</b>     |
| Debt Raised/(repaid)             | 37             | 32             | 10             | 10             | 10             |
| Proceeds From Issue Of Shares    | 1              |                |                |                |                |
| Shares Repurchased               | (1,294)        |                |                |                |                |
| Dividends Paid                   | (1,415)        | (1,275)        | (1,238)        | (1,448)        | (1,696)        |
| Preferred Dividends              |                |                |                |                |                |
| Other Financing Cashflow         | 60             | (2,247)        | (2,673)        | (3,738)        | (3,926)        |
| <b>Cash Flow From Financing</b>  | <b>(2,612)</b> | <b>(3,490)</b> | <b>(3,901)</b> | <b>(5,176)</b> | <b>(5,611)</b> |
| Total Cash Generated             | (58)           | (1)            | 335            | (115)          | 156            |
| <b>Free Cashflow To Equity</b>   | <b>2,591</b>   | <b>3,521</b>   | <b>4,246</b>   | <b>5,071</b>   | <b>5,777</b>   |
| <b>Free Cashflow To Firm</b>     | <b>2,584</b>   | <b>3,562</b>   | <b>4,311</b>   | <b>5,138</b>   | <b>5,846</b>   |

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

| <b>Balance Sheet</b>                 |                |                |                |                |                |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>(Rs mn)</b>                       | <b>Mar-20A</b> | <b>Mar-21A</b> | <b>Mar-22F</b> | <b>Mar-23F</b> | <b>Mar-24F</b> |
| Total Cash And Equivalents           | 309            | 309            | 644            | 529            | 685            |
| Total Debtors                        | 3,454          | 3,890          | 4,560          | 5,286          | 6,127          |
| Inventories                          | 2,747          | 3,474          | 3,936          | 4,410          | 5,112          |
| Total Other Current Assets           | 4,221          | 7,853          | 10,652         | 14,536         | 18,630         |
| <b>Total Current Assets</b>          | <b>10,732</b>  | <b>15,526</b>  | <b>19,792</b>  | <b>24,760</b>  | <b>30,555</b>  |
| Fixed Assets                         | 5,842          | 5,697          | 5,481          | 5,243          | 4,977          |
| Total Investments                    | 695            | 129            | 142            | 156            | 172            |
| Intangible Assets                    | 832            | 896            | 912            | 929            | 946            |
| Total Other Non-Current Assets       | 105            | 134            | 143            | 153            | 165            |
| <b>Total Non-current Assets</b>      | <b>7,474</b>   | <b>6,855</b>   | <b>6,677</b>   | <b>6,481</b>   | <b>6,260</b>   |
| Short-term Debt                      | 295            | 326            | 336            | 346            | 356            |
| Current Portion of Long-Term Debt    |                |                |                |                |                |
| Total Creditors                      | 1,680          | 1,869          | 2,162          | 2,506          | 2,901          |
| Other Current Liabilities            | 1,158          | 1,257          | 1,323          | 1,393          | 1,469          |
| <b>Total Current Liabilities</b>     | <b>3,133</b>   | <b>3,453</b>   | <b>3,821</b>   | <b>4,245</b>   | <b>4,726</b>   |
| Total Long-term Debt                 |                |                |                |                |                |
| Hybrid Debt - Debt Component         |                |                |                |                |                |
| Total Other Non-Current Liabilities  | 72             | 101            | 101            | 101            | 101            |
| <b>Total Non-current Liabilities</b> | <b>72</b>      | <b>101</b>     | <b>101</b>     | <b>101</b>     | <b>101</b>     |
| Total Provisions                     | 621            | 693            | 693            | 693            | 693            |
| <b>Total Liabilities</b>             | <b>3,826</b>   | <b>4,247</b>   | <b>4,615</b>   | <b>5,039</b>   | <b>5,520</b>   |
| Shareholders Equity                  | 14,355         | 18,097         | 21,811         | 26,154         | 31,241         |
| Minority Interests                   | 25             | 37             | 43             | 48             | 54             |
| <b>Total Equity</b>                  | <b>14,380</b>  | <b>18,134</b>  | <b>21,854</b>  | <b>26,202</b>  | <b>31,294</b>  |

| <b>Key Ratios</b>         |                |                |                |                |                |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
|                           | <b>Mar-20A</b> | <b>Mar-21A</b> | <b>Mar-22F</b> | <b>Mar-23F</b> | <b>Mar-24F</b> |
| Revenue Growth            | 8.0%           | 15.1%          | 17.2%          | 15.9%          | 15.9%          |
| Operating EBITDA Growth   | 23.5%          | 48.4%          | 21.3%          | 15.9%          | 16.3%          |
| Operating EBITDA Margin   | 21.3%          | 27.4%          | 28.4%          | 28.4%          | 28.5%          |
| Net Cash Per Share (Rs)   | 0.19           | (0.23)         | 3.97           | 2.36           | 4.25           |
| BVPS (Rs)                 | 185.75         | 234.17         | 282.23         | 338.42         | 404.24         |
| Gross Interest Cover      | 102.74         | 67.91          | 81.52          | 92.96          | 106.27         |
| Effective Tax Rate        | 21.9%          | 24.9%          | 25.0%          | 25.0%          | 25.0%          |
| Net Dividend Payout Ratio | 39.5%          | 23.5%          | 18.7%          | 18.7%          | 18.7%          |
| Accounts Receivables Days | 67.22          | 65.62          | 64.41          | 64.75          | 64.74          |
| Inventory Days            | 149.99         | 161.85         | 168.60         | 163.83         | 161.24         |
| Accounts Payables Days    | 82.55          | 92.33          | 91.72          | 91.64          | 91.56          |
| ROIC (%)                  | 21.6%          | 34.2%          | 32.3%          | 32.2%          | 31.5%          |
| ROCE (%)                  | 20.2%          | 28.7%          | 29.1%          | 28.6%          | 28.3%          |
| Return On Average Assets  | 20.0%          | 27.1%          | 27.4%          | 27.0%          | 26.8%          |

| <b>Key Drivers</b>                     |                |                |                |                |                |
|--|----------------|----------------|----------------|----------------|----------------|
|  | <b>Mar-20A</b> | <b>Mar-21A</b> | <b>Mar-22F</b> | <b>Mar-23F</b> | <b>Mar-24F</b> |
| Unit sales grth (% , main prod./serv.) | 8.0%           | 15.1%          | 17.2%          | 15.9%          | 15.9%          |

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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|                     |           |           |         |          |                  |
|---------------------|-----------|-----------|---------|----------|------------------|
| <b>Score Range:</b> | 90 - 100  | 80 – 89   | 70 - 79 | Below 70 | No Survey Result |
| <b>Description:</b> | Excellent | Very Good | Good    | N/A      | N/A              |



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**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2020, Anti-Corruption 2020**

**ADVANC** – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Excellent, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Very Good, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Very Good, n/a, **DELTA** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, n/a, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – Excellent, Declared, **JMT** – Very Good, Declared, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – n/a, n/a, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – n/a, n/a, **OR** – n/a, n/a, **ORI** – Excellent, Certified, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RBF** – Good, n/a, **RS** – Excellent, n/a, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – n/a, n/a, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – n/a, n/a, **SHR** – Very Good, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Declared, **SPRC** – Excellent, Certified, **SSP** – Good, Declared, **STEC** – n/a, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, n/a, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, n/a, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2020 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of January 30, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

**Recommendation Framework**
**Stock Ratings**

Definition:

|               |   |
|---------------|---|
| <b>Add</b>    | The stock's total return is expected to exceed 10% over the next 12 months.                     |
| <b>Hold</b>   | The stock's total return is expected to be between 0% and positive 10% over the next 12 months. |
| <b>Reduce</b> | The stock's total return is expected to fall below 0% or more over the next 12 months.          |

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

|                    |  |
|--------------------|--|
| <b>Overweight</b>  | An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.  |
| <b>Neutral</b>     | A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.       |
| <b>Underweight</b> | An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation. |

**Country Ratings**

Definition:

|                    |  |
|--------------------|--|
| <b>Overweight</b>  | An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark. |
| <b>Neutral</b>     | A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.           |
| <b>Underweight</b> | An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark. |