

## **JB Chemicals Limited**

**Rahul Sharma (rahul.sharma@karvy.com)**

**Out Performer**

**Rs219**

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We met the J B Chemicals' (JBC) Domestic Formulations Division Head S Maitra to know more about the company's domestic formulations' business. S Maitra has joined J B Chemicals from Alkem Laboratories, which is a formidable player in the domestic formulations business. Key takeaways of this meeting are as follows:

### **Encouraging beginning**

As against an industry growth of 6% MAT in May 2003, JBC clocked a growth of 30% in the domestic formulations space in the last two months. This growth can be attributed to the vacuum effect created on account of VAT in April 2003. The growth witnessed in May 2003 would be due to the spillover effect of the transporters' strike, the annual incentive scheme and the implementation of the new strategy for schemes.

### **Mass markets**

The company is strong in mass markets and would be leveraging these skill sets. JBC would not be entering the new specialised segments being well aware of the fact that it would not be able to make a perceptible impact.

### **CVS**

JBC would be bolstering its strengths in the CVS and diabetes range. The company has a presence in CVS, which contributes 21% to its revenues.

### **Predominant focus on *Nicardia***

In domestic formulations, the company's major focus was on *Nicardia* while the other brands were not being given their due share.

### **Existing brands**

JBC has been concentrating on brand building as well as focusing on existing brands. These include brands such as *Dicloran*, *Rantac* and *OF*. These brands have started yielding dividends.

### **Different pricing strategy for *Gatifloxacin***

JBC has just launched *Gatifloxacin* and knowing it is a late entrant, it has adopted the lowest pricing strategy, which is a departure from JBC's earlier model.

### **Possible CNS launch**

The company is also contemplating launch of 15 CNS drugs with a field force of 50 plus representatives, as it has done good amount of work in this segment.

### **Increase in Marketing strength**

JBC would be increasing its total number of marketing representatives to 432 in FY04 (at present 400).

### **Strategy for growth**

- JBC's strategy in the domestic formulations business is to increase its presence in the existing therapeutic segments by introducing products, which are not in its portfolio or products that have not been introduced in the Indian markets. The company's plan

includes introduction of 6-8 new products every year for the next two years and 4-5 line extensions every year.

- The company is also exploring the options of co-marketing etc.
- JBC estimates enhancing its revenue growth by increasing the prescriptions generated. This would primarily be done through prescription audits, which identifies the real prescribers.

### Growth in Domestic Formulations

JBC expects to grow its domestic formulations business by 25% in FY04 and 20% in FY05.

### Enhance presence in Represented market

Another benchmark that the company has set itself is to step up its presence in the represented market from 25% in FY03 to 35% in FY04.

### Outlook

We are positive on JBC at current price levels on account of more focus on the domestic formulations segment, which constitutes around 46% of total revenues. We have increased our growth estimates for the domestic formulations business from 10% to 20% (Rs1611mn) in FY04. Other drivers include exports, which would enable the company to diversify revenues. Half of the export revenues would come from markets other than CIS within a span of 2-3 years. The stock is quoting at valuations of 5.9x FY04E earnings of Rs37.3. We rate the stock an **Out Performer** with a one-year target price of Rs261.

	Rs Million		
	FY02	FY03	FY04E
Total Revenues	2687	2847	3388
Total Cost	2122	2157	2580
Operating Profit	565	690	808
<b>OPM(%)</b>	<b>21%</b>	<b>24.2%</b>	<b>23.9%</b>
Profits Before EOI	409	485	598
Equity	161	161	161
EPS(Rs)	25.4	30.2	37.3
PE (x)	8.6	7.3	5.9
RoE (%)	24	23.3	24.2
RoCE(%)	28.2	29.3	29.8



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**Stock Ratings    Absolute Returns**

Buy:	> 25%
Out Performer:	16 - 25%
Market Performer:	0 - 15%
Under Performer:	< 0%

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