



Jubilant Life Sciences Limited Q3&9MFY16EarningsConference Call Transcript February 9, 2016

Moderator: Good Day, Ladies and Gentlemen, and Welcome to Jubilant Life Sciences Limited Earnings Conference Call. As a reminder, all participants' 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 this conference call, please signal an operator by pressing "*" and then '0' on your touchtone telephone. 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, sir.

Ravi Agrawal: Thank you and Good Evening to Everyone. I am Ravi Agrawal, Head of Investor Relations at Jubilant Life Sciences. I thank you for being with us today on our Q3 & 9 Months FY16 Earnings Conference Call. On the call today we have Mr. Shyam S. Bhartia – Chairman, Mr. Hari S. Bhartia – Co-Chairman & 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 including Mr. G.P. Singh – CEO of our Pharma Business and Mr. Pramod Yadav and Mr. Rajesh Srivastav –Co-CEOs of our LSI Businesses.

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. A very good evening to all of you. We are happy to report another quarter of consistent performance with significant improvement in profitability in our business segments. We have been able to sustain the momentum generated in the last few quarters and major initiatives undertaken by the Company have started yielding results.

Our CMO business is now in the process of recovery post successful resolution of FDA issues. We are happy to share that due to the sincere efforts of our team, not only we are successful in bringing an early resolution to USFDA warning letter, but



also our Rourkee, Maryland, Montreal and Nanjangud facilities underwent successful USFDA inspections subsequently.

In another development, MOFCOM has reduced the anti-dumping duty on Jubilant's Pyridine exports to China to 17.6% from existing 24.6% based on the review petition filed by the Company.

Revenues from the quarter stood at Rs.1,379crores. Our Pharmaceuticals segment registered revenue growth of 4% year-on-year mainly driven by CMO of Sterile Injectables. Revenue growth in Life Science Ingredients segment was impacted mainly due to lower input prices from declining crude prices resulting in lower prices of finished products. EBITDA during the quarter grew 62% year-on-year to Rs.310 crores. Margins for the quarter stood at 22.5%, up from 13.2% in Q3FY15. Profit after tax stood at Rs.117 crores compared to a loss of Rs.(11) crores in Q3FY15. Earnings per share stood at Rs.7.34.

Let me give you a segment breakup: During Q3FY2016, revenues from our Pharmaceuticals segment stood at Rs.728 crores, contributing 53% to the revenue mix. I am happy to share that our Pharmaceuticals revenues grew 15% year-on-year in the nine months FY16 period with North American markets having grown 20% year-on-year during this period.

Geographical revenues distribution in Pharma in Q3FY16 stood as follows:

- Revenues from North America stood at Rs.522 crores, contributing 72% to the Pharma segment revenues.
- Revenues from Europe and Japan stood at Rs.99 crores contributing 14% to Pharma segment revenues.
- Our ROW revenues stood at Rs.68 crores, contributing 9% to the Pharma segment revenues and growing 18% year-on-year.

In Generics,; although we witnessed volume growth in our Solid Dosage Formulations business, pricing pressure in some of the key products in US market due to supply chain consolidation led to muted growth overall in the business. Our Generic portfolio now consist of 38 commercial APIs including 24 in North America, 23 in Europe and 28 in rest of the world. We have now 51 commercial Solid Dosage Formulations products including 31 in North America, 29 in Europe and 27 in rest of the world. As of December 2015, we have made a total of 71 ANDA filings, of which 27 are pending approval. During the quarter, we received 5 ANDA approvals including 1 tentative approval in Oral Solids in US market. This brings the total number of ANDA approvals received by us during the year to 7.

We have launched Irbesartan Tablets and Montelukast Chewable Tablets in the US and Losartan in Taiwan and Esomeprazole in UAE.

In Specialty Pharmaceuticals, Radiopharmaceuticals business continues to deliver strong performance and we expect to launch new products going forward. We witnessed strong order book in CMO business and expect good ramp up of operations in the coming quarters.

Let me now give you an update on Life Science Ingredients segment: During the quarter, revenues from Life Science Ingredients stood at Rs.652 crores, contributing 47% to overall revenues. International sales contributed 51% with key regulated markets contributing 35% of the total LSI sales.



Let me give you some updates on the Businesses: We are witnessing a strong demand from our customers for our products. Strategic initiatives are underway for converting some of the existing products specific plans to multi-purpose plants to meet enhanced customer demand requirements. We are developing new products in Specialty Intermediate plant to increase overall capacity utilization. We are also retrofitting plant producing Syntetto expand capacity of existing commercialized products to meet additional customer demand.

As I mentioned earlier, MOFCOM has reviewed our anti-dumping duty on our Pyridine to 17.6%. We will continue to evaluate market conditions and get benefit of this reduced duty going forward. However, the demand in China continues to remain uncertain due to ban on Paraquat. We also signed new contracts across applications in Nutritional products and also in Life Science Chemicals.

Our commitment to the highest level of quality and compliance has been ably demonstrated by successful inspection of all our facilities by USFDA during the year. This will hold us in good stead to grow our business in the future. We expect to continue the growth momentum of the Company going forward. Revenue growth in Pharmaceuticals segment is expected to be driven by new product launches in Generics and Radiopharmaceuticals and increased capacity utilization in CMO of Sterile Injectables. As mentioned earlier, we have laid a strong foundation for group in our Life Science Ingredients business. The brownfield initiatives undertaken in this segment are in response to enhance customer requirements and will lead to increased capacity utilization and improved profitability in our Specialty Intermediates business. Our Nutritional Products business is expected to also maintain its growth trajectory with improved margins. We will continue our endeavor to strengthen the balance sheet.

I would now invite Mr. Sankaraiah to carry forward the discussion by sharing his views on the Financial Performance of the Company.

R. Sankaraiah:

Thank you Mr. Bhartia. I thank everyone for taking out time and joining us on today's results conference call. Let me provide you the brief financial highlights for Q3 and 9M FY2016.

During the quarter under review, income from operations stood at Rs.1,379 crores. Pharmaceuticals segment contributed 53% to the overall mix at Rs.728 crores, increasing 4% year-on-year. Revenue from Life Science Ingredients stood at Rs.652 crores, contributing 47% to the overall revenues. LSI revenues have declined 12% year-on-year mainly due to lower crude price resulting in lower price of finished products. EBITDA for the quarter was higher by 62% year-on-year at Rs.310 crores. Pharmaceuticals segment EBITDA contributed to show improvement at Rs.219 crores, an increase of 57% over the corresponding period last year. EBITDA margin for this segment were higher at 30.1% as compared to 19.9% in Q3FY2015, continuing the strong performance witnessed during the first half. The improved performance in the Pharmaceuticals segment was aided by a robust performance in our CMO business.

Moving to performance in the Life Science Ingredients, EBITDA in the segment stood at Rs.101 crores, an increase of 65% year-on-year and translating to the EBITDA margin of 15.5% as compared to 8.2% in the corresponding quarter last year. Improvement in margins were led largely by Specialty Intermediates and Nutritional products. Depreciation and amortization in Q3FY2016 stood at Rs.75 crores as compared to Rs.80 crores in the corresponding quarter last year. The

finance cost for the quarter stood at Rs.90 crores as against Rs.86 crores last year. The blended interest rates for the borrowing stood at 7.6% with the rupee rate of borrowing at 11.3% and that of the foreign currency borrowing at 4.9%. The PAT for the quarter stood at Rs.117 crores translating into an EPS of Rs.7.34 per equity share of Rs.1 each.

Let me now give you an update on the performance during the first nine months of FY2016: Income from operations during the period stood at Rs.4,301 crores from Rs.4,290 crores in 9M FY2015. In 9M FY2016, revenue from Pharmaceuticals segment stood at Rs.2,215 crores, up 15% year-on-year and contributing 52% to overall revenue. Revenue from Life Science Ingredients segment stood at Rs.2,086 crores in 9M FY2016, contributing 48% of the total revenue. The overall EBITDA in 9M FY2016 grew by 102% year-on-year to Rs.969 crores, translating to EBITDA margin of 22.5%. The EBITDA margins for Pharmaceuticals segment grew by 170% to Rs.660 crores as compared to Rs.245 crores 9M FY2015. This translated to an EBITDA margin of 29.8% compared to 12.7% in 9M FY2015. The EBITDA for the Life Science Ingredients segments stood at Rs.341 crores, an increase of 33% year-on-year and translating to an EBITDA margin of 16.3% compared to 10.8% in 9M FY2015. The depreciation and amortization for the 9M FY2016 stood at Rs.220 crores as compared to Rs.222 crores in 9M FY2015. The finance cost for 9M FY2016 was at Rs.286 crores as compared to Rs.270 crores in the corresponding period last year. The profit after tax was Rs.361 crores with EPS of Rs.22.65 per equity share of Rs.1 each.

Let me give you some perspective on the balance sheet: As on 31st December 2015, net debt on a constant currency basis stood at Rs.4,173 crores as compared to Rs.4,396 crores as on end of March 2015, showing a reduction of Rs.223 crores in the first 9M of FY2016. This comprised of long-term debt of Rs.3,239 crores and working capital debt of Rs.1,085 crores.

I would like to reiterate what I mentioned in the last call - we have reorganized our total debt portfolio in such a way that the free cash flow will be adequate to take care of the scheduled loan repayment. In addition, the company has prepaid all rupee loans scheduled for repayment during next two years.

In 9M FY2016, our capital expenditure stood at Rs.249 crores including Rs.81 crores for product development. For FY2016, we are well within our targeted CAPEX of about Rs.300 crores and the product development cost of about Rs.100 crores.

To conclude, I would like to reiterate that our operational performance has witnessed a turnaround and we expect to continue the momentum going forward. Revenue growth in Pharmaceuticals segment is expected to be driven by new product launches in Generics and Radiopharmaceuticals and increasing capacity utilization in CMO of Sterile Injectables. As mentioned by Mr. Bhartia, we are pursuing various strategic initiatives to convert some of our existing plants to multi-purpose plants to meet the customer demand in LSI. This should help us grow our LSI business in the near future. Also, in Pharma, all our facilities have been successfully inspected by USFDA during the year. We feel confident that this should help us growing our business in the future.

I would like to conclude our opening remarks with that. I request the moderator to take up Q&A please.

- Moderator:** Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Saion Mukherjee from Nomura. Please go ahead.
- Saion Mukherjee:** Sir, my first question is this impact of anti-dumping duty. Can you share how much revenues you are making on a quarterly basis from China and therefore what would be the impact of this reduction in duty going forward?
- Pramod Yadav:** As you may have seen in the results, our revenue for China and rest of the world are close to 15% for the quarter. We do not give revenues for the products in specific, but we are happy with the anti-dumping duty having come down and we expect that the Company will get benefitted out of it and as Mr. Bhartia mentioned in his call, that the Paraquat demand remains uncertain, so we have to see how it impacts and helps us going forward.
- Saion Mukherjee:** But is it possible to quantify that number?
- Shyam S. Bhartia:** As I said, the demand for Pyridine in China, because of ban on Paraquat during the year, remains muted and complete uncertainty exists in China. Since the demand has gone down substantially to a minimum level, there may not be any benefit going forward as the exports will be very minimal.
- Saion Mukherjee:** Second question is regarding the CMO business. You provided a positive outlook given the order backlog. Now, before the warning letter issues came up, I think we were doing \$130-140 million in that business. Do you think in the near term we can get back to those revenue numbers?
- G.P. Singh:** We feel confident, always, but we have to take steps towards that.
- Shyam S. Bhartia:** I would add further to what G.P. is saying. A lot of our customers are there with us and some of the customers have come back, as we mentioned in the last conference call also. So we expect, going from here, good revenue growth. Post the current situation in US market in Sterile Injectables, there is a shortage of capacity in the market and we are getting new order bookings. So we expect to achieve good numbers and good profitability going forward.
- Saion Mukherjee:** On the ANDA pipeline, so you have I think 20 plus ANDAs which are pending approval, you mentioned about pricing pressure. So how should we think about the US Generic business both on a shorter-term also from a longer-term basis, what kind of filings you are making and what are the revenue potential, any color that you can provide on that?
- G.P. Singh:** It is a mixed bag. Like any ANDA filings we have some which we are very positive about and some which have very extensive competition on. So it all depends on how the market reacts. Now, from a cost perspective and from a supply perspective, we feel very confident of taking advantage when we launch the products and if you look at how the issues faced by some of our competition due to regulatory actions by certain regulatory agencies, we feel a little more confident that our pace of approvals will continue and we will take a very positive advantage of that in the coming months.
- Shyam S. Bhartia:** I would like to add that some of our product launches we expect during the next year are going to be first day launch and those products we are extremely confident. Other products also we are extremely confident to get a good market



share because as G.P. mentioned our supply in the marketplace has been good and people rely on us because of our good quality track record.

Saion Mukherjee:

Sir, how many day onelaunches you would be expecting next year?

Shyam S. Bhartia:

We cannot tell you at this stage because we expect an approval. So as soon as we get an approval, we will keep on announcing that.

Moderator:

Thank you. The next question is from the line of Subrat Trivedi from BNP Paribas. Please go ahead.

Subrat Trivedi:

I have three questions. First one is on the Generics business. So, historically, over the last two years FY14 and FY15 there has been a slowdown in this business with growth rates in the lower single digit. You mentioned about some supply chain consolidation issues and pricing pressure. If you could help me understand a bit more on this what are the concerns?

R. Sankaraiah:

As far as the previous year is concerned, I will address your question. For others, I would hand over to G.P. Last two years if you see one product was giving us very good revenues. When the price erosion happened in that product, there was a value reduction which has happened. If you see last three years, consistently the volumes are growing year-on-year in a very good pace. That is a major positive.

Shyam S. Bhartia:

I would add to what Sankaraiah is saying. If you see consolidated first 9 months, our Pharmaceuticals business has grown 15% and North American market has grown 20% in spite of challenges of the supply chain consolidation in US because of our diverse portfolio in US.

Subrat Trivedi:

Okay. So what exactly is that supply chain consolidation?

G.P. Singh:

To your question about how the future looks, the pricing continues and the US market continues, it is because of the consolidation of the customers. As the customers keep consolidating, their ability to negotiate the contracts with multiple suppliers for the same products is more and more. This is being faced across the industry and is being well documented already and we are facing exactly the same issues. However, we feel our growth will come from our new launches. As you must have seen, we have good pace of approvals over last few quarters. Some of those products are yet to be launched, we mentioned that we launched two products in the last quarter, so we want to launch a few more in this quarter and going forward. Those are the ones which are expected to bring growth. But that is a slow difficult growth. If there is a pricing improvement or the prices stay stable, then it is quick incremental increase. However, the pricing pressures are going to continue - that fact is not going to change and the growth is definitely going to come from new launches and we have to continue with the pace of that.

Shyam S. Bhartia:

Growth will come from new launches and also in our Specialty Pharmaceuticals business where we expect to also do new launches during next year.

Subrat Trivedi:

In fact, my second question was related to Radiopharmaceuticals business. In that you had earlier mentioned there were revision in pricing and some new pricing strategy was adopted last year and that has almost doubled the revenues last year and this year also growth momentum has continued. What exactly was that strategy and is there any further scope of increase of price there?



- G.P. Singh:** The growth in Radiopharmaceuticals business is also expected from the new launches going forward. We cannot plan for price increases for budgeting purposes. It is opportunistic and depends on how the market is changing and how the competition is changing. Also, we have to keep in mind, as we are establishing new prices, what the patient needs are. We cannot discount those. However, we are expecting new approvals which will add to the growth in Radiopharmaceuticals.
- Shyam S. Bhartia:** What has happened is that whatever price increase we did quite stable now and has been implemented across the industry. So this is one. Secondly, we have seen some growth in existing products also in the market but as G.P. said, main growth will come from new products.
- Subrat Trivedi:** Last question is related to an accounting query. In Exceptional items under that, foreign exchange difference that is operational nature like it will be for exports hedging or it will be of non-operational nature for FX hedging?
- R. Sankaraiah:** It comes as both actually. One is the foreign currency translation on account of loan and other one is on account of the exchange rate difference from the date of dispatch to the date of realization of money.
- Subrat Trivedi:** Is it possible to get a breakup how much would be operational and how much would be non-operational?
- R. Sankaraiah:** If you see in Q3 it is only Rs.(3) crores. It is not a substantial amount.
- Moderator:** Thank you. The next question is from the line of Tushar Manudhane from IndiaNivesh. Please go ahead.
- Tushar Manudhane:** The past nine months with respect to Generic business how many ANDAs we have filed for the US market?
- G.P. Singh:** In the past we have not shared specific details of the ANDA filings. When you file an ANDA, ANDA filing is not acknowledged until you receive an acceptance from FDA, right. The filings can be unique, filings can be difficult products, and filings can be different kinds. If we give a number and we get a few set to file from FDA, it does not help. So we want to make sure that whenever we share we share the appropriate numbers and then there is a matter of uncertainty. We are always hesitant to give exact numbers. So I would like to maintain that and because of that I am unable to share how many filings we have made.
- R. Sankaraiah:** For revenue generation purpose what is more important is the number of products approvals we are getting on a year-on-year basis and a number of products which we are launching out of that. That is more relevant even for a pipeline.
- Tushar Manudhane:** Out of the 27 ANDA's pending for approval, how many we have got the target action dates?
- G.P. Singh:** I do not have the exact numbers with me but I would say a very significant amount we have received the target action date. So we feel very confident that the pace of approvals will continue to be maintained in the coming quarters.
- Tushar Manudhane:** Other expenses for the quarter, there have been year-on-year as well as the quarter-on-quarter decline?



- R. Sankaraiah:** That was because basically last year we had FDA issue on the Spokane where we have taken a lot of corrective action because of which other expenses were higher. That has evened out now.
- Tushar Manudhane:** So this can be normalized?
- R. Sankaraiah:** Yes. One-off expenses was about Rs.51 crores in Q3FY2015, which has become normalized now.
- Tushar Manudhane:** For operating income there has been a sharp increase both year-on-year from Rs.15 crores in Q3FY15 to about Rs.42 crores in Q3FY16 or even quarter-on-quarter there has been increase. Is there any one-off there?
- R. Sankaraiah:** It is an operating income, so you can easily classify that as revenue. It is because of the format which we have to disclose that way. There are certain take or pay settlements, etc., which is there because of that that line is shown separately, otherwise it is as good as revenue.
- Tushar Manudhane:** If you could help me with the tax rate, this quarter it has been low but overall for FY16 and for FY17?
- R. Sankaraiah:** It should be about 22-25%.
- Moderator:** Thank you. The next question is from the line of Ranveer Singh from Systematix. Please go ahead.
- Ranveer Singh:** Just wanted to understand that relationship with crude. So we see that the crude prices is low, so our sales volume is also low. If crude prices rises, so immediately it is passed on to revenue or how it works sir?
- Rajesh Srivastava:** What happens is if the crude price becomes lower, the solvent prices which are produced out of crude go down significantly because they are produced from crude and one of our products actually is used as a solvent. If the price of solvent goes down then our pricing also goes down and therefore you can see there is a revenue reduction happening. That is only on a particular one single product.
- Shyam S. Bhartia:** Overall if you see the turnover of the Life Science Ingredients has come down, but the margins have improved substantially.
- Ranveer Singh:** That I understand, but just I wanted to quantify; should I take it directly on EBITDA or top line level that if crude prices either gone down or gone up by 10%? Whatever increase you see in top line, it is immediately passed on to margin line also, and that is what you are saying?
- Rajesh Srivastava:** Raw material also goes down and goes up depending on the crude price.
- R. Sankaraiah:** The value addition will get passed on, that is basically the difference between the selling price minus input raw material price – that difference will be passed on to the margins but not fully.
- Ranveer Singh:** Is it possible to quantify how much percentage of our business should be linked to crude or based out of crude?

- Shyam S. Bhartia:** Life Science Ingredients business where some of the raw material prices are coming down, finished products price also comes down.
- Ranveer Singh:** Second question was related to the Paraquat. I believe that Paraquat has a substitute like Diquat and that also uses Pyridine and probably that talk is about acceptance of Diquat is not a problem in China or other countries also. So, can we find an opportunity there or this is completely a different product where we do not have any downside product?
- Shyam S. Bhartia:** You are absolutely right. Paraquat demand has gone down but that for Diquat has increased. One of our products which is also Pyridine-based, it is not directly Pyridine – it is an advanced intermediate from Pyridine, is used in Diquat. So that has gone up and is likely to go up. There is increase in Diquat production in China.
- Ranveer Singh:** So from China front, we should see some project traction here onwards or situation is not going to improve?
- Shyam S. Bhartia:** Exports to China should improve because of the increased requirement from Diquat.
- Ranveer Singh:** Ok. Out of 71 ANDA what we have filed, how much would be vertically integrated, just a ballpark figure?
- R. Sankaraiah:** Ballpark is about 25%.
- Ranveer Singh:** For Ruby-fill have we seen any development there on approval side?
- G.P. Singh:** We stick to the same timelines which we had shared in the last quarter. So it is progressing well in discussions with FDA.
- Ranveer Singh:** So should I expect in Q1FY17?
- G.P. Singh:** As a benchmark, yes. You can never be sure about FDA timelines, but that is what we are hopeful of.
- Moderator:** Thank you. The next question is from the line of ChiragDagli from HDFC Mutual Fund. Please go ahead.
- ChiragDagli:** Sir, why has the LSI EBITDA dipped quarter-on-quarter 3Q Vs 2Q, is there a seasonality there because what I am seeing is that there is a fair amount of stability but we had stabilized at around Rs.120 crores a quarter, now it is down to Rs.101 crores, is there anything to highlight or do you think normal business?
- Pramod Yadav:** There are two reasons because of that; if you look at the crude price in Q3 was lower than Q2 and when you are importing the raw materials you always have a little bit of the inventory, it takes time to pass on the full impact. So things get normalized over a period of time. The second thing is related again to the Paraquat. If you are also tracking all the other agrochemical companies, last quarter was one of the worst quarter for them also. The last quarter was the one where the Paraquat actually went down terribly low. So that also impacted our overall Pyridine volumes.
- ChiragDagli:** So as we look into FY17 what is the outlook here?



- Pramod Yadav:** We have already mentioned that we see strong possibilities of growth in LSI. On the call Mr. Bhartia has already mentioned that we are already making our few of the plants as the multipurpose plants where we are going to add more and more products, where we are seeing the increased demand from the customers and that is going to give us additional growth opportunities.
- Shyam S. Bhartia:** I would further like to add to what Pramod has said. Overall Agrochemical sector if you see we are discussing with a lot of our customers internationally. Last year has been at a low level as compared to previous year. I am talking of calendar year 2015. This has stabilized now and from here it is likely to grow only in the next calendar year. That is the feedback we get from a lot of our companies and we have been supplying products to them.
- Chirag Dagli:** Next year of course this inventory mark-to-market at least on the crude prices should not be there assuming crude prices remain?
- Shyam S. Bhartia:** That is right and overall demand has been low because the agricultural commodity prices have been low. Overall, people have been using less Agrochemicals and that is true if you see all the international Agrochemical companies' sales, both the production and sales have come down but what we get from them is that 2016 calendar year outlook looks better than 2015 calendar year.
- Ranveer Singh:** On the Pharma business, if I look at the last 4-5-quarters, sales have now broadly stabilized between the Rs.700-750 crores a quarter kind of a number and EBITDA is broadly again stable at about Rs.200 crores a quarter now. What I wanted to try and understand is that this includes the price hikes that you have taken in the Radiopharma business, this also includes part of the scale up that has happened at Spokane and the normalization of manufacturing over there. I am just trying to understand, why is it that we have not seen growth over the last 4-odd quarters in this EBITDA number of between Rs.200-220 odd crores?
- Shyam S. Bhartia:** Our sales have gone up in the last nine months by 15% and EBITDA has been constant at 30%. We strongly believe that EBITDA of 30% in the Pharmaceuticals Generic industry is a very good EBITDA considering the supply chain consolidation what is happening in the US market.
- R. Sankaraiah:** Just to add to what Mr. Bhartia has mentioned, there are three main reasons which we expect going forward the growth should be better. One, on account of stabilization of the CMO business as of today we are at a breakeven level, which is expected to be much-much better going forward. So that is the advantage what we are going to see going forward in CMO business. As far as the Generic business is concerned like already GP has mentioned the new product launches what we are planning to do, that is going to be there. Similarly in Radiopharmaceuticals business the new product launches which are going to be there, that is going to give the growth. So the EBITDA growth you will see definitely going forward in the Pharmaceuticals business.
- Chirag Dagli:** Are we seeing price erosion in our non-US Generic business as usual?
- G.P. Singh:** No, we are not seeing any significant price erosion in non-US business.
- Shyam S. Bhartia:** If you see the rest of the world business has grown substantially during this quarter also year-on-year. We strongly believe that we are putting a lot of emphasis on rest of the world business also and we expect it to grow going forward.



Moderator: Thank you. The next question is from the line of Ravi Sundaram from Sundaram Investment. Please go ahead.

Ravi Sundaram: My question is what is the impact of Yuan devaluation on our LSI business?

R. Sankaraiah: We do not have any major impact at all.

Ravi Sundaram: The question is we talk about strategic initiative that we are retrofitting to manufacture other products. What kind of products are we looking at here – are they in Agrochemicals space?

Rajesh Srivastava: We are producing several Specialty Intermediates in Gajraula and other facilities. The demand of several of them has gone up significantly because of the customers' requirements. Rather than making an investment in the new plants, we are retrofitting those expansion plants into our existing facilities where we have been making Symtet.

Shyam S. Bhartia: These Intermediates your question is it from Agrochemicals or Pharma, this is mainly from Pharma.

Rajesh Srivastava: Mainly from pharma. Some also from Agrochemical where our specific customer demands have gone up.

Moderator: Thank you. The next question is from the line of Jagdish Bhanushali from Florintree. Please go ahead.

J Bhanushali: The growth is expected to come from new launches. So is this going to be from Radiopharmaceuticals?

Shyam S. Bhartia: From Generic and Radiopharmaceuticals. But having said that, our filing in case of Ruby-fill is a 505(b)(2) filing which is unique filing. When we receive approval, this is expected to add to growth of our business.

J Bhanushali: This filing has been done from Montreal facility itself?

Shyam S. Bhartia: That is right, filing is done from Montreal facility.

J Bhanushali: So is it fair to assume that anytime sooner we could get the Ruby-fill approval as well?

Shyam S. Bhartia: Hopefully yes first quarter.

J Bhanushali: Because wanted to understand, it has been about three years or so?

Shyam S. Bhartia: You are right, it is a very complicated product, it is a device and drug goes, it takes time when it is 505(b)(2) filing, but we have been discussing it with the US FDA.

J Bhanushali: Wanted to understand, this is 505(b)(2) filing, is it special sort of a filing, that has been done, so is it usually the 505(b)(2) take the significant amount of timeline and we also file it under GDUFA as well, right?

Shyam S. Bhartia: 505(b)(2) filings take less time than the normal filing usually. 505(b)(2) is an improved product than the existing product. Our product is substantially improved product that the existing product which is there in the marketplace.

J Bhanushali: Could we get some sense like what is the market size of Bracco in the similar product at the moment or by 2015 market size or something?

Shyam S. Bhartia: We believe that the market size is very big because we believe that the existing supplier will not be able to supply the product to the market requirements and they have been facing some problems also in the products, because it is a 25-year old device. Our product is an absolutely modern and computer controlled device, which, we believe, is going to expand the market from the existing market and also take a lot of share from the existing Bracco.

J Bhanushali: Apart from Ruby-fill launch that we expect, do we have any other launches in Radiopharma at the moment in US?

G.P. Singh: We have other filings for Radiopharma for which we expect the approval.

J Bhanushali: Even these filings have to be carried under 505(b)(2), what sort of filings?

Shyam S. Bhartia: It is a normal Generic filing.

Moderator: Thank you. The next question is from the line of Surajit Pal from Prabhudas Lilladher. Please go ahead.

Surajit Pal: I think China sales you said 15% this quarter, right, of the Pharma business?

Pramod Yadav: We said China and rest of the world.

Surajit Pal: Could you please confirm, till first half you have around 4% of sales from China overall. Are you maintaining the similar kind of revenue flow from China?

Shyam S. Bhartia: China sales have come down. Q3 has been lower as we have said because of uncertainty in the demand of our products, our main product is Pyridine but there is a Paraquat ban in China.

Surajit Pal: As far as CMO is concerned, when do you believe the previous run rate we could achieve in dollar terms?

R. Sankaraiah: In two to three years.

Surajit Pal: So that kind of time you require for?

R. Sankaraiah: It is a contract manufacturing of Injectables. So when the customer comes back, it takes that kind of time.

Surajit Pal: In Generic business, is there kind of product which belongs to say limited competition or manufacturing difficulty kind of products which you can bid that that could give a quite bit of stable revenue?



- Shyam S. Bhartia:** There are products which have good number of difficulties and which are good products. But having said that there may be many people who may have filed it, it is not that it is an exclusive product like Para-IV people enjoy six months, we do not have any such products.
- G.P. Singh:** It is a mixed bag. Some of them do have technical barriers, but as you know the other companies are also becoming very capable of filing difficult products. So we do expect competition on difficult products also.
- Surajit Pal:** Your Rs.50 crores one-off sales in Q3 and Rs.123 crores in nine months, it would be nice if you can explain that where are the main source of cost for that, is it mainly that multi-function refitting plant for LSI or?
- Shyam S. Bhartia:** No, one-off expense was there. Last year it was there, which is not there because last year we had to do a lot of correction in our CMO facility.
- Shyam S Bhartia:** It is expenses not the sales.
- Moderator:** Thank you. The next question is from the line of Natwar Gupta from Aplite Capital. Please go ahead.
- Natwar Gupta:** Your return on capital employed remains very low. Do you have a target where you would like to see the return going?
- R. Sankaraiah:** One thing we have to realize very clearly is that our 70% of Pharma assets are in US and 90% of the sales is outside India. We cannot compare the return on capital employed for India versus US at equal level. So we have to remove the exchange fluctuation and see whether we are getting the right kind of return or not. If you take the currency depreciation, we are at par with any other pharma company.
- Moderator:** Thank you. The next question is from the line of Rajeev Singh from Partners Consulting. Please go ahead.
- Rajeev Singh:** My question pertains to the LSI segment. I just wanted to understand that the decline in revenue could be attributed to the crude prices declining but wanted to understand, has the volume remain stable or what is the picture on the volume front in this sector?
- Shyam S. Bhartia:** As I mentioned, in the LSI segment we are catering to agrochemical sector, pharma sector and nutrition sector. If you see, Nutritional Products is growing very well in both volumes and prices. In pharma we expect a good growth as we have mentioned in both volume and prices. In agrochemical sector it has been stable and we expect to grow in 2016 in the agrochemical sector. So, overall, with new product introductions we expect a good growth next year.
- Rajeev Singh:** And the second question pertains to EBITDA margin in this particular segment, do you see it remaining stable at 15.5% or is there a room for further upward movement?
- Shyam S. Bhartia:** We expect better margins going forward.
- Rajeev Singh:** Any particular ballpark target range?



Shyam S. Bhartia: We cannot mention that and we don't give any forward-looking margins but we expect, as we have put it in our call also, better operating profit margins from this business both from the sales and also from the operating profit margins.

Shyam S. Bhartia: I would like to thank you all for joining us in this conference call and if you have any further questions, will be happy to answer individually. You can contact Mr. Sankaraiah, Ravi or me. We will be happy to answer all your questions. Thank you.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of Jubilant Life Sciences, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.