



Jubilant Life Sciences Limited Conference Call Transcript January 17, 2018

Moderator Ladies and gentlemen, Good Day and Welcome to Jubilant Life Sciences Limited Q3 FY18 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 of Head of Investor Relations. Thank you, and over to you, sir.

Ravi Agrawal Thank you and Good Evening to everybody. I am Ravi Agrawal, Head of Investor Relations at Jubilant Life Sciences. I thank you for being with us today on our Q3 and 9M'FY18 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 – CEO Designate of our Pharma business and Mr Rajesh Srivastava – Whole time director of the company and CEO of our LSI 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 and thank you all for joining us today. I will share with you the key business highlights of the Q3'FY18 and 9M'FY18 performance.

We are happy to report a record growth in both revenues and profits. The company has achieved several milestones. We have achieved our highest ever revenues, EBITDA and Net profit during the quarter driven by our Specialty Pharma – Injectables and LSI segments. Our Specialty Pharma-Injectables sales have crossed US\$ 120 million during the quarter, with the business now contributing 72% of total pharma sales and also recording its highest ever profitability. Our LSI segment revenues exceeded Rs. 900 crores with EBITDA in excess of Rs. 200 crores for the



first time ever. The company is generating strong operating cash flows, which is being used to reduce the debt levels to further strengthen the balance sheet. Many of you may be having our Press Release and Investor Presentation which can be referred for segment-wise revenue and profitability.

A detailed discussion on the financial performance will be provided by Mr. Sankaraiah.

As you are very much aware that we operate in two key segments – Pharmaceuticals, which is 53% of our total revenues and Life Science Ingredients, which is 45 % of our total revenues.

Coming to our Pharmaceuticals Segment:

In Q3'FY18, our Pharmaceuticals segment for the first time exceeded revenues above Rs 1,100 crores, growing 41% YoY. In 9M'FY18, this segment grew 21% YoY to Rs. 2,776 Crore.

Our Pharmaceuticals segment comprises of two key businesses: Specialty Pharmaceuticals – Injectables, which comprises 72% of total Pharma revenues, and the balance 28% comprising of Generics.

We have a very well defined strategy to grow our Specialty Pharmaceuticals – Injectables business across various segments. This has been demonstrated by our Specialty Pharmaceuticals – Injectables business which grew 81% YoY in Q3FY18 and 47% YoY in 9M'FY18.

Our Specialty Pharma – Injectable business comprises three niche business segments, including Radiopharmaceuticals, Allergy Therapy Products and Contract Manufacturing of Sterile Injectables.

The Radiopharmaceuticals business, including Triad, is a highly differentiated business operating in a very niche segment. Jubilant has established a strong footprint in this segment, and today offers high quality products in diagnostics and therapeutic segments and also serves over 1,700 customers across 52 sites in the US. We are committed to being a leading nuclear medicine player, aided by deep pipeline of products, strong relationships with GPOs and better sales coverage.

We have installed our key product Rubyfill in three new sites during the year and are confident of generating meaningful revenues from this product from FY19 using our recently acquired readily available distribution network of Triad. We also received USFDA approval for new pulmonary indication in Draximage DTPA which will increase our volumes from this new indication going forward. Also, we expect to add revenue on account of launch of Drax Exametazime in FY19. We are working on at least 5 products with plan to file at 3 products in FY19 and with potential expedited review by the USFDA.

The Allergy Therapy Products business is a highly differentiated business of manufacturing and marketing allergenic extracts which is backed by the Hollister brand, one of the oldest and most trusted brands in this business. We have been focusing on expanding our market coverage and this is bearing dividends in growing this business. We are increasing capacities in Lyophilization in the Allergy facility.



In our CMO business, we offer high quality manufacturing of sterile and non-sterile products from our sites at Spokane in the US and Montreal in Canada. A testimony to our strength in this business has been our strong order book of US\$ 693 million. As we are witnessing healthy demand, we are increasing capacities in Lyophilization in CMO facilities which will generate revenue from FY20.

Let me move to the Generics business performance.

The generics business today comprises 28% of total Pharma sales in Q3'FY18. Our API business contributes around 11% of the Pharma revenues, while the US formulations business contributes 11% of the Pharma revenues and only 6% of the total company sales.

In Generics business, we have two-fold strategy to improve overall profitability:

1. First, to reduce cost through improved efficiency in both API and Dosage Forms.
2. Secondly, to have an integrated product portfolio from in-house APIs to be a sustainable low-cost supplier of products.

Our API business is a strong & profitable business with industry leading margins aided by strong process chemistry skills. The joint inspection of the API facility was completed by USFDA and Health Canada during the quarter. We have received a compliant rating from Health Canada. We Completed capacity addition in the API plant during the year to meet higher demand going forward. We are taking various initiatives to reduce cost from higher efficiencies and also input material cost optimization.

Our Solid Dosage Formulations business includes the US Dosage business and the EU and ROW Dosage business. Our EU and ROW business continues to do well with healthy margins in the business while the US Dosage has seen considerable impact from continued pricing led competition from supply chain consolidation in the US. Recently we have seen some green shoots in the pricing of our US Generics business due to rationalization of product portfolio and plants by some of large generic companies. We are increasing capacity in Solid Dosage Formulations which is expected to be completed in FY19 to meet increasing requirements in EU, ROW and US markets.

Coming to filings and registrations, we have filed almost 100 ANDAs in the US market, including a mix of solid dosage filings, injectable filings and NDA and 505 (b) (2) filings. We have 32 ANDAs pending approval.

Moving on to our Life Science Ingredients segment:

I am happy to report an outstanding quarter for the segment, with record growth in revenues and profitability both on a QoQ and YoY basis.

During Q3'FY18, Revenues from the segment stood at Rs. 922 Crore, up 46% YoY and 25% QoQ. The segment Revenues stood at Rs. 2,361 Crore in 9M'FY18, up 29% YoY. The healthy revenue growth was led by improvement in both pricing and volumes.

In Life Science Ingredients, our strategy has been the following:



- Firstly, we endeavor to be vertically integrated to become the lowest cost producer, leading to higher margins and derive continuous improvement through business excellence
- Secondly, to ensure that all the locations are fully compliant for sustainable operations
- Introduce new products and new customers for existing products

Almost 37% of the products in our LSI business are used in Pharma, 39% in Nutritional, 8% in Agrochem and balance in other Life Science industries. All these industries are doing well and the outlook is very positive.

In Nutritional Products, we received WHO GMP compliance certification for Vitamins which will help us increase our footprint in the premium food and multi-vitamin business, with better realizations. Prices were maintained at healthy levels during the quarter.

In Life Science Chemicals, we witnessed better demand for acetyl products with favorable price environment. To meet the increased demand, we have undertaken capacity enhancement for Acetic Anhydride at SEZ Bharuch with target completion in Q4'FY19 with expected revenue at full capacity utilization of about Rs. 300 crores.

In Bio-Ethanol, we are now the 4th largest ethanol supplier in the prestigious government blending program. During the quarter, we won a new contract of Rs. 300 Crore for supplies from Dec'17 to Nov'18. Also, the market is witnessing greater availability of molasses with better pricing which augurs well for profitability in this business going forward.

In Fine Ingredients, we have launched 6 new products during the year and 6 more are expected to be launched in the next one year. Some De-bottlenecking initiatives are completed and underway to meet additional demand. During the quarter, we have commissioned an Agrochemical intermediate facility which has a total annual revenue potential of around Rs. 50 Crore.

Let me now provide you with a brief overview of our Drug Discovery Solutions Segment. In Q3'FY18, revenues from this segment were at Rs. 45 Crore, contributing 2% to the revenues, up 2% YoY. During the quarter, we successfully achieved an early stage milestone related to a collaborative program with Sanofi. In 9M'FY18, Drug Discovery Solutions Revenues were at Rs. 130 Crore, flat on YoY basis, with margins at 6.3%.

Before we discuss the outlook for the company, I have an important announcement to make regarding change in key management personnel of the company. Mr GP Singh has resigned from the CEO position of Jubilant Pharma, a wholly owned subsidiary of Jubilant Lifesciences, effective from 31 March 2018 due to his personal reasons. The company has appointed Mr Pramod Yadav as CEO designate in place of GP and Pramod will assume the role and responsibilities as CEO of JPL with effect from 1st April 2018. He will be based out of the JPL headquarters in Yardley, Pennsylvania, US and have overall responsibility for operations of JPL reporting to the JPL Board. Consequent to his appointment as CEO-Designate of JPL, Pramod has submitted his resignation as Whole-time Director of Jubilant Lifesciences effective today, 17th January 2018. Also, the Board has appointed Mr Rajesh Srivastava as CEO of Life Science Ingredients business to take overall responsibility of the operations of LSI business. Also, Rajesh has been appointed as Whole-time director of JLL with immediate effect. We welcome Pramod and Rajesh in their new



roles and wish to thank GP for all his work and leadership in our Pharmaceutical segment.

Outlook

We are very confident of delivering a very robust business performance driven by healthy demand in Specialty Pharmaceuticals – Injectables and favorable price environment in LSI segment. We expect that our strategic initiatives of capacity enhancements, new product launches, enhancing process efficiencies are going to help us deliver strong performance going forward in Q4'FY18 and FY19.

We continue our efforts to generate higher operating cash flows and utilize the same for marginal expansion and reduction of debt to further strengthen the balance sheet with improved financial ratios.

I would now request Mr. Sankaraiah to share his perspectives on our Financial Performance during Q3/9M'FY18.

R Sankaraiah

Thank you, Mr. Bhartia. I thank all participants for taking out time and joining us on today's Earnings Conference Call. I hope all of you have received our Press Release and Investor Presentation.

Let me give you a brief of the financial highlights for Q3'FY18 and 9M'FY18.

As mentioned by Mr Bhartia, we have had a record quarter of growth across key parameters of sales and profitability in Q3FY18. This has been led by our Specialty Pharma- Injectables business and our LSI segment.

During the quarter, Revenue from Operations increased 42% YoY and 26% QoQ to record Rs. 2,068 Crore, on account of strong growth in both Pharmaceuticals and LSI segments. This was led by healthy growth in both volumes and pricing and also addition of Triad revenues. International revenue stood at Rs. 1,482 Crore, contributing 72% to the total revenue and growing 40% YoY.

In Q3'FY18, our Pharmaceuticals segment grew 41% YoY and 28% QoQ to record Rs. 1,101 Crore. Our Specialty Pharmaceuticals – Injectables business grew 81% YoY and 49% QoQ to Rs. 789 Crore. This business now contributes 72% of the total pharmaceuticals segment revenues, up from 56% in corresponding period last year. Revenues in Generics business were lower 10% at Rs. 312 crore contributing 28% to the Pharma segment sales mainly due to continued pricing pressure in the US market and lower API sales.

Moving on to our other key segment, LSI revenue for the quarter stood at Rs. 922 Crore, contributing 45% to the overall revenue and grew strong 46% YoY and 25% QoQ. Demand in the segment is healthy and we are confident of maintaining the growth momentum in the coming quarter led by healthy demand and favorable price environment.

Drug Discovery Solutions revenue stood at Rs. 45 Crore, up 2% YoY and contributing 2% to overall revenues.

Coming to EBITDA, our Q3'FY18 EBITDA from Operations stood at Rs. 431 Crore with margins of 20.8%. I am happy to share that this is the highest EBITDA achieved



by the company. Pharmaceuticals EBITDA stood at Rs. 245 Crore with margins of 22.2%, aided by improvement in Specialty Pharmaceutical- Injectable business. Life Science ingredients EBITDA stood at record Rs. 206 crore, up 109% YoY and 57% QoQ with margins at 22.3% as against 15.6% in Q3'FY17. Drug Discovery Solutions segment EBITDA stood at Rs. 3 Crore with margins of 7.0%. I would like to highlight that excluding Triad, Pharma revenues and EBITDA have grown 5% each YoY with EBITDA margins of 31.8% as compared to 31.6% achieved in Q3'FY17 and 28.2% achieved in Q2'FY18.

Depreciation and amortization in Q3'FY18 was at Rs. 82 crore, up from Rs 73 crore in Q3'FY17, mainly due to additional amortization on account of new product launches and additional depreciation due to Triad acquisition.

Finance costs lower 22% YoY at Rs. 77 Crore from Rs. 98 Crore in Q3'FY17 and higher 17% QoQ from Rs. 66 Crore in Q2'FY18. Finance costs include borrowing costs of Rs. 57 Crore as against Rs. 89 Crore in Q3'FY17, a reduction of 37% YoY, and charge on Stock Settlement Instrument of Rs. 20 Crore as against Rs. 10 Crore each in Q3'FY17 and Q2'FY18. This charge is on account of convertible instrument issued to IFC as a mandatory conversion option at IPO of Jubilant Pharma.

Thus, the company achieved its highest ever PAT for the quarter at Rs. 213 Crore, up 78% YoY and 66% QoQ, translating into an EPS of Rs. 13.64 per share of Re. 1 paid. Normalized PAT, after adjusting for acquisition related one-off expenses of Rs 11 crores stood at Rs. 221 Crore with Normalized EPS of Rs. 14.20.

Let me now discuss 9M'FY18 numbers.

During 9M'FY18, Revenue from Operations increased 23% YoY to Rs. 5,263 Crore, led by healthy growth in both Pharma and LSI business segments. International revenue stood at Rs. 3,790 Crore, contributing 72% to the revenue and growing 22% YoY.

In Pharmaceuticals, the revenues for the segment stood at Rs. 2,776 Crore, contributing 53% to the revenue and up 21% YoY. Specialty Pharmaceuticals - Injectables reported revenues of Rs. 1,789 Crore, showing robust growth of 47% YoY. Revenues in Generics business stood at Rs. 986 Crore, a decline of 9% YoY, contributing 36% to the segment sales.

Moving on to other segments, LSI revenue for 9M'FY18 stood at Rs. 2,361 Crore, contributing 45% to the overall revenue and growing 29% YoY. Drug Discovery Solutions revenue stood at Rs. 130 Crore.

Our 9M'FY18 EBITDA from Operations was at Rs. 1,107 crore with margins of 21.0% growing 5% YoY after giving effect to one-off acquisition related costs of Rs. 30 Crores. Pharmaceuticals EBITDA stood at Rs. 708 crore with margins of 25.5%. Life Science ingredients EBITDA stood at Rs. 445 crore, up 40% YoY with margins at 18.9%. Drug Discovery Solutions segment EBITDA stood at Rs. 8 Crore.

Depreciation and amortization in 9M'FY18 was at Rs. 233 Crore as against Rs. 216 crore in 9M'FY17 mainly due to additional amortization on account of new product launches and additional depreciation due to Triad acquisition.

Finance costs lower 19% YoY at Rs. 212 Crore from Rs. 261 Crore in 9M'FY17. Finance costs include borrowing costs of Rs. 168 Crore as against Rs. 233 Crore in



9M'FY17 and charge on Stock Settlement Instrument of Rs. 44 Crore as against Rs. 28 Crore in 9M'FY17. The reduction of 28% in borrowing costs is due to lower interest rates on account of Bond Issue and reduction in borrowing on account of cash generation from operations. During 9M'FY18, the average interest cost of Debt stood at 5.93% with cost of Rupee Term Debt at 8.16% and that of the dollar borrowings at 4.66%.

Thus, PAT grew 15% YoY to Rs. 488 Crore with an EPS of Rs. 31.31 per share of Re. 1 paid. Normalized PAT, after adjusting for acquisition related one-off expenses, stood at Rs. 511 Crore with Normalized EPS of Rs. 32.77, a growth of 20% YoY.

Let me share balance sheet perspectives now. We saw reduction in debt of Rs. 159 Crore during Q3'FY18, with the Net Debt at Rs. 3,482 Crore compared to Rs. 3,641 Crore on 30-Sep-17 on constant currency basis. On a Year to Date basis, we have reduced debt by Rs. 143 Crore, after factoring in capex of Rs. 256 Crores and Triad acquisition cost. I would like to strongly emphasize our commitment to continue to reduce the debt.

Pharmaceuticals R&D spend in 9M'FY18 was Rs. 150 Crore, which is 5.4% of the segment sales. Pharmaceuticals R&D charged to profit & loss account in 9M'FY18 is Rs. 105 Crore that is 3.8% of segment 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. We also expect our tax rate for the year to be around 25%. Newly enacted US tax Laws has reduced the corporate US Federal Tax Rate from 35% to 21% effective January 1, 2018. On account of this tax rate reduction, Company has benefited by way of reduction of Accumulated US Deferred Tax Liability to the extent of Approx. \$10 Mn. The tax benefit arising out of such reduction has been duly factored in the computation of tax expense for the year in the Consolidated Financial Statements. We believe that the enacted US Tax Reforms are beneficial to our subsidiaries in USA and shall result in reduction of its Tax Expense in subsequent years as well.

We expect continued strong performance in our key businesses in Q4'FY18 and FY19. Specifically, we expect growth due to the following:

- Specialty Pharmaceuticals – Injectables:
- Continue to deliver very strong performance in Radiopharmaceuticals and Allergy Therapy Products
- The strategic acquisition of Triad will help to sustain revenue growth in Specialty Injectables
- Healthy order book and new customer addition, supported by higher production, will deliver better results in CMO
- Generics: Muted growth outlook due to sustained pricing pressure in US formulations
- Life Science Ingredients:
- Current momentum in revenue growth expected to continue backed by healthy demand and favorable pricing environment
- Growth in revenues from new product launches, new orders, new capacities coming on stream and debottlenecking of existing plants
- Drug Discovery Solutions: Focus on integrated programs and in-house proprietary research for out licensing of new molecules



We continue our efforts to generate higher operating cash flows and utilize the same for marginal expansion and reduction of debt to further strengthen the balance sheet with improved financial ratios.

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, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from Saion Mukherjee from Nomura Securities. Please go ahead.
- Saion Mukherjee** Sir, my question is primarily on the Life Science Ingredient business. Now, if I look at the improvement and the geographic mix, it seems a lot of improvement has come from India. So it appears that your Life Science Chemical business has done exceptionally well. So will it be right to say that, that's a bigger contributor of the performance versus the Fine Ingredient business?
- Shyam S Bhartia** See, our businesses across Life Science Ingredients segment, starting from Advanced Intermediates to Nutritional Products to Life Science Chemicals, all have shown very good results mainly because of better volumes and good price environment in the marketplace, not only in India, but also in the international markets.
- Saion Mukherjee** So there is nothing, which stands out in terms of product segments, which is driving this. The key question here is the sustainability. I mean how would you say about sustainability of these numbers because there is a very significant jump right, both at topline as well as at the margin level, you've reported more than 20% EBITDA margin in the Life Science Ingredient segment. So are these numbers sustainable? I mean, any color if you can give, how do we project going forward?
- Shyam S Bhartia** Good. If you see, the nine months' margin in LSI segment has been 18.9%. And similarly our margin for the year should be around 20%.
- Saion Mukherjee** Okay. So sir, what has actually changed in this business that, this significant improvement, I mean, is it like you are seeing domestic demand like acetic acid, acetic anhydride prices going up, Pyridine prices going up and if that's the case, like if you can give a color at what point we are in the cycle? I mean, how much increase in prices have happened broadly from the bottom or from last year whatever benchmark you want to use?
- Rajesh Srivastava** This is Rajesh here. In Life Science Ingredients, if you see, the growth is coming from 3-4 things. One is the demand is definitely better than what we have been seeing in last two years. The pricing environment has changed because of the pressure in Chinese companies. They are not in a position to meet the demand of customers. Of course, the opportunities are coming to us, both in terms of volume, as well as in terms of pricing. And coupled with this, our new products and new debottlenecked capacities are also giving us added advantage. So going forward as Mr. Bhartia said, during this year, we would like to maintain the margin what we have generated. Thereafter for the future, we will of course discuss in the next call.
- Saion Mukherjee** Okay. And just one more question on the same segment. You've disclosed the ethanol contract of Rs. 300 crore between December to November. Is any part of this quarter and then how much was it in the previous years, I mean why this 300 number is important, if you can throw some light?

Rajesh Srivastava Yes. So we did participate in that business last year as well, but this year we have got the business almost 50% more than what it was last year. So there is an additional volume and the revenue growth in this business.

Saion Mukherjee And is it relatively higher margin, lower margin business? You maintained the molasses prices, so with that in mind?

Rajesh Srivastava Yes, the molasses is abundantly available, the margins are good in this business.

Shyam S Bhartia Sugar production has been very good this year with the bumper crop in UP and growth in Maharashtra. So the prices of molasses are about, I would say, three to five years' low. So raw material price is low and the finished product prices have also gone up in our new tender. So I think we expect a very good margin for this business going forward quarter-on-quarter.

Saion Mukherjee Okay. And sir, just last question on the capacity expansion of Life Science Chemicals business that you've mentioned, you said like the full capacity utilization would give an additional Rs. 300 Crore revenue, right, at the current pricing. So if I look at your numbers, the last year you've done around Rs. 1,300 Crore of revenues from this segment. So that's a very significant expansion in capacity. Is that a right assessment?

Rajesh Srivastava Yes, you are right because this is the extension of the product, which is in high demand and that's why we have added this capacity.

Moderator Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli Sir, how would you split the topline growth in LSI between volume growth and pricing benefit?

Shyam S Bhartia I would like to correct it that both are equally important, that is 50% that's come out of volume.

R Sankaraiah Both pricing and volume are higher equally. Almost 50% is on account of price and almost 50% is on account of volume.

Chirag Dagli Fair point, sir. And sir, what percentage of our overall raw material for the LSI business is molasses?

Shyam S Bhartia So molasses forms a small part of raw material only for alcohol business.

R Sankaraiah Acetic acid, which is another raw material, which we import.

Chirag Dagli Okay. And sir within the LSI segment, you have these three pieces that the annual report sort of explicitly talks about. Would you have seen volume growth and margin improvement in all the three sub-segments; Nutrition, Life Science Chemicals and Proprietary products?

Rajesh Srivastava Yes we are seeing the volume and price growth in all the segments. However, in almost all segments, we also have the pressure on input pricing, so we are trying to pass on as much as possible and that's why you can see the net gain in pricing.

- Chirag Dagli** And sir last question just from my side, of your entire portfolio of products in the LSI business, what part of your overall portfolio would you be directly competing with China as a very large competitor?
- Rajesh Srivastava** We are competing in Pyridine, but there are not many products like that, because if you see, in Life Science Chemicals, which is major portion of Life Science Ingredients, we really don't compete with Chinese. And in Fine Ingredients, we don't compete with Chinese. So we don't have much competition with Chinese, other than in Pyridine and some of the derivatives of Pyridine.
- Chirag Dagli** So of overall part, probably less than a third is where you compete directly with Chinese?
- Rajesh Srivastava** Yes.
- Moderator** Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.
- Anmol Ganjoo** My first question is, broadly a repetition of an earlier participant's question and that if you look at the nine-month performance, not just the quarter, we would have been positively surprised by the LSI performance on all metrics and that is for revenue growth, EBITDA expansion. Life Sciences has clearly outperformed Pharmaceuticals. This would not have been envisaged around nine months back. So, if you could just throw some light on what are the positive surprises and if you look at margin expansion of close to 650 basis points on year-on-year basis, what part do you think is sustainable? And how much can we retain? And how are you looking at the next nine months? What has changed? Any color around that would be really helpful, because it will help us to understand at least the trajectory going forward.
- Shyam S Bhartia** If you see our commentary after six months' results, we expected substantial improvement and that is what lies in the result. But in Life Science Chemicals business, what has changed is increase in demand and also better pricing environment existing globally. As Rajesh shared, some of the input costs have gone up, but we have been able to pass more than the input cost in our prices.
- R Sankaraiah** Anmol, a few points I wanted to put in the right perspective. The margin expansion is not 6% upwards. If you see last nine months FY17, the margin was 17.4%, whereas this year, it is 18.9%. While the EBITDA has grown very well, that is because of the reasons what Mr. Bhartia and Rajesh has explained. So, it is the turnover which has gone up, because of which the EBITDA has become better. The topline has grown because of the very good volume growth. That is the real reason for the growth in the LSI business. Like if you see, in my speech I have mentioned that life science ingredients topline in the nine months has grown 28.8%. That has given the increase in the EBITDA actual numbers.
- Shyam S Bhartia** Well, we gain on operating efficiencies also.
- Anmol Ganjoo** That's helpful. Just another question. So for example, what is the impact of Triad consolidation this quarter on financials?
- R Sankaraiah** The topline is around Rs. 325 Crore.



Shyam S Bhartia As Sankaraiah has also said, there is one-time expenditure on account of integration costs.

R Sankaraiah Yes, there is one-time expenditure of about Rs. 11 Crore on account of integration, which will be over by this quarter.

Anmol Ganjoo So Rs. 11 crore will be over, but what will be the net impact, because at the end we were supplying to Triad.

R Sankaraiah Like last quarter also we have given overall guidance. We are trying to achieve a breakeven level this year. But last quarter, we have clearly mentioned there is a negative impact on EBITDA, that was the one-month sale which has been accounted and this quarter also, there is a negative impact on EBITDA. But going forward, we expect at least a breakeven level.

Anmol Ganjoo Yes, but Triad got consolidated, there was a part of sales to Triad. So what is the net impact of that, because we have the first full quarter of consolidated Triad?

Shyam S Bhartia No. We sell some of the products internally to Triad and it's very difficult to give you any estimate of what is the net impact because we sell internally, there is some internal sales also involved.

Anmol Ganjoo Okay. And I have a couple of other questions. On API for example, you said that there has been some push-back of some certain customer contracts. Is that a big element in this quarter in the reported number?

R Sankaraiah So, overall, we believe that Q4 will be very strong in API.

Anmol Ganjoo And two quick housekeeping questions. One is on the tax rate, you said there is going to be a benefit of US tax rate changes. If you could help us quantify the impact of that? Is there any internal math that you've done around that?

R Sankaraiah It's about \$10 million.

Anmol Ganjoo This is for the full year FY19?

R Sankaraiah When the tax rate has changed from 35% to 21%, there is a deferred tax liability which we have created in the books of accounts, which has come down. The tax liability has come down by \$10 million, which is being accounted in consolidated accounts as a tax amount reduction.

Anmol Ganjoo My last question before I get in the queue is that, Mr. Bhartia, last quarter you had mentioned that the IPO plans for the year stay on track. Now we are quite close to our comfort level of EBITDA/debt 2:1 kind of a ratio that we had been talking about. Do plans with respect to that remain on track or there is any change in the thought process there?

Shyam S Bhartia No, we are on track to reduce debt. As you have seen that we're reducing the overall debt and we expect to reduce some debt in Q4 also. So our objective is to go below two. I don't know, I cannot assure you whether it will happen, but it will happen sometime definitely, we expect it to happen in sometime 2019.

Moderator Thank you very much. Next question is from Vishal Manchanda from Nirmal Bang. Please go ahead.

Vishal Manchanda Just one question on your CMO business. So the order book is now around \$695 million. So could you tell what is the current quarterly run rate and how this could ramp up going forward?

Shyam S Bhartia No. When we say order book of US\$ 693 million, it is an order book which is total order book, which may be burning every quarter and every year. It is not necessarily going to burn this year or next year. Sometimes we sign five-year contracts, sometimes we sign three-year contracts. It is the total order book.

Vishal Manchanda Right. So like if we divide this over five years, so it comes to around \$140 odd million. So where are we currently in terms of the annual run rate? So are we close to that number, or we are much below that annual run rate?

R Sankaraiah Business wise, we don't get into the details, but this order book's position reflects the strong position what we are carrying as of today, which will be like Mr. Bhatia has mentioned, some will be three years, four years, five years up to seven years also. So it can vary year-to-year.

Shyam S Bhartia See, we have not given you yearly burn rate, these are not available with us, but some order goes for seven years as Mr. Sankaraiah said, some order goes for five years, some order goes for six years. So it is not exactly divided by five.

R Sankaraiah Yes.

Vishal Manchanda But can we expect a ramp-up here in the near term, also some traction in the CMO business?

Shyam S Bhartia As we have mentioned that we are adding Lyophilization capacity. We see a very good traction in the Lyophilization order book. So we are adding Lyophilization capacity. We are also trying to increase the number of days of operations as we go ahead. We are in the process of finalizing the plans and we are currently running about 5 days to 6 days. So all these actions would definitely increase revenues from this business and additional capacity on Lyophilization also will add additional revenues.

Vishal Manchanda Maybe it will take around a year or so for these capacities to come in place, right?

Shyam S Bhartia So, Lyophilization capacity as we have said is likely to be commissioned by March 2019. The revenue will start only in 2020 from the additional capacity, but to increase our number of days of operations, it will further add to our capacity utilization during the next year.

Vishal Manchanda Okay. And on RUBY-FILL, how many installations have we done till date in the current financial year, so nine months?

Shyam S Bhartia In nine months, we have done three installations and we hope to ramp up our installations in the fourth quarter, because we have a good response and during the year-end, normally they decide to place orders. So, I think that we have received good number of orders for the fourth quarter to be installed. And while I can't give

you a particular number, because it is almost a running number, but we expect a good response in the fourth quarter.

- Vishal Manchanda** Okay. So, is it because of the contracts expiring in December calendar year?
- Shyam S Bhartia** That's right. But it's very well received by our customers, especially hospitals. They very well recognized the benefits of our RUBY-FILL installation.
- Moderator** Thank you. The next question is from Surajit Pal from Prabhudas Liladher. Please go ahead.
- Surajit Pal** If I see quarter-on-quarter, I mean year-on-year, we know that there a lot of things have changed both in price and volume. In quarter-on-quarter in LSI, what was the difference? I mean, where we are seeing such a huge jump in revenue as well as margin?
- Shyam S Bhartia** As we have mentioned, it's both on the demand growth - we have seen a huge demand growth for our products - and also better pricing environment. Not only price, the Pyridine quantities are also high during the Q3. Not only on Pyridine, but all the derivatives of that, plus some of our other derivatives also has seen increased demand and therefore, it is also from a demand increase and also a better pricing environment in our Nutritional Products, in our Life Science Chemicals and through Advanced Intermediates.
- Surajit Pal** But technically, your capacity utilization cannot be increased in one quarter of that much amount. My guess is that, let me tell you what is my guess. My guess is that your supply business suddenly ramp-up in ethanol, has quite a bit of contribution in this big business.
- Shyam S Bhartia** Yes. Yes, you're right. Ethanol business has also improved our sales.
- R Sankaraiah** if you recall, last two quarters when we discussed, we mentioned that compared to the previous year, there was a volume de-growth. So that volume de-growth has reduced the capacity utilization. Somebody has also asked a simple question - what is the capacity utilization of Pyridines in the last quarter, to which we have mentioned about 50%. So the capacity was not utilized fully. Because of the volume demand, which has gone up this quarter, we were able to easily manufacture and supply that product. That is why we have witnessed very good volume growth during this Q3 in LSI business.
- Shyam S Bhartia** The volume growth continues to remain strong and will hold in fourth quarter.
- Surajit Pal** Yes. I know, your capacity utilization has a lot of headroom to capture that benefit individually.
- R Sankaraiah** Yes. That is the reason.
- Surajit Pal** Yes. Second point is that, your Drax Exametazime, it is based on SPECT technology, right?
- R Sankaraiah** Yes. It is SPECT, yes. You are right.



Surajit Pal So could we expect the faster ramp up in comparison to the RUBY-FILL? Could you expect faster ramp up under this technology because this is more pocket friendly and much more expanded in hospital network in US?

Shyam S Bhartia Although we expect to launch this product in Q1'19, we hope to capture a good demand for this product.

Surajit Pal What's the kind of size of these products, potential market size?

Shyam S Bhartia The total market size is around US\$ 35 million.

Surajit Pal Okay. And competitor will be two or three, already been there?

Shyam S Bhartia No. There is only one.

R Sankaraiah There is only one competitor. The innovator.

Moderator Thank you. The next question is from Ranvir Singh from Systematix Shares & Stocks. Please go ahead.

Ranvir Singh There are a few things. For this quarter, what has been contribution of Triad? So just wanted to know that organic growth in this quarter.

R Sankaraiah See, the business wise we don't get into the details. The overall topline growth has added about Rs. 325 Crore. As far as the EBITDA is concerned, our objective is that to make it positive very soon.

Ranvir Singh No, so on organic basis in pharma segment in US, whether we have grown or de-grown that's what.

R Sankaraiah Organic, yes, we have grown about approximately 5% organically. That is why in my speech also I have mentioned, if you remove Triad, the EBITDA margin has gone up during this quarter.

Ranvir Singh Fine. And in generic business contribution of API though you may not give that the split, but what I wanted to understand is that this has been significantly lower or almost nil or this is still we are selling some APIs.

Shyam S Bhartia Our API business is very strong and we have strong margins in the business. As I said earlier, we expect a better performance in our API business.

Ranvir Singh Yes. So what I wanted to reconcile that you said in your press note that EBITDA margin was aided by some improvement in Specialty business. So I wanted to understand which segment actually has aided, because there we see that even radio pharma, we have diluted our margin after acquisition and generic is also witnessing even a pressure. So, which of the segment is actually that?

Shyam S Bhartia There are two segments in our pharmaceutical business. One is generics, other is specialty pharmaceuticals - injectable business. So there is no sales increase on our specialty pharmaceutical business as compared to generic business, and our strategy has been also to grow our specialty pharmaceutical business, because that is differentiated as compared to many other competitors in the generic business.

Ranvir Singh What would be the outlook there in generic, API or formulations because the last two quarters, pressure is anyway continuing.

Shyam S Bhartia We expect a strong outlook in our API business in fourth quarter and in Dosage formulations, I have explained that although the competition is strong because of consolidation, but we have seen some green shoots in our Dosage formulations business. So we expect our US Dosage form business to perform a little better. However, we have a strong operating margin in our EU, Japan and rest of the world business.

Ranvir Singh Okay. And acquisition-related cost has been provided fully now or still we have something to provide in subsequent?

Shyam S Bhartia It is provided fully now.

Ranvir Singh Okay. And just one clarity on tax front, that tax reforms, it's effective from 1st January 2018. So in Q3, how come we have gained a benefit of this tax reform?

R Sankaraiah Because it is an event happening after the balance sheet date. Since the US enactment has happened for 1st January and the results are announced now, so whatever is the deferred tax liability which is outstanding as on 31st December and tax computation, the ETR is calculated for the full year. So based on the ETR, the tax will be recomputed based on the accounting standards.

Shyam S Bhartia It is as per the accounting standards, what's the accounting standard had to be accounted because our results are announced after the event.

Ranvir Singh Okay. So maybe in subsequent quarter, like 10 million tax saving you are talking about on an annual basis, so part of it has already been in Q3 and remaining would be in Q4?

R Sankaraiah Yes, that's right.

Shyam S Bhartia Like Mr. Sankaraiah said, the overall tax will be around 25%, Mr. Sankaraiah has already said, he's told in his speech. Overall tax for the whole year is likely to be around 25%.

Ranvir Singh Okay, fine. And just a last one. On LSI segment, I think in ethanol related question, I wanted to understand that earlier, we used to procure molasses or ethanol from the market and at what level or what stage normally we are selling, it is like procuring more molasses, converting into petrol grade alcohol and then selling it or how is this process?

Shyam S Bhartia Yes. See, I would just like to explain this. Earlier before we started the production of bio-ethanol for fuel requirement, for blending requirement, we used to make ethanol but used to use for our own captive requirement. Today, whatever we are producing, we are selling it for biofuel requirement. At the same time for our captive requirements, we import alcohol regularly for our own requirement.

Ranvir Singh And this government program, you're the only player or there are other players also participating in this?

Rajesh Srivastava So, there are many players. We are the fourth largest.

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

Tushar Manudhane Just on this acetic anhydride for that potential revenue of 300 Crore, how much maybe like CAPEX we would have got, in terms of capacity enhancement?

R Sankaraiah Approximately 100 Crore.

Tushar Manudhane And normally like, how much time we do take to get it to like the full capacity like, 9 to 12 months or less than that?

Shyam S Bhartia I think in 12-month time we should be able to achieve full capacities because we see a good product demand.

Tushar Manudhane Okay. Has this to do with the China pollution impact or some new application has popped up for this?

Shyam S Bhartia No. As Rajesh said, it is not a China impact. It is a global demand for this product, including demand in India is rising.

Rajesh Srivastava See, we have been selling this product and we have been fourth largest in the world and nobody in the world is adding capacity on anhydride while the growth on demand has been in the range of 3% to 4%. So situation has come where the product is short supplied, so that is why we took a decision to add capacity.

Tushar Manudhane Okay. So how much would have been the price increases in like say last three, four, six months for this product because of the shortage?

R Sankaraiah No, we don't get into the product-wise detail please.

Shyam S Bhartia You will get confused because there is a certain raw material price increase also and overall, we have seen a better price environment, we are able to pass on more than the raw material pricing.

Tushar Manudhane Understood. On the pharma side in API, Q4 would be strong. Is this like any new product is getting added or is it like the deferred business which would again like, which would come.

Shyam S Bhartia No. From our existing business. Maybe new customers we'll be adding but from our existing product portfolio.

Tushar Manudhane Okay, understood. And let's say in RUBY-FILL per installation tentatively like how much would be the annualized peak revenue for RUBY-FILL?

Shyam S Bhartia As we mentioned, in single installation, we get about half a million-dollar revenue in a year.

Moderator Thank you very much. The next question is from the line of Jagdish Bhanushali from SUD Life. Please go ahead.

Jagdish Bhanushali We already had one approval of DTPA. So this approval that we've got is a different one?

Shyam S Bhartia No, this DTPA approval which we've got, we already have one, but this is for a new indication.

Jagdish Bhanushali Right.

Shyam S Bhartia What we had is for Kidney. We have got for pulmonary ventilation, that is for lungs.

Jagdish Bhanushali Okay, so is this replaceable by MAA that we had for lung scanning?

Shyam S Bhartia No, MAA and DTPA are used in conjunction with each other.

Jagdish Bhanushali Okay. Alright. And other thing is, how was Magnevist picking up for us, that's the MRI contrasting product that we had got an approval?

Shyam S Bhartia We have not launched the product Magnevist as market requirements have changed for gadolinium-based product, so there are some product issues. We have not yet launched Magnevist.

Jagdish Bhanushali Okay. So, what sort of rectification or changes would need to be done for the product and how much time?

Shyam S Bhartia So, we are waiting for a market response for the gadolinium-based products. The demand is coming down because of some complaints about it. So therefore, we have refrained from launching Magnevist because it is a gadolinium-based product.

Moderator Thank you very much. The next question is from the line of Alankar Garude from Macquarie. Please go ahead.

Alankar Garude So, my first question is based on the initial few months, can you help us with some qualitative comments on the integration benefits with Triad? And how exactly Triad has helped you till now in strengthening your radio pharma franchise?

Shyam S Bhartia Yes, a good question because Triad is like a forward integration with our radiopharmaceutical business and Triad helps us to go directly to the hospitals and the patients to meet the needs of the hospital and the patients. So, we are closer to the patients. At the same time, it provides us an opportunity to expand in our radiopharmaceutical business, with expansion it further increases our base for meeting the direct needs of the customer. And also it provides us more stability by directly reaching to the customer of our radiopharmaceutical business. Apart from this, we are also integrating it to market our rubidium generator.

R Sankaraiah Since we have Triad in 52 locations, reaching almost like 1,700 hospitals directly, we will be in a position to better utilize that network for our RUBY-FILL quickly. And also, further, whatever is the integration which we can get an advantage, we can do that.

Alankar Garude Sure sir. So basically till now, with respect to all these aspects, things are on track as far as the integration is concerned.

Shyam S Bhartia Yes, it's fully on track.

Alankar Garude Sure. And sir, secondly, just wanted to check with you. Regarding the steps being taken by the Chinese government, environmental pollution etc., as far as your



experience is concerned, are any of these changes structural for the global LSI industry or it at best can only be a near term issue?

R Sankaraiah So, as we had mentioned earlier also, demand and pricing is better in LSI and partially it is also because there is a pressure in Chinese companies. You are right.

Shyam S Bhartia See, there is a pressure today for Chinese companies, and further the environmental norms are continuing to be stronger there, so their environmental compliance cost will go up and the capacities may get reduced. And it is very difficult to estimate. We are closely watching the situation in China, but with a recent announcement, I think the environmental norms has been further strengthened there and compliance levels have been further improving there. So I think with this, both the capacity and also the cost of compliance is going up.

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

Ashish Thavkar Just two questions. What are your CAPEX plans? How much we've like planned to expand? And second the government contracts, those are like typically from November to December phenomena?

Shyam S Bhartia Our CAPEX, we have already spent around 255 Crore. And overall for the year, it should be around 400 Crore as we have guided to you. Now regarding this contract, it is with oil companies from December '17 to November '18, that is their contract period. So this is with the oil companies like IOC, HPC, BPCL.

Ashish Thavkar Okay. So these contracts are floated every year?

Shyam S Bhartia Every year, it is floated during this period. Last year also we received Rs. 200 Crore worth of contracts. This year we have received Rs. 300 Crore worth of contracts.

Ashish Thavkar Yes. So the incremental orders that you have got this year, so what decides it, that's what I wanted to know.

Shyam S Bhartia See the total availability of ethanol for blending purpose is less than the requirement of the government. With less offers than more requirement is more.

Pramod Yadav So you had all the impact over the last year. So we have got higher volumes and at a higher price and the raw material price at the same time has gone down. So it's a very favorable situation.

Ashish Thavkar Okay. So with the same capacities, you now have higher volumes?

Pramod Yadav No, we are running the plant at higher capacity.

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

Shyam S Bhartia Thank you for all of you for joining in this conference call. In case you have any further questions, Mr. Sankaraiah and Mr. Ravi Agrawal will be happy to do connect with you. Thank you so much.

R Sankaraiah

Thank you.

Moderator

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