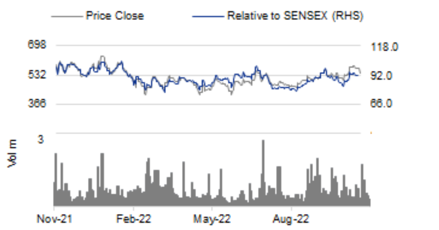
India

REDUCE *(no change)*

Consensus ratings*:	Buy 6	Hold 0	Sell 0

Current price:	Rs544
Target price:	Rs495
Previous target:	Rs495
Up/downside:	-9.0%
InCred Research / Consensus:	-43.5%
Reuters:	
Bloomberg:	JUBLINGR IN
Market cap:	US$1,192m
	Rs86,585m
Average daily turnover:	US$4.5m
	Rs328.0m
Current shares o/s:	159.3m
Free float:	49.3%

**Source: Bloomberg*



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.7	11.9	(8.3)
Relative (%)	1.5	7.6	(12.3)

Major shareholders	% held
Promoter & Promoter Group	50.7
East Bridge Capital Master Fund Ltd	4.6
Government Pension Fund Global	2.6

Jubilant Ingrevia Ltd

Estimating the best-case earnings

- We have analysed the impact of the ongoing and upcoming expansion projects of JIL. As per our estimate, maximum EPS accounting for all these expansion projects will be Rs63 (in FY28F or FY29F, we can't pinpoint the exact year).
- Our best-case earnings mean that API business will be up and running, and JIL will garner a 11% market share globally in select agrochemicals as against its minimal market share currently.
- We retain REDUCE rating on the stock with a target price of Rs495.

Bluest of blue sky EPS at end of capex (FY28F or FY29F) to be Rs63

After encountering investors' disbelief on our REDUCE rating on Jubilant Ingrevia or JIL, we felt it's best to analyse the expansion projects thread bare. The source of our analysis is the environmental clearance document filed by JIL (please click the link of the document here). Our analysis assumes: 1) 100% capacity utilization in ethyl acetate, acetic anhydride, acetaldehyde, vitamin B3, and vitamin B4. 2) 100% capacity utilization of all agrochemical CDMO opportunities for which JIL is building plants (the company has put out a list of 40 agrochemicals in the EC document). This means that in these 40 chemicals, JIL will have a 11% market share globally. 3) We bake in average gross profit in ethyl acetate (Rs 10/kg against Rs3/kg currently), acetic anhydride (Rs30/kg) and acetaldehyde (Rs50/kg), and vitamin B3 (Rs300/kg). 4) While we were not able to estimate gross spreads of each active pharmaceutical ingredient or API, we have accounted for it by assuming Rs100bn gross profit for all other businesses apart from ethyl acetate, acetic anhydride, acetaldehyde, vitamin B3, vitamin B4, and CDMO opportunities. 5) Power and fuel cost inflation is here to stay and hence, we believe that energy-intensive chemicals will continue to face a double whammy of slowing demand and rising cost.

The path to Rs63 EPS (best-case) is full of volatility; retain REDUCE

We don't know what P/E will be assigned to JIL at the end of its capex program and we don't know the year in which it will attain 100% capacity utilization. However, to build the bet-case, let's assume that market assigns a 20x P/E and JIL attains 100% capacity utilization in FY29F, then the fair value of the stock in FY29F would be ~Rs1,200. We discount it back at a 14% CoE to arrive at the fair value of Rs546 (our target price is Rs 495). Hence, probably the market has already priced in the best of earnings estimates. We can go wrong if there is a huge bull market globally in agrochemicals, commodity chemicals, and APIs. To make money from here on, all the three must happen simultaneously which can happen, but has a very small probability. The risk-reward ratio is unfavourable. Reiterate REDUCE rating on the stock. Upside risk: Fast product execution, favourable macroeconomic environment and a fall in energy prices will be positive for the company.

Analyst(s)

Satish KUMAR
T (91) 22 4161 1562
E satish.kumar@incredcapital.com

Shaily RUPARELIA
T (91) 22 4161 1556
E shaily.ruparelia@incredcapital.com

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	34,920	49,494	54,789	60,030	65,793
Operating EBITDA (Rsm)	6,130	8,318	6,683	7,122	7,214
Net Profit (Rsm)	3,170	4,768	3,667	3,944	4,013
Core EPS (Rs)	20.5	29.9	23.0	24.8	25.2
Core EPS Growth	46.6%	45.9%	(23.1%)	7.5%	1.7%
FD Core P/E (x)	27.32	18.16	23.61	21.96	21.58
DPS (Rs)	0.3	1.0	1.2	1.3	1.3
Dividend Yield	0.08%	0.22%	0.26%	0.29%	0.29%
EV/EBITDA (x)	14.60	10.62	13.84	12.88	12.90
P/FCFE (x)	(72.87)	0.00	32.84	(338.10)	(287.10)
Net Gearing	17.6%	7.4%	22.6%	15.7%	16.6%
P/BV (x)	4.50	3.56	3.05	2.39	2.06
ROE	18.5%	21.9%	13.9%	12.2%	10.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Estimating the best-case earnings

After encountering investors' disbelief on our REDUCE rating on JIL, we believe it's best to analyse the expansion project thread bare on which investors have such high hopes. The source of our analysis is the usual environmental clearance or EC document filed by JIL (please click the link for the document here (http://environmentclearance.nic.in/auth/FORM_A_PDF.aspx?cat_id=IA/GJ/NCP/210322/2021&pid=New).

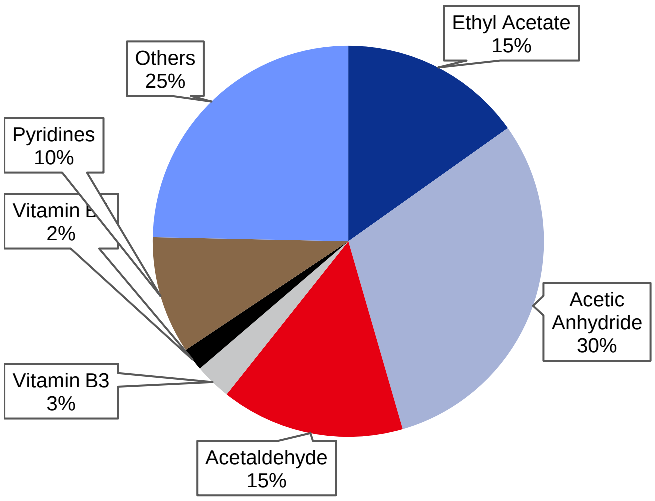
Most of the company's products are commodity in nature

Contrary to the popular perception on street, most of the company's products are commodity in nature. Also, please note that unlike the popular notion, creating gross block doesn't guarantee revenue and profits. More so, when one is making API or agrochemicals, it will be dangerous to assume that incurring capex will guarantee revenue.

JIL is primarily a manufacturer of ethyl acetate, acetic anhydride, and acetaldehdye ➤

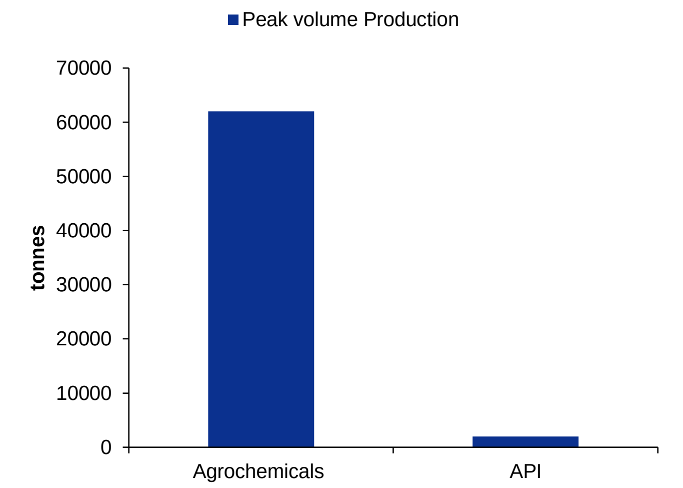
Post expansion, the capacity mix of JIL will be 75% pure commodities and the rest will be semi-commodities.

Figure 1: Almost 75% of product volume is commodity in nature



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: APIs and agrochemicals at peak capacity will be at 2,000t and ~62,000t, respectively



SOURCE: INCRED RESEARCH, COMPANY REPORTS

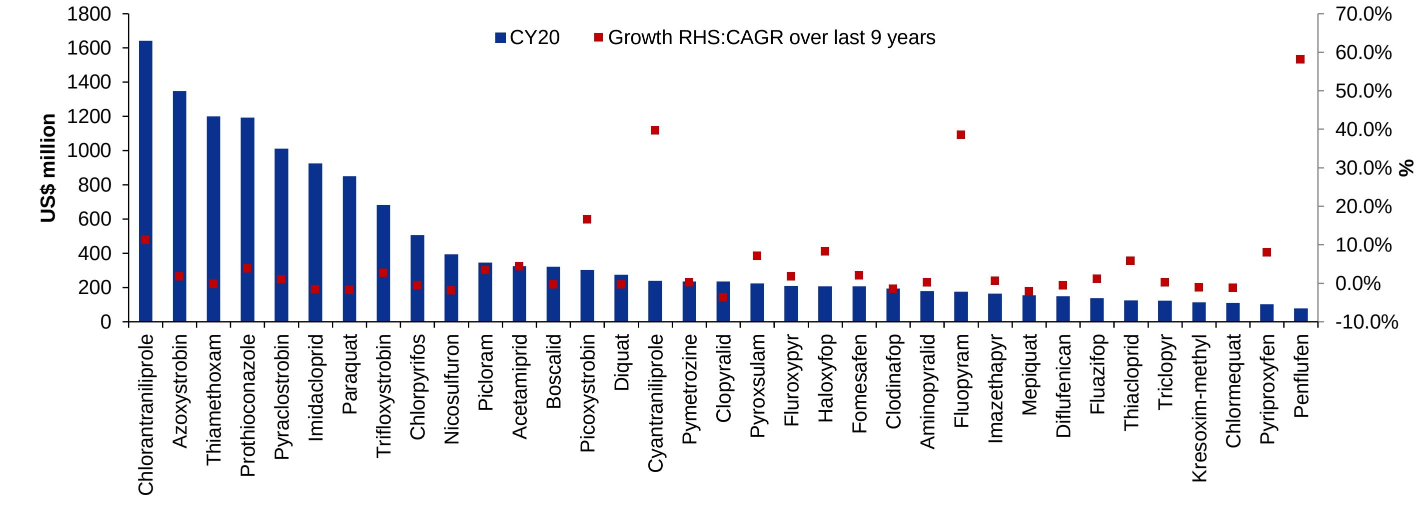
JIL's agrochemicals venture doesn't look exciting as it's not into growth chemicals ➤

Most of the products that JIL plans to manufacture as a part of agrochemicals CDMO business are either stagnant or showing a declining sales trend over the past nine years. While on the one hand this makes them ideal for being outsourced as it's a win-win scenario for the original manufacturer, but on the other hand the company, which is doing manufacturing outsourcing, faces twin risks:

- Inventory risk if the demand in a particular season collapses.
- Long-term demand decline risk is always there.

While there is always a take-or-pay contract, Indian companies never enforce this liquidated damage clause as it will destroy client relationship.

Figure 3: Most products which JIL is planning to make, as a part of agrochemicals CDMO, have shown either stagnant or falling sales



SOURCE: COMPANY REPORTS, INCRED RESEARCH

What can be the maximum gross profit for all CDMO chemicals? It's Rs25bn

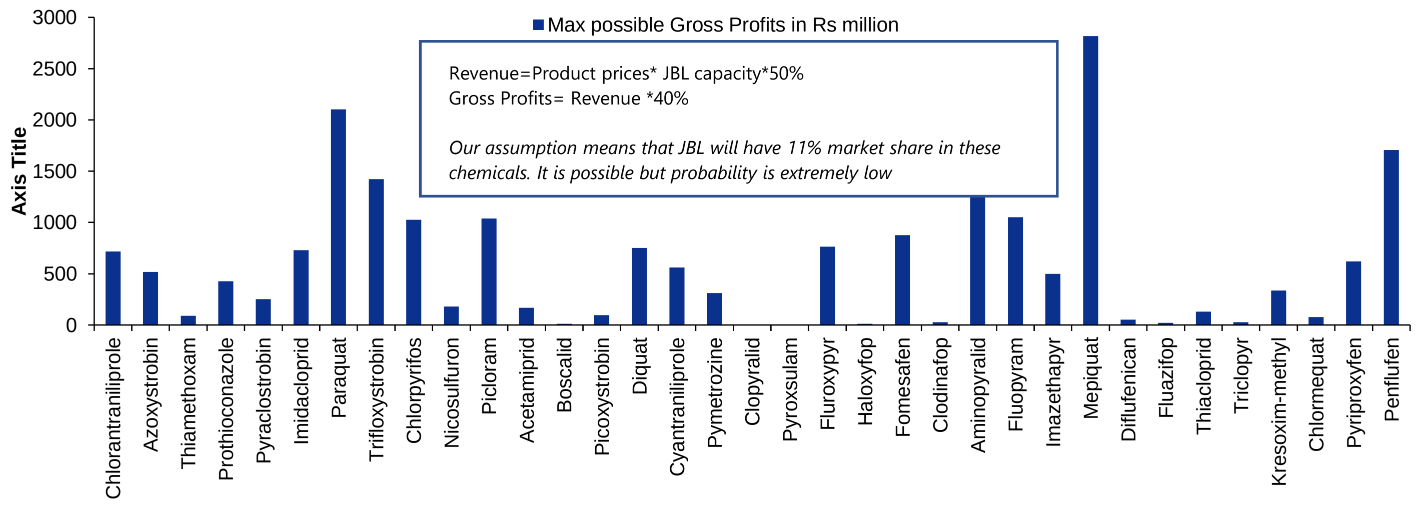
As of now, JIL has not given full details of its CDMO pipeline but from the EC document we can ascertain that it is planning ~40 molecules. However, please note that:

1. Even the company doesn't know how many of them will translate into actual orders.
2. Also, it doesn't know whether there will be sales ramp-up for each of those molecules.

However, to analyse the maximum gross profit potential, we have made the following assumptions:

1. JIL will get orders for all these chemicals.
2. Capacity utilization of all these chemicals will hit 100% at the same time.
3. Realization of products will remain the same in Rs/kg terms, like in FY23F.
4. Gross margin of JIL will be around 40%.
5. We assume that in outsourcing the company's gross margin is 60% (global average as of now, and hence, revenue potential for a CDMO company like JIL is revenue = product prices* JBL capacity*50%.
6. Our assumptions mean that JIL will garner ~11% global market share in select chemicals (as of now, its miniscule).

Figure 4: Maximum possible sales assuming 100% capacity utilization and 40% gross profit at current prices of agrochemicals



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Can there be a respite from high power and fuel cost in India? Chances are extremely remote for the next two-to-three years ➤

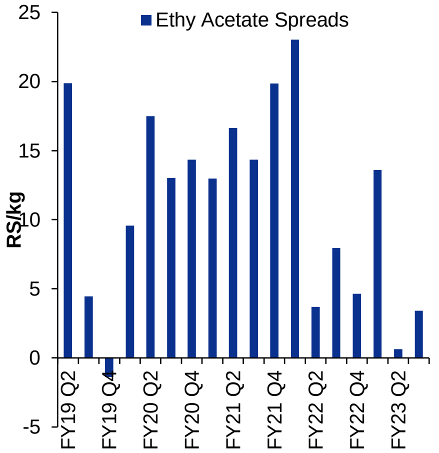
JBL faced high power and fuel cost during last quarter, and it expects this cost to recede in the coming months. However, we tend to disagree with the same. India's coal imports are unlikely to come down and we had indicated this in our report (IN: Coal India - E-auction benefits likely to accrue again (ADD - Upgrade)) FSA coal will increasingly get diverted to power companies and e-auctions will remain elevated.

Almost all commodity products of JIL are highly energy-intensive and therefore, cost of production is unlikely to come down in the medium- to long-term ➤

1. Ethyl acetate needs heating of ethanol and acetic acid to make the salt (ethyl acetate). On a normal basis, the cost of heating works out to Rs6-7/ kg of ethyl acetate.
2. Acetaldehyde manufacture requires partial oxidation of ethanol at ~650ºC. The cost of heating ethanol to 650ºC works out to Rs7-7.5/kg.
3. For making acetic anhydride, dehydration of acetic acid is needed at an extremely high temperature of ~800º C. The approximate cost of the same can be around Rs10/kg.

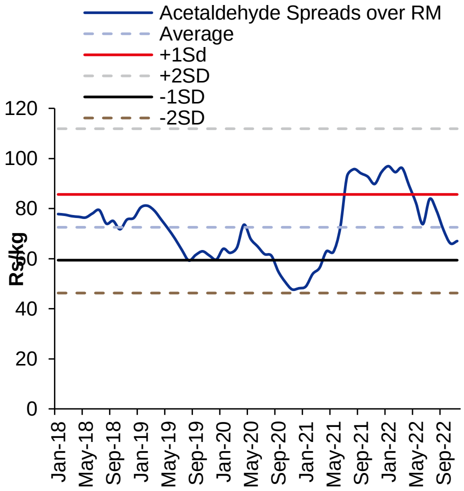
   Hence, commodity business of JIL will face twin pressure of falling gross spreads and rising power and fuel cost.

Figure 5: Ethyl acetate spreads are falling in a usual pattern apart from exhaustion in supply chain filling



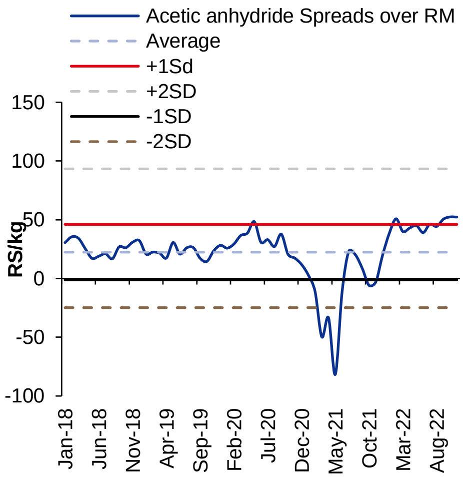
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Similarly, acetaldehyde spreads are falling



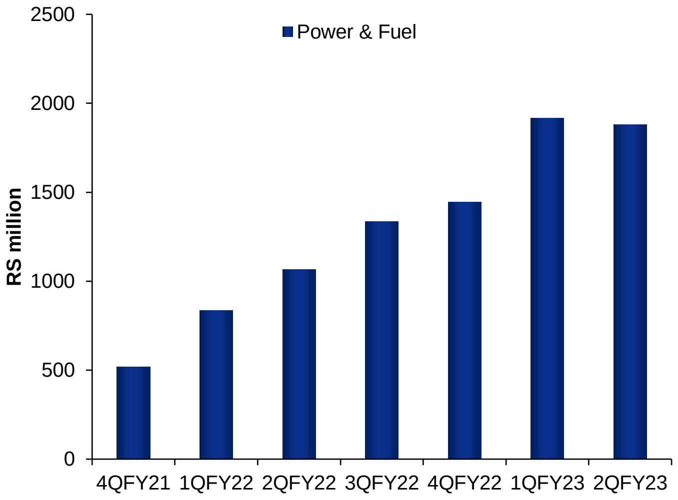
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Acetic anhydride spreads are yet to price in the collapse in acetic acid, but it will happen soon



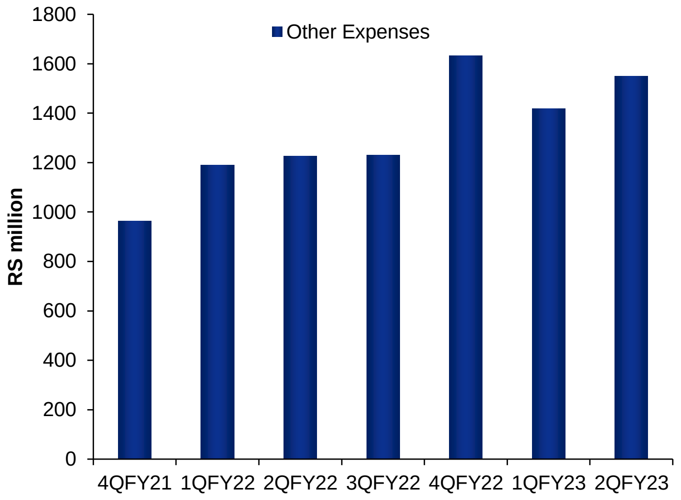
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Power and fuel cost is up and is likely to rise further in the coming quarters



SOURCE: INCRED RESEARCH, COMPANY REPORTS

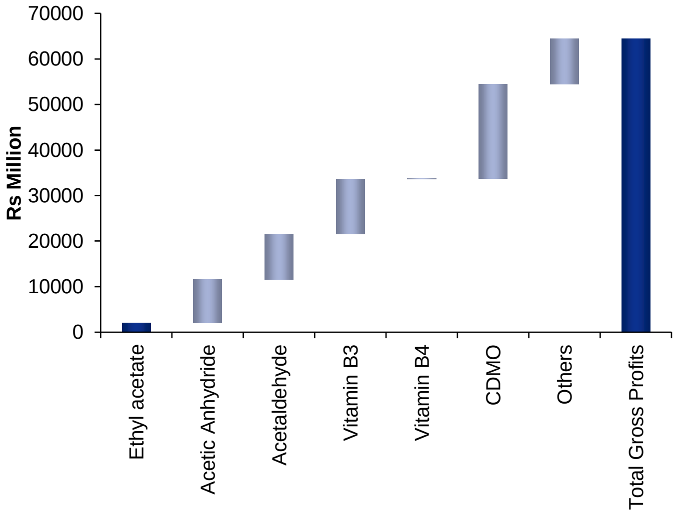
Figure 9: Rising freight cost and general inflationary pressure will lift other expenses as well



SOURCE: INCRED RESEARCH, COMPANY REPORTS

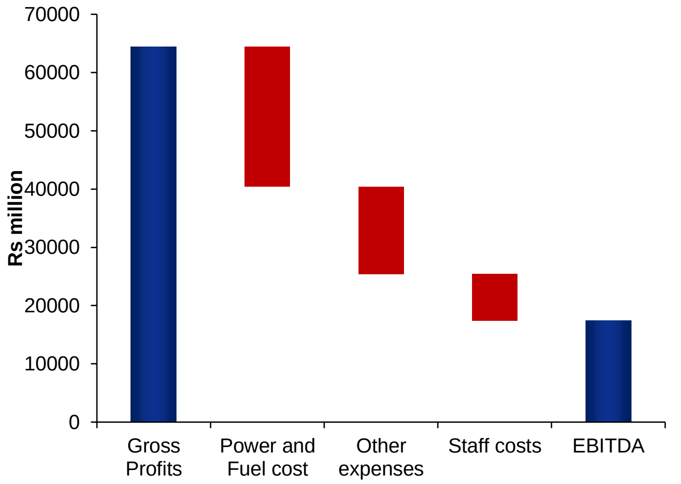
So what can be the maxium EBITDA for JBL? ~Rs20bn in FY27F, FY28F or FY29F?

Figure 10: Maximum gross profit of JIL can be Rs68bn in FY27F, FY28F or FY29F (we don't know exactly)



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 11: Maximum EBITDA for the company can be Rs17.5bn (again, we don't know whether in FY27F, FY28F or FY29F)



SOURCE: COMPANY REPORTS, INCRED RESEARCH

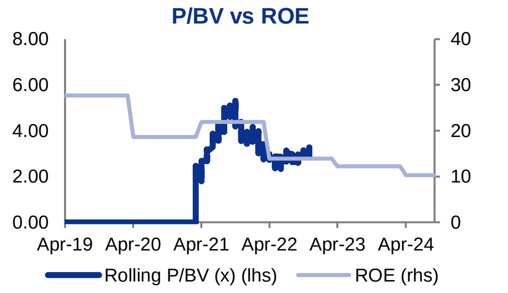
Assuming a nominal debt of Rs6bn but higher depreciation and a 25% tax, we estimate the maximum possible FY28F or FY29F EPS will be Rs63

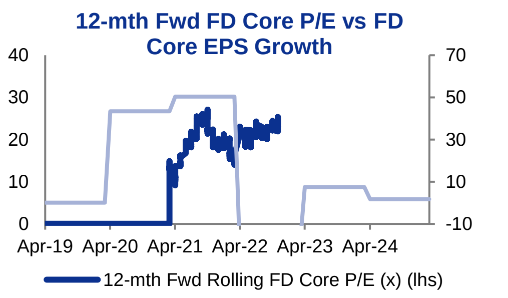
1. Gross block of JIL will be ~Rs50bn and hence, depreciation is likely to be ~Rs3bn.
2. Interest expenses (including short-term working capital loans) will be ~ Rs1 bn.
3. Tax rate will be 25%.

This gives us FY28F or FY29F EPS of Rs63.

InCred Equities

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	**34,920**	**49,494**	**54,789**	**60,030**	**65,793**
Gross Profit	**16,560**	**21,552**	**20,824**	**22,324**	**23,545**
Operating EBITDA	**6,130**	**8,318**	**6,683**	**7,122**	**7,214**
Depreciation And Amortisation	(1,250)	(1,234)	(1,600)	(1,800)	(1,800)
Operating EBIT	**4,880**	**7,084**	**5,083**	**5,322**	**5,414**
Financial Income/(Expense)	(710)	(309)	(400)	(300)	(300)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	150	315	220	250	250
Profit Before Tax (pre-EI)	**4,320**	**7,090**	**4,903**	**5,272**	**5,364**
Exceptional Items	(130)				
Pre-tax Profit	**4,190**	**7,090**	**4,903**	**5,272**	**5,364**
Taxation	(1,020)	(2,322)	(1,236)	(1,329)	(1,352)
Exceptional Income - post-tax					
Profit After Tax	**3,170**	**4,768**	**3,667**	**3,944**	**4,013**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**3,170**	**4,768**	**3,667**	**3,944**	**4,013**
Recurring Net Profit	3,268	4,768	3,667	3,944	4,013
Fully Diluted Recurring Net Profit	**3,268**	**4,768**	**3,667**	**3,944**	**4,013**

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	6,130	8,318	6,683	7,122	7,214
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,797)	(3,012)	(4,292)	(1,149)	(1,263)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense		188			
Other Operating Cashflow	730	624	220	250	250
Net Interest (Paid)/Received	(710)	(309)	(400)	(300)	(300)
Tax Paid	(1,020)	(1,281)	(1,236)	(1,329)	(1,352)
Cashflow From Operations	**1,333**	**4,527**	**975**	**4,595**	**4,549**
Capex	(251)	2,302	(3,051)	(5,851)	(5,851)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	**(251)**	**2,302**	**(3,051)**	**(5,851)**	**(5,851)**
Debt Raised/(repaid)	(2,271)		4,713	1,000	1,000
Proceeds From Issue Of Shares		(183)			
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	**(2,271)**		**4,713**	**1,000**	**1,000**
Total Cash Generated	(1,188)		2,637	(256)	(302)
Free Cashflow To Equity	**(1,188)**		**2,637**	**(256)**	**(302)**
Free Cashflow To Firm	**1,793**	**7,138**	**(1,676)**	**(956)**	**(1,002)**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	1,166	485	588	2,331	2,030
Total Debtors	4,710	5,809	7,468	8,186	8,976
Inventories	6,091	9,112	13,443	14,735	16,156
Total Other Current Assets	2,269	2,240	2,269	2,269	2,269
Total Current Assets	**14,236**	**17,646**	**23,768**	**27,521**	**29,431**
Fixed Assets	18,210	19,288	22,339	28,190	34,041
Total Investments	502	62	502	502	502
Intangible Assets	492	437	494	495	495
Total Other Non-Current Assets	345	539	345	345	345
Total Non-current Assets	**19,549**	**20,326**	**23,680**	**29,532**	**35,383**
Short-term Debt		1,291			
Current Portion of Long-Term Debt					
Total Creditors	6,941	7,978	8,962	9,824	10,771
Other Current Liabilities	2,003	1,259	2,003	2,003	2,003
Total Current Liabilities	**8,943**	**10,528**	**10,965**	**11,826**	**12,774**
Total Long-term Debt	4,558	997	7,000	8,000	9,000
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	81	67	81	81	81
Total Non-current Liabilities	**4,639**	**1,064**	**7,081**	**8,081**	**9,081**
Total Provisions	973	2,049	973	973	973
Total Liabilities	**14,556**	**13,640**	**19,019**	**20,880**	**22,828**
Shareholders Equity	19,229	24,331	28,430	36,174	41,987
Minority Interests					
Total Equity	**19,229**	**24,331**	**28,430**	**36,174**	**41,987**

Key Ratios

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	9.8%	41.7%	10.7%	9.6%	9.6%
Operating EBITDA Growth	53.3%	35.7%	(19.7%)	6.6%	1.3%
Operating EBITDA Margin	17.6%	16.8%	12.2%	11.9%	11.0%
Net Cash Per Share (Rs)	(21.30)	(11.31)	(40.25)	(35.59)	(43.75)
BVPS (Rs)	120.71	152.74	178.47	227.08	263.57
Gross Interest Cover	6.87	22.90	12.71	17.74	18.05
Effective Tax Rate	24.3%	32.8%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	2.0%	4.0%	6.3%	6.3%	6.2%
Accounts Receivables Days	44.81	38.79	44.23	47.59	47.60
Inventory Days	103.22	99.30	121.19	136.38	133.44
Accounts Payables Days	137.27	97.44	91.02	90.92	88.96
ROIC (%)	17.9%	20.6%	13.5%	11.2%	9.6%
ROCE (%)	21.5%	27.2%	16.0%	13.3%	11.3%
Return On Average Assets	11.8%	13.9%	9.3%	8.0%	7.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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