Jubilant Life Sciences Limited

Q3 FY 2017 Earnings Conference Call Transcript
February 07, 2017

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Jubilant Life Sciences Limited Q3 FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ravi Agrawal, Head of Investor Relations. Thank you and over to you, sir.

Ravi Agrawal: Thank you and Good Evening to everybody. I am Ravi Agrawal, Head of Investor Relations at Jubilant Life Sciences. I thank you for being with us today on our Q3 & Nine Months 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. Pramod Yadav and Mr. Rajesh Srivastava who are the CEOs of our LSI Business and Mr. G.P. Singh – CEO of our Pharma business.

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 detail 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 good evening to everyone joining us on today's call. We shall be discussing perspectives on Jubilant Life Sciences Q3 & 9M FY17 performance.

We are happy to report continued robust financial results, led by strong performance in our Specialty Pharmaceuticals business where revenues grew 26% YoY and which now contributes 56% of our Pharma segment revenues. Recent initiatives, including the signing of long term contracts in our Radiopharma business and price increases announced in our Vitamin portfolio improve the visibility and quality of earnings going forward. The proceeds from recent successful issuance of domestic non-convertible debentures will be mainly used for refinancing of existing high cost debt. We expect to continue our robust financial and operational performance going ahead.

Let me share some of the important headline numbers. During Q3 FY17, Consolidated Revenues stood at Rs. 1,492 crore, up 7% YoY. EBITDA for the Company stood at Rs. 337 Crore, up 9% YoY with EBITDA margins at 22.6%, up from 22% in Q3'16. Net Profit stood at Rs. 120 Crore with Net Margins at 8.0%. Normalised PAT after adjusting for one-time Finance costs stood at Rs. 145 Crore, up 18% YoY.

For 9M FY17, our revenues were at Rs. 4,365 crore. EBITDA showed growth of 9% at Rs. 1,055 crore. The associated EBITDA margin was at 24.2% YoY. Net Profit stood at Rs. 426 crore, showing improvement of 12% YoY. Normalised PAT after adjusting for one-time Finance costs stood at Rs. 451 Crore, up 19% YoY.

Mr. Sankaraiah will provide you with more details on the Financials.

Moving on to the key business segments:

Pharmaceuticals Segment

Our Pharmaceuticals segment delivered 15% revenue growth YoY to Rs. 785 crore.

I will now share the geographical breakup of the Pharmaceuticals segment.

- Revenues from North America at Rs. 529 Crore, up 9% YoY and contributing 67% to revenues
- Revenues from Europe and Japan were at Rs. 138 Crore, up 47% YoY and contributing 18% to revenues
- Revenues from Rest of the World stood at Rs. 79 crore, up 17% YoY and contributing 10% to revenues
- India Revenues at Rs. 39 Crore, contributing 5% to the revenues

Let us move onto the key highlights of businesses within the segment. Specialty Pharmaceuticals (Sterile Products) revenues reported robust growth of 26% YoY with healthy growth witnessed in all key businesses. We successfully completed USFDA inspection at CMO Montreal and Radiopharmaceuticals facilities during the quarter. We also signed long-term contracts in Radiopharmaceuticals business with distribution networks in the US to supply products over a period of 39 months effective from January 2017. Our key product Rubyfill remains on track for US launch in Q4 FY 17.

Generics revenues grew 3% YoY with strong growth in API business offset by lower sales in our Dosage formulations business, especially in the key US market. It is important to note that lower sales in formulations is largely due to lower prices from ongoing supply chain consolidation in the US. To highlight, our volumes in this business has grown 21% in Q3FY17 and 32% during 9MFY17, which is a strong testimony to the quality and strength of our product portfolio.

I will share important developments with regards to our R&D initiatives now. We have received six ANDA approvals till Q3FY17 and plan to file about eight ANDAs during FY17. We have also in-licensed two products for the US market. We have two filings pending approval in the US in Radiopharma and expect to file at least five more products during the next three years in the business. We remain on track for US launch in Q4 FY 17 in Rubyfill. Further details on our pipeline, especially in our Radiopharma business, can be found in our press release.

The Life Science Ingredients segment reported Revenues of Rs. 663 crore during Q3 FY17, contributing 44% to overall Revenues. It is important to highlight that revenues in this segment have grown 8% QoQ, reversing the trend witnessed in the last few quarters. Most hearteningly, this growth has been across all key businesses in the segment.

During the quarter, we announced price increase of upto 15% for Beta Picoline, 3-Cyanopyridine and Vitamin B3. New orders were received for Nutritional Products across India and key international markets. I am happy to inform that the retro-fitting and capacity expansion projects in Specialty Intermediates for certain products is as per schedule and we expect the business to benefit as we introduce new products in the market.

To give you a sense of the geographic breakup, Revenues from International markets had 41% share in the overall Revenues of this segment at Rs. 273 Crore. Revenues from Key Developed Markets stood at Rs. 192 Crore, contributing 29% to segment revenues while India business was at Rs. 390 Crore, up 10% YoY. As highlighted earlier, the QoQ growth has been positive for all key geographical markets, which is a healthy sign in this segment.

Moving to our Drug Discovery Solutions Segment, Revenues from this business segment improved by 28% YoY to Rs. 44 Crore and now contribute 3% to overall revenues. In Proprietary Drug Discovery, the pipeline of novel products continues to remain very strong. We continue to evaluate further licensing opportunities of some of our existing pipeline. Business contracts were renewed with existing clients and several new clients were on-boarded across all regions. Both Integrated Projects and functional business gained traction and strong client interest was witnessed.

The revenue and profitability is expected to be robust, led by better revenue quality in our Specialty Pharmaceuticals (Sterile Products) business. Going forward, the growth will be driven by:

- Specialty Pharmaceuticals (Sterile Products): Growth in Radiopharmaceuticals and Allergy Therapy Products and ramp up of operations in CMO of Sterile Injectables
- Generics: New product launches and capacity expansions
- Life Science Ingredients: Additional capacity due to retrofitting and new product introductions
- Drug Discovery Solutions: Onboarding of new customers

Our endeavors to reduce debt through operating cash flow and to improve key financial ratios will continue.

I would now request Mr. Sankaraiah to share his perspectives on our financial performance during Q3 and 9M FY 2017.

R. Sankaraiah: Thank you, Mr. Bhartia. I am thankful to everyone for taking out time and joining us on today's earnings conference call. Let me give you a brief on our Financial Highlights for Q3 & 9M FY-2017.

In Q3 FY-2017, income from operations improved by 7% YoY to Rs. 1,492 crore. The performance was largely on account of superior performance in the Pharmaceuticals segment which had revenues of Rs. 785 crore, higher by 15% YoY and contributing 53% to the overall revenues. More important, our Specialty Pharmaceuticals (Sterile Products) business within this segment grew a healthy 26% YoY during the quarter and now contributes 56% of total Pharmaceutical sales as compared to 51% in Q3FY16. Our Generics business revenues grew 3% YoY, led by growth in APIs, which was offset by lower prices in our US formulations business. LSI revenues were at Rs. 663 crore, contributing 44% to the overall revenue, lower 3% YoY and up 8% QoQ. Drug Discovery Solutions revenues were higher by 28% YoY at 44 crore and contributing 3% to the revenue. International revenues stood at 1,062 crore, contributing 71% to the total revenue.

EBITDA for Q3 FY-2017 grew 9% YoY to Rs. 337 crore with EBITDA margin of 22.6% as against 22% in Q3 FY-2016. Pharmaceuticals EBITDA grew 11% to Rs. 247 Crore, with margins of 31.5% and contributing 70% to the company's EBITDA during the quarter. Life Science Ingredients EBITDA stood at Rs. 99 Crore with margins at 14.9%, up from 14.2% in Q3'16 and contributing 28% to the company's EBITDA. Drug Discovery Solutions EBITDA was at Rs. 6 Crore with margins at 13.3%, up from 1.3% in Q3'16.

In 9M FY-2017, income from operations stood at Rs. 4,365 crore. Pharmaceuticals revenue stood at Rs. 2,308 Crore, up 10% YoY and contributing 53% to the revenues. Within this segment, Speciality Pharmaceuticals grew 11% YoY. LSI revenue were at Rs. 1,926 Crore and contributed 44% to the revenues. Drug Discovery Solutions reported revenue at Rs. 131 Crore, up 53% YoY and contributing 3% to the revenues. International revenues stood at Rs. 3,096 Crore, contributing 71% to the revenues.

EBITDA for 9M FY-2017 increased to Rs. 1,055 crore, translating to EBITDA margin of 24.2% versus 22% in corresponding period last year. The growth was on account of our Pharmaceuticals segment which reported EBITDA of Rs. 759 crore, up by 13% YoY, leading to an EBITDA margin of 32.9%. The Pharmaceuticals segment now contributes about 69% to the Company's EBITDA. Life Science Ingredients reported EBITDA of Rs. 318 crore, translating to EBITDA margin of 16.5%, up from 15% in 9M'16. Drug Discovery Solution EBITDA stood at Rs. 20 crore, translating to EBITDA margin of 15.5%.

Depreciation and amortization for the quarter was at 73 crore as against Rs. 75 crore in Q3 FY-2016. Total finance cost was Rs 98 crore including one-time cost of Rs. 27 Crore due to writing-off of Debt Initiation Cost on replacement of high cost debt from the recent high-yield bond issue. Excluding the above, finance costs were less by 20% at Rs 71 crores. We expect the finance costs to go down further due to recent issuance of Non-Convertible Debentures of Rs. 495 Crore and Commercial Papers. At present, the average interest cost of Rupee term loan has come down to 8.56%, reduced from 11.03% as compared to end–September 2016 and the dollar borrowing at 4.75% from 5.19%. Accordingly, the current blended interest rate is 6.37% as compared to 7.95% as on end- Q2 FY 2017. PAT for the quarter stood at Rs. 120 crore with an EPS of 7.69 per Re. 1 paid up. Excluding the one-time finance charges, Normalized PAT was Rs. 145 crores, with Normalized EPS of Rs. 9.30, a growth of 18% YoY.

In 9M FY2017, Net profit was higher at Rs. 426 crore, as compared to Rs. 381 crore in 9M FY2016, an improvement of 12% YoY with EPS of Rs. 27.35 as compared to 24.50 during the period. Adjusting for one-time finance costs, net profits stood at Rs. 451 Crore, growing 19% YoY with an EPS of Rs. 28.95.

Let me share some Balance Sheet perspectives now: In the quarter, the Company generated net cash of Rs. 55 crore. In the period till December 31, 2016, the Company has repaid Rs. 451 crore in the debt and the net debt stood at Rs. 3,739 crore on a constant currency basis. In 9M FY-2017, the CAPEX stood at Rs. 206 crore. For FY-2017, we maintain our guidance of annual CAPEX of Rs. 300 crore. Pharmaceuticals R&D spend during 9M FY-2017 was at Rs. 190 crore that is 8.2% of the segment sales. Pharmaceuticals R&D charged to profit and loss account in first nine months of FY2017 is Rs. 96 crore or approximately 4.2% of sales, with the balance capitalized to the balance sheet.

In conclusion, I would like to state that the turnaround in performance has been on account of strengthening operations in our core business. Going ahead, we expect the sales and profitability to be robust. The Pharmaceutical Segment is expected to continue its superior performance led by improved performance in Specialty Pharmaceuticals (Sterile Products) due to growth in Radiopharmaceuticals and Allergy Therapy Products and ramp up of operations in CMO of Sterile Injectables, and growth in Generics due to new product launches and capacity expansions. Growth in Life Science Ingredients is expected to be driven by additional capacity due to retrofitting and new product introductions. Drug Discovery Solutions is expected to grow on the back of onboarding of new customers. We will continue our endeavors to reduce debt through operating cash flow generation.

With that, I would like to conclude our opening remarks. We will now be happy to address any queries that you may have.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Anmol Ganjoo from JM Financial Institutional Securities Pvt. Ltd. Please go ahead.

Anmol Ganjoo: First on some revenue line item. I know these are not absolutely very large numbers, but what explains the sharp sequential growth in Europe and Japan in the Pharma business?

R. Sankaraiah: In Europe and Japan Pharma business, the revenue for Q3 FY2016 was Rs. 94 crore and the corresponding revenue this year is Rs.138 crore, this is mainly because of the European revenue which has gone up on account of Pharma business with rest of the world markets.

GP Singh: It is a normal growth of improved supplies of existing products and stabilizing of business on which we had focused right from the beginning, but now our operations have stabilized and that is the normal growth we were expecting, we do not expect the similar growth going forward quarter-by-quarter.

Anmol Ganjoo: Because last quarter if we look at this number was Rs.106 crore which is now in the neighborhood of Rs.140 crore. So from FY'18 standpoint, where do we see the annualized run rate stabilizing at?

Shyam S. Bhartia: Quarter-on-Quarter the supplies of some of the products may vary, but we are also expecting overall good growth from Europe and Japan for the year.

Anmol Ganjoo: After a very strong performance in the last quarter, we have further bettered gross margin profiles, any particular drivers here in terms of mix and how do we kind of look at going forward?

R. Sankaraiah: Like I mentioned in my speech, it is mainly contributing because in Specialty Pharmaceuticals, the quality of revenue is improving substantially. If you see the Specialty Pharmaceuticals business has grown 26% during this quarter. That is the reason for the better margins. This is basically the Radiopharmaceutical, Allergy Therapy products and CMO business.

Anmol Ganjoo: We have seen sequential drop in our interest servicing cost and you say you expect to do better than that, it will continue to fall further, is that correct?

R. Sankaraiah: Yes, the blended interest rate will continue.

Anmol Ganjoo: From an FY'18 standpoint, what is the further improvement that we are looking at, not quarterly thing but more from a full year perspective, if we have to see this number?

R. Sankaraiah: It will be around 6% on blended basis because the recent issuance of NCDs which have not been accounted in December quarter. There will be a further reduction of interest.

Moderator: Thank you. The next question is from the line of Saion Mukherjee from Nomura Financial Advisory & Securities India Pvt. Ltd. Please go ahead.

Saion Mukherjee: Sir, you mentioned about this price increase of up to 15% for Beta Picoline, Cyano Pyridine and Vitamin B3, what will be the impact of this increase and how will this play out in terms of guideline?

Pramod Yadav: Yes, we have made this announcement towards end of December and the price increase in the market has more or less gone through. So, we continue to watch the situation and we will explore the opportunity as and when the time arises to increase it more if required.

Saion Mukherjee: So you mean to say that in the entire portfolio the realizations have gone up by 15% for these products from January itself, so this quarter this impact would be visible?

Pramod Yadav: For these three products for which we made this announcement, increase will be visible.

Saion Mukherjee: Can you quantify the revenues before the increase for these products so we can conclude the impact?

Shyam S. Bhartia: We are not giving any product wise revenues.

R. Sankaraiah: Saion, you know very well, we are not talking product wise as we are already giving enough details and breakup segment wise. I think that is good enough.

Saion Mukherjee: In terms of the pricing environment for both Nutrition products and Pyridine, what are your expectations over the next two years given the competitive dynamics that you are seeing, as a base case do you see it is going up from here or there is a possibility of a correction?

Shyam S. Bhartia: I think the price has been corrected in this quarter only. So we do not expect price increase going forward. So we will be happy if this price is maintained during the next few quarters.

Saion Mukherjee: Sir, one finance question; first on the manufacturing expenses. They tend to be volatile but there seems to be some increase quarter-on-quarter. Is there anything to read there and how do we expect this number going forward?

R. Sankaraiah: This change is mainly because of mix. We have a combination of businesses. The cost changes mainly because of mix and increase/decrease in stock. There is nothing to majorly read in between there.

Saion Mukherjee: On this Rs. 27 crore of one-time charge, can you just explain for this finance cost, what is this regarding?

R. Sankaraiah: When we raise high yield bonds of $300 million, that cash we have used to repay the high cost debt. When you take any debt, we pay the upfront fee and we pay the coupon. As per the accounting standards, the upfront fee can be amortized over a period of the loan period as per IND AS, this is called “Debt Initiation Cost. ”Since we have repaid all those high cost debt, there was an upfront fee which is supposed to be written off over a period of next four years, everything we have debited to P&L because those loans are no more existing. So all those things have come to the debit to the P&L account in this quarter itself. It is one-time. That is the reason.

Moderator: Thank you. The next question is from the line of Nagraj Chandrashekar from Laburnum Capital. Please go ahead.

N. Chandrashekar: Two questions; the first is on the Pharmaceuticals side. EBITDA has been sort of flat over the last couple of quarters and if I just take your qualitative commentary, it looks as though on the non-specialty portion of it, we are seeing a fair bit of price deflation in line with industry. So we have been in this Rs. 240-250 crore range for a couple of quarters now. I am just curious that we take the growth in Specialty Pharma that you say you are maintaining and I am assuming that there is less pricing pressure in Specialty, then even maybe some opportunity you take increases in pricing, I do not know. At what point can we actually expect to see growth in Pharma EBITDA or is it fair to say that for the foreseeable future you are saying whatever growth you get in the Specialty side will merely offset the pricing pressure you see in the non-Specialty side? Secondly, on the Life Science Ingredients side, I think you had indicated earlier that when oil prices or commodity prices fall, you are able to protect EBITDA margin because the correct way to look at it really on an EBITDA per ton basis. EBITDA has actually come off in LSI relative to the last few quarters and I am just wondering is this more of a timing thing where prices went up and you were not able to take the price increase in time that came in December, so we should expect EBITDA to revert to a normalized 110,120 level in the next few quarters or could we expect better than that as a result of your price increase?

Shyam S. Bhartia: I think on the first question of your Pharma, if you see our Specialty Pharmaceuticals business, it is growing at a much higher rate than the Generic business. But within the Generic business also, our API business is doing extremely well. So only the pricing pressure is limited in our US Generic business. Our rest of the world Generic business is doing well and price margins are strong and being protected. So only a section of the Generic business which is in US is under pricing pressure. So, if you see, in Europe, Japan and rest of the world, our pricing and the margins are in fact better and API is also very good and steady. So only the price is on a limited section of the US market. Whereas Specialty business is growing, so overall margin has been protected. That is all.

N. Chandrashekar: But is it fair to expect that at some point US margin is going to go to zero or reach some low base and stay there and then from that point onwards you should actually see an increasing Pharma EBITDA. Are we close to that yet or do you expect for the next few quarters we should just assume that EBITDA will be protected but we should not expect much growth because these two factors will offset each other?

Shyam S. Bhartia: I think the EBITDA will keep on improving because of our new product introduction in the market and we expect that on the existing products also we may get better pricing. So our expectation is good in our business in US. That is why we are there and that is why we are filing new products. So with new products approvals, we expect our margins to be better going forward.

N. Chandrashekar: But that is likely to kick in only a year, year and a half from now, right? So for the next couple of quarters, should we just be expecting a similar margin and then in a back ended way as maybe Rubyfill starts ramping up or the newer generic products with higher margins start ramping up, maybe FY'19 or something we start seeing an EBITDA acceleration or would you expect it sooner?

Shyam S. Bhartia: So we are launching new products in every quarter. As we launch new products, we hope our overall margins in Generic business in US should be improving quarter-on-quarter. Of course you can never say on the price predictions because there has always been a pricing pressure on some of our existing products or the new products in the market, etc., depend upon the competitors in the marketplace. However, our rest of the world is also growing very well and that has a good margin. API business is growing very well. We have put in some new capacities which will be operative in first quarter of next year. So with this we expect the overall Generic margin to be maintained and only the US portion is under pressure which we hope, Quarter on Quarter, it should be better.

N. Chandrashekar: On the LSI side?

Shyam S. Bhartia: You have seen that Quarter on Quarter we have increasing sales but overall margin in the business is better than the last year's margin in the business. But Quarter on Quarter because of product mix, the margins may differ, but overall EBITDA is growing.

N. Chandrashekar: But given that the price increase has been taken, should we expect that we will be doing somewhere in the Rs.100 crore run rate EBITDA in this business or is there scope for upside from that based on the increased effect.

Shyam S. Bhartia: As we said in first quarter, our prices have gone up for some of the products. So we expect better margins in first quarter.

Moderator: Thank you. The next question is from the line of Jagdish Bhanushali from Star Union Dai-ichi Life Insurance. Please go ahead.

Jagdish Bhanushali: Quarter on Quarter we have seen 320 basis points reduction in gross margin. So any specific thing or just product mix that is impacting the loss?

R. Sankaraiah: It is because of product mix only.

Jagdish Bhanushali: That is coming from Life Science vertical?

R. Sankaraiah: Life Science and Generics, both.

Jagdish Bhanushali: Like how have been the volumes in Life Science Nutrients and Pyridines for this particular quarter Year on Year and Quarter on Quarter?

Pramod Yadav: This quarter volumes are better than the previous quarter because you may have seen that there is a quarter-over-quarter growth and price increase announcements which have been discussed. Since, they were actually made towards the end of the December, the impact of those will be seen in the running quarter in which we are.

R. Sankaraiah: If you see Quarter on Quarter, there is 8% growth in Life Science Ingredients business. That was mainly because of the volume growth.

Shyam S. Bhartia: Next quarter also we expect better Quarter on Quarter increase.

Jagdish Bhanushali: As crude moves up, wanted to understand, what is the delta in our volumes like for Nutrients and Pyridine for us because our process of manufacturing is slightly different?

Shyam S. Bhartia: As crude moves up, the prices in the products try to move internationally little better. But the crude movement has been very-very minor as compared to last year, it has been going up and coming down. So I would say a negligible impact on our business up till now.

Jagdish Bhanushali: In terms of understanding, as we manufacture through the process of molasses, so as the crude moves up, is this beneficial for the volume offtake for Jubilant Life?

Shyam S. Bhartia: No, I think it is a complex relationship because crude movement has been very minor and has been going up, then coming down, so it is not much of impact.

Jagdish Bhanushali: Wanted to understand in how many hospitals, institutions are we targeting Rubyfill for FY'18?

GP Singh: Unfortunately, we do not speak product-specific.

Shyam S. Bhartia: But in many hospitals in the US, especially in key hospitals, initially we were planning with high volume centers and during Q4 we will be installing in few hospitals and then ramping up again in April quarter.

Moderator: Thank you. The next question is from the line of Neha Agarwal from Edelweiss Securities Limited. Please go ahead.

Neha Agarwal: I would like to know with respect to Acetyl sales considering that you have spoken of Europe and emerging markets sales to have gone up if I am not wrong. So is it because of Acetyl?

R. Sankaraiah: We were talking about Pharmaceuticals, not of Acetyl.

Neha Agarwal: So then what is the status of Acetyl range of organic intermediaries?

Shyam S. Bhartia: Acetyl total volumes on Quarter on Quarter has gone up.

R. Sankaraiah: Life Science Ingredients international sale has gone up from Rs. 241 crore to Rs.273 crore, 13% growth for Q2 to Q3 and Europe and North America has gone up from Rs.174 crore to Rs.192 crore, 10% growth.

Neha Agarwal: If I talk about on a nine-month basis, then what has been the status of the overall Life Science segment and if you could break up between Specialty and Chemicals further?

R. Sankaraiah: Nine months if you see the total compared to previous year there is a reduction of 21% in international sales, so that we already explained. It is mainly on account of lower input prices whereas the EBITDA margins are better compared to previous year.

Neha Agarwal: If you could also give some highlights on the Radiopharma segment?

R. Sankaraiah: Radiopharma segment wise we are not giving.

Shyam S. Bhartia: Radiopharma, basically we have said that we have signed three year contracts with large Radiopharmacy which expire on 31st December. So that gives a good visibility on the legacy going forward and overall in Specialty Pharmaceuticals, our growth has been good YOY, so basically driven by Radiopharmaceuticals and also the CMO of Sterile Injectables.

Neha Agarwal: Within Specialty Pharma, if I speak of the two other segments if I could split it, so one of them would be the Drug Discovery part, I know the growth over there is more on a stagnant side. So would it be flat for the nine months period?

Shyam S. Bhartia: In Specialty Pharmaceuticals, we have three businesses – one is Radiopharmaceuticals, other is the Allergy Therapy products and the third one is CMO of Sterile Injectables. Drug Discovery business is a total separate segment which we have discussed separately. So all the three segments have shown good growth during the quarter.

Neha Agarwal: If I could put in some numbers of Drug Discovery separately if you could say for the nine months' period?

R. Sankaraiah: For the nine-months it is about Rs.130 crore with the EBITDA of Rs. 20 crore.

Moderator: Thank you. The next question is from Ranvir Singh from Systematix Shares & Stocks (I) Ltd. Please go ahead.

Ranvir Singh: First question relates to price increase we have taken in Vitamins business of Picoline. So the percentage terms is up to 15%. So I assume that few derivatives have been taken on lower and higher end maybe 15%. So what has been the average increase in price?

Shyam S. Bhartia: Yes, approximately 15% is an average increase in price.

Ranvir Singh: This increase in price has been triggered due to increase in input cost it is just like demand/supply situation where we got opportunity to increase it?

Shyam S. Bhartia: No, I think it is because of the market forces and also our earlier prices were lower, that is why there is an opportunity to increase prices. So we took the price increase.

Ranvir Singh: So effectively EBITDA should go up when we take full effect of this price increase?

Shyam S. Bhartia: Yes, of course, EBITDA should go up.

Ranvir Singh: When we talk Specialty Pharma, that means that CMO plus Radio and Allergy, that is the three elements we are including?

Shyam S. Bhartia: That is right.

Ranvir Singh: So in Generics, the growth has been driven by API. So we assume that Solid Dosage growth has been flattish. Correct?

Shyam S. Bhartia: The growth has been good in API and also in Solid Dosage in Europe and Japan, as we have explained there is growth, in rest of the world also there has been growth, only pressure has been on the US market.

Ranvir Singh: Going forward, for Solid Dosage in Generic space, is there any big products in the pipeline if you could highlight something which is upcoming?

GP Singh: We have a decent pipeline of products. So we have almost 27 products pending in various stages. So that is the information we are sharing at the moment.

Shyam S. Bhartia: Both large and small products.

Ranvir Singh: The new facility which has been operational for Picoline, Beta, Gamma, Alpha, this facility at the same place where the Symtet was there or this is a different facility?

Shyam S. Bhartia: No, in our existing facilities we can also produce the same these two products – Alpha and Gamma – So we are using existing facilities to produce that.

Ranvir Singh: This is the same thing we have been talking about that retrofitting the existing site and there only this has been happened, right?

Shyam S. Bhartia: That is right.

Ranvir Singh: Orphan Drug which we have got for I-131 MIBG, so if you could give some more light in terms of timeline and what market potential we can see from this product?

Shyam S. Bhartia: I-131 has been already given orphan drug status by USFDA for us and the product has already been supplied by our company under USFDA program to hospitals for Neuroblastoma which is a cancer. So we are going to start the clinical trial sometime and the trial would take some time and I think by the time we get product approval it will take at least two years.

Ranvir Singh: So even on a faster approval it takes two years after Phase-2?

Shyam S. Bhartia: Normally it takes two years because we have to do certain number of patients which have been approved by USFDA and then results of those patients take time to tabulate, etc. But if the patient results are good, then USFDA has agreed for expedited approval on this product. They want this product to be out as early as possible so that children who are having neuroblastoma cancer can benefit.

Ranvir Singh: How has been the market for this product in terms of market size?

Shyam S. Bhartia: Very difficult to give you market size on this product. The market size depends on the number of patients and also the recurring number of patients added every year. So we expect good market size and we have not yet decided on the pricing of the product as yet. As we move forward, because depending on the clinical benefit, we will decide on the price and then we can estimate a market price.

GP Singh: This is not being marketed, this is under humanitarian grounds, USFDA has approved expanded program to academic consortiums, sale is not happening. It is being supplied on humanitarian ground to terminally ill patients.

Shyam S. Bhartia: We only recovered our cost of sale as per the requirement.

Ranvir Singh: For Pyridine, how has been the total global demand size in terms of tonnage and what has been our market share there?

Shyam S. Bhartia: I think we are not going specific into the product wise but about the market I can let you know that there had been a reasonable growth in the market, it is growing by about 2-4% on annualized basis, it is close to 100,000 tons.

Moderator: Thank you. The next question is from the line of Shariq Merchant from Quest Investment Advisors Pvt. Ltd. Please go ahead.

Shariq Merchant: My question is on the R&D spend. I just wanted to understand the accounting policy here. How do you all decide on what amount is to be capitalized and what is to be expensed because roughly half of your total R&D spends get capitalized?

R. Sankaraiah: So product development is being capitalized as per the accounting standard. Any new process development, in any process whether it is API or LSI or any other places, all the new process development are written off in the books. So if there is a consequence of this development, if we expect a product which is expected to be launched in the market, based on the economic benefits of the product, we capitalize that.

Shariq Merchant: But since it is very early in the R&D piece at this stage, how do you determine whether it would be successful ?

R. Sankaraiah: All the earlier stage R&D is written off. Only if it is in case of a generic product, where we do the generic product development, where the certainty of the product getting developed, based on the success that is getting capitalized.

Shariq Merchant: So once you cross Phase-II for instance is when you capitalize?

R. Sankaraiah: Phase-II we do not even capitalize, let us be very clear on that. So what we do is in Dosage Form business, the generic product where we do the product development, that is getting capitalized as per accounting standards.

Shariq Merchant: So would it be safe to assume that a large part of this R&D spend that is getting capitalized would pertain to the Radiopharma business or would a large chunk be in Generics?

R. Sankaraiah: Large part is from Generic Dosage Form business. API R&D is completely written off. A part of Radiopharmaceuticals is capitalized, such as Rubyfill, 505(b)(2) where we have expected that the product is certainty of getting the approval, that we capitalize. But after capitalizing, we amortize it over the life of the product, predominantly it is 5-years. So that is why you will see a debit to P&L also on account of amortization, on account of process R&D write-off.

Shariq Merchant: So this will lie as intangibles in your balance sheet and then you will write it off over a period of five years?

R. Sankaraiah: That is right, we follow strictly as per accounting standards, because IND AS, we are not in a position to write off completely because there is a new product where it is getting generated, therefore we apply the accounting standard very strictly.

Shariq Merchant: So if you could also help me understand how do you see the trend of R&D spends moving over the next two to three years?

R. Sankaraiah: It will be in the range of about 8% approximately, out of that approximately more than 50-60% will be written off in P&L every year.

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

Ashish Thavkar: Sir, wanted your view on the Radiopharma business since we have new contracts in place, so by what timelines can we expect the realizations to flow in?

Shyam S. Bhartia: The new contracts whatever we had signed from 1st January itself, the realization of those contracts are already happening and these contracts are going to last for about 39-months as we have said in our press release, from 1st January already all supplies are going towards new contracts.

Ashish Thavkar: But it would be safe to assume that these are at better realizations than the previous ones?

Shyam S. Bhartia: These are at better realizations than our earlier contract.

Ashish Thavkar: This does not include Rubyfill?

Shyam S. Bhartia: No, it does not include Rubyfill. We supply directly to hospitals.

Ashish Thavkar: Market to be filled through our own team or there is like DraxImage which is there behind this?

Shyam S. Bhartia: DraxImage has own team which is selling Rubyfill and also they sell these products also to radiopharmacies.

Ashish Thavkar: How is the response to our product when our guys talk to the hospitals guys?

GP Singh: This is definitely an improvement from the previously available technology. So the market in general is excited. However, we are going to do a soft launch and build up from there, but the response till now has been very encouraging.

Ashish Thavkar: Some guys saying maybe we maybe or we will not go, so nothing of that sort?

Shyam S. Bhartia: I would like to explain about products. Our product is much better than the existing product which is in the market. Existing product which is in the market is analog product. Ours is completely digitized product with complete ease of operations and there are many benefits which we have described in our website. If you go through our website, you will see that our product has many benefits than the existing product. So people, key opinion leaders such as doctors who have seen our products are clearly supporting our product and they have understood the benefit of the product as compared to existing products in the market. So I think the market is waiting for the launch of the product and we expect good response from the market.

Ashish Thavkar: Again, the Radiopharmaceuticals business, do we have a pipeline which you are trying to build up?

Shyam S. Bhartia: Yes, we have said that we have already two products are pending approval; one 505(b)(2) and one other product and we are going to develop at least five products in next three years.

Ashish Thavkar: Second question would be on the CMO of Sterile Injectables, since we have an order book outstanding of $500 million plus, so would like to have your view on this, how should we assume and model these revenues from this business?

Shyam S. Bhartia: The CMO of Injectables business, as we mentioned earlier also, has a strong pipeline of orders and we are also regularly getting new orders from existing customers and request for new proposals from existing customers and some of the new customers also. So our business is very strong.

Ashish Thavkar: Your guidance on tax would be helpful. Is it a particular reason why we paid 29% tax because it was higher compared to earlier quarters?

R. Sankaraiah: Overall if you see for the current financial year it will be in the range of 27-28% tax. For the next financial year we will come to know in May.

Ashish Thavkar: Sir, you also mentioned API capacity starting next quarter. Was there a comment in the call?

Shyam S. Bhartia: Yes, there is incremental capacity which we have executed in our API which started in the fourth quarter but actual production and sale will start from first quarter next year.

Ashish Thavkar: This is for a particular client or we have our own business we are trying to push?

Shyam S. Bhartia: New client which we started commissioning.

Moderator: Thank you. The next question is a follow up question from Saion Mukherjee from Nomura Financial Advisory & Securities India Pvt. Ltd. Please go ahead.

Saion Mukherjee: Sir, regarding US Generics, it seems that there has been a significant decline in that business in this year. So just if you can comment on the pricing environment, is it something which is impacting companies like Jubilant who are relatively smaller or there you see the entire industry having the significant impact and I think you made a comment that we are coming to an end of it, why you think so?

GP Singh: If you look at the US market at the moment, there is overall consolidation of customer base. Because of that consolidation, I think every generic company is facing headwinds on the pricing. So we are facing exactly the same headwinds, there is pricing pressure because of competition and also because of the consolidation of the customers. Not different from any other generic company, bigger or smaller. We are hopeful that it has come to a point where further decline is difficult but it is very hard to predict or speculate at this point of time whether this will happen or not. The good thing which I want to highlight is that overall from a volume perspective, our volumes are up. So the business is growing but it shows decline on the value side just because of the pricing pressures.

Saion Mukherjee: When you compare, let us say in the recent past like this quarter versus last quarter, have things deteriorated here?

GP Singh: It is a constant process. If you look at it, in the last quarter, there are two large customers came together and made a consortium similar to what we have seen in the previous year with some other customers. So all that stuff has impact. So it is an ongoing kind of struggle which happens. Some quarter the impact is more, some is less. Depending on when the new competition comes in or when the RFP from the customers come out and how the pricing sees ahead for some of our key products.

Shyam S. Bhartia: That also depends upon the competition also because for some of the products there are competitors but our effort has been to keep our volumes and also to increase our volumes. I think that is positive. But at the same time, pricing depends upon not only on us but on the competitive pricing pressure because number of buyers has become very small and they have consolidated. So the pricing pressure, otherwise the earlier buyers were 6-7, now it is only 3. So with this the competitive strength of buyers has increased substantially.

Saion Mukherjee: So this pressure you have seen across your portfolio, right? This is not product-specific, even very old legacy products would have also seen meaningful cuts?

Shyam S. Bhartia: All the product prices have come down but while some prices have come down more, some prices have come down less. We cannot say exactly.

Saion Mukherjee: On a portfolio basis, will it be possible for you to give a number like Year on Year how much is the pricing down in US Generics?

GP Singh: Unfortunately, we will not be.

R. Sankaraiah: Very difficult to do that.

Shyam S. Bhartia: Because we keep on introducing new products also every quarter.

Saion Mukherjee: No, I was just referring to the legacy basket whatever you were selling a year back, let us say you are like x million of dollars, how much is that basket now, that basically is the way I would look at pricing?

R. Sankaraiah: Then we have to bifurcate what is the new product introduction during the year, what is the price and those kinds of things. So the price variants, volume variants, we have to identify, all those things. Also, we are not getting into that kind of detail here.

Saion Mukherjee: Two quick questions on API. So the growth compared to the previous year because you put up capacity, so can we expect faster growth in API over the next couple of years?

Shyam S. Bhartia: I think we believe the next year growth is expected to be better.

R. Sankaraiah: Because we have not invested in any of those API plants in the last three years. So we have added one line this time with the minimum CAPEX. So despite that we have been able to reduce our debt of about Rs.450 crore in the nine months. So with that capacity addition, our volume should grow.

Saion Mukherjee: These are like newer API products which have higher margins for the US market or these are really older products where you would get volume shares?

Shyam S. Bhartia: We continue to keep our margins. It is a good business.

Saion Mukherjee: Sir, one clarification on Symtet plant that you have. Just to understand you are not selling any more Symtet and retrofitting it for newer products, right? And I remember you talked about $100 million potential sales from Symtet. Now with this retrofitting and all, how should we think about these revenues over the next few years?

Shyam S. Bhartia: We have already retrofitted some of the plants and the revenues have been also included in the 2017 sales and some additional retrofitting which we will be doing will be starting in 2018. But apart from that, we have about 7-8 products every year we are going to launch the new products in the marketplace both in FY 2018 & FY 2019 there is a clear cut visibility because we already have discussion with our customers both Agrochemicals and Pharmaceuticals customers and some of the product samples which we supply this year exactly in some stage during FY 2018 some of the products samples we should be supplying next year FY 2018 will result sales in FY 2019. So I think there is a good pipeline of the products. So some of these plants will be used for the pipeline of these products.

Moderator: Thank you. The next question is from Aditya Ahluwalia from Invesco Hong Kong Ltd. Please go ahead

Aditya Ahluwalia: Can you update me what is the market size now and Rb-82 isotope, is that gaining share?

R. Sankaraiah: We have done the press release at that point of time for Rubyfill we mentioned in 4-5-years' time the market size can be as high as $250 million.

Aditya Ahluwalia: How are you tracking that?

R. Sankaraiah: We have mentioned at that time also, the current market is about $65 million which is expected to grow because of various reasons to up to $250 million over a period of 4-5-years.

Aditya Ahluwalia: Just in the Radio business, the next approvals that we expect are Magnevist and Ceretec, We have not spoken about these. Is there anything in the public domain?

Shyam S. Bhartia: No, these are different products which we have discussed.

R. Sankaraiah: This is in pipeline.

Aditya Ahluwalia: Can you just tell us the addressable opportunity like the addressable market size of the pipeline?

R. Sankaraiah: It will be approximately about $40-50 million for these two products.

Aditya Ahluwalia: The addressable size of the pipeline, that has already been filed?

R. Sankaraiah: We are not getting into those details.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Bhartia for closing comments. Over to you, sir.

Shyam S. Bhartia: We thank you very much everybody for joining this call. If you have any questions, I think Ravi and Sankaraiah and ultimately myself also are ready to answer any specific questions.

R. Sankaraiah: Thank you.

Moderator: Thank you members of management. Ladies and gentlemen, on behalf of Jubilant Life Sciences Limited, that concludes today's conference call. Thank you all for joining us.