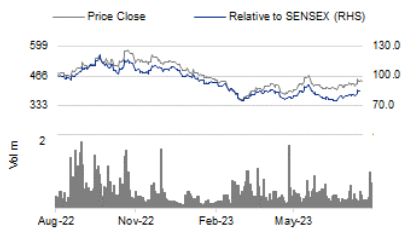


India

REDUCE (no change)

Consensus ratings*:	Buy 6	Hold 0	Sell 1
Current price:	Rs442		
Target price:	Rs374		
Previous target:	Rs495		
Up/downside:	-15.4%		
InCred Research / Consensus:	-45.6%		
Reuters:	JUBLINGR IN		
Bloomberg:	JUBLINGR IN		
Market cap:	US\$849m		
	Rs70,434m		
Average daily turnover:	US\$2.1m		
	Rs171.6m		
Current shares o/s:	159.3m		
Free float:	47.5%		
*Source: Bloomberg			



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.6	13.3	(7.1)
Relative (%)	11.0	7.7	(15.9)

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

Analyst(s)



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Jubilant Ingrevia Ltd

We still don't see EPS bottoming out

- Weakness in global agrochemical demand is hurting pyridine sales for JIL. Pyridine constitutes a significant component of the company's product basket.
- Prices of raw materials like acetic acid, methanol and ethanol are likely to rise in the coming months as crude oil prices become firm.
- Product spreads will decline while higher leverage will hit the bottom line. We expect FY24F EPS to decline by 31% YoY. Retain our REDUCE rating.

Declining demand for JIL's products

Jubilant Ingrevia or JIL's product portfolio includes key chemicals such as pyridine, beta picoline, 4 dimethyl pyridine, pepperdine, choline chloride, 2 amino pyridine, acetic anhydride, alkyl pyridines, and pyridine alkyl derivatives. However, the demand for all these products is witnessing a decline. Given the inherent nature of JIL's products, the export volume can serve as a proxy for the overall demand scenario. Hence the downward trajectory in export volume raises concerns about the broader demand landscape. While acetic anhydride, a pivotal product in the company's expansion efforts, is performing well currently, there is a possibility of its spreads collapsing once acetic acid makes a recovery.

Raw material inflation weighs on profitability

JIL's operations are closely tied to three major raw materials - acetic acid, ethanol, and methanol. Acetic acid prices have been stabilizing, methanol prices have started witnessing an upward trajectory, and ethanol prices are also on the rise. Additionally, the surge in crude oil prices is likely to trigger a rise in the prices of methanol. Currently, the chemical sector is grappling with demand challenges, and the potential for raw material inflation looms in the coming quarters. Please see our earlier note: ([IN: Chemicals - Overall - Demand declines, RM pressure will follow](#)).

JIL is building a risky agrochemical portfolio

The major products in JIL's agrochemicals business display either stagnant or declining sales trend over the past nine years. While this positioning enhances their suitability for outsourcing, benefiting both the original manufacturer and the outsourcing entity, it also introduces risks. It poses risks such as inventory challenges due to sudden demand shifts and the possibility of long-term demand decline. Although JIL's CDMO pipeline details have not been disclosed fully, there are plans for around 40 molecules, as per the Environmental Clearance or EC document. We assume that maximum gross profit from this vertical could touch Rs25bn if all JIL's portfolio achieve full capacity utilization, with a 40% margin.

Multiple headwinds going ahead; retain REDUCE rating

JIL faces several headwinds such as the overall demand for its products falling, a likely rise in raw material prices, and a risky new product portfolio. We retain REDUCE rating on JIL with a lower target price of Rs374. Recovery in ethyl acetate prices poses an upside risk.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	49,494	47,727	49,447	54,097	59,293
Operating EBITDA (Rsm)	8,318	5,471	4,846	5,525	6,295
Net Profit (Rsm)	4,768	3,075	2,123	2,382	3,023
Core EPS (Rs)	29.9	19.3	13.3	15.0	19.0
Core EPS Growth	45.9%	(35.5%)	(31.0%)	12.2%	26.9%
FD Core P/E (x)	14.78	22.91	33.18	29.58	23.30
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)	8.68	13.43	16.34	14.73	12.37
P/FCFE (x)	0.00	6.34	4.06	5.85	97.54
Net Gearing	7.4%	11.7%	28.4%	31.1%	19.0%
P/BV (x)	2.90	2.64	2.16	1.92	1.69
ROE	21.9%	12.1%	7.2%	6.9%	7.7%
% Change In Core EPS Estimates			(46.17%)	(40.65%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Agrochemicals slowdown hits JIL hard

Jubilant Ingrevia is a commodity chemicals maker

Some of the main products of Jubilant Ingrevia are pyridine, beta picoline, 4 dimethyl pyridine, pepperdine, choline chloride, 2 amino pyridine, acetic anhydride, alkyl pyridines and pyridine alkyl derivatives.

Figure 1: Volume-wise, pyridine, beta picoline and acetic anhydride are the major sales items

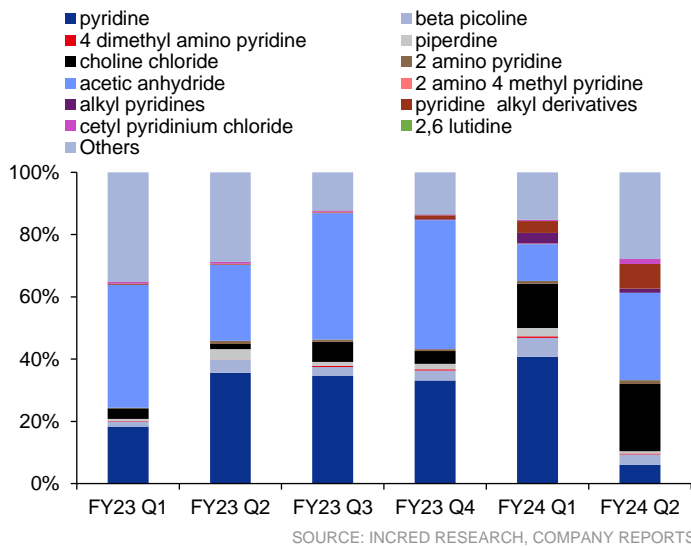
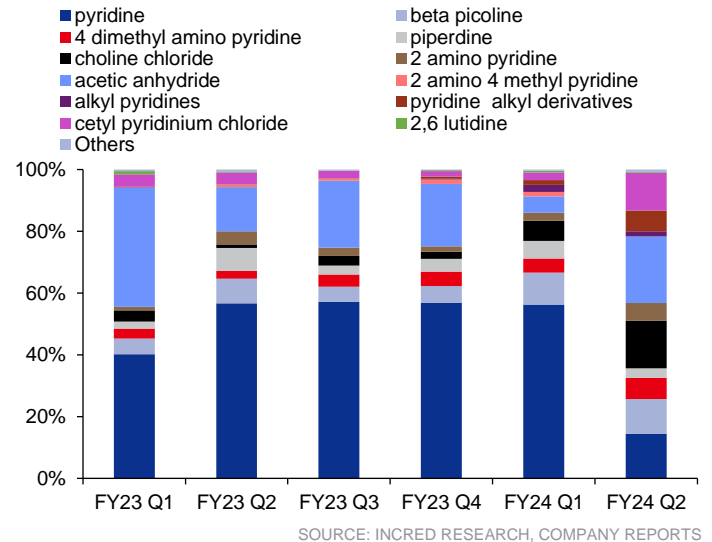


Figure 2: Value-wise, pyridine is the most important product for Jubilant Ingrevia



Pyridine is the most important product for Jubilant Ingrevia >

Pyridine is a basic heterocyclic organic compound with the chemical formula C_5H_5N . The pyridine ring occurs in many important compounds, including agrochemicals, pharmaceuticals, and vitamins. Historically, pyridine was produced from coal tar. Some of the uses of pyridine are as follows:

- Solvent:** Pyridine is used as a solvent for a variety of organic compounds, including alkaloids, dyes, and pesticides.
- Catalyst:** Pyridine is used as a catalyst in a variety of chemical reactions, including the production of nylon and pharmaceuticals.
- Intermediate:** Pyridine is used as an intermediate in the production of other chemicals, such as nicotinamide (vitamin B3) and isoniazid (an anti-tuberculosis drug).
- Fragrance:** Pyridine is used as a fragrance in some perfumes and cosmetics.
- Fumigant:** Pyridine is used as a fumigant to kill insects and pests.

Beta-picoline is another general purpose chemical >

- Beta-picoline, also known as 3-methylpyridine, is a colourless liquid with a sweetish odour. It is one of the three positional isomers of methylpyridine, and is a flammable and toxic substance.
- Beta-picoline is used in the manufacture of vitamin B3 (niacin), an ingredient used in cosmetics and medicines. It is also used as a solvent and as an intermediate in the production of other chemicals.
- The major health hazards of beta-picoline are related to its toxicity. It can cause skin, eye, and respiratory irritation. It can also be harmful if swallowed or inhaled.

But 4-dimethylaminopyridine (DMAP) is not easy to synthesize and hence, has specialty characteristics ➤

4-dimethylaminopyridine (DMAP) is a white solid that is more basic than pyridine owing to the resonance stabilization from the NMe₂ substituent. It is a versatile nucleophilic catalyst for a variety of reactions, including:

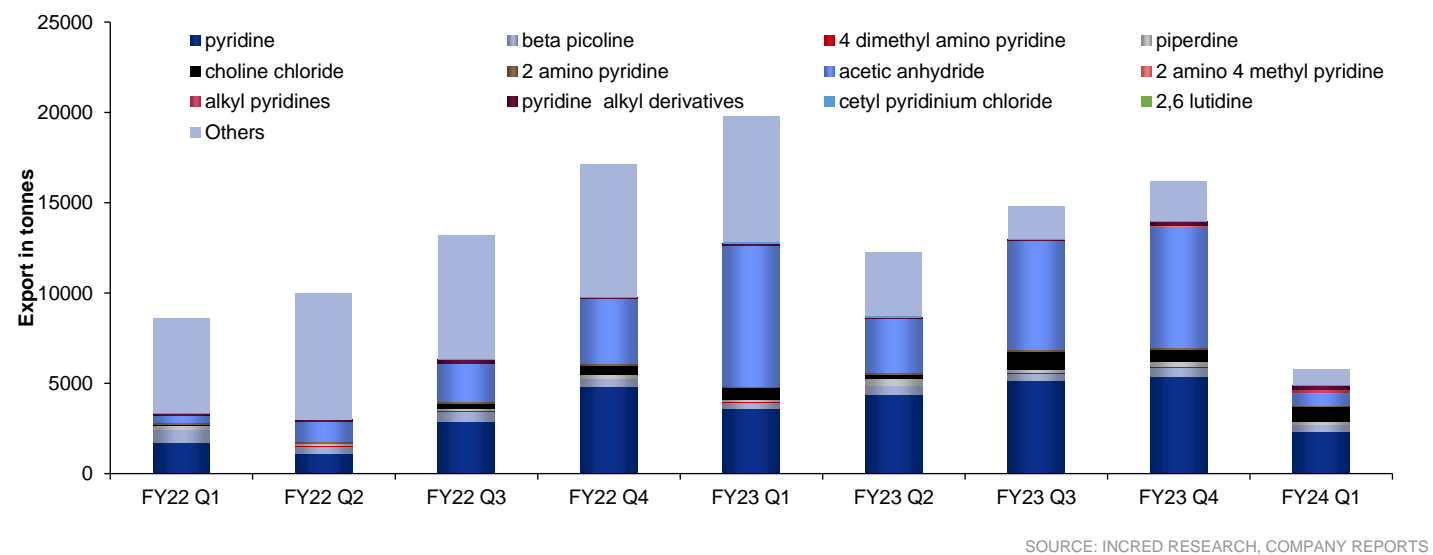
1. Esterifications with anhydrides
2. The Baylis-Hillman reaction
3. Hydrosilylations
4. Tritylation
5. The Steglich rearrangement
6. Staudinger synthesis of β -lactams.

4-dimethylaminopyridine is used in organic synthesis:

1. **In the Baylis-Hillman reaction**, DMAP is used to catalyze the reaction of an aldehyde or ketone with an activated alkene to form a carbon-carbon bond.
2. **In hydrosilylation reactions**, DMAP is used to catalyze the addition of a silane to an unsaturated compound.
3. **In tritylation reactions**, DMAP is used to catalyze the addition of a trimethylsilyl group to an alcohol.
4. **In the Steglich rearrangement**, DMAP is used to catalyze the rearrangement of a carboxylic acid derivative to a β -ketoester.
5. **In the Staudinger synthesis of β -lactams**, DMAP is used to catalyse the formation of a β -lactam ring from an amino acid derivative.

The overall demand for key products is declining ➤

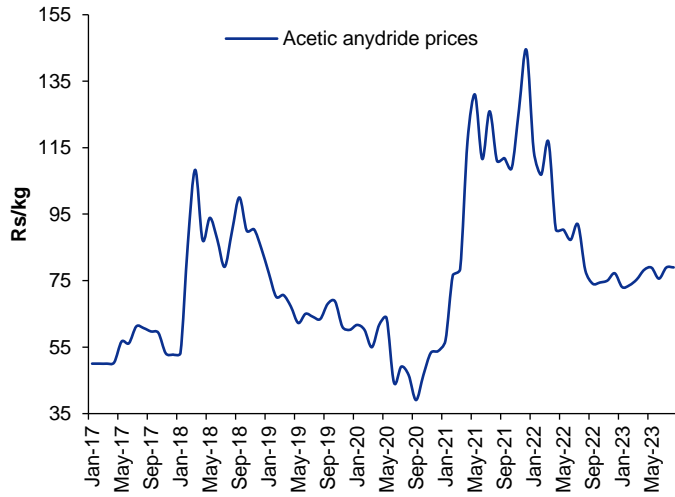
Figure 3: Given the nature of Jubilant Ingrevia's products, exports can be used as a proxy for overall demand; the declining export volume doesn't paint a good picture relating to overall demand



Acetic anhydride (key product under the expansion plan) is doing well currently but as acetic acid recovers, its spreads will collapse ➤

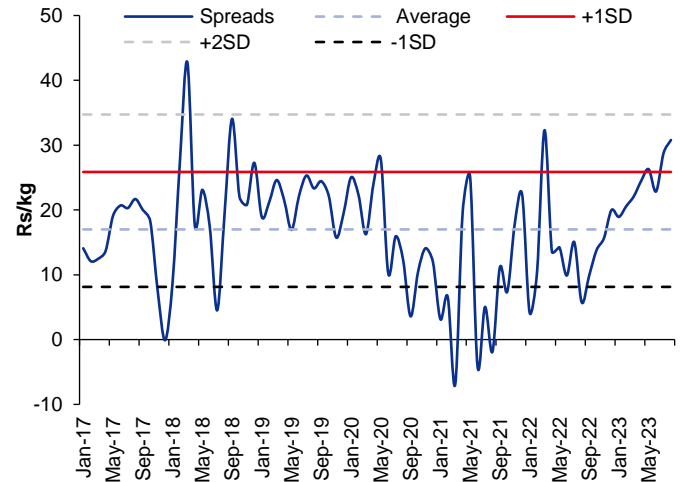
Prices of acetic anhydride are also depressed and its spreads over acetic acid are not recovering.

Figure 4: Acetic anhydride prices are stable...



SOURCE: INCRED RESEARCH, COMPANY REPORTS

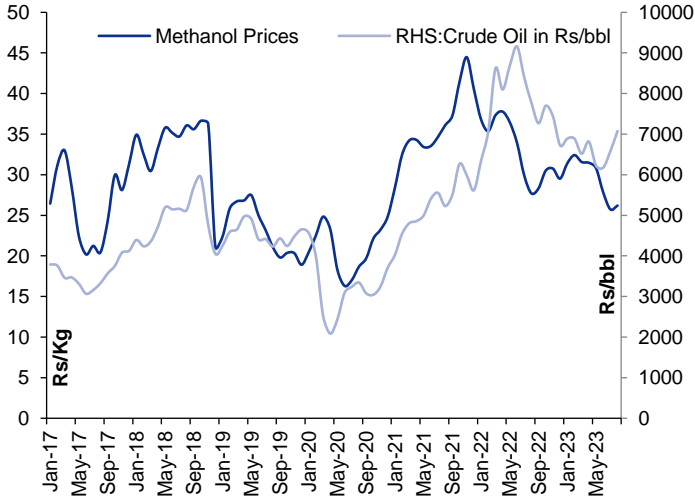
Figure 5: ...but the fall in acetic acid prices has increased its spreads, which will come down as acetic acid prices recover



SOURCE: INCRED RESEARCH, COMPANY REPORTS

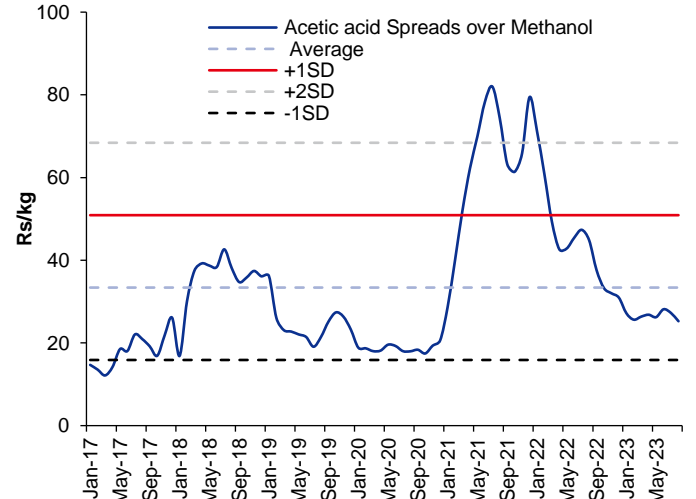
Rising ethylene prices will lead to a rise in acetic acid prices ➤

Figure 6: Rising crude oil prices will force a rise in methanol prices



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Acetic acid's spreads over methanol are near their all-time low

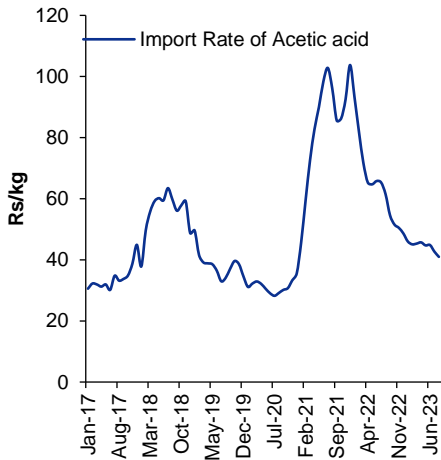


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Raw material prices likely to increase in the coming months ➤

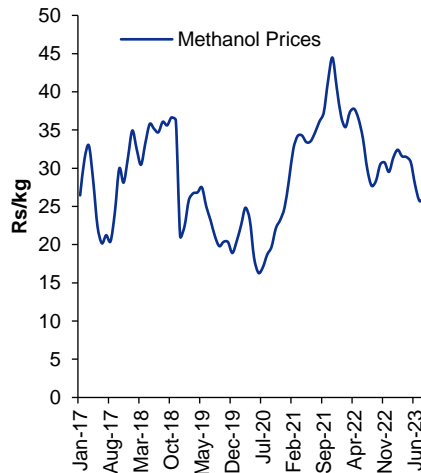
In value terms, acetic acid, ethanol and methanol are the three main raw materials for the company.

Figure 8: Acetic acid prices are bottoming out



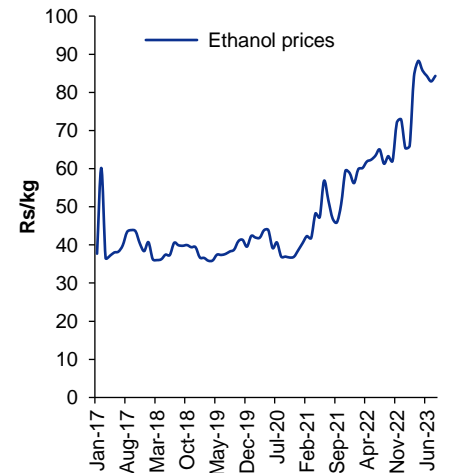
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Methanol prices have started to move up



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Ethanol prices are also rising



SOURCE: INCRED RESEARCH, COMPANY REPORTS

We are not ethused by the company's expansion projects

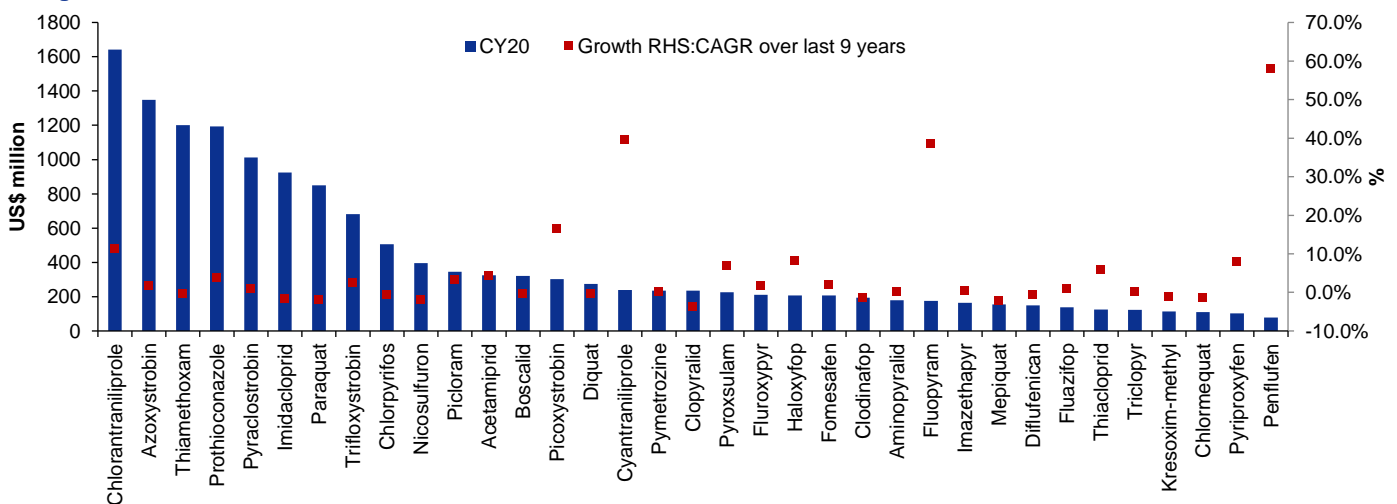
JIL's agrochemicals venture doesn't look exciting as it's not into growth chemicals ➤

Most of the products that JIL plans to manufacture, as a part of its 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, 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 the relationship with clients.

Figure 11: Most products which JIL is planning to make, as a part of its agrochemicals CDMO business, have shown either stagnant or falling sales



SOURCES: INCRED RESEARCH, COMPANY REPORTS

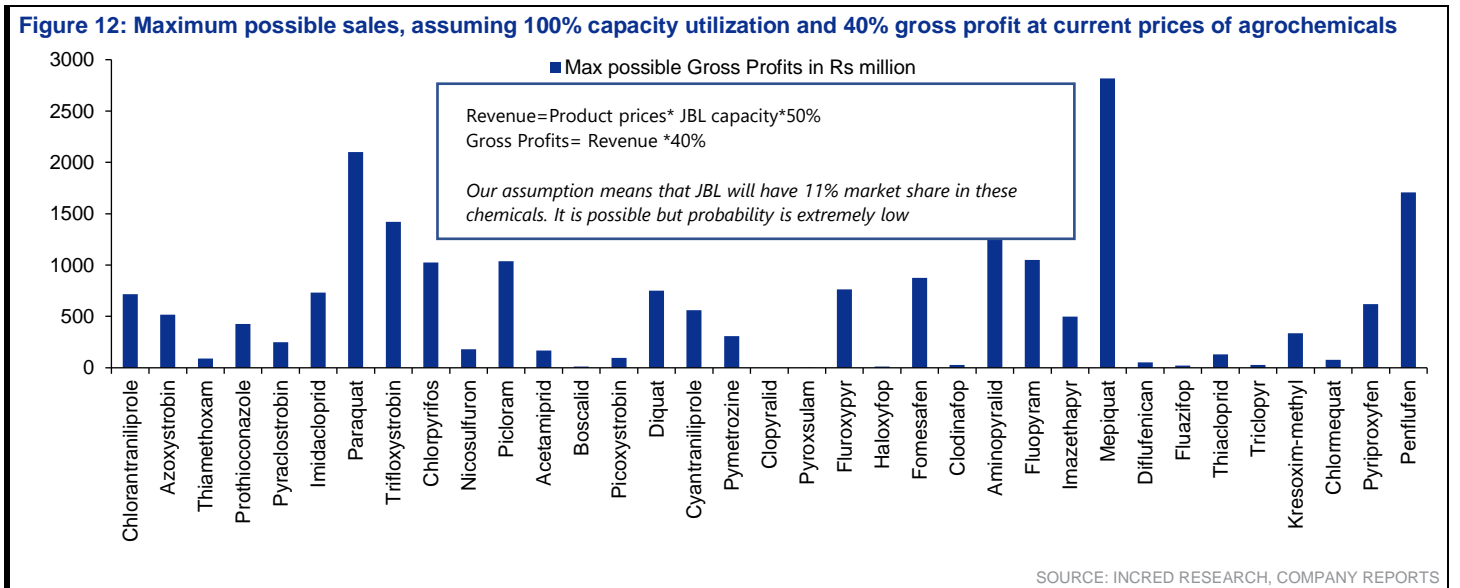
What can be the maximum gross profit for all CDMO chemicals? It's Rs25bn ➤

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:

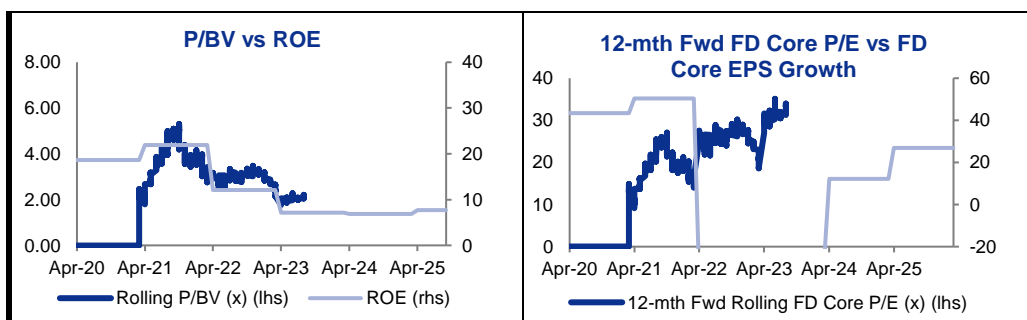
1. Even the company doesn't know how many of them will translate into actual orders.
2. Also, it doesn't know whether there will be sales ramp-up for each of those molecules.

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).



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	49,494	47,727	49,447	54,097	59,293
Gross Profit	21,552	21,911	22,526	24,529	26,712
Operating EBITDA	8,318	5,471	4,846	5,525	6,295
Depreciation And Amortisation	(1,234)	(1,222)	(1,800)	(1,800)	(1,800)
Operating EBIT	7,084	4,250	3,046	3,725	4,495
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	3,184	4,041
Exceptional Items					
Pre-tax Profit	7,090	4,367	2,838	3,184	4,041
Taxation	(2,322)	(1,292)	(715)	(802)	(1,018)
Exceptional Income - post-tax					
Profit After Tax	4,768	3,075	2,123	2,382	3,023
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,768	3,075	2,123	2,382	3,023
Recurring Net Profit	4,768	3,075	2,123	2,382	3,023
Fully Diluted Recurring Net Profit	4,768	3,075	2,123	2,382	3,023

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	8,318	5,471	4,846	5,525	6,295
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,012)	(452)	(2,644)	(1,019)	(1,139)
(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)	(802)	(1,018)
Cashflow From Operations	4,527	4,625	1,820	4,037	4,471
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	17,353	12,037	722
Free Cashflow To Equity		11,115	17,353	12,037	722
Free Cashflow To Firm	7,138	9,654	10,361	10,912	6,010

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	2,257	2,079	1,085
Total Debtors	5,809	5,109	6,737	7,374	8,085
Inventories	9,112	10,351	12,126	13,272	14,554
Total Other Current Assets	2,240	1,874	1,874	1,874	1,874
Total Current Assets	17,646	18,180	22,993	24,599	25,598
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	8,084	8,848	9,702
Other Current Liabilities	1,259	1,317	2,003	2,003	2,003
Total Current Liabilities	10,528	11,796	10,087	10,851	11,705
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	22,641	25,405	21,759
Shareholders Equity	24,331	26,663	32,586	36,768	41,592
Minority Interests					
Total Equity	24,331	26,663	32,586	36,768	41,592

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	41.7%	(3.6%)	3.6%	9.4%	9.6%
Operating EBITDA Growth	35.7%	(34.2%)	(11.4%)	14.0%	13.9%
Operating EBITDA Margin	16.8%	11.5%	9.8%	10.2%	10.6%
Net Cash Per Share (Rs)	(11.31)	(19.59)	(58.02)	(71.69)	(49.68)
BVPS (Rs)	152.74	167.37	204.56	230.81	261.09
Gross Interest Cover	22.90	19.69	5.63	4.26	5.71
Effective Tax Rate	32.8%	29.6%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	4.0%	7.5%	11.7%	10.4%	8.2%
Accounts Receivables Days	38.79	41.75	43.72	47.60	47.58
Inventory Days	99.30	137.59	152.37	156.76	155.87
Accounts Payables Days	97.44	113.03	109.11	104.51	103.91
ROIC (%)	20.6%	10.6%	7.0%	6.5%	6.8%
ROCE (%)	27.2%	14.0%	7.9%	7.8%	8.9%
Return On Average Assets	13.9%	8.0%	5.2%	5.1%	5.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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