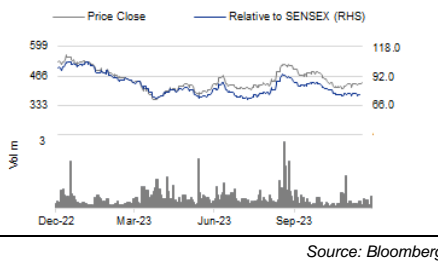


India

REDUCE (no change)

Consensus ratings*:	Buy 4	Hold 1	Sell 1
Current price:	Rs441		
Target price:	Rs364		
Previous target:	Rs374		
Up/downside:	-17.5%		
InCred Research / Consensus:	-28.1%		
Reuters:	JUBLINGR IN		
Bloomberg:	JUBLINGR IN		
Market cap:	US\$842m		
	Rs70,219m		
Average daily turnover:	US\$1.5m		
	Rs127.0m		
Current shares o/s:	159.3m		
Free float:	47.5%		

*Source: Bloomberg



Price performance	1M	3M	12M
Absolute (%)	5.4	(13.5)	(16.4)
Relative (%)	(1.2)	(17.7)	(24.5)

Major shareholders	% held
Promoter & Promoter Group	52.6
DSP Investment Managers Pvt Ltd	2.1
MAV Mgmt Advisors LLP	2.6

Jubilant Ingrevia Ltd

Cyclical recovery is far away – REDUCE

- High channel inventory is a big headwind for the specialty chemicals division & at the same time, Vitamin B4 has not recovered from Avian flu-led slowdown.
- The acetyls business is lagging as demand slowdown is hitting this business severely. FY22 profit for this segment was an anomaly unlikely to be repeated.
- We cut our FY25F and FY26F EPS estimates and maintain REDUCE rating on the stock with a lower target price of Rs364.

Falling demand for Jubilant Ingrevia's products

Jubilant Ingrevia or JIL's chemical product range includes substances like pyridine, beta picoline, 4 dimethyl pyridine, pepperdine, choline chloride, 2 amino pyridine, alkyl pyridines, and pyridine alkyl derivatives. Unfortunately, there is a falling demand for all these products. The global downturn in agrochemicals is likely to result in sub-par sales of pyridine in the Indian market. It's important to emphasize that numerous agrochemical sellers procuring pyridine from JIL are encountering a substantial decline in their top-line. Additionally, the nutrition and health solutions segment is not showing any signs of a recovery. High channel inventory poses a significant challenge for the specialty chemicals division, and Vitamin B4 has not bounced back due to the impact of the Avian flu-induced slowdown. Vitamin B3 and B4 prices are depressed, indicating a slow recovery. Although Vitamin B3 prices rebounded last quarter, other products and the nutrition and health solutions segment are still facing challenges.

Pain in the life sciences division continues

Challenges in the acetyls business will continue in the near- to medium-term. As it's a common commodity, it will eventually recover but this process will take a while and depends on the broader economic conditions. Acetyls are a part of the life sciences segment in earnings reporting and contribute 50% to revenue. In the life sciences division, the main products include acetaldehyde, acetic acid, acetic anhydride, bio acetic acid-food grade, ethyl acetate, formaldehyde, and propionic anhydride. Notably, we don't expect FY22-like spreads for acetic anhydride in the long term, as it's a basic and easily manufactured commodity. The outlook for propionic anhydride is similar. On the other hand, there is optimism about a rebound in acetaldehyde spreads, with signs indicating that they are nearing the bottom.

Multiple headwinds going ahead; retain REDUCE rating on the stock

We revised our EPS estimates for FY24F/25F/26F to Rs13.3/Rs14.6/Rs18.1, respectively. JIL faces several headwinds such as the overall demand for its products falling, product spreads at mean levels, a likely rise in raw material prices, and a risky new product portfolio. We retain our REDUCE rating on JIL with a lower target price of Rs364 (from Rs374 earlier). Please see our old reports: [IN: Jubilant Ingrevia Ltd - Estimating the best-case earnings \(REDUCE - Maintained\)](#) and [IN: Jubilant Ingrevia Ltd - We still don't see EPS bottoming out \(REDUCE - Maintained\)](#).

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Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	49,494	47,727	48,235	52,522	57,306
Operating EBITDA (Rsm)	8,318	5,471	4,846	5,441	6,106
Net Profit (Rsm)	4,768	3,075	2,123	2,319	2,881
Core EPS (Rs)	29.9	19.3	13.3	14.6	18.1
Core EPS Growth	45.9%	(35.5%)	(31.0%)	9.2%	24.3%
FD Core P/E (x)	14.73	22.84	33.08	30.29	24.37
DPS (Rs)	1.0	1.2	1.3	1.3	1.3
Dividend Yield	0.27%	0.33%	0.35%	0.35%	0.35%
EV/EBITDA (x)	8.65	13.39	16.51	15.04	12.77
P/FCFE (x)	0.00	6.32	3.99	5.83	104.67
Net Gearing	7.4%	11.7%	32.6%	33.0%	19.4%
P/BV (x)	2.89	2.63	2.22	1.91	1.66
ROE	21.9%	12.1%	7.3%	6.8%	7.3%
% Change In Core EPS Estimates				(2.65%)	(4.68%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

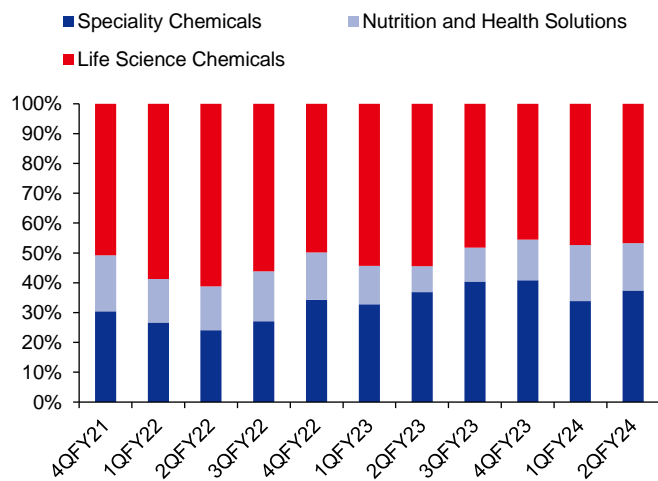
Cyclical recovery is far away - REDUCE

Jubilant Ingrevia or JIL is a typical commodity chemicals maker dependent on 1) vitamin B3 and B4 which are commodity pharmaceutical products, 2) ethyl acetate and esters, 3) pyridines used in agrochemicals and pharmaceuticals, and 4) also present in the agrochemical CDMO business. Global slowdown in agrochemicals will lead to sub-par sales of pyridine in the Indian market. Please note that most agrochemical sellers who purchase pyridine from JIL are facing a severe top-line decline.

Pain in acetyls to continue

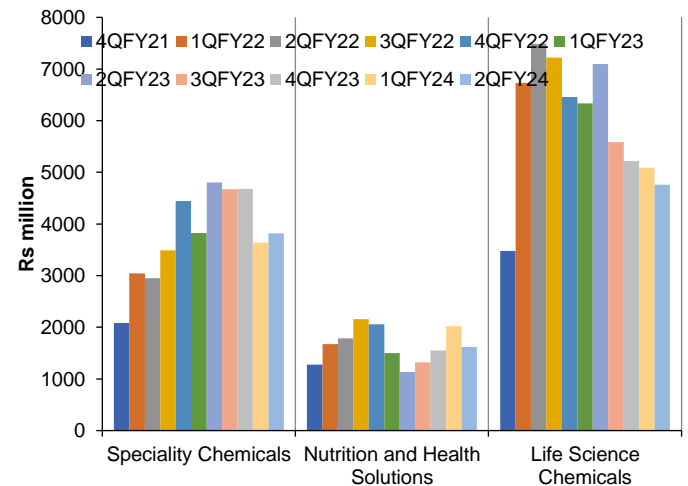
The pain in acetyls will continue in the near- to medium-term. It's a classic commodity and so ultimately it will recover but will take a long time amid macroeconomic headwinds. Acetyls come under the life sciences segment in earnings reporting and have the highest revenue share.

Figure 1: Life sciences division has more than 50% share in revenue



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: A slowdown in this division led to revenue decline and hence, EPS decline

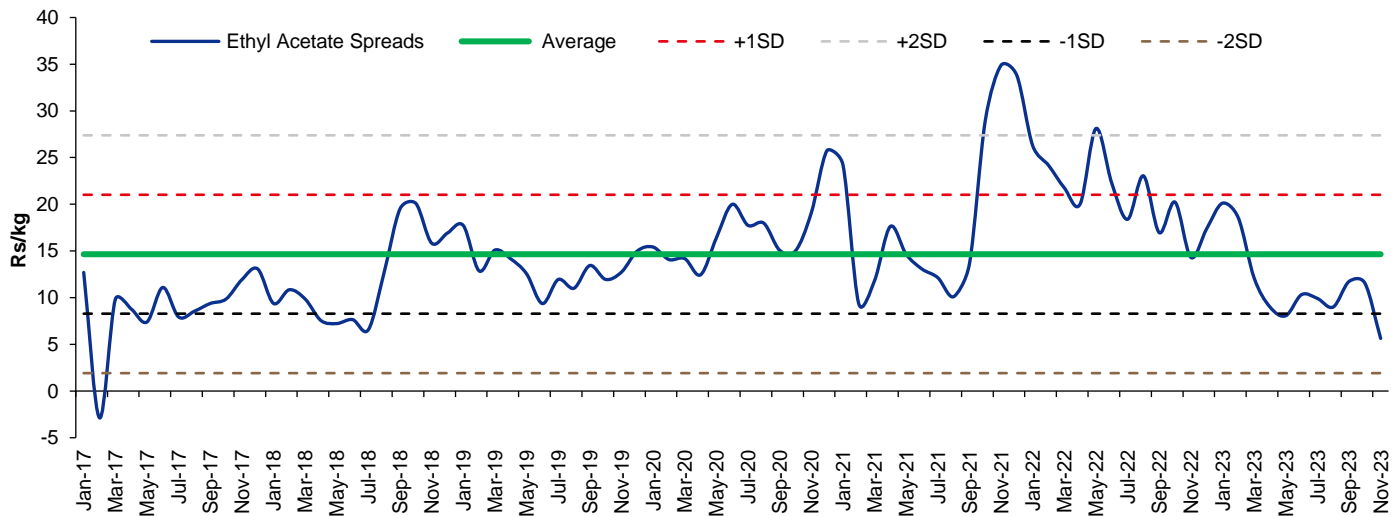


SOURCE: INCRED RESEARCH, COMPANY REPORTS

In the life sciences division, the company's main products are 1) acetaldehyde, 2) acetic acid, 3) acetic anhydride, 4) bio acetic acid-food grade, 5) ethyl acetate, 6) formaldehyde, and 7) propionic anhydride. We will show in this section that in FY22, spreads of everything were at peak levels and since then they have been declining.

Ethyl acetate is still trading at a normal margin and we don't expect the FY22 scenario again ➤

Figure 3: As is evident from the graph below, ethyl acetate is not out of the woods; setting aside the more than +2SD situation, ethyl acetate is making historical average spreads and the same will continue

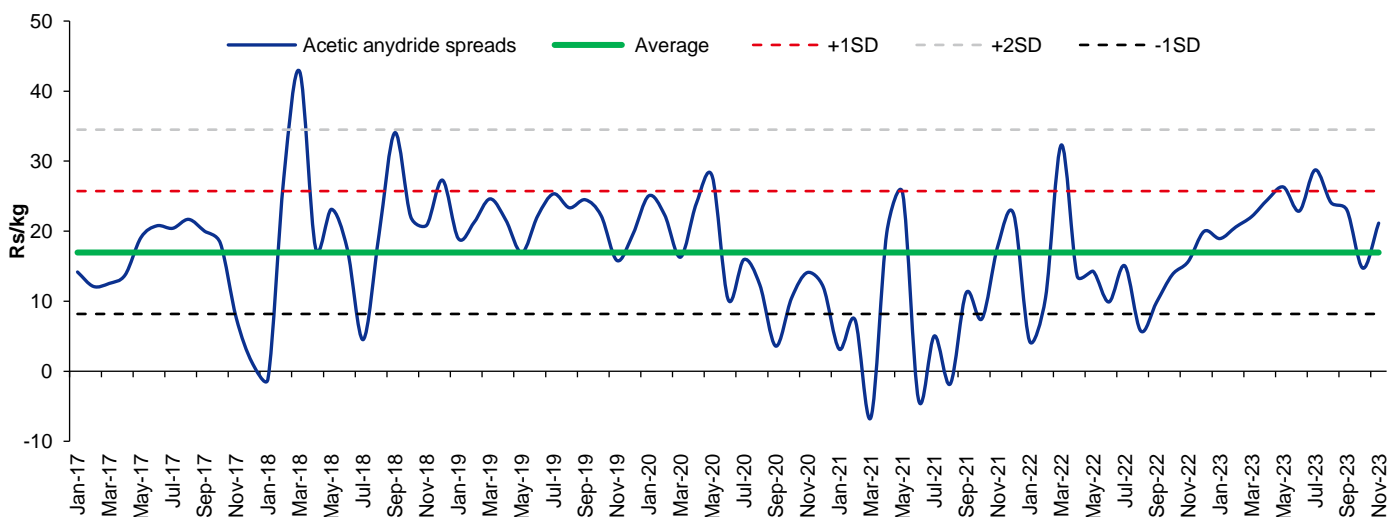


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Acetic anhydride is one of the most basic and easy-to-manufacture commodity, but we don't expect any dramatic recovery ➤

Acetic anhydride is simpler than making steel. While steel requires tremendous capital investments, acetic anhydride capacity comes at a fraction of that cost. Extrapolating the supply chain crisis spreads over the long term was a mistake and market rarely commits the same mistake in the same stock. A +2SD profitability level will get the price in perpetuity for any other commodity stock next time, but not in acetic anhydride for sure.

Figure 4: Acetic anhydride spreads have reverted to their long-term mean, and we don't expect any recovery in the same



SOURCE: COMPANY REPORTS, INCRED RESEARCH

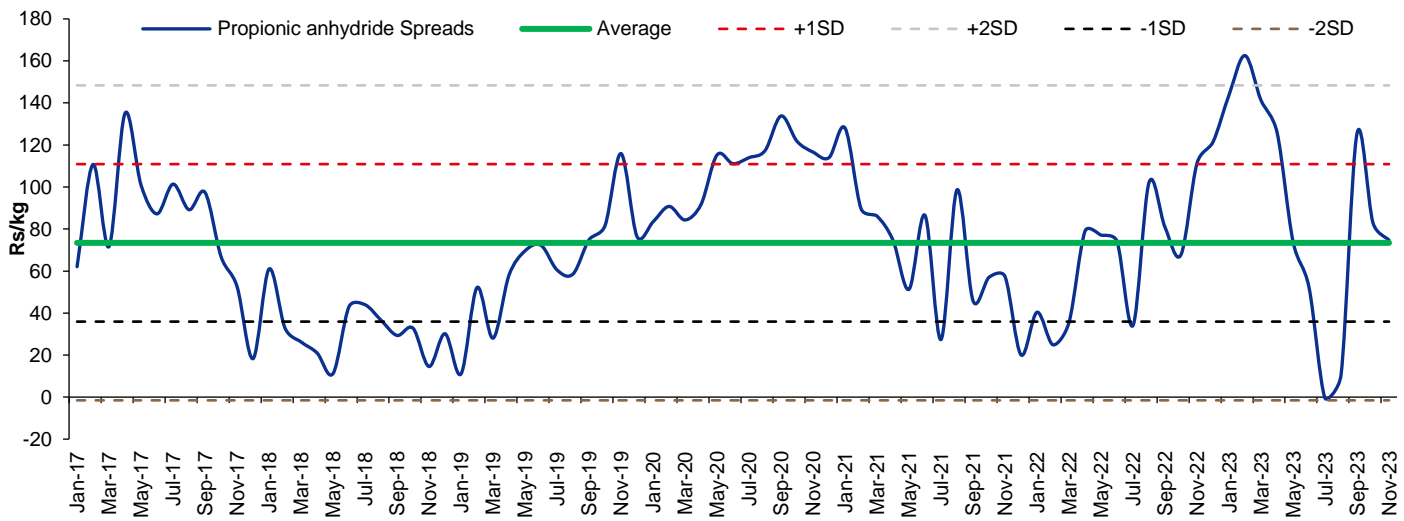
Propionic anhydride is no different than acetic anhydride ➤

The conversion of propionic acid to propionic anhydride involves a reaction with acetic anhydride. The reaction is as follows: Propionic acid (CH₃CH₂COOH) + acetic anhydride (CH₃CO)₂O → propionic anhydride (CH₃CH₂C(O)O(CO)CH₃) + acetic acid (CH₃COOH).

This reaction occurs in the presence of a catalyst such as sulfuric acid (H₂SO₄) or a Lewis acid like phosphorus pentoxide (P₂O₅). The acid catalyst facilitates the

reaction by promoting the elimination of water from the carboxylic acids, leading to the formation of the anhydride.

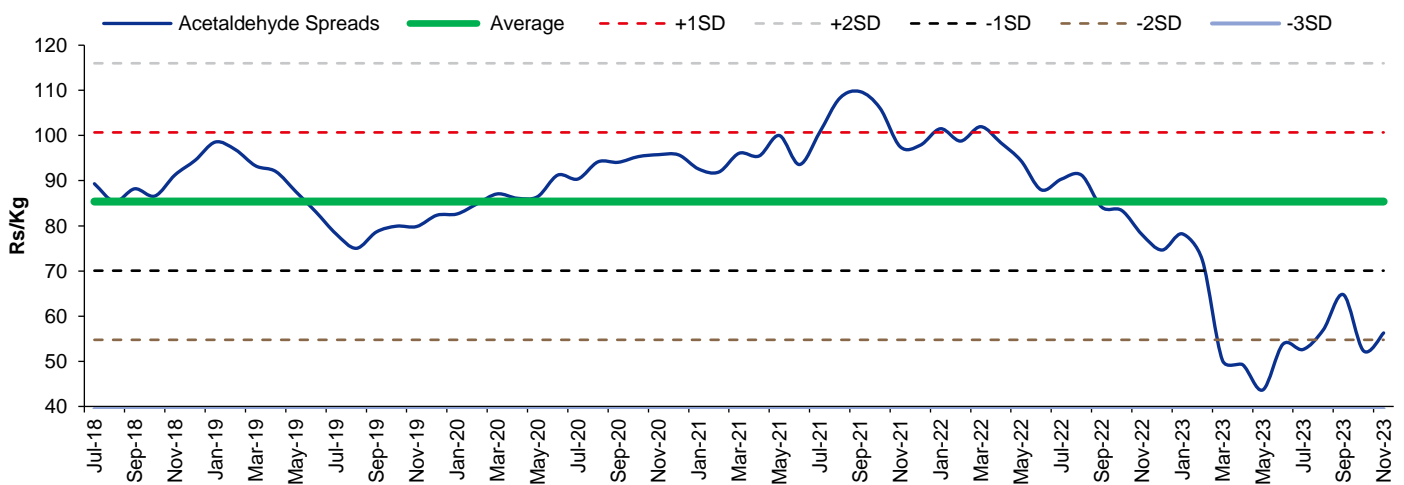
Figure 5: Propionic anhydride spreads are also near their long-term mean; normally, equity valuation should be done at this level only



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Acetaldehyde spreads may bounce back as they appear to be near their bottom

Figure 6: Acetaldehyde spreads are at a neat -2SD; normally, commodities bounce back from this level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

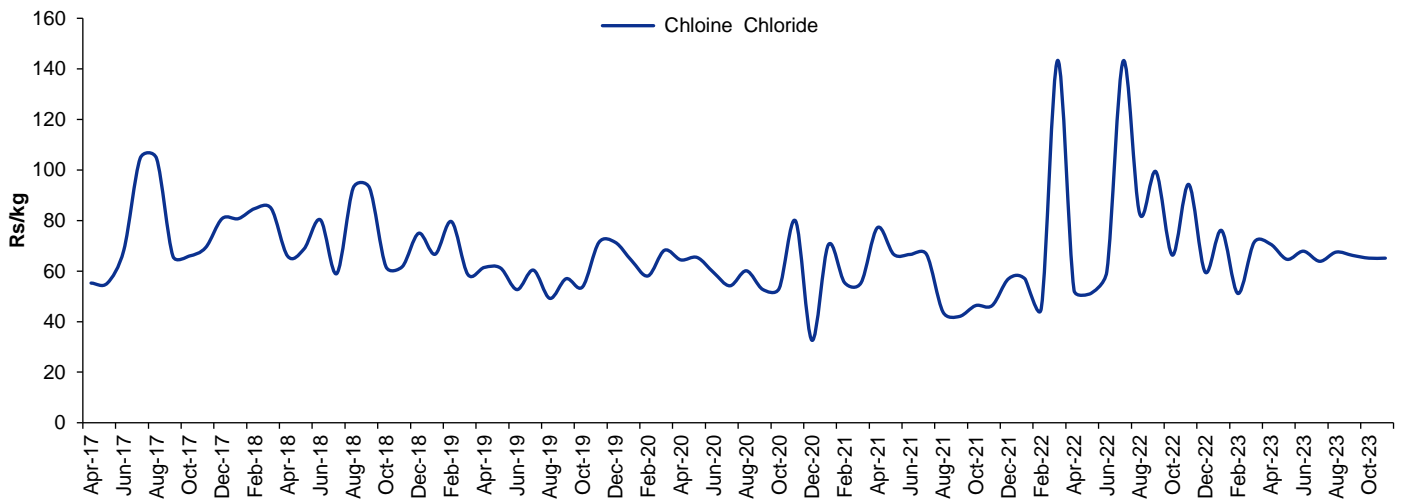
Nutrition and health solutions segment doesn't seem to be recovering

Vitamin B3 and B4 spreads have not recovered after the bird flu pandemic.

Vitamin B4 spreads did not recover even after the bird flu pandemic ended

Please see the World Health Organization or WHO article which explains the outbreak of avian flu that led to the decline in vitamin B4 sales (<https://www.who.int/news/item/12-07-2023-ongoing-avian-influenza-outbreaks-in-animals-pose-risk-to-humans>).

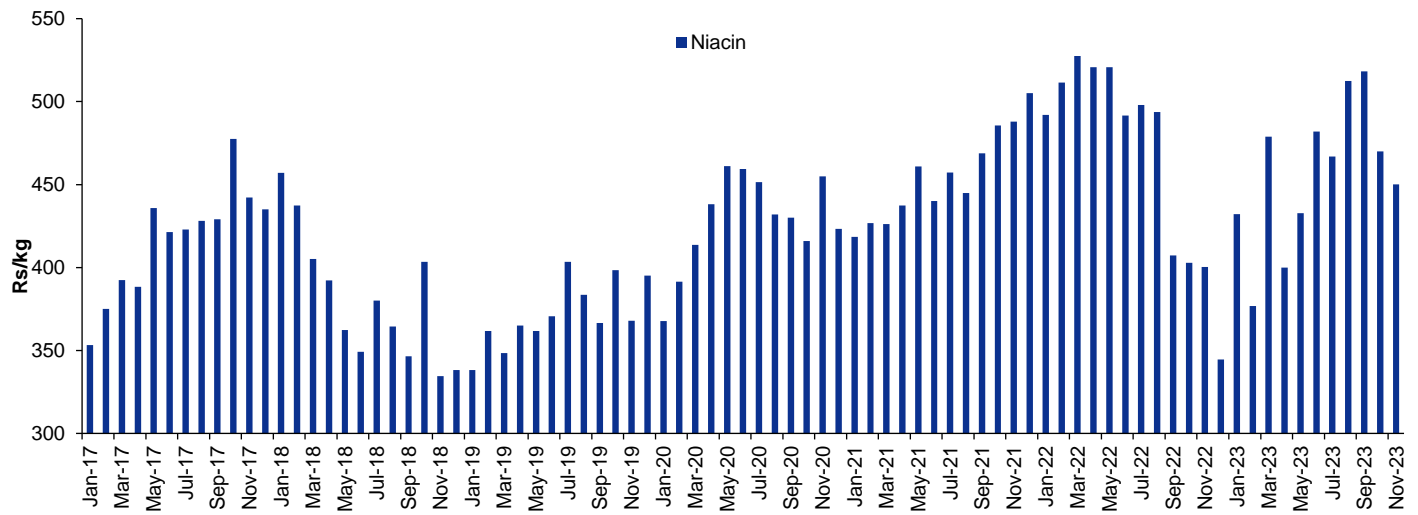
Figure 7: Vitamin B4 or choline chloride prices are depressed, and they may not recover in a hurry



SOURCE: INCRED RESEARCH, COMPANY REPORTS

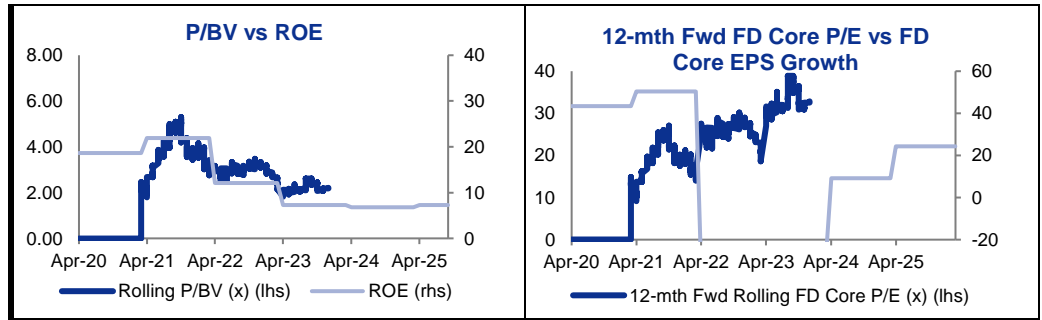
Vitamin B3 prices recovered during last quarter ➤

Figure 8: Niacin or vitamin B3 prices recovered during last quarter



SOURCE: COMPANY REPORTS, INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	49,494	47,727	48,235	52,522	57,306
Gross Profit	21,552	21,911	22,526	24,445	26,523
Operating EBITDA	8,318	5,471	4,846	5,441	6,106
Depreciation And Amortisation	(1,234)	(1,222)	(1,800)	(1,800)	(1,800)
Operating EBIT	7,084	4,250	3,046	3,641	4,306
Financial Income/(Expense)	(309)	(216)	(541)	(875)	(788)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	315	334	334	334	334
Profit Before Tax (pre-EI)	7,090	4,367	2,838	3,100	3,852
Exceptional Items					
Pre-tax Profit	7,090	4,367	2,838	3,100	3,852
Taxation	(2,322)	(1,292)	(715)	(781)	(971)
Exceptional Income - post-tax					
Profit After Tax	4,768	3,075	2,123	2,319	2,881
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,768	3,075	2,123	2,319	2,881
Recurring Net Profit	4,768	3,075	2,123	2,319	2,881
Fully Diluted Recurring Net Profit	4,768	3,075	2,123	2,319	2,881

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	8,318	5,471	4,846	5,441	6,106
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,012)	(452)	(2,379)	(939)	(1,049)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	200	58			
Other Operating Cashflow	612	537	875	1,209	1,121
Net Interest (Paid)/Received	(309)	(216)	(541)	(875)	(788)
Tax Paid	(1,281)	(774)	(715)	(781)	(971)
Cashflow From Operations	4,527	4,625	2,086	4,054	4,420
Capex	2,302	4,814	8,000	6,000	751
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	2,302	4,814	8,000	6,000	751
Debt Raised/(repaid)		1,677	7,533	2,000	(4,500)
Proceeds From Issue Of Shares	(183)				
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing		1,677	7,533	2,000	(4,500)
Total Cash Generated		11,115	17,618	12,054	671
Free Cashflow To Equity		11,115	17,618	12,054	671
Free Cashflow To Firm	7,138	9,654	10,627	10,929	5,958

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	485	846	1,198	1,377	759
Total Debtors	5,809	5,109	6,571	7,158	7,813
Inventories	9,112	10,351	11,827	12,884	14,064
Total Other Current Assets	2,240	1,874	1,874	1,874	1,874
Total Current Assets	17,646	18,180	21,469	23,292	24,510
Fixed Assets	19,288	23,269	31,269	37,269	38,020
Total Investments	62	82	502	502	502
Intangible Assets	437	442	442	442	442
Total Other Non-Current Assets	539	615	345	345	345
Total Non-current Assets	20,326	24,409	32,559	38,559	39,309
Short-term Debt	1,291	2,467			
Current Portion of Long-Term Debt					
Total Creditors	7,978	8,011	7,885	8,589	9,376
Other Current Liabilities	1,259	1,317	2,003	2,003	2,003
Total Current Liabilities	10,528	11,796	9,887	10,592	11,378
Total Long-term Debt	997	1,500	11,500	13,500	9,000
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	67	70	81	81	81
Total Non-current Liabilities	1,064	1,570	11,581	13,581	9,081
Total Provisions	2,049	2,561	973	973	973
Total Liabilities	13,640	15,927	22,441	25,146	21,433
Shareholders Equity	24,331	26,663	31,586	36,705	42,387
Minority Interests					
Total Equity	24,331	26,663	31,586	36,705	42,387

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	41.7%	(3.6%)	1.1%	8.9%	9.1%
Operating EBITDA Growth	35.7%	(34.2%)	(11.4%)	12.3%	12.2%
Operating EBITDA Margin	16.8%	11.5%	10.0%	10.4%	10.7%
Net Cash Per Share (Rs)	(11.31)	(19.59)	(64.67)	(76.10)	(51.73)
BVPS (Rs)	152.74	167.37	198.28	230.42	266.08
Gross Interest Cover	22.90	19.69	5.63	4.16	5.47
Effective Tax Rate	32.8%	29.6%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	4.0%	7.5%	11.7%	10.7%	8.6%
Accounts Receivables Days	38.79	41.75	44.19	47.70	47.68
Inventory Days	99.30	137.59	157.44	160.62	159.76
Accounts Payables Days	97.44	113.03	112.84	107.08	106.51
ROIC (%)	20.6%	10.6%	7.0%	6.4%	6.5%
ROCE (%)	27.2%	14.0%	8.0%	7.8%	8.4%
Return On Average Assets	13.9%	8.0%	5.2%	5.1%	5.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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