Jubilant Life Sciences Limited

Q1 FY18 Earnings Conference Call Transcript
July 18, 2017

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Jubilant Life Sciences Q1 FY'18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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 '*' 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 and thank you again for being with us today on our Q1 FY'18 Earnings Conference Call. On the call today, we have Mr. Shyam S. Bhartia – Chairman; Mr. Hari S Bhartia Co-Chairman and 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; Mr. Rajesh Srivastava – 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 Q1'FY18 performance. We have started FY18 on a steady note, with our Pharma segment recording its highest ever revenues during the quarter despite margin contraction in the US generics business. This performance has been led by our injectable business of niche Specialty Pharma which has shown double-digit growth in the last few quarters. Our Life Science Ingredients segment delivered improved results on account of better demand and strong price environment. We continue to focus on operating cash generation to reduce our debt levels and strengthen the balance sheet.

Let me share some of the important headline numbers:

During Q1'FY18, consolidated revenue was at Rs. 1,596 crore, up 10% YoY. EBITDA for the company was at Rs. 344 crore with EBITDA margins at 21.6%. Net profit stood at Rs. 147 Crore, with Net Margins at 9.2% and EPS of Rs. 9.44.

Mr. Sankaraiah will provide you further details on the financials.

Moving on to the Key Business Segments:

In Q1'FY18, our Pharmaceuticals segment grew 8% YoY to Rs. 818 crore and now comprises 51% of the Company's revenues. On a constant currency basis, the growth has been 12% YoY.

I now share the geographical breakup of the Pharmaceuticals segment:

Revenue from North America grew a healthy 19% YoY and 5% QoQ to Rs. 610 crore, contributing 75% to the revenue. As mentioned earlier, this has been achieved despite increased pricing led competition in the US generics market, demonstrating the strength of our diversified business model in the US.

Revenues from Europe and Japan were at Rs. 102 crore, contributing 12% to the revenues. Revenue from rest of the world stood at Rs. 65 crore, contributing 8% to the revenues. India revenue stood at Rs. 40 crore, contributing 5% to the revenue.

Let us now discuss the key highlights of the businesses:

Specialty Pharmaceuticals - Injectables revenues reported robust growth of 16% YoY and 7% QoQ. I am pleased to state that the share of Specialty Pharmaceuticals - Injectables business in our Pharmaceuticals segment sales has increased to 57% and it now generates almost US$75m revenues per quarter, 29% to Company revenue.

Generics revenues stood at Rs. 349 crore, contributing 43% to segment sales, showing flat growth YoY. Ramp up of CMO business is underway with strong order book of US$ 630 Million and addition of three new clients.

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

During Q1'FY18, we made 2 ANDA filings and received 3 ANDA approvals in the 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 at least 10 products in US market.

Life Science Ingredients segment:

Life Science Ingredients segment reported revenue of Rs. 737 crore during the quarter contributing 46% to the overall revenues. The revenues grew strong 13% YoY led by Vitamins and Advance Intermediates businesses. During the quarter, we announced price increase of up to 15% for Vitamin B3.

To give you a sense of geographical breakup:

Revenues from international markets were 42% of the segment revenues at Rs. 312 crore, up 6% YoY. Revenues from key developed markets were at Rs. 204 crore, contributing 28% to the segment revenue. India business increased by 20% YoY and stood at Rs. 425 crore.

Lastly, let me give you an update on our Drug Discovery Solutions Segment. In Q1'FY18, revenues from this segment stood at Rs. 41 Crore and now contribute 3% to the overall revenue.

As all of us are aware, GST is a major reform in indirect tax and will have a positive impact on the Indian economy, more particularly in supply chain and logistics costs. Reports have already been received from transporters across the states on reduction in transportation time owing to abolishment of various check posts in major states. The GST impact on Life Science business will be positive. We as a company have implemented GST with effect from 1st of July and our first dispatches started on the same day. Our IT systems are fully equipped to adhere to the new indirect tax regime and people have been trained to adopt the new system.

Outlook

We expect continued robust growth going forward, led by momentum in our Specialty Pharmaceuticals - injectables and Life Science Ingredient business. In FY2018, improvement in revenues and profitability is expected on account of following:

- In Specialty Pharmaceuticals - Injectables:
    - Growth from existing product portfolio, new product launches, and ramp up of operations in CMO of Sterile Injectables and Allergy Therapy Products
- Generics: New product launches combined with benefit from capacity expansions
- Life Science Ingredients: Better demand, strong price environment, capacity expansion and launch of new products
- Drug Discovery Solutions: Addition of new customers and milestone revenues from existing and new out-licensing opportunities

Our endeavors to reduce debt and improve financial ratios will continue.

I would now request Mr. Sankaraiah to share his perspectives on our Financial Performance during Q1'FY18.

R. Sankaraiah: Thank you, Mr. Bhartia. I thank all participants for taking out time and joining us on today's Earnings Conference Call. Let me give you a brief of the financial highlights for Q1'FY18. I am happy to report that we have started FY18 on a consistent note with strong results in our key segments. During the quarter, Revenue from Operations increased 10% YoY to Rs. 1,596 crore, led by healthy growth in both Pharma and LSI segments. International revenue stood at Rs. 1,131 crore, contributing 71% to the revenue and growing 8% year-on-year. In Pharmaceuticals, we achieved the highest ever revenues for the segment at Rs. 818 crore, contributing 51% to the revenue and up 8% year-on-year. I am particularly pleased to mention that this growth has been led by our niche and specialized Specialty Pharmaceuticals - Injectables business which grew 16% year-on-year and 7% quarter-on-quarter in Q1'FY18.

I would like to emphasize the increased quality of our earnings with this niche and specialized business of Injectables now contributing 57% of the total pharmaceutical sales and 29% to company's revenues. As mentioned by Mr Bhartia earlier, the Specialty Pharmaceuticals - Injectables business is now tracking almost US$75 mn revenues on a quarterly basis and the integration of Triad acquisition will give us the benefit of additional annualized sales of almost US$ 200 mn. As previously announced, we expect to close the Triad deal in Q2 FY2018 and are currently in the process of completing customary closing conditions including contracts, regulatory and other approvals.

Revenues in Generics business stood at Rs. 349 crore contributing 43% to the Pharma segment sales, showing flat growth YoY.

Moving on to other businesses, LSI revenue for the quarter stood at Rs. 737 crore contributing 46% to the overall revenue and grew 13% YoY mainly led by the growth in Vitamins and Advance Intermediates. Sales was lower by Rs. 50 Crores on account of temporary closure at Gajraula plant due to NGT issues. We are confident that we will maintain the growth momentum in the coming quarters backed by better demand and strong pricing environment.

Drug Discovery Solutions revenue stood at Rs. 41 crore, contributing 3% to overall revenues.

Coming to EBITDA, our Q1'FY18 EBITDA stood at Rs. 344 Crores with margins of 21.6%. On a constant currency basis, revenues would have been higher by Rs. 47 Crores, and EBITDA higher by Rs. 25 Crores translating into 90 bps higher margins.

Pharmaceuticals segment EBITDA stood at Rs. 252 crore with margin of 30.8% and contributing 70% of the company's EBITDA during the quarter as against 66% in Q1'FY17.

Life Science ingredients EBITDA stood at Rs. 108 crore with the margin at 14.7% contributing 30% to the company's EBITDA.

Drug Discovery Solutions segment displayed break even at EBITDA level.

Depreciation and amortization in Q1'FY18 was at Rs. 72 crore, flat as compared to Rs. 72 Crore in Q1'FY17. Total finance cost stood at Rs. 69 crore versus Rs. 83 crore in Q1'FY17, down 17% YoY led by lower borrowing costs and debt reduction.

Finance costs include Charge on stock settlement instrument of Rs. 14 Crore (Q1'FY17 corresponding number - Rs. 9 Crore), being a non-cash debit to P&L, on account of convertible instrument issued to IFC. During Q1'FY18, the average interest cost of Debt stood at 5.95% with cost of Rupee Term Debt at 8.4% and that of the dollar borrowings at 4.6%. The stock settlement instrument issued to IFC for US$ 60 Million will get mandatorily converted into equity at 10% per annum discount to Jubilant Pharma Limited IPO price.

Thus, PAT for the quarter stood at Rs. 147 crore with an EPS of Rs. 9.44 per share of Re. 1 paid.

Let me share balance sheet perspectives now. In the quarter, the company generated net cash of Rs. 113 Crore. Thus the Net Debt stood at Rs. 3,512 Crore compared to Rs. 3,625 Crore on 31-Mar-17 on constant currency basis. To highlight, the Net Debt had stood at Rs. 4,190 Crores as on 31st March 2016.

In Q1'FY18, the CAPEX stood at Rs. 98 crore. Pharmaceuticals R&D spend in Q1'FY18 was Rs. 51 crore, which is 6% of the segment sales. Pharmaceuticals R&D charged to profit & loss account in Q1'FY18 is Rs. 27 crore that is 3% of revenues with the balance being the product development expenditure capitalized to the balance sheet.

For FY2018, we expect our capital expenditure to be around Rs. 400 Crore. Our R&D expenditure as a percentage of sale is expected to be about 8.5% for the year. The increased investments including the proposed Triad acquisition will be fully funded through internal accruals and I would like to strongly emphasize our commitment to continue to reduce the debt.

We expect continued robust growth going forward, led by momentum in our Specialty Pharmaceuticals - Injectables and Life Science Ingredients businesses.

The Pharmaceuticals segment is expected to continue with healthy performance on account of robust performance in Specialty Pharmaceuticals - Injectables due to Growth from existing product portfolio, new product launches, and ramp up of operations in CMO of Sterile Injectables and Allergy Therpy Products. Growth in Generics vertical will be due to new product launches combined with benefit from capacity expansions. The Life Science ingredients segment is expected to deliver healthy growth due to better demand, strong price environment, debottlenecking and new product launches from the retrofitted plants.

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: Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee: Sir, a few questions here; first, on the impact of Gajraula this quarter. You mentioned Rs.50 crore. How should we think about this impact from an EBITDA perspective… are there any additional cost that were incurred, if you can throw some light?

R. Sankaraiah: Revenue impact is about Rs.50 crore and the EBITDA impact is about Rs. 8 crore, which we expect to make up in the subsequent quarters because we have the capacity to take care of that.

Saion Mukherjee: Sir, on the order book for the CMO business 600-odd million you mentioned, if I recollect at the start of the year it was somewhere around 500 million, so there seems to be a big addition. If you can explain what has led to this and what it means from revenue perspective going forward?

R. Sankaraiah: We got three new additional customers and we expect going forward to deliver better CMO results.

Saion Mukherjee: What are you guiding towards R&D expense this year?

R. Sankaraiah: About 8.5% of the segment sales for the full year.

Saion Mukherjee: This is overall including the capitalized portion?

R. Sankaraiah: Yes, all put together. Approximately, more than 50% is charged to P&L and about 40-50% is product development expenditure out of this.

Saion Mukherjee: In the LSI segment, you mentioned improvement in that business driven by strong pricing particularly and also demand. How should we see the margins in this business, we are somewhere in mid-teen EBITDA margin in this business, if given the current situation, what is the kind of upside on margins you think can happen here?

R. Sankaraiah: The margin as a percentage it will be almost in the same 15%, but however the top line is expected to grow because of the better environment. Since the top line is growing, the margins also will be maintained in the same range.

Saion Mukherjee: Because I was expecting because of pricing, then margin should go up no?

Rajesh Srivastava: You are right that we are getting better pricing. But, at the same time, some of the raw material pricing is also going up as well our product mix is also important to see the margins. So we expect that while in H1 we will maintain the same margin, in H2 probably we may see better than what we are doing.

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

Ashish Thavkar: Sir, on the Triad acquisition, we have said that we will be generating incremental revenues of $200 million. So if you could give us some broader color as to what are our plans there and how do we plan to make it happen?

R. Sankaraiah: We would like to discuss this once we close the Triad acquisition in detail.

Shyam S. Bhartia: We are in the process of closing it and we expect by August end, we should be able to close it, that is by Q2. So once we close it, we will come back and discuss with you. The total impact will be in next six months, that is in H2, but we have not included any of the acquisition figures in our projections as yet.

Ashish Thavkar: We have been maintaining LSI business margin at mid-teen, Pharma business did saw some erosion because of the generic business. So for the full year, it would be helpful if you could give us some color as to where the EBITDA margins would end up?

R. Sankaraiah: Pharma business, margins have not eroded because of generics and all. We are maintaining in the range of about 31% Pharma business EBITDA margin. LSI business is in the range of about 15%. We are doing very well in Pharma business margins also.

Shyam S. Bhartia: I think last year we had about around 31% EBITDA margin and going forward, we hope to maintain the same as last year's 31% margin. This is in spite of the US Generic business which forms about 20% of sales of Pharma is under pricing pressure. So we are countering that pricing pressure and still maintaining the same margins.

R. Sankaraiah: Like I mentioned in my speech, the quality of the revenue in Injectables business is growing very well. If you see compared to the previous year same quarter, the Injectables business has grown 17%. Compared to the previous quarter also, it has grown 7%, so previous year 17% and previous quarter 7%, continuously delivering much better results. So the quality of revenue is substantially improving in the Pharma business.

Ashish Thavkar: Excluding this Triad acquisition, for the full year, what would you be guiding for the margins?

R. Sankaraiah: We will continue in the Pharma business in the same range of about 31% and LSI in the range of about 15%.

Ashish Thavkar: Anything on tax because FY'17 we were aggregate at 22% and first quarter is at 29%, what has led to increase in tax and full year guidance would be helpful?

R. Sankaraiah: Tax will be in the range of about 28-29%, yes.

Ashish Thavkar: So it would be much higher compared to last fiscal?

R. Sankaraiah: That is right.

Moderator: Thank you. The next question is from the line of Ranbir Singh from Systematix Shares. Please go ahead.

Ranbir Singh: Related to GST, you said that implementation has started from July. So what could be the impact specifically on LSI part?

Shyam S. Bhartia: Overall in GST, there is not impact in our business. But there are some positive signs like we mentioned about reduced logistics times. Overall efficiency is better. All you know that there will be some positive impact on our LSI business and the Indian Pharma business.

Ranbir Singh: So the total incidence of tax, excise and all other taxes remain same pre and post-GST or this is…?

Shyam S. Bhartia: This is almost the same in our case after impacting what we can claim.

Ranbir Singh: I couldn't get clearly about that $60 million which we have taken from IFC, would be converted into equity. So can you just give more detail at what rate and when this is going to get converted?

R. Sankaraiah: We have taken US$60 million as a convertible instrument which is mandatorily to be converted at the time of Jubilant Pharma Singapore IPO. So, at the time of IPO, we have to give 10% p.a. discount to IPO price for the $60 million. That is why it has been called as "Stock Settlement Instrument."

Ranbir Singh: The charges that we have provided in P&L is related to this settlement only?

R. Sankaraiah: That is right, it is 10% per annum. So we have worked out and this quarter debit to P&L was Rs.14 crore.

Shyam S. Bhartia: But this is a noncash debit and this only adds to the loan basically and it will be converted into equity at the time of issue at a market price.

Ranbir Singh: So that equity will be part of that IPO, this is not related to our Indian listed equity?

R. Sankaraiah: Yes.

Ranbir Singh: Any timeline of when we are planning to do this IPO?

Shyam S. Bhartia: We hope to do IPO of our Pharma business by the first quarter next year and maximum dimension what we will be doing is about 15% only.

Ranbir Singh: Then on the revenue side, Radiopharma, how are the things that Rubyfill are doing now?

G.P. Singh: It is on track. It is a newer technology which we have introduced. So it takes some time to ramp up to train people to install, but we remain very optimistic, we remain focused on it and it is progressing well for us. It is just a slow process as we expected but overall, our projections till financial year '21 remain the same.

Ranbir Singh: So what would have been the revenue contribution of total Radiopharma in this quarter, just an indication? Is it possible to give about API sales also in this quarter?

R. Sankaraiah: We can talk about overall but sub-segment wise, it is a total pharmaceutical, you have seen that there is the growth of 8% LSI, there is a growth of 13% segment wise. We are not drilling down to the business level. Year as a whole we will talk about at the end of year.

Ranbir Singh: EBITDA margin also like in Pharma, what we see 30.8%, how do you attribute this because historically that API has also been a good contributor in EBITDA?

Shyam S. Bhartia: We have excellent business of API and API has been doing extremely well, and is not very much affected by price. Only business which is affected by the price is the US Generic business which is only 20% of our total sales and other businesses and all affected by the price drop including Specialty and API, other rest of the world businesses are not affected. Only the US Generic business has a pressure which is because of the consolidation of supply chain and increased competition, etc., that forms only 20% of the business.

Ranbir Singh: So a fall in revenue in ROW is not related to API sales?

G.P. Singh: No, it is not.

Moderator: Thank you. The next question is from the line of Ashish Agarwal from India Ratings and Research. Please go ahead.

Ashish Agarwal: Sir, you said we have done CAPEX of Rs.98 crore in Q1 and we are expecting CAPEX of around Rs.400 crore in FY'18. Could you little bit elaborate on the same as to what were the CAPEX and what are the expectations?

R. Sankaraiah: We are putting up an additional plant of API, and also an additional plant in dosage form. We are also doing some debottlenecking for the retrofitting of the assets in LSI business, which we have already communicated. That is going to give additional capacity and also new product launches from those expanded capacities. So almost like Rs. 150 crore will go for normal capital expenditure. Rest of the things, almost like Rs. 250 crore, will go for capacity expansion and debottlenecking.

Ashish Agarwal: Sir, could you also throw some color as to what are the tentative revenue additions these CAPEX could lead to specially in the API and the dosage?

R. Sankaraiah: Usually, it is about 2-3 times.

Shyam S. Bhartia: But it takes time, once the CAPEX is implemented, the plant has to be qualified especially in pharmaceuticals, after even CAPEX is implemented, it takes some time to start the revenue because of the regulatory and the quality requirements.

Ashish Agarwal: Regarding the Rubyfill approval which we had got from USFDA, so is there any like what is the status in terms of sales or production of this particular product?

G.P. Singh: This is G.P. here. Like Mr. Sankaraiah mentioned, we do not drill down on a product level, but what I can mention is that we have launched it, we were planning to do a soft launch, so we have done the installation and it is a new technology, it is a new product in the market, so there is training required wherever installation happens, so it is progressing well as we have planned.

Moderator: Thank you. The next question is from the line of Cyndrella Carvalho from Dolat Capital. Please go ahead.

Cyndrella Carvalho: Sir, this is on the US generic. If you could give us some perspective how has been the overall price erosion and we said that we are expected to launch around 10-products this year. So what is our expectation …we will be able to grow this business marginally or keep it stable for the entire year?

G.P. Singh: I have to repeat again Mr. Sankaraiah's cautionary note that we do not drill down in detail into specifics of each business, but however, we do expect growth in the Generics business. Though the headwinds are there, there is enough discussion about the consolidation which has happened on a customer side, but still we remain confident because of the new launches that is going to add to our revenue, some of the launches which we did towards the late last year, they are going to ramp up this year. As you know that when you are late in a product, it takes time for market share to grow. It is gradual and though competitive, still we remain confident that we will grow the segment in the current year.

Cyndrella Carvalho: Sir, we have launched all the three products of almost four products we received recently?

G.P. Singh: No, the ones which are day one launches, those we launch always on time. The ones which are late entrants to the market, since you cannot predict the date of the approval, we plan in ahead, but we can plan only so much ahead, so they are in a process of being launched.

Cyndrella Carvalho: Just to understand a little bit detail on the CMO side of it, of course, not going into the numbers, but just to understand the perspective as in we said that we had some good additions of three customers as well as the order book has gone up. So just want to understand, has the contribution started coming in or is it reflected in this quarter or it will be reflected now in the next part of the year?

Shyam S. Bhartia: CMO business, let me tell you, is a very strong business. When we add customers, first the products are transferred. So, when the product is in a transfer stage, we get the transfer fees and service at that time. Extra orders we get take at least eight to nine months to twelve months' time before we start generating revenue. But, before that, when the products are transferred, we get service revenues. So initially, we get service revenues, but that shows our pipeline is good so that we have a good sight of the order and sales. Let me clarify that sales may not start immediately when we take an order. Strong order book means that we can plan our production in much better form, much better shape and increase our sales in a few quarters.

Cyndrella Carvalho: On the raw material expenses that now we are seeing at around 37%. So should we in terms of absolute number consider this number to remain or is there some improvement in this number that we can expect?

R. Sankaraiah: Like I mentioned, the LSI business growth in the first quarter was 13% while Pharma growth was 8%. The composite of raw materials in LSI business as a percentage of sale is higher. That is why, if you see, compared to the previous year same quarter, 32% has gone to 37%. So going forward also, we expect LSI business growth continue to be more robust because of the better price environment, new product launches and whatever discussions we had so far. Accordingly, if you see, the expectation of the percentage of sales of raw material will be in the range of 37-38%, may be slightly more also because the contribution of LSI on a top line will grow better.

Cyndrella Carvalho: Just to confirm, overall CAPEX for this year would be around Rs. 400-450 crore, right?

R. Sankaraiah: Around Rs. 400 crore.

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

Surajit Pal: I have two separate questions; first of all, while you are saying your Pharma margin remains at around 30-31%, but I believe that this is mainly because of the super profit you are getting in Radiopharma because if I take into consideration the kind of pricing pressure in US and the kind of growth you were getting over there, I think that is basically to a great extent subsidized by the extra profit you are getting in Specialty business. Am I right in the direction?

Shyam S. Bhartia: No, no. US Generic business only forms 20% of our business, but if you see, our 80% of the business which consists of Specialty Pharmaceuticals, API and rest of the world's generic business, has very good margins. All these businesses have good margins. Of course, Radiopharmaceuticals margins is higher than our average margins. No doubt about it. But all these businesses contribute to the higher margin. Radiopharmaceuticals margins cannot cover for all the businesses. So the Generic business which only forms 20% of the Pharma business is under pricing pressure. But our 80% of the business is in very good shape and growing very well.

Surajit Pal: But your CMO business is also not in very good shape so far I understood as far as margin is concerned?

Shyam S. Bhartia: CMO business is growing very well. It is in a good shape, margin is good.

R. Sankaraiah: Margin is expanding in CMO business.

Surajit Pal: If we look into LSI business margin which is around 15% this year and if I compare the first nine months of FY'17 which is roughly around 17% or anything between 16-17% or 18%. Now despite crude comes down from average 55 from Q4 to 50 in Q1, what could be the reason for margin to come down from the average of around 17%?

Shyam S. Bhartia: In LSI segment, while we are focused on sales growth, but overall margin depends upon two factors – First is the product mix and second the raw material cost increase. If you see, there is some raw material cost increase in Q1, but as Rajesh mentioned, in H1, we expect the same margins. In H2, we expect slightly better margins.

Surajit Pal: So you mean you have sold more of commodities rather than the advanced intermediates?

Shyam S. Bhartia: No, we mentioned that there is some increase in raw material prices also, in some of our raw materials which are not necessarily related to petroleum pricing, but some of the raw material pricing has gone up, so it has an impact. In general, overall impact if price increase is there, and the raw material price has gone up, and depends upon our product mix also, in sometimes, we focus on product mix and the raw material cost behavior in a particular quarter. But overall for the whole year, we expect the margin around as Sankaraiah said 15-16% of margin.

Surajit Pal: If CAPEX is Rs.400 crore, I think it also be added with your product development cost, right?

R. Sankaraiah: 400 plus product development, yes.

Surajit Pal: What could be that figure?

R. Sankaraiah: It would be about 8.5% of sales.

Shyam S. Bhartia: As Sankaraiah said 50% is the product development expenditure, so 8.5% means about 4% is around product development expenditure which is to be added.

Surajit Pal: Your cash tax rate if we look into it, which I think FY'16-17 was pretty low and this year you are talking about your overall tax rate to be 29%. Your accumulated loss in other products which has been increased or could you explain this 7% increase in your tax rate?

R. Sankaraiah: No, this is mainly because tax rates are higher in the US and Canadian tax rates are higher. In India, we pay MAT and rest of the world the tax rates are higher compared to India. So on an average basis, we did about 29%.

Surajit Pal: But your overall distribution of revenue in geography wise, not much of changes happened if I compare FY'17 vis-à-vis what you are guiding in FY'18. Is it because you are talking about Triad will come into picture so that will increase your US?

Shyam S. Bhartia: If you see our revenue, 75% or 72% of our revenue comes from US. If you see our growth in revenues, it is mainly in Specialty Pharmaceuticals business, good growth in revenue; Specialty Pharmaceuticals based revenue is ex-US. So we have 75% of our assets are in US, 75% of revenue comes from US, so the profits are also in US.

Surajit Pal: But that was true also in FY'17 no?

Shyam S. Bhartia: But the growth is there. So on higher growth, you can justify higher taxes comparatively in US. If the growth is in India, you have to pay lower taxes as Sankaraiah said. If the growth is in US.

Surajit Pal: I am not talking about tax. What I am talking is the tax rate, rate wise you are getting higher. So my question is if you are in the bracket of say 30%, 35% in US, that was also in FY'17 and were in the same rate bracket?

R. Sankaraiah: There is another reason. Till last year, in one of the US subsidiaries and also in Canadian subsidiary, we had carryforward losses which we used. As for this year, there is nothing which is carryforward. So going forward, we expect the tax rate will be in this range only.

Moderator: Thank you. The next question is from the line of Sriram Rathi from ICICI Securities. Please go ahead.

Sriram Rathi: Just one thing wanted more clarification on this IFC instrument this 10% p.a. discount pertain to what, p.a. discount is what…?

R. Sankaraiah: We have taken already three years past. It is 30% discount IPO price.

Sriram Rathi: If IPO comes let us say one year later, so there will be 40% discount to the IPO price to the IFC?

R. Sankaraiah: Correct.

Sriram Rathi: This charge that we are taking off the P&L that is last year was around Rs.54 crore and this quarter Rs.14 crore, assuming another Rs.55-odd crore, so this charge is non-cash charge, right?

R. Sankaraiah: When we are actually doing the IPO, no additional charge will come to P&L. All the required accounting has been done on account of this discount factor.

Shyam S. Bhartia: These are zero interest bonds. There is no interest which you pay on these bonds.

Sriram Rathi: So basically right now what we are expensing of in the P&L like Rs.14 crore this quarter assuming… ?

R. Sankaraiah: Rs.14 crore this quarter, so it is almost like similar amount for every quarter will be debited.

Sriram Rathi: So that means Rs.56 crore if I take, so that comes closer to 14% of the total amount?

R. Sankaraiah: 13%, yes.

Moderator: Thank you. The next question is from the line of Manjeet Buaria from Solidarity Advisors. Please go ahead.

Manjeet Buaria: I understand that Rubyfill you will not want to get into specifics right now. But I just wanted a few clarifications. When we discussed Rubyfill in earlier quarters, we had discussed that the existing player whom we would like to replace at $60 million kind of a market and right now you have said you have made a soft launch. So I just wanted a two-three-year kind of perspective as to how do you look at this market and you are getting share in this market…is it possible that we become 40, 50% of this market?

Shyam S. Bhartia: It is a good question. As GP said, regarding Rubyfill, we have just launched in the first quarter. Our target is still to get about at least 30-40% of the market share and as we move into installation, we strongly believe that our product is better than our competitors product. Because our product is digital whereas our competitor's product is analog, in many cases our product is preferred. Now as the contracts for our competitors are getting over, we expect people to start using our products, so we expect to get at least 50% market share. I think by the end of this year, we will be in a better shape to understand what is the market share we will take, and we are also planning to expand this market to new installations because many people have not been able to install this because the availability was not so strong and they had quality problem and they had some callback about four-five years ago. So because of that many people have not been able to install. So we are trying to expand the market plus also get our existing market share.

Manjeet Buaria: Two follow up questions on this; the first one is when we consider Rubyfill versus the existing analog product, the patients have to use our technology vis-à-vis analog product. What is the cost difference for the patient? How do the hospitals and the insurers think about it? Ours is a much higher expense product for the patient. So in that sense, how does one think about the acceptability?

Shyam S. Bhartia: it is convenient to the hospital because hospital needs fewer people to manage this, as it has more control on the operations. The patient is the same. The result we generate is the same. But it is the convenience of hospital and lifecycle management of the product.

Manjeet Buaria: So whether it is Rubyfill digital or the existing analog remains same for the patient the cost to do scan?

Shyam S. Bhartia: The cost to do a scan it depends on various factors and the load of the hospital. In the hospitals where there are high volumes, Rubyfill has a better acceptability. Where there are low volumes, other types of machines are more acceptable. So there are many factors which are responsible for this, there is not only one factor which is responsible for the cost.

Manjeet Buaria: When we look at the scans which are done by Rubyfill or the current analog products, I just wanted to understand what are the other technologies which are used to do these scans outside Rubyfill?

Shyam S. Bhartia: For myocardial perfusion normal scan, everybody knows about it, using SPECT camera, it takes about three hours to complete the study, whereas in rubidium generators it can be done within one hour and also the results are better and it can do many more studies like calcium scoring or better study of the heart and you can do it in one hour, you do not have to go through stress, if it is a pharmacological stress, whereas in that case you have to go to machine and do the treadmill and then develop a stress and then it takes about three hours to do that.

Moderator: Thank you. The next question is from the line of K V Ramaswamy from Quadratic Financials. Please go ahead.

K V Ramaswamy: The macro question is will Triad and Radiopharma cannibalize other segments in the future?

Shyam S. Bhartia: Triad acquisition will help us to directly reach to the patient. Today, we are supplying our products. We are only stopping at our Radiopharmacies whereas it will have a direct impact, our products have been able to serve the patients in the hospitals.

K V Ramaswamy: So you do not think it will cannibalize the traditional existing verticals?

Shyam S. Bhartia: No. It is complimentary. There is no cannibalization of sales.

K V Ramaswamy: Radiopharma also would serve the same purpose?

R. Sankaraiah: Existing Radiopharma is one of the suppliers for Triad.

K V Ramaswamy: So you do not see any impact in terms of the bottom line?

Shyam S. Bhartia: There is no impact because the Triad business is a separate business and it is just a forward integration of our Radiopharmaceuticals business.

K V Ramaswamy: How much would increase the visibility or number of clients in the next maybe three, five years in terms of percentage if you can give me a number?

R. Sankaraiah: Triad is one of the distributors for radiopharmacies. They are having almost like 52 radiopharmacies in 35 states in US, supplying about 3 million doses to the patients. So Triad procures the materials from the manufacturers like Jubilant and other competitors of Jubilant.

K V Ramaswamy: So you do not see major change in margins, and you see numbers of clients increasing is that what you are telling me?

Shyam S. Bhartia: No, the margins of our Radiopharmaceutical business remains the same.

R. Sankaraiah: That is a different business and this is Radiopharmacies. In US there are individual radiopharmacies which are there who manufactures doses and supplies to hospitals.

K V Ramaswamy: That is the last mile?

R. Sankaraiah: That is right.

G.P. Singh: It is a forward integration of our business.

K V Ramaswamy: How much will the clientele universe grow because of this forward integration?

G.P. Singh: If they are existing clients which just become, nothing changes for us.

K V Ramaswamy: Only when you get a new client, you will be able to give him one more additional offering instead of just two?

R. Sankaraiah: Like I mentioned it is 3 million does which is being served.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Securities. Please go ahead.

Tushar Manudhane: Just wanted to check on this Nanjangud facility, any scheduled inspection that was like in 2015?

R. Sankaraiah: So far nothing.

Tushar Manudhane: Secondly, in the Radiopharma business, now with the recent notification by US FDA of expiratory approvals for the products where that is there less than three ANDA approvals, do we see that as the risk to our Radiopharma products?

Shyam S. Bhartia: Currently, we do not see any risk to our existing products. We expect expedited approval of those products for which we have applied for approval.

Tushar Manudhane: So you do not see any competition coming in for the existing products?

Shyam S. Bhartia: Currently, there is no visibility of any competition as such.

Moderator: Thank you. The next question is from the line of Jigar Valia from OHM Group. Please go ahead.

Jigar Valia: Just one clarification; the 15% dilution for Jubilant Pharma that you mentioned was including the IFC conversion?

R. Sankaraiah: Yes.

Jigar Valia: So fund raise plus IFC conversion both together 15%?

R. Sankaraiah: Up to 15% of Jubilant Pharma, that is the plan.

Jigar Valia: So they are a listed entity. The current entity will hold 85%?

R. Sankaraiah: That is right, Jubilant Life Sciences will hold.

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

Saion Mukherjee: Sir, you mentioned your expansion about CAPEX, also looking at dosage. I understood that you had enough capacity on dosage. Is there any fresh capacity that is required there?

Shyam S. Bhartia: No, requirement of the capacity of dosage is there in next 12-months to 18-months time, we will need more capacity because we are writing every time new products, we are filing new ANDA. So since it takes time to implement the capacity and get it qualified and get it inspected, we are in the process of increasing our capacity. Today, there is no shortage of capacity in next 12-months to 18-months, but after that we will need capacity, so we have to add capacity now.

R. Sankaraiah: This capacity expansion is required down the line two-to-three years.

Saion Mukherjee: One observation on the financials; the thing is that over the last two years, we have seen meaningful improvement in the business, whether it is Life Science Ingredients or especially the Specialty part of the business we came out of warning letter, etc., But if I see last 2.5-years, the quarterly EBITDA run rate has remained between Rs.300 crore to Rs.350 crore and in the last two years Q1 seems to be the highest EBITDA and then it keeps falling sequentially. What is it that is going to be different this time? It has been struck in this range for a very long time.

R. Sankaraiah: If you see last year, Saion, last four quarters, in Life Science Ingredients business, the pricing was under pressure both from Advanced Intermediates and Vitamin business. Last two quarters continuously, we have increased the Vitamin prices. Plus, in addition to that, we have seen good improvements in Advanced Intermediates also, in the pricing and demand. So that being said, the Life Science Ingredients business is expected to grow better than last year because of the overall environment and also demand and price both. In case of Pharmaceuticals, the new product launches which are expected to give better price and margins, like we talked about Rubyfill which is added this year, plus over and above that we have other new product launches in our generic business and also our Allergy Therapy products business is doing very well compared to last year which is showing a very good improvement in margins and also the top line and of course, our Radiopharmaceutical business continues to do good. So given all these things with the expansion of the capacity in API business and also the debottlenecking and retrofitting of LSI business, the capacity expansion is coming better and that is going to add to the top line, and accordingly the bottom line.

Saion Mukherjee: So the expectation is it should break-out of this range which is…?

R. Sankaraiah: Yes-yes, definitely. Saion, one more important point, if you take on a constant currency basis, for this quarter it is Rs. 64.43 average compared to the previous year same quarter it is Rs.67.49, there is impact on account of this in EBITDA on account of conversion because ours is predominantly US dollar currency. If you do that, on a like-to-like basis, at least Rs.24 crore higher EBITDA would have happened. That means our EBITDA is not really 344, it is 368 plus Gajraula one-time impact what we discussed. So all those things if you see, we have already crossed that line of Rs.320-330. We are very confident that going forward it should be better.

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

Ashish Thavkar: This quarter we did around 21.6% at the EBITDA margin. So considering the kind of levers that we have, would it be fair to assume that Q2 onwards the margin should turn out to be better than what we had reported in Q1?

R. Sankaraiah: It will be in the range of 22%. We do not want to commit more than that.

Ashish Thavkar: Sir, you would be hosting a separate call for Triad acquisition?

R. Sankaraiah: Our October results are maybe around 20th of October. So we may have together also, depends.

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

Shyam S. Bhartia: Thank you everybody for joining the call. Wishing you all the best. If anybody has further questions, Mr. Sankaraiah and Mr. Ravi Agrawal will be happy to answer individually.

R. Sankaraiah: Thank you very much.

Moderator: Thank you very much, members of management. Ladies and gentlemen, on behalf of Jubilant Life Sciences, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.