Jubilant Life Sciences Limited

Q4 FY17 Earnings Conference Call Transcript
May 23, 2017

Moderator: Ladies and Gentlemen, Good Day and Welcome to Jubilant Life Sciences Limited Q4 and 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 an operator by pressing '*' then '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, Mr. Agrawal.

Ravi Agrawal: Thank you and Good Evening to everybody. I am Ravi Agrawal, Head of Investor Relations at Jubilant Life Sciences. I thank you again for being with us today on our Q4 and 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 of 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 – Whole time director of the company and co-CEO 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 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. Good Evening to everyone joining us on today's call. We shall be discussing perspectives on Jubilant Life Sciences Q4 and FY17 performance. We are pleased to announce that the company has reported highest ever revenue and profits in FY17. The differentiated business model focusing on Specialty Pharmaceuticals has enabled us to deliver exceptional results and build a strong base for growth in our Pharma business. The company has generated strong operating cash flow, which enabled reduction of debt and is expected to deliver better results going forward. Our focus is to strengthen the balance sheet, invest in strategic opportunities without increasing debt levels and build strong pipeline or products across Specialty, Generics, and LSI businesses.

Let me share some of the important headline numbers:

During Q4 FY17, consolidated revenue was at Rs. 1,641 crore, up 8% year-on-year. EBITDA for the company was at Rs. 316 crore, up 7% year-on-year with EBITDA margins at 19.2%. Net profit stood at Rs. 150 crore with net margins at 9.1%. For FY17, we recorded highest ever consolidated revenue of Rs. 6,006 crore and EBITDA of Rs. 1,370 crore. Margins were at 22.8% for the year, up from 21.4% in FY16. Net profit stood at Rs. 576 crore showing a healthy growth of 47% year-on-year. Mr. Sankaraiah will provide you further details on the financials.

Moving on to the Key Business Segments:

In Q4 FY17, our Pharmaceuticals segment grew 3% year-on-year to Rs. 808 crore and now comprises 49% of the revenues.

I now share the geographical breakup of the Pharmaceuticals segment:

Revenue from North America grew a healthy 14% year-on-year and 10% quarter-on-quarter to Rs. 580 crore contributing 72% to the revenue. Revenues from Europe and Japan were at Rs. 130 crore contributing 16% to the revenues. Revenue from rest of the world stood at Rs. 57 crore contributing 7% to the revenues. India revenue stood at Rs. 42 crore up 43% and 6% quarter-on-quarter contributing 5% to the revenue.

Let us move on the key highlights of the businesses:

Specialty Pharmaceuticals reported a strong revenue growth of 13% year-on-year and now contributes 54% of the total Pharma segment sales. For the full year, Specialty Pharma sales grew 11% year-on-year and its share to the total Pharma sales stood at 53% as against 52% in FY16. I am happy to report that all the key businesses in this highly differentiated segment have witnessed growth during the year and the outlook is very positive for these businesses. We have successfully completed the first installation of Ruby-Fill in Florida and the response has been very heartening. We are on track for commercial launch of Ruby-Fill in FY18. In our Generics business, for the full year, revenue stood at Rs. 1,461 crore, a growth of 4% year-on-year contributing 47% to the segment.

Our API business and Rest of the World Dosage business has shown respectable growth. Overall sales have been muted due to continuing supply chain consolidation in US market.

I now share important developments with regard to regulatory and R&D initiatives in FY17:

In Q4 FY17, USFDA inspections at Roorkee and Cadista facilities were successfully completed with zero 483 observations. For the full year, we have received eight approvals from USFDA including important approval for Ruby-Fill and filed nine ANDAs and made one 505(b)(2) filing. We have also in licensed two products for the US market. In radiopharma, we have two filings pending approval in US. In FY18, we expect to continue the pace of filings and plan to make around 10 dosage filings and two radiopharma filings and launch 10 products in US market.

Life Science Ingredients Segment:

Life Science ingredients segment reported revenue of Rs. 782 crore during the quarter contributing 48% to the overall revenues. The revenues grew strong 13% year-on-year and 18% quarter-on-quarter led by Advanced Intermediates and

Vitamins and Life Science Chemicals businesses. If you recall, in our last interaction with you, we had indicated that we expect this business to grow from the base achieved in the last quarter and we are happy to have achieved our commitment. During the quarter, we completed commercial production of two Specialty Intermediates products. Our endeavor of retrofitting capacity expansion and new product launches in Specialty Intermediates business continues as per schedule and we expect to launch at least seven products in FY18.

To give you a sense of geographical breakup:

Revenues from international markets were 43% of the overall revenues at Rs. 335 crore, up 4% year-on-year and 23% quarter-on-quarter. Revenues from key developed markets were at Rs. 227 crore contributing 29% to the segment revenue and growing 19% quarter-on-quarter. India business increased by 21% year-on-year and 14% quarter-on-quarter and stood at Rs. 447 crore. In an important development, National Green Tribunal has permitted us to restart manufacturing operations at Gajraula facility excluding our distillery plant. We have complied with the NGT orders and restarted our operations. Being a good corporate citizen, we are an environmentally conscious company and we focus on triple bottom line of economic, environmental, and social performance. I would like to emphasize that we operate our manufacturing facilities in Gajraula with zero liquid discharge and all our manufacturing facilities including those at the Gajraula comply with all the applicable laws. Our sustainability performance has been published since the year 2003 in accordance with the principles and guidelines of global reporting initiative with highest A+ level rating, which is externally verified.

Lastly, let me give you an update on our Drug Discovery Solutions Segment. In Q4 FY17, revenues from this segment grew 27% year-on-year to Rs. 51 crore and now contribute 3% to the overall revenue. I am glad to share that in proprietary drug discovery, we have robust pipeline of novel products and we continue to evaluate expanding licensing opportunities for some of our existing pipeline of products. During Q4 FY17, we successfully achieved toxicology milestones of US$ 400,000 for one of our out licensed proprietary molecules. We also renewed business contracts with existing clients and on-boarded several new clients. Before sharing the outlook for FY18, I would like to share some thoughts on our recently announced intention to acquire radio-pharmacy asset of Triad. We are extremely excited by adding such business to our specialty Pharma business. Triad operates second largest network of radio-pharmacy in the US and with more than 50 pharmacies distributing nuclear medicine products through the largest national GPOs, regional health system, standalone imaging center, cardiologists, and hospitals.

The acquisition is strategic fit to Jubilant's niche nuclear medicine business and will provide Jubilant with direct access to the hospital networks with ability to deliver more than 3 million patient doses annually through approximately 1700 customers. The acquisition will facilitate Jubilant forward integrate in the radio-pharmaceuticals business thereby helping it better directly to serve healthcare provider and their patients with high quality radio-pharmaceutical products. Mr. Sankaraiah will share more details on Triad in his presentation.

In a key development, Jubilant Pharma Limited, JPL Singapore, a material wholly owned subsidiary of the company in its board meeting has resolved that it will evaluate the option of fund raising through an IPO by listing in International Stock Exchange including Singapore in the current financial year in order to strengthen the balance sheet of JPL, with the dilution not more than 15% of equity.

In another development, in order to strengthen the board, Mr. Vivek Mehra, Mr. S. K. Roongta, Mr. Priyavrat Bhartia, and Mr. Arjun Bhartia have been appointed as additional directors to the board.

We expect robust growth to continue going forward driven by our Specialty Pharma business. In FY18, better revenues and profitability is expected, led by integration of our strategic acquisition and new product launches from our strong pipeline.

- Specialty Pharma (Sterile products): growth in existing portfolio of products, new product launches and strategic initiatives in radiopharmaceuticals and ramp up of operations in CMO of sterile injectables
- Generics: new product launches and capacity expansions
- Life Science Ingredients: capacity expansion due to retrofitting and launch of seven new products
- Drug Discovery Solutions: addition of new customers and potential outsourcing opportunity.

Our endeavor to reduce debt and to improve key financial ratios will continue. I would now request Mr. Sankaraiah to share his perspectives on our Financial Performance during Q4 and FY2017.

R. Sankaraiah: Thank you, Mr. Bhartia. I thank all participants for taking out time and joining us on today's earning conference call. Let me give you a brief of the financial highlights for Q4 and FY2017. I am happy to report another quarter of consistent results in Q4 FY2017. During the quarter, Income from Operations increased 8% year-on-year to Rs. 1,641 crore. Improvement in financial performance was due to better results across all our segments. In Pharmaceuticals, the revenue for the quarter stood at Rs. 808 crore, contributing 49% to the revenue and up 3% year-on-year. The performance of the Specialty Pharmaceuticals (Sterile Products) has been robust and this business grew 13% year-on-year in Q4 FY2017. I would like to emphasize the increase in quality of our earnings with this niche and specialized business now contributing 54% of the total pharmaceutical sales versus 49% last year in the same quarter. Revenues in Generics business stood at Rs. 370 crore contributing 46% to the segment sales. LSI revenue for the quarter stood at Rs. 782 crore contributing 48% to the overall revenue and grew 13% year-on-year and 18% quarter-on-quarter led by the growth in Advance Intermediates, Vitamins, and Life Science Chemicals. As mentioned by Chairman, we are heartened by the recovery witness in the LSI segment and are confident that we will maintain the growth momentum in the coming quarter backed by higher volumes, better pricing, and new product introduction.

Drug Discovery Solutions revenue was higher by 27% year-on-year at Rs. 51 crore. International revenue stood at Rs. 1,151 crore, contributing 70% to the revenue and growing 3% year-on-year. EBITDA for Q4 FY2017 improved by 7% year-on-year to Rs. 316 crore translating to EBITDA margin of 19.2%. Pharmaceuticals segment EBITDA stood at Rs. 216 crore with margin of 26.7% and contributing 64% of the company's EBITDA during the quarter under review. I would like to highlight that the Pharma EBITDA margin in the quarter was particularly impacted by non-recurring expenditure amounting to US$ 4.4 million and we are confident that we will revert back to our historical margins in excess of 30% in the coming quarters.

Life Science ingredients EBITDA grew 12% to Rs. 116 crore with the margin at 14.8% contributing 34% to the company's EBITDA. Drug Discovery Solutions EBITDA was Rs. 6 crore with the margin at 10.9% as compared to 9.2% in Q4 FY2016. Depreciation and amortization in Q4 FY17 was at Rs. 75 crore as compared to Rs. 127 crore in Q4 FY16. Total finance cost stood at Rs. 80 crore versus Rs. 99 crore in Q4 FY16. Finance cost include charge on stock settlement instrument of Rs. 26 crore, being a non-cash debit to profit and loss account, on account of convertible instrument issued to IFC of US$ 60 million as a mandatory conversion option at IPO of JPL. Also, it includes Rs. 5 crore one time debit to P&L due to replacement of high cost debt from the issue of NCD. Thus, PAT for the quarter stood at Rs. 150 crore with an EPS of Rs. 9.63 per share of Re. 1 paid.

Let me discuss 2017 numbers. Income from operations was at Rs. 6,006 crore, Pharmaceuticals revenues were higher at Rs. 3,117 crore up 8% year-on-year and contributing 52% to the revenues. Within this segment, Specialty Pharmaceuticals displayed a growth of 11% year-on-year. As emphasized earlier, this growth is a testimony to our strategy and the business model wherein we have been able to build multiple levers of exciting and differentiated businesses which have helped the business deliver robust performance. This has been aptly demonstrated in the consistent growth witnessed in Specialty Pharmaceuticals segment despite strong headwinds in the US Generics business from supply chain consolidation. LSI revenue stood at Rs. 2,708 crore and contributed 45% to the revenue. Drug Discovery Solutions revenue improved 45% year-on-year to Rs. 182 crore contributing 3% of the revenue.

International revenue stood at Rs. 4,247 crore, contributing 71% of the total revenue. EBITDA for 2017 was 9% higher year-on-year at Rs. 1,370 crore, translating to margin improvement of 143 basis points at 22.8% as against 21.4% in FY2016. This was led by the Pharmaceuticals segment which reported EBITDA of Rs. 975 crore, a growth of 9% year-on-year with a margin of 31.3% as against the margin of 30.9% achieved last year. The Pharmaceuticals segment now contributes about 68% to the overall EBITDA.

Life Science Ingredients reported EBITDA of Rs. 434 crore translating to EBITDA margin of 16%, an improvement from 15% in FY16. Drug Discovery Solutions EBITDA was at Rs. 26 crore translating to EBITDA margin of 14.2%. Depreciation and amortization in FY2017 was at Rs. 291 crore as compared to Rs. 347 crore in FY2016. Finance cost stood at Rs. 341 crore lower by 8% year-on-year. Finance cost includes charge on stock settlement instrument of Rs. 54 crore, being a non-cash debit to P&L, on account of convertible instrument issued to IFC of US$ 60 million as a mandatory conversion option at IPO of JPL. Also it includes 32 crore, one-time debit to profit and loss account due to replacement of high cost debt from the issuance of high-yield bonds and NCDs. Excluding the one-time debt charge from the debt initiation cost, the total finance cost of Rs. 309 crore is 17% lower year-on-year. At present, the average interest cost of Rupee Term Debt has come down to 8.8%, reduced from 11.6% in FY2016 and the dollar borrowings stood at 5.9% from 4.9% in FY16. Accordingly, the current blended interest rate is at 6.8% with a Rupee rate at 8.77% and dollar rate borrowing rate at 5.92%. However, please note that the blended interest rate without the charge of stock settlement instrument of IFC loan is at 6.12% going forward.

For the full year FY2017, net profit improved by 47% year-on-year at 576 crore as compared to 392 crore in FY2016 with an EPS of Rs. 36.93 as compared to Rs. 25.09 in FY16. Normalized PAT excluding one-time debt initiation cost stood at Rs. 608 crore, up 55% year-on-year with a normalized EPS of Rs. 39.05. The board has declared dividend of Rs. 3 per equity share of Re. 1 face value.

Let me share balance sheet perspectives now. In the quarter, the company generated net cash of Rs. 54 crore. In FY17, the company repaid Rs. 506 crore of debt and the Net Debt stood at Rs. 3,684 crore on a constant currency basis. Thus the company has reduced the debt by almost 900 crore in last two years. In FY2017, the CAPEX stood at Rs. 290 crore in line with our full year guidance of around Rs. 300 crore. Pharmaceuticals R&D spend in FY2017 was Rs. 260 crore, which is 8.4% of the segment sales. Pharmaceuticals R&D charged to profit & loss account in FY2017 is Rs. 123 crore that is 3.9% of the sale with the balance being the product development expenditure capitalized to the balance sheet.

For FY2018, we expect our capital expenditure to be around 400 crore. Our R&D expenditure as a percentage of sale is expected to be about 8.5% for the next year. The increased investment will be mainly funded through internal accruals and I would strongly emphasize our commitment to continue to reduce the debt. Our recent announcements to acquire radio-pharmacy asset of Triad in US is expected to provide a boost to our Specialty Pharma business, especially our niche nuclear medicinal business. Triad recorded revenue in excess of $225 million in calendar year 2016 with a positive EBITDA and the acquisition will be funded through JPL's internal accruals and is likely to be earnings accretive. We expect to close the deal in Q2 FY2018 and are currently in the process of completing customary closing conditions including contracts, regulatory and other approval. In conclusion, I would like to state that we have registered a healthy growth in operations led by strengthening performance in our core businesses. In FY2018, we expect the sales and profitability to continue to grow with a growth trajectory due to our strong pipeline of products. This growth will be enhanced by the strategic investments which the company will make.

The Pharmaceuticals segment is expected to continue with healthy performance on account of robust performance in Specialty Pharmaceuticals (Sterile Products) due to growth in existing portfolio of products, new launches and strategic initiatives in radio pharmaceuticals and ramp up of the operations in CMO of sterile injectables and growth in Generics due to new product launches and capacity expansion. I would like to add that we expect to maintain the Pharma margins in FY18 as against FY17. In Life Science ingredients, additional capacity due to retrofitting, seven new product introduction and selective price increases will enhance the performance. Drug Discovery Solutions will expand on account of on-boarding new customers. With that, I would like to conclude our opening remarks. We will now be happy to address any questions that you may have, please.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin with the question and answer session. The first question is from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.

Rakesh Jhunjhunwala My first question is you said you have US$ 4.4 million of exceptional expenses in the Pharma business and 5 crore in interest, can we know the nature of exceptional expenses?

G. P. Singh There is a lot of consolidation happening on the customer side which leads to some extraordinary situation and pressure on pricing, pressure on some adjustments, and this only relates to that and it is likely to be nonrecurring.

Rakesh Jhunjhunwala Nonrecurring 4.4, we might have taken a charge for earlier supplies, is that right?

G. P. Singh We would not like to go into details.

Rakesh Jhunjhunwala If this is a price based reduction then, how is the expense exceptional?

R. Sankaraiah This is a one-time charge which has come into profit and loss account on account of some shortfall, which is nonrecurring. If you take that into the P&L, then our margins of more than 31% in Pharma will continue. That is the comment we made.

Rakesh Jhunjhunwala What is that Rs. 5 crore interest you have said exceptional?

R. Sankaraiah That is debt initiation cost. When we borrowed the money at the lower interest rate, we paid off the existing loan which were at higher cost.

Rakesh Jhunjhunwala That is over now or some part of it is still remaining?

R. Sankaraiah It is all over.

Rakesh Jhunjhunwala Other question I had is that what is this IFC bond of 60 million, if it is converted you will reverse this interest for this?

R. Sankaraiah We will issue the equity share, we will not have any debit to P&L. This debit to P&L has come because every year we are providing 10% discount to the IPO price. We have to give them the discount. So it is a notional debit which is being taken and added along with the loan to increase the loan to that level so that when we issue that share, the loan will get reduced and equity will get increased to that extent.

Rakesh Jhunjhunwala That means you will issue equity equivalent to 60 million plus the accrued interest provided plus 10% of the IPO price.

R. Sankaraiah Absolutely right, that is US$ 60 million and accrued interest till date is another US$ 25 million, totally US$ 85 million, we will issue equity for that.

Rakesh Jhunjhunwala You will credit to your share premium account?

R. Sankaraiah We will debit the loan and credit the share capital to that extent.

Rakesh Jhunjhunwala In your note number 9, some intangible assets have been written off against the depreciation, is it over or is it going to continue?

R. Sankaraiah It will be again one-time write off which will be happening on account of asset write off etc

Rakesh Jhunjhunwala It is one time or will it recur?

R. Sankaraiah These are all the one-time items which are being written off.

Rakesh Jhunjhunwala How is your Life Sciences prices, lot of people are saying prices of vitamins and pyridine have risen substantially, is that right?

R. Sankaraiah Yes, we have already announced increase in price in Niacinamide. So, that business is doing very well now. Going forward also, we expect that business to continue to perform well.

Rakesh Jhunjhunwala Sir, this price increase come out when in April or they were applicable in the last quarter?

R. Sankaraiah The effect of that will go forward from this quarter onwards.

Pramod Yadav We had announced the price increase in the month of December to the tune of 15%. So far we have achieved the price increases more than what we announced.

Rakesh Jhunjhunwala But not in the Radio Pharma, I am talking of Life Sciences. I am talking of vitamin and that other pyridine product what you have?

Pramod Yadav Yes, I was talking about the vitamins, which is the Niacin and niacinamide in the Life Science Ingredient business.

Rakesh Jhunjhunwala What about the other products, we have pyridine?

Pramod Yadav The prices of Pyridine, Beta-Picoline and 3-Cyano Pyridine, which are the other Advanced Intermediates, they also continue to remain short in the market and the prices for them also is moving up.

Rakesh Jhunjhunwala What is this, you had a plant closure, so is it going to affect your sales for this quarter or you will make it up because you had inventory, when is the plant going to come back to normalcy?

Pramod Yadav The plant was closed by about 10 to 12 days and we are going to make up quite a sizeable quantity of whatever was the production loss in the rest of the year.

Rakesh Jhunjhunwala It may affect the quarter, but not the year?

R. Sankaraiah Yes. Marginal impact will be there but it will be taken care subsequently, in next quarter.

Rakesh Jhunjhunwala Current quarter could be affected?

Pramod Yadav To some extent.

Moderator Thank you. We have the next question from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee Sir, on the outlook front you mentioned about the Pharma business maintaining the margins, now you have better realization in radio-pharma business and also you have acquired Triad, which I assume will be a much lower margin, so what is the kind of assumption that you are making in, have you considered Triad when you guide for maintaining the margin?

R. Sankaraiah Saion, the acquisition is not factored in any of our discussion so far. That is the first point. Second point, as of today, the existing EBITDA margin in Pharma business for full year is 31.3%. We expect that overall, we expect at least to maintain the existing margins.

Shyam S. Bhartia We are talking without the Triad acquisition since we have not completed the acquisition as yet. We are not factoring Triad.

Saion Mukherjee Sir, on the LSI segment, in the previous question you answered that there is upward movement in pricing, you have announced some price increase in niacinamide, but then you mentioned the realizations are actually higher than that, so just can you clarify like where we are in pricing with respect to different products within the LSI segment, how much has been realized so far and how should we think about pricing going into next year from the Q4 base?

R. Sankaraiah Saion, we cannot get into the product wise details and we cannot talk about the price increases. So, we restrain from talking any of those things.

Shyam S. Bhartia Having said that, Pramod has just mentioned that there is a price increase of 15% which was announced in December and actual price increase experienced was more than 15%. Going forward, as Pramod was saying, some of these products like Pyridine and Beta-Picoline are in short supplies. So, prices are firming up but we have some signed contract already with our existing customers. So, for existing customers, it does not go up. It only changes when the contract expires. For the new customers, the prices will go up.

Saion Mukherjee Typically like when would these contracts for these key products would get renewed?

Shyam S. Bhartia Different contracts have different time period, in Vitamins, normally it is a quarterly contract. We typically enter into one-quarter contract. But, in Pyridine, in some cases it is also a quarter contract and in some cases it is little longer.

R. Sankaraiah Generally, it is a quarter, very exceptional cases for a very big customer, it can go up to annual, but on an average basis, majorly it is quarterly.

Saion Mukherjee The quarter is a not a very long timeframe, so what I mean to.

R. Sankaraiah That is why Saion I mentioned that the real impact, the full impact will be seen from Q1 on this real price increases.

Moderator Thank you. We have the next question from the line of Anmol Ganjoo from JM Financial. Please go ahead.

Anmol Ganjoo Just some kind of further color on some of the earlier questions, so I understand that pricing on contracts can take time, but is it fair to assume that next quarter we will see the benefit of these firmed up pricing environment on the LSI business from a full impact on a quarter standpoint or you think that this quarter itself contains a fair amount of reflection of that improved landscape for us?

Pramod Yadav Mr. Sankaraiah already mentioned to you that in this quarter, you will be seeing even more impact of the price increases.

Shyam S. Bhartia We will see more impact when the new contracts are signed in Q2.

Anmol Ganjoo In that context when Pharma margins are expected to hold up, there is upside possibility from LSI, what are we expecting from an outlook standpoint for the full year margins, any directional outlook would be helpful?

Shyam S. Bhartia We are not giving a full year margin outlook but we can only say that our margins in Pharma business are expected to be maintained for the whole year.

Anmol Ganjoo You are clearly not extrapolating the next quarter which we expect to be the full reflection of pricing environment on the LSI side from an FY18 perspective.

Shyam S. Bhartia Yes.

Anmol Ganjoo My second question is that Gajraula, I know the disruption was very brief but does this quarter contain the impact of that or?

Shyam S. Bhartia This quarter does not contain any impact. The impact would be seen in the next quarter that is Q1. But in Q4, there is nothing, no impact.

Anmol Ganjoo My last question is on the Triad acquisition, I know it is not completed but there must be a strategic thought process which must have enabled the transaction from your side, if you can just help us understand some of the key thoughts around that, what it is expected to do in terms of accelerating our trajectory in the radiopharma business?

GP Singh As we announced in our press release, it gives us direct access to the customers. So, we get access to 3 million doses and also to around 1700 customers. So, it fronts ends our business and gives us overall more control. The Radiopharmaceuticals business is all about delivery, all about customer service, all about being in front of the healthcare provider and the patient. We are able to achieve that objective with this acquisition.

Shyam S. Bhartia It is like a forward integration of part of our radio pharmaceutical business.

Anmol Ganjoo By when do we expect this to be consummated fully the transaction?

R. Sankaraiah We have certain regulatory approvals which are required to be obtained so we expect that in Q2 we should be in a position to complete this with all the approvals in place.

Anmol Ganjoo Obviously, we made reasonable progress on the debt reduction side, is there any goalpost we are working with in terms of leverage ratios for the full year or should we find something as interesting as Triad, we will go and relax our balance sheet considerations for that, any management thought process around that would be helpful?

Shyam S. Bhartia Currently, we are concentrating on Triad acquisition and Triad acquisition is completed through internal accruals. That we also said in our release. So, we hope that during next year our objective will be to again reduce debt through internal accruals.

R. Sankaraiah Like you mentioned that in last two years, we were able to substantially reduce the debt by 900 crore, last year being 506 crore and previous year about 400 crore. So, our focus is to continue to reduce the debt. But, in the process, Triad came in as an opportunity where we are able to forward integrate and also gain a major benefit out of this integration. So, we have looked into this, but that is very clearly without increasing the debt level.

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

Ranvir Singh This is related to radiopharma, can you give a breakup for FY17, the revenue from radiopharma and CMO business?

R. Sankaraiah We have given Specialty. The segregation what we have done is Specialty and Generics. So we are not getting into the business wise segregation.

Ranvir Singh I understand, because historically we have been looking at these numbers, so just I wanted to understand Radiopharma because last time, we renewed contract with the customers and that too at higher prices, so whether these are reflected in numbers or not, so if you could throw light on it?

Shyam S. Bhartia I think marginally at higher prices, but we did long-term contracts with our customers. But, that was reflected from January 1st and I think by the time we signed the contract and the contracts were operative with some of the customers, we were in the middle of the quarter. So, I think the full effect will be only visible in Q1.

R. Sankaraiah We have mentioned that growth was 11% in Specialty Pharmaceuticals. It is mainly driven by our radio pharmaceutical business.

Ranvir Singh We assume the CMO business would be steady, that is what you are saying?

R. Sankaraiah CMO there was a growth, but since the numbers of radiopharma is far better and higher, it is driven by radiopharma.

Ranvir Singh Actually, it is difficult to understand, despite being the specialty both business have different dynamics, being a CMO is different and radiopharma we have been looking at and for us it would be difficult to understand the future trajectory in absence of this breakup actually, so if you could just give that radiopharma per se, what growth we are expecting and CMO if possible?

R. Sankaraiah In Radiopharma alone, if you see, it is around 15% growth.

Ranvir Singh We suppose that Ruby-Fill would be in market in Q4 itself, so I was expecting little early or those are unscheduled?

Shyam S. Bhartia We could not start the marketing since as per the USFDA approval, we had to take three batch severity, which we completed in Q4 and first supply has been made in Q1. As we said in our statement, first Ruby-Fill has been installed in one of the hospitals in Florida and it is successfully running there.

Ranvir Singh What is your status there in Canada for Ruby-Fill?

GP Singh The Ruby-Fill approval we have always been talking about the US launch and that is where the primary market is, that is where the future growth prospects are. Ruby-Fill in Canada is already available in some selective locations, but our primary focus will be the US market, not the Canadian market.

Ranvir Singh But in Canada we already got the approval for both the element that drug and that system?

Shyam S. Bhartia Ruby-Fill, I think we got the approval on the generator, the infuser is still not approved and it is still pending approval in Canada.

Ranvir Singh Yet, we have launched?

Shyam S. Bhartia No, we cannot launch it, but on trial basis this has been launched in few hospitals in Canada.

Ranvir Singh Coming to LSI segment, how many new products have been added during this quarter?

Pramod Yadav From the retrofitting, we have added two products during this quarter.

Ranvir Singh All together how many products are now in LSI segment?

Pramod Yadav We plan to add about another 7 in FY18.

Ranvir Singh What is the existing number of products on pyridine base?

Shyam S. Bhartia There are huge number of products.

Ranvir Singh Seven would be added to the existing?

Shyam S. Bhartia Yes.

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

Surajit Pal I have just few questions. In Triad, you said that you will be maintaining the margin, I understood that you said without Triad. Now with Triad and with the distribution business, we know it is a bit of trading business and the margin is much, much lower than what you get from your radiopharma business, so margin definitely will be tapered off post integration of this business and after that do you believe that this 30% kind of overall Pharma margin could be possible?

R. Sankaraiah Surajit, it'll be best that we address this after we close the deal. I think that will be the right time to appropriately deal with this. Before closing we should not talk much about it.

Surajit Pal As far as your CMO business is concerned, are you in the growth achieving your previous high before getting into the target of $136 to $140 million by FY19?

R. Sankaraiah We are in the growth trajectory, but the growth is going little slower than what was expected. But, like we always maintain, that we will be in a position to go back to the highest level in maybe a couple of years or so.

Surajit Pal Basically, you are not ready to accept any kind of contract which may not be that much of productive in terms of profitability?

R. Sankaraiah Because after today, we are focusing more into the profitable contracts rather than just adding the top line.

Surajit Pal How much contract you have added in FY17 as a whole?

R. Sankaraiah As of today, we will be having more than about $500 million in hand as the total order book in the next about three to five years.

Surajit Pal Last question is that your CAPEX you have done 290 crore, this is inclusive of intangibles, intangibles to be added?

R. Sankaraiah Intangible to be added.

Surajit Pal How much?

R. Sankaraiah The Rs. 290 crore is the CAPEX. Over and above that, what I talked about is the total R&D expenditure of Rs. 260 crore, out of that, Rs. 123 crore is written off in the P&L. That means balance approximately Rs. 140 crore, which, being product development in nature has been capitalized and amortized over a period of next five years.

Surajit Pal What is the guidance for FY18?

R. Sankaraiah FY18, this R&D expenditure if you see, it is 8.5% of the Pharma sales, we expect to maintain the same level of 8.5% of Pharma sales in R&D. As far as the CAPEX is concerned, like we already mentioned, there is a retrofitting which is going on in LSI business. Also, we are expanding the API capacity and also dosage forms capacity in India because of which we expect the CAPEX to increase from Rs. 290 crore what we have spent this year to almost around Rs. 400 crore next year.

Surajit Pal Product development purpose wise, how much it will be added with that?

R. Sankaraiah Product development may be in the range of about Rs. 140-170 crore or in that range.

Surajit Pal Basically, pretty heavy CAPEX in FY18?

R. Sankaraiah Compared to the previous year, it will be about approximately 100-150 crore more, yes, but like we mentioned, again, whatever is the additional cash we generate, that only we are going to incur additional CAPEX. Our focus will still continue to be continuously reducing the debt.

Surajit Pal Your product development goes in which part of the business, is it for radiopharma or I just want to have breakup?

R. Sankaraiah It is in two areas. One is the product development in Radiopharma where the product development which happens with 505(b)(2) filings and also ANDA filings in Generics. Rest of the R&D expenditure, regulatory compliances, is written off. Where we create a product out of expenditure as per the accounting standards, we capitalize.

Surajit Pal As and when you introduce or you commission then you start amortizing?

R. Sankaraiah As and when the product is launched, in five years it is being written off.

Surajit Pal To get your futuristic business, by any chance are you also thinking of getting it to ingredients business or API business of biosimilar or biotechnology product going forward like Lonza?

Shyam S. Bhartia We have no plans for Biosimilars.

Moderator Thank you. We have the next question from the line of Jagdish Bhanushali from SUD Life. Please go ahead.

Jagdish Bhanushali Could I get the volume growth rate in the LSI segment for our Specialty Chemicals, Nutrients and Life Science Chemicals for the year?

R. Sankaraiah In Life Science Chemicals, there is a very good volume growth, but in Specialty Intermediaries there is a volume decline because of whatever we talked about last few quarters. So, going forward we expect Specialty to also catch up and Nutritional Products also to catch up.

Jagdish Bhanushali We are not giving the growth rates exactly, how much would that be?

R. Sankaraiah We are not guiding anything as of today, but overall it should be better than last year.

Jagdish Bhanushali You said the prices in the pyridines and the intermediates are moving up, so is this because we are also increasing prices because of the raw material prices are going up or it is the demand supply trade match?

R. Sankaraiah It is both.

Jagdish Bhanushali Sir, could we get to know the breakup of the API sales for the year or how much has been the growth rate?

R. Sankaraiah It is around 10%, but we had capacity issues in API. That is why we have put up an additional line last year, which has become operational this first quarter. That is the investment which we talked about in API going forward we plan to invest in additional plant, so that will take another two years, but investment has to start this year, that is where the CAPEX was little higher than what was normal CAPEX which we incur.

Jagdish Bhanushali Solid Dosage is flat, it seems?

R. Sankaraiah Solid Dosage is flat. You are right.

Jagdish Bhanushali How is the price erosion in our portfolio, are we seeing further deterioration in the formulation side?

GP Singh Price erosion is expected to be on a similar line. The last year has been pretty dramatic for the generic industry, so it is expected to happen. But it will be generally the way it has been over last couple of quarters I would say, not similar to what happened probably in the beginning of the year.

Jagdish Bhanushali Is there a planned shutdown for a CMO facility in Q1?

GP Singh We do not speak about the planned shutdown. Over the year, yes, the shutdowns happen. This is an injectable facility. We have to do the maintenance.

R. Sankaraiah Yearly, twice there is a standard shutdown which happens. It is part of the process.

Jagdish Bhanushali For the information, wanted to know if all the plants have got the EIR till date and there is no pending observations to be reverted back to the USFDA, am I right?

R. Sankaraiah No. Like Mr. Bhartia has mentioned in his speech, recently the inspection has happened in our Roorkee plant with zero 483s and also in Cadista, which is US. Also in our API plant, again zero 483s. We are very happy to report that all our facilities have been inspected, everything is fine.

Jagdish Bhanushali No pending observations as of now?

R. Sankaraiah There are few observations, which always will be there in some facilities, but they are nothing major, everything is in good condition.

Jagdish Bhanushali Okay, could you tell me in which plant is that?

GP Singh The inspections happen, everything is just a normal 483s which are minor, you respond to them and move on. The two facilities at Roorkee and Nanjangud had zero 483s. So, the other facilities too had good inspections and we feel very good about it. There will always be some response, some correspondence, some discussion going on with the FDA.

Moderator Thank you. We have the next question from the line of C Srihari from PCS Securities. Please go ahead.

C Srihari I mainly had two questions pertaining to the Triad acquisition, number one, since you would have a front end now, how would your existing business get impacted in terms of profitability?

R. Sankaraiah We have already explained this. As far as the impact of acquisition is concerned, we will have a detailed call on after our closing. We do not want to talk about that today before closing.

Moderator Thank you. We have the next question from the line of Ashish Thavkar from Motilal Oswal Asset Management Company. Please go ahead.

Ashish Thavkar Sir, since we are seeing pricing pressure in the US business and we are supplying API to some of the formulators in the US, so how is this pricing pressure being shared between you guys and the formulator, is it a complete pass through or there is a 50:50 kind of sharing?

R. Sankaraiah It depends upon the customer. We cannot quantify this 50:50 or what ratio, but generally since we are a very high quality manufacturer of API and supply to regulators and also some good markets, we do not see much pricing pressure in APIs.

Ashish Thavkar Is this in spite of the INR getting appreciated because.

GP Singh Our sales are mostly in US dollars, so the price is fixed in US dollars and there is no impact on the pricing with the customer of any variation on INR.

Ashish Thavkar Sir, if you could explain, the earlier participant I missed in the initial comments, you were talking about IFC, we will be issuing shares to the extent of $85 million, so if you could explain this part of the structure, again it would be very helpful?

R. Sankaraiah We have issued convertible instrument in Jubilant Pharma Singapore for $60 million with zero coupon, but it is a mandatory conversion at the time of IPO. That is why, like Mr. Bhartia mentioned in his speech, we are proposing to make an IPO in Jubilant Pharma during this year to give an exit to IFC. The IFC terms is that we have to give 10% per annum discount to the IPO price. That means that for three years, it is 30% discount to IPO price. So that $60 million which is translating as of today to about $85 to $86 million, to that extent of $86 million, there is no cash outflow. We will issue shares in Jubilant Pharma based on the valuation which is derived based on the IFC formula.

Ashish Thavkar You are saying you will be issuing shares to IFC?

R. Sankaraiah That is right.

Ashish Thavkar Would it be fair to assume that the IPO would be consumed before the end of the calendar year, this calendar year 17?

R. Sankaraiah No, we cannot comment on that. We have taken an in-principle approval from the Jubilant Pharma board to evaluate the various options of listing the shares in international stock exchange including Singapore. We are evaluating that. When we will go to the market depends upon the market conditions.

Ashish Thavkar One last question on the Triad acquisition, Triad as a company whatever business it used to do for the other clients, that business will remain, right, is that a fair understanding, is it $225 million of revenue that business will remain?

R. Sankaraiah That is right. We are supplying a part of the business to them. The rest of the business will continue as usual.

Ashish Thavkar In such kind of businesses, there is no conflict of interest from other companies who are into similar businesses as us?

R. Sankaraiah We will explain all those things when we close the deal.

Moderator Thank you. We have a follow up question from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee Sir, just two questions, firstly you mentioned about retrofitting in the LSI segment two products done, seven more to go and the CAPEX is happening, so what is the revenue potential of all this that we are doing, can we get some sense on that?

R. Sankaraiah Saion, we cannot disclose the revenue for retrofitting, for products, you know that very well.

Saion Mukherjee The second part was regarding the pricing, you made some commentary around price erosion in the US, so is it possible for you to share the finished dose business revenues in the last fiscal year and you mentioned about it is expected to be similar to what happened in the last couple of quarters, so was it like you were saying that the last couple of quarters was better than what is was at the start of the year, so it kind of the margin improving or it is deteriorating?

R. Sankaraiah I do not think that last couple of quarters are better and also, like I already mentioned, that revenue growth is flat and the margins have eroded during in solid dosage formulation business this full year. We have already reported every quarter that there is a margin pressure because of the supply consolidation. As of now that is continuing, but we expect the sales growth to come from new product launches. Like this year we launched about eight products, plus next year we expect to file at least 10 ANDAs that is leading to at least another 8-10 product launches. Because of that, the top line is expected to grow. We also mentioned that we will be in a position to maintain overall Pharma margins.

Saion Mukherjee Sir, the new launches like the sartan's that we launched, so there is so much of crowd there, so is it really making an impact, because that is the thing because there are so many players launching the product, so basically when you look at your pipeline and your 30 ANDA spending or more than 30 actually, so can there be something which can be like potentially $20-30 million kind of prospect or these are all like very crowded most of the products would be very crowded?

GP Singh It is a mixed bag and it is very speculative at the moment. There are recent examples of even first to file opportunities where they have seen extensive competition. This has surprised the industry and probably you also might have written a note on it. Similarly, you cannot really predict how much competition is going to come for every product. We may be thinking that it is great, however, we take a conservative view. We take both pragmatic view about what the launches would be. But cumulatively, we will show growth because of the new launches. The impact of the launches we made in the previous year also would start coming in this year and then the new launches will add up. So, collectively we are hoping for growth on the solid oral business.

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

Shyam S. Bhartia: Thank you everybody for joining the conference. If you have any additional questions, Mr. Sankaraiah and Mr. Ravi Agrawal are available.

R. Sankaraiah: Thank you.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of Jubilant Life Sciences Limited, that concludes this conference. Thank you for joining us and you may disconnect your lines now.