

Jubilant Life Sciences Limited

Q1-FY14 Post Results Conference Call Transcript

August 1, 2013

Anupam Jain

Thank you. Good evening everyone and welcome to Jubilant Life Sciences Limited conference call for the quarter ended 30th June, 2013. We are joined today by 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. Mr. Bhartia will be making his opening remarks covering the operating and strategic progress, and Mr. Sankaraiah will highlight key financials as usual. For those of you seeking to get your queries addressed there will be an opportunity at the end of the management presentation.

A polite reminder, that some of the statements made on the call today would be forward-looking in nature and a detailed disclaimer in this regard has been included in the investor presentation that has been shared on our website. You are requested to go through that. I would now like to invite Mr. Bhartia for his opening remarks.

Shyam S Bhartia

Thank you. A very good evening to you all.

I am glad to share my thoughts on the performance during Q1 FY'14. Income from Operations stood at Rs. 1,358 crore, maintaining growth trend at 9%YoY. EBITDA for the quarter stood at Rs. 237 crore, with EBITDA margins at 17.5%. In line with our focus, revenue from International markets contributed 74% to the overall revenues and showed an increase of 10%. The share of the regulated markets in the performance was at 59%. North America reported revenue at Rs. 522 crore and Europe and Japan at Rs. 275 crore, contributing 38% and 20% to the revenue mix respectively.

In view of the strategy going forward and for the better understanding of our focus areas, the Pharmaceuticals segment is being reorganized into three verticals namely Generics, Specialty Pharmaceuticals and DDDS & Others.

- 'Generics' – comprising Active Pharmaceutical Ingredients (APIs) and Solid Dosage Formulations
- 'Speciality Pharmaceuticals' – comprising Radiopharmaceuticals, Allergy Therapy Products and Sterile Injectables and Ointments, Creams and Liquids or OCL
- 'DDDS and Others' – comprising Drug Discovery and Development Services and Healthcare Getting into the business highlights, the Pharmaceuticals segment reported revenues at Rs. 651 crore in Q1 FY'14, growing 2% YoY and contributing 48% to the revenue mix.



Growth from Generics was flattish for the quarter despite a good volume growth due to price correction in Methylprednisolone in line with our expectation. Our API business delivered strong volume growth on the back of better sales for the 28 commercial products within our target therapeutic areas. We launched Azithromycin Mono Oral Grade in North America this quarter. We made a DMF filing for Tadalafil in the U.S. and another for Linezolid in Japan. The cumulative filings made by Jubilant as on June 30, 2013 stand at 237 including 66 in the U.S. and 29 in EU.

Moving ahead in the Solid Dosage Formulation the performance was muted. There is a nominal 5% volume growth for the business due to the Methylprednisolone price correction and delay in approval of four products in Q1, which are expected in FY14.

We now have 37 commercial products, 17 in North America, 21 in Europe, and 13 in rest of the world. During the quarter we saw 8 products launches across regions including Escitalopram in Europe, Quetiapine DC, Risperidone DC, Olanzapine, Losartan, Valacyclovir, Valsartan and Esomeprazole in rest of the world.

The total filing in Q1 FY14 stood at 29, all coming from the rest of the world that brings the cumulative tally to 649, with 58 in the US and 41 in Europe.

We continue to maintain a leadership position in Methylprednisolone, Lamotrigine and Terazosin. Our supply agreement with one of the generic companies in USA for Animal Health products started in the current quarter with the profit sharing arrangements. Going forward we expect a good growth in this product.

Our Specialty Pharmaceuticals business saw a growth of 10% with a recognition of revenue on account of take or pay contract in Sterile Injectables and OCL business. However, the revenue growth was affected adversely on account of production downtime by 3 weeks due to turnaround of Sterile plants in Spokane and Montreal and product hold by customer's pending approval. The turnaround was completed and facility resumed normal operations by end of the quarter and also the product approval from customers is expected in Q2. This will lead to achievement of targeted growth in this business. Sterile Injectables and OCL business saw new orders worth \$17 Mn from top pharmaceuticals companies for Sterile Injectable and for clinical trial products with biotech and pharma companies. We have made positive progress on the matter of the warning letter for the Montreal facility and we continue to co-operate with the regulator. We have had successful audit by UKMHRA of our Spokane facility and Montreal facility by Health Canada. In Radiopharmaceuticals, we submitted the ANDA for Generic Magnevist, a contrast agent, which has a branded market size of US\$ 100 Million. Revenue growth in the Allergy Products business is coming from focus on ENT (Ear, Nose and Throat) market and PCP (Primary Care Physician) segments and our drive to enhance operating efficiencies.

In DDDS, the reduction in revenue is due to realization of lower milestones and muted growth in Medicinal Chemistry business. The primary objective has been cost optimization and our current cost structure being aligned to

business requirement and fiscal budget. All efforts will focus on strengthening the marketing and business development initiatives.

Coming to the Life Science Ingredients segment, we saw a robust revenue growth of 18% YoY in Q1 FY'14. Segment revenue for the quarter stood at Rs. 706 crore, contributing 52% to the overall Income from Operations.

We maintain good realizations in Pyridine, both in domestic and export markets. The price uptrend in Pyridine lead to overall net positive impact after considering preliminary Anti-dumping duty imposed by China.

Demand for Symtet is very strong with better pricing. The plant is producing the best quality product and supplying to the largest global agrochemical company in the US. The plant capacity stabilization is as per schedule and we expect about 30% utilization for the full year FY 2014. There is no customer advance outstanding for supply of Symtet.

I am glad to share that the capacity utilization in our Nutrition Ingredients business is at healthy levels of about 75%. Correspondingly we have seen stability return to the pricing of Vitamin B3 and Beta Picoline. In line with our objective to grow our portfolio on the human nutrition side, I wish to state that we are on track.

The Life Science Chemicals business is seeing robust volume growth as we develop our base in Europe and graduate to newer markets across ROW and Africa.

Having completed sharing the key business highlights I will like to give some color to outlook. We are looking at a better H2 FY'14 performance as stated earlier. This will be driven by expected good momentum in the pharmaceuticals business with new launches and geographic expansion on anvil. The LSI business is expected to show improved results backed by volume growth. In the interim the integrated nature of our operation allows us to take the moderating trends in our stride and positions us favorably for upsides visible on the horizon. Overall, growth in Revenue and EBITDA to continue on plan for the year.

The core performance of the Company is strengthening and we are utilizing the incremental cash flows to pare the debt. The target by FY15 is to drive the reduction in Net Debt levels at less than 2.5 times of EBITDA. We have begun taking a smart look at the capex requirements and program is contained to the most necessary initiatives.

I would like to invite Mr. Sankaraiah to share his perspectives on our results for the quarter.

R. Sankaraiah

Thank you Mr. Bhartia and a warm welcome to everyone joining us on today's call. The Q1 FY14 highlights are as follows: Income from Operations showed 9% growth to Rs. 1,358 crore. The underlying volume

increase stood at 12% with price adverse impact as 6% and there was a 3% influence from the sharp depreciation of the Rupee.

Getting into the details, the EBITDA during Q1 FY'14 came in at Rs. 237 crore with EBITDA margin at 17.5%. Our Reported Net Profit stood at Rs. (53) crore post exceptional loss of Rs. (122) crore on account of unrealized Mark to Market book loss of Rs. (95) crore and FCMITDA Amortization of Rs. (25) crore. The Normalised Net Profit stood at Rs. 70 crore giving us a Normalized EPS of Rs. 4.38 per equity share of face value of Re. 1. The broad performance in the 2 major segments is setting the base for the upsides that will accrue in H2 FY'14. In the Pharmaceuticals segment we had Income from Operation of Rs. 651 crore, thus contributing 48% to overall revenues. EBITDA in this segment stood at Rs. 158 crore, contributing 59% to the overall EBITDA mix with EBITDA margins of 24.3%.

The Life Science Ingredients gave Income from Operations of Rs. 706 crore, showing improvement of 18% over last year. The segment contributed 52% to overall revenues. The EBITDA in the segment was at Rs. 108 crore with margins at 15.4%.

To share our perspective on the balance sheet position, as at June 30, 2013 our Net Debt was at Rs. 3,659 crore. This can be classified into Rs. 2,655 crore of long-term debt and Rs. 1,004 crore in terms of working capital requirement. Adjusted for exchange rate difference compared to a year ago the Net Debt stood lower at Rs. 3,509 crore. I would like to reiterate that we are in compliance with all the debt covenants and also all necessary arrangements are in place to meet all the debt obligations on time.

The rate of interest that we are bearing is 5.6%, derived from a blend of foreign currency borrowings at a rate of 4% and Rupee denominated borrowings at 12%. The Net capex for the year is earmarked at Rs. 250 crore and the Product Development cost for new Generics products of Rs. 100 crore. While we are determined to reign in interest cost and debt levels, there is equal emphasis on driving operating performance.

The Board has appointed a Committee to consolidate the Company's global pharmaceuticals segment, comprising of (a) Active Pharmaceutical Ingredients (APIs), Solid Dosage Formulations, Radiopharmaceuticals, Allergy Therapy Products, Sterile Injectable and Ointment, Cream and Liquid businesses namely Pharmaceuticals Business and (b) the Drug Discovery and Development Solutions business under two separate subsidiaries and to evaluate the options and opportunities for raising money by listing the Pharmaceuticals business as deemed appropriate by it, subject to receipt of all necessary approvals, in the best interests of the Company and all its stakeholders. This would result in focused growth in pharmaceuticals business and reduction of overall consolidated debt of the Company. The company has already made necessary applications to obtain approvals for such consolidation and the work is in progress for necessary implementation of the defined activities.

As also mentioned by Mr. Bhartia, the outlook for business looks robust with good growth momentum in Revenues and EBITDA. We expect higher utilization of capacities in Nutrition Ingredients and Symtet and 3CP supported by backward integration of Pyridine and entry into newer markets. Price uptrend in Pyridine will lead to overall net positive impact after considering Anti-dumping duty in China. We will continue our efforts to improve global competitiveness through increased vertical integration, higher yields and realigned cost and revenue structure in Sterile Injectables and OCL and DDDS. In APIs and Solid Dosage Formulations businesses, strong pipeline with new product launches and geographic expansion should drive growth. We also have a robust order book in our Sterile Injectables and OCL business, which should help us deliver results. Overall, we expect H2 to be better than H1. We expect our strong operational results to lead to robust balance sheet going forward.

With that, I now request the moderator to open the lines for Q&A.

- Moderator** Thank you very much sir. Participants, we will now begin with the question-and-answer session. We have the first question from the line of Aditya Khemka from Nomura, please go ahead.
- Aditya Khemka** In the presentation you mentioned that there was an adverse price impact of 6% during the quarter and I understand that the 6% is on the entire portfolio of your products across segments. So, which are those products other than Methylprednisolone where we have seen such an adverse price impact?
- R. Sankaraiah** that was the main adverse price impact we had, otherwise all other prices are almost at the same level.
- Aditya Khemka** So, what I understand from you is that if the adverse price impact in Methylprednisolone translated to 6% adverse impact on the entire portfolio is that correct?
- R. Sankaraiah** That is right.
- Moderator** We have the next question from the line of Surjit Pal from Prabhudas Lilladhar, please go ahead.
- Surjit Pal** I just need to understand that do you have Tetracycline presence anywhere?
- R. Sankaraiah** No.
- Surjit Pal** And given the kind of reduction in your minority interest, has your profitability of Cadista come down this time?
- R. Sankaraiah** That is right. Methylprednisolone was sold by Cadista.
- Surjit Pal** How much correction Methylprednisolone has done in this quarter?
- R. Sankaraiah** Product wise we are not in a position to share the information.

Surjit Pal Could you throw some light on how you are going to reduce your debt, is there any plan going forward by selling out any part of your business in reducing the debt, because whatever the restructuring you will be doing that may not be leading to reduce debt?

Shyam S Bhartia We have stated that whatever restructuring we are doing, business consolidation, restructuring of pharmaceutical business, separate company. We expect to reduce the total overall debt of the company by listing the company and get certain proceeds from the company to Jubilant Life Sciences and then reduce the debt of the company.

R. Sankaraiah Basically the entire pharmaceutical business of Jubilant, we wanted to consolidate under one entity and list that entity in the international market thereby we plan to get an equity infusion to reduce the overall debt of the company.

Surjit Pal And as per your expectation how much debt will be reduced by this process?

R. Sankaraiah We do not have any plans to share that number, because we are in the process of still evaluating that. For such consolidation we need certain governmental approvals for which we have already filed applications and the applications are in process. Once we get the approval then we will talk to the bankers and regular process of IPO of the company will happen.

Surjit Pal Because I believe that will also impact in your EPS level too in terms of sharing profit with those increased equity numbers?

R.Sankaraiah Right.

Surjit Pal When do you think that these will be crystallized, by what time?

R. Sankaraiah We expect by end of this fiscal year. Because we need certain approvals from various authorities, so we cannot exactly put a timeline for this, but with the right expectations we think that it should happen during the quarter.

Surjit Pal You are looking for geography like US or Europe?

Shyam S Bhartia We have been evaluating the options in either Europe or US.

Surjit Pal How much is the total impact of your interest rate given the kind of FOREX impact and you have just 4% of your interest rate at LIBOR plus whatever? So if I add your FOREX impact how much will be the effective interest rate you are paying in your FOREX loan?

R. Sankaraiah It will increase by at least another 5% if you add complete exchange fluctuations.

Surjit Pal So on an average you are saving 100 to 200 bps compared to your domestic loan?

R. Sankaraiah It will be much more. Domestic average interest rate is about 12%, dollar we have to add 4%.

Moderator We have the next question from the line of Bhagwan Chaudhary from Indianivesh Securities, please go ahead.

B Chaudhary Just once again on this Methylpyridine you were saying that there was overall 6% price erosion was mainly on account of this, but in the previous quarter you have taken some price hike in other products and LSI also. So this is adjusting to that or is something missing?

Shyam S Bhartia That is in the Life Science Ingredients section. We had a price reduction as compared to last year, but now the price reduction which has been done at the current level is now steady.

R. Sankaraiah The main price reduction is in dosage form business of the product Methylprednisolone. But in the overall pharmaceutical business, if you see there was a price reduction of about 7% including API, there is price increase in LSI of about 1.6%, so the net impact of the price is about 6%.

B Chaudhary What would be the impact of antidumping duty from China, how much do you supply?

R. Sankaraiah Antidumping duty as of today it is based on the preliminary assessment that duty percentage that has been imposed is 24.6%. If you see the antidumping duty is not applicable for imports made by China which has been used for re-exports. Majority of the import, which is getting into China is for domestic consumption but after the antidumping duty has come into picture, the price in Chinese market for Pyridine, the product what we are selling has gone up by about 24%. So net-net, the re-export, which is made by the Chinese importer, since there is a price increase of 24% and the antidumping duty of 24%, the differential between the re-exports and the domestic consumption, this is 100% improvement on the price of 24%, which has come in, whereas the domestic consumption is at say 50 to 60%, on the balance 40%, we get a benefit. So after taking into account the increase in Pyridine prices in China, the net impact after implementing this antidumping duty of probation 24% is positive to us as of today, that is why you do not see any price reduction in Life Science Ingredients business that is one reason. The other reason is we have already mentioned in Nutrition Ingredients business, we have increased the price from 1st of March 10% and again in the month of May another 6%, so the Nutrition Ingredients business from the negative EBITDA, it has become positive and we are doing fine with that now.

B Chaudhary So we have also taken this price increment in China on Pyridine?

Shyam S Bhartia Yes, we have taken about 25% price increase as compared to last year.

B Chaudhary Don't you not think that this will impact your volume in that market?

Shyam S Bhartia No, the volume remains the same.

R.Sankaraiah There is a volume growth actually.

Shyam S Bhartia Demand is very strong in China and that is why the prices have gone up, and the volumes remain a little better than last year.

R.Sankaraiah That is why like I mentioned the price increase in Life Science Ingredients business is 1.6% whereas the volume growth is 16%, put together Life Science Ingredients business has shown a sales growth of 18%.

Moderator We have the next question from the line of Surya Patra from Systematic Shares, please go ahead.

Surya Patra Again on the Pyridine aspect only, some time back the negative price movement what we were seeing on the Pyridine front globally, now we are seeing that okay, the prices have started moving on and particularly China. So is that the scenario across the globe or it is only relating to China where we are seeing the price rise of Pyridine?

Shyam S Bhartia Across the globe there is a slight increase, but in China the prices are lower that is why the price has gone up now up to the international standards.

Surya Patra And sometime back there was a stiff kind of price war for Pyridine or Pyridine derivatives. So, is that now normalized or what is the kind of scenario that we are seeing there?

Shyam S Bhartia There is no price war, pricing is quite stable.

Surya Patra Again on the margin of the Pharmaceutical division, it has been around 25% that we have been seeing since the last couple of quarters. So are we seeing some sort of improvement on the margins of the Drug Discovery activities or there is nothing happening there only?

Shyam S Bhartia As you said, the Drug Discovery business in the medicinal chemistry services business, sales have been a little lower than the last year, and overall because of delayed receipt of the milestone payment, the revenue could not be recognized in the first quarter, we expect to recognize this in the second quarter. Overall margin in the pharmaceutical business has been mainly affected because of solid dosage form and because of the product prices like Methylprednisolone coming down, and which we hope to recover this from the other products which we are going to launch in the rest of the year.

Surya Patra Of course, it is an improving scenario in the generics side, that has supported the margins in the pharma space, but still at the current moment what is the kind of pressure that we are at the EBITDA level facing out of this Drug Discovery businesses?

R. Sankaraiah As of today, Drug Discovery business EBITDA level is negative.

Surya Patra What is the kind of loss that we are seeing in the EBITDA level?

R. Sankaraiah It is about Rs.12 crore.

Shyam S Bhartia But overall for the whole year we hope to break even in this.

Surya Patra We have been seeing losses since inception I think, and we are now seeing that okay, it will be positive, means, we have added new clients, new business, something like that or we have changed some business model there?

Shyam S Bhartia We are adding clients in our chemical business and in our Drug Discovery business.

Surya Patra In fact, maximum number of this collaborative research program that we had signed sometime back for that DDDS business, but any of those projects are progressing or anything happening on that front?

Shyam S Bhartia The project is progressing and we are receiving milestone payments also on those projects.

Surya Patra So that is why we feel that okay by the end of the fiscal year we would be positive EBITDA?

Shyam S Bhartia Yes.

Surya Patra On the CMO side, whether your clients are seeing any sort of this inventory rationalization activities at the current moment, whether they are reducing their holding?

R. Sankaraiah Nothing like that.

Shyam S Bhartia Sometimes there is a delay in approval of the products what we have manufactured by the clients.

Shyam S Bhartia Order book is very strong.

R. Sankaraiah The first quarter results are muted mainly because of the shutdown, which was planned to be taken in the month of October, which has been advanced to the first quarter, so otherwise, other things are fine there.

Shyam S Bhartia We have \$17 million of orders also in the first quarter. Sometimes last month it gets shifted to the next quarter.

R. Sankaraiah It is not inventory rationalization, it is more of a product hold by the customer because of the approval.

Surya Patra It is not for the continuing product?

R. Sankaraiah No.

Surya Patra For the potential products?

R. Sankaraiah Some approval process which is pending, because of that the product would have been held, otherwise the business is perfectly going well.

Moderator We have the next question from the line of Krishna Kiran from ICICI Direct, please go ahead.

Krishna Kiran We have mentioned that 4 product launches, which were deferred and in DDDS milestone we have not received, and shifting to customer was also delayed. So overall, how much revenue would have been impacted?

R. Sankaraiah Roughly a number of about Rs.50 crore on account of all of the three, but it is more like a postponement, not a cancellation.

Krishna Kiran That Rs.95 crore FOREX MTM loss, from where it came, that \$202 million?

R. Sankaraiah Basically, the rupee dollar fluctuation from 31st March 2013 to 30th June.

Krishna Kiran My question is 95 crore is MTM loss on the \$202 million is that right?

R. Sankaraiah Correct.

Krishna Kiran So, if I look at it, means more than 104 crore, because it is 5.1 rupee change, so can you just explain us how it happened, 10 crore there lower, MTM loss?

R. Sankaraiah It is both currency swap and interest swap, both put together.

Krishna Kiran Regarding Rubyfill, what is the current potential market size?

Shyam S Bhartia US market size is \$60 million, but there is a certain market demand in Canada and other countries also.

Krishna Kiran How much would that be?

R. Sankaraiah That is about another \$10 million more.

Krishna Kiran Have we filed ANDA for Esomeprazole by any chance?

R. Sankaraiah Yes.

Krishna Kiran And we have booked around, in the other operating income take or pay contract one-time income, is this some cancellation of contract or what?

Shyam S Bhartia When there is a reduction in the demand, in terms of contracts, we get certain revenue because they are not able to take the product to the extent they have ordered.

Moderator We have the next question from the line of Hardik Bora from Motilal Oswal Securities, please go ahead.

Hardik Bora First one is on actually this Pyridine antidumping duty imposed by the Chinese government, one question just wanted to ask, I was confused about this, since you and some Japanese players, some other Indian players have been imposed of this antidumping duty, would it not make the

Chinese suppliers products more competitive in terms of pricing, since they do not have any such cost to be incurred?

Shyam S Bhartia

That is true, but the overall cost in China is also high.

Hardik Bora

But then my understanding would be that the antidumping duty would be imposed keeping in mind that you kind of become more or less in line with what the domestic players, otherwise it would not really benefit the domestic players, right?

Shyam S Bhartia

The prices from last year has gone up by 25% already, so the domestic players are also benefited by it.

R. Sankaraiah

Your understanding is right, that is why the price has gone up.

Hardik Bora

And the second question is basically on your guidance, you had in the last call indicated that the revenue guidance is about 20 to 21% for two years not for FY14, but over FY15, and the margin would be around 21%. Given this slowdown during the quarter do you still maintain that guidance or do you think that it could be slightly lower than that?

Shyam S Bhartia

During this year we refrained to giving the guidance, but as we have mentioned we are on plan for the current year.

Hardik Bora

I think you had given a more longer term guidance last quarter, not for FY14 per se, but over the next two years what kind of growth could be?

Shyam S Bhartia

You are just translating and then asking, for FY14, and we are not giving any guidance, so it will not be prudent on our part to say anything on that, but what we can tell you that for the whole year we are on plan.

Hardik Bora

If I can ask one more question is on the debt, you had indicated that you are planning to list your pharma business as consolidating them under one company and getting them listed in a foreign market, and that would facilitate you in repaying some of the debt. My question is that in case that does not go through, do we have a follow-up plan or what has triggered this particular strategy, just wanted to understand how have things changed that made you change your strategy or in case that does not go through, what is the fallback plan for you?

R. Sankaraiah

Our strategy is basically on a normal course of business to reduce the overall debt of the company. In order to expedite the reduction faster, the Board has taken the view of doing this. This is the fallback strategy actually to reduce the debt whereas the normal strategy is to improve the operational efficiency because of new product launches in Pharmaceutical business and also additional capacity utilization in Life Science Ingredients business, and to focus on the essential capital expenditure only and consolidate the cash generation and reduce the debt. That is the strategy.

Shyam S Bhartia

Earlier we said by 2015 we hope to reduce substantially our debt. In case strategy works then we should be able to reduce the debt much earlier than that.

Moderator Thank you. We have the next question from the line of Natasha Lulla from Birla Sun Life Insurance. Please go ahead.

Hitesh Zaveri Yeah Hi this is Hitesh Zaveri from Birla Sun Life. Could you give some outlook about the launch plans for the remainder of the year in the pharma business especially in the regulatory markets? And then it may be premature but if you could also talk about FY15, how should that plan be. That will be useful?

R. Sankaraiah As of today, based on the current understanding we are supposed to launch 11 products during this year in the Generic business. But given the FDA approval in the 1st quarter we are not in a position to comment anything much on that. But we believe based on the timeframe which is taken our estimation is about 10 to 11 products we should launch this year. And it is too pre-mature to talk about FY15 today.

Shyam S Bhartia This is in the regulated markets but we hope to have many other products in the rest of the world also.

R. Sankaraiah Rest of the world it is going on very nicely and European market is also going on fine.

Hitesh Zaveri In fact you have mentioned a number of countries where you have been launching your products. So if you could actually broadly for both parts of your businesses talk about plans for the rest of the world and where do you see it going in 2 years or so?

Shyam S Bhartia I think Hitesh you can talk separately on this, we do not have the figure in so much detail here. But I think Sankaraiah or we can talk separately on this.

Hitesh Zaveri What are the capital expenditure plans for FY14?

R. Sankaraiah Rs.250 crore for CAPEX and Rs.100 crore for product development.

Hitesh Zaveri And lastly you have mentioned with regard to outlook for the remainder of the year. The 1st month of the 2nd quarter is through, I am just trying to wonder whether your expectation is that the EBITDA should improve more than proportionately in the second half of the year. What kind of solid signs would you point to make that assertion that EBITDA should be doing much better in the second half of the year?

R. Sankaraiah Very simple logic. The new product margin just now what we discussed. In the first quarter the four products which we are supposed to launch has not happened. So the 2nd quarter, 3rd quarter, 4th quarter we expect that to happen, that is point #1 in case of pharmaceutical business. And also in Pharmaceutical business again in CMO because of our 3 weeks delay rather the shutdown of the plant the production was less so the sales was less, so that has already resumed in the 2nd quarter, so that should come back to the normal level, and we should report a better profitability in the CMO business. And in case of Life Sciences Ingredients we have increased the Niacinamide price in the month of May that was 6%, the full effect of

that going forward in the next 9 months it has to come. In case of Symtet, it is a negative EBITDA as of today because the utilization, we are producing the best quality material and supplying to the largest agro-chemical company in the world. They have approved our product, product is going on well, quality wise it is doing very well. And like Mr. Bhartia has also mentioned in the speech we expect at least about 30% capacity utilization during the year on an average basis, first quarter being less, then the subsequent quarter utilization of capacity should be higher because of which the profitability in the Symtet also should happen. So considering all these factors that gives us all the good comfort that 2nd quarter and onwards the numbers should be better and the 2nd half should be much better than 1st half.

Shyam S Bhartia I would further add that the demand for both Niacinamide and Symtet is very strong. And Symtet also is a co-product of 2-Chloropyridine which is also very strong. So demand at the same time remains very strong apart from the price increases what we are getting, the demand also for these products are very strong.

Hitesh Zaveri Do you expect any further price hikes in Niacinamide in the remainder of the year. I know that you had a price increase in this quarter.

R. Sankaraiah Hitesh, we cannot comment on that.

Shyam S Bhartia We had price increases in this quarter but the last price increase which we made in June will take at least 3, 4 months to get implemented. Because we have some orders in hand where we cannot use this price, so only when the new orders start coming in after 3 months it starts getting effective. So this last price increase can only be effective from I would say after 3 months time. So this itself first has to be effective and then depending upon about the market situation we will evaluate at that time.

Hitesh Zaveri If I avoid this transactional question with regard to what timing could be for the next price hike, could you actually share with us what is the medium term outlook because what has also happened is through your project implementation process this particular commodity did see severe price correction which over a period of time has corrected a bit but over the next 2 years, 3 years, how do you see in terms of where does the pricing of this commodity belong?

Shyam S Bhartia Pricing remains very strong and the demand also remains very strong. And now since during this year we will almost use about 100% of our capacity, so our capacity in the marketplace we utilize fully, so we are in a good situation to drive growth this year and next year.

Moderator Thank you. We have the next question from the line of Ravi Mehta from Deep Finance. Please go ahead.

Ravi Mehta Most of my questions are answered. Just one small clarification. The mark-to-market loss which we are seeing are exceptional so in case if hypothetically rupee reverses then we stand to get a gain probably in the next quarter?

Shyam S Bhartia Correct. The mark-to-mark losses at about Rs. 5 for every dollar we have got negative at Rs.59.39, so if it is lower than that we gain, if it is higher than that we lose more.

Ravi Mehta And the repayment of close to Rs. 1,000 crore or something what we are seeing to happen this year, that is the rupee or the FOREX which one if you can share it?

R. Sankaraiah That is a combination of both.

Ravi Mehta What kind of FOREX loans you would be reducing?

R. Sankaraiah This year there is nothing, there is no repayment at India level, only 90-95 crore repayment is there, next year repayment of \$95 million of FOREX loan at the India level and the rupee loan also is there.

Moderator We have next question from the line of Shri Hari from PCS Securities. Please go ahead.

Shri Hari Can you please quantify the anti-dumping duty imposed during the quarter? And you have mentioned about 28.5 crore take or pay contract, can you please throw some light on that? And thirdly, you have stock worth of around 256 crore if you could give some breakup of that?

R. Sankaraiah Antidumping duty we have already explained that there is no impact because after taking into account the price increase, net-net there is no impact. Minor possible impact which is there as of today. And again I want to reiterate a point, it is a provisional duty which has come in, and if you see the notes-to-account, we have given the notes also saying that it is a provisional duty, final duty, we believe that it may be less than the provisional duty which has been assessed as of today on 24.6%. If there is any reduction in the duty that may get reversed.

Shri Hari The price increment you have got that got nullified by that duty?

R. Sankaraiah Yes, price increase has nullified the duty impact or it has become a little positive.

Shyam S Bhartia What happened is just like we explained the price increase happened much before the duty was imposed because of the market situations strong demand of Pyridine in the world.

R. Sankaraiah The 2nd point is the take or pay contract, since the customer has not taken that material and if the material is not taken to the extent of the EBITDA reduction then they have to pay off that. So because of that that payment has been received.

Shyam S Bhartia If the customer does not take material or reduces the demand to the extent of that contract then they have to pay for the balance value.

Shri Hari Ok so have you actually received the amount?

R. Sankaraiah Yeah, we have already got the amount

Shyam S Bhartia We have already received the amount

Shri Hari I am talking about staff cost, could you give a breakup in terms of either verticals or geography?

R. Sankaraiah We cannot give those break ups. If you see Q4 and Q1 it is almost the same. Because we are in service business, we are in product business, these break ups we cannot share.

Shri Hari Finally, what is the development on the 483?

R. Sankaraiah We responded to that and the authorities have acted to our response and we are waiting for them to come and inspect and do the needful.

Shyam S Bhartia In the meantime, we have approached for the Montreal facility from Health Canada approval, and also from Spokane facility an UKMhra approval. We expected they have again re-approved the facility.

Shri Hari So you have approvals from other agency?

Shyam S Bhartia Yes, they keep on inspecting, Health Canada came to some inspection, so they have approved the facility again and similarly Spokane facility, UK Mhra visited and reapproved.

Moderator We have the next follow-up question from the line of Bhagwan Chaudhary from Indianivesh Securities. Please go ahead.

B Chaudhary Once again on this anti-dumping side, I just want one clarification that is when you are saying that the price erosion was taken care by this anti-dumping. So if I am comparing from Q4 to this Q1, I think in Q4 there was no anti-dumping and you sold up at higher prices whatever the price hike was there in China. So when I am comparing that to this quarter and suppose in this quarter there is anti-dumping duty of 25%, so do you not think that on quarter-on-quarter basis there is a loss of 25% on this?

Shyam S Bhartia We are comparing from Q1 last year to Q1 this year.

B Chaudhary On this basis this is the same?

Shyam S Bhartia If you compare during this one year, there has been a price increase of 25% in China, so the duty was imposed. If you compare Q1 from this Q1 there is already an increase of 25% in the price. So since on exports of the products from China that we will consume there is no duty, so we have a direct positive impact of 25%. And for domestic consumption only duty is applicable, as Mr. Sankaraiah said that on 60% quantity duty is applicable, 40% quantity duty is not applicable. So if you see the average price increase what we are saying is that the duty impact is minimal.

Shyam S. Bhartia Of course if there would have been no duty we would have got higher revenue, no doubt from this. Because the price had gone up not because

the duty has been imposed, price has gone up because of the market demand.

B Chaudhary When this anti-dumping duty came into existence, in June?

Shyam S Bhartia Yeah, in June.

B Chaudhary So, the real impact is likely to come in the next quarter?

Shyam S Bhartia That is true. There were some impacts in June but real impact will only come in next quarter.

B Chaudhary And one more thing that is on this press release side, I think you released it very late, so what prompt you to release this too late?

Shyam S Bhartia Duty was imposed in June but we are going through inspection by the MAFCOM authority i.e. Chinese authorities. They came to India and inspected our facility in the month of July and then they went to our China office around 25th July. So when we completed the complete inspection of our China office and the India office by 25th July then we issued the press release, because we are not supposed to issue the statement before the inspection is completed.

B Chaudhary But this is retrospectively applicable from June?

Shyam S Bhartia Yes, it is applicable from June as clearly said it is a preliminary duty.

B Chaudhary And earlier we were having some plan to repay the debt of Rs.1,000 crore in 2 years 2014, 2015?

Shyam S Bhartia Since the plan remains the same, as we have generally explained the plan, if we are able to get the company listed in the international stock exchange which we are very confident of, then the plan can be preponed also.

B Chaudhary So the maximum repayment will come in next year?

R. Sankaraiah Yeah, maximum repayment will happen next year.

B Chaudhary Because in an earlier question you stated that you do not have any plan to repay any loan in this year.

R. Sankaraiah The scheduled repayment is not there. Maximum repayment will come next year.

B Chaudhary One finally, if you can what is your outstanding hedge position and at what prices?

R. Sankaraiah \$259 million hedged at 58.69.

Moderator Participants that was the last question. I would now like to hand the floor back to Mr. Bhartia for closing comments. Over to you sir.

Shyam S. Bhartia I would like to thank you all for participating in this conference. If anybody else has further questions, myself or Mr. Sankaraiah will be happy to deal with them individually. Thank you so much.

Moderator Thank you sir. Participants, on behalf of Jubilant Life Sciences that concludes this conference call.