Jubilant Life Sciences Limited

Q3 and 9M FY15 Earnings Conference Call Transcript
February 03, 2015

Ravi Agrawal

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 Q3 & 9M FY 2015 Earnings Conference Call.

On the call today, we have with us Mr. Shyam S. Bhartia – our Chairman and Managing Director; Mr. Hari S. Bhartia – Co-Chairman and Managing Director; and Mr. R. Sankaraiah – Executive Director, Finance. We will begin with opening comments from Mr. Bhartia on the business 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 '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 everyone.

In Q3 FY 2015 our Income from Operations was Rs. 1,445 crore, in line with our Q3 FY 2014 performance and 5% higher than Q2 FY 2015 performance. The EBITDA in the same period was at Rs. 191 crore and EBITDA margins at 13.2%. Revenue from International Markets stood at Rs. 1,037 crore, contributing 72% to total revenues. The key developed markets contributed 59% to overall revenues with the share of North American market at 39% i.e. Rs. 567 crore and that of Europe and Japan at 20%, i.e. Rs. 283 crore respectively.

For 9M FY 2015, Income from Operations stood at Rs. 4,290 crore with the corresponding EBITDA at Rs. 478 crore, translating to margins of 11.2%. In 9M FY 2015, revenue from International Markets stood at Rs. 3,042 crore, contributing 71% to total revenues.

We are happy to report that our overall business performance is showing signs of recovery, post the challenges of last six months. Some of the key businesses

witnessed healthy profitable growth from the preceding quarter, led by growth in our Radiopharmaceuticals business and resumption of operations in CMO business. Our management consolidation of Pharmaceuticals and Life Science Ingredients segments is complete with the appointment of separate CEOs to focus on growth in the respective segments. The acquisition of the minorities' stake in Cadista has consolidated and strengthened our Generics business in the US.

Let me now give you a business wise update.

In Q3 FY 2015, the Pharmaceutical segment revenues stood at Rs. 701 crore, contributing 48% of overall revenue.

In our API business, we are witnessing volume buoyancy and realizing the benefits of cost rationalisation endeavours. As of December 31, 2014, we have 37 commercial APIs, including 19 in North America, 24 in Europe and 26 in ROW. During the quarter, we have launched Aripiprazole in the US. We made 4 filings during the quarter, including 1 in Japan.

In Solid Dosage Formulations, we now have 48 commercial products, including over 20 in North America, 29 in Europe and 25 in ROW. We received 8 approvals across regions during the quarter including 4 in the US. We launched Zolmitriptan ODT, Irbesartan and Amlodipine in Canada and many others in Emerging Markets.

In CMO of Sterile Injectables business, our Spokane facility resumed operations during the quarter and we have a significant order backlog due to back orders. Interactions with the USFDA continue for speedy resolution of the Warning letter. Our strategy henceforth is to focus on profitable growth with commensurate cost structures to match revenue expectations.

Our Radiopharmaceutical business has demonstrated healthy growth on account of improved performance in our key products and we have leadership positions in many products. Our strategic initiatives have helped us to successfully scale up the Radiopharmaceuticals business this year. With respect to Ruby-Fill, we are in discussion with the FDA regarding the remaining steps to approval.

Our Life Science Ingredients segment revenues stood at Rs. 744 crore in Q3 FY 2015, contributing 52% to the overall revenues.

Our Advanced Intermediates business grew 11% as compared to preceding quarter, despite subdued demand and continued soft pricing in the key Chinese market due to regulatory changes and increased local competition. This has been led by our concerted initiative to explore alternative markets for volume and pricing growth in Asia, US and Europe. We have submitted anti-dumping duty review petition for China during the quarter. We are also attempting to increase our internal consumption of Pyridine to achieve higher value addition.

Specialty Ingredients business grew 11% as compared to preceding quarter. Business is witnessing uptrend in demand both from international and domestic market especially in Fine Ingredient segment. In Symtet, we witnessed uptick in price and volumes both, while the demand for the product remained robust. While production challenges continue in Symtet, efforts are continuing to achieve break-even levels in operations.

Lastly, our Life Science Chemicals business is witnessing better cost situation, with stable pricing across markets for key products. During the quarter, we won new contracts with existing and new customers for key products and are looking forward to increasing presence in a few new markets.

I would now 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 all for taking out time to join us on this call today. I will commence with the highlights for Q3 & 9M FY 2015.

During the third quarter, Income from Operations was at Rs. 1,445 crore, a growth of 5% quarter-on-quarter and flat as compared to Q3 last year. Growth in our Pharmaceuticals segment revenues has been offset by lower revenue in our Life Science Ingredients segment. The EBITDA stood at Rs. 191 crore with EBITDA margins at 13.2%. EBITDA has grown 39% quarter on quarter driven by improved performance in Pharmaceutical segment but is lower year on year due to pricing pressure in Advanced Intermediates segment and one off expenses related to corrections at our CMO operations. The Reported Profit After Tax was at Rs. (11) crore.

Revenue from Pharmaceuticals segment was at 701 crore, contributing 48% to the overall revenues. Sales have grown 14% quarter-on-quarter and 4% year-on-year drive by healthy growth in our Radiopharmaceuticals business and the API business and lowered in CMO operations due to FDA warning letter. Reported EBITDA for the segment stood at 140 crore with the EBITDA margin of 19.9%. However, after adjusting for the one-off expenses of Rs. 53 crore, the operating EBITDA margin for Pharmaceutical segment was 27.4% which is higher than what has been achieved in the preceding quarter and also compared to Q3 FY 2014.

The Life Science Ingredients segment delivered revenues of Rs. 744 crore, contributing 52% to overall revenues. The segment EBITDA stood at Rs. 61 crore and respective EBITDA margin stood at 8.2%. The business performance was lower as our Advanced Intermediates business faced pricing pressure in China from new competition. We are trying to offset the impact in China through entry into other markets and also improve price realization. We are also expecting to increase our internal consumption of pyridines by increasing Symtet production.

Proceeding to 9M FY 2015, Income from Operations stood at Rs. 4,290 crore. The EBITDA during the period stood at Rs. 478 crore with EBITDA margin at 11.2%. The Reported Profit after Tax was at Rs. (100) crore after exceptional items of Rs. (14) crore.

During 9M FY 2015, the revenue from the Pharmaceuticals segment stood at Rs. 1,919 crore, contributing 45% to overall revenues. EBITDA for this segment stood at Rs. 245 crore with a corresponding EBITDA margin of 12.7%. After adjusting for corresponding one-off costs, the segment margins were 18.3% as compared to 22.6% last year. Revenue from Life Science Ingredients segment stood at Rs. 2,370 crore, contributing 55% to the overall revenues. The segment EBITDA and EBITDA margin stood at Rs. 256 crore and 10.8% respectively.

I would now like to touch upon some perspectives on the balance sheet. As on December 31, 2014, Net Debt stood at Rs. 4,284 crore. This includes Long-Term Debt of Rs. 2,848 crore and Working Capital requirements of Rs. 1,436 crore. The

increase in debt is mainly on account of the acquisition of the minorities' stake in Cadista.

The blended rate of interest for the borrowings during the quarter stood at 6% with the rate for Rupee borrowing at about 12% and that for foreign currency borrowing at 5%. During 9M FY 2015, we spent about Rs. 167 crore on Capex stood and Rs. 74 crore on Product Development. We remain committed to aligning capital expenditure to generation of cash with the objective of reducing the borrowing level of the company.

In conclusion, we believe that the segregation of focused business entities will enable our Pharmaceuticals and Life Science Ingredients segments to harness their full growth potential going forward. Growth in our Pharmaceuticals segment will be led by our market leadership position in Radiopharmaceuticals, normalization of our CMO business operations and growth in Generics from entry into new markets and new product launches. Growth in Life Science Ingredients segment is expected from improved performance in our Specialty Ingredients business and expected stabilization of Symtet. Additionally, we endeavor to strengthen the balance sheet further and exercise prudence in any future capital expenditure.

I would like to conclude our opening remarks with that. I now request the moderator to take up the Q&As 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 My first question is regarding this one off expense of Rs. 53 crore that you had for CMO business. Can you remind us sir how much it was last quarter and what do you expect in the following quarter?

R. Sankaraiah Saion, last quarter was about Rs. 45 crore. This quarter was about Rs. 53 crore. The YTD is about Rs.105 crore.

Saion Mukherjee Okay. And sir do you expect that to continue in the next quarter and how long will it last sir?

R. Sankaraiah We do not see the one-off expenses to continue much in next quarter and from Q1 next year onwards we do not see anything like that.

Saion Mukherjee Okay. My second question is regarding the API business, you mentioned in your presentation that you started selling Aripiprazole in the US. Is that an interesting opportunity because I understand there are some issues with the API and the patents around that. So how would you describe that opportunity for us?

R. Sankaraiah We do not want to take up any specific questions on the product and margins, you know that.

Saion Mukherjee Okay sir. But will it be significant, can you share some qualitative light on this?

R. Sankaraiah As of today we do not want to comment anything on that. Our API business is showing good revenue growth like last quarter we had mentioned that there was an issue in the growth but that has come to the normal level in Q3. Going forward, we expect to continue the growth momentum.

Saion Mukherjee And sir, on Nexium, is there something where we have an opportunity in the near term?

R. Sankaraiah Let us not talk about product wise now.

Shyam S. Bhartia Product wise, country wise opportunity we cannot talk.

Saion Mukherjee No, I mean just to understand if these are significant opportunities.

Shyam S. Bhartia We have Nexium business and Nexium has a good opportunity for us overall and we expect the Nexium business to grow. Nexium generic business is likely to grow but we cannot talk about where it will grow and how it will grow.

Saion Mukherjee Will you be addressing the US market let us say over the next year or so?

Shyam S. Bhartia No, we do not expect any approval in US market in the next one year. We will be growing in other regulated markets.

Saion Mukherjee Okay. I was just looking from an API perspective, you might not have ANDA filing but whether there is an API

Shyam S. Bhartia I am not aware of API in US.

R. Sankaraiah No, we have not filled it yet.

Saion Mukherjee Okay. And my other question is on the Symtet stabilization and increasing volumes there. So where do we stand and when can we expect that inflection? I understand you were carrying out some measures to ensure that the productivity increases there.

R. Sankaraiah In case of Symtet, as of today, as you know very well, we are losing money because of the stabilization issues which we are facing. However, the focus is to first get to the level of operating profit, EBITDA breakeven and we are hopeful that that will happen next year and also there are good signs of stabilization which has happened in the month of January. Going forward in February and March if this continues, we are hopeful that we should be in a position to at least breakeven next year.

Saion Mukherjee And what is the extent of loss for the Symtet business currently?

R. Sankaraiah It will be about Rs. 35 crore to Rs. 40 crore for full year.

Moderator Thank you. We have the next question from the line of Jagdish Bhanushali from Florintree Advisors Pvt. Ltd. Please go ahead.

Jagdish Bhanushali Wanted to understand that we are stabilizing Symtet in process of that how much capacity have we achieved in that?

R. Sankaraiah The capacity utilization till last quarter was about 15%. We expect the capacity utilization to get into a level of about 40% next year.

Jagdish Bhanushali Next year 40% that is any time line in that next year itself, is it first quarter, second quarter, third quarter?

R. Sankaraiah No, on an average basis it will be in the range of about 35% to 40% capacity utilization for the full year. That's what we are planning. Quarter wise we cannot say.

Jagdish Bhanushali Okay. So any CAPEX do we plan for the same?

Shyam S. Bhartia Yes, CAPEX needs to be there.

R. Sankaraiah Some CAPEX we need to add.

Jagdish Bhanushali Okay. And how much would be the quantum if you can quantify that?

R. Sankaraiah We are still estimating that. It will be around Rs.20 crore to Rs.25 crore.

Jagdish Bhanushali Okay, Rs.20 crore to Rs.25 crore. And was that a process related issue or the CAPEX had to be done?

Shyam S. Bhartia It has many sections. So what we did is study of each section and then there are some sections which are to be debottlenecked which is mismatching with the other section. So in that section we are first trying to stabilize the operation and then add a capacity in that section.

Jagdish Bhanushali Okay. So we plan to do that CAPEX in this quarter itself in Q4 FY2015?

Shyam S Bhartia No, next year.

R. Sankaraiah It is spread over.

Jagdish Bhanushali Spread over, okay. So post that I think we will be able to achieve some 40% of the capacity?

R. Sankaraiah About 35%.

Jagdish Bhanushali Okay. And have we launched the products approvals that we got in US like Valsartan also as of now?

Shyam S. Bhartia We have already got Valsartan approval in US.

Jagdish Bhanushali Right. So have we launched it?

R. Sankaraiah Yes, we launched that product in January 2015.

Jagdish Bhanushali Okay, alright. And what sort of price erosion are we seeing in that product?

Shyam S. Bhartia We cannot discuss about each product, each price erosion. It is an information which is very confidential.

Jagdish Bhanushali No, on the market on the whole product not for the Jubilant.

R. Sankaraiah But the product is profitable and we have our own API. Our cost base is good.

Jagdish Bhanushali Right. So next question comes is that we were one of the key suppliers of APIs now, was that.

Shyam S. Bhartia Yes, we supply API to some of the companies who have either launched or going to launch the product in US.

Jagdish Bhanushali That is right. So would we see some loss in sales because of that because even they would lose some market share in that.

Shyam S. Bhartia See, product approval is a first time launch. In January it is a first time launch by all the companies, everybody has estimated their own market share and own API requirements as per that first time after the exclusivity of Ranbaxy which has got over, it was launched for the first time so all the companies would be launching for the first time only.

Jagdish Bhanushali Okay, alright. And have you launched Rizatriptan as well or we are waiting to launch it some other time line?

R. Sankaraiah It is expected to be launched in Q2 FY 2016.

Jagdish Bhanushali Okay. And Mycophenolate?

R. Sankariah Mycophenolate also in Q1 FY 2016.

Moderator Thank you. We have the next question from the line of Dheeresh Pathak from Goldman Sachs Asset Management.

Dheeresh Pathak The improvement in EBITDA in September quarter to December quarter almost doubling, what is I mean it says radio pharmacy is done, so can you just attribute like what is the main driver behind doubling of the EBITDA because there is obviously twin impact of warning letter and Radiopharma, can you just explain.

Shyam S. Bhartia See, the impact is as we have mentioned in our statement that the CMO business has commenced operation in September after a closure of six month. So that has some impact and then the losses in the CMO business have come down a little bit. And also improvement in all our other businesses including Radiopharmaceuticals business.

Dheeresh Pathak Okay. So the Canadian facility which is now free from the warning letter, that is back?

Shyam S. Bhartia Canadian is already free form the warning letter. That business is coming back into normalcy.

Dheeresh Pathak So as I understand the Canadian warning letter is resolved, Spokane is yet to resolve. So there is some improvement from that resolution and there is some improvement from the Radiopharma business. So can you just give some more detail that whether it is equally split between the two or is it more related to one versus the other?

R. Sankaraiah No. See the main issue which has happened is that on account of one time expenditure that we have spent in CMO business, the operational profits were much lower. Now if you see, the API business is back on track and Generics

business is coming back and the Radiopharmaceuticals business is showing a good growth because of the various initiatives what we have taken on cost reduction measures etc. So there is overall improvement but still we are yet to catch up compared to the previous year same quarter. So there is a big gap. So that will happen going forward.

Dheeresh Pathak Okay. Then on the US can you just give me your ANDA filing data, how many are filed and how many are approved and how many are pending?

Shyam S. Bhartia We have about 37 ANDA pending approval as of today.

Dheeresh Pathak Any sense on how many are pending approval for more than three years, the ageing of the ANDA?

R. Sankaraiah We do not want to give those kind of details because it is industry specific, rather company specific.

Dheeresh Pathak Okay. And on Life Science Ingredients business. On Pyridine, there were a few issues, one was of anti-dumping issue and the other was of this herbicide issue in China, obviously then there is another issue of price decline because of food related price decline. So can you talk about those three issues on that business?

R. Sankaraiah As far as anti-dumping issue is concerned we have filed a revised petition requesting the Chinese government for looking at doing the revision in anti-dumping duty of 25%. So we have already filed the application and we are waiting for their review for that. The main concern or the real issue is the local competition which has come up for Pyridine business. So as far as the liquid versus solid is concerned, that we expect to be resolved as quick as possible.

Dheeresh Pathak So when you are supplying to the Chinese market, after the duty on your product, how does your price compare to the Chinese competition?

R. Sankaraiah Selling price will be the same in Chinese market whether we pay duty or we do not pay duty.

Dheeresh Pathak So are you able to compete at that price?

R. Sankaraiah We have a 25% competitive disadvantage compared to the local manufacturers there.

Shyam S. Bhartia And overall the price of the product also in the China market has come down from a price of about $4.8 to much lower price to about $3.4. So the price has also come down because of the use of the Pyridine which is happening in Paraquat. In Paraquat, there is a change in regulation in China where the Paraquat was normally supplied in liquid condition but now Paraquat can only be supplied to Chinese market in a solid condition and there is no one company in China which has developed solid product. But you can supply out of stock. So they are supplying out of stock but still the Chinese regulation is unclear about it. So the demand for the product has also come down in China, so that has affected the price of the product in China also.

Dheeresh Pathak Okay. So just to get a broad sense, the margins here are like high single-digit now, earlier they used to be mid to high-teens, obviously the pharma segment has improved, but LSI segment is yet to improve so there are issues of this and then

there are issues of Symtet**.** So can you just give some sense on by next year you expect to have better utilization in Symtet, so where should we think about EBITDA margins for this segment for the next year?

R. Sankaraiah As of today we expect at the same level because the pricing pressure is continuing for Advanced Intermediates business.

Dheeresh Pathak Okay. And on Rubyfill, when is the discussion with the FDA and when is that expected?

Shyam S. Bhartia We have received certain queries from FDA. We are in the process of replying to them and it should take about a year's time I think before we get an approval.

R. Sankaraiah During next year we should be in a position to get something.

Shyam S. Bhartia Launch can only be expected to be in the first quarter of next year as of today. Of course we will give you information as we go along.

Dheeresh Pathak Q1 FY16 is what you are saying?

R. Sankaraiah No, no not Q1 FY16. Next year as I said, so FY17.

Shyam S. Bhartia Q1 FY17.

Moderator Thank you. Our next question is from the line of Tushar Manudhane from India Nivesh Securities Pvt. Ltd. Please go ahead.

Tushar Manudhane Sir, just would like to understand this anti-dumping issue where we have finally petitioned and waiting for the review, but tentatively like how long will it take for this problem to get resolved?

Shyam S. Bhartia We cannot put any number on that as of today, you have to wait and watch.

R. Sankaraiah It will take about 9 months to 12 months.

Tushar Manudhane Okay, so that long it may take?

R. Sankaraiah Yes.

Tushar Manudhane And just now with the better margins in Pharmaceuticals segment and with the launch of Valsartan in January so shall we expect the margin to further and now then further one off expenses getting reduced. So shall we expect further improvement in EBITDA margin for Pharmaceutical segment or remain stable more or less, not for the quarter specific but for let's say FY16-17?

R. Sankaraiah Margins should improve.

Tushar Manudhane Okay. And what is the CAPEX outlook?

R. Sankaraiah About Rs.250 crore for next year.

Tushar Manudhane And specifically where these 250 crore should go?

R. Sankaraiah It is mainly in Pharmaceuticals.

Moderator Thank you. We have the next question from the line of Krishna Kiran Konduri from Spark Capital Advisors (I) Pvt Ltd. Please go ahead.

Krishna Kiran Sir just to understand one thing, sir if I look at China sales, the China sales came down from Q3 FY 2014 from Rs. 113 crore to Rs.65 crore, is this mainly because of Pyridine sales impacted or any other product which is getting impacted?

R. Sankaraiah That is right. It is mainly because of Pyridine sales affect.

Krishna Kiran Okay. And sir just to get a sense, I understand Paraquat is a major product in China, I mean one of the top products in China for our Specialized business. But just want to understand how much of our overall export to China, Pyridine China which is re-exported from China?

Shyam S. Bhartia Whatever we export is consumed in China for the manufacture of the products like mainly Paraquat and some other Pharmaceuticals products. But some Paraquat is also exported out of China also, and there are some other products which are exported out of China.

Krishna Kiran True. But what I was trying to get is sir because I mean as far as I understood the Paraquat usage in China I think in the liquid form is banned now so that is the reason why which we are getting impacted, so what I was trying to understand is like and as Paraquat is one of the top consumed product in China, now the regulation change I mean do you think is there any comeback in that regulation? One. Or do you think any regulation change in Paraquat?

Shyam S. Bhartia No, let me explain to you. In China Paraquat is produced for the local market and also exported out of China. So the exports out of China can go in the liquid form. Only Chinese production for consumption in has to be in solid form. So the certain products which are still being used also used for export of Paraquat. So export continues with China.

R. Sankaraiah No, what exactly is your question? You wanted to know whether out of the production of Paraquat that is done in China, how much is exported and how much is domestic consumption? is it your question?

Krishna Kiran That is first question sir. But second is like what are the probable chances that regulation can be reversed? I mean because the consumption of Paraquat is very high in China so is any other product similar which can give same efficacy of what is Paraquat?

Shyam S. Bhartia See, the same question which you are asking is in our mind also. The Chinese authority will be forced to reconsider. But there are other competing products like Diquat and Glyphosate and other competing products which can also take the market. Now take for Diquat, Diquat also uses Pyridine. So it is very difficult to estimate today how the product movement will happen to different agrochemicals.

Moderator Thank you. Next question is from the line of Lalit Kumar from Nomura Financial Advisory & Securities India Pvt. Ltd. Please go ahead.

Lalit Kumar Sir any update on our plan to list Pharma business?

Shyam S. Bhartia Yes, we have announced that we plan to list the business but due to certain problems in our Spokane operations we have decided to defer it. I think in the next two years we will have a look at it at what we feel is right time to list the business.

Moderator Thank you. We have the next follow-up question from the line of Tushar Manudhane from India Nivesh Securities Pvt. Ltd. Please go ahead.

Tushar Manudhane Sir just one, out of like 37 ANDAs pending for approval how many are from the Spokane facility?

R. Sankaraiah NDAs are filed for generics, i.e. from Roorkee plant we file the ANDA.

Shyam S. Bhartia Roorkee or Cadista facility.

Tushar Manudhane Okay. Then with respect to the Spokane facility, speedy resolution as in procedurally how is it like, so have we addressed all the issues and then we are waiting for their re-inspection and approval?

Shyam S. Bhartia Yes, we have addressed all the issues, we have fully cooperated with the USFDA. We expect sometime in this quarter to resolve the issue.

Tushar Manudhane That would depend on their re-inspection?

Shyam S. Bhartia As of today they have done the inspection and we have addressed all the clarifications. We have to wait and watch.

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

Shyam S. Bhartia Thank you everybody for joining on this call. If anybody has further questions, Mr. Sankaraiah will be happy to answer it or I will also be available if you have any further questions on our performance. Thank you so much.

R. Sankaraiah Thank you.

Moderator Thank you sir. Ladies and Gentlemen, with that we conclude this conference call. Thank you for joining us.