Jubilant Life Sciences Limited

Q2 & H1 FY17 Concall Opening Remarks

Ravi Agrawal: Thank you and Good Evening to Everyone. I am Ravi Agrawal, Head of Investor Relations at Jubilant Life Sciences. I thank you for being with us today on our Q2 & H1 FY17 Earnings Conference Call. On the call today we have Mr. Shyam S. Bhartia – Chairman, Mr. Hari S. Bhartia – Co-Chairman & Managing Director and Mr. R. Sankaraiah – Executive Director, Finance.

We will begin with opening comments from Mr. Bhartia on the Business Performance and Outlook; thereafter Mr. Sankaraiah will share some key thoughts on the financial aspects of our performance. There will be an opportunity at the end of the opening remarks to get your queries addressed by the management including Mr. G.P. Singh – CEO of our Pharma Business and Mr. Pramod Yadav and Mr. Rajesh Srivastava – Co-CEOs of our LSI Businesses.

Before we commence the call today, 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 presentation that has been shared on our website.

I now invite Mr. Bhartia to share his remarks.

Shyam S. Bhartia:

Thank you, Ravi and a very good evening to everyone. Thank you for joining us on Jubilant Life Sciences' Q2 and H1FY17 conference call.

Q2FY17 has been a very eventful quarter for the company.

The company achieved two significant milestones during the quarter. Firstly, we received the long–awaited approval for Rubyfill by the USFDA. We are very excited about this product, which is expected to give a further boost to the revenues and profitability of the company along with the robust existing product base going forward. Secondly, Jubilant Pharma, a Singapore based Wholly owned subsidiary of Jubilant Lifesciences, successfully placed US$300m high yield bonds in the market. The issue saw active participation of high quality marquee investors and the proceeds are being utilized to repay existing high-cost debt of the company, which will lead to an estimated about Rs. 55 Crore annualized interest saving for the company.

Let me give you brief highlights of financials:

Revenue for the quarter stood at Rs. 1,419 Crore, declining 5% YoY. While our Pharmaceuticals segment revenues grew 8% YoY, the Life Science Ingredients segment revenues declined 19% YoY, mainly due to lower crude prices which had a continued impact on our finished product prices during the quarter.

EBITDA for the quarter stood at Rs. 345 crore, up 5% YoY, and EBITDA margins increased to 24.3% from 22% in Q2'16. Net Profit has grown a healthy 15% YoY to Rs. 145 crore.

For H1FY17, total revenue stood at Rs. 2,873 crore, declining 3% YoY. The Pharmaceuticals segment revenues stood at Rs. 1,524 Crore, growing 8% YoY. The Life Science Ingredients segment revenues stood at Rs. 1,262 Crore.

For H1FY17, EBITDA has grown 9% YoY to Rs. 718 crore with corresponding margins of 25%, up from 22.1% in H1 FY 16. Net Profits during this period has grown 19% YoY to Rs. 306 crore.

Mr. Sankaraiah will share detailed financial commentary with you following my opening comments. I will focus my attention on our segmental performance;

Pharmaceuticals Segment

Q2'17 Pharmaceuticals segment revenues grew 8% YoY to Rs 769 crore, led by growth in our Generics business, specially our API and ex-US international dosage business. EBITDA stood at Rs. 256 Crore, improving by 14% YoY with EBITDA margins at 33.3%, up from 31.6% in Q2'16. The Pharma segment contributed 54% and 72% to the overall sales and EBITDA respectively of the company.

Our Q2 FY 17 geographical split within Pharmaceuticals segment is as follows:

- Revenues from North America were at Rs. 516 Crore, contributing 67% to the revenues. While we are witnessing strong volume growth in our Formulations business, prices were lower due to continued impact of supply chain consolidation in the US.
- Revenues from Europe and Japan were at Rs. 106 Crore, higher by 10% YoY and contributing 14% to the revenues
- Revenues from Rest of the World stood at Rs. 85 Crore, up 79% YoY and contributing 11% to the revenues
- India Revenues grow 82% YoY to Rs. 63 Crore, contributing 8% to the revenues

I will share some details on individual businesses.

Generics revenues grew 25% YoY, led by strong growth in APIs and ROW business in Solid Dosage Formulations. I am pleased to report a healthy growth of 24% YoY in our Formulations business during the quarter. This has been led by volume growth in the US and ROW business. As mentioned in earlier calls, the growth in our ROW business is due to our strategy of focusing on a few key ROW markets to geographically diversify our business and we remain confident in maintaining the growth momentum in these markets.

Our Specialty Pharmaceuticals (Sterile Products) revenues declined 5% YoY and contributed 49% to total Pharmaceuticals segment sales. This decline is mainly due to the maintenance shutdown of CMO facility during the quarter. Fundamentals in this business remain robust and we are confident that we will deliver better performance in the coming quarters. USFDA inspection was also successfully completed for our CMO Spokane facility without any major observations. We now have an order book of US$ 558 mn in our CMO operations, which augurs well for the growth in the business.

I would like to take some time to highlight some key aspects of our R&D to you. As mentioned previously, our Radiopharmaceuticals business received the much anticipated USFDA approval for Rubyfill, paving the way for a commercial launch in Q3 FY17. In addition, we have filed for one differentiated product through 505 b (2) filing in this business during the quarter. We have also filed 1 ANDA and received 2 ANDA approvals in Oral Solids in US market. We plan to file about 10 ANDAs and also some niche and differentiated filings including 505 (b)(2) filings in our Radiopharma business in FY17.

As a company, our R&D philosophy has been to build a strong pipeline in differentiated products, where we can leverage our skill sets of costs and differentiated technology to file difficult to make products. Our approval record this year has been truly unique in this regard. Of the five approvals received by the company in H1FY2017, two have been for injectibles, two for oral solids and one for a 505 (b) (2) filing. We will continue to build a robust pipeline with differentiated products, where we can benefit from our cost efficiencies and our competencies in technology for complex products.

Similar to our last interaction with you, we have detailed our pipeline, especially in our Radiopharma business in our press release. We continue to be committed to our exciting portfolio of 9 products under various stages of development for the US market. We re-iterate that we expect to have at least one product approval every year for the next three years in this business.

Coming onto our Life Science Ingredients segment, Q2’17 revenues stood at Rs. 613 crore, contributing 43% to the overall revenues. Lower crude prices continue to have an impact on our finished prices which can be seen in the 19% decrease in sales. We are focused on enhancing margins in the given environment and also generation of operating cash in the business. EBITDA margins stood at 16.7% during Q2FY17, up from 14.5% in Q2’16. International markets contributed 39% to Life Science Ingredients segment revenues. Revenues from our key developed markets stood at Rs. 174 crore, resulting in 28% share to segment revenues. India business contribution stood at Rs. 371 crore. We commissioned our Alpha Gamma plant during the quarter and launched Alpha Picoline and Gamma Picoline. Life Science Chemicals won a contract worth US$ 10 Million from an important European customer during the quarter.

Proceeding with our Drug Discovery Solutions segment, revenues for the segment stood at Rs. 38 crore, growing 39% YoY and contributing 3% to Total Revenues. This growth has been led by expansion of FTEs and new integrated contracts in the segment. We renewed business contracts with existing clients and several new clients were on-boarded across all regions. We also continue to evaluate further licensing opportunities of some of our existing pipeline in our Proprietary Drug Discovery.

<u>Outlook</u>

Before I close commentary on the performance I wish to underline the confidence that we have in the operating model of the Company and the engines of growth in our Pharma and Drug discovery segments.

In H2 FY2017, we are confident of improving our performance, led by product launches in key business segments. In Pharmaceuticals segment, profitability is expected to be higher on account of new product launches in Generics and Specialty products, growth in ROW business and ramp-up of operations and new customer acquisitions in CMO of Sterile Injectables. Our focus will be on generating operating cash in Life Science Ingredients by retrofitting plants for better capacity utilization with new product introductions. In Drug Discovery Solutions, the focus will be on revenue growth aided by strong pipeline and onboarding of new customers.

Our endeavors to reduce debt through operating cash flow will continue, led by improving key financial ratios. We have achieved Net Debt reduction of Rs. 396 Crore in H1'17 including Rs 149 crore in Q2FY17.

I would now invite Mr. Sankaraiah to take over and give us his perspectives on the financial performance delivered during Q2 & H1 FY2017.

R. Sankaraiah: Thank you Mr. Bhartia. I thank everyone for taking out time and joining us on today's earnings conference call. Let me give you a brief of the financial highlights for Q2 & H1 FY2017.

During Q2FY17, Income from operations stood at Rs. 1,419 crore. The performance was driven by the pharmaceuticals segment, with revenues at Rs. 769 crore, up 8% YoY and contributing 54% to the overall revenues. This growth has been led by our Generics business which has grown 25% YoY during the quarter. Our Specialty Pharmaceuticals (Sterile Products) revenues were 5% YoY lower during the quarter and contributed 49% to the total pharma sales, mainly due to a plant maintenance shutdown in our CMO facility.

LSI revenue stood at Rs. 613 Crore, contributing 43% to the total revenue. Drug Discovery Solutions revenues stood at Rs. 38 Crore, growing 39% YoY and contributing 3% to the revenues. International revenues stood at Rs. 984 Crore, contributing 69% to the revenues.

In H1FY17 Income from operations stood at Rs. 2,873 Crore. Pharmaceuticals revenues were at Rs. 1,524 Crore, up 8% and contributing 53% to the revenues while Life Science Ingredients revenues were at Rs. 1,262 Crore, contributing 44% to the revenues. Drug Discovery Solutions revenues stood at Rs. 87 Crore, up 69% YoY and contributing 3% to the revenues. In H1 FY17 International revenues was at Rs. 2,034 Crore, contributing 71% to total sales.

EBITDA for Q2 FY17 stood at Rs. 345 crore, translating to EBITDA margins of 24.3% as against 22% in Q2FY16. The growth was on account of our Pharmaceuticals segment, which reported EBITDA of Rs. 256 crore, up 14% YoY, translating to EBITDA margin of 33.3%. As seen, we continue to consistently deliver very healthy EBITDA margins in this segment and our Pharmaceuticals segment now contributes about 72% of company EBITDA. I would like to highlight that this proportion is expected to increase further in the future, as approvals from the company's investments in the niche and differentiated pipeline of products in this segment begin to bear fruit.

Life Science Ingredients EBITDA stood at Rs. 102 crore, translating to margins of 16.7%, up from 14.5% in Q2FY16. This improvement has been due to various cost-optimization initiatives and process efficiencies and also higher contribution from better margin products.

Drug Discovery Solutions EBITDA stood at Rs. (1) Crore, with EBITDA Margins at (4)%.

Our R&D spent during the quarter in the Pharmaceuticals segment was Rs 46 crore, translating into 6% of our Pharmaceutical sales and R&D charged to P&L was Rs. 29 Crore.

Depreciation and amortization for the quarter was at Rs. 72 crore as compared to Rs. 75 crore in Q2FY16. The finance cost was lower at Rs. 80 crore as compared to Rs. 92 crore in the corresponding quarter last year. The blended interest rates for the borrowing are at 7.95% in Q2FY2017 with the rupee rate of borrowing at 11.03% and that of the foreign currency borrowing at 5.19%. The tax rate for the quarter was at 25.7%.

PAT for the quarter stood at Rs. 145 Crore, up a strong 15% YoY, with an EPS of Rs. 9.29.

In H1 FY17, Reported EBITDA stood at Rs. 718 Crore, improving 9% YoY with EBITDA margins at 25%, up from 22.1% in H1'16. Pharmaceuticals segment contributes about 69% of the company's EBITDA with margins at 33.6%, up from 31.8% in H1'16. EBITDA margins for Life Science Ingredients stood at 17.4%, up from 15.4% in H1'16. Drug Discovery Solutions EBITDA stood at Rs. 15 Crore with margins at 16.6%, up from (5)% in H1'16.

Net Profit stood at Rs. 306 Crore, up from Rs. 258 Crore in H1'16, a healthy growth of 19% YoY, with an EPS of Rs. 19.67 in H1FY17. I would like to emphasize that this growth is attributable on account of the growth in our operating profit, restructuring of the debt in the company to reduce exchange volatility, reduction of interest and the focusing on generating cash to reduce debt.

Let me share some balance sheet perspectives: In the quarter, the Company has generated net cash flow of Rs. 149 crore. Thus, for H1FY17, the company has repaid Rs 396 crores in debt and the net debt as on 30 September 2016 stands at Rs. 3,794 crore on constant currency basis. To put this in right perspective, we have repaid Rs. 28 Crore higher in H1FY2017 as compared to our entire debt reduction of Rs. 368 Crore in the full year FY2016.

I would also like to give you some more color on the recently successfully concluded high yield bonds of US$300m which was issued by our wholly owned subsidiary, Jubilant Pharma Ltd and which saw attractive participation by very high marquee investors. This is a 5 year Non Call 3 bond bearing an annual interest of 4.875% and the issue was rated by Fitch and S&P at BB and BB- respectively. Bond proceeds are being used to repay INR debt of Rs. 933 Crore and USD debt of US$ 150.5 Million, leading to average interest rate to 6.76% from 7.95%, with an estimated annualized savings of Rs. 55 Crs. More details have been shared in the investor presentation which has been shared with you already.

The Board has approved the raising of non-convertible debentures up to Rs. 1000 Crore to replace the existing high cost Rupee debt at Jubilant Life Sciences Limited on a standalone level. In this regard, the Company has been rated AA- by India Ratings and Research, and has immediate plans to raise up to Rs. 500 Crores once the shareholder approval is received. Also, the Company has been rated A+ by India Ratings and Research for Commercial Paper up to Rs. 450 crore and the Company is in the process of issuing the same to reduce the average Working Capital interest.

Moving on to Capex, In H1FY2017, our capital expenditure stood at Rs. 113 crore. For FY 2017, we maintain our guidance of annual capital expenditure of Rs. 300 crore. R&D spent during H1'17 is Rs. 100 Crore i.e. 6.6% of the segment sales. R&D charged to profit and loss account during H1'17 is Rs. 60 Crore.

In conclusion, I would like to reiterate what Mr. Bhartia earlier mentioned. We expect to improve our performance in H2FY17. In Pharmaceuticals segment, we expect higher profitability on account of new product launches in Generics and Specialty products, growth in ROW business and ramp-up of operations and new customer acquisitions in CMO of Sterile Injectables. Our focus will be on generating operating cash in Life Science Ingredients by retrofitting plants for better capacity utilization with new product introductions. In Drug Discovery Solutions, the focus will be on revenue growth aided by strong pipeline and onboarding of new customers. Our endeavors to reduce debt through operating cash flow will continue and focus will be on improving key financial ratios.

I would like to conclude our opening remarks with that. I request the moderator to take up Q&A please.

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. We have first question from the line of Jagdish Bhanushali from Star Union Dai-ichi Life Insurance. Please proceed.

Jagdish Bhanushali: On Darifenacin, are we the API manufacturers of it?

G. P. Singh: No, we are not.

Jagdish Bhanushali: And we have got an approval for this from USFDA, so are we going to source API from outside or inhouse?

G. P. Singh: We are not the API manufacturer for it. So yes, we are going to outsource it and this is part of our normal strategy. We look for the best source for API for our ANDA filings. All our filings are mix of internal and external sources of API.

Jagdish Bhanushali: And in your sense how much will be the market size of this particular drug?

G. P. Singh: The market size of Darifenacin is about $85 million.

Jagdish Bhanushali: And we received an approval for Lyophilized kit for preparation of Tc-99m-MAA injection, so how much will be the market size of this particular drug in Australia?

G. P. Singh: Since this is a new introduction, it is a growing market. So if I tell you the market size, at the moment it will be very small. So it is more of an incremental business for us where we will be, kind of, growing the market for this product by introduction. Till now, we have been selling only under special approval, but now we have a formal approval and we will be able to introduce and grow the market ourselves. When there is no approved product in the market, it is very difficult to estimate the size of the market as such.

Shyam S. Bhartia: G. P. Singh is saying that we are the only approved product in the market.

Jagdish Bhanushali: Understood and the market size of Exametazime which is expected to come in H2 FY18, any rough estimate of that?

G. P. Singh: Around $50 million estimate.

Jagdish Bhanushali: Is this the potential or the current market?

G. P. Singh: No, that is the US market size.

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

Saion Mukherjee: One question I had on your R&D strategy, in terms of resource allocation between Radiopharma and Generics, how you are thinking about it. You have done a few filings and lot of investments seem to be happening on the Radiopharma side and on the Generics side, what is your thought process in terms of building out the pipeline. What are the key strengths that you will be relying on and probably on the Generics side, how should we think slightly longer term for the US market there?

G. P. Singh: So from an R&D perspective, both the segments are very important for us and we make investments as needed in both the segments aggressively. Now we maintain the same guidance, which we had given earlier on our investments for R&D, that we have been investing about 6% of our revenues on R&D and we will continue to do that and within those available resources, it will be appropriately allocated towards all our R&D needs.

Now from ANDA perspective, we have been saying that we will be filing around 10 ANDAs every year. We maintain that. And we are also investing aggressively into the Radiopharmaceutical business, that is Nuclear Medicine business is a flagship business for us and as needed with some of the products and ANDAs which we are filing in the coming quarters, we will be making the investments. Now we do not provide specific guidance of how much will be invested for specific products.

R. Sankaraiah: Just to add to what G. P. has mentioned, if you recall we always maintain that every year we plan to launch one product like Rubyfill launched this year. Like this going forward, next 5 years, we have lined up at least 4 or 5 products to get launched. For that, whatever is the R&D expenditure, is required to be incurred. So we have given a detailed pipeline in our presentation in detail. Compared to Generics, R&D investment will be much lower in Radiopharmaceuticals.

Shyam S. Bhartia: But in R&D, if you file 505(b)(2), like this year we expect to file at least one more 505(b)(2) product during the H2, investment is little higher because the filing fees of the 505(b)(2) is higher.

Saion Mukherjee: On the Generics side because we have seen you have made disclosures on the pipeline also and we have some visibility on the Radiopharma side and obviously it looks like that is one segment you want to capitalize on, however on the Generics side because the market is also large and you have backward integration, API capabilities, you have FDA approved facilities. It does appear that you are not as aggressive as some of your peers. Is it that you expect the market to be very competitive and that is why you do not want to really focus there. How should I think about that because the strategy seems to be different here?

G.P. Singh: I would not say that the strategy is different, but the strategy is cautious. It is a focused market for us and we want to continue to grow in that. One of the points that you have made is probably we are not as aggressive as some of our peers in the industry; however, there is a size difference also. Like we just mentioned that we would be making a certain percentage of investment, R&D investment based on our revenues. It is just the available resources. If you have a larger business, you are able to invest little more, maintaining the same percentage on the business. Same thing we are doing. As our business grows, our investment will also grow, but the percentage of investment will remain the same.

Shyam S. Bhartia: Further I would like to tell you that about 25 products are still pending approvals. These approvals are expected to come in next, I would say 2 years' time and this year also we are filing about 10 products, but it is only for the US markets we are talking, whereas we are also filing products for the other markets like Japan, Australia, maybe in Rest of the World market and if you see our growth in the Rest of the World market has been extremely well. So, while we are growing and US being the focused market, we have 67% of our sales coming from US market. We are still focusing on US market, but at the same time we are growing and we are filing products for the Rest of the World market also. And you have seen that our focus on Rest of the World market is also increased and has grown substantially, although from a lower base, but has grown substantially in this year.

Saion Mukherjee: My second question was on the Sterile and Injectables since they were down because of the impact of shutdown. Is it possible for you to quantify how much would that have impacted?

Shyam S. Bhartia: I can tell you that in Sterile business in CMO, because of the regulatory requirement, we take shutdown twice a year, first in July and then in December. So you should look at this business more on H1 or H2 basis rather than at quarter end. It was 3 weeks shutdown which I would say is a normal shutdown. So quarter-on-quarter, you will see some impact, but if you see H1 and H2, as compared to H1 and H2 last year, that is the better way to compare.

Saion Mukherjee: So I was asking about Rubyfill, how should we think about the growth in that product for you and the expenses and efforts that need to be and basically trying to figure out how the financial impact of this launch will play out over the next couple of years?

Shyam S. Bhartia: For Rubyfill, we have got the product approval. We are going to launch the product in Q3, and we are going to ramp-up this launch in Q4 and the main effect of this launch will come sometime for the whole of next year because we will start launching the product. By launching the product, I mean selling the product to US hospitals and we are very well staffed with our marketing and sales organization and we have discussed with key opinion leaders also and the product has been extremely well received by key opinion leaders. So we are ready to launch, but the real effect of this will come in the fourth quarter and the next year, full year.

Saion Mukherjee: So you think that it will be fairly, not sharp, but very quick uptake given the feedback from the key opinion leaders.

Shyam S. Bhartia: Rubyfill is very well accepted, but as you know the process of selling the product to the hospitals takes a little time and you cannot ramp up immediately to many hospitals at the same time.

R. Sankaraiah: Mainly there are two things here. We have mentioned that existing market size of the product is about $70 million, that will ramp-up up to $250 million by 2021. Accordingly, when we introduce the product, the sales will grow and the market size also is growing simultaneously. So, we will catch up along with the market size. So it is a big product for us, but the growth will be slow and steady on account of existing introduction and also going forward the market itself is growing. That is our main attraction here.

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

Ashish Thavkar: Sir on the CMO business, since we have an outstanding order book of more than $500 million, how are we planning to scale up this business and how we should try to figure out and model this?

Shyam S. Bhartia: We said this order book is to be executed in next few years that is about 4-5 years' time. It is not that the order book is expected to be executed in one year. As such you know it is an order book, that includes when a company places an order for 2, 3 or 4 years. So order book is of a total size and having said that, we are seeing a great demand from for this business from our customers and we are increasing our capacity utilization as our new orders are coming for execution and you will see that from one half to another half, we keep on increasing our sales, revenues from this business and as we go towards the next year, we will have some plans of debottlenecking this capacity and increasing our capacity also which will come into operations sometime in next year.

Ashish Thavkar: So going ahead overall since the Pharma business is expected to grow at a high rate than the LSI business, any ballpark number you could share as to what would be the overall Pharma contribution 3 to 5 years down the line to your overall revenues?

R. Sankaraiah: Going forward, it depends upon how the LSI business grows and also what is the input price of LSI and all those things, but we expect very strong momentum in Pharmaceuticals going forward because of the new product introduction in Generics and also in Radiopharmaceuticals. There are very profitable products introductions in Radiopharmaceuticals.

Shyam S. Bhartia: I would like to add further to Mr. Sankaraiah that rather from the sales it is more important that Pharmaceuticals contributes 72% of the EBITDA and that we have said that, Sankaraiah has also mentioned that it is likely as a percentage of the total EBITDA of the Company, the EBITDA coming from Pharmaceuticals is expected to grow.

Ashish Thavkar: The EBITDA contribution you are saying?

Shyam S. Bhartia: Yes, EBITDA is about 72%.

R. Sankaraiah: Even today as a percentage to the EBITDA the overall company, Pharmaceuticals contributes 72%. Going forward, since we are introducing more profitable high margin products in Pharmaceutical business, the EBITDA is expected to grow in Pharma.

Ashish Thavkar: The counter question would be then how do you see the LSI business because it is quite volatile these days. So on a longer term perspective 1-3 year kind of strategy, how do you see the LSI business panning out?

Shyam S. Bhartia: In the LSI business, as you have seen in our first half, the sales are down by 19%. It is a combination of two factors. One is the petroleum prices being down, raw material prices are down and fuel costs are also down, but it is also due to certain low offtake in our Agrochemical segments where some of these Life Science Ingredients have used. Now in H2, we expect a good offtake of our products and we expect definitely growth coming in H2 as compared to last year H2 and as you have seen in the first half, it is 19% down, but in second half, we expect a growth from that. So growth should kick-in in the second half, but the real effect of the growth will be from the steps we have taken to retrofitting our plants and also introducing new products, we see more in the FY18.

Ashish Thavkar: Okay, that is helpful. Sir, last question would be on the debt side, since you are repaying debt every quarter now, any plans to be where there could be a possibility of our company being debt free, 3-4 years down the line?

Shyam S. Bhartia: Well, we hope.

R. Sankaraiah: That is the objective with which the management is working and our focus is mainly to generate operating cash flow and continuously deploy that to reduce the debt and also ensure growth is not affected by debottlenecking the plants etc., we will continue to grow also.

Shyam S. Bhartia: Having said that, in about 3-4 years' time, we hope to reduce the debt substantially to a very low level.

Moderator: Thank you. We have next question from the line of Ranvir Singh from Systematix Shares. Please go ahead.

Ranvir Singh: This is related to Rubyfill in Canada, so what is the update there? Whether we have got through that approval of delivery system or what is the bid?

Shyam S. Bhartia: In Canada, the approval system is little different than in US. There are two systems here: Generators and Infuser. In Canada, our Generators are already approved. But, for the Infuser, we have received ISO mark and we hope to apply sometime by the end of this year and get an approval in Canada in about 6 months' time.

Having said that, I think we have also received approval for Germany and Switzerland for our Generators, but for Infusers, the approval system is different. We have to get a CE-Mark for Switzerland and Germany. So we hope to get CE-Mark by between fourth quarter of this year and first quarter of next year. As soon as we get CE-Mark, we will apply, so that we get the approval for the whole system.

Ranvir Singh: So if I consider Rubyfill outside US, what would be market size and what kind of revenue potentially can we expect?

Shyam S. Bhartia: Again, the availability of Rubyfill in these markets are very limited and we hope that once we get an approval, both Germany and Switzerland, and Canada is already there, it is an excellent market. That is why we have concentrated in these focused markets. Of course US is the biggest size. We hope to get 250 million in about 4-5 years in US. It will be not of that size, but of course reasonable size.

G. P. Singh: Just to simplify, the markets outside of United States are incremental business. It is not as significant as US.

Shyam S. Bhartia: US still remain the largest part of our business.

Ranvir Singh: And if you could just explain why EBITDA margin sequentially has been lower?

Shyam S. Bhartia: In Pharma business?

Ranvir Singh: In Pharma as well as LSI business?

Shyam S. Bhartia: In Pharma because of our CMO business, in which in this quarter sales were little lower. I think that is the basic impact in the Pharma business. The Pharma business remains very strong and going forward, we hope to achieve a healthy margin the Pharma business.

In the LSI business, as we have said, volumes from the Agrochemical market has been subdued due to lower Agrochemical demand both locally and internationally, but we have seen that Agrochemical demand is picking up. So it should have a good volume uptake in H2 and going forward in FY18. So we hope to come back on our increased EBITDA.

Ranvir Singh: I understand LSI has faced many challenges. So what kind of margins we can expect on an annualized basis in LSI business?

Shyam S. Bhartia: I would say it'll be healthy margin. I would not like to comment on the margin levels, but it will be healthy margin and overall EBITDA growth we expect in H2'17.

Ranvir Singh: And on accounting, I was not able to reconcile actually that EBITDA including other income is Rs.345 crore and separately the Pharmaceutical is Rs. 256 crore and 102 crore is LSI, (1) is Drug Discovery. So taking together, it comes to some Rs.350-357 crore.

R. Sankaraiah: The balance is corporate expenses. That is the EBITDA what you are talking.

Ranvir Singh: The CAPEX for FY17, what kind of CAPEX we have planned?

R. Sankaraiah: We have spent about Rs.113 crore and we expect about Rs. 300 crore in total for this year in the CAPEX.

Ranvir Singh: And where this CAPEX is going to?

Shyam S. Bhartia: A majority of this, a lot of CAPEX is going to our Pharmaceutical business and some CAPEX is going to our LSI.

Ranvir Singh: And whatever money we have raised through bond, majorly that will be employed to replace the debt or we have to use part of it in CAPEX also?

Shyam S. Bhartia: We confirmed that we have already replaced debt to that extent.

R. Sankaraiah: The entire money has been used to replace the debt.

Shyam S. Bhartia: To reduce our interest burden.

R. Sankaraiah: I did mention in my speech that Rs. 933 crore of rupee debt has been replaced already and about $150 million debt also is being replaced.

Moderator: Thank you. We have the next question from the line of Surajit Pal from Prabhudas Lilladher. Please go ahead.

Surajit Pal: So Rs.300 crore CAPEX and another Rs.150 crore for product development cost, right?

Shyam S. Bhartia: Yes, R&D.

Surajit Pal: So total it will be Rs.450 crore and you have net debt reduction this fiscal is Rs. 396 crore?

Shyam S. Bhartia: Correct.

Surajit Pal: So any further plans?

Shyam S. Bhartia: Not in this fiscal.

SurajitPal: And in the full year, any plan further to expand this net debt reduction?

R. Sankaraiah: See, as of today, we will not be in a position to give any number, but our focus is to continuously reduce the debt. It depends upon the working capital and also the operating EBITDA. So net-to-net, we will be further reducing the debt, but exact number we cannot put.

Shyam S. Bhartia: We continue to operate our working capital efficiently. We continue to keep our CAPEX in control. So with this, we are hopeful to reduce further some debt with the cash that we generate, but we cannot give you any guidance on that.

Surajit Pal: So Mr. Sankaraiah, your expected operating cash flow will be Rs.1,000 crore plus, right, kind of?

Shyam S. Bhartia: For the whole year?

R. Sankaraiah: We are not giving any guidance. You know the 6 months' number and you know the EBITDA of 6 months is Rs.745 crore and that we have generated a cash of approximately about Rs. 396 crore. So, based on that, you can estimate. We expect a very robust growth going forward also.

Surajit Pal: That is very much sure. In crude, you specifically say that lower crude price has disadvantaged in the topline, but benefitted in the EBITDA. Now crude has increased. If I compare one year back when we started discussing on this, now crude is very much in 50-55 per barrel range and if I take some bit of market estimates, it could reach to the 70 range per barrel in same by say next half. If that be the case, assuming the crude to be around 50-70, what specifically change in topline and margin in LSI business?

R. Sankaraiah: See, first of all the first point, if you compare the crude price of last year versus this year, the last year based on our records, the last year average was about $52. This year, average is about $47. So there is almost like approximately 10% reduction in crude price since there is an input material price reduction and the output material price also has been accordingly reduced. That is point number one. Point number two, like Mr. Bhartia has already mentioned, in some of the Agrochemical products where the offtake has come down less, we are an ingredient supplier thereby our supplies to those Agrochemicals' offtake has come down. Because of that, the volume growth was little lower. So these two had a negative impact on LSI business whereby the overall sales has come down by 19%. But going forward if the crude price goes up, accordingly the topline will grow and also our EBITDA, since we are retrofitting the plants and also operational efficiencies we are bringing into the system, our margins for the first half year if you see it is about 17.5% in LSI. At least, we should continue to maintain it, if not better it, going forward.

Shyam S. Bhartia: Let me give you a feel of this business. Because of the growth in H2, as I said, again I am telling you again that we hope to increase both the volume and, as you have rightly said, the prices are going up. So we are seeing some effect on the pricing also. The pricing is also better as you have rightly estimated it. On both sides, we expect to get a better growth as compared to last year, whereas in H1'17 we have degrown.

R. Sankaraiah: But finally we have to see, wait and watch and see the market for this LSI business.

Surajit Pal: Another point in crude, I think some part of your LSI business, you previously discontinued because crude was very low, so the price was not commensurate to the production cost and which is basically activated once crude crosses $50 per barrel. Now currently, it crossed $50 per barrel. So do you think those business would revive and that could also help in topline of LSI?

Shyam S. Bhartia: See, we have not discontinued any product. As I said, because of the lower Agrochemical demand internationally and also because the agriculture commodity prices in US and Europe have been low as compared to last year, the agriculture production has come down. So use of Agrochemicals because of the uneconomic agriculture conditions in US and in Europe, the use of Agrochemical gets reduced. If the use of Agrochemical gets reduced, the demand for the ingredients come down. So we have not discontinued anything, the demand has come down.

Surajit Pal: Right. Your capacity utilization currently in CMO other than those plant shutdowns, but normalized way. what is your current capacity utilization?

R. Sankaraiah: About 65%-70%. It is based on 2 shifts, 5-day basis, but we have capacity to get it changed to 3 shifts etc.

Surajit Pal: But once you start producing your own injectables, which has been approved by USFDA in recent times, so this utilization is supposed to go up or how?

Shyam S. Bhartia: Yes, the utilization will go up, but as we know that the in Generic Injectables, the total volumes are not very large. It does not use a huge capacity, but of course as our pipeline increases, it will help to improve the capacity utilization.

Surajit Pal: And out of this $558 million order book, how much is executable in this fiscal?

G. P. Singh: In this fiscal, it will be approximately $100 million that is it.

Surajit Pal: $100 million is executable you say?

G. P. Singh: Approximately, it cannot be precise.

Surajit Pal: I understood.

Shyam S. Bhartia: Some companies postpone the orders; some companies prepone the orders.

Surajit Pal: It is part of the business.

Shyam S. Bhartia: Yes, approximately.

Moderator: Thank you. The next question is from the line of Abhishek Singhal from Macquarie Securities. Please go ahead.

Abhishek Singhal: Sir just a brief idea about your Radiopharma business, last year you averaged around $100 million and you provided visibility of around 3-4 products, Rubyfill is approved and you have products lined up, all the way up, every one year over the next 3-4 years. Can you give a brief sense of what the peak sales potential of this business could be, globally, incremental across the world and of course in US, all put together, how large can this business get say 3-5 years on?

Shyam S. Bhartia: See, let me give you a flavor of this business of ours. We are one of the leading producers of some of our products. In the segment, we have large basket share and we keep on adding new products which further add to our sales. Our existing product demand is also increasing and we hope that we could generate additional sales from our existing products with new products in the US market, at the same time, we are trying to increase our sales in some other international markets. So, combined together, we expect a good growth in our sales.

Abhishek Singhal: Sir, can it be like 3x from here, $300 million, $400 million?

Shyam S. Bhartia: 3x is not possible immediately, but definitely in the long term.

R. Sankaraiah: Over a period, it should be.

Shyam S. Bhartia: But with our new product additions in some of our investing products, I cannot give you any figures or forward looking figure for 3 years. We expect a good growth, not only in this revenues, but also in the margins overall.

R. Sankaraiah: Just to give you an overall total color on this Radiopharmaceutical business, if you see, in North America this business is about $2 billion, taking the entire Radiopharmaceutical segment and outside North America, it is about a billion dollar, totally about $3 billion sales as of today. The product in which we have presence and we are expected launch at least 4 products over a period of next five years. The growth prospect for this business is very good and also the margins are expected to be really good.

Abhishek Singhal: Sir, can Rubyfill be your first $100 million product in 3 years?

R. Sankaraiah: We already said that.

Shyam S. Bhartia: We have already said that it is $250 million product in 5 years' time. Today it is about $70-80 million. The market is $250 million.

R. Sankaraiah: And there is only one player as of today and we are the 505(b)(2) entrant. So we have a very good opportunity to make this asset very good revenue and profitable business.

Abhishek Singhal: Perfect sir. And just from a philosophy perspective, your debt to EBITDA what is the comfortable level because you are talking about paying down debt. You paid down almost 400 in the first half, now if this ramp up happens, two years out your EBITDA likely will go above Rs.2000-2300 crore, so like debt-to-EBITDA one time should we look at 3 years out of 1.5 times, how should we view because I just want to get a sense of the cash getting generated from a Rs. 3,800 levels, are we heading to a Rs. 2,000 crore debt level or there is something else planned?

Shyam S. Bhartia: See, I have just mentioned in about next 3-4 years' time, our debt is going to be minimal. Now, how much, whether it is going to be one time or 1.5 times or less than one time – it is very difficult to project now. But I will tell you that in 3-4 years' time we expect to reduce our debt substantially.

Moderator: Thank you. We have next question from the line of Manoj Garg from Bank of America. Please go ahead.

Manoj Garg: Sir, just would like to understand about the Rubyfill and particularly the Radiopharmaceuticals business in US, what kind of marketing and distribution network you need to build in order to expand the market or further penetrating this market?

G. P. Singh: This is a hospital product. So the overall number of units required is not like what you would see in a retail product. So because of that differential, a huge salesforce is not required. We are appropriately staffed already. There would be few incremental increase as with any increasing business. For any growth, you have to add more manpower, more resources, more experts to the business, but there would not be major investments required for setting up any specific distribution or a salesforce like you need to require in a more detailed product where you have to cater to every single physician and promote the product. So it is a hospital product with limited users and limited targets. We are already appropriately staffed for this.

R. Sankaraiah: Manoj, just to add what G. P. said, we have totally about 160 hospitals for which we need the service of the Rubyfill Generator. That means the number of people required is very low.

Manoj Garg: And sir it also goes to the tender kind of systems or like each hospital had own separate tender or how does that work, sir?

Shyam S. Bhartia: See, I will give you a flavor. We have got 6-7 sales and marketing people for only Rubyfill. I am not talking about our other products. And we need to add 2-3 going forward. So it is not a huge salesforce that we need. We have ascertained that we are fully prepared for this approval and we have done a complete market survey and are confident that this is a good enough sales force to do that. That is why G. P. is saying that it is not a huge salesforce you need.

Manoj Garg: And on the manufacturing side, again do we need to invest in terms of capacities to obviously fulfill or take care of the future requirement, so you feel that on the manufacturing side we are well covered?

G. P. Singh: As the demand grows, we definitely have to have a CAPEX for fueling our growth. It is part of our normal expansion and CAPEX. We do not need to build separate independent infrastructure.

Shyam S. Bhartia: Having said that, for next I would say 2 years, we do not have to spend money. If demand growth is substantially very high, a very marginal CAPEX is required to debottleneck this capacity.

Manoj Garg: And sir on the Sterile business, again just would like to understand further that most of the projects which we are working for the Sterile, are they for the innovators or even like we are entertaining the generics customers well.

R. Sankaraiah: In CMO business, more than 95% of the business is to the innovators.

Manoj Garg: And most of these products are own patent and probably we have a visibility for the next 9 years out there?

R. Sankaraiah: That is right.

Manoj Garg: And sir the last thing from my side, which part of the R&D we are capitalizing right now? Is it again that pertains to Radiopharmaceutical business only?

Shyam S. Bhartia: Some of the R&D investments are more long term. That is why those expenditures we capitalized on only focused markets. Only in case of Dosage Form. All other expenditure like in case of API is completely written-off.

Moderator: Thank you. We will take the next question from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Just on the Rubyfill, I just wanted to understand in terms of the supply chain things, how are we placed? Basically the generators that are required are we outsourcing it and we keep hearing about disruptions on supply of radioactive materials etc., is there any risk that you foresee there?

G. P. Singh: No, we do not. We have appropriately sourced, based on the demand we have forecasted. So, we have already lined up sources for all the components of the raw materials. So we do not see any risk in supply of Rubyfill.

Saion Mukherjee: So the generator is actually manufactured at your end?

Shyam S. Bhartia: Generator is manufactured at our end and we have special supplier for the Infusers, who supplies us Infusers.

Saion Mukherjee: So over a time there would be like 160 Infusers in 160 hospitals is what you have put up?

Shyam S. Bhartia: We cannot give you numbers today.

Saion Mukherjee: And sir the other question was regarding your current base business particularly with respect to MAA where you are the only player in the market. Can you just take us through like what is the issue, lot of players have moved out of the market, how is the situation and what are the chances of competition coming back here?

Shyam S. Bhartia: Let me tell you, MAA is a very difficult product to manufacture and that is why there are high entry barriers. We do not expect any competition in the short run in next 1-2 years' time, but we never know, nobody knows in next 4-5 years if there is competition coming or not, it is very difficult to estimate that, but even then we have an excellent marketing infrastructure to market this product. Our reputation in the market is very high. When we sign contract, we sign for 3 years like this year we will be signing. 3 years will be ending this year and will be signing another 3 years. So our market is, that way, very well protected, but of course nobody can say that competition will never come in this.

R. Sankaraiah: And very important factor is that our CMO manufactures this product and gives it to JDI. It is a not a third party manufacturing.

Shyam S. Bhartia: It is not third party, it is very important. It is not third party. We manufacture our product. We have a control on our manufacturing and supply.

Saion Mukherjee: So the CMO would be preparing the finished dosage, right? The raw material API also you manufacture here?

Shyam S. Bhartia: No, API we do not.

R. Sankaraiah: API we purchase.

Saion Mukherjee: And is there an issue with the API because you said the product is difficult, so I am wondering that if that API manufacturer gives it to another…

Shyam S. Bhartia: It is not API. It is a very specialized protein, at the same time it is very complicated to manufacture the product, we have excelled for the last so many years to make this product.

G. P. Singh: There are a lot of examples out there where there are products which had been in the market for a long time, but there is still limited competition because of the complexity of manufacturing. You should see it as a complex, sterile product where everybody looks at their R&D pipeline and decide where they want to focus the resources. That is how our competitors or potential competitors will look at it. Just like you will look at any other potential, sterile difficult product you should analyze it like that.

Saion Mukherjee: And some question on the LSI business, can you throw some light on what kind of volume growth you would have seen or volume decline you would have seen in the first half for this fiscal?

Shyam S. Bhartia: There is some volume decline definitely from first half as compared to last year first half, but in H2'17 we should be able to increase our volumes and revenues.

Saion Mukherjee: So there has been a decline basically in the first half?

R. Sankaraiah: Almost like 8%-10% decline in volume was there, Saion.

Saion Mukherjee: And sir on the pricing situation of some of your products like Pyridine and Niacinamide etc., any comments how they are trending and if at all you have any expectation based on capacity is coming on stream over the next couple of years, your expectations?

Shyam S. Bhartia: I think we are very confident that all our products in Life Science Ingredients basket, in H2 we expect to perform better both in volumes and in revenues.

Saion Mukherjee: I mean sir, slightly a longer term, let us say if I take a 2-year view because we had seen correction in some of these products and then the prices have started to revive, so how are they trending and what kind of expectation should we have 2 years down the line?

Shyam S. Bhartia: Our plan is to make more value-added product and which is under implementation and some will be implemented this year. I have said that we have come out with Alpha and Gamma Picoline and some 1-2 products more we are going to come out this year and 2-3 products like this we come out next year and every year we will add some 2 or 3 value-added products. So this gives us competitive strength and also higher margins. So, which I said also that in 2018 we would expect a better year because we have added few products this year which will have full year impact next year.

Saion Mukherjee: That is fine and sir my last question would be related to your commentary around debt reduction. It appears to me that you are not really looking at any M&A at this stage. Now is it because of opportunity is not there in your business segments which you could pursue or the valuations etc. are not something which is conducive that you do not want to make any strategic moves?

Shyam S. Bhartia: Definitely, we are not looking at any M&A, no M&As in our pipeline yet, but we are confident that our existing platforms are good enough where we can expand and invest as you know that we are continuously investing into R&D on existing, so our existing platforms have an excellent scope of growth. We want to expand our existing platform and continue to generate cash and reduce debt.

R. Sankaraiah: Just to add there, see we are in Generic business, both in API and Generics and also focusing on US market and rest of the world now, so that market size is not an issue and we are expected to invest in R&D to at least file 10 ANDAs for growth and over and above that, in Specialty we have 3 main strong businesses. One is Radiopharmaceutical, other one is the Contract Manufacturing, the CMO business and Allergy. All three businesses, there are enough opportunities to invest and grow that business very profitably. So when we have such a wonderful platform to grow, as of today there is no need for us to look into any M&A to look for further growth.

Saion Mukherjee: Sir just one last question. We talked about MAA, similarly on DTPA any competitive landscape possibility of competition there?

Shyam S. Bhartia: We cannot comment on product wise competitive landscape and etc., but I can only tell you that our market is very strong and both our market share and also our relationship with our customers are very strong and we are confident of maintaining our market share.

R. Sankaraiah: See, unlike MAA, we are the sole supplier. In DTPA, we have two suppliers.

Shyam S. Bhartia: Thank you so much and wish you all a very happy and a prosperous Diwali and a New Year. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Jubilant Life Sciences that concludes this conference call. Thank you for joining us. You may now disconnect your lines.