Jubilant Life Sciences Limited's
Q2 & H1 FY'15 Earnings Conference Call
October 28, 2014

Moderator Ladies and Gentlemen, Good Day and Welcome to the Jubilant Life Sciences Limited Q2 & H1 FY'15 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ravi Agrawal – Head of Investor Relations. Thank you. And over to you Mr. Agrawal.

Ravi Agrawal: Thank you, and good evening to all of you. I am Ravi Agrawal, Head of Investor Relations at Jubilant Life Sciences. I thank you for being with us today on our Q2 & H1 FY2015 Earnings Conference Call.

On the call, we have Mr. Shyam S. Bhartia – our Chairman and Managing Director; Mr. Hari S. Bhartia – Co-Chairman and Managing Director; and Mr. R. Sankaraiah – our Executive Director, Finance. We will begin with opening comments from Mr. Shyam Bhartia on the performance and outlook, thereafter Mr. Sankaraiah will share some key thoughts on the financial aspects of our performance. There will be an opportunity at the end of the opening remarks to get your queries addressed by the management.

Before we commence the call today, I would like to remind you that some of the statements made on the call today could be forward-looking in nature, and a detailed disclaimer in this regard has been included in the 'Investor Presentation' that has been shared on our website.

I now invite Mr. Bhartia to share his remarks with you.

Shyam S. Bhartia: Thank You Ravi. Good evening to you all. Jubilant continues to report robust growth in performance.

For Q2 FY2015 our Income from Operations was at Rs. 1,371 crore. The EBITDA in the same period stood at Rs. 137 crore, translating to margins of 10%. Revenue from International Markets stood at Rs. 955 crore, contributing 70% to total revenues. The regulated markets contributed 58% to overall revenues with the share of North American market at 37% i.e. Rs. 513 crore and that of Europe and Japan at 20%, i.e. Rs. 277 crore respectively. For H1 FY2015, Income from Operations stood at Rs. 2,844 crore with the corresponding EBITDA at Rs. 287 crore and EBITDA margins at 10.1%.

The company's performance in the quarter was affected mainly due to the continued impact of USFDA Warning letter on Spokane facility and adverse price impact on account of new capacities and regulatory changes in China in Advanced Intermediates business. Our Radiopharmaceuticals business has started to show the benefits of our strategic initiatives.

Let me give you a businesswise update. In Q2 FY2015, the Pharmaceuticals segment revenues stood at Rs. 614 crore contributing 45% to overall revenues.

In our API business, we continue our efforts of cost reduction through processes and yield improvement. As of September 30, 2014, we have 37 commercial APIs, including 19 in North America, 24 in Europe and 26 in ROW. During the quarter, we launched Quetiapine in Canada. We also received 2 approvals including 1 CEP and made 6 filings including 1 USDMF and 1 filing in Canada.

In Solid Dosage Formulations, we launched Zolmitriptan in Canada. We now have 47 commercial products, including 21 in North America, 27 in Europe and 23 in ROW. We currently have 42 ANDAs pending in the US market. The business has got impacted due to postponement of orders in Japan and product approval delays in the US market.

In CMO of Sterile Injectables business, our performance during the quarter was lower by Rs. 118 Crore in sales and by Rs. 99 Crore in EBITDA, on account of the continued impact of USFDA warning letter. EBITDA for the quarter includes one-time expenses of Rs. 35 Crore.

We are witnessing an increase in proposals for new business opportunities in Montreal, specifically in Ophthalmic Dosage Forms. During the quarter, we secured three contracts from key customers. With respect to the Spokane facility, production has restarted after the plant shut-down that we took in Q1 FY2015.

Our Radiopharmaceuticals business demonstrated strong performance following revenue increases recorded in key products. We are hoping to launch Ruby-fill and Generic Magnevist, two paradigm-changing products in FY 2016, subject to regulatory approvals.

Our Life Science Ingredients segment revenues stood at Rs. 757 crore in Q2 FY2015, growing 2% YoY and contributing 55% to the overall revenues.

We witnessed a temporary slowdown in our Advanced Intermediates business due to a few developments in the Chinese market during the quarter. These include changes in regulatory requirements for Paraquat formulation, additional new players and lower realization on account of anti-dumping duty. We won multiple new contracts for various products, including first supply of Pyridine to Taiwan. Pricing environment for Symtet remained firm and we are seeing robust demand for this product. We continue our efforts to stabilize the Symtet plant.

Lastly, our Life Science Chemicals business is witnessing pricing uptrend across markets for key products. During the quarter, we won new contracts from existing as well as new clients.

In conclusion, I would like to say that we expect to deliver stable performance in our business from Q4 FY2015 with operations becoming normal in our CMO business, expected new launches in Solid Dosage Formulations business and better performance in Radiopharmaceuticals.

We are looking at strengthening the balance sheet further and continue to exercise prudence in our capital expenditure.

I would like to invite Mr. Sankaraiah to continue the discussion with his thoughts on the financial performance of the Company.

R. Sankaraiah: Thank You Mr. Bhartia. And thank you everyone for joining us on the call. I will walk you through the highlights of the quarter under review.

In Q2 FY2015, our Income from Operations stood at Rs. 1,371 crore with EBITDA for the quarter at Rs. 137 crore and EBITDA margins at 10%. The Reported Profit after Taxes stood at Rs. (94) crore after the exceptional gain of Rs. 5 crore. The Normalised Profit after Tax for the quarter was at Rs. (99) crore translating into Normalised EPS of Rs. (6.20) per equity share of Re. 1.

Getting into the business highlights, revenues from Pharmaceuticals segment stood at Rs. 614 crore, contributing 45% to overall revenues. EBITDA from the segment stood at Rs. 69 crore, translating to EBTIDA margin of 11.3%. Excluding one-time expenses of Rs. 35 Crore, the margins for the segment stood at 17%. The Life Science Ingredients segment revenues stood at Rs. 757 crore, up 2% YoY. The contribution to overall revenues stood at 55%. The EBITDA of the segment stood at Rs. 62 crore with margins at 8.2%.

Moving on to the H1 FY2015 performance, Income from Operations stood at Rs. 2,844 crore and EBITDA at Rs. 287 crore with margins of 10.1%. The Reported PAT stood at Rs. (89) crore post the exceptional loss of Rs. (14) crore. The Normalised Profit after Tax was at Rs. (75) crore and the Normalised EPS stood at Rs. (4.73) per equity share of Re. 1.

In H1 FY2015, Income from Operations of the Pharmaceuticals segment stood at Rs. 1,218 crore, and contributed 43% to overall revenues. The EBITDA for the segment stood at Rs. 105 crore translating to an EBTIDA margin of 8.6%. Excluding one-time expenses of Rs. 45 Crore, the margins for the segment stood at 12.3%. The Income from Operations of Life Science Ingredients segment stood at Rs. 1,626 crore, up 12% YoY and contributing 57% to overall revenues. The EBITDA of the segment stood at Rs. 195 crore and the EBITDA margins were at 12%.

I would like to highlight that our H1 FY 2015 results have been impacted by a few significant events. Our CMO of Sterile Injectables revenues were impacted on account of the USFDA warning letter by around Rs. 205 Crore and EBITDA by around Rs. 200 Crore, including one-time expenses of Rs. 45 Crore. Our Advanced Intermediates business in China was impacted by Rs. 30 Crore as explained by Mr. Bhartia earlier. Our Solid Dosage Formulations business was impacted due to order postponement in Japan and delays in product approvals in the US.

Let me now give you some highlights of the balance sheet. As on September 30, 2014 our Net Debt stood at Rs. 4,080 crore. This comprises of Rs. 2,631 crore of long term debt and Rs. 1,449 crore of working capital requirement. We continue to service our repayment obligations on time as per schedule.

Our blended interest rate for the quarter stood at 6% with Rupee borrowing at 12% and the foreign currency borrowing at approximately 4%.

During H1 FY2015, we spent Rs. 104 crore on CAPEX and incurred Rs. 47 crore on product development expenditure. As intimated earlier, we have prudently rationalized this expenditure. We will continue to maintain a tight vigil on capital expenditure to generate cash and reduce our overall borrowings.

Finally, I would like to mention that the business performance should stabilize from Q4 FY2015 with operations normalizing in our CMO business. The new launches in Solid Dosage Formulations business and better performance in Radiopharmaceuticals should aid our results going forward.

With those comments, I would request the moderator to open the lines for Q&A please.

Moderator Thank you Sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee Sir, I have one question on the EBITDA performance of Life Science Ingredients. That seems to have significantly fallen Q-o-Q from Rs.133 crore last quarter to Rs.62 crore. How do you explain this big fall in the Life Science Ingredients business?

R. Sankaraiah Saion, basically, like Mr. Bhartia has mentioned in his speech also that reason for the fall in this quarter particularly in Life Science Ingredients

business, and the impact is mainly on account of Advanced Intermediates, i.e. because of some regulatory requirement for Paraquat formulation which is required, that the formulation has changed. Because of that the supply to China market was not much during that quarter. Also, in that segment, there are some new players we have seen in last quarter. Because of that there was a pressure and the supplies were a little higher than the demand. So the prices have fallen substantially. Adding to all these things, there was an anti-dumping duty which has been imposed in China, because of which the margins came under pressure. What the management feels as of today is that the formulation of Paraquat and the anti-dumping, these two things will get stabilized maybe in a quarter or two, whereas the new players because of the increase in Pyridine requirement, it will get automatically absorbed. So, overall, we believe that over a period of 3 to 6 months, it will get corrected.

Saion Mukherjee So based on the explanation that you have given, it does not look like that we will get back to 15% to 16% EBITDA margin anytime in the foreseeable future.

R. Sankaraiah We should be there maybe Q4 or next year Q1 because it is a little bit of cyclical also. So, we should be in a position to get that Life Science Ingredients business in that range of about 15%, because if you see this kind of low margin, we have never seen in the history of Jubilant. We believe that since it is more of a cyclical business, so we should be in a position to get back to the normal level.

Saion Mukherjee On the CMO business, on the warning letter, where are we and do you expect resolution in this year?

Shyam S. Bhartia We are continuing to do the remediation measures which we took a shutdown and we continue to do that. I think by January-February, we hope to complete the remediation measures, and US FDA can come for inspection any time, we do not know ourselves. So, as and when they come for inspection, we are keeping them informed about our remediation measures, and when they come for inspection, we hope to have a successful review with them.

R. Sankaraiah As you see, last quarter also we have mentioned that we have taken a voluntary shutdown to correct the situation and that is why almost last 3 months practically we did not have any sale. So, now if you refer the last concall speech, we have mentioned very clearly that we will restart the plant in the month of September and effective October onwards, we should start supplying the material to the market. So, that is going as per the schedule. That is why, we say that even though the dispatches started happening from September, end October onwards, we believe that the full normalcy will happen in Q4 FY2015, i.e. January to March quarter. That is where we will get into the normal level, because after shutting down the plant, starting the production, and inspection takes some more time, with all those timelines, we should be in a position to be back to normalcy in Q4 FY2015.

Shyam S. Bhartia Having said that, our order book position remains the same, none of the customers have gone out of our order book. So, there is a backlog of order book which is there, which we have not supplied to the customers. So, the customers are with us, I think that is most important.

Saion Mukherjee And sir, Ruby-fill, you are expecting in FY16 now? Earlier I think you mentioned FY15?

R. Sankaraiah We mentioned early FY16 in first quarter, we are not in a position to exactly say when, that depends upon the approval of the products. We are ready from our side, once the product is approved, we should be in a position to launch it.

Shyam S. Bhartia In general, we are expecting delays in the US FDA approvals coming in for a lot of our existing products. So, we are factoring some delay now because at US FDA, there is some delays in the approval happening.

Moderator Thank you. We have the next question from the line of Praful Bohra from Nirmal Bang. Please go ahead.

Praful Bohra Sir, on the EBITDA front, you mentioned there was a one-time expense of Rs. 35 odd crore. Can you just explain the nature of that please?

R. Sankaraiah That is basically to correct the FDA requirement, we appointed some consultants and also internally we have lost some projections, etc., because of that there was a one-time accumulation of about $6 million during this quarter which has been booked. So, all those things have been written off in this quarter, that is the reason.

Praful Bohra But the FDA compliance cost is likely to continue in the ensuing quarters as well, right?

R. Sankaraiah No, when we did the shutdown to prepare the SOPs and also to get the correct guidance from the consultant and also to make the operating procedure manual everything properly, we have done that.

Shyam S. Bhartia We have appointed NSF as a consultant to go through this process which will continue in this third quarter also, but the cost which are going to be tapered down to minimum extent of about $2 to $3 million level.

Praful Bohra In the last call, I remember you were mentioning that you expect to improve on the EBITDA front Y-o-Y basis compared to FY14. Given the fact that we had a lower than expected first half, now what would be the new guidance or new expectation?

R. Sankaraiah What we have mentioned in the last concall was, H1 will be lower compared to last year, H2 will be higher. So, as of today, given this current situation, overall as a year, we do not see Y-o-Y EBITDA on an actual number basis will be higher.

Praful Bohra Okay. But, any guidance?

R. Sankaraiah We do not want to give any guidance because of a simple reason that in Q3 how the whole performance is going to happen after the corrective measures we are taking, we have to see and also the product approval, what we have expected in the year beginning, which has not come as per the plan. So, it is difficult for us to give any guidance as of today.

Moderator Thank you. We have the next question from the line of Tushar Manudhane from India Nivesh. Please go ahead.

Tushar Manudhane With respect to the Advanced Intermediates regulatory requirement, can you just elaborate what it is?

Shyam S. Bhartia Pyridine is used in the production of Paraquat which is an insecticide in China. So, it is sold normally in the liquid form in China and also in around the world. But in china, because of certain mishap with the farmers, they said that it should be sold in the solid form only. Nobody has developed in the solid form in China or around the world, even large Agrochemical companies. So, sudden decision by the Chinese regulatory authorities to change from liquid form to solid form has reduced the production of the China for the Chinese requirement. Although for exports, they are still saying that you can export in a liquid form because it is going to other countries, the local consumption which is very large part of the consumption, they have changed the regulation. Now, locally the Agrochemical companies have presented it to Chinese authorities that nobody has any solid form. So, that is why they are still in discussion and we hope there will be some clarifications by third or the fourth quarter in China on this. Basically, nobody has the solid form product like the Chinese neither International companies operating in China.

Tushar Manudhane Sir, that is the reason why this anti-dumping duty is imposed or the..?

Shyam S. Bhartia No, anti-dumping duty is separate, anti-dumping was imposed more than a year back. In November we hope to go back to the authorities and discuss for the reduction in the anti-dumping duty. Only after a year we can go back for review and we are confident after review, we will be heard more successfully and we hope to get it reduced substantially.

Tushar Manudhane Just on this one-time expense of Rs. 35 crore, I just missed that part, in the coming quarters also, is there going to be similar expenses?

Shyam S. Bhartia Very marginal because coming quarters only will be the NSF charges which I told you just now limited to a couple of million dollars.

Tushar Manudhane Per quarter?

Shyam S. Bhartia Yes, only for December quarter, from January it might not be much at all, because we are tapering, already we have done a lot of work, we are

tapering the consultant requirements during this quarter itself and the next quarter it will be partially empty.

Moderator Thank you. Participants that was the last question. I now hand the floor over to Mr. Shyam Bhartia for closing comments. Thank you. And over to you, sir.

Shyam S. Bhartia I would like to thank everybody for joining on the call. If there are any questions, Ravi is available and Mr. Sankaraiah will be available to answer any further questions.

R. Sankaraiah: Thank you.

Moderator Thank you, sir. Ladies and Gentlemen, on behalf of Jubilant Life Sciences Limited, that concludes this conference call. Thank you for joining us.