Jubilant Life Sciences Limited

Q1 FY16 Earnings Conference Call Transcript

August 11, 2015

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 Q1 FY-'16 Earnings Conference Call.

On the call today we have Mr. Shyam S. Bhartia — Chairman, Mr. Hari S. Bhartia – Co-Chairman and Managing Director and Mr. R. Sankaraiah — Executive Director of 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. GP Singh — CEO of our Pharma business and Mr. Pramod Yadav and Mr. Rajesh Srivastava — 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. Good evening, everyone. I thank you for joining us on our earnings call today.

I am happy to report a substantial improvement in our performance during the quarter across most key business segments. Q1 FY-2016 results are in many ways a reflection of our initiatives undertaken over the last few quarters. Our revenue was aided by growth in our Pharma segment. EBITDA grew 123% YoY driven by growth and margin expansion in our Pharma segment. PAT for the quarter stood at Rs.128 crore translating into an EPS of Rs.8.04 for the quarter.

Income from operations was Rs. 1,459 crore with EBITDA at Rs. 333 crore, resulting in EBITDA margin of 22.8%. In Q1 FY-2016, revenues from North America stood at Rs. 619 crore, contributing 42% to the overall revenues. Revenues from Europe and Japan stood at Rs. 254 crore contributing 17% of revenue mix. Domestic revenues stood at Rs. 402 crore thus contributing 28% to the overall mix. Revenues in rest of the world including China was Rs. 184 crore, thus contributing 13% to the overall mix.

Let me now take you through the individual businesses:

As most of you may be aware that we have two main businesses namely, our Pharma business and our LSI business. During Q1 FY-2016 our pharmaceutical segment revenue stood at Rs.741 crore increasing 23% YOY. Contribution to the overall revenues stood at 51%, up from 41% during Q1 FY-2015.

Discussing the Pharma business region wise: North America revenues increased 35% YoY to Rs.569 crore during the quarter. This has been aided by strategic initiatives in Radiopharmaceuticals. India business grew by 41% YoY led by growth in API while rest of the world business grew 26% during the quarter. EU and Japan regions were 32% lower.

Our API business reported strong revenue growth backed by improvement in both pricing and volumes. As of June 30th, 2015, we have 39 commercial APIs including 21 in North America, 24 in Europe and 26 in rest of the world.

Moving to the Solid Dosage Form business, we have 48 commercial products across various regions including over 20 products in North America, 29 in Europe and 26 in rest of the world. During the quarter, we have launched Bupropion in US, Amlodipine and Losartan HCTZ in Canada and many other emerging markets. We have also received 6 approvals including 2 in North America and 4 in Europe.

Next is our Radiopharmaceutical business where we are witnessing sustained strong performance with significant improvement in margin. Our strategic initiatives have helped the improvement in business performance with a strong pipeline of products which will help in sustaining the momentum in the business.

Coming to CMO of Sterile Injectable, I am pleased to share that Spokane facility was upgraded to status of Voluntary Action Indicated (VAI) during the quarter. This is a testimony of our team's hard work and sincere efforts and we are looking forward for improved performance from the facility going forward. We are also focusing on improving efficiencies and rationalizing costs to improve margins at our sites.

Moving to Life Science Ingredients. The revenue generated from the segment stood at Rs.718 crore in Q1 FY-2016.

Our international markets contributed 49% to the total LSI revenue with key developed markets share at 32% of the total sales. Our rest of the world sales were higher by 48% YoY. The overall sales were lower during the quarter. China market de-grew by 53% largely led by Pyridine-related business.

In Nutritional products, we took price increase of 10% for Niacinamide during the quarter and the outlook for the business is very positive. In Fine

Ingredients, performance was driven by improvement in both volumes and pricing. Our Pyridine performance on quarter-on-quarter basis is stable; however, pricing pressure in China continues. We continue with our efforts to stabilize the Symtet plant.

In Life Science Chemicals, we witnessed enhanced sales volume in Acetic Anhydride compared to last year. We also entered USA and South America markets for Ethyl Acetate. We continue to maintain leadership position for key products in Indian market.

We reiterate that FY-2016 revenue growth is expected to be driven by Pharmaceutical segment primarily led by growth in our North American market and normalization of our CMO business. We also expect growth in our Generic business through new products. Our Life Science Ingredients segment is expected to deliver better results as compared to FY-2015 due to improved operational efficiency and growth in nutritional products and specialty ingredients businesses.

I would like to invite Mr. Sankaraiah to continue the discussions with his thoughts on Financial Performance of the company.

R. Sankaraiah: Thank you, Mr. Bhartia. I thank everyone for taking out time and joining us on today's conference call. Let me provide you the brief Financial Highlights for Q1 FY-2016.

During the quarter under review, income from operations stood at Rs.1,459 crore. Pharmaceuticals segment contributed 51% to the overall mix at Rs.741 crore higher than 23% YoY. Revenue from Life Science Ingredients stood at Rs.718 crores contributing 49% to the overall mix.

EBITDA for Q1 FY-2016 was at Rs.333 crore, up 123% YoY and translating to EBITDA margin of 22.8%.

Pharmaceuticals segment EBITDA stood at Rs.225 crore which is a substantial growth over the same period last year. EBITDA margin for the segment were at 30.4%, up from 5.9% during Q1 FY-2015 and 26.2% in Q4 FY-2015.

Our Pharmaceuticals segment has delivered strong results led by sustained performance in Radiopharmaceuticals and API business and normalization of Spokane operations. We are looking forward to improved performance in our CMO business post successful completion of inspection status during the quarter.

The EBITDA in Life Science Ingredients segment stood at Rs.121 crore translating to the EBITDA margin of 16.9% as against 15.3% during Q1 FY-2015 and 8.5% during Q4 FY-2015. In the segment most key businesses demonstrated higher margins during this quarter.

The depreciation and amortization for the quarter stood at Rs.70 crore as against Rs.73 crore last year.

The finance cost stood at Rs.93 crore as compared to Rs.63 crore last year. The blended interest rate for the borrowing stood at 8% with the rate of rupee borrowing at 12% and the foreign currency borrowing at 5%. Our blended rate is higher in the standalone entity, we have substituted all swap loans and substantial part of FOREX debt into rupee debt with the purpose of reducing the overall volatility in the earnings due to exchange movement. The reported profit after tax for the quarter stood at Rs.128 crore translating to Rs.8.04 per Re.1 paid up share for the quarter.

I would now like to touch upon some perspectives of the balance sheet: As on June 30th 2015 net debt stood at Rs.4,391 crore, this comprises of Rs.3,156 crore long-term debt and Rs.1,236 crores of working capital requirement. In Q1 FY-2016, the net CAPEX stood at Rs.63 crore, we expect our full year CAPEX to be at around Rs. 300 crore to Rs. 350 crore for FY-2016.

I would like to reiterate what Mr. Bhartia has earlier mentioned. We have begun FY-'16 on a promising note with some of the business related concerns now behind us, we believe that our performance is getting back on track and expect to continue the momentum going forward.

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

Moderator: Thank you very much, sir. Ladies and Gentlemen we will now begin the Question-and-Answer Session. We have the first question from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee: Sir, a couple of questions: Firstly, if I look at your EBITDA performance, there has been a very significant improvement quarter-on-quarter on the LSI business. Sir, can you throw some light as to what is driving this? As we have moved from almost Rs.66 crore last quarter to Rs.121 crore this quarter. How sustainable is this going forward?

R. Sankaraiah: Like I mentioned in the concall speech, it is because of the operational efficiency improvement and also the price increase that we have taken in the Vitamin business. Also, the rest of the businesses such as Specialty Ingredients and Life Science Chemicals were doing well in this quarter.

Saion Mukherjee: The impact of cost control and these price increases, has that fully come through or you see some improvement going forward in this business?

R. Sankaraiah: We are more or less there now but the effort of efficiency improvement is still continuing.

Saion Mukherjee: The second question on the Pharma business. There has been good ramp up because of the better pricing in Radiopharma and the CMO business. So just wanted to understand how much of it is already reflected in the financials currently?

R. Sankaraiah: Like we mentioned, in case of Spokane, the status of warning letter has already been changed. So, with that going forward, we expect the performance to improve in the CMO business.

Saion Mukherjee: Will it be possible for you to share the revenue of the CMO for the quarter?

R. Sankaraiah: No, we do not share the quarter wise breakup of sub-segments, you know that very much.

Saion Mukherjee: And your guidance for Rs. 300-350 crore and in addition you would have some capitalization expenses on R&D as well, right?

R. Sankaraiah: In addition to that, there will be another Rs.100 crore of product development expenditure.

Moderator: Thank you. Next question is from the line of Harsh Karmarkar from Axis Bank. Please go ahead.

Harsh Karmarkar: Can you please throw some light on the Symtet facility?

Rajesh Srivastava: On Symtet, we are continuing our efforts to stabilize and we expect that our second half of the year should be better than the first half.

Harsh Karmarkar: As compared to last year how much was the capacity utilization in current quarter?

Rajesh Srivastava: As compared to last year, we will be definitely producing better than last year, but it is difficult to comment on the capacity utilization.

R. Sankaraiah: We never share quarter-wise capacity utilization for any of the plants. So let us not deal with that quarter-wise and all.

Moderator: Thank you. Next question is from the line of Surjeet Pal from Prabhudas Lilladher. Please go ahead.

Surjeet Pal: Mr. Sankaraiah, if it is possible can you distribute your performance success in Pharma the three items you have mentioned – Radiopharma, then API and then normal addition of CMO. So if you have 100%, how would you contribute these three items in terms of your improvement in Pharma, how much contribution is given by these three in terms of improvement?

GP Singh: Like Mr. Sankaraiah just mentioned regarding capacity utilization, it is not possible for us to share the breakup of each individual business quarter-to-quarter, so I am sorry we are not able to answer this.

Surjeet Pal: No-no, I am not asking you to give me the breakup, what I am saying is that if I see your success now, this success if you distribute in percentage wise out of the total success is 40% because of this or 50% because of this kind of guidance?

Shyam S. Bhartia: In business if you see that there is overall improvement in growth in the Pharma business.

R. Sankaraiah: You have mentioned LSI and Pharma the breakup; Pharmaceutical is Rs.741 crore which is contributing 51% of the revenue and LSI is Rs.718 crore which contributes 49% of the revenue. So this is the two broad segments which we report financially, the rest of the details we give once year, at the end of the year, we will deal with that.

Shyam S. Bhartia: But if you see overall there is a 23% growth in Pharmaceutical.

R. Sankaraiah: In Pharmaceuticals 23% growth is there. So every single business has grown. If you see in the presentation Slide #8, we have mentioned very clearly - region wise growth also in Pharma that will give you a very good idea; US and Canada 35% growth is there; Europe and Japan there is a de-growth; rest of the world there is a growth; India there is a growth. So across all the businesses and across all the segments other than Europe and Japan we have grown.

Surjeet Pal: I was going through your ROCE on Pharma asset and LSI asset. In LSI asset there is tremendous kind of growth and so is Pharma, given the average of say last 2-3-years. Do you believe that this kind of percentage you will be able to maintain say for FY-'16 and '17?

R. Sankaraiah: Like we mentioned in our speech both Mr. Bhartia and I talked also, some of the business-related concerns what we had last year and year before last, the warning letter in Montreal, then warning letter in Spokane, those things are behind us and we also learnt a lot in the whole thing and we believe that our performance is getting back to the normal level and we will be in a growth mode. So we expect to continue this momentum going forward, we believe that.

Shyam S. Bhartia: ROCE growth has the two factors — one is EBIT growth and the capital employed. So as Sankaraiah said, we expect the growth momentum to continue.

R. Sankaraiah: We are planning to invest about Rs.300-350 crore also going forward to maintain the growth momentum. We are investing about Rs.100 plus crore in product development. So everywhere we are trying to bring back on the track the growth momentum what Jubilant has shown over last 10-years.

Surjeet Pal: If I compare my Q1 FY-'16 number what you have published vis-à-vis Q1 FY-'14 when this warning letter did not impact your business I really found your number is much-much better than what you had in Q1 FY-'14 per se. But anyway since you said you are confident let us take it on the face value. Mr. Sankaraiah, how much benefit you have got from price rise in Radiopharma in FY-'15 and Q1 FY-'16?

R. Sankaraiah: Sorry, we will not be in a position to talk each business-wise.

Surjeet Pal: No, my point is that the growth you have got, is it mainly volume growth or the price growth has helped a lot?

R. Sankaraiah: It is a combination of both.

Surjeet Pal: And when could we expect new approval to come given by US FDA?

GP Singh: As you must have seen the comments from many other pharmaceutical companies, though we remain optimistic on approval timelines, our approvals are scattered across various quarters. Unfortunately, FDA timelines are unpredictable. Unless it is a time bound first-to-file and Paragraph-IV kind, which will be in public domain and you will be able to dig up the information yourself, it is just not possible to comment on the approval timelines. The way our pending filings are, they are scattered over a period of time and sprinkled across and we are just hoping to get approvals and launch the products as we get approvals.

Moderator: Thank you. We have next question from the line of Mahesh Sarda from Exide Life Insurance. Please go ahead.

Mahesh Sarda: I was just looking at your yearly numbers for the last 4-years and I just happen to see that this kind of EBITDA margin of +22% is not reported over the last 2-years and it was only in '12 and '13 and this is the first time after almost a gap of 7-8 quarters we are seeing such kind of margins. Going ahead over the next 2-3-years, what would be the aspiration of the management with lot of stability across business segment you are seeing and some improvement expected? Where do you aspire to have the EBITDA margin — would it remain in the range of 22% or you are looking at stability or any sense you can give in terms of next 2-3-years visibility?

R. Sankaraiah: You are absolutely right, last 2-years, we have never recorded this kind of EBITDA number. But I am afraid we have not given any guidance neither on EBITDA or sales growth. So we will not be in a position to comment on this. As I mentioned, we believe that we are getting back on track and the warning letters are behind us, things are looking up and we are confident that the growth momentum will continue.

Mahesh Sarda: But my point is that if we see stability across all the business segments and with improvement in growth momentum which you are talking of, do you see stability in other margins of 22% and uptick in the long run, I am not

asking for a quarterly or even a yearly guidance, I am talking a directional trend?

Shyam S. Bhartia: We cannot give you any guidance for next 2 to 3-years, very difficult to give you any guidance.

R. Sankaraiah: We believe directionally we are in a good shape but we cannot give any guidance on fixed numbers.

Moderator: Thank you. We have next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: I had a question on the Life Science Chemicals business. What explains this decline year-on-year in the top line, if you can sort of try and break it up into realizations and volumes?

R. Sankaraiah: If you see in overall Life Science Ingredients business and Chemicals also, it is mainly driven by the crude prices. Even though the volumes are at the same level or a better level because it is a commodity and the prices go down, the margin remains good.

Chirag Dagli: So the fact that our absolute EBITDA has sort of remain stable Y-o-Y and actually doubled Q-o-Q, what does that tell us — that tells us that the volume in this business has doubled Q-o-Q? Our EBITDA absolute terms was Rs.66 crore in the Q4FY-'15 and it is now Rs.121 crore which is less than double.

R. Sankaraiah: If you see our concall in Q4, we did mention that there is a drastic reduction in margins in Life Science Chemicals business because of the pricing pressure and also if you see there was one-off expenses which we have written off in the Q4 FY-2015 in LSI business thereby the EBITDA margins were 8.5%. Otherwise if you see, compared to last year same quarter when it was 15.3%, this quarter it is 16.9%.

Chirag Dagli: Okay let me ask the other way round; if not Q-o-Q on a Y-o-Y basis Rs.133 crore has become Rs.121 crore EBITDA from the Life Science Ingredients business. This is an indicator of the underlying trend despite all the pricing pressure this is where EBITDA is now sort of stabilized?

R. Sankaraiah: We believe so.

Chirag Dagli: Has Symtet meaningfully improved Q-o-Q, is that like this quarter phenomenon?

Shyam S. Bhartia: No-no.

Chirag Dagli: What percentage of our overall business is actually crude linked?

Shyam S. Bhartia: Most of our raw materials are either in Pharma also solvents or raw materials in our Ingredients business. Lot of raw materials linked to crude. So we see a downward trend in the prices of raw materials.

Moderator: Thank you. Next question is from the line of Bharat Celly from Research Delta Advisors. Please go ahead.

Bharat Celly: Actually I have a question related to the expense: you mentioned that there will be Rs.100 crore allocated to product development right. So is it going to be capitalized or it will be reflected in overall numbers?

R. Sankaraiah: In addition to capital expenditure, Rs.100 crore will be capitalized.

Bharat Celly: Next one is related to Aripiprazole. So have we started supplying commercial quantity to the partner?

GP Singh: Because of confidentiality reasons with our customers, unfortunately, I am not able to comment on that because it impacts the customers also

Moderator: Thank you. The next question is from the line of Sai Prabhakar from Karvy Stock Broking. Please go ahead.

Sai Prabhakar: My question is since the growth essentially is not CAPEX-driven, so can you list out the number of product launches or like APIs or Generics that we are looking at in this year?

GP Singh: Like I mentioned earlier in answer to a different question, our approvals are spread out across various quarters. Now, the number of launches will depend on when the approvals come which is very unpredictable. So, it is difficult to give an exact number how much approvals we are going to get, but we have a good number of filings and we expect approvals every quarter like we mentioned we had two approvals in this quarter. So similarly, as approvals comes, we will keep informing the public about it.

Sai Prabhakar: Because once I read in 'Annual Report' that Generics especially was a partnership kind of a business. So, I am just trying to understand we are ready to go to the market or is it like wait for a partner to come since you already have the API business on our side?

GP Singh: It is a mixed bag. We have different business models. Our effort always is to monetize as soon as the approval comes. Now, again, it also depends how viable the market is at that point of time. It is a very competitive industry. So we are always evaluating our filings of how commercially viable they are. If they are commercially viable, as soon as approval comes, either directly or through our partners, we make sure we get into the market quickly.

Sai Prabhakar: It is like as soon as we get an approval, we are ready to go to the market either through ourselves or through a partner, but there will be not much…

GP Singh: For US, we market our own products.

Shyam S. Bhartia: We do our own marketing, we have no partnership in marketing in US.

Sai Prabhakar: Can you comment on the Pyridine and its price going forward, how do you expect that would be?

Pramod Yadav: As we mentioned in our last call also, major market of the Pyridine is China and there we continue to face the pressure of competition and also some of the regulatory challenges on the anti-dumping duty side. Also, the application of the Pyridine, Paraquat has the regulatory issues in China and those issues have not been sorted out yet. So, we expect the volume and price pressures to continue at least for some more time.

Sai Prabhakar: And if we look at the decline across other countries, can we explain that or can I take it as a spillover effect from China to other countries that is why the other countries are not showing good price growth?

Pramod Yadav: No, we are already expanding our market reach into other geographies and new applications and in those areas our growth continues.

Moderator: Thank you. The next question is from the line of Ranvir Singh from Systematix Shares. Please go ahead.

Ranvir Singh: Can you give a breakup of Pharma sales in China and ROW?

R. Sankaraiah: China is not much in Pharma. It is mainly ROW.

Ranvir Singh: Secondly, in the Radiopharma segment, apart from what we have already filed, how many products are under development, what we can expect in next one year or two years.

GP Singh: There are a few products in development. It all depends on the success. It is important how much we file. So we keep trying and looking at various options all the time. It is very difficult to tell the exact number that how many are in development.

Shyam S. Bhartia: An important product which we have discussed in the last few quarters is Rubidium Generator for which the site has 505(B2) approval. We have said last time that we expect in the first quarter of 2017 and we still maintain that.

R. Sankaraiah: Having said that, you know very well from the past calls that we have a couple of products in pipeline which are expected to be launched over a period of two to three years. These products, of which at least more than three or four products are in development which is expected to launch in next two to three years' time. It depends upon the approval timeline.

Ranvir Singh: For these products though in Radiopharma there is a lot of information not available, so what would be market size currently and where we are standing in terms of number of products there in the segment? Three to four products which we are planning, what would be the market size of these products?

Shyam S. Bhartia: We are not going to discuss individual product wise market size.

R. Sankaraiah: You know very well that we are already a market leader in some of the products. The market size depends upon which market we are looking at. We are mainly in North America as of today and we are trying to expand rest of the world. So it is difficult to quantify the market size as of today.

Ranvir Singh: Though we do not give that breakup of each segment but just wanted to understand like in Pharma segment, we have three-four verticals, so some of these verticals are prone to lumpiness, I believe like Drug Discovery or CMO business. So just I wanted to understand whether in this quarter the performance what you have seen is release sustainable or part of it may see some lumpiness there?

Shyam S. Bhartia: Sankaraiah and I already said that we expect continued growth on the CMO business as we go forward because we have just come out of the warning letter. We expect good traction in the business and we expect this growth to continue.

Ranvir Singh: So that business is fully normalized, we have again recouped the market loss or the full size of that market which were expected from this facility.

Shyam S. Bhartia: During the year, we hope to completely normalize the business.

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

Jagdish Bhanushali: I wanted to understand what would be the pace of filings in US in Solid Dosage for us in coming years?

GP Singh: You can look at the historical trend as we tend to maintain what the pace we had been maintaining in the past. Even say if we hope to file, again, it is a hope because it depends on how much you can develop, how much successful you are in the biostudies. So we hope to file between 8 to 10 products every year.

Jagdish Bhanushali: That is North America or in US just do you mean?

GP Singh: This is in US.

Jagdish Bhanushali: In terms of CMO and the Sterile Injectables, wanted to understand what sort of clients are we again getting back in the normalization of the business, are we getting new orders right now?

GP Singh: Again, it is very specific to the business. So I do not think we are in a position to discuss that but it is a mixed bag. It is like any other business where there are the new customers, the existing customers, the old customers. So wherever there is an opportunity, we are going to go after and monetize it.

Jagdish Bhanushali: Because before we got an observation, we got to know that may be some customers have taken the orders back, so just wanted to know, have the customers again come back to us or no on that front?

Shyam S. Bhartia: Again, same thing, it is a mixed bag, some customers do come back, some do not, some new customers came in and some customers work with us and they continue with us.

Jagdish Bhanushali: Do we have further head rooms to increase our pricing in Radiopharmaceutical products?

Shyam S. Bhartia: We cannot comment on this. We have to evaluate all the times, we cannot comment on this.

Jagdish Bhanushali: Just wanted to understand that this time in LSI segment we have reported some 16.9% of EBITDA margin compared to the EBITDA margins which are much lower in Q4. Would it be fair to assume that again where the crude prices stay where they are today that Q2 would be somewhere again margins could be at the lower end?

Pramod Yadav: We do not expect much change here. So, as Mr. Sankaraiah mentioned earlier that we are getting back on track and we expect the growth momentum to continue. So we would like to stay with that statement.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from India Nivesh Securities. Please go ahead.

Tushar Manudhane: A few questions from my side; First of all how many ANDAs filed till date and how many commercialized and pending for approvals for US markets?

GP Singh: We have 48 commercial products, 20 in North America, 29 in Europe, and 26 in ROW. That is what is already approved. Every products which we have filed is pending approval. So if you are talking about the total filings till date, we have almost 72 filings in total, and 33 filings are still pending with FDA.

Tushar Manudhane: And can you throw some color on this 33 pending approval let us say any Para-IV or say into Oral Solid Injectables, if you can throw some qualitative comment?

GP Singh: No, we do not have any Paragraph-IV filing.

Tushar Manudhane: Out of 33, how much are the Niche Generics or the limited competition Generics?

Shyam S. Bhartia: It is very difficult to predict how much competition is going to come.

Tushar Manudhane: Other way classifications into Oral Solids Injectables or all these filing to Oral Solids.

R. Sankaraiah: All Oral Solids.

Tushar Manudhane: With respect to API and the Dosage Formulations segment I understand you do not specify the number or the EBITDA number but just wanted to understand the margin improvement in that segment is there, is it because of the product specific or this is sustainable?

GP Singh: Unfortunately, you answered your question yourself that we do not go into business-specific, product-specific details.

Tushar Manudhane: I am not asking for a number, but at least the guideline…?

R. Sankaraiah: Let me answer this in a different way. If you see, two years back we were recording very high growth or very high number in Methylprednisolone. You are all very much aware of that particular product. There is nothing like a single product which contributes huge value add as of today.

Tushar Manudhane: And just may be the technical bit on Symtet, but I would like to understand the reason why you are taking so long time for stabilization like how long further usage?

Rajesh Srivastava: We are continuing to stabilize the production. And as I said that in second half of this year we will see the improvement in volumes vis-à-vis first half.

Tushar Manudhane: Still it would be gradual improvement or you mean to say there would be…?

Rajesh Srivastava: It will be a gradual improvement, yes.

Moderator: Thank you. The next question is from the line of Mayur Bhutani from India Ratings. Please go ahead.

Rakshit Kachhal: This is Rakshit and Mayur Bhutani from India Ratings. Just a couple of questions; first, we have been seeing new approvals coming in starting from 1st of January, we have been hearing about set of approvals coming in for the company, but when I see your Q4FY15 Pharma numbers vis-à-vis Q1FY16 Pharma numbers in terms of revenue, I see them to be a little flattish. Is it because that we have not commercialized those approvals or do we see pricing pressure in the industry, what is the reason even after having approvals, the top line is flattish for the Pharma.

GP Singh: All of you are very well versed with the US Generic market and as you know, it is a mixed bag. There is always a pricing pressure. There is also a customer consolidation happening in United States which has increased these pricing pressures. So, as such, you are right, in a certain way which you put your portion through. Many times when you launch a product then there is a pricing pressure. So, yes, we have introduced the new products but it is a mixed bag – pricing pressures, revenue from new products.

Rakshit Kachhal: So we have actually commercialized those approvals, we are not building or sitting on them as of now?

GP Singh: Few of them, yes. It is a continuous process. We get an approval, some of them get launched within a certain time and some need a little more preparation. So as we are getting approvals, as soon as we get ready we launch the products. As you would have seen, for the approvals that we had in the past, there was already competition in the market and there was no way the timelines could be projected. So we have to be careful about how we plan.

Mayur Bhutani: Just the second question I had was on the LSI business specific to the Pyridine. Mr. Sankaraiah said that there is a 53% decrease in the Pyridine which is being exported to China. Now if I understand correctly there are two set of problems; one, on the pricing side because of the antidumping duty as well as the regulatory requirement for the Paraquat; however, the pricing is applicable to the whole set that is being set out to China while the Paraquat part is only for a subset of this whole set. Now, if possible can you give me some sense as to if I have to break this 53% into the two segments, can I get some sense on that sir? In the Pyridine 53% decrease that we are talking about there would be effects coming in from the pricing pressure because of the antidumping as well as the Paraquat requirement. So can we get some sense which is driving how much of this 53%?

Pramod Yadav: It is a combination of both, but the major degrowth has come because of the volumes. But whatever degrowth was to happen has already happened. If you look on the quarter-on-quarter, then the volumes are flat.

Mayur Bhutani: So, we do not see any further stress in the Pyridine business for China at least going forward?

Pramod Yadav: Yes, whatever the stress is there that is already built into the number. We expect that whatever numbers are there, as of now we are going to maintain that.

Rakshit Kachhal: Just to come back to the previous question about the approval, just a small clarification you said that once you received the approvals there are a lot of factors like the competition, etc., which you would see before commercializing it. Just want to learn a ballpark figure, how much time does it take for the company to commercialize once it has received the approval?

GP Singh: It varies, it is not fixed.

R. Sankaraiah: Once they approve the product, if the product is available for launch, we will be interested in launching the product.

Rakshit: Yes, for that only, taking into consideration that you are interested in launching the product and you will be able to meet the competition and therefore the pricing, how much time will it take for you to commercialize it from the point when you get the approval?

GP Singh: It is a very hypothetical question and it leads to speculation. Sorry, we cannot answer this question.

Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: My question is regarding Spokane facility. In last presentation also, you had said that Spokane facility is upgraded to Voluntary Action Indicated. Now here also you say that normalization of operation at Spokane is underway and operational efficiencies has already kicked in due to Spokane normalization. How do you quantify normalization — is it in terms of capacity utilization in thinking that currently it is being used at 30% and 60% or 70% is normalization?

R. Sankaraiah: The production of the existing products goes on when the warning letter is there also. What stops is only the new product development. During that period, where the customers have alternate site, they would prefer to do in the alternate site, but they continue to remain customers. Only thing is, the additional order flow was not getting generated when the warning letter was there. So now that status has been changed. So customers know that the site is okay for manufacturing, so the customers come back and that is why we say that normalization is underway.

Shyam S. Bhartia: In first quarter we had also announced that we have got few new product approvals that adds to the business and we continue getting new product approvals.

R. Sankaraiah: So, that is where Mr. Bhartia mentioned that by end of the year we should be back to the normal level. That is the normalization process.

Jayesh Gandhi: Sir, can you quantify in terms of capacity utilization then?

R. Sankaraiah: We have again and again mentioned that we are not dealing with plant-wise or line-wise capacity utilization at all.

Jayesh Gandhi: Can you just tell me about Symtet also?

R. Sankaraiah: We have already mentioned plant wise we are not dealing with plant-wise capacity utilization.

Jayesh Gandhi: How is China panning out now? Any update on the antidumping duty that has been levied on our advanced intermediate there?

Shyam S Bhartia: So, this is currently under investigation by the MOFCOM which is the Chinese regulatory agency .And as of now investigations are going on. As you know, if any of the regulatory agencies are doing the investigation, they take their own time.

Jayesh Gandhi: What I am trying to say is are we increasing the balance of Pharmaceuticals in our revenue mix more than Life Science Ingredients?

Shyam S. Bhartia: As we have said, the growth is expected to be higher than Life Science Ingredients. In the mix, Pharma is expected to grow.

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

Surjeet Pal: Mr. Sankaraiah, I just need to understand these LSI what you have given already made a statement. My understanding is that your Pyridine is based on mainly ethanol or molasses-based, right. On the other hand, the large peers are basically on crude-based Pyridine production. So as you say that your many ingredients are crude-linked, so you get benefit over there, on the other hand the lower crude price also reduced the price of Pyridine which your competitors are passing on those benefit in the market, so the Pyridine is down. So, lower crude price is giving you the discomfort, on the other hand it also gives benefit to your lower cost and ethanol also prices coming down globally and in India. So that will also give to a certain extent comfort. Now plus, minus all these things, so your higher LSI margin does it indicate that the passing on of the benefit by your competitors in Pyridine price is lesser than the benefit you are getting both from lower crude and lower ethanol?

Shyam S. Bhartia: It is very difficult to answer this question. I would like to say that in our Advanced Intermediate business we are one of the lowest cost producers in the world. Our cost structure is very good cost and both yields are very good in our businesses. So, we will always be profitable in this segment.

Surjeet Pal: Another point is that China after ban on Paraquat which is a biggest consumer of your Pyridine, is there still trend that China is a global price setter of Pyridine price after ban of Paraquat?

Shyam S. Bhartia: China has not banned Paraquat. China has banned the Liquid Paraquat, and they have said that only powder form of Paraquat will be sold in the market. So there is a time lag between developments from liquid to powder form. Not many companies have developed the powder form, or the gel form. So, as and when the companies keep on developing the powder and gel form the market will keep on increasing in China.

Surjeet Pal: So does it imply that your contribution by China of roughly 10% of your total sales continue to be there which has come down slightly say 1 to 2% this quarter, so you believe…?

Shyam S. Bhartia: As Pramod has said, our current situation is stable and it will continue to be this in recent time to come. Further, it is not going to go down.

Pramod Yadav: To add to what Mr. Bhartia has said that since we are the lowest cost producer, so we are also expanding our market reach of the Pyridine into other geographies, some new applications are being developed where we are getting good responses.

Surjeet Pal: Any development in Zinc Pyrithione, when do you think that you could be able to commercialize this product?

Rajesh Srivastava: The Zinc Pyrithione is already commercialized and as you know this product is regulatory controlled in most of the regulated markets. So we have already started working with large customers and small customers. The approvals are on the way and we will definitely start the regular business during this year itself.

Surjeet Pal: What are the commercial use of this product?

Rajesh Srivastava: It has got two major use — one is in paint as antimicrobial and also in shampoos as ZPTO for antifungal.

Surjeet Pal: It is for the Microbial Control Biocides?

Rajesh Srivastava: It will not have the fungal growth and any microbial antidandruff.

Surjeet Pal: Why is it restricted?

Rajesh Srivastava: If you want to sell any Biocide in regulated markets like US and Europe, you have to go through the normal registration process. Any chemical is regulated now in Europe and US, but of course being Biocide it is definitely more regulated. So it takes time.

Surjeet Pal: So you believe that this could be critical contributor in two years' time?

Rajesh Srivastava: As such it is a very small product, it is not a very big product. What we mentioned last time was that we are identifying new users of our Pyridine, and this was one of them. It is not a very big contributor to the revenue.

Surjeet Pal: The last question is on India Branded Formulations. I believe you guys recruited around 200 people and more products. Could you throw some light and how much efficiency you are expecting in say next 18 to 24 months, do you expect around 2 to 2.5x?

Shyam S. Bhartia: As you know that we have just launched the business last year, we continue to improve on the efficiency of our sales force, and as we grow month-on-month, quarter-on-quarter, we hope to increase our sales.

Surjeet Pal: How many products you have launched as of now?

Shyam S. Bhartia: 32 SKUs.

Moderator: Thank you. That was the last question. I would now like to hand over the floor back to Mr. Bhartia for his closing comments. Over to you, sir.

Shyam S. Bhartia: I would like to thank all of you for being on this call today. If you have any further questions, Ravi and Mr. Sankaraiah is available. We are very happy to talk to you all.