



Jubilant Life Sciences Limited
Q3 FY2011 Investors/Analysts Conference Call
Tuesday, February 15, 2011 at 04:00 p.m.

Nidhi Aggarwal: Good evening ladies and gentlemen welcome to the third quarterly results conference call of Jubilant Life Sciences Limited. We have with us on the call Mr. Shyam S. Bhartia, our Chairman and Managing Director and Mr. R. Sankaraiah, Executive Director Finance of Jubilant. We will commence the call with the comments from the chairman and Mr. Sankaraiah on the business and consolidated financials for the period ended December 31st, 2010 and follow that up with an interactive Q & A session. I would request all participants to kindly refer to the investor presentation for the disclaimer. I would now request Mr. Bhartia, our CMD to provide key highlights of our business performances.

Shyam S. Bhartia: Thank you Nidhi. Good evening once again, I trust by now you would have gone through our results.

During Q3 FY11, JLL delivered Net Sales of Rs. 867 crore with a PAT of Rs. 44 crore at a consolidated level. Similarly in 9M FY11 JLL reported Net Sales of Rs. 2,543 crore and PAT of Rs. 168 crore.

Let me begin by giving you a sense of the segmental performance, in Q3 FY11 sales from Products stood at Rs. 700 crore, which thereby contributed around 81% to our overall revenues. Products grew 13% in the quarter. There has been a good volume growth of over 17% across the Product segment. In Q3 FY11 19% of the revenues came from our Services business at Rs. 167 crore. Moving ahead, we remain positive about the sustained contribution from our Products operations due to healthy order book and new product introductions. Meanwhile the Services business has not delivered compared to our expectations and we are actively pursuing measures that will improve the performance of our Services business in subsequent quarter. The outlook as such for the longer-term remains promising given the increasing outsourcing of Products and Services business from global pharmaceutical and agrochemical companies.

Moving on, in 9M FY11 Products contributed around 78% to our overall revenues at Rs. 1,987 crore and Services delivered the rest at Rs. 556 crore. Revenue growth in Products was at 8%. There was a good volume growth of 16% across the Products segment. International revenues contributed 69% to our revenues in the quarter and 70% during 9M FY11.

I will walk you through some key segment highlights of each of our key businesses.

Within Products, our Life Science Ingredients business delivered revenue growth of 11% to Rs. 582 crore during the quarter and 6% at Rs. 1,660 crore during 9M FY11. It contributed over 67% of the overall revenues for us in Q3 FY11 & 65% in 9M FY11. I am pleased to note that our volume growth has remained good at 15% across all segments of Ingredients business both in Q3 FY11 and 9M FY11 with key driver being the API business.



Continuing with the Life Sciences Ingredient business in detail, our Proprietary products and Exclusive Synthesis segment maintained operating momentum in Pyridines. Utilisation rates were healthy and we saw good volumes growth. The pricing trend is positive and we have seen an improvement in pricing on a sequential Q-on-Q basis. Nutritional ingredients had healthy growth based on continued increase in demand. Our capacity expansion in Niacinamide is expected to commercialise production in March'11. In Life Science Chemicals we saw growth in revenues backed by good margins. We expect to continue to benefit from increase in demand of products in India, South East Asia and European markets. We further expect to increase capacity to meet the growing demand from customers. Coming to API, we showed growth of 23% in Q3 FY11 and 18% in 9M FY 11 due to market share gains, entry into new geographies in emerging countries and new product launches. I am again very happy to share that we now have 43 cumulative DMF filings. Our capacity expansion project to supply Sartans will commence production in March 2011. We are preparing to launch higher volumes Sartans in the EU market amongst other product launches.

Now to talk about our Generics business, here our Dosage Form segment delivered strongest revenue growth of 30% during the quarter and 31% in 9M FY11. Contribution to overall revenues from Generics stood at 14% at Rs. 118 crore during the quarter and grew 24% in the same period. Similarly in 9M FY11 Generics showed 13% contribution at Rs. 327 crore and 16% overall revenue growth. We have in total 33 approved ANDAs and Dossiers and 26 filings under approval in Dosage Formulations. In Radiopharma we saw 31% growth in Q3 FY11 backed by stability in isotope supplies from the Canadian Nuclear Reactor. We have a robust pipeline and expect product launches as per schedule. Our Allergenic Extracts business will continue to grow at steady rates.

On the other hand in the Services business we have seen a muted performance. Our CMO business contributed 13% to overall revenues in the quarter and 16% in 9M FY11. Excluding one-time H1N1 contract last year same quarter of Rs. 55 crore, we have witnessed flat growth in the quarter and 2% in 9M'11. Our customers have been experiencing delays in product approvals due to stringent regulatory environment, thereby delaying new contract closures. Moreover we saw reductions in key customer forecasts due to slowdown in their commercial products. DDDS contributed 6% to both the quarterly and 9 month revenues. We faced delays in on-boarding of the new integrated programs from key customers and postponement of milestone payments. Further Clinsys in the U.S. faced pressure on account of market slowdown and consolidation in the pharma market.

Our growth outlook for the future remains intact while we understand that there has been some moderation in our performance in the short-term. We maintain a sustained long-term growth outlook due to continued increase of outsourcing of Products and Services businesses from pharmaceutical and agrochemical companies.

There are reasons why the Products business will continue to perform well and these include:

- Healthy and increasing order book position – where the volume growth outlook is positive
- Capacity expansion in Proprietary Products & Exclusive Synthesis, Nutrition Ingredients and APIs that will contribute to improving performance



- Expected new product launches and new filings in Formulations and API business
- Launch of new pyridine derivative products targeting the agrochemical space

We are apprised of the needs of the Services business and I would like to share certain active measures that we are implementing to improve the performance of the Services business revenue and earnings outlook is expected to be better on account of:

- On-boarding of new integrated programs from key customers
- Traction in clinical trials business
- Alignment of costs in line with expected Revenue
- Full year impact of signed contracts

I am sure that our clear focus on pharma and life science outsourcing will result in growth in the medium term. We are taking measures to protect the performance from any further moderation due to the Services business while the outlook on the Products side remains positive.

Now I would like to invite Mr. Sankaraiah to share his views on the financial performance of JLL.

R. Sankaraiah: Thank you Mr. Bhartia. Good evening everyone and welcome once again. Let me begin with an update on the corporate events.

I am glad to share that Jubilant Industries, which represents the demerged APP operations listed on the NSE & the BSE yesterday. With that we have successfully completed the bifurcation of focus into the pharma & life sciences business under Jubilant Life Sciences and the agri & polymers business under Jubilant Industries or JIL.

Before I discuss the financial perspectives I would like to give you some colour of our operating performance. JLL has reported continued better volumes and capacity utilisation in its Pharma & Life Sciences Products driven by improved API & generics performance. However the results of our Services business have not been up to our expectations as there has been a deferment and slowdown of order flow due to delayed regulatory approvals for new products for our Customers and de-stocking of vaccines on account of fall in demand. This has been the primary reason for moderation of our corporate results in contrast to our anticipation.

I will commence with an overview on the consolidated financials.

In the third quarter of FY2011 net sales for the company stood at Rs. 867 crore. Revenue from Products increased 13% in Q3 FY11 to Rs. 700 crore backed by strong volume growth of 17%. Contribution to overall revenues was at 81%. Services delivered revenue of Rs. 167 crore and contribution to overall revenues was at 19% with a decline of 32%. Our international business contributed around 70% of the top line in Q3 FY11.

In Q3 FY2011, EBITDA was Rs. 134 crore with margins at 15.4 %. This was on account of 23% EBITDA margin in the Products segment and break-even level of EBITDA in the Services business.



Our Net Profit was at Rs. 44 crore. Thus our Basic EPS was at 2.77.

Coming to the 9 month numbers, revenues stood at Rs. 2,543 crore, showing an increase of 2%. Our international business contributed 70% to the top line in 9M FY11.

Revenues from Products stood at Rs. 1,987 crore showing growth of 8% and contributing 78% to the overall revenues of the Company. On the other hand Services delivered Rs. 556 crore and contributed the rest.

In the first 9 months of the fiscal year EBITDA was Rs. 430 crore. EBITDA margins were at 16.9% in this period on account of 23.3% EBITDA margin in the Products business and 2.6% in the Services business. Net Profit for the period was Rs. 168 crore with Basic EPS of Rs. 10.55.

Our net debt position on December, 31, 2010 was at Rs. 2,881 crore comprising of Rupee debt of 613 crore, foreign currency debt of Rs. 1,730 crore and FCCB debt of Rs. 635 crore. This included cash on books of Rs. 98 crore. Net debt to equity stands at 1.37 times as of December 31, 2010.

Our average cost of total borrowing was 5% per annum with Rupee debt cost of 9% and foreign funds at Rs. 4.2% per annum. There are no major loan repayments due in the next three years except FCCBs which are due in May, 2011. We have already tied-up sufficient funds through a combination of Rupee and Dollar debt to repay the FCCBs on the due date.

There has been a short-term moderation of corporate performance in Q3'11 primarily due to subdued results from Services business. While the Q3'11 results have been moderate, we expect to once again be on a growth trajectory as we move forward. Thank you and I would request the moderator to open for Q&A please.

Moderator: Thank you. We have the first question from the line of Deepak Malik from Emkay Global, please go ahead.

Deepak Malik: Can you throw some more light on the performance of the services business? Why the margins have moved to negative territory, is it just one time phenomenon or shall we expect it in the next few quarters?

R. Sankaraiah: There was certain postponement of milestone payment which was supposed to be received during the Q3 which has gone to Q4 and Q1. Apart from that in Service business more particularly in drug discovery there was delay in certain on-boarding of contract which has happened because of the integration with major pharmaceutical companies on account of M&A activity. For these two reasons it is more of a one-time than continuous nature. And also since we are comparing the numbers on a like to like basis for the previous year of the same quarter, in Service business as most of us are aware we have very clearly mentioned in H1N1 the swine flu contract we got a one-time order which was a very high contribution margin level which was worth Rs. 55 crore and which was not there this year, that has impacted in a big way as when you compare on a like-to-like basis.

Deepak Malik: How is the pricing environment in Pyridine business? Is it improving?

R. Sankaraiah: Like last quarter we have mentioned that we expect an increase in price in Q3 so that price increase we have already taken and one more price increase we are taking in this quarter. So the price on a sequential basis is improving.

Deepak Malik: Okay and can share your thoughts also on the CRAMS segment, how is the CRAMS segment performing overall in the CRAMS industry. Is there still pain which can persist for next three, four quarters or the environment is improving in US and Europe?

R. Sankaraiah: If you see the total business, we have two segments one is the product segment other one is the service segment. The contract manufacturing segment is doing very well, we have not seen any problem there at all because if you see the first 9 month results and also the quarter results we have shown a volume growth of 17% in product business. So per se CRAMS manufacturing we don't see any problem at all. As far the service business is concern because of the pharmaceutical consolidation on account of M&A activities of big pharma companies and also the biotech company which has got folded up in clinical and research business, which again we are seeing a good positive traction going forward in service business also. So, overall in manufacturing there was more slowdown we have seen ever, in service business whatever slowdown we have seen there is a positive traction which is going on, moving forward.

Deepak Malik: Why has debt gone up this quarter vis-à-vis last quarter by Rs. 150 crore?

R. Sankaraiah: That is mainly because of the additional working capital made because of some stocking in the working capital on account of sale, which we proposed to do in Q4. So that will get normalized in FY2011 end.

Deepak Malik: Okay, thank you.

Moderator: The next question is from the line of Saion Mukerjee from Nomura, please go ahead.

Saion Mukherjee: On the contract manufacturing we have actually seen a sequential decline. Can you give some numbers in terms of how the pipeline is looking now and what kind of contract you have for FY12 and why actually we are seeing this sequential decline?

Shyam S. Bhartia: You mean to say in the service business of contract manufacturing?

Saion Mukherjee: Right.

Shyam S. Bhartia: You see in the contract manufacturing we have sterile and non-sterile operation in US and the general trend of contract manufacturing remains very strong but unfortunately we were expecting during this quarter a continuation of our business of our H1N1 but due to the reduction in the impact of the swine flu, business didn't come, in fact the

vaccines which we produced last year also were in stock, the destocking is continuing. So since there was a sudden drop in the revenues we could not adjust the cost to our revenues, but now we have taken steps as we explained to adjust cost to our revenues and at the same time we expect a continuous increase in revenues starting from fourth quarter to subsequent quarter. And quarter- on-quarter also you will see a substantial increase in the revenues and also margins in the total services business including our drug discovery and development business.

R. Sankaraiah: If you see on a quarter on quarter, there is a clear-cut reason if you see last year Q3 and last year Q4 and compare to this year in Q1, Q2 and Q3 there is a huge variation mainly because of that onetime contract, if you remove that onetime contract and see the growth is flat, it is not declining. The margins have declined because of what Mr. Bhartia has explained the alignment of cost versus revenue.

Shyam S. Bhartia: But you will see starting from the quarter four itself there is going to be a substantial increase in quarter-on-quarter revenue and also on the margins of services business.

Saion Mukherjee: Can you share details of the pipeline that you have. How much contract you have for Q4 and FY12 because there seem to be lot of volatility in this business, so it is very difficult to predict. So any inputs on your pipeline, orders etc would be helpful here.

Shyam S. Bhartia: See we have a very firm contract for Q4 and also for the next year because in sterile business one cannot have the contract and start the business immediately because it takes time before you start the contract. I think it takes about 12-15 months before you even initiate the contract after signing because it takes time to transfer the process, validation etc it takes time in the sterile business. We have already contracts in hand for Q4 and for the next year also. We have certain new contracts which we expect during this quarter especially for the clinical research businesses and for our sterile business which has a short term gestation period for implementation, that we expect to receive during this quarter which will enhance further our business for the next year. So whatever Q4 projections we estimate are with contracts already in hand and are going well and there is no new change as of today on those contracts.

Saion Mukherjee: So in the contract manufacturing part of the services business you see sequential improvement in Q4 and whatever visibility you have given that this is long gestation as you mentioned. You think FY12 you can deliver a growth over FY11 in the services business?

Shyam S. Bhartia: Of course we will deliver a revenue growth and more than the revenue growth we expect a margin growth which is very important, we are concentrating more on the margin growth, revenue growth will happen as well but there will be more concentration on the margin growth because as you rightly said there is a volatility which we never expected in this business. We have been operating for the last three years. In last two quarters we had so much of volatility in the business that we could not align our cost to the revenues because it is difficult before you align a cost to revenues it takes time and therefore we lose on the fixed cost but going forward we have totally aligned and we have revenue visibility clearly for Q4 and also for the next year's four quarter and with this we strongly believe that in Q4 we expect the sequential growth in the revenue also and a large increase in the margins of the business.

Saion Mukherjee: On the nutritional ingredients and proprietary products API etc, you mentioned that there is a volume growth of 17%, but the revenue growth is still lower, but at the same time we are taking some price increases. So is there any disconnect or the prices had fallen so much.

Shyam S. Bhartia: No there is no disconnect. There are two reasons of the mismatch, there is a pressure on price firstly; secondly there is a foreign exchange difference also. If you see the foreign exchange difference, 70% of our revenue comes from the international market and for proprietary products at least 80% comes from the international market. There is a revenue loss because of the foreign exchange difference to the extent of about 2.1% is revenue loss and the price variance is about 1.4%.

R. Sankaraiah: It is like this, volume growth is 17% for the quarter where as the value growth is only 13%. That is because there was a pricing pressure, on account of that 1.4% difference was there and about 2.1% is on account of exchange rate. The exchange rate difference is like Rs.46.60 versus Rs.44.83. So there is approximately about Rs.2 difference in exchange rate, that is impacted about 2% and over and above that 1.4% on account of real price reduction. But if you see there was a huge volume growth which was there more than 17% that the price reduction and also exchange rate, which has been compensated and left with 13% growth in value.

Saion Mukherjee: What is the kind of volume growth, given that new capacities are coming on stream in the product business that you are looking for at FY12?

R. Sankaraiah: It would be about 25% volume growth.

Saion Mukherjee: Are there any revenue cost mismatch of your businesses of this?. Because the nutritional ingredient expansion capacity coming in. Will there be any phase of low margin before we actually start seeing margin coming up.

Shyam S. Bhartia: No as compared to this year, we don't expect any reduction in the margins.

R. Sankaraiah: See as of today the costs are aligned and we are also taking certain price increases which we had mentioned in the last quarter, which on dot we have targeted and we are moving exactly in the same direction and same line. Since the prices have fallen so low, and since on the other directions it is going up, we don't envisage any reduction in price now.

Shyam S. Bhartia: In fact we, as Mr. Sankaraiah explained that we have taken price increases in this quarter, and also in last quarter we have taken some price increase. So there is a tendency towards price increase, we don't expect price reduction as compared to this year and next year expected.

Saion Mukherjee: Okay. Thanks.



Moderator: Thank you. The next question is from the line of Nirmala Longwani from CMIE, please go ahead.

Nirmala Longwani: Jubilant Organosys has plans to invest Rs.200 crore, to set up 5 hospitals at Howrah, Burdwan, Kharagpur, Mankundu and Haldia. Land has already been acquired in July10. So sir May I know what is the present status, if any construction work is going on at any site?

R. Sankaraiah: As of today we have 2 hospitals up and running. One in Barasat and other one is Berhampore., One hospital is about 120 beds, other one is about 50 beds, totally about 170beds, which is up and running. So we want to go through this and see how the hospital business work, understand the business model and move forward further on this.

Nirmala Longwani: Right now all these are still in the planning stage right?

Shyam S. Bhartia: Yes.

Nirmala Longwani: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Suryanarayan Patra from Systematix Shares, please go ahead.

Suryanarayan Patra: This injectable contract manufacturing business, that used to be considered as a sustainable growing business, something like that. The trend was like that, even in the real depression period of FY10 or something. But recently despite new contract additions, we have seen a declining trend or if we exclude the impact of this H1N1, then it is flat. Why it is so?

Shyam S. Bhartia: Yes. We expected this vaccine contract. If you would have had this contract which was larger than the last year contracts, then you would have achieved much better results. But unfortunately we did not get this contract because of the destocking of all the vaccines and swine flu intensity went down. Which is not in our control, up to the first quarter we expect this, we suddenly got the information that it is not going to happen because many of the countries had stopped stocking their vaccines, because of the intensity going down otherwise many countries had planned for stocking of the vaccines. So we didn't expect this, the order booking was there as you rightly said but we could not execute the orders because there is no clearance from the pharma company. So that is why you see flat, but the trend of order booking continues. We have booked more orders for other business that which we feel confident that starting from the fourth quarter we will see the sequential increase in the revenue, also when going ahead we will see a significant increase in the revenue, in every quarter.

Suryanarayan Patra: So that means this destocking issue that we are currently witnessing is that only relating to H1N1?.

Shyam S. Bhartia: Only related to H1N1. Because that one product itself was Rs. 55 crore in last year.

Suryanarayan Patra: Yes, Okay. So that is Rs. 55 crore in the current quarter?.

Shyam S Bhartia: This quarter. If you see the difference between quarter on quarter by year basis, there is a difference. You had seen a growth but what I am trying to tell you, is that actually what has happened is business has not come. And we all know that the intensity of the swine flu has come down. Today the intensity has come down compared to last year. So every country which was trying to stop the flu, is not stocking the flu vaccine.

R. Sankaraiah: Even if you leave that, the other answer I would like to give is that, the growth is flat. The question is that why the growth is flat. There are two reasons which have happened, more particularly in this quarter. One reason is because there was some delays in the customer product approvals thereby we are not able to close the new contract with the customer. Then other reason is a reduction in key customer forecast. The customer has given a forecast, due to slow down in their commercial production, we have put the capacity in all those things in place but because of the slowdown in their commercial production, we didn't do the conversion. So these things are temporary in nature but we believe that these things will be overcome by booking a little more further order than what the capacity is, to take care of the calculation. We are learning this and I think moving forward will be more cautious about this.

Shyam S. Bhartia: And you rightly said. This is the first year, last 2 quarters in this first year which is after about 3 years that we have started the business, we experienced this. Otherwise we have never experienced like this. So that is why it is one time and it is more a nature of a short term volatility and from the fourth quarter itself, and also you will see much better improvement, both in revenues and margins.

Suryanarayan Patra: And the next question is relating to this drug discovery services and in fact throughout last year you have added many customers for collaborative researches, despite that we have been seeing a 20% sort of decline in nine month period, why is that?

Shyam S. Bhartia: Yes in drug discovery, we have contracts, but due to recent consolidation in the pharma industry, three large pharma those like Pfizer, Merck and Eli Lilly, both had done large acquisition. What happens in these large acquisitions, whatever contracts in hand we have, they tried to hold those contracts for execution because they want to rationalize their portfolios and come ahead and again start the business. So they put these contracts on hold till they complete the merger, and merger completion takes about 6-9 months' time, so that is why we were caught into these merger difficulties.

And now since all this consolidation is over, we have started boarding contracts this quarter. And the full effect of this will be known during the next year starting from April, we see that at least 90% of our capacity will be fully booked and starting from May, we will see that 100% of the capacity is booked. We already have contracts in hand and now we have clearances, so the full effect of this will be seen from the first quarter next year, but you will see a good effect of this in fourth quarter Secondly, some of the milestones which we had expected to receive last



quarter is deferred to the fourth quarter, so we expect to receive that in the fourth quarter and the first quarter next year.

Suryanarayan Patra: And that was also relating to this DDDS?

Shyam S. Bhartia: Of course. In DDDS, we get research fee and the milestones. The milestones are not long-term milestones, but short-term milestones in a sense that from one step to another, it takes time to establish that with the customers and we are having a dialogue, I think we expect to receive some in this quarter and some in the next quarter.

Suryanarayan Patra: What proportion of your research services would this FTE model based?

Shyam S. Bhartia: It's a collaborative web development program with large pharma companies. We offer integrated solutions to them starting from the very initial stage to the candidate and to the preclinical stage. As it is a combination of research fee and milestones. Suppose we last for two years, we get milestones and also the research fee which we get every month. So it's a combination of both research and milestones and in the long term if the product is successful, we get development milestones, which of course we don't count from now, but also we get royalty if the product is launched in the market, but it takes four-five years, we are not counting that.

Suryanarayan Patra: Your entire research services model is collaborative research based or some portion is also inclusive of this FTE model based?

Shyam S. Bhartia: No FTE model is very small which mainly consists of functional services which we do sometimes, that is a part for our business. It's for collaborative program, but in collaborative program, we get fixed research fee also. So these are part of our daily research cost with them and also the milestones.

R. Sankaraiah: That revenue recognition is like this, one is the functional capability because of which we get fees. The other one is a collaborative drug discovery model, where we get three kinds of payment, one is the FTE, other one is milestone, and the milestone is divided into development milestones and discovery milestones. And the third one is on commercialization royalty. So as of today what is booked in the books, is functional chemistry revenue and also FTE revenue and part of discovery milestone.

Shyam S. Bhartia: This FTE revenue is same as research fee whatever you may call. The research fee/FTE revenue.

Suryanarayan Patra: Once you see the normalization in business and the research services, what sort of margin should you be expecting there?

Shyam S. Bhartia: We expect a margin of anywhere between 16%-18%.

Suryanarayan Patra: Okay thank you.

Moderator: Thank you. The next question is from the line of Nimesh Desai from Motilal Oswal. Please go ahead.

Nimesh Desai: You mentioned in your presentation that some portion of the Pyridine business is facing pricing pressure, did I get that right?

Shyam S. Bhartia: Yes, some of the proprietary products which involve Pyridines and Picolines are facing pricing pressure, that is why if you see as compared to last year there is about 1.4% price variation.

Nimesh Desai: Okay, the reason for asking this is, if I look at your overall performance, not really going into individual segments, the feel that I get is mainly volume growth has been strong, but somewhere there has been pricing pressure on various fronts. How has this pricing pressure come about and what is not anticipated when overall outlook for the year was given?

Shyam S. Bhartia: If you see the overall performance of our product segment, we have had 23% margin in the nine months' period. So our margins are strong, but only thing for which performance is brought down which was not the expectation, is because of our services business. In our services business, our margin is 2% for nine months and we expected a much higher margin that's why I said going forward, we expect a much higher margin in the business that is what we are concentrating on, but increasing the revenues also, but more concentration is on the margins.

R. Sankaraiah: In the year beginning also whatever we had projected as per our estimates in volumes and product business, it was on dot, there is no major variation at all. Only because of the service business, which we have not anticipated which has affected us very badly compared to even our own projection and that is where we have gone wrong.

Shyam S. Bhartia: We will see large part correction in quarter four and continuing quarter-on-quarter we will see quite an improvement in the business. We have already taken steps with that and we are working hard to see that we correct this business positively. You will see a good correction in quarter four and going forward quarter-on-quarter.

Nimesh Desai: And you spoke at length about your services business and I understand that some of the factors probably are reversible and profitability can look up in the coming quarters. But if I look at overall business, specifically talking of your DDDS business, Rs. 154 crore of revenues for 9 month FY11, and even if I adjust it for the one-time effect or the high base of last year, what I wanted to understand was, see this business has not really scaled up over last so many years, and since we have been at this business for quite some time, what seems to be the problem? Even if I were to rule out this year, but in past two three years, somehow I am of the opinion that this business has not really scaled up. Would you agree with that?

R. Sankaraiah: No, four years back we were only in functional business. That comprised data mining and also bio & chemo informatics services; from there we have come to the



collaborative business, drug discovery in last four years. If you see the business per se, we have improved from nothing to about \$50 million, and as of today, you can see the ISR business. If you remove the clinical research part, then what we do is Biosys and Chemsys put together, we still have a business from zero to \$30 million. And that business is doing very well even today. And also this collaborative drug discovery model is working and there is huge upside going forward which we are expecting and there is possibility of that, but where we have gone wrong is in clinical research business that too not in India. In India clinical research business is again doing well only clinical research business in US because of certain US specific region we got caught and last two year that business has made loss. That is pulling down the overall profitability of the drug discovery business if you remove that see than the discovery business growth is approximately 20% which the EBITDA of about 10-12%.

Nimesh Desai: But is 10-12% margin excluding the US business also? Doesn't it seems very low to you for this kind of work?

R. Sankaraiah: No. As of today if you see the integrated program we are one of the big companies who is doing 23 integrated programs in one location which is huge by any level of scale.

Shyam S. Bhartia: What you say is right and we expect going forward and because there were delays in on boarding of these programs. Certain fixed part were higher than what we had expected because of the mismatch in the revenue and the cost. Now there is on-boarding of those contracts. So you will see the margins in all our businesses except the clinical research US business which is likely to improve in FY2012 from a negative to positive, but not as much as 20%.

Nimesh Desai: Okay.

Moderator: Thank you the next question is from the line of Manoj Garg from Edelweiss Securities Limited. Please go ahead.

Manoj Garg: You were talking about the CMO business and that it should improve in Q4 but once we go back quarter four of last year I think again we had a very high base of almost around that Rs. 2 billion in quarter four FY10 may be because of again H1N1 vaccine. So what gives you the confidence that probably sequentially you will see major growth in the CMO business in the US?

Shyam S. Bhartia: You will see substantial growth on quarter-on-quarter starting from Q3 which is the base for quarter-on-quarter. Take Q4 in clinical services business. We will see growth in revenue and in margin also.

R. Sankaraiah: Rightly pointed out. Compare to the last year same quarter Q4 FY2010 versus Q4 FY2011 if you compare the growth it will not be there because of H1N1 which is the highest number there in last year last quarter but on quarter-on-quarter basis Q3 verses Q4 there will be an improvement.

Manoj Garg: What would be quantum of that numbers in quarter 4 last year?

R. Sankaraiah: FY10 it was about Rs. 220 crore EBITDA.

Manoj Garg: No H1N1.

R. Sankaraiah: It is approximately about \$25 million.

Manoj Garg: So almost around Rs. 125 crore?

R. Sankaraiah: That's right and that is the huge number there.

Manoj Garg: But even if you see the sequential movement in the CMO business we did not have any H1N1 in Q2 FY11 and also there is decline from Rs. 150 crore to Rs. 115 crore in Q3 FY11 and I think one of the reason which we have stated that there is just some slow down in terms of off take of the customer in the US market.

Shyam S. Bhartia: All the other things are getting corrected, but we will still lose the H1N1 business, but our effort is to see that there is a growth in the quarter-on-quarter, plus there is an improvement substantially in the margin of the business. I think our concern is that inspite of the revenue in the business we have no margins in business, so what we are trying to bring is not only growth in the revenues on quarter-on-quarter, but also substantially increase the margins in the business.

Manoj Garg: You said we have already tied up FCCB fund, and the money which we are going to repay for the FCCB, can you indicate what would be the cost of debt which we probably have, what is the amount of money we are raising?

R. Sankaraiah: See as of today we have tied up a mix of both dollar and rupees and, we are going to draw the money, in two months. Based on the current rate, it will be the average cost of both rupees and dollar put together, will be less than FCCB coupon rate of 7.2%.

Shyam S. Bhartia: Less than 7%.

Manoj Garg: Okay. That's all from my side.

Moderator: Thank you. The next question is from the line of Prakash Agarwal from RBS. Please go ahead.

Prakash Agarwal: I just wanted to understand in terms of nutraceutical business as well the sartans which is likely to commission in March of this quarter basically in next 30 days, the first question is what is the revenue potential for FY12 and which quarter do we see the impact?

Shyam S. Bhartia: We will see some impact in the March itself and the full impact we will see continuously in every quarter next year, especially with regards to sartans. And with regards to



niacinamide where we are setting up 10,000 tons plant at SEZ which we are going to start in the month of March. Of course some marginal impact will be there in March, but at least, every quarter-on-quarter there will be increase in sales of niacinamide in the marketplace from this new plant.

R. Sankaraiah: See when you set up the plant, 100% capacity utilization on day one is not possible, you know that. So the niacinamide on an average basis, we may use maybe 50%-60% in the first year and that will go from quarter one to quarter four of next year. Whereas sartans is concerned, it depends upon the product launches, so first year capacity utilization will be much lower because the commercialization that's happened and we are planning to launch three products next year in sartans and those three products which will give results that will be added to the growth in API business and which will be approximately about 2%-3% of the API business, but overall it is going to be more. First year capacity utilization will be 30%.

Prakash Agarwal: And any indications on the revenue potential of each product, and the peak revenue potential maybe?

Shyam S. Bhartia: We can provide you separately, we don't have this information now, but as you know that there is a big range of sartans, starting from Valsartan to Irbesartan, to Losartan, etc. I think all these products are getting out of patent at different intervals and these will be added. . So we are already lined up with the people who have filed ANDAs in case of API and those ANDAs will be triggered off as soon as the patent expires, so that will add to our sales. Since there are many types of sartans, different types of sartans will be getting out of patent at different intervals. We can provide you that information maybe offline separately.

Prakash Agarwal: And as you said, these would be commissioning, so would we see the margin pressure there and still it would be a sequential jump in the total EBITDA or how is it?

Shyam S. Bhartia: No, margin pressure is not going to be there in case of sartans because as initially when the products are launched the margins are very high and as we add to the production of different sartans, I think margins are going to improve, but we don't expect any margin pressure because we know the prices, we know that we have the orders, so we don't expect any margin pressure.

Prakash Agarwal: And on the depreciation front, would the nutraceutical CapEx that you have done, would that start having a depreciation impact?

R. Sankaraiah: Yes from next year.

Prakash Agarwal: And second question is on the main business as the pyridine business, you said you have taken one increase already and you plan to do another one, so if I go back to say FY10 and assume it as Rs. 100 a kilo. So what would be the price which has dropped to, and now what is the kind of price it is, currently, given the price hikes you have taken?

Shyam S. Bhartia: I am just telling you as a ballpark, average if you take \$100 for 2010, we expect almost the same price for 2011.

Prakash Agarwal: But you said, there was a price decline.

Shyam S. Bhartia: No price decline we are already taking corrections on an average basis.

Prakash Agarwal: So that 100 would have come to, 80, and then you have 10% increase, so 88 and now you plan to take another 10%?

Shyam S. Bhartia: Yes overall we don't expect in any price variation, at least today we don't expect any price variation on account of prices as compared to FY2011 and FY2012.

Prakash Agarwal: No, what is the price decline that happened from 2010 to 2011 basically.

Shyam S. Bhartia: About you can say up to December it was about 1.4%-1.5%. See pyridine and derivatives are a complex, is about 150 products.

Prakash Agarwal: Okay you mean to say, from say if it is 100, the price had...

Shyam S. Bhartia: We have not calculated separately for pyridine, but overall price variance in case of product is about 1.5%.

Prakash Agarwal: Okay. And you have taken price hikes for what percentage?

Shyam S. Bhartia: See we run at least 300 products. So you can see the price reduction as compared to last year and this year in quarter Q3, was about 1.4%, so you can say that in same period last year, the average price of products was 1.4% higher.

Prakash Agarwal: Okay and is there a guidance that you are providing for FY12.

Shyam S. Bhartia: We don't expect to provide guidance today, but after we finalize our plans for 2012, we hope to give you some guidance.

Prakash Agarwal: Okay. And what is the order book status?

Shyam S. Bhartia: The order book status is very strong and it would be about anywhere between \$1 billion plus.

Prakash Agarwal: 1.1 billion or 1 billion plus?

Shyam S. Bhartia: Yes about 1.1 you can say around it.

Prakash Agarwal: Okay, thank you so much.

Moderator: Thank you. Ladies and gentlemen, we will now take the last question from the line of Samarth Narang from QVT. Please go ahead.

Samarth Narang: You mentioned about pricing, even if on a blended basis, 1.5% differential and from what I believe, 10% price hike last quarter, how does that quantify? The second part is I am aware that the raw materials for pyridine is ethanol, so if ethanol prices go up, would you be able to pass that on, is there enough demand which will stick or you have to roll back any increase that you might take?

Shyam S. Bhartia: See pyridine is not only one product, we have pyridine with pyridine derivative is 180-200 products. So on an average, we take what is the price increase or decrease. As we mentioned from same quarter last year and this year, there is 1.5% price variation. Revenue is down because of 1.5% price variation, only price. But there is some impact on the foreign currency also, which was about 2.2% that is foreign currency rate. Now in case of your question on alcohol price, a lot of our orders are pass-through on the major raw material prices. I would say 30-40% of our orders have pass-through on the major raw material price which is not only alcohol but methanol or any other price increase we pass on those on prices. This is a long term contract and you see we have part of our \$1.1 billion in long term contract but not the 100% order are pass-through but order which we take on a quarterly basis we normally pass through those prices to the customer. We try to pass through the prices to the customer at least on the basic raw material prices increases.

Samarth Narang: You think in the event that ethanol prices or alcohol prices move up dramatically you would be able to pass them on and yet have your volumes intact.

Shyam S. Bhartia: It is more speculative nature and for your information we stock at least 6-7 month of alcohol with that so we know what is average prices going to be for the next two quarter we exactly know about it, which we will not like to disclose at this stage, but today we have stocks of alcohol till August this year so we have stock of alcohol we know what the price going to be and if there is a major increase we would like to pass on this to our customers. But today we know what is the price which we are able to have in this quarter, next quarter and quarter after next also.

Samarth Narang: I think you buy this alcohol from India right for I guess.

Shyam S. Bhartia: We buy from India also and we buy molasses and alcohol both. We use our own alcohol and we buy alcohol also. We import alcohol also. But today we are procuring from the local sources because local prices are cheaper than the international price.

Samarth Narang: Do you think that the quarter we saw in your opinion the absolute bottom of the performance of the company.

Shyam S. Bhartia: We have two business life sciences product and life science services. Life sciences products contributes to have excellent traction going forward in quarter Q4 and in next year also and life science services you will see quarter-on-quarter increase in revenue and substantially increase in margin because we have tried to correct it. So it had more impact on the margins but going forward from quarter four, sequentially quarter-on-quarter you will see increases in revenue and also substantially increase in margin coming from this business.



Samarth Narang: Would you be able to quantify in what range that can be.

Shyam S. Bhartia: I think we just mentioned about it, we expect at least when the business will be normalized, we expect a margin in service business of about 17-18% when is normalized but we expect substantial increase in the margin from quarter-on-quarter every quarter.

Samarth Narang: So is this the absolute bottom and considering your stock prices is come off a lot since the QIP do you think the promoter have any plans to shore up their holding.

Shyam S. Bhartia: I cannot comment on this because we have no such plans to do that but at the same time I can only tell you about the performance in the company I cannot comment on the share prices.

Samarth Narang: Those were my questions.

Moderator: Thank you Ladies and Gentleman that is the last question on behalf of Jubilant Life Science Limited that conclude this conference call. Thank you for joining us and you may now disconnect your lines.

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