Jubilant Life Sciences Limited
Q2 & H1FY14 Post Results Conference Call Transcript
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Ravi Agrawal: Hello and a very good evening. I am Ravi Agrawal – Head of Investor Relations at Jubilant Life Sciences and I extend a warm welcome to all of you for our Q2 FY-'14 & H1 FY-'14 Earnings Conference Call. We have on the call today Mr. Shyam S. Bhartia – our Chairman and Managing Director; and Mr. Hari. S. Bhartia – our Co-Chairman and Managing Director. We also have Mr. R Sankaraiah – our Executive Director Finance.

We will commence with opening comments from Mr. Bhartia on the operating scenario of key businesses and the outlook for the H2 FY-'14. Mr. Sankaraiah will walk you through with the financial performance during the quarter and half year ended period. At the end of the management presentation we shall open the floor for questions and answers.

Before we proceed I would like to remind you that some of the statements made on the call today could be forward-looking in nature and a detailed disclaimer in this regard has been included in the 'Investor Presentation' that has been shared on our website. I now invite Mr. Bhartia first for his opening remarks.

Shyam S. Bhartia: Thank you, Ravi. Good evening to you all. Jubilant continues to report a robust performance.

For Q2 FY2014 our income from operations was at Rs. 1,436 crore, 17% higher on year-on-year basis. EBITDA in the same period stood at Rs. 276 crore, giving us margins of 19.2%. Revenues from International market remain an important contributor to these results, increasing 21% and giving 75% share to overall revenues. The regulated market contributed 60% of the overall revenues. The share of North America stood at 39% and that of Europe and Japan stood at 21%. For H1 2014, I am pleased to note that the income from operation stood at Rs. 2,793 crore, up 13% on a year-to-year basis. The corresponding EBITDA and the EBITDA margins stood at Rs. 518 crores and 18.5% respectively.

I will take you through the detailed discussions on the performance beginning with the Pharmaceuticals segment. In Q2 FY2014, it showed revenues of 691 crore, up 6% year-on-year and giving a share of 48% of the overall revenues. Similarly in H1 FY2014 we had revenues of Rs.1,343 crore, up 4% year-on-year. Revenue share was at 48% to the overall revenues.

The Generic business showed volume growth driven by existing products scaling up. API business witnessed strong volume growth in key products such as Sartans. There was a decline in Sartans prices due to increased competition post patent expiry. Prices have now stabilized and are expected to remain at current levels. Continuous cost reduction through process and yield improvement resulted in lower cost of production, higher output and contribute high margins in our API business.

We have 28 commercial API products available in the market. We launched Rizatriptan in USA. We also filed 5 products during the quarter across USA, Europe and Asia. At the end of September 2013, the Company's API product pipeline stood at 629 filings across regions considering 68 cumulative DMF in US and 30 cumulative CEPs in Europe.

Solid Dosage Formulations saw the normalized performance with continuing volume improvement. The lower growth in sales is mainly due to price reduction in the Methylprednisolone and postponement of 3 product launches in US to H2 FY-2014. We continue to maintain a leadership position in Methylprednisolone, Terazosin, Lamotrigine and Cyclobenzaprine. Methylprednisolone prices declined due to entry of a new player in Q1 'FY14; however, prices have now stabilized. We saw 8 launches mainly Escitalopram in Canada, Valsartan HCTZ in Europe, Amlodipine in Africa and 5 products in Asia Pacific. We expect to launch 5 molecules in US in H2 '14. There are 40 commercial products in the market with 16 in North America, 26 in Europe and 16 in rest of the world.

To give you an idea of the filings, we have filed Valsartan in Europe and saw 26 new filings in rest of the world across China, Columbia, Iraq, Malaysia, Panama, Peru and Philippines. We expect significant growth in rest of the world markets due to new approval in Russia, Ukraine, UAE, Canada and Philippines. At the end of Q2 2014 the company has total 676 filings for Formulations in various regions of the world comprising 58 ANDAs in US and 42 dossier filing in Europe.

Moving to Specialty Pharmaceuticals, we saw new contracts totaling US$25 million in Sterile Injectable and OCL business there by augmenting the pipeline of orders that we have. Sterile Injectables and OCL business was negatively affected in Q1 FY2014 due to turnaround in sterile plant impacted the production loss of 4 weeks which resulted in business shifting to H2 2014. However, none of the new business opportunity identified for FY2014 have been lost. Orders in hand for execution in H2 FY2014 is US$80 million, 30% higher than H1 FY2014. We have a strong order book of US$590 million, up 15% year-on-year. I am happy to share that in Montreal our facility has been recently re-audited and this was completed satisfactorily. We are looking forward to warning letter matter being fully resolved in the near term.

In Radiopharmaceuticals sales were flat in H1 FY2014 due to production delays in some of the products. This has now been resolved in September '13 and production is now normal. According to sales in H2 FY2014 are expected to be higher in H1 FY2014.

Regarding Ruby-fill, we are subsequently accelerating the pre-approval evaluation for Ruby-Fill that was included as part of the cGMP which is expected by the end of Q3 FY'14. The current PET Cardiology US market size is US$70 million which has a very good growth rate going forward. We have a superior product which has been filed under 505(b)(2) and expect sizable market share in US. We expect to launch Ruby-fill in US, Canada, Germany, Switzerland and India in FY2015.

The Life Science Ingredients segment has delivered revenues of Rs. 744 crores during Q2 FY2014, representing a growth of 30% year-on-year. Contribution to overall revenue stood at 52%. In H1 FY2014 the business is 24% to Rs. 1,451 crore from Rs. 1,172 crore last year.

During the quarter, the PPES business witnessed very good volume growth and also better price realization in Pyridine and derivatives. Increase in end product prices have started to have positive impact on the prices of Beta & 3CP. The Ministry of Commerce, Republic of China has imposed 24.6% anti-dumping duty on Pyridine imported from company for domestic sale in China, for which the final order is still awaited. And the impact of the same has been charged to financial results.

Demand and the pricing remains very robust for our product Symtet. We are witnessing best-in-class quality received first order from a European agro-major. Plant at SEZ is yet to stabilize for achieving sizable production levels which lead to lower revenue compared to plan. Capacity utilization is lower due to equipment issues in the final purification step which is expected to be resolved by Q4 FY2014. Due to lower capacity utilization we are not able to recover full cost. We expect capacity utilization for FY2014 is about 15% which will improve substantially in FY2015.

In Nutrition Ingredients, we expect full capacity utilization for Vitamin B3 by year-end. We saw better Vitamin B3 price realization during the quarter. In Animal Nutrition we launched Toxin Binder in India.

In Life Science Chemicals, Ethyl Acetate saw higher sales in export market, particularly in Europe and Africa and Middle East region. We continued tapping opportunity by adding two new geographies and currently export to more than 30 countries.

We have delivered continued growth momentum in revenue and EBITDA in the first half, and I would like to share the road map as we see it in the coming 6-months. We have a robust pipeline in Generic business as you all will know. We estimate growth to come from new launches and enter into new geographies.

Around a fortnight ago, we announced that we had received ANDA approval for Bupropion Hydrochloride. As per IMS the current market size of this product is US$518 million per annum. We are looking to launching this product in the present quarter itself. APIs similarly has an attractive launch window in the second half. Sterile Injectable business has registered several new contract wins and higher utilizations will translate into growth.

LSI segment is seeing volume momentum and that will continue. We are looking at higher utilization levels in Vitamins and our value-added products in PPES such as Symtet and 3CP. Pricing of key products is stabilizing and the benefits of that will start flowing into the performance.

The operational upsides which I have outlined just now will help pushing the balance sheet. We have targeted in mind to bring down the net debt levels to under 2.5 times of the EBITDA. The restructuring we are carrying out has helped to consolidate the Pharma business under our Singapore subsidiary and we are looking at options to raise money to bring down the level of indebtedness.

I would like to draw your attention towards fluctuations in foreign exchange rates resulting in adverse impact on the total cost of imports and pricing of products. For example, in last 6-months the US dollar-rupee exchange rate has fluctuated from a high of Rs.68.8 to the dollar to the low of Rs. 53.66 to the dollar. Exchange rates have now stabilized around Rs. 61 levels. Going forward the continued stability in the exchange rate will have a positive impact on the profits of the company.

I would like to invite Mr. Sankaraiah to continue the discussions with his thoughts on financial performance of the company. Thank you.

R. Sankaraiah: Thank you Mr. Bhartia, and thank you all for joining the call today. I will walk you through the financial highlights.

In Q2 FY2014 our income from operations stood at Rs.1,436 crore giving 17% growth year-on-year. This was supported by volume growth of 11% and exchange gain of 9% from the movement of the Rupee. The EBITDA in Q2 FY2014 stood at Rs. 276 crore giving us an EBITDA margin of 19.2%. The reported profit after tax stood at Rs. (81) crore after exceptional loss of Rs. 150 crore. The normalized profit after tax was Rs. 70 crore translating into normalized EPS of 4.37 per equity for Re. 1.

The Pharmaceuticals business showed income from operations of Rs. 691 crore from Rs. 650 crore in the same period last year. The contribution to overall revenue stood at 48%. The EBITDA from the segment stood at Rs. 175 crore giving EBITDA margin of 25.3%.

The Life Science Ingredients segment shown income from operations of Rs.744 crore, up 30% over the last year. The contribution to the overall revenue stood at 52%. The EBITDA in the segment was Rs.125 crore and the EBITDA margin was at 16.8%.

Coming to H1 FY2014 performance, income from operations was Rs.2,793 crore, up 13% year-on-year. Volume growth stood at 11%. The H1 FY2014 EBITDA was at Rs. 518 crores. The EBITDA margin in the period stood at 18.5%. The normalized profit after tax was Rs.128 crores and the corresponding normalized EPS stood at Rs.8.05 per equity share of Re.1 each.

In H1 FY2014, the Pharmaceuticals business had income from operation of Rs. 1,343 crore, up 4% year-on-year. The contribution to the overall revenue was at 48%. The EBITDA was at Rs.328 crore giving EBITDA margin of 24.1%. The Life Science Ingredients segment gave income from operation of Rs.1,451 crores, up 24% from Rs. 1,172 crore last year. The contribution to the overall revenue stood at 52%. The EBITDA in the segment was at Rs. 234 crore and the EBITDA margin was at 16.1%.

I will come to discussion on the balance sheet now. As on September 30, 2013 our net debt stood at Rs. 3,911 crore, out of this the long-term debt stood at Rs. 2,784 crore and the working capital requirement stood at Rs. 1,128 crore. If we adjust the foreign exchange differential then the net debt stood at Rs. 3,541 crore, higher by Rs. 142 crore till June 2013, mainly due to working capital increase. We are on a healthy growth trajectory and are firmly committed to meeting all our repayment schedules on time without fail.

Our blended rates of interest stood at 5.6% combining the rate of the foreign currency borrowing at 4% and the Rupee borrowing at 12%. The CAPEX for the year is projected at Rs. 250 crore and the product development expenditure of Rs. 95 crore. The actual spend in H1 was Rs. 121 crore – Rs. 80 crores for CAPEX and Rs. 41 crore for product development.

With the objective of consolidating the Pharmaceuticals business under one entity and raise money to reduce the overall debt of the company, the Board has resolved to transfer to its wholly-owned subsidiary in Singapore:

- The API and Dosage Form business of Jubilant Life Science India by way of a slump sale on a going concern basis and also
- Part of the shares held by the company directly in US and European subsidiaries to enable the Singapore subsidiary to hold 100% for the entire business of Pharmaceuticals.

The consideration for the above transfer is Rs.1,145 crore (Net of debt of Rs.583 crore). This is subject to the shareholders approval of the company and any other regulatory approvals. Jubilant Pharma Limited Singapore, the wholly-owned subsidiary of Jubilant Life Sciences India has received approval from FIPB for the above transfer. This will enable the company to consolidate its API, Solid Dosage Form, Radiopharmaceuticals, Allergenic Extracts, Sterile Injectables and Ointment and Cream and Liquid businesses under one entity with Singapore subsidiary.

We would like to highlight the promoter stake of the company has increased to 53.95% as of September 30th 2013 compared to the previous quarter of 49.04%.

We are looking at the sustained operational improvement to be driven by the product launches and geographic expansion in the Generic business and higher capacity utilization of the Nutrition Ingredients and Symtet and allied 3CP capacity. Our Sterile Injectables and OCLs are showing higher utilization level in the light of orders in hand, and that will contribute to the performance as well. We expect an early resolution on the Montreal facility warning letter. We continue to work towards proposed corporate actions to raise money to reduce the overall debt of the company and generate the operating cash flow to do the same. With those comments, I would request the moderator to open the lines for Q&A please.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from Subhankar Ojha of SKS Capital & Research. Please go ahead.

Subhankar Ojha: Thanks for taking my question. Wanted to understand this FOREX loss in a little detail. So how much of our total sales is in FOREX, as in international and what is the impact of this rupee, I mean are we not getting any benefit of rupee depreciation because a large part of our sales is in dollars?

R. Sankaraiah: Our international sales on an overall basis is about 75% of the total sales. As far as the domestic sale is concerned so long as it has a domestic parity and we regain the FOREX benefit there. And as far as all the foreign subsidiaries which are there outside India on account of translation into Indian rupees on consolidation we get the FOREX benefit on the closing rate.

Subhankar Ojha: And in the presentation actually I saw that you talked about maintaining the guidance for entire financial year. I may have missed out your earlier press release. So can you reiterate what was the guidance of top line growth and margin for financial year ’14?

R. Sankaraiah: Specifically we have not given any guidance for financial year.

Subhankar Ojha: But when you say that you expect a better H2, how should I rate that?

R. Sankaraiah: The expected H2 results are better than what we have already delivered so far.

Subhankar Ojha: You talked about transferring one of your businesses to your Singapore company. How is it going to help you to reduce your overall debt level?

R. Sankaraiah: If you see our earlier press release what we have mentioned is we wanted to consolidate our entire Pharmaceuticals business under one entity. Now it is partly in Jubilant Life Sciences India like API and Dosage Forms business which is in Jubilant Life Science India whereas the rest of the businesses like the Sterile Injectable, OCL business, Radiopharmaceuticals, Allergenic Extracts are all under the holding company at Singapore. So what we propose to do is moving the API and Dosage Forms business from India to its wholly-owned subsidiary in Singapore, thereby the entire Pharmaceuticals business which as of first half is 48% of the sales, which will come under one entity. So what we propose to do is propose to raise money in that entity and acquire this API and Dosage Forms business from India thereby bring in the dollars for that to India, because we have mentioned in the speech also that the valuation of the business for the API and Dosage Forms along with some shareholding is about Rs.1,145 crore that is the equity infusion what Singapore company will infuse in India apart from assuming the debt of another Rs. 583 crore. So basically the dollar loans will move out from India and go to Singapore. That will enable the dollar balance sheet intact on account of fluctuation what we are providing as of today the mark-to-market, the foreign currency translation, all those things will get reduced substantially. That is one objective. The other objective is that once we consolidate the entire Pharmaceuticals business then we wanted to raise an equity in that business by diluting so that we can infuse additional equity into the overall system to reduce the consolidated debt of the company.

Subhankar Ojha: That is a good step. And what is the timeframe that you have with respect to this Singapore listing?

R. Sankaraiah: One of the main regulatory approvals which is required is FIPB approval because it is a Brownfield transfer of business of pharmaceutical to a wholly-owned subsidiary outside India, we need an FIPB approval which Singapore Company has already got it, that is the main approval which is required, otherwise we have to raise money and complete the transaction. For that the main milestone now is the shareholders' approval.

Subhankar Ojha: One last question if I may. So you talked about bringing down your net debt-to-EBITDA. What is the current ratio and how do you plan to do that?

R. Sankaraiah: As of today it is about 3.5 times of EBITDA. One is through an operating cash flow that is why if you see we have substantially reduced our capital expenditure. Earlier, we were planning more than Rs. 300 crore which we have reduced the capital expenditure to Rs. 250 crore, and as of 1st half year we have incurred only Rs.80 crore. We are having a very strict control on capital expenditure investment.

Subhankar Ojha: So your H1 CAPEX is only Rs. 80 crore?

R. Sankaraiah: That is right. And apart from that the product development expenditure of another Rs.41 crore. So we have a very strict control on the capital expenditure to generate cash and reduce the debt level that is one objective. The other objective is raise equity in the Singapore Company and bring that money into India to reduce the debt of the Indian company.

Moderator: Thank you. Our next question is from Saion Mukherjee of Nomura. Please go ahead.

Saion Mukherjee: Thank you for taking my question. Sir one thing on CAPEX you mentioned Rs.80 crore as the CAPEX for H1, could you expect this to increase, you are still sticking to Rs.250 crore for the full year?

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R. Sankaraiah: No, Rs.250 crore we have mentioned. We are trying to do our level best to keep the CAPEX as minimum as possible.

Saion Mukherjee: Is it possible for you to share the kind of cash flows you have generated in the first half of this fiscal year that is after this Rs.120-odd-crore of CAPEX, you mentioned that working capital also increased. So can you tell us like post working capital and CAPEX how much would have been the cash generation in this half?

R. Sankaraiah: Actually this first half because of increase in working capital because of certain specific reasons there was an increase in working capital in Pharmaceuticals business, so the cash generation after meeting the CAPEX was not there, but going forward we are going to have a tighter control on the working capital and also tighter control on CAPEX which we expect to generate cash out of operating income and use that cash to reduce the debt.

Saion Mukherjee: And sir what is the nature of this working capital increase and what is the reason behind this?

R. Sankaraiah: This is because there are a few products in API and Dosage Forms business where we are supposed to launch, like Mr. Bhartia mentioned in the speech, we are supposed to launch 4 products, out of that we launched only 1 product in H1. There was some inventory pile up on account of that, and also there was some receivable pile up which was there. As far as the receivables are concerned, it is already getting corrected. As far as the inventory is concerned, once we get the product launched in H2, that inventory also we expect to liquidate, thereby we will generate the cash out of that.

Saion Mukherjee: And Sir, finally one question on your H2 performance. Basically if I see the last several quarters, we have seen pricing environment as negative, pricing has been a drag on growth, right? Do you think that could change and if you can share like broadly the pricing trends across key business segments, what percentage increase you are seeing?

R. Sankaraiah: We have mentioned as far as the main product which is Methylprednisolone, last quarter also we did mention this, there was a price reduction which has happened about 20% compared to the previous year, which we have shared in the beginning itself, there is a price pressure which is expected in Methylprednisolone, that has happened because there is a new entrant in the market in Q1, thereby the price has come down by 20%. Apart from that in Sartans, in API the price was under pressure because of the product which has gone off patent, because of which there was a new entrant which were there in that business. The third is, in Atorvastatin there was a price reduction in Dosage Forms business, because there was a price reduction in API. So that was a consequence effect, which has happened in the Dosage Forms business because of the API reduction, so because of that the sale value in Dosage Forms also has come down.

Shyam S. Bhartia: Going forward we do not expect further reduction in the Methylprednisolone and also in Sartans. But in Sartans, we are continuously reducing cost and we have done a substantial reduction in our cost and improvement in capacity by which we are able to maintain higher margins in our Sartans business, and similarly in case of Atorvastatin the prices is not going to go further down, the prices are going to be stable from here on. Similarly in vitamin B3, the prices were increased in Q3 as we mentioned last quarter, and the prices increase is still continuing, and we hope to have better price realization in H2. In Pyridine business also again as we have said that prices are strong and there is a strong demand for the product and the prices have also gone up, and we are still going to enjoy.

R. Sankaraiah: If you see in Life Science Ingredients business, we have shown growth of 30%; about 20% growth has come on account of volume and on account of price increase also we got about 10%. That is mainly because the Pyridine business is doing fine, and also the Nutrition Ingredients business, the price escalation which we have taken that is continuing, and the Nutrition Ingredients business, the capacity utilization is going very well, and we expect to have 100% capacity utilization by year-end.

Saion Mukherjee: So, overall you expect second half EBITDA margin to be better than what you reported so far?

Shyam S. Bhartia: Sales and EBITDA margin both, and we do not expect further price drop in any of our products which we have mentioned.

R. Sankaraiah: There are three reasons; one is, as far as the API and Dosage Form is concerned, the new launches which we expect, which has been moved from H1 to H2, that is expected to get launched, and also the rest of the world, where we are entering into the Dosage Form business is yielding very good results, and the capacity utilization in Life Science Ingredients mainly in Pyridine and also in Nutrition Ingredients, and Acetyl, all three businesses, the capacity utilization is going up very well, and the Symtet, the capacity as of today is utilized about 10-12%, overall the year we expect about 15% for this year compared to our earlier projection of about 20% because still the plant is yet to stabilize to our satisfaction. But next year we expect Symtet also to get stabilized and have higher capacity utilization. As far as the pricing is concerned in Symtet, the pricing has improved very well, and the quality of the product is also very good, the only thing is that stability of the plant which we have to take care which is being addressed very vigorously.

Saion Mukherjee: Just one final question on this amortization of FOREX loss of Rs.39 crore, what is the duration of the tenure of this loan over which you will be amortizing this?

R. Sankaraiah: It is a 5-year loan, the balance we have another 3 years.

Moderator: Our next question is from Ananda Padmanabhan of Canara Robeco. Please go ahead.

Ananda Padmanabhan: Could you tell me what would be your net debt at a consol level after you have completed this thing, or do you have any specific target in mind, post completion of this transfer and listing of Pharmaceuticals business?

R. Sankaraiah: As of today, the total consolidated in dollar terms, if you see our presentation also, we have given, in dollar terms we have about $582 million, and in rupee terms we have about Rs.761 crore. The total consolidated debt of the company is about $702 million. We propose to raise about $250-300 million and use that entire money to reduce the debt of the company on a consolidated basis. Like we mentioned, Rs.1,145 crore, the transfer of businesses, the Singapore company will pay to India, that is approximately equal to about $190 million, so that will come into India and thereby Indian debt as of today, the dollar Indian debt, we will be in a position to reduce it. So about $200 million approximately, that will shift the dollar debt from India to Singapore thereby reducing the FOREX fluctuation of the consolidated business. And interest rate also will go down, because rupee rate of interest at present we are paying 12%, which will also be partly replaced.

Ananda Padmanabhan: As per the transfer, it is the rupee rate that would mainly be reducing, you mean to say?

R. Sankaraiah: Partly dollar, partly rupee but it will be a mix of both. But both the cost of debt, and also the overall debt level, both will come down.

Anandha Padmanabhan: Post this transition would the ratio of rupee debt and dollar debt remain the same, or would the ratio of rupee debt to total debt go up?

R. Sankaraiah: We are doing this FOREX fluctuation accounting based on the accounting standard requirement. But if you ask a simple question, is it a real loss for the company, the answer is simple "no". The reason for that is, we have more than $500 million exports. So if we do not take the dollar debt, then we are exposed to more of a rupee exposure, because this company's international business is 75% including the exports. So that way if you see, typically, the balance sheet of the company is a dollar balance sheet. But because of the accounting standard requirements, since all the dollar debt is translated into rupee we put this exchange fluctuations, foreign currency translation account or mark-to-market. But otherwise, the Rupee is 45 or 52 or 68, we do not have any major issue in receiving the dollars and paying off the dollar.

Ananda Padmanabhan: Basically post this transfer the total exceptional items, which has been causing quite a bit of fluctuation in the final report and net profit that would reduce to a large extent?

R. Sankaraiah: Absolutely right.

Moderator: The next question is from Praful Bohra of Nirmal Bang. Please go ahead.

Praful Bohra: On the dilution which will happen in Singapore once the listing happens, would there be any sort of dilution in the parent, just for my understanding?

R. Sankaraiah: No, there will not be any dilution at the parent level, as of today the Singapore Company is held 100% by the parent company. The dilution will happen on account of raising the money at Singapore level, which is a 100% subsidiary will become as diluted subsidiary.

Praful Bohra: So, the amount which is paid, so right now the entire Pharmaceuticals and API business, is it in Singapore? That part of the work is being done, right?

R. Sankaraiah: Once we raise the money, we wanted to complete the transaction after the shareholder approval.

Shyam S. Bhartia: Actually 70% is already there in Singapore, 30% of the API and Dosage Forms business which is there in India is being transferred –

Praful Bohra: What stages are we in with regard to this listing, are we already filed for the DRHP, what stage are we in?

R. Sankaraiah: First, our objective is to raise a loan, complete the transaction, after that raise equity that is the objective on which we are working.

Praful Bohra: And the entire procedure will take how much time?

R. Sankaraiah: Three months for debt and maybe the subsequent raising of equity, maybe another three to four months.

Praful Bohra: So just three months debt would be in the Singapore entity, right?

R. Sankaraiah: Correct.

Praful Bohra: And have we already tied up or have we already finalized the bankers?

R. Sankaraiah: No, we are working with the bankers to raise this debt.

Praful Bohra: Just to reconfirm, your Methylprednisolone prices have fallen by 20% YOY, right till date?

R. Sankaraiah: That is right.

Praful Bohra: And you do not expect any more competition to enter in here?

R. Sankaraiah: That is right.

Praful Bohra: This remaining debt that you are transferring from India to Singapore, so just from an accounting perspective, this would not be a part of the P&L anymore and it would directly flow to the balance sheet, is it right?

R. Sankaraiah: That is correct.

Moderator: Thank you. Our next question is from Krishna Kiran of ICICI Direct. Please go ahead.

Krishna Kiran: Good evening sir, thank you for taking my questions. One question regarding our Pyridine business. Can you just explain it for Pyridine, China has imposed antidumping duty?

R. Sankaraiah: Antidumping duty which has been imposed 24.6% on Pyridine imports from India is applicable only for material which has been imported by China for domestic consumption. In our case it is about 60-70% is domestic consumption, whereas if the material is used for re-export, that is not applicable. Net-net we have an effect on only the 60-70% of the material which has been exported to China. The Ministry of Commerce, which has imposed this antidumping duty 24.6%, which was effective from the last quarter, for which this P&L account what we have produced as of today is fully accounting the effect of antidumping.

Krishna Kiran: Sir, what I was trying to understand that Pyridine, whatever sales which we clock during this quarter, which is net impact of 24.6% and increase in the prices?

R. Sankaraiah: The increase in prices have compensated more than the antidumping duty as of today in our P&L.

Krishna Kiran: Secondly, how about Ruby-Fill we are expecting around FY15 launch, so which part of this year would be this launch in US as well as in India?

R. Sankaraiah: We are very confident we should be in a position to launch in FY15, which part it is very difficult, it depends upon the clearance by the FDA and all those things, which we cannot comment on. But, the progress is going very well, and the market size of that product is more in US, about $70 million plus Canada, it is not only in the US, we expect the product to get launched in Canada, Switzerland, and Germany in FY15. We have filed the registration of the product already in those locations also, which we expect to launch.

Krishna Kiran: There was an article few days back in some of the magazines stating that we are going to expand our Formulations capacity both in India and abroad. But during this call you said we will be spending only Rs. 250 crore, can you just clarify more on this?

R. Sankaraiah: That Rs. 250 crore including expansion of capacity of packaging line in US and also the Formulations capacity which we already expanded in the first half in our Rourkee facility.

Krishna Kiran: This Rs. 250 crore which is net of all the expansions?

R. Sankaraiah: Including all the expansions, yes.

Krishna Kiran: And coming back to your Pharma segment business, margins were typically it is in the range of 24-25%, and typically we used to clock it more than 28-29%, So, now the price fall in one of our key products is stabilized, and going ahead we are going to launch a number of products across the globe. So what kind of margin improvement we can see in the Pharma business?

R. Sankaraiah: We should expect in the range of 25-27% that range in the Pharmaceuticals business.

Krishna Kiran: And overall business, any guidance sir?

R. Sankaraiah: Overall business, we have not given any guidance.

Shyam S. Bhartia But as we have said H2 is going to be much better than H1.

Krishna Kiran: How much part of your raw material cost is FOREX and import?

Shyam S. Bhartia: That is a good question. We do not have the figures available with us now.

R. Sankaraiah: If you see the raw material consumption it is about 40% to the sales. Out of that the import vs domestic, mainly it will vary based on whether we are buying alcohol domestically or importing from Brazil. After computing the net import price vs domestic price, whichever is better, we go by that. It is not exactly import vs the domestic. So, net-net, whichever is more cost advantageous to us for import of alcohol, or domestic purchase, we do that. So, that is why we are not able to exactly quantify. For example, last year if you take, it is about 15% is import, the balance is domestic, it is like that.

Krishna Kiran: I just want to check whether I heard something right or wrong, we are planning to raise USD 250 - 300 million through diluting stake in Pharma segment, is it right?

R. Sankaraiah: In one of the subsidiaries, which is in Singapore.

Moderator: Thank you. The next question is from Paras Adenwala of Capital Portfolio Advisors. Please go ahead.

Paras Adenwala: I just had a very broad question largely on strategy. The way we really understand Life Sciences is the fact that it is inherently a very profitable business, be it the Pharmaceuticals or be it the Life Sciences, as you mentioned it in the real sense. But looking at the way Jubilant has kind of done in the last 4-5 years, I think there has been a gradual decline. So, I just wanted to know from the strategy point of view, what is it that led to this decline, and what is it that will really change the fortunes of the company?

R. Sankaraiah: I think one of the reasons why the profitability of the business has come down is because of two investments what we made; one in Niacinamide, the raw material for that, when we manufacture Pyridine, two-thirds is Pyridine, one-third is the Beta Picoline, that Beta Picoline earlier we were selling in the market and realizing the cash, but as a strategic investment, we have expanded the capacity of Vitamin B3 by 10,000 tonnes. When our product went into the market, there was a huge price pressure which was there. Last year we made negative EBITDA in that business of about 20%, which on account of the strategic investment, we strategically decided to invest because we have the raw material, we wanted to do the forward integration, we felt that we are the right people to continue in that business and expand it, so that is why we have done that, but this year that same business which was (20%) EBITDA which is expected to give at least 7-10% EBITDA because we have already taken a price increase two times last year, in Q4 once, and this year in Q1 once. So that has turned business from negative EBITDA to positive EBITDA. When the negative EBITDA was there, the Pyridine business earlier which was reporting a very good profitability has come down because of our strategic initiative, one.

The next is, the initiative what we have taken for Symtet**.** When we expanded the capacity of Pyridine, we wanted to use the additional capacity of about 8,000 tonnes, which we expanded for our Symtet business, because of non-stabilization of the Symtet plant, it has got delayed for more than about one year and three months. Because of that as of today we are not even covering the total cost of Symtet**.** So we have negative EBITDA there as of today. Since it is a strategic investment once the plant is stabilized, the price increase has already taken place in Symtet, and we expect good turnaround once the production levels are at a sizable level. So, both the strategic investments, what we have taken in last three years, these two investments what we have taken, which is, first one, Niacinamide, which has started turning around very well, and which is expected to add to the EBITDA and the Symtet, which is expected next year onwards to add to the EBITDA thereby will go back to the normal level of our EBITDA margins of more than 20% in our Life Sciences Ingredients business.

Shyam S. Bhartia: The other part is, if you talked about Life Sciences margins, in the last, specially, if you look at it 10 years when we have built the Pharma business, but in the last 5 years, we have gone from Ingredient to Active Ingredients, and from Active Ingredients to Dosage Forms. So we have continuously value added and increased margin if you really look at it in the Pharma side of the business. So long-term, we have invested in a lot of new products, which are now coming for approval, both in the Specialty side and in the Solid Dosage side. This will strategically give us much higher returns in the future and increase our margins. So, if you talk about strategy we have gone into value-added products, gone into sizes which are global, which is giving us global status also as #1 or #2, so I think that is where if you look at Jubilant Life Sciences as a strategy is right now.

Paras Adenwala: In terms of your size of investments in the two areas that you mentioned, the percentage to gross block, what would be the percentage like?

R. Sankaraiah: It is about 11-12%.

Paras Adenwala: This 11-12% investment in gross block led to all this decline in the business?

R. Sankaraiah: Yes, because if you see the total gross block, it is about Rs. 5,800 crore, so out of that there is a huge goodwill which is there because of the acquisition. So if you remove the goodwill it is about Rs. 3,800 crore is the net block which is there as of today, which we are carrying.

Paras Adenwala: So of the net of goodwill, out of the Rs.3,800 crore, you have about Rs. 500 crore which was dedicated for these two investments, right?

Shyam S. Bhartia: Yes.

Paras Adenwala: So, with these two businesses kind of turning around, do you think you can go back to your return on capital employed that you enjoyed in 2008 of about 18-19%?

R. Sankaraiah: Definitely.

Paras Adenwala: And in what period of time?

R. Sankaraiah: 2015 end, we should be there. The whole thing is that Symtet, which needs to be stabilized, after that I think we are there. 2015, actually we mentioned, that will be a sizable capacity utilization. As of today if you see, it is in the range of about 12%, which is expected to go to may be another 2-3% in two years' time, we should be there, the old level of 18-19%. And also one more, when we talk about all this ROCE numbers and all those things, it is definitely not guidance, it is just an indicative. Rather the company wishes to get to that level because we have made the investment, we have waited enough time for harvesting that investment. So that is the objective on which we have invested, we wanted to be there.

Paras Adenwala: What percentage of your business is commodity kind of business where you know there is too much of price fluctuation and there is low predictability?

R. Sankaraiah: Life Sciences Chemicals business, which is about Rs.1,100-1,200 crore business is commodity, rest of the things, I do not think it is commodity, because it has a customized requirement or it is Pharmaceuticals, or it is Nutrition Ingredient.

Shyam S. Bhartia: But in Life Sciences Chemicals also we are leading players – top 10 producers of both Methyl Acetic and Acetic Anhydride in the world, and exporting to more than 35 countries. So we have a very excellent position in diverse market place.

R. Sankaraiah: And you will know that even Acetic Anhydride, which is used for paracetamol and aspirin manufacturing predominantly, and Ethyl Acetate which is used by the pharmaceuticals businesses as a solvent. By the nature of the business it is commodity, but it is more of a specialized utilization where we are in.

Paras Adenwala: With some amount of certainty you can say that since at least 70% of your business is predictable, you should be able to kind of see yourself into the future for the next two to three years, right?

R. Sankaraiah: Yes.

Paras Adenwala: You mentioned about this product called Methylprednisolone. What percentage of your business is that product?

Shyam S. Bhartia: Product wise business information we do not give. Each product wise, how much it calls for total sales, we try to avoid.

R. Sankaraiah: It is a very good profitability, we had a price erosion, but it has already stabilized. So, we do not see any more price erosion there.

Paras Adenwala: But I am sure, it must be meaningful, because that is certainly hampering.

R. Sankaraiah: It is not the main product; it is one of the main products.

Paras Adenwala: Finally, I am trying to understand the rationale behind the Singapore listing and transfer of business. So what you are actually transferring is just 30% of your business in India to your Singapore entity, and you are going to be listing it over there, and you are planning to raise about $250 to 300 million. So what is the value that you are ascribing to the Pharmaceuticals business?

R. Sankaraiah: No, we will not be in a position to comment on that at all.

Shyam S. Bhartia: We do not like to make any specific comment on that.

Paras Adenwala: Let me just kind of ask you, since I am sure you would have done your research in terms of the valuation of various pharmaceutical companies in Singapore Exchange, so what is the normal market capital sales kinds of multiples and…?

R. Sankaraiah: We do not want to talk on that at all.

Shyam S. Bhartia: We cannot talk on that.

Paras Adenwala: Looking at your debt levels and all, do you think you can very comfortably raise $250-300 million?

R. Sankaraiah: We are very comfortable, yes.

Paras Adenwala: Before you do that, you are likely to increase your debt, you are going for some more debt right now, which is going to be short term in nature?

R. Sankaraiah: We are increasing the debt in the Singapore subsidiary and bringing that money to India to reduce the Indian foreign currency debt.

Paras Adenwala: Oh, consolidated it is not really increasing?

R. Sankaraiah: It will increase at all.

Paras Adenwala: I sincerely hope that you are successful in your efforts and you get the valuation that you really deserve.

Moderator: Thank you, ladies and gentlemen, that was our last question. I now hand the floor back to Mr. Bhartia for closing comments.

Shyam S. Bhartia: Thank you so much and I would like to thank you all for joining at this conference and wish you all a very happy Diwali. Thank you.