

3rd October 2008**BUY**

Price	Target Price
Rs262	Rs469
Sensex	12,526

Price Performance

(%)	1M	3M	6M	12M
Absolute	(26)	(15)	(22)	(13)
Rel. to Sensex	(11)	(12)	(5)	24

Source: Bloomberg

Stock Details

Sector	Healthcare
Reuters	JUBO.BO
Bloomberg	JOL@IN
Equity Capital (Rs mn)	148
Face Value (Rs)	1
52 Week H/L (Rs)	391/244
Market Cap (rs bn/ USD mn)	39/829
Daily Avg Vol. (No of shares)	55165
Daily Avg Turnover (US\$m)	0.4

Shareholding Pattern (%)

	30/6/08	31/03/08	31/12/07
Promoters	50.4	50.9	51.6
FII/NRI	28.3	28.0	27.7
Institutions	4.1	4.0	2.6
Private Corp.	7.9	7.9	8.3
Public	9.2	9.3	9.8

Source: Capitaline

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Jubilant Organosys

Jubilant in R&D JV with Eli Lilly

Event Update

Jubilant Organosys, has set up a 50:50 joint venture with US-based pharma giant Eli Lilly for new drug development. The joint venture will focus on pre-clinical molecules and their development through phase-II clinical testing. The two plan to invest around \$8 million over the next three years. The joint venture is expected to start operations in the last quarter of 2008 once Eli Lilly's early-stage development division, Chorus, will set up and will be based out of Bangalore. Chorus quicken the pace of drug development by tying up with external contract research specialists in specific areas.

We view this partnership a win-win situation for both the company. Jubilant will leverage the R&D expertise of a global innovator company while Eli Lilly will leverage on cost-effective development capabilities of Jubilant' and in the process the drug development process will accelerate. This will result into more molecules in the development pipeline and thus higher probability of success.

The two companies already have a five-year drug discovery partnership since 2006 where Jubilant provides pre-clinical work for Eli Lilly. In the former partnership the two companies worked on a project-to-project basis while this venture would entail a continuous process, with a devoted team of scientists working on this exclusively. Initially the venture intends to hire around 35 scientists. The joint venture will work on drugs in oncology, metabolic disorders, cardiovascular and diabetes segments and will provide pre-clinical work besides developing the molecules through to phase-II clinical testing. After completion of phase-II testing, the successful assets will be returned to the sponsors or the IP owners for further development.

Outlook and valuations

In the last 15 days, the stock price of Jubilant has come down by 19%. We understand that the concern would have been because of foreign debt (US\$355mn +US\$255mn of FCCB) on its book out of which US\$355mn is LIBOR linked. We do agree that the LIBOR rate in last few days was highly volatile and even the rupee against dollar has also depreciated by more than 15% in last six months, which in turn will increase the interest cost of the company. We have made an attempt to quantify the impact of increased cost on its earnings in FY09E and FY10E assuming 100 bps increase in LIBOR rate (on US\$355mn loan) and converting the dollar interest liability into INR at Rs47/dollar exchange rate. Our calculation suggests that the likely impact on its FY09E EPS is 7% (Rs1.54 on the FDEPS of Rs23.34) and on FY10E EPS is 5% (Rs1.54 on the FDEPS of Rs30.42). Apart from this company will also have Marked to Market (MTM) loss of Rs3bn on its foreign debt. Right now we have not calculated any impact on its outstanding FCCB, which is of US\$255mn, out of which US\$55mn is due for redemption by May 2010 at a conversion price of Rs273 and US\$200mn is due for redemption by May2011 at a conversion price of Rs413. At CMP of Rs262, the stock is trading at 12x FY09E and 9xFY10E. We have "BUY" rating on the stock with a target price of Rs469.

Financials

Income Statement

Y/E, Mar (Rs. m)	FY07	FY08	FY09E	FY10E
Net Sales	18097	24889	35926	45314
Growth (%)	21	38	44	26
Expenses	15561	20263	28813	36161
Growth (%)	21	30	42	26
Raw Materials	8303	9863	14083	17763
% of sales	46	40	39	39
Employee cost	2203	3839	5461	6797
% of sales	12	15	15	15
Manufacturing exps	3093	3982	5569	6978
% of sales	17	16	16	15
Selling & Dist exps	1962	2579	3700	4622
% of sales	11	10	10	10
EBIDTA	2536	4626	7113	9153
Growth (%)	17	82	54	29
EBIDTA %	14.0	18.6	19.8	20.2
Other income	1234	1430	322	226
Interest	195	337	1020	1162
Depreciation	623	1039	1399	1673
Misc. Exp. W/O				
PBT	2953	4680	5017	6544
Total Tax	712	573	803	1047
Effective tax rate (%)	24	12	16	16
PAT (Before E/O items)	2241	4107	4214	5497
Profit from Ass.	39	16	16	16
E/O items	-24	-118	0	0
RPAT	2280	4005	4230	5513
E/O Inc. (Forex Gain)	658.0	1040.0		
Adjusted PAT	1646	3083	4230	5513
Growth (%)	28	87	37	30
Net Margin (%)	9.1%	12.4%	11.8%	12.2%

Cash Flow

Y/E, Mar (Rs. mn)	FY07	FY08	FY09E	FY10E
PBT- Core	1719	3132	4694	6318
Other Income	1234.4	1430.0	322.3	226.0
Pre-tax profit	2953	4562	5017	6544
Depreciation	623	1039	1399	1673
Pre-operative exp.	0	0	0	0
Chg in working cap	(713)	(1844)	(2315)	(1280)
Tax paid	(394)	(573)	(803)	(1047)
Operating cash Inflow	2469	3184	3298	5890
Capital expenditure	(3727)	(9396)	(7000)	(5000)
Free Cash Flow	(1259)	(6212)	(3702)	890
Investments	(37)	0	0	0
Equity Capital Raised	-832	3326	0	0
Loans Taken / (Repaid)	9306	157	3314	-2000
Dividend (incl tax)	(211)	(401)	(766)	(821)
Others	383	0	0	0
Increase in Msc Exp	9	0	0	0
Net chg in cash	7360	(3130)	(1154)	(1931)
Opening cash position	1390	8749	5619	4465
Closing cash position	8749	5619	4465	2535

Balance Sheet

Y/E, Mar (Rs. mn)	FY07	FY08	FY09E	FY10E
Equity share capital	144	156	156	156
Share Application Money	0	0	0	0
Share Premium	3380	6704	6704	6704
Other Reserves	5538	9115	12563	17239
Networth	9061	15975	19423	24099
Deferred tax liability	1360	1360	1360	1360
Minority Int	174	174	174	174
Secured Loans	2768	4768	5168	4168
Unsecured Loans (including mobilisation advance)	1722	3222	6136	5136
FCCB	12037	8694	8694	8694
Loan Funds	16700	16857	20171	18171
Total Liabilities	27122	34193	40955	43631
Gross Block	16672	28424	35424	40424
Less: Depreciation	4393	5432	6831	8504
Net block	12280	22993	28593	31921
Capital work in progress	2356	0	0	0
Investment	39	39	39	39
Current Assets	17654	17743	21310	22714
Inventories	3533	4615	6546	7567
Sundry debtors	2948	4148	5988	7175
Cash & bank balance	8749	5619	4465	2535
Loans & advances	2425	3360	4311	5438
Other assets	0	0	0	0
Current liabilities	5248	6623	9029	11083
Current liabilities	2918	3905	5539	6936
Provisions	1355	1742	2515	3172
Prov. For FCCB	975	975	975	975
Net current assets	12406	11120	12281	11631
Miscellaneous expenditure	41	41	41	41
Total Assets	27122	34193	40955	43631

Key ratios

Y/E, Jun (Rs. m)	FY07	FY08	FY09E	FY10E
Per Share Data (Rs)				
DEPS	11.5	19.9	27.1	35.4
FDEPS (Consolidated)	9.1	17.0	23.3	30.4
Cash EPS (x)	15.8	26.6	36.1	46.1
EBITDA / Share (x)	17.7	29.7	45.6	58.7
Book Value (x)	64.1	103.3	125.4	155.4
EV (Rs.)	59720	68451	71765	69765
Mkt cap	43194	51768	51768	51768
Valuations				
PER (x) (consolidated)	28.8	15.4	11.2	8.6
Price / CEPS (x)	16.6	9.8	7.3	5.7
Price / BV (x)	4.1	2.5	2.1	1.7
EV / Net Sales (x)	3.3	2.8	2.0	1.5
EV / EBITDA (x)(core Activity)	23.5	14.8	10.1	7.6
EV/EBIT (x) (Core Activity)	31.2	19.1	12.6	9.3
DPS (Rs)	1.3	2.2	4.2	4.5
Dividend Yield (%)	0.5	0.8	1.6	1.7
Dividend Payout (%)	10.9%	11.0%	15.5%	12.7%
Returns (%)				
RoCE	9.3	12.3	15.8	18.3
RoNW	18.7	24.6	23.7	25.2
RoA	8.9	11.8	14.5	16.3
RoIC (EBIT/Avg Invested capital)	12.3%	16.3%	18.4%	20.0%
RoIC (EBITDA/Avg Invested capital)	16.3%	21.0%	22.9%	24.5%
Turnover (x) Days				
Debtors T/O	58.6	60.0	60.0	57.0
Creditors T/O	64.9	66.0	66.0	66.0
Inventory T/O	78.6	78.0	78.0	72.0

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