**Jubilant Ingrevia**

**A LONG-TERM COMPOUNDER**

* **MAIN THESIS POINTS:**

**1) Strong business profile:**

* + - * **Highly Integrated operations**
      * **Value added products**
      * **Market leadership**
      * **Diversified and non-cyclical revenue stream**
      * **High Barriers to entry**
      * **Economies of Scale**

**2) High growth capex: Significant capex proposed, to be done with internal accruals.**

**3) Value migration: Majority of the capex directed at non-commodity, speciality chemicals and nutrition segments. Currently commodity business contributes 50% of revenue and 35% of ebidta. Targeting 60% and 75% from non-commodity business.**

**CDMO.**

**4) Long runway for compounding growth given the nature of end industries.**

**5) Strong Financial Profile.**

**6) Fair Valuations.**

**7) Low Business Risk**

**ABOUT THE COMPANY**

* JVL is a global integrated life science products (Chemicals) and innovative solutions provider serving pharmaceutical, nutrition, agrochemical and industrial customers with customised products and solutions that conform to premium quality standards. Jubilant Ingrevia’s portfolio also extends to custom research and manufacturing for pharmaceutical and agrochemical customers on an exclusive basis. (CDMO)

JVL offers over 165+ products, ranging from **speciality chemicals**, advanced stage **complex chemistry solutions**, **nutraceuticals**, **straight nutritional ingredients** such as Vitamin B3, **premix solutions** for animal and human nutrition, **pyridine and picolines** and **acetyl range of products** to more than 1,400 customers globally. Company has five manufacturing facilities located across Maharashtra, Gujarat and Uttar Pradesh in India.

5 Global scale Manufacturing sites with 50 plants.

60+ Products in the pipeline.

* **3 Divisions:**

**Speciality chemicals (22.4% EBIDTA Margins)**: (**Value added, Higher and stable Margin**)

* **Pyridine & Picolines (Alpha, Beta, Gamma)** (Raw materials – Formaldehyde, Acetaldehyde, Ammonia)
* **Fine Chemicals, Crop Protection Chemicals** (Raw material - Pyridine & Picolines)
* **Diketene and Derivatives**
* **CDMO**

**Lifescience chemicals (15% EBITDA Margins): Commodity business. Volatile in margin profile.**

* + **Acetyls** **(Ethyl Acetate, Acetic Anhydride, Food Grade Acetic Acid) (**Raw Material – Acetic Acid, Ethanol, Molasses)
  + **Speciality Ethanol.**
  + **Formaldehyde, Acetaldehyde, Ammonia** (First two for In house Consumption for Picoline and Pyridine) (Raw Material – Methanol)
  + **VAM**

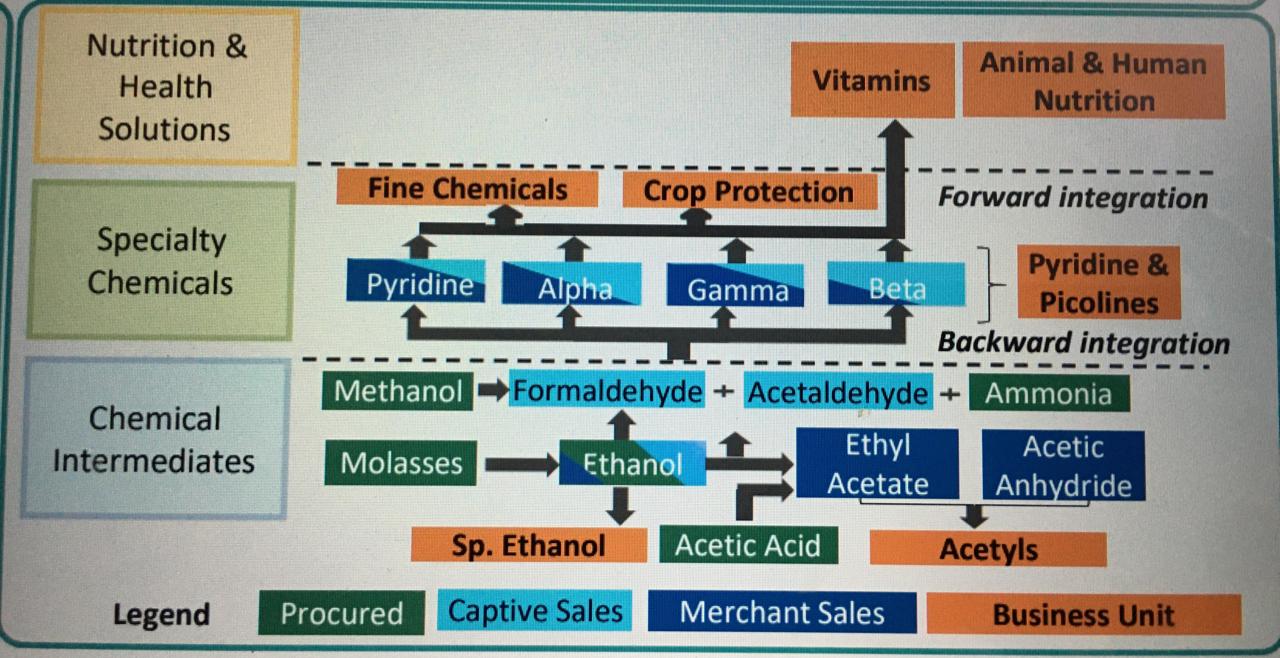
**Nutrition (21% EBITDA Margins):** **Part Commodity, Part Value-added (Branded) business**

* + **Nutrition & Health Ingredients Animal & Human Nutrition Health Solutions.**
* **Vitamin B3** (Raw material – Beta Picoline)
* **Vitamin B4.**

On Average, the commodity and high-margin divisions have contributed 50-50% in sales

**#MAIN THESIS POINT – 1 – STRONG BUSINESS PROFILE:**

* **Highly Integrated Operations:**
  + JVL benefits from vertically integrated operations across the value chain, leading to cost competitiveness. About 45% of the Lifescience Chemicals segment volume is consumed by the Speciality Chemicals segment and about 52% of the pyridine and picolines output of the Speciality Chemicals segment is used in the Nutrition and health segment.
  + CDMO business supported through vertical integration.
  + For Vitamin B3 (Niacinamide & Niacin), 100% in-house sourcing of Beta Picoline (Key RM) from Speciality Chemicals.



Such High level of integration has resulted in the company being amongst the lowest in the cost curve and it imposes a high barrier to entry for new entrants.

In the speciality chemicals business**, JVL is globally the lowest cost producer of pyridine-based derivative products**, among the top two in pyridine and the leader in 14 pyridine derivatives.

* **Market Leadership:** 
  + Globally # 1 in 17 Pyridine Derivatives - Amongst top 2 Globally in (Pyridine + Beta)
  + Global Leadership in Niacinamide; Globally among top 2 in Vitamin B3 (Niacin & Niacinamide) (20% Global market share in Vitamin B3)
  + Leader in India Vitamin B4 (Choline Chloride) (69% domestic share in Vitamin B4)
  + Acetic anhydride: 71% domestic, 15% international market share
  + Ethyl acetate: 33% domestic, 4% international market share
  + Bio acetaldehyde: 35% domestic market share; world’s largest manufacturer
  + Propionic anhydride: Among top-2 global manufacturers

**Low cost + Market share leadership = Scale Economics**

* **Diversified revenue profile (Non-cyclical revenue stream):**

Revenue profile is diversified, with **28% derived from the high-margin SC segment** in the fiscal 2022, **15% from the NHS segment** and the remaining **57% from the relatively low-margin LSC segmen**t. Revenue diversity is further augmented by presence in **domestic and international markets, which accounted for 47% and 53% of the revenue**, respectively, in the fiscal 2022. The company has wide reach in international markets, such as North America and Europe, which account for about 25% of the revenue, while China and the rest of the world account for about 9% of the revenue. The company has 1,400+ clients globally, with the top 10 clients accounting for 20-25% of the overall revenue.

Furthermore, JVL serves diverse end-user industries, such as:

**Pharmaceuticals (37% Fy22 Revenue)**

**Agrochemicals (22%)**

**Nutrition (20%)**

**Industrial (18%).**

This in turn insulates JVL from downturn in any particular industry.

Economies of scale derived from global presence of capacities, high level of integration in manufacturing, deep chemistry knowledge and continuous improvement in cost efficiency have historically supported the operating profitability of JVL on account of fluctuations in input prices as well as any shift in demand between different products in the value chain.

* **Technological Expertise**:

Expertise in 35 Technology platforms which include Acetyl, Pyridine/ Piperidine, Ketene/ Diketene, Halogenation & others (At large commercial scale).

Expertise in scale handling multistep chemistries (Up to~13 steps) At Commercial scale.

* **Long approval process of customers**: It takes about 3-5 years for product approvals and facility audit from customers. This acts as a barrier of entry for newer entrants.

**#MAIN THESIS POINT – 2 – HIGH GROWTH CAPEX**:

* The Company has initiated new capex programme with **focus shifting towards non-commoditised segments of Speciality Chemicals and Nutrition business**. Of the previously announced INR 900crs capex and the additional capex of INR 1250crs, **60% of the amounts are committed towards Speciality Chem**. Peak Sales potential post capex is INR 9500crs (~2x of FY22 sales) as per the company.

“Due to advancement in our new product pipelines & CDMO projects, we are pleased to revise our investment plan for growth projects to Rs. 2050 Crore, out of this we have already committed investment in projects worth Rs. 800 Crore till date and now we plan to invest about Rs. 1,250 Crore. to be committed between FY’23 & FY’24. **These investments will be funded through internal accruals** and all these **new facilities should be ready for operations by FY’25.”**

Additional growth capital investments amounting to Rs 1250 crore are to be committed during FY23 & FY24 to expand our newly added chemistry platforms like **Diketene and Agro Actives** and further strengthen the leadership in chosen areas of product portfolios including **CDMO projects**. In addition, we also plan to enter into **Fluorinated derivatives**, **Fungicides (Agro Actives)** and **Grain based Specialty Ethanol** as new business platforms.”

**CAPEX BREAKDOWN:**

**Existing (800cr) Capex -**

**Speciality Chemicals:**

• **Diketene investment (Phase 1)** – Moving up the value chain of Ketene, on growing demand (Q4 FY’22) (Commissioned)

**• CDMO (GMP) Multipurpose plant**– **For Pharma intermediates** (Q3 FY’23)

• **CDMO (Non-GMP) Two Multipurpose plant for Pharma & Agro intermediates** (Q3 FY’23)

• **Acetaldehyde Expansion:** Backward Integration for Pyridine Beta & Green Acetic Acid (Q3 FY’23)

• **MPP Agro Active plant** – Moving up the value chain of Crop Protection actives & Growing customer demand (Q3 FY’24)

**Chemical Intermediates**:

• **Food Grade Acetic Acid**– Green Acetic Acid for food applications (Q1 FY’23) (With ramp up of food grade acetic acid plant getting live, Chemical Intermediates should see decreased volatility and the blended margins should improve as well.)

• **Acetic Anhydride capacity expansion** – Growing demand & Geographic expansion (Q4 FY’23)

**Proposed (1250cr) capex -**

**Speciality Chemicals Proposed Investment: Rs 750 Crores**:

• The above proposed Investment is for expansion of – Diketene Derivatives, Agrochemical Intermediates, and new green field GMP Plant for CDMO

• Also proposed to be invested in new plants for foraying into Fluorination Derivatives and Agro Actives (Fungicides)

**Nutrition & Health Solutions Proposed Investment: Rs 200 Crores:**

• The above proposed investment will be done to set up – GMP complaint Plant for Pharma Grade Vitamin B3, and Plants for enhancing portfolio of Animal & Human Nutrition products.

**Chemical Intermediates Proposed Investment- Rs 300 Crores:**

• The above proposed investment will be done to set up a Grain based Green Specialty Ethanol Plant & Other De-Bottlenecking

**Overall capacity increase – 40% (12% CAGR) by 2025**

**#MAIN THESIS POINT – 3 – VALUE MIGRATION – TRANSITIONING TOWARDS SPECIALITY:**

* Post completion of this overall growth-related capital investments of total Rs. 2,050 Crore, at their optimum utilization the company is aspiring to achieve overall annual revenue of Rs 9,500+ Crore, this will also improve **Revenue mix of Specialty and Nutrition segments and others to 65% from 46% in FY22**, which is going to be the **key driver for overall margin improvements** of Jubilant Ingrevia Ltd.

Incremental revenue growth with the commencement of new facilities coupled with increased contribution from the non-commoditised business would lead to a better quality and more stabilised margin profile

The capex directed towards Diketene products and derivatives, CDMO, agro-actives and acetic anhydride plant should lead to margin expansion as well as incremental EBITDA generation moving forward.

**CDMO**: CDMO can be a significant growth area for Ingrevia’s Speciality Chemicals segment. The company recently won a 3-year contract worth INR 270crs from one of the innovator pharmaceutical client. Ingrevia will supply Two key GMP intermediates for one of the ‘patented drugs’ of the client.

Ingrevia has a total of 165+ products (Speciality Chemicals: 85; Nutrition & Health Solutions: 72; Chemical Intermediates: 8) and 60+ products in pipeline. **Given its capability in Process development, optimisation and scaling-up of complex chemistries**, **we believe CDMO practice can be scaled up meaningfully form the current levels**. **Commercialisation of dedicated CDMO facilities (GMP & non GMP) in FY23 should further strengthen their CDMO practice.**

**Value migration towards speciality chemicals, CDMO and nutrition segments and a more stable margin profile can lead to re-rating.**

**#MAIN THESIS POINT – 4 – LONG RUNWAY FOR COMPOUNDING GROWTH**

**They have a long runway (10-20 years) for growth in all three areas they work in. Majority of end users are secular growth in nature (Pharma, agro chem, nutrition, paints in industrial). All will grow at a fair price for a very long time giving the company a long run-way for compounding growth.**

**#MAIN THESIS POINT – 5 – STRONG FINANCIAL PROFILE**

**Strong return ratios: 20, 26% ROCE for FY21,22**

**Debt reduced to 238crs from 1341crs in 3 years. Net debt free.**

**Robust Free Cash Flow Generation**

Normal working capital requirements – 60 days

**#MAIN THESIS POINT – 6 – FAIR VALUATION**

Company currently trading at fair static intrinsic value (CMP – 485, 9X EV/ EBIDTA, 11X EV/EBIT) meaning we get all the future growth for free.

Plus, better margin profile and sustained growth could lead to multiple re-rating, thus giving us the potentially potent combination of **earnings growth + multiple re-rating**

**#MAIN THESIS POINT – 7 – LOW RISK TO BUSINESS PROFILE AND GROWTH ASSUMPTIONS**

I cannot think of any risk to business profile and future growth other than execution risk (Management has shown good execution skill in scaling up the business)

The end users are diversified and secular in nature

The company is highly integrated, process driven and lowest in the cost curve

The company is financially very strong

SO, THE RISK TO REWARD RATIO IS VERY MUCH SKEWED IN OUR FAVOR

KEY RISKS:

**Pollution and Environmental regulations:** To me this is the main potential risk for the company. The company was previously complicit in its pollution and environmental compliance. But recently, that is all changing. But it is a key monitorable. Any adverse action taken by authorities could result in trouble for the company.

**Exposure to fluctuations in input prices:**

**Fluctuations in prices of acetic acid, which is a key raw material for the LSC segment, has resulted in volatility in the operating margin of the company**. While the input price is a pass-through, in case of any sharp increase or decrease in price, there could be some impact on the operating margin. The operating profitability of JVL will remain exposed to fluctuations in acetic acid prices, as the LSC segment is expected to account for about half of the overall revenue over the medium term.

**Government policies:**

Operations are exposed to government policies given the widespread international presence. For instance, JVL faced anti-dumping duty for its pyridine exports to China in 2015. Since then, the company has entered other geographies, thereby de-risking pyridine exposure to China. Furthermore, in November 2019, China terminated the anti-dumping duty. However, any adverse impact of government policies on revenue and profitability will remain key rating sensitivity factors.

**MISCELLANEOUS**:

* **Acetic acid induces volatility in EBITDA margins:**

Being the a key raw material for acetyl chemistry, JVL keeps an inventory of Acetic acid. The volatility in the Acetic Acid prices lead to the loss/gain of inventory.

Given the volatility in Acetic acid, the margins optically tend to fluctuate a lot (Q1FY22 margins at 27.3% vs 4.6% in Q4FY22) due to the gains and losses on inventory levels.

* **Chemical Intermediates –Volatile margin profile**

Acetyls (low margin, high volume, very high ROCE):

O Acetic anhydride: 71% domestic, 15% international market share; among top-2 globally; current capacity: 145’000 TPA; increase capacity by 35% in 3-years; Used in paracetamol, vitamins, aspirin;

o Ethyl acetate: 33% domestic, 4% international market share; Used as extracting agent in pharma; as industrial solvent in paints, adhesive, and also in flexible packaging; It’s a green solvent

o Bio acetaldehyde: 35% domestic market share; world’s largest manufacturer

o Specialty ethanol: 8% domestic market share; backward integrated using molasses; Leading supplier to oil marketing companies

o Propionic anhydride: Among top-2 global manufacturers

Key raw material is acetic acid and is largely imported (China has 42% of global capacity); Prices fluctuates a lot

* **Vitamins (branded + commoditized):** B3 (Niacin, niacinamide) global market share of 19%; B4 (Choline Chloride) domestic market share of 50%; Commoditized product facing competition from Chinese players who have excess capacity; Backward integrated into key raw material (beta picoline & differentiated technology; air oxidation for manufacture of niacinamide; main brand: ANICHOL); Looking to create brands for animal feeds; Most demand is from animal (80%) and human (16%) nutrition
* **Forey into Diketene chemistry**: Indian market size is $150mn (2019); 40% was imported; Laxmi Organics is sole Indian manufacturer with 55% market share; Plans to launch 6 derivates; One of the few global companies capable of handling large volume of ketene; Huge demand coming up for diketene and one of the leading producers has exited.

Commissioning of Diketene plant Phase I, should lead to INR 150crs of incremental revenue in the Spec Chem segment. The newly commissioned plant in Phase I has a capacity of 6,000 tonnes; as Phase II gets commissioned in H2FY23, additional 2.000 tonnes of capacity will be added with increased focus on value added products.

* Successfully commissioned Phase-1 of Diketene and Derivatives. Share of revenue to customers having Agro Chemical end use grew to 37% of Revenue from 28% earlier registering a growth of 81% YoY. 36 Products in Pipeline. Fluorinated Pyridines in development for exports for innovative molecules. 18 Products in Pipeline for Nutrition segment.
* Jubilant Ingrevia was able to secure a CDMO contract of INR 270crs in Specialty Chemicals business, spanning over a period of three years with one of its international customers. Through the contract the company will supply two key GMP intermediates for one of the ‘patented drugs’ of the Innovator Pharmaceutical customer.

Commercial supplies of both these products will start from FY’23 onwards through the GMP Facility. We believe specialty chemical segment will have increased contribution to total revenue with improved margins on the back of the above CDMO contract and commissioning of Diketene plant.

* **Agro-active**: Moving up value chain from ingredients to producing agro-actives (for pesticides)

FINAL VERDICT: BUY FOR LONGEST TERM (5-10-20 YEARS AS LONG AS THE BUSINESS PERFORMS)