Jubilant Life Sciences Limited

Q4 FY2011 Investors/Analysts Conference Call

Wednesday, May 12, 2011 at 04:00 p.m.

Nidhi Aggarwal: Thank you. Good evening ladies and gentlemen. Welcome to the annual results conference call of Jubilant Life Sciences Limited. We have with us on the call Mr. Shyam S. Bhartia, Chairman and Managing Director and Mr. Sankaraiah, our Executive Director, Finance. We will commence the call with comments from the Chairman and Mr. Sankaraiah on the business and consolidated financials for the period ended 31st March 2011 and follow that with an interactive Q&A session. All participants are requested to refer to the quarterly financial presentation for the disclaimer. I would now request Mr. Bhartia, our CMD to provide key highlights of our business performance. Over to you sir.

Shyam S. Bhartia: Thank you, Nidhi. Good evening, once again. I hope by now you would have had the opportunity to peruse our results. During Q4 FY11, Jubilant Life Sciences reported consolidated net sales of Rs. 890 crore with a sequential growth of 3%. Excluding one-time revenue from H1N1 opportunity in Q4 FY10, the year-on-year growth was 11%. As indicated last quarter, there has been an improvement in the profits too. PAT stood at Rs. 62 crore at a consolidated level, up 40% quarter-on-quarter. For the full-year FY11 Jubilant Life Sciences reported net sales of Rs. 3,433 crore where the growth excluding one-time revenue from H1N1 opportunity was at 7%. The corresponding PAT stood at Rs. 230 crore. I would now like to take you through some key highlights of each of our businesses and spend some more time on how do we see them shaping up.

Life Science Product business contributes 78% to our total revenue. Within products, our Life Science Ingredients business is at Rs. 2,233 crore, contributed 65% of the revenue during the year FY11. Proprietary products and Exclusive Synthesis saw revenues of Rs. 949 crore in FY11 where the volume growth was 8%. The pricing and the exchange rate variance in the year led to an overall flattish growth. We are very optimistic aboutSymtet, an agrochemical intermediate based on Pyridine derivative to drive growth in the segment along with launches of other products and newer applications of different grades of Pyridines. Nutritional Ingredients and Life Science Chemicals revenue stood at Rs. 192 crore and Rs. 755 crore in FY11. Those businesses are expected to show good growth based on new capacities and expansions. On the revenue side, the visibility continues to be strong and will also be aided by new launches in Nutritional Ingredient segment and higher geographical outreach in Life Science Chemicals. Our API business showed growth of 19% in the year at Rs. 337 crore on account of market share gains in CNS category of the products, entry into new emerging countries and 10 launches across geographies in the chosen therapeutic areas. The business will gain traction in near-term with major contributions coming from Sartans besides other products. API Sartans plant in Nanjangud has been commissioned in the quarter. I am glad to share that we now have 51 cumulative US DMF filings along with many more in Europe, Canada and Japan. These will form the basis of our growth going ahead.

Now, let me give you the details of our Generics business. This segment holds a lot of promise. It contributed 13% of the overall revenues in FY11. Solid Dosage Form has delivered excellent results in FY11 with revenues growth of 33% at Rs. 203 crore. We are aiming for greater presence in regulated as well as emerging markets. We have on the anvil a series of new launches in focus therapeutic areas led by strong filing line ups and approvals in hand. The Radiopharmaceutical segment grew by 18% at Rs. 130 crore in FY11. This business has market leadership in I-131 therapeutic and diagnostic products which showed robust growth accompanied by higher sales in Sestamibi and DTPA kit. The business is gaining pace as the new launches lined up in new geographies. Our Allergenic Extracts business was stable at Rs. 120 crore and will maintain growth at industry rate.

In Services business, we have seen a muted performance for the year, but the business has shown turnaround in Q4 FY11 compared to Q3 FY11, with 16% growth in revenues and margins at 10%. Revenues stood at Rs. 193 crore in Q4 and Rs. 749 crore in FY11. Our CMO business contributed Rs. 527 crore in overall revenues in FY11. Growth in CMO business excluding the one-time H1N1 contract last year stood at 5% in FY11. We have seen 16% sequential growth in Q4 FY11 led by additional business development initiatives during the year. We had witnessed reduction in key client forecasts due to delays in regulatory approvals of customer products. Going forward, the key will be on delivering a higher profit product mix and taking other operating initiatives to enhance business flexibility and cost structure. Our DDDS business contributed 6.1% to revenue in FY11. The functional services performed well though development activity in US faced pressure on account of market slowdown and pharma consolidation through the year which in turn affected our overall growth rates. There was delayed on-boarding of new integrated programs from key customers. We also saw some postponement of milestones during the period.

The outlook remains positive. The opportunity in outsourcing is growing and we are in the right place to create value for our customers. We are confident of maintaining sustained growth backed by ongoing strong volume performance in products business, realignment of services business with focused business development and margin improvement initiatives. This growth will be based on 4 key factors of capacity enhancement, innovation-led new launches, expansion of the geographic markets and vertical integration.

Commissioning of new plants and expansion of existing plants will happen through the year with 2 new plants for Agrochemical Actives & Intermediates in PPES business and a Niacinamide plant in Nutrition business coming in Q1 2012. It shall be followed by 20% expansion in Pyridine capacity in the second quarter. Third quarter, we will be seeing commissioning of additional capacity of Life Science Chemicals business. We are targeting to complete the Symtet plant and the large volume intermediate by 4th quarter of the financial year. Overall Capex for FY12 which planned at Rs. 500 crore is to be met out of internal accrual. We plan to invest in these projects to capture the opportunity in the marketplace and are confident to get payback in less than 3 years. We are glad to share that the proposed expansions are likely to generate revenues of more than Rs. 1200 crore at full capacity utilization. Secondly, we are gearing up for new launches due to our focus on innovation, whereby we expect 55 new launches during FY12 consisting of 26 new launches in Solid Dosage Form, 19 in API in several therapeutic areas primarily including CVS, CNS, Anti Infective, Anti-Ulcerant and Anti Allergic. We would also launch 10 new products in Proprietary Products and Exclusive Synthesis and Nutritional Ingredients. We will continue to expand our diverse geographies in order to strengthen our presence in the business. Our strategy for sales growth centres on expansion into new geographies, with deeper penetration into higher growth markets of Europe, Japan, and other emerging markets. We are likely to witness 35% to 40% growth in each of these markets in the coming year.

The company is continuously improving captive consumption of vertically integrated product portfolio. Internal consumption is expected to be more than double, 6% in FY11 to 15% of net sales in FY12. This integration will enable growth in EBITDA and margins on the back of sales from higher value-added products. Service business consisting of CMO and DDDS is likely to witness turnaround in FY12 resulting in substantial increase in margins. This is backed by revival of clinical research activity in US, strong order book position, execution of new contracts, and integration of plants in US and India to provide expanding opportunity as well as cost advantages.

I would now like to invite Mr. Sankaraiah to share his views on the financial performances.

R. Sankaraiah: Thank you, Mr. Bhartia. Good evening, everyone and welcome once again. Let me begin by taking you through our financial performance. In Q4 FY11, consolidated revenue for the company stood at Rs. 890 crore. Our international business at 602 crore, contributed 68% to the net sales with 52% revenue coming from the regulated markets. In Q4 FY11, sales from products stood at Rs. 698 crore, which contributed around 78% of our overall revenue. Products business grew 12% in the quarter. Good volumes momentum of 13% across the product segments continued in this quarter too. Service business revenue at Rs. 192 crore contributed 22% to the Q4 FY2011 revenue mix and grew by 16% sequentially as was indicated in our last quarterly call. Excluding the one-time revenue from H1N1 opportunity of Rs. 98 crore in the last year of the same quarter, the growth in Service business stood at 5% for this quarter. In Q4 FY2011, EBITDA stood at Rs. 137 crore with the margin of 15.4%. This was mainly driven by 19.6% EBITDA margin in the Products business segment and 10.3% margin in the Service business. Our net profit was at Rs. 62 crore with a basic EPS at Rs. 3.87 for this quarter.

Coming to the full year numbers, our revenue stood at Rs. 3433 crore. Excluding the one-time revenue from H1N1 opportunity, the company reported a growth of 7% in the year. In FY11, international business stood at Rs. 2370 crore contributing 69% of the net sales with the sale from regulated market at Rs. 1800 crore. Our product segment contributed around 78% to the overall revenue at Rs. 2685 crore. Growth in product business stood at 9%. There was a very good volume growth of 15% across the entire product segment. Service revenues were at Rs. 749 crore. EBITDA for the full year stood at Rs. 567 crore. EBITDA margins were at 16.5% in this period. EBITDA margin in the product segment was 22.4%. Service business margins at 4.6% in FY2011 were lower on account of unabsorbed fixed cost, lower utilization of capacity and absence of high margin one time H1N1 opportunity. Net profit for the full year was at Rs. 230 crore with a basic EPS of Rs. 14.42 per one rupee paid up share. Our gross debt position on 31st March 2011 was Rs. 3884 crore comprising of rupee debt of Rs. 1535 crore, foreign currency debt of Rs. 1715 crore, and FCCB debt of Rs. 634 crore without including YTM. Average cost of the total borrowing for the year was 5.3% per annum with a rupee borrowing at average of 9.5% and a dollar borrowing of 4.3% per annum in FY2011.

Cash in the form of deposits and liquid funds as on 31st March 2011 was Rs. 1046 crore with a net debt equity of 1.3 times Including the YTM accruals on FCCB of over US $60 million, net debt for the company would be at Rs. 3150 crore. We are going to repay the FCCBs including YTM on the due date that is May 19, 2011. During FY2012, we expect average cost of borrowing at 6.3% per annum. We do not see any major increase in the debt level since the Capex and the working capital requirement will be met out of internal accruals. For FY2011, average tax rate was 5.6% due to export and other R&D related benefits the company enjoyed. Next year FY2012, we expect that tax rate would be above 15%. The increase would mainly be on account of withdrawal of export benefits in FY2012.

In conclusion, I would say that there has been a short-term moderation of the corporate performance in FY11 primarily due to muted pricing in the product business and the under utilization of capacity in service business. We expect to post robust growth in sales and operating profits and will continue to witness quarter-on-quarter improvement going forward. Thank you and I would request the moderator to open for Q&A please.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Nikunj Doshi from Bay Capital. Please go ahead.

Nikunj Doshi: Just wanted to get a comfort on the guidance, what is the probability of meeting the guidance, would you put in more than 70% or do you still have some doubts on the guidance that you have provided?

Shyam S. Bhartia: We are giving the guidance on quarter-on-quarter where we will see an increase in profitability and sales. We are quite confident that we will achieve that because as you know we had mentioned before also that our new plants are currently getting commissioned and new products are getting launched. The progress made in the business development in the last quarter, in our Service business is paying. We hope to increase margins in our Service business which was lagging behind last year. If you see sequentially, average margin was about 4.6% last year. In Q4, the margin was 10%. So margins on Service business are going up, including sales, and also our Products business is strong, Last year we had a 22.6% margin and then we hope to grow on our Products business because of new capacities coming into operations. We are quite confident we can increase profits subsequently quarter-on-quarter.

Nikunj Doshi: What kind of margins we can expect for the full year FY 2012**?**

Shyam S. Bharti: We are not giving the guidance on the margin. Average margins have gone down because of the Services business. We expect an increase in our Services business margins, the average margin should be in the high teens.

Nikunj Doshi: Okay, thanks.

Moderator: Thank you. The next question is from the line of Deepak Mallik from Emkay Global. Please go ahead.

Deepak Mallik: In the Services business, last quarter the margins were negative 1.9%, and in this quarter, the margins have improved to 10.3%. Can you give some more colour on the performance, how these margins have expanded?

Shyam S. Bhartia: These margins have expanded because of a better product mix and better sales efforts.

Deepak Mallik: In Services business?

Shyam S. Bhartia: Services business because of our good order booking and we have made efforts on business development programs due to which we expect quarter-on-quarter growth

Deepak Mallik: If I see the top-line, there is not much improvement, but if I see the bottom-line then the margins have improved a bit. **Shyam S. Bhartia:** I just mentioned on the product mix. Since product mix is better, our Services offering is better.

Deepak Mallik: And if I see the Products business, the margins quarter-on-quarter have declined from 22.8% to 19.6%. So is there any one-off in this quarter or do you expect the same kind of margins going forward?

Shyam S. Bhartia: You have to see the average in the Products business in the whole year. The whole year margin is very strong. So we expect margins to remain strong and also the growth in sales to remain strong.

Deepak Mallik: So going forward in the next year, do you believe that in the Services business, we will able to see more than 10% margins which we have seen in this quarter?

Shyam S. Bhartia: What I have just said is margins will be in higher teens.

Deepak Mallik: Right, and on the Capex, the Rs. 500 crore Capex which we are doing next year. Are we doing it from the internal funding?

Shyam S. Bhartia: We will be doing it from internal resources.

Deepak Mallik: Thank you sir, this is all from my side.

Moderator: Thank you. The next question is from the line of Dimple Seth from SKS Capital & Research. Please go ahead.

Dimple Seth: what is the kind of pricing pressure you are seeing going forward in FY12 and '13?

Shyam S. Bhartia: There is no pricing pressure in FY12. We do not expect any pricing pressure. The only thing is that sometimes commodity prices increase and also there is an increase in raw material prices and there is some lag in passing on. As of today, we are not facing any problem on the price front.

Dimple Seth: And what kind of volume growth are you looking for in FY12?

Shyam S. Bhartia: We expect good volume growth both from the Products and the Service segments next year.

Dimple Seth: Sir any quantum if you can quantify?

Shyam S. Bhartia: we are not giving any specific guidance but we expect increase in both the volume growth and also the margin.

Dimple Seth: The margin would be the same as the consolidated FY11 or would there be an increase?

Shyam S. Bhartia: Overall margins should go up because margins in our Services business were muted last year. As I just mentioned, it was 4.6% only. So if you see the last quarter margin were 10%. So already there is an improvement quarter-on-quarter, and we see this improvement in margin is continuing during next year, quarter-on-quarter too.

Dimple Seth: Sir any quantum if you can say, what type of margins are you looking at, just a ball-park number?

Shyam S. Bhartia: We expect the margins in high teens.

Dimple Seth: Okay Sir, thanks a lot.

Moderator: Thank you. The next question is from the line of Amit Shah from Motilal Oswal Securities Limited. Please go ahead.

Amit Shah: I just wanted to know the current capacity utilization rate in the Products business as well as Services business?

Shyam S. Bhartia: The capacity utilization in the Products business is very strong, but we still have some room, as you must be seeing that we are implementing expansion of capacities in our Pyridine business, in Life Science Chemicals business, and also in Niacinamide businesses. Our Products business capacities are very strong during this year and they were strong last year. So because of the excellent demand that we are getting from the markets, we are increasing the capacity, but a good question from the Service business point of view, In Service business our margins were lower last year because of the lower capacity utilization in both the CMO and in the Drug Discovery business. This year we expect higher margins from increased capacity utilization both from the CMO and from Drug Discovery in Services business. So last year what we mentioned is that we had orders but because of the mergers and acquisitions that happened in pharma companies, the orders got postponed and some finalization of contracts were delayed, but what we see now is those orders coming in Q4 FY2011 and this will continue to increase which will result in an increase in capacity utilization and also increase the margins that will come from increasing capacity utilization of the Services business.

Amit Shah: Second thing is that in the consolidated financials, there is some provisioning for impairment of investment and the asset has been made in the last quarter. So what is that regarding?

R. Sankaraiah: That was basically when we do the ANDAs and ANDAs which are not giving the adequate returns we impair that based on the future cash flow. So that is about Rs. 10 crore and also there was a small investment in Services business which we had in one of the joint ventures and that investment has been provided for. So that is the reason for the Rs. 11.5-12 crore impairment.

Amit Shah: Sure and one more thing in the balance sheet, there is one line item mentioned about loans from customers. So what exactly is that?

R. Sankaraiah: That is the loans which we have received, from our foreign company in Draxis . We received equipment for doing the contract manufacturing. The equipment has been capitalized in our book and also to that extent it has been taken as a loan from the customer that is about Rs. 40 crore.

Shyam S. Bhartia: The customer is giving loan to fund the Capex. Loans will be recovered in the next 2 to 3 years' time from the price charged to the customer. This is more of a funding of the Capex.

Amit Shah: So you will be repaying it in next 2 to 3 years, is it?

Shyam S. Bhartia: No, we will not be repaying, the customer will pay for that and we will do the cash flow based on that.

Shyam S. Bhartia: For repayments, we charged the customer on the basis of depreciation of the asset and depreciation to pay back.

Amit Shah: Fair enough, got it. Thanks a lot

Moderator: Thank you. The next question is from the line of Rahul Sharma from KARVY Stock Broking. Please go ahead.

Rahul Sharma: The depreciation Q-on-Q has been lower, any reason can be cited, and is there any asset sale?

R. Sankaraiah: If you see the notes, the accounts that we have mentioned that in foreign companies depreciation we are charging is based on the useful life. Since we have re-estimated the useful life, the depreciation in the companies which are out of India, the useful life is more because of the new assets which we have added, and because of that, the depreciation has come down.

Rahul Sharma: In a sense is it the asset that has expedited its life in the overseas concern?

R. Sankaraiah: No, asset life has been extended. Because of that, the depreciation has come down.

Rahul Sharma: And there is a tax write-back and the tax rate is only at 5%, any specific reason for the same?

R. Sankaraiah: The reason for that is we have export-oriented unit profitability and we have R&D profitability. Because of which, the tax rates are low and next year we expect the tax rate to go up to about 15% because EOU benefits have been withdrawn.

Rahul Sharma: Has any additional staff been deployed, the staff cost has gone up quite a bit in the quarter compared to the preceding quarter, any plant commissioning or anything which has happened, and how much additional staff has come in year-on-year?

R. Sankaraiah: The plant commissioning is already on like Sartans plant has already been commissioned, Niacinamide plant we are going to commission. For this, the manpower has been taken, but if you see as a percentage of sale in the expenditure, staff cost is 21% of the sales.

Rahul Sharma: How much additional people will be recruited from the current level in the current year?

R. Sankaraiah: We have a total of 5,763 people as on 31st March 2011. The annual cost or even the quarter cost for staff has not gone up at all. That is on the same level.

Rahul Sharma: But will this increase quite substantially next year because of new plants coming into stream?

Sankaraiah: No, as a percentage of sales it will not increase.

Rahul Sharma: Do you foresee improvement in the material cost in the Products business going ahead, and how are the indications, the future prices and all?

Shyam S. Bhartia: The future prices are quite stable.

Rahul Sharma: Do you foresee reasonable improvement in the Products business in the year?

Shyam S. Bhartia: We bring in continuous efficiency mainly due to our lean programs and we hope to reduce costs in all our operations to gain better yields, better productivity, and increased capacity. Because many of our plants are fully utilized. So any increase in capacity releases further margins in the same plant. This is a continuous effort and there is a continuous program, we do many lean projects during the year.

Rahul Sharma: Will realizations improve on back of new products or on the existing product basket?

Shyam S. Bhartia: On Existing products. The products when it is introduced again we do a continuous improvement on those and I am telling you existing products, we do a lot of improvement in reduction in material, reduction in the yield, so better yields, reduction in the energy,. So with all this combination we do a continuous program of cost reductions and capacity improvements.

Rahul Sharma: In CMO, have the clients given better visibility in terms of order scale up?

Shyam S. Bhartia: Whatever we are saying is on a sequential basis, the increase in profit and also increase in EBITDA, and increase in sales, is on the basis of our order booking what we have.

Rahul Sharma: Thank you.

Moderator: Thank you. Our next question is from the line of Priti Arora from Kotak. Please go ahead.

Priti Arora: Can I just know the 0% growth you reported for the year in proprietary products. How much is volume growth in that?

Sankaraiah: If you see the entire products business the volume growth is about 13%.

Priti Arora: Yes, I know but Mr. Sankaraiah, it seems to us that it's coming only from APIs and your sales growth you printed it in your presentation that for proprietary products is zero. So I just wanted to understand it is zero because of no volume growth or is there any negative pricing impact in that?

Sankaraiah: In proprietary products the volume growth was about 10%.

Priti Arora: For the year?

Sankaraiah: Yes for the year.

Priti Arora: And the number you keep reporting for Life Science ingredients, there the volume growth, through the quarters has come down, why has that been? Because this quarter you said 10% volume growth for Life Science ingredients vis-à-vis 14% for FY '11 which means last quarter I think it was 15% so the volume growth is coming down, any particular reason for that?

Shyam S. Bhartia: On Quarter-on-quarter, it is very difficult to have the same volume growth because sometimes the supplies are deferred to the next quarter, so it is very difficult to see quarter-on-quarter volume growth. But you will see that there is a volume growth on yearly basis.

Priti Arora: Okay. And the pricing impact which is in the negative of 4% for the year. So between year-end and now if you can just help us understand how much has pricing improved for you?

Sankaraiah: For the year, we have faced about 4% negative price impact but for the quarter the price variation has come to 1% positive.

Priti Arora: For the quarter?

Sankaraiah: Yes.

Priti Arora: And this is the Life Science products?

Sankaraiah: Yes it is for the Life Science products.

Shyam S. Bhartia: I would like to explain that since the price of the commodities keeps on changing It takes time to transfer price change say roughly around 2 -3 months. Ultimately, what is important is that we are able to pass on the impact, sometimes a little more than the impact.

Priti Arora: Fair enough. We just want visibility that is happening. If you can just confirm this the quarter on quarter increase in Drug Discovery Business, has that been due to milestone income?

Sankaraiah: We have not received any milestone specific in Drug Discovery during the last quarter that is Q4 but the base operation itself has gone up that is why there is an increase. It is about 14% from quarter-on-quarter which is because of the base increase. That is why we were talking about the Service business which has turnaround in Q4 the Service business grew both on account of volumes and also on account of better orders which we are receiving. We have seen a positive momentum in Service business. This gives us a comfort that next year the growth will be better and also the margin improvement is happening like it did last time. We have also mentioned there was a negative margin in Q3 which has turned 10.4% positive margin in Q4. So we expect this momentum to continue in the FY '12.

Priti Arora: Thank you.

Moderator: Thank you. The next question is from the line of Vivek Kumar from SBI Cap Securities. Please go ahead.

Vivek Kumar: Some questions, the first one is with respect to the debt which you have raised in the last quarter which is close to Rs. 900 Crore. I just wanted to understand how long will it take to service debt, is it 2-3 years? And when do you actually start to see the first installment to move out?

Shyam S. Bhartia: Whatever debt we have raised last year we have cash in hand. Because the debt was raised almost during the last month of the last quarter thus the impending payment of FCCB. This as a cash balance will be used for the purpose of paying for FCCB.

Vivek Kumar: But then that needs to be paid out at some point in time?

R. Sankaraiah: We will be paying this FCCB on 19^{th} of May. The cash which is there of Rs. 1045 Crore, out of that Rs. 925 Crore we will be paying FCCB on 19^{th}.

Vivek Kumar: I think you have not been guiding anything on the margin front. If I understand what you have mentioned is every quarter-on-quarter on a sequential basis you will see improvement in the base performance. And I also wanted to understand would this mean that every quarter you will also see a slight improvement in the margins going forward from here? Is that what you are trying to say?

Shyam S. Bhartia: We expect a substantial improvement in our margins in the Service business. Our Products business is already going very strong so we have to also maintain the margins and supplement it through sales growth since lot of new plants are coming to production in the first quarter itself.

Vivek Kumar: Thank you.

Moderator: Thank you. The next question is from the line of Anshuman Gupta from Citigroup. Please go ahead.

Anshuman Gupta: My question is on Drug Discovery business, has that business turned around on its own? I can see the turnaround in the Services business since for the first nine months you had a positive EBITDA for the Services business. But has Drug Delivery on its own turned around?

Shyam S. Bhartia: Our Drug Discovery and Development business has really turned aroundand we hope to see the improvement quarter-on-quarter both in the sales and in the margins. The order book which has improved during the last part of the quarter is strong. Based on the current order book, we hope to increase both sales and margins substantially. And that would be a great contributor to the total overall EBITDA increase of the company.

Anshuman Gupta: Are there any updates on the J&J deal? How is it moving now? **Shyam S. Bhartia:** J&J product is moving as expected.

Anshuman Gupta: So are you now getting higher margin business from there?

Shyam S. Bhartia: We are getting reasonable margins but not up to the expected margins but we will try to keep increasing the margins gradually on that business.

Anshuman Gupta: Thanks.

Moderator: Thank you. The next question is from the line of Samarth Narang from QVT. Please go ahead.

Samarth Narang: You mentioned that the Rs. 500 Crore Capex earmarked for the next year is going to be spent from internal accrual. I have been trying to do the math and itdid not seem like you will be able to generate enough EBITDA to spend that much money and you will have to borrow outside that. Can you just walk me through the numbers if possible?

Shyam S. Bhartia: Walking through the numbers is we have to give you the EBITDA numbers for the next year. Since we are not giving EBITDA margins for the next year but broadly I can tell you. We are very confident that we don't have to have any additional borrowing for the year. From our current EBITDA whatever we hope to get during next year and also see improvement in the net working capital of the company as a percentage of sales. If you see, working capital debt is about 17% this year and we reduced it last year and hope to reduce it further this year. So next year, we hope to reduce debt with better margins and better working capital management. We are extremely confident that the debt level will not go up next year.

Samarth Narang: And what is the level of interest that you're projecting for next year if you're taking rupee debt to payoff FCCB. Wouldn't your interest outflow almost double from here?

Sankaraiah: Our average cost of debt will be about 6.3% next year.

Samarth Narang: On the Rs. 3100 Crore, approximately?

Shyam S. Bhartia: Approximately, Rs. 3200 Crore.

Samarth Narang: Thank you.

Moderator: Thank you. The next question is from the line of Jesal Shah from JM Financial. Please go ahead.

Jesal Shah: Just a question on your Pyridine's businessf you can just help us understand what are the competitive dynamics now and in your assessment what is your market share in that space? And from the next 2-3 years, what is your point of view on the outlook and what type of volume growth is really possible in this business?

Shyam S. Bhartia: It's a good question. I think we have a leading market share in the world, but it should be around 45% market share. But as you know, we are manufacturing a new product called Symtet, which is manufactured from Pyridine. So we will be using additional production of Pyridine to create this product. So this will not only add to our margins because of our internal product use, but it will also improve the overall sales and add to the Pyridine market share. Currently, this product is not being manufactured out of Pyridine but is manufactured using some other raw materials but we have through innovation developed a very cost-effective process manufacturing out of Pyridine. Also environmentally, it is better to manufacture from Pyridine rather than from any other raw material which is being currently manufactured.

Jesal Shah: Any comments on the competitive intensity in this market now?

Shyam S. Bhartia: The competitive intensity has not changed much from last year, and this year we hope to improve our competitiveness through better pricing from this product.

Jesal Shah: Thank you.

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

Bhavan Choudhary: My question is on the Drug Discovery side. Can you explain and quantify how it would turnaround and what kind of revenue you're expecting in the next year from this. And out of that what would be the milestone payment and what would be the out licensing?

Shyam S. Bhartia: The basic turnaround as I said earlier in the Drug Discovery and Development business is due to increased capacity utilization. Last year we had less capacity utilization because of certain orders which we were expecting within date but some orders got postponed. But now since the merger and acquisitions of the Pharma companies is over now, we expect good traction of our orders coming back. For example, we did 17 integrated programs last year and this year we hope to do about 23-24 programs. So that increases our capacity utilization to a high rate and that will improve the profitability and the margins.

As to your next question of how much and what payment, etc., we don't disclose that normally but the combined revenue will include research fees, milestone fees and development fees. So we believe that the combined effect of all these will be increasing revenue growth, but the basic utilization of capacity through increased programs will increase the revenue. The base level revenue growth will go up.

Bhavan Choudhary: What kind of orders do you have as you mentioned that you have a very good order book in this month?

Shyam S. Bhartia: I will give you an example. Last year we did 17 programs, and this year, we will look on an average basis to do 23 programs. That itself is improving our total capacity utilization through a 20% or 30% increase in the number of programs.

Bhavan Choudhary: One more question. Can you please shed some light on the US Pharma business. How it is panning out after the crisis? Onthe Discovery side, how is it working?

Shyam S. Bhartia: Our business in the US is coming out very strongly because in our contract manufacturing business, we are getting excellent traction of orders. Our order book is quite strong..The Service business is strong from the point of view of the Drug Discovery and Development Services. Also our Generics business in the US is extremely strong, both out of India and out of US. Radiopharmaceuticals, Allergy business, and these businesses are very strong and we are leaders in many of our products there. Only one business, which is the clinical research business, had a slowdown last year, and we expect that slowdown because of the new orders coming in, which we expect in the first quarter of this year. It is likely to show a considerable turnaround during this year

Bhavan Choudhary: Thank you, sir.

Moderator: Thank you. The next question is from the line of Deepak Mallik form Emkay Global. Please go ahead.

Deepak Mallik: Can you tell about the status of Vitamin plant has it started in the first quarter?

Shyam S. Bhartia: We don't disclose the name of the product but we have said that we have started one Agrochemicals intermediate plant during the first quarter.

Deepak Mallik: This Vitamin, Niacinamide plant, is what you referred to in the last press release? **Shyam S. Bhartia:** We are going to start in the month of May.

Deepak Mallik: How is the market right now, are the prices good or are they stressed out for Vitamin?

Shyam S. Bhartia: Prices are strong, the demand is strong, and we're going to address both in US and European markets and also Chinese and Indian market The Vitamins is used in for human and animals use, the market is very strong in India and Europe and also market in China is increasing very substantially.

Deepak Mallik: We are increasing the Pyridine capacity by 20% so when this new capacity will come up?

Shyam S. Bhartia: I think we have mentioned in Q2.

Deepak Mallik: So another 20% will come up by that time?

Shyam S. Bhartia: Yeah.

Deepak Mallik: Thanks.

Moderator: Thank you. The next question is from the line of Satya Murthy from Unifi Capital. Please go ahead.

Satya Murthy: If we have any queries on Jubilant Industries whom should we address it to? There has been some corporate restructuring and as shareholders we have received shares of Jubilant Industries also.

Shyam S Bhartia: I think you should address this question to Jubilant Industries. I am sure if you can send a question to us we will be happy to pass on this question to them and they will be happy to talk to you.

Satya Murthy: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Amit Shah from Motilal Oswal Securities Ltd. Please go ahead.

Amit Shah: The EBITDA margins in the Products business has gone down this year and again quarter-on-quarter. If I remember correctly in the 1st Quarter when we saw the first decline in the margins you had mentioned that this is because of the lag effect of passing on higher input material prices and the situation would improve in second-half. But I think the margins have been benign throughout the year, so why is that?

Shyam S. Bhartia: If you see for the whole year, the average is 22.6%, which is strong margin for a business.

Amit Shah: Yes, but compared to FY 10 when it was 29.5% there is a significant drop?

Sankaraiah: The significant drop was mainly, as we had explained in last three quarters, because of exchange rate difference. That alone was contributing more than 4.5%.

Amit Shah: So the exchange difference was a major contributor?

Sankaraiah: Because last year in FY 10 the average rate was Rs. 47.50 to Rs. 47.75, whereas this year average was Rs. 45there is a Rs. 2.5 impact which has come into the forex business that has reduced the margins by 4.5%.

Shyam S. Bhartia: Having said that I would like to add what Sankaraiah is saying. 70% of our net sales are international sales. It will have an important impact on our business. In the current year we have the assumed foreign exchange rate, when we are saying to you on our quarter-on-quarter increase we have assumed an exchange rate of 44.5.The actual exchange rate is better than this but our assumption is that it is closer to 44.5.

Amit Shah: How much ROCE are you targeting over a long-term for a business as a whole? Because right now you have been doing a lot of Capex so maybe the number we should not look at is the current ROCEs but what is the target that company has set for the Return on Capital employed over a long-term period?

Shyam S. Bhartia: In three years we expect a good return on the capital employed as we have the investments. What we're doing is dependent upon the current opportunities that are available and sometimes if we do not make an investment the opportunity which exists will go to somebody else. We have to see that the payback period from these projects are very strong therefore could generate a sale of Rs. 1200 Crore. We expect a substantial improvement in the ROCE during next year and next 3 years.

Amit Shah: Okay, sure, thanks a lot.

Moderator: Thank you. As there are no further questions I would like to hand the floor back to the management for closing comments.

Shyam S. Bhartia: I would like to thank everybody for participating on this conference call. If you have any further questions you can get in touch with me or Mr. Sankaraiah and we will be very happy to address that. Thank you so much.

Moderator: Thank you. On behalf of Jubilant Life Sciences that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.
