Ratings

CRISIL
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Rating Rationale

May 29, 2020 | Mumbai

Jubilant Life Sciences Limited

'CRISIL AA/Watch Developing' assigned to NCD ; Long-term rating continues on 'Watch Developing'

Rating Action

Total Bank Loan Facilities Rated	**Rs.510 Crore**
Long Term Rating	**CRISIL AA (Continues on 'Rating Watch with Developing Implications')**

Rs.100 Crore Non Convertible Debentures	**CRISIL AA (Assigned; Placed on 'Rating Watch with Developing Implications')**
Rs.400 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has assigned its **'CRISIL AA'** rating to the non-convertible debentures (NCD) of Jubilant Lifesciences Ltd (JLL) and placed it on **'Rating Watch with Developing Implication'**. The rating on long-term bank facilities continue on **'Rating watch with Developing Implications'** and rating on commercial paper programme has been reaffirmed at 'CRISIL A1+'.

On October 31, 2019, CRISIL had placed its ratings on 'watch with developing implications' following the announcement of the board's approval for reorganising the businesses of JLL and demerger of the Life Science Ingredients (LSI) business.

As per the transaction, the LSI business (including related subsidiaries, accounting for 39% of JLL's revenue and about 24% of earnings before interest, depreciation, taxes and amortization [EBITDA] in fiscal 2019) will be transferred to another entity, which will house specialty intermediates, nutritional products and life science chemicals through five manufacturing facilities in India. The pharmaceutical entity, under JLL (post demerger), will have three businesses: 1) Pharmaceutical business through Jubilant Pharma Ltd Singapore (JPL) which is into radiopharmaceuticals, allergy therapy products, active pharmaceuticals ingredients, and solid dosage formulations and contract manufacturing, 2) Drug Discovery Services business through Jubilant Biosys Ltd & Jubilant Chemsys Ltd and 3) Proprietary drug discovery business through Jubilant Therapeutics, which is into small molecule therapies in oncology and auto-immune disorders.

The management also plans amalgamation of promoter shareholding companies into JLL with an objective to simplify the holding structure of the promoters with no change in ownership percentage and number of shares of the promoters in JLL. With this merger of the holding companies, no incremental liabilities will be added in JLL. The demerger is structured such that existing shareholders will have similar shareholding in each entity. The demerger is subject to necessary statutory and regulatory approvals from Stock Exchanges, National Company Law Tribunal (NCLT), minority shareholders, lenders, and creditors. As on date, the approvals from exchanges have been received and filing with NCLT has been done on February 28, 2020. NCLT will further hold a creditor and shareholding meeting, conduct hearing and then submit the report to Securities Exchange Board of India for its final approval. The process is likely to get over by August 2020. As informed by the management, the objective of the demerger is to unlock shareholder value and enable focused investments for each entity. The management aims to create distinct business undertakings which will enable greater operational efficiency and a dedicated management structure.

CRISIL notes that the credit risk profile of JLL post demerger will continue to be supported by the pharmaceuticals business that currently accounts for 58% of consolidated revenue and 75% of EBITDA in fiscal 2019, given the healthy portfolio of products and presence in niche segments such as radiopharmaceuticals, allergy therapy products and contract manufacturing for global pharmaceutical companies. CRISIL is in discussion with JLL management to better understand the division of assets and liabilities (including debt), and will remove the ratings from watch, and announce its final action once key regulatory approvals are obtained.

On the other hand, the business risk profile of the demerged entity that will house the LSI business (revenues of Rs 2,357 crore and operating profit of Rs. 313 crore for the nine month ended for fiscal 2020) will be moderate compared with JLL combined, due to lower operating profitability given the commoditised nature of business. Nevertheless, the financial risk profile of JLL (post demerger) and LSI business (under new entity) will continue to remain healthy on due to strong cash-generating ability, prudent capital spend, and tight control over working capital. Post demerger, the long term bank loan facilities and NCDs are likely to be under the new LSI entity, whose overall credit quality may not vary by more than a notch, from that of the consolidated entity.

CRISIL also notes the temporary supply disruption of key starting material for the industry due to Novel Coronavirus (COVID-19) outbreak in China since January 2020. However, the supplies have resumed towards end of March 2020. Further, JLL maintains inventory of 2-3 months (about 80 days as on September 30, 2019) and hence has adequate inventory. Further, the Company subsidiary, Jubilant Generics Limited's Nanjangud plant is temporarily shut since last week of March 2020, as some employees were tested positive for COVID-19. Approval to resume operations of the Nanjangud plant has been received, and Jubilant Generics is taking steps to start production and allied operations in consultation with the authorities. The plant accounts for about 8% of JLL's revenue. However, prolonged supply disruption or operation of its plants at lower capacity utilisation due to limited labour mobility, will remain a key monitorable.

The ratings reflect JLL's strong business risk profile due to diversified revenue, healthy profitability driven by focus on regulated markets with niche products in the pharmaceuticals segment, and economies of scale and integrated operations in the LSI segment. The ratings also factor in the company's adequate financial risk profile, supported by improving gearing and debt-protection metrics. These strengths are partially offset by product concentration in some businesses, and exposure to regulatory risks and competitive pressures.

Analytical Approach

For arriving at its rating, CRISIL has combined the business and financial risk profiles of JLL and its subsidiaries, together referred to as JLL, as these companies have considerable operational and financial linkages. Furthermore, CRISIL has amortised the goodwill arising out of acquisitions over 10 years from the date of the respective acquisition.

Please refer Annexure - Details of Consolidation, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths

*** Strong business risk profile backed by diversified revenue profile:** The company has pursued significant diversification of businesses even while building on its knowledge of chemistry. The pharmaceuticals segment is expected to benefit from established market position of Triad Isotopes Inc (Triad) in the US. About 63% of revenue came from the pharmaceuticals segment while LSI contributed 35%, in the first nine months of fiscal 2020. These two segments have diversified sub-segments. Revenue is geographically diversified across North America, India and rest of the world. In first nine months of fiscal 2020, the pharmaceuticals segment grew about 7% as compared to corresponding period in previous fiscal; 2019 was a high growth year for the company. Revenue grew 21% in fiscal 2019, backed by strong growth of 33% in the pharmaceuticals segment, driven by the full-year benefit of the acquisition of the radiopharmacy business of Triad in September 2017. Through Triad, JLL has presence in front-end radiopharmaceutical distribution in the US. Growth from new products and execution of existing contracts in radiopharmaceuticals, and steady growth in allergy therapy products and the contract manufacturing segment are expected to aid the company's specialised pharmaceuticals business.

*** Focus on regulated markets with niche products support profitability:** Operating margin in the pharmaceuticals segment is backed by focus on regulated markets and a healthy portfolio of niche products. For instance, in the radiopharmaceuticals business, a speciality product portfolio with limited competition drives profitability.

*** Economies of scale and integrated operations underpin performance in the LSI segment:** Business risk profile in the LSI segment is backed by high operating efficiency. Economies of scale derived from global presence of capacities, high level of integration in manufacturing, deep chemistry knowledge, and continuous improvement in cost efficiency has historically protected the LSI segment's profitability from price volatility in input prices as well as any shift in demand between different products in the value chain. Given the largely commoditised nature of business, the margin is expected to remain at similar levels of 13-14%.

*** Adequate and improving financial risk profile:** Strong cash-generating ability, prudent capital spend, and tight control over working capital support the financial risk profile. Adjusted gearing improved to 1.6 times as on March 31, 2019, from over 2 times as on March 31, 2017, and was 1.10 times as on December 31, 2019. The leverage has improved because of buyback of senior unsecured notes of Rs 717 crore in November 2019. The balance sheet was moderately leveraged during fiscals 2016 and 2017, and has improved as term debt is repaid, while net worth benefits from strong cash accruals. Gearing weakened marginally in fiscal 2019 because of issuance of bonds to refinance an existing loan with the excess funds parked as cash and cash equivalents. The ratio of net debt to EBITDA was 2 times in fiscal 2019 (2.2 times for a year earlier), and is at 1.80 as on December 31, 2019.

Weaknesses

*** Product concentration in some businesses**: In the radiopharmaceuticals business, significant revenue is derived from a single product. However, the risk is mitigated as products have high entry barriers, limiting competition. The company is also diversifying through niche product launches in the radiopharmaceuticals business. In the LSI business, revenue contribution is high from ethyl acetate, acetic anhydride, pyridine, and Vitamin B3. Revenue from LSI segment has moderated in the last few quarters because of lower realisation in the acetyl segment and high prices of molasses. The segment declined 11% in the first nine months of fiscal 2020 ' it contributed 35% of revenue in the first nine months of fiscal 2020 (39% in the corresponding period last year).

* **Exposure to regulatory risks and intense competition**: The regulatory scrutiny that JLL is exposed to is manifested in its generic facility in Roorkie, Uttarakhand, receiving a warning letter from the US Food and Drug Administration (FDA). Official action was indicated for its facility in Nanjangud, Karnataka as well by the US FDA in fiscal 2019. The company remains exposed to risks related to timely resolution of the issues at Roorkie and Nanjangud facilities.

In March 2020, JPL, through one of its wholly owned subsidiaries, received the Establishment Inspection Report (EIR) with Voluntary Action Indicated (VAI) status from the USFDA for its solid dosage facility at Salisbury, Maryland USA in respect of the inspection conducted in February 2020. With the receipt of the EIR, the inspection stands closed.

In the LSI business, JLL faced anti-dumping duty for its pyridine exports to China in 2015. The company has since entered other geographies, thereby derisking pyridine exposure to China. Further, in January 2020, China has terminated the anti-dumping duty. However, any adverse impact of regulatory actions on revenue and profitability will remain a key rating sensitivity factor. Furthermore, the solid dosage business is intensely competitive because of aggressive defence tactics by innovator companies through introduction of authorised generics, and healthcare cost containment measures by the US government. Also, solid dosage formulations players in the US and Europe are vulnerable to pricing pressure on account of increase in the number of players and consolidation among distributors.

Liquidity Strong

Liquidity is supported by healthy annual cash generating ability (over Rs.1000 crore) and moderate utilisation of bank lines (~73% for 12 months through April 2020). Capital expenditure (capex) is expected to be about Rs 500-600 crore annually and is expected to be majorly funded from internal accruals. Term debt obligations is about Rs 14 crore in fiscal 2021 and about Rs 1,540 crore in fiscal 2022 for both business segments. Repayment of bonds in fiscal 2022 is expected to be met with internal accruals and surplus liquidity; however, the company may refinance part of its obligations. Cash and cash equivalents including other bank balance were at Rs 687 crore as on December 31, 2019.

Rating sensitivity factors

Upward factors:

* Stronger than anticipated business performance, led by new product launches and sustained improvement in the EBITDA margins of the pharmaceutical business
* Faster than anticipated debt reduction and improvement in credit metrics ' for instance net debt to EBITDA ratio improving to 1 time - led by substantial cash generation or lower-than-expected debt

Downward factors:

* Regulatory issues or pricing pressures leading to substantially low profitability and impacting cash generation
* Demerger or large, debt-funded capex or acquisition resulting in higher leverage ' for instance, net debt/EBITDA ratio of over 2.5 times

About the Company

JLL is an integrated global pharmaceutical and life sciences company engaged in pharmaceuticals, LSI, and drug discovery solutions. In the pharmaceuticals segment, JLL manufactures active pharmaceutical ingredients, solid dosage formulations, radiopharmaceuticals, and allergy therapy products through its wholly owned subsidiary, JPL, and undertakes contract manufacturing of sterile and non-sterile products through six US FDA-approved manufacturing facilities in India, the US, and Canada. It also has a network of over 50 radiopharmacies in the US. The LSI segment is engaged in speciality intermediates, nutritional products, and life science chemicals through five manufacturing facilities in India. The drug discovery solutions segment provides proprietary in-house innovation and collaborative research and partnership for out-licensing through three research centres in India and the US. As on March 31, 2020, promoters held 50.68% stake in JLL, and the balance was held by the public and others.

JLL is a part of the Jubilant Bhartia group that has interests across pharmaceuticals, LSI, performance polymers, food products and services, automobiles, consulting in aerospace, and oilfield services. The group is promoted by Mr Shyam Sunder Bhartia and Mr Hari Bhartia.

For fiscal 2020, JLL reported operating income of Rs 9,154 crore and profit after tax (PAT) of Rs 898 crore as against operating income of Rs 9,112 crore and a PAT of Rs 577 crore for fiscal 2019.

Key Financial Indicators

Particulars	Unit	2019	2018
Operating income(net of excise)	Rs crore	9,112	7,518
Profit after Tax(PAT)*	Rs crore	523	490
PAT margin	%	5.7	6.5
Adjusted debt/ adjusted net worth*	Times	1.6	1.4
Interest coverage	Times	8.1	5.5

**Adjusting for goodwill amortization*

Any other information: Not applicable

Note on complexity levels of the rated instrument:
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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Cr)	Rating Assigned with Outlook
NA	Commercial Paper Programme	NA	NA	7 - 365 days	400.00	CRISIL A1+
NA	Term Loan	NA	NA	March 2025	510	CRISIL AA/Watch Developing
NA	Non Convertible Debentures*	NA	NA	NA	100.00	CRISIL AA/Watch Developing

**yet to be placed*

Annexure - List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Jubilant Clinsys Limited	100%	Subsidiary
Jubilant Biosys Limited	99.92%	Subsidiary
Jubilant Chemsys Limited	100%	Subsidiary
Jubilant First Trust Healthcare Limited	100%	Subsidiary
Jubilant Infrastructure Limited	100%	Subsidiary
Jubilant DraxImage Limited	100%	Subsidiary
Jubilant Innovation (India) Limited	100%	Subsidiary
Vanthys Pharmaceutical Development Private Limited	100%	Subsidiary
Jubilant Generics Limited	100%	Subsidiary
Jubilant Therapeutics India Limited	100%	Subsidiary
Jubilant Business Services Limited	100%	Subsidiary
Cadista Holdings Inc.	100%	Subsidiary
Jubilant Cadista Pharmaceuticals Inc.	100%	Subsidiary
TrialStat Solutions Inc.	100%	Subsidiary
Jubilant Pharma Holdings Inc.	100%	Subsidiary
Jubilant Clinsys Inc.	100%	Subsidiary
HSL Holdings Inc.	100%	Subsidiary
Jubilant HollisterStier LLC	100%	Subsidiary
Jubilant Life Sciences (USA) Inc.	100%	Subsidiary
Jubilant DraxImage (USA) Inc.	100%	Subsidiary
Draxis Pharma LLC	100%	Subsidiary
Jubilant HollisterStier Inc.	100%	Subsidiary
Jubilant Discovery Services LLC	100%	Subsidiary
Draximage (UK) Limited	100%	Subsidiary
Jubilant Pharma Limited	100%	Subsidiary
Jubilant Life Sciences International Pte. Limited	100%	Subsidiary
Jubilant Biosys (Singapore) Pte. Limited	100%	Subsidiary
Jubilant Drug Development Pte. Limited	100%	Subsidiary
Jubilant Innovation Pte. Limited	100%	Subsidiary
Drug Discovery and Development Solutions Limited	100%	Subsidiary
Jubilant Life Sciences (Shanghai) Limited	100%	Subsidiary
Draximage Limited, Cypurs	100%	Subsidiary
Draximage Limited, Ireland	100%	Subsidiary
Jubilant Pharma NV	100%	Subsidiary
Jubilant Pharmaceuticals NV	100%	Subsidiary
PSI Supply NV	100%	Subsidiary
Jubilant Life Sciences NV	100%	Subsidiary
Jubilant Life Sciences (BVI) Limited	100%	Subsidiary
Jubilant Biosys (BVI) Limited	100%	Subsidiary

Jubilant Draximage Inc.	100%	Subsidiary
6981364 Canada Inc.	100%	Subsidiary
Jubilant Innovation (USA) Inc.	100%	Subsidiary
Jubilant Pharma Australia Pty Limited	100%	Subsidiary
Jubilant Draximage Radiopharmacies Inc.	100%	Subsidiary
Jubilant Pharma SA Pty Limited	100%	Subsidiary
Jubilant Therapeutics Inc.	100%	Subsidiary
Jubilant Episcribe LLC	100%	Subsidiary
Jubilant Epicore LLC	100%	Subsidiary
Jubilant Prodel LLC	100%	Subsidiary
Jubilant Epipad LLC	100%	Subsidiary
Jubilant pharma UK Ltd (wef 17th April 2019)	100%	Subsidiary

Annexure - Rating History for last 3 Years

	Current			2020 (History)		2019		2018		2017		Start of 2017
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Commercial Paper	ST	400.00	CRISIL A1+	07-04-20	CRISIL A1+	31-10-19	CRISIL A1+	25-06-18	CRISIL A1+	28-04-17	CRISIL A1+	--
				28-01-20	CRISIL A1+	29-06-19	CRISIL A1+	30-04-18	CRISIL A1+			
Non Convertible Debentures	LT	0.00 29-05-20	CRISIL AA/(Watch) Developing	07-04-20	Withdrawal	31-10-19	CRISIL AA/Watch Developing	25-06-18	CRISIL AA/Stable		--	--
				28-01-20	CRISIL AA/Watch Developing	29-06-19	CRISIL AA/Stable					
Fund-based Bank Facilities	LT/ST	510.00	CRISIL AA/(Watch) Developing	07-04-20	CRISIL AA/Watch Developing		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
Term Loan	**510**	**CRISIL AA/Watch Developing**	**Term Loan**	**510**	**CRISIL AA/Watch Developing**
Total	**510**	**--**	**Total**	**510**	**--**

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