JFL Lifesciences Limited

A REVIEW REPORT ON JFL LIFESCIENCES LIMITED IPO

IPO Details

Opening Date	Aug 25, 2022
Closing Date	Aug 30, 2022
Stock Exchange	NSE SME
Lot Size	2000 Shares
Issue Price	₹ 61 per share
Issue Size	29,78,000 Equity Shares
Application Amount	₹ 1,22,000

IPO Objective

- Repayment of secured and unsecured loans
- To meet the Working Capital Requirements
- General Corporate Purposes

Company Background

- Company was incorporated in the year 2010 and is in the Pharma industry.
- Company is into the business of manufacturing capsules, tablets and injections.
- It sales its products PAN India and to 10 developed and developing countries throughout the world.
- It has 2 FDA approved state of art Manufacturing units in Gujarat.
- Company is registered with the MOH of Kenya, Nigeria, Yemen, Cambodia & Myanmar for manufacturing of a particular product.
- As on date of filing prospectus, the company had 36 employees in its payroll.

Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	74,20,441	92.52%
Public	6,00,000	7.48%

Promoter of the Company

1. Mr. Smiral Ashwinkumar Patel
2. Ms. Tejal Smiral Patel

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Company Overview

JFL Lifesciences Limited was incorporated in the year 2010 and is in the pharmaceutical industry. The company has been engaged in the manufacturing of Capsules, Tablets and Injections. The company has two FDA approved State-of-art manufacturing units in Gujarat. Company is registered with the MOH of Kenya, Nigeria, Yemen, Cambodia & Myanmar for manufacturing of a particular product.

Analysis

Established in the year 2010, the company has a good track record of existence. Company is into a growing industry which is expected to grow at a CAGR of 12% till 2030. India being the largest exporter of generic medicines gives the company a good chance to show good strength in its financials in the coming times.

Company has 2 manufacturing units in Gujarat which are equipped with latest technology and are FDA approved. In one unit, the company produces Beta-Lactam products and in other unit is produces Non Beta-Lactam products.

Beta-Lactam are a group of medicines that are used to treat infections caused by some germs (bacteria and certain parasites). They do not work against infections that are caused by viruses - for example, the common cold or flu. There are various type of dosages in this Group Like Tablets, Capsules, Injection and Dry Syrups for oral Solution.

Non Beta-Lactam Medicines are generally used for General Diseases like cold, Flu, Fever, Anti Gastrological, Anti-Malarial, and several other virals. Company majorly manufactures Tablets and Capsules of this Group.

The product base of the company mainly includes Injections, Tablets and Capsules. Company is also in the verge of producing Oral Rehydration Solution (ORS) in the coming times. The capacity installed and utilised for all these products is given in the table below –

Particulars	Installed	Utilised	% of utilised
Injections	60,00,000	23,55,000	39.25%
Tablets	24,00,00,000	8,93,25,000	37.22%
Capsules	15,00,00,000	1,59,00,000	10.60%
ORS	24,96,000	-	0.00%
Total	39,84,96,000	10,75,80,000	27.00%

As seen from the table, it is evident that the company is utilising just 27% of its installed capacity and has enough capacity unutilised. Looking at this the company has possibility to generate enough revenues in coming times if proper R&D is done.

The revenue of the company has been static but the profit margins have increased in the recent years. The net profit margin increased by more than 367% and the reason explained by management is that the demand for their products increased and the supply was limited, so it was able to charge more margins from the customers. But with static top-line it can be said the volume of sales reduced and the profit margin was only because of higher sales price or inflation and so the sustainability of such margins is in question. The company has been generating 76.98% of its revenue from exports and 23.02% of revenue from its domestic sales. From the prospectus, it could be analysed that the company has been increasing its sales in domestic market constantly in the recent years. Also the sales have been more from tablets in earlier years but the same has been shifting to capsules and injections.

Being in export market, company has taken necessary registrations required in the countries where it sales its products. Company is registered with the MOH of Kenya, Nigeria, Yemen, Cambodia & Myanmar for manufacturing of a particular product. Few of its products are also registered with Ukraine, Uzbekistan, Kazakhstan (CIS countries) through merchants.

To conclude, the company is in growing industry, the competition is although high. The company has enough unutilised capacity which would benefit it to produce more without any production bottlenecks in the coming future. The introduction of new products (ORS) can further help the company in increasing revenue.

Industry Charts

Exhibit 1: Indian Pharma Market Expected to grow at a CAGR of 12% from FY 21 to FY 30

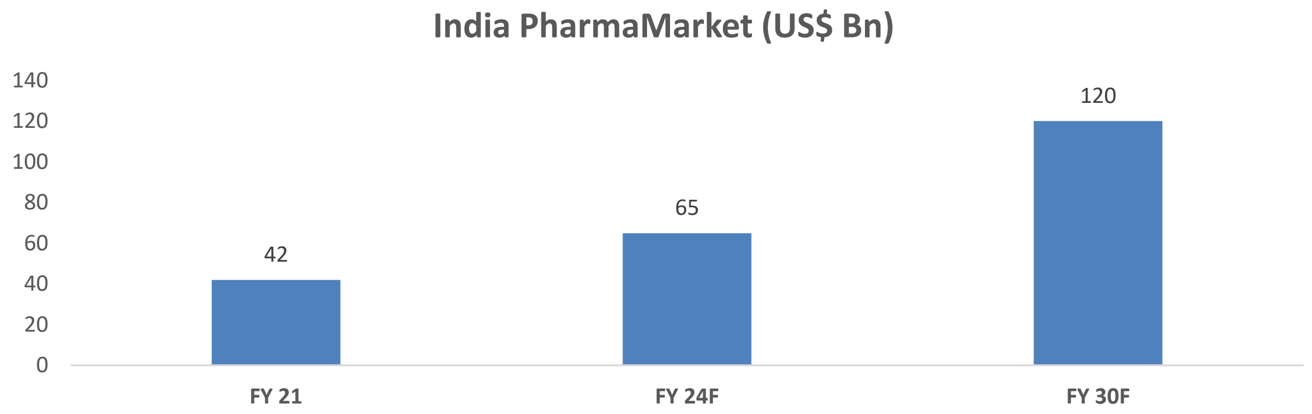


Exhibit 2: R&D as a % of Sales by Top 10 Indian Pharma Companies

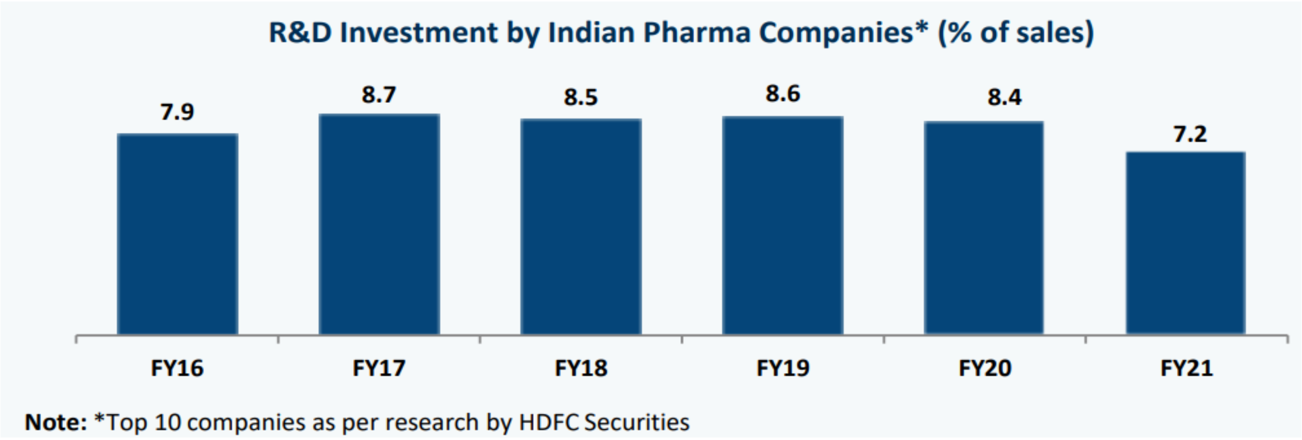
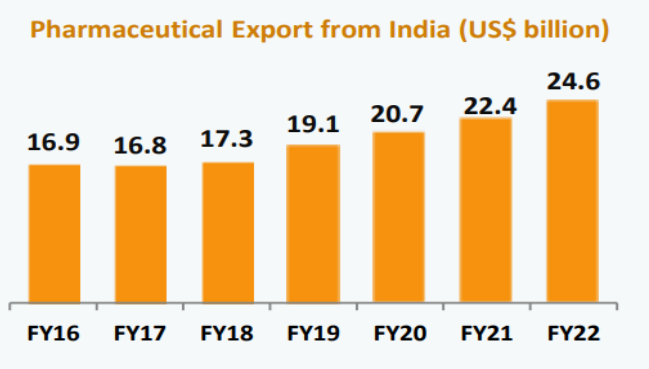
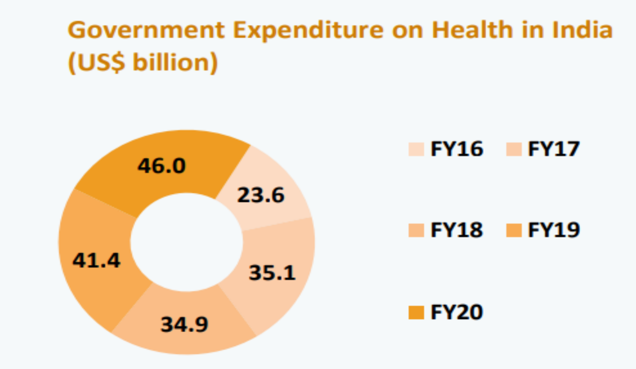


Exhibit 3: Key Trends in Pharmaceutical





(Source: ibef.org)

Investment Overview

Pharma Industry

India is the largest provider of generic drugs globally. Indian pharmaceutical sector supplies over 50% of global demand for various vaccines, 40% of generic demand in the US and 25% of all medicine in the UK. Globally, India ranks 3rd in terms of pharmaceutical production by volume and 14th by value. The domestic pharmaceutical industry includes a network of 3,000 drug companies and ~10,500 manufacturing units. India enjoys an important position in the global pharmaceuticals sector. The country also has a large pool of scientists and engineers with a potential to steer the industry ahead to greater heights. Presently, over 80% of the antiretroviral drugs used globally to combat AIDS (Acquired Immune Deficiency Syndrome) are supplied by Indian pharmaceutical firms.

According to the Indian Economic Survey 2021, the domestic market is expected to grow 3x in the next decade. India’s domestic pharmaceutical market stood at US$ 42 billion in 2021 and is likely to reach US$ 65 billion by 2024 and further expand to reach US$ 120-130 billion by 2030. India's biotechnology industry comprises biopharmaceuticals, bio-services, bio-agriculture, bio-industry, and bioinformatics. The Indian biotechnology industry was valued at US$ 70.2 billion in 2020 and is expected to reach US$ 150 billion by 2025. India’s medical devices market stood at US$ 10.36 billion in FY20. The market is expected to increase at a CAGR of 37% from 2020 to 2025 to reach US$ 50 billion. As of August 2021, CARE Ratings expect India's pharmaceutical business to develop at an annual rate of ~11% over the next two years to reach more than US$ 60 billion in value.

(Source: ibef.org)

Addressable Market for JFL Lifesciences Limited

The company is mostly exporting its products to the African Countries and CIS Countries. The company further looks to increase its customer base in Eastern Asia and is looking for measures to be cost effective in these regions.

Competition

The company faces healthy competition in this industry. The entry to barrier is not that high and also the industry is fragmented. There are many reputed and big brands already in the market and also there are many small players providing the same type of products as that of the company. Also since the company has mainly been exporting it faces some extra competition not only on product sales basis but also on getting approval from various agencies.

Peer Analysis

As Mentioned in the prospectus, the company has mentioned 2 peers viz. Zenith Healthcare Limited and Vaishali Pharma Limited. A brief analysis on the same is given in the table below –

Company	**JFL Lifesciences Limited**	**Zenith Healthcare Limited**	**Vaishali Pharma Limited**
Net Profit (INR Cr)	2.53	0.31	4.02
EBITDA (INR Cr)	8.80	0.98	8.65
Return on Capital Employed	44.11%	8.67%	29.14%
Return on Equity	23.10%	4.34%	15.26%
EPS (INR)#	2.84	0.03	4.48
P/E* (Times)	21.46	190.00	21.58

***PE has been taken as on 22/08/2022**

#EPS has been annualised and calculated on post IPO basis.

Promoters' Profile

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<tr><td colspan="2">Mr. Smiral Ashwinkumar Patel</td></tr>
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Mr. Smiral Ashwinkumar Patel is the Promoter and Managing Director of the Company.
He is having more than 12 years of experience in Pharma Industry.
He holds bachelor's degree in business administration from Gujarat University. He also holds a master' degree in computer science from Empire College London. He holds a diploma in computer training from ACT Computer Education and a post-graduate diploma in international business from University of Salford.

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<tr><td colspan="2">Ms. Tejal Smiral Patel</td></tr>
<tr><td></td><td>

Ms. Jyoti Choudhary is the Promoter and Whole-time Director of the Company.
She has 7+ years of experience in the Pharma Industry
She holds bachelor's degree in education (mathematics and science) from Gujarat University. She holds bachelor's and master's degree in science (statistics) from Gujarat University.

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Analysis on the Company's Promoter and Board of Directors

Mr. Smiral Ashwinkumar Patel, Promoter and Managing Director, of the company is the guiding force behind the business decisions of the company. He is having more than 12 years of experience in Phama Industry. His education background does not support the type of Industry it works in as he holds a master' degree in computer science from Empire College London. However, he has done post-graduation diploma and bachelor's degree in International Business and Business Administration respectively which shows he has good education on how to manage business both domestically and on international level.

Ms. Tejal Smiral Patel, is one of the promoters of the company. She is a Whole-time Director of the company. She has 7+ years of experience in the pharma industry but her education background also does not support the type of business the company is in.

Mr. Manishkumar Jasvantlal Patel, is the Chairman of the Board and a Non-Executive Director of the company. He is an undergraduate and has passed the higher secondary certificate examination held by Gujarat Secondary Education Board, Gandhinagar. He has more than 10 years of experience in the hospitality and travel industry.

To conclude the company's management, although experienced lack education on the pharmaceutical side. The company has appointed **Mr. Manishkumar** as the Chairman of the Board is also not experienced in the pharma field. Looking at these, it can be said that the company is dependent only on the experience of the Managing Director in the pharma industry.

Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2020	As at 31st March, 2021	As at 28th Feb, 2022
Profit and Loss			
Revenue from operation	3,017.13	3,277.47	2,491.20
Other income	3.28	9.42	71.86
Total Revenue	3,020.41	3,286.89	2,563.06
Expenses	2,830.83	2,725.50	1,682.60
Depreciation and Amortisation Cost	23.70	27.62	37.18
Finance Cost	116.18	123.36	150.48
Total Expenses	2,970.71	2,876.48	1,870.26
PBT	49.70	410.41	692.80
PBT Margin	1.65%	12.52%	27.81%
EBITDA	189.58	561.39	880.46
EBITDA Margin	6.28%	17.13%	35.34%
Net Profit	36.04	54.21	253.28
Net Profit Margin	1.19%	1.65%	10.17%
Balance Sheet			
Total Borrowings	932.29	1,681.45	1,600.18
Net Worth	537.53	687.25	1,096.25
Fixed Assets	505.45	650.18	709.57
Net Working Capital	86.86	669.29	941.32
Financial Measures			
Inventory Turnover Ratio	7.13	5.02	2.38
Receivables Turnover Ratio	6.12	4.14	5.92
Payables Turnover Ratio	3.03	6.30	2.73
Fixed Assets Turnover Ratio	5.97	5.04	3.51
Return on Capital Employed	24.31%	35.02%	44.11%
Return on Equity	6.70%	7.89%	23.10%
Debt-Equity Ratio	1.73	2.45	1.46

(The data has been taken and calculated from the financials given in the prospectus)

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

The EBITDA of the company has grown from Rs. 189.58 lacs in 2020 to 880.46 lacs up to Feb 2022 growing at a CAGR of 115.51%. The EBITDA margin up to Feb 22 2022 was 35.34% from 17.13% in 2021 and 6.28% in 2020 showing good management of the operating expenses. The revenue is expected to increase in future with an increase in EBITDA but will the margin sustain in future is in question.

Net Profit

The net profit of the company has grown from Rs. 36.04 lacs in 2020 to Rs. 253.28 lacs up to Feb 22 growing at a CAGR of 165.10%. The net profit margin has grown from 1.19% in 2020 to 10.17% up to Feb 22. The net profit margin has also increased due to increase in Operating margin.

Finance Cost.

The company has incurred finance cost mainly on long term and short term borrowings. But since the company is planning to repay some of its loan through IPO the finance cost would reduce.

Financial Measures/Ratios

The financial ratios of the company have been increasing in the recent years.

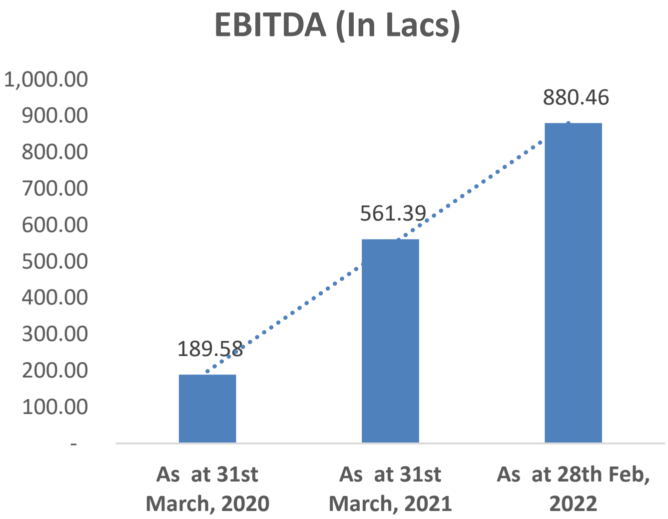
RoCE of the company up to Feb 22 was 44.11% vs 24.31% in FY 20. The same has been increasing despite new shares being issued up to Feb 22 because of decrease in operating expenses of the company. The same is looking to sustain or decrease slightly as half of the new capital being introduced will be to pay off debt making the capital raise by a few amount. Also the EBIT is expected to increase with increase in revenue which would help the ROCE to be above 40%.

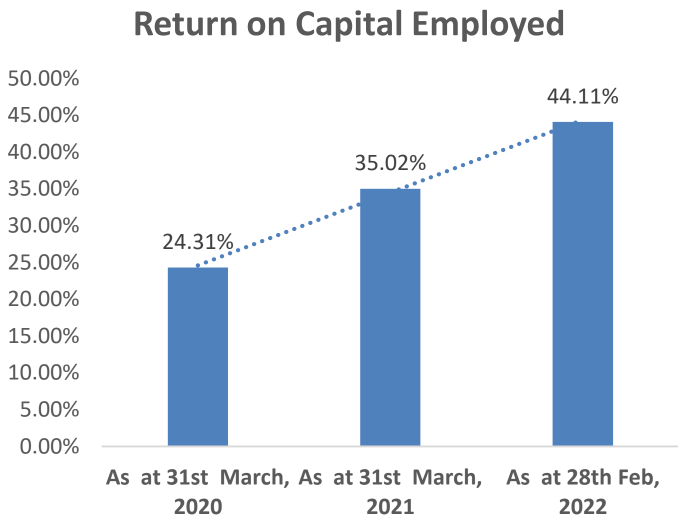
Return on Equity (ROE) of the company up to Feb 22 was 23.10% showing a rise from 6.70% in FY 20. The same can be set forward with similar assumptions as that of ROE.

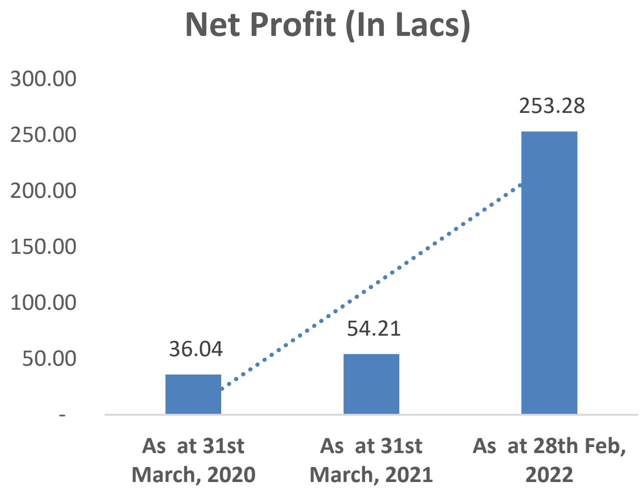
The company has been able to effectively manage its Receivables and Payables but has to look forward to manage the inventory effectively as the turnover has been reducing over time.

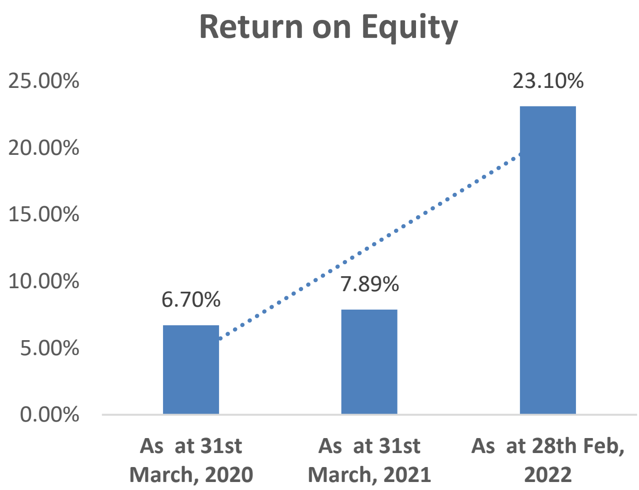
The company has debt-equity ratio of around 1.46. The same would reduce as the company is set to pay off some of its debt through IPO. But the company plans to pre-pay some loans where it has been paying low rate of interest than it would get now or in coming times. The company could have kept those loans and have looked to reduce its Weighted Average Cost of Capital.

Financial Graph









Key Risk Factors

1. There have been couple of litigations pending where the company is fighting against a case of Dishonour of Cheques totalling to an amount of Rs. 2.66 lakhs. Any unfavourable decision would financially impact the company.
2. The company has to take and retain certain licenses from the countries it exports to and in future has to take approval from certain agencies, failing which the company would not be able to generate revenue in spite of incurring expenses for the development of its products.
3. The company is exposed to foreign exchange fluctuations and any wrong decision in hedging the same would adversely affect the company.
4. The company is dependent on third party to market and sell its product.

Track Record of Merchant Banker/Lead manager

The lead manager to the issue is GYR Capital Advisors and the previous issue details have been taken from the Lead Manager's website and Chittorgarh.com. A table has been set below highlighting the details of the IPO of some of the companies handled by the Lead Manager in recent times –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing date	CMP#
1.	Naapbooks Limited	3.99	74/-	15/09/2021	64.00
2.	Ascensive Educare Limited	2.26	26/-	12/01/2022	26.00
3.	Achyut Healthcare Limited	3.60	20/-	30/03/2022	18.00
4.	Dhyaani Tile and Marblez Limited	2.45	51/-	12/04/2022	55.00
5.	Veekayem Fashion and Apparels Limited	4.44	28/-	22/08/2022	50.00

#CMP is taken as on 22nd August 2022

This is the 6th IPO of the Lead Manager, all the last 5 listings have been in premium. The lead manager made its first IPO quite recently and had been handling IPOs of less than Rs. 5 crores except this IPO which is of Rs. 18.17 Crores.

Recommendation

The company has been into the business since 2010 showing decent track record of existence. The company is in the Industry of Pharmaceuticals where India has performed well and is expected to do well in coming times as the growth rate of this industry is projected to be at a CAGR of around 12% till FY 2030.

The company has been generating static revenue but the margins over the years have been increasing. With unutilised capacity and new products in pipeline the revenue is expected to increase more with higher profits but the continuity of the same EBITDA margin cannot be guaranteed. However, as the company is paying off its debt and has enough capacity to not look for any additional machinery, the net profit margin can be expected to be the same or improve slightly.

The sector PE is at around 30 times and the company is getting listed at a PE of 21 times makes it fairly price looking at the size of the business and growth opportunities.

The management outlook is slightly on the negative side as the educational background of the directors does not support the business in which the company is.

To conclude, the company looks to have good prospect but is a risky investment as the unutilised capacity may not be utilised in the coming years and the new product may not show good strength. So one who is **risk taker may apply** in the IPO and **risk averse should wait** and see if the company can capitalise on the opportunities.

Disclaimer

We are not SEBI registered and not a certified Research Analyst. The information provided here is for education purposes only. We will not be responsible for any of your profit/loss with these suggestions. Consult your financial advisor before taking any decisions.

We believe an SME company needs 2-3 years to show its true potential and therefore our recommendations are for Long-term investment and not for listing gains.