Jubilant Life Sciences Limited

Q4 & Full Year Results Conference Call Transcript
May 7, 2012

Moderator

Ladies and gentlemen, good day and welcome to the Jubilant Life Sciences Limited 4th Quarter and Full Year Results Conference Call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Nidhi Aggarwal. Thank you and over to you ma'am.

Nidhi Aggarwal

Good evening everyone and thank you for joining us today. I have with me Mr. Shyam S. Bhartia, our Chairman and Managing Director; Mr. Hari S. Bhartia, Co-Chairman and Managing Director; and Mr. R Sankaraiah, Executive Director, Finance of Jubilant to discuss business and financial performance of the company for the period ended 31st March 2012. Our CMD will begin with the presentation on key performance highlights achieved during the year based on the strength of strategic initiatives and our future growth expectations, and it will be followed by Mr. R Sankaraiah, who will discuss business-wise revenue and profitability for the year gone by along with our overall company financials, we shall then follow it with a question-answer session for the benefit of the participants. You may kindly refer the investor presentation for the disclaimer note. Now, I would like to invite our CMD to share his views

Shyam S. Bhartia

Thank you, Nidhi. Good evening and welcome once again to our results conference call. I trust by now you would have had a chance to peruse our results.

I am pleased to share with you that Jubilant has delivered an excellent performance in the year which was characterized by strong revenue growth of 24% and earnings growth of 57% demonstrating robust business momentum across all business segments. The Company posted highest ever Income from operations of Rs. 4,278 crore, up by 24% Y-on-Y. EBITDA stood at Rs. 893 crore, growing by 57% Y-on-Y. Normalized Net Profit was at Rs. 363 crore with growth of 34% YoY, after adjusting for exceptional items, details for which shall be shared by Mr. Sankaraiah.

Our international business accounts for 70% of revenue at Rs 3,011 crore recording 27% YoY growth. Our continued focus on business development in the regulated markets of US, Canada, Europe and Japan has resulted in strong revenue and margin growth.

Income from US & Canada stood at Rs. 1,681 crore contributing 39% to the revenue mix and recording growth of 32% YoY; whereas 19% of the revenue came in from Europe and Japan at Rs. 804 crore, recording a growth of 49% YoY. About 30% of the revenue came from domestic market at Rs. 1,267 crore recording a growth of 18% YoY. Going forward, while the regulated markets will continue to grow and shall be the main stay of the future growth but with new product launches in China and Emerging markets, substantial increase in revenues from these markets can be expected in FY 13.

Business evolution has enabled the need for reclassification of verticals into Pharmaceuticals and Life Science Ingredients in order to clearly identify and understand the operating mix. Pharmaceuticals Business comprises revenue lines of APIs, Generics, Specialty Pharma, CMO, DDDS and Healthcare. In FY12, the Income from operations of pharmaceutical vertical stood at Rs. 2,175 crore and recorded growth of 41% YoY. It grew from 45% of revenue contribution in FY 11 to 51% of revenue in FY 12.

The revenue and margins growth in Pharmaceutical business was mainly driven by new launches, better pricing and demand for current niche dosage formulation products in Generics business. Supplies for products to Japan were initiated during the year. As of March 31st, 2012, the Company has 48 cumulative US ANDA filings of which 19 are approved, 35 Dossier filings in EU of which 31 are approved, 9 filings in Canada and 264 in ROW of which 38 are approved.

API business growth was driven by new launches in Sartans, Donepezil in US and Olanzapine in Europe. The Sartans plant which was commissioned in FY 11 has achieved higher capacity utilisation as expected and is also instrumental for driving revenue and profitability of the business. At the end of March 2012, the Company has 58 DMF filings in the US, 29 CEPs in Europe, 29 in Canada and 6 in Japan besides over 65 filings in ROW which indicate a strong pipeline for future launches.

Specialty Pharmaceutical comprising of Radiopharmaceutical and Allergy Product has strong leadership positions in key products in North America. Radiopharma diagnostic products namely Sestamibi, MAA, MDP etc drove revenue growth through entry into new geographies of India and Emerging Markets. Approval for Rubidium Generator used for PET Myocardial Perfusion Imaging is expected from Health Canada and USFDA in FY13 for launch in these 2 geographies. We also witnessed revenue growth due to international sales and market expansion in key Allergy Products and devices.

CMO of sterile injectibles and non sterile products business growth was strong and driven by increased capacity utilisation in FY12. Consequently, profitability too improved in the business, as outlined at the beginning of the last financial year. During the year, we won long term contracts valued at over $160 Million from innovator companies for supplies to regulated markets. This, along with continued business development initiatives to fill in capacities should drive our future growth from the business.

DDDS witnessed good revenue growth and turnaround in profitability primarily on account of achievement of discovery milestones and higher capacity utilisations. Excluding the US Clinical research business which continued to de-grow and depressed margins, DDDS is on a strong footing for future growth from new collaborative programs with 4 leading pharma companies and additional integrated service offerings.

Jubilant has over three decades of chemistry experience and is an established name in the Life Science Ingredients space. We are well positioned as a cost effective, high quality manufacturer across the value chain of Life Science Products with global leadership positions in this vertical.

Life Science Ingredients Vertical comprises of Proprietary Products and Exclusive Synthesis, Nutrition Ingredients and Life Science Chemicals. In FY12, Income from operations at Rs. 2,103 crore recorded an increase of 11% YoY contributing 49% to the FY 12 revenue mix.

Proprietary Products and Exclusive Synthesis or PPES business volumes witnessed increase on account of higher internal demand consequent upon increased vertical integration as per business expansion strategy. The expanded Pyridine and Beta Picoline capacity during the year will further strengthen vertical integration and our global leadership position in this segment. Supplies from this facility will be used for meeting both the external demand and the growing internal demand for manufacture of value added products in newly added capacities of Symtet and Niacinamide.

The Company also commissioned a multipurpose Pharma intermediate facility at same SEZ, for which it has already received orders from international pharma customers and supplies have commenced. The Agro actives plant meant for 100% export has also been commercialised with supplies to US customers during FY 12.

Our global size Symtet plant based on in-house innovative technologies is in final stages with commercial production expected in Q1'FY13 which shall drive our revenue growth in FY 13. It is our earnest objective to optimize cost levels of the operation and I am glad to share that we have been successful with adoption of in-house business excellence projects focusing on the same.

In Nutrition Ingredients we commissioned new manufacturing facility at SEZ in Gujarat with commercial production of 10,000 TPA Niacinamide and an Intermediate, 3-Cyanopyridine, to cater to the growing global needs of Nutrition Ingredients. This was formally inaugurated by the state chief minister Mr. Narendra Modi on the auspicious day of Baisakhi on April 13, 2012.

During FY12 we saw supplies from the new capacity addition at the SEZ gaining momentum. Regular supplies to major international customers have already commenced. Niacinamide's global demand is growing at the rate of 4-5% per annum whereas the annual demand growth in Asia Pacific, India and China is at 7-8%. Being the lowest cost producer for Niacinamide globally due to our vertically integrated feedstock strength, we are well placed to effectively compete in the market place and achieve higher capacity utilisation and better margins in near future.

I am glad to share that we are witnessing good utilization levels in Life Science Chemicals. We commissioned additional capacity of a key Life Science Chemical and started supplies to European markets to expand our geographic reach and to address increased international demand. Our increased business development and marketing initiatives have yielded results in enhancing our share in new geographies. Several orders have been won in domestic and export markets enabling future growth.

New multi million contracts in the Life Science Ingredients space are expected to drive growth momentum from the newly added capacities with stable EBITDA margins in the future. In line with the good performance registered in the year by the company I am pleased to share that the Board has recommended 300% dividend for FY12 compared to 200% in previous year.

We believe that we are on a strong trajectory to achieve a compounded annual revenue growth of over 20% for next 3 years with improved EBITDA margins. The strong operational result will lead to robust balance sheet with the debt to equity below 1 and debt to EBITDA multiple below 2.5 times. In FY13, we expect to achieve 20-22% revenue growth with EBITDA margins sustainable at current levels.

With this I would like to invite Mr. Sankaraiah to share business wise revenue and profitability for FY12 along with overall company financials

R Sankaraiah Thank you, Mr. Bhartia. I would begin with our quarterly financial performance highlights.

Income from operations in Q4 FY12 stood at Rs. 1,176 crore, up of 31% YoY. EBITDA for the quarter stood at Rs. 248 crore, up 82% Y-on-Y following a combination of good performances in all our business units. As a result of outstanding growth in EBITDA, our margins improved to 21.1% as against 15.2% in Q4 FY 2011. However, after eliminating one-time income of Rs. 25 crore on account of loan waiver by a customer due to foreclosure of a contract, the EBITDA for Q4 works out to Rs. 223 crore with margins of 19%. Profit before exceptional items, tax and minority interest was Rs. 124 crore, recording Y-o-Y growth of 73%. Loss after tax of Rs 64 crore was recorded in Q4'FY12. After adjusting for exceptional items of Rs 146 crore, our Normalized Profit after Tax was at Rs. 83 crore, up 7%. The normalized earnings per share came in at Rs. 5.20 per equity share of Re. 1 face value.

Moving on to our full year performance, we reported 24% YoY growth in Income from Operations at Rs. 4,278 crore. EBITDA stood at Rs. 893 crore depicting a growth of 57% YoY with margins at 20.9%. After removing one time other income of Rs. 25 crore, Operating Profit stood at Rs. 868 crore with margins at 20.3% compared to 16.5% in FY11. Profit before exceptional items, tax and minority interest was at Rs. 463 crore, recording YoY growth of 64%. Profit After Tax came in at Rs 15 crore in FY12. After adjusting for exceptional items, Normalized Profit after Tax came in at Rs. 363 crore showing a healthy growth of 34% for the period. The normalized EPS stood at Rs. 22.80 per equity share of Re. 1 face value.

And now for the business wise revenue and profitability, I would request the participants to kindly refer to slide numbers from 6 to 10 of the earnings presentation. As Mr Bhartia mentioned, our business evolution enabled the need for reclassification of verticals into Pharmaceuticals and Life Science Ingredients in order to reflect the nature of business lines and to understand the operating matrix better.

Pharmaceuticals Vertical reported revenue of Rs 2,175 crore with excellent growth of 41% and higher profitability with margins at a strong 26.7% for FY12. This is due to strong leadership positions in niche generic products and results of strategic initiatives of enhanced capacity utilizations as well as cost rationalization efforts in CMO and DDDS business.

Our API business reported revenue of Rs 449 crore with 33% growth driven by new launches.

Generics business reported Rs 537 crore of income with excellent growth of 161% YoY due to leadership position in niche products.

Specialty Pharmaceutical revenue stood at Rs 311 crore witnessing 25% YoY growth from radiopharmaceuticals and Allergy products business.

CMO revenue at Rs 621 crore had a growth of 17% over previous year. Margins for the business stood at 19.2%, up 2 times from 9.5% in FY11 as we have mentioned in our earlier concalls.

DDDS reported Rs 244 crore income from operations with 16% YoY growth and recorded EBITDA margins of 9.2% from negative margins last year. However, the US Clinical research incurred an EBITDA loss. Excluding the US Clinical Trials business, margins have doubled.

Now I shall touch upon our Life Science Ingredients where we have long standing global leadership positions. This vertical comprising of Proprietary Products and Exclusive Synthesis, Nutrition Ingredients and Life Science Chemicals business. This recorded revenue of Rs 2,103 crore with margins of 16.8% in the year, lower from 24.6% in FY11. The margin reduction is mainly on account of competitive pricing to retain/enhance market share and higher input material costs. The situation is expected to get corrected during FY13 due to cost rationalization and operating leverage.

PPES business revenues were at Rs. 932 crore, down 2% YoY on account of competitive pricing though volume growth was witnessed due to higher internal demand consequent upon increased vertical integration in key products.

Within Nutrition Ingredients, we saw 10% growth at Rs. 211 crore in the year and in Life Science Chemicals, our income from operations was at Rs. 960 crore with 27% YoY growth in FY12.

Details on Impairment - Our US Subsidiary, Clinsys USA. engaged in clinical research business has reported loss for past few years due to market dynamics. In order to turn the business around, we have taken various measures including business development, operational efficiencies, cost reduction etc. However CRO consolidation in US and Europe and consequent depletion in size of new business as well as delayed financing arrangements across the venture world resulted in sharp decline in backlog, cancellation of existing studies and delays in commencement of new awards, impacting the turnaround plans during the year. Pursuant to such adverse developments, the Company tested carrying value of the goodwill and other assets at Clinsys for impairment. On the basis of such testing, a provision for impairment of carrying value of goodwill, amounting to Rs. 150 crore, has been made in the books in Q4 and FY12.

Let me now explain the exceptional items of Rs. 349 crore for FY12. First, the Rs. 150 crore provision on account of impairment of assets in the US Clinical business as explained just now along with provision for diminution in value of strategic investments which were considered to be other than temporary amounting to Rs. 17 crore totaling Rs. 167 crore has been provided on account of impairment and diminution value of investment. Secondly, Unrealised Mark to Market book loss Rs. 121 crore on account of Currency movement of USD, from base of Rs. 45 to Rs. 50.88, with respect to Rupee Loan of Rs 910 crore swapped into USD Loan of $202 Million at the time of FCCB repayment in May 2011. Thirdly, FCMITDA Amortisation of Rs 41 crore on account of Unrealised exchange loss amortised on Long Term Foreign Currency Loan of USD 218 Mn over the period of tenure of the loan as per Clause 46A of AS 11. And lastly, the write-off with respect to discontinuation of few products under development in Generics Business, amounting to Rs 20 crore. However, I must mention that for the quarter Q4 FY 2012, exceptional items of Rs. 146 crore include unrealised Mark to Market book gain Rs 41 crore on account of favorable currency movement of USD to Rs 50.88 from a high of Rs 53.10 as at December 31, 2012.

Just to draw your attention to a balance sheet item, during the year the Company promptly repaid the last of the outstanding FCCBs of US$ 202 Mn including YTM of US$ 60Mn on schedule in May 2011.

As at March 31, 2012, we had dollar debt of USD 443 Mn and rupee loans of Rs. 1,560 crore. Gross debt stood at Rs. 3,815 crore with Cash and equivalents at the end of March 31, 2012 at Rs 267. crore. Using the constant exchange rate, net debt has gone up by Rs. 432 crore compared to FY11 end. This is mainly on account of increase in working capital at 24% for FY12 on a higher revenue base and investments in Life Science Ingredient capacities and pharmaceutical product portfolio, to the tune of Rs 515 crore for future growth. I would like to highlight that our average cost of borrowing stands at 5.9% per annum with rupee loans at 11.5% pa and foreign currency loans at 4.1% pa. The ROCE has improved from 8.8% to 13.3% on Operating Asset base.

Currently, we are following a measured capital expenditure program for FY2013 with target capex of Rs. 350 crore to be funded from internal accruals and improved working capital initiatives. No fresh CAPEX is planned for FY2013 other than the spillover CAPEX which is carry forward from FY2012 for the capacity expansion and Life Science Ingredients business

We firmly believe that operationally we are robust and seeing momentum in all our business lines that will help us to attain future growth targets. We are confident of achieving growth on account of higher utilisation of new and expanded capacities in Life Science Ingredients and CMO business. In addition, new product launches as well as expansion in new territories in APIs, Generics and Specialty Pharma businesses would drive pharma business growth. Also we have been making continuous efforts to improve global competitiveness through increased vertical integration, improvement in yields and realigning costs with revenues and this should result into robust Revenue growth and higher profits as mentioned by Mr. Bhartia. With that I thank you all and would like to request the moderator to open the floor for questions

Moderator Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from Saion Mukherjee from Nomura Financial Advisory & Securities India Pvt. Ltd.. Please go ahead.

Saion Mukherjee When you are talking about 20% growth next year and 20%-odd growth in the following year, what is the element of exchange rate that you have considered? Secondly, on the EBITDA margins, actually we have seen significant volatility in your segmental margin year-over-year where Life Science Ingredients has come down significantly and Pharma business has gone up. How should we think about margins? You have indicated it would remain at the current level of around 20%. So at a segment level how should we think about margin from FY13 perspective and going forward as well?

Shyam S Bhartia We have said that next year there will be 20 to 22% increase in sales and margins will remain at the current level which is about 20.9%. So, we expect the growth in sales, 20% to 22% and margins to remain at the current level. With Life Science Ingredients we expect the sales should grow faster because of the new capacities which are coming into operations whereas EBITDA margins in the Pharmaceuticals business will be higher and the Life Science Ingredients will be lower. Current margin in Generics business in the Pharmaceuticals business is 27%. So, we expect the margin to remain the same or better. At the same time in the Life Science Ingredients business we also expect the margin to be better because we will have an operating leverage because of the increased capacity utilization of the new products, because last year we did not have full capacity utilization from the plants which came into production last year.

Saion Mukherjee Then in that case the margin should be better than what you reported in FY11?

Shyam S Bhartia Looking into the global situation, we expect the same margin to continue depending upon the product mix that we have.

Saion Mukherjee Have you taken into consideration any Rupee-Dollar movement and what kind of assumptions you have factored in for next year?

R Sankaraiah As of today, we are drawing up all our accounts, profitability based on Rs. 50 per Dollar.

Saion Mukherjee What is the kind of sensitivity you have at the EBITDA level for every 1 Rupee depreciation?

R Sankaraiah It will have a profit impact of about Rs .12 to 15 crore, depends upon the import for every Rs. 1 positive or negative.

Saion Mukherjee What was your capex in FY12 and what is the kind of spillover that you mentioned for FY13?

R Sankaraiah We incurred Rs. 515 crore as capex in FY12. There is some spillover in FY13 because some of the existing plants like Symtet which are going on and and also we are increasing the capacity in Generics business in the tablet manufacturing capacity. So approximately about Rs. 250 crore spillover will be there for FY2013, in addition to that normal capex of another Rs. 100 crore, so about Rs. 350 crore is the estimate for FY13.

Saion Mukherjee Isn't the capex number a bit high? Has there been any cost escalation there that you have seen?

R Sankaraiah Earlier also we have mentioned, in three years, it will be Rs. 1000 crore. What we are coming to is the same number. We have incurred already Rs. 500 crore, Rs. 350 crore for FY13 and Rs. 150 to 200 crore for the year after. There is no major variation in whatever we have mentioned compared to earlier.

Moderator The next question is from KrishnaKiran Konduri from ICICI Securities Limited . Please go ahead.

KrishnaKiran Konduri First, coming to Generics business, we have seen sharp 161% growth on Y-on-Y for the entire year. So, I understand that it is mainly because of price expansions in overall our product portfolio. How are you looking at these prices next year and how are you looking at the overall Generics business?

Shyam S Bhartia It is due to price, as compared to last year it is better this year and also due to the new product launches that we did during the year. This increase is because of both.

KrishnaKiran Konduri Is it possible to quantify how much would be like volume driven and how much has price driven it?

R Sankaraiah In Generics business it is equally driven by both volume and price during the year.

KrishnaKiran Konduri Okay. How many products do we have in the market so far?

R Sankaraiah We have as of now 11 products in US and 8 products in Europe; totally 19 products we have.

KrishnaKiran Konduri Just a continuation there, so total 19 products, we have taken a write-back around 20 crore, which market are these products related to?

R Sankaraiah These are all the products which are in pipeline where we feel that the economic value add on account of continuing the research is not going to be very good, so because of that economic disadvantage we have dropped this product in the mid stage, that is why we have taken a write-off of the expenditure incurred on account of this product till date.

KrishnaKiran Konduri Coming back to Generics business again, how many products are we looking to launch in the US and Europe this year?

R Sankaraiah Like we have mentioned in the call in the Generics business, we have cumulative filings of ANDA 48; out of which 19 are approved and 35 dossiers in Europe, out of which 31 are approved, there are 9 filings in Canada and 264 filings in Rest of the World out of the 264, 34 are approved. This basically tells us that next three years we have a huge number of products in pipeline which we expect to launch and get benefit out of this in good volume terms.

KrishnaKiran Konduri But just want to understand more bit in the US, 19 products which has been approved and now 11 products so far has been launched, so can we expect may be 3 to 4 product launches in the next year?

Shyam S Bhartia More than 3 to 4 products we shall launch next year. Some products approvals we will be getting next year also.

KrishnaKiran Konduri What about our current Sartans capacity utilization?

R Sankaraiah We are utilizing in the range of about 70% and the full capacity utilization will come in FY2013 now. That is why we expect API business will also continue to grow.

KrishnaKiran Konduri Any reason why this PPES business declined during this year and now how we are going to look at this business next year?

R Sankaraiah The main reason for the Proprietary Products business decline was, as far as the volume utilization is concerned there is no de-growth. It is a marginal growth and this year we have expanded the capacity. That capacity will get utlized for our Niacinamide and also for Symtet, thereby you will see a very good volume growth like Mr. Bhartia has mentioned in his speech, which we will see in Proprietary Products and Exclusive Synthesis business.

But the question is whether it will reflect as a proprietary product? The answer is, no, because this will be predominantly used for internal consumption. Because of that the crop science business and nutrition ingredients business will grow much faster and the growth will be shown there because the product still goes to the market from that product.

KrishnaKiran Konduri How is the Pyridine price trend?

R Sankaraiah In last quarter also we have mentioned, the prices are very low as of today. We will see an uptrend. Like we have mentioned in the speech, we will see an uptrend in FY2013.

KrishnaKiran Konduri In the CMO business we have signed four contracts worth of US$90 million maybe in this year. So when will the execution of these contracts be started?

R Sankaraiah Execution has already started on the contracts in FY2012 itself, and full utilization of the contract will come this year and over the next three years, as majority are four year contracts. That is why $160 million worth of contracts when we talked about, so it was a four-year contract.

Shyam S Bhartia It started somewhere in September 2011.

KrishnaKiran Konduri Can we look at this business to be around $30-35 million from these contracts, this year onwards for every year for every 4 year or it is not that way to look at it?

R Sankaraiah Approximately, we can take it like that.

Moderator The next question is from Ravi Agarwal from STCI Capital markets. Please go ahead.

Ravi Agarwal I just had a question on the cash flow. I was doing a very rough cut cash flow for the company, at the EBITDA and I look at the depreciation and all that, we have EBITDA of around Rs. 900 crore odd, depreciation of around Rs. 200 crore, that is around Rs. 1100 crore plus we have increased our debt by around Rs. 450 crore odd. Roughly around Rs. 1500 crore of cash I see has come into the company and against this we have actually had finance cost of around Rs. 200 crore odd and capex of around Rs. 500 crore. Essentially, you are working with a number of close to around Rs. 700-800 crore which where your rough cut essentially seems to be going out especially as increase in working capital. Is this the right way of looking at this or is this something which I am missing here?

R Sankaraiah To answer your question in a simplistic way, if you see the balance sheet, there is an increase in the debt of Rs. 432 crore plus exchange difference of Rs. 267 crore. If you remove that exchange difference of increase of debt from Rs. 45 to Rs. 50.88 from March 2011 to March 2012, that Rs. 267 crore if you knock off, there is a real increase of debt is Rs. 432 crore. That is on account of two reasons; one, the increase in working capital; and second, on account of investment in capital expenditure.

Ravi Agarwal I am just looking at it broadly that we have roughly funds of Rs. 1500 crore odd coming in from EBITDA, depreciation and…

R Sankaraiah EBITDA is Rs. 890 crore, why are you adding depreciation with that? EBITDA minus interest, minus tax, then you arrive at the cash flow, then out of the cash flow, you knock off the capex, then you knock off the working capital increase, there is a increase of Rs. 400 crore, that Rs. 400 crore has been depicted by way of increase in debt.

Ravi Agarwal I was actually wondering whether the increase in sales has essentially come about from an increase in working capital.

R Sankaraiah Obviously, if there is an increase in sale from about Rs. 3246 crore to Rs. 4278 crore there is an increase in working capital on account of that that. So there is 20-22% increase as a working capital.

Ravi Agarwal So, our working capital cycles have more or less remained the same?

R Sankaraiah Absolutely.

Moderator The next question is from Dhaval Shah from Morgan Stanley India Co. Pvt. Ltd. Please go ahead.

Dhaval Shah I was trying to reconcile the numbers for nine months that you have disclosed in the Generics segment there is around Rs.583 crore kind of a revenue line item whereas for the full year what you are disclosing now is Rs. 537 crore. So is there a degrowth that we have seen?

R Sankaraiah No, in the Generics business earlier it was including Specialty Pharmaceuticals namely Radiopharmaceuticals and Allergy products. If you add now, Generics plus Specialty Pharmaceuticals then you will see the difference.

Dhaval Shah So, on a quarter-on-quarter basis what is the Generics growth that you would have seen, if there is a number there in terms of the Dollar growth, the actual growth that we are seeing in the Generics business?

R Sankaraiah Generic business growth is about 22% quarter-on-quarter compared to previous year where it is 165%.

Dhaval Shah How much would that be driven by volumes?

R Sankaraiah I just answered that question; it is equally driven by volume, approximately 50-50.

Dhaval Shah Even on a quarter-on-quarter basis?

R Sankaraiah No. One point I just wanted to clarify, quarter-on-quarter 22% is mainly driven by volume in Generics business.

Dhaval Shah On the LSI part of the business the Q4 margins have come off sharply, can you make us understand what has actually happened there?

R Sankaraiah The main reason for that is like we have mentioned there is an input material cost increase and there is also very competitive pricing in the market if one wishes to continue or enhance the market share of the Proprietary Products and Nutrition business. It is a strategic decision because of which there is a margin pressure. But, however, we expect this margin pressure will get corrected in FY2013.

Dhaval Shah That would be because the competitive pressure would decrease?

R Sankaraiah As we are an integrated player we have a cost competitive advantage because we are operating from the base raw material.

Shyam S Bhartia We have an operating leverage also because plants which we started on Nutrition Ingredients were operating at a lower capacity. So in 2013, we will be operating at higher capacity. So we have an operating leverage also which will give us a better margin.

Dhaval Shah For this next year when you are actually guiding for the 20% to 22%-ish kind of a growth it will be actually for both the segments, in the sense of LSI as well as…

Shyam S Bhartia Growth will be different in both the segments.

R Sankaraiah Growth for the company as a whole is what we are talking.

Dhaval Shah If I were to look at then would LSI actually grow at a faster rate than the Pharmaceuticals business or would…?

R Sankaraiah You are right because the capacity expansions are coming in Life Science Ingredients business.

Dhaval Shah What will be the normalized margins that we can actually look at from the Life Science Ingredients business over the medium-term basis?

R Sankaraiah We do not want to give any guidance, but generally, it should be upwards of 20%.

Dhaval Shah So that margins are actually sustainable on a longer-term basis.

R Sankaraiah Long-term basis that is the margin, but what we are seeing for this year is lowest in the history of the company.

Dhaval Shah What is that you would expect in terms of the tax rate for next year?

R Sankaraiah It should be in the range of 25% to 27%.

Moderator Thank you. The next question is from Nikhil Kale from MoneyWorks4me.com. Please go ahead.

Nikhil Kale In your outlook slide of the presentation you have mentioned that you are looking to get your debt-to-equity ratio below one. So, I just wanted to know that is also over a period of three years that you are looking to achieve that number?

R Sankaraiah That is right.

Nikhil Kale I was just wondering are you planning to again go for equity dilution or is this expected to be achieved through internal cash flows?

R Sankaraiah As of now the company does not have any plans, the numbers what we have arrived at is based on the operating plans.

Moderator The next question is from Prakash Agarwal from RBS. Please go ahead.

Prakash Agarwal If I see the segmental breakup for India and rest of the world, India has clearly grown at 9% for fiscal 2012 and international has grown at 41%, just wanted to understand how much would be depreciation-led or the Rupee depreciation-led?

R Sankaraiah Average rate for FY 2011 was Rs. 45.50, for 2012 it is Rs 47.90 that is Rs. 2.35 was the difference last year.

Prakash Agarwal This Rs. 3,000 crore of sales that you have done for international business, how much would be the contribution just from Rupee depreciation?

R Sankaraiah It will be 3.9%.

Prakash Agarwal You are saying it is largely operational-led?

R Sankaraiah Yes, of course.

Prakash Agarwal How about the EBITDA margin, obviously, a lot of Generics business portion, API doing very well, but the Rupee benefits also flows down to EBITDA, so how much would that be?

R Sankaraiah That is not a big amount. In a year as a whole what we got on account of exchange benefit is Rs. 50 crore.

Prakash Agarwal For the year?

R Sankaraiah That is right.

Prakash Agarwal Is the benefit that you have got?

Shyam S Bhartia Yes, because the imports are also there.

R Sankaraiah Export and import all put together, for every Rupee movement It is about Rs. 12 to Rs. 15 crore, this year we had a lesser imports because most of the alcohol were purchased locally, so we got a better Rupee-Dollar impact so that is why we got an additional Rs. 50 crore benefit on account of exchange.

Prakash Agarwal This is at the EBITDA level?

R Sankaraiah That's right.

Prakash Agarwal Also wanted to understand Nutrition business ramp up, basically now it is clearly 30% of capacity utilization in the 4th Quarter as per your presentation. But if you look at year-on-year the value terms is 10% growth, so has there been a significant pricing revision?

R Sankaraiah You know very well, during this year only in November 2011 we have declared additional capacity for Niacinamide. The capacity utilization was very low that is why the growth in sales terms was only 10%. If you see next year the capacity utilization will come substantially at least 60% and above, thereby you will see a substantial growth in Niacinamide business.

Prakash Agarwal Since you are backward integrated, you being a market leader going forward, pricing should not be an issue?

Shyam S Bhartia Pricing as compared to 2010 it is depressed, but our objective is to get more market share because we are extremely competitive. As compared to last year the pricing was depressed in 2012, but we hope that going forward we expect the pricing to be better because we expect large capacities which are operating in high cost countries in Europe, which might be rationalized and ultimately we hope to gain more market share. Our intention is to get more market share today at the current prices.

Prakash Agarwal On the FOREX hedges, do we have FOREX hedges for the projected revenues, future revenues?

R Sankaraiah For FY2013 full year on a net exposure basis after deducting the exposure amount of loan repayment and interest payment in foreign currency, the net exposure of about $300 million we have taken simple forward contracts at an average price of Rs 53.68.

Prakash Agarwal Basically, $300 million you have covered at Rs. 53.68?

R Sankaraiah That's right.

Compared to average of Rs 47.90 last year, this year average on a net exposure basis is at Rs 53.68.

Prakash Agarwal This is excluding the debt?

R Sankaraiah I am not talking about debt at all, it is the revenue inflows. Just to clarify here for everybody's benefit, the forward covers what we take is total exports minus imports in foreign currencies minus repayment of the loans in foreign currency minus repayment of the interest in foreign currency, we arrive at the net revenue exposure in Dollar term or Euro term that we cover.

Prakash Agarwal Lastly on this Rs. 25 crore gain that we have got, I just wanted to know where it has come from?.

R Sankaraiah Basically, one of the customers wanted to exit our contract, it is a contract manufacturing business because of which there was a loan outstanding in the books of account which they have given for the equipment, when they exited they have to waive off their loan which was there in our books.

We have taken the asset free of cost and the loan has been waived off.

Moderator The next question is from Nimesh Desai from Motilal Oswal. Please go ahead.

Nimesh Desai You mentioned sometime back in your guidance that the guidance or the forecast is based on Rupee-Dollar rate of Rs. 50 per Dollar and just now you mentioned that you have FOREX hedges $300 million at Rs. 53.68. So what I wanted to understand is, why are we guiding based on Rs. 50 to a Dollar whereas based on your FOREX hedges you will realize minimum of Rs. 53.68. Is that understanding correct?

R Sankaraiah No, I'll just clarify, there are two guidances we have given; three year guidance and one year guidance.

Nimesh Desai I was talking about FY13 guidance.

R Sankaraiah FY13 is a guidance of 20% to 22%, that variation of 2% we are taking mainly on account of the exchange gain.

Shyam S Bhartia But during the year you may not see the foreign exchange realization at Rs. 53.65 because for other exports which we have not covered will be at a rate at which will be applicable at that time.

Moderator Last question of the day comes from Surya Narayan from Systematic Shares & Stock. Please go ahead

Surya Narayan What is the current utilization levels for the CMOs?

R Sankaraiah It is about 65 to 70% on two-shift basis.

Surya Narayan That was the level even for the last year.

R Sankaraiah Last year was about 55 to 60%.

Surya Narayan Particularly in the CRAMS side, what is the outlook that we are giving, whether we are seeing any sort of improvement?

R Sankaraiah In DDDS and CMO like you have mentioned this year we have reported 17% growth in top-line and the profitability in the beginning of the year we have given a clear guidance that in CMO business we see multifold increase because in Q4 FY2012 we had a 4.5% in EBITDA margin. There is a substantial increase which we have mentioned in the last year’s growth income so which has exactly happened now. It was more than double the increase in EBITDA margin. As far as DDDS is concerned, if you remove the Clinical Research business which was bleeding you will see an EBITDA of 10% has gone to 24% this year.

Surya Narayan Considering the fact that we had signed multiple collaborative research pacts with various innovators, those developments are not getting reflected in the business growth or revenue growth in the DDDS and CMO?

R Sankaraiah In the DDDS business, the only reason why we are not able to see the real growth is because of the Clinical Research business in US was degrowing substantially year-on-year and also it was making a loss. That is why I explained the reason for taking an impairment in the books. And if you remove that business, the DDDS business is doing fairly well. More particularly in DDDS the chemistry service business is always doing very well.

Surya Narayan If you remove that what is the like-to-like growth in the DDDS?

R Sankaraiah It is about 20%, we should be able to maintain that going forward.

Moderator Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Bhartia for closing comments.

Shyam S Bhartia Thank you everybody to join in this conference call. If you have any further questions we should be happy to address individually over a phone call. Mr. Sankaraiah is available, if you have any further questions he will be happy to take your call.

R Sankaraiah Thank you.