Jubilant Life Sciences
Q1 FY19 Results Conference Call
July 27, 2018

Ravi Agrawal: Good evening to everybody. I am Ravi Agrawal, Head of Investor Relations at Jubilant Life Sciences. I thank you again for being with us today on our Q1 FY19 Earnings Conference Call. On the call today, we have Mr. Shyam S. Bhartia – Chairman; Mr. Hari S. Bhartia – Co-Chairman and Managing Director; 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 of our Pharmaceuticals business and Mr. Rajesh Srivastava – CEO of Life Science Ingredients.

Before we commence the call today, I would like to remind you that some of the statements made on the call today could be forward-looking in nature and a detail disclaimer in this regard has been included in the presentation that has been shared on our website.

I now invite Mr. Bhartia to share his comments.

Shyam S. Bhartia: Thank you Ravi and good evening everyone.

We have started the year on a strong note, with Pharmaceuticals business reporting healthy growth and margins. We have witnessed recovery in US Solid Dosage Formulations and also continue to see robust growth in our Specialty Pharmaceuticals business. Revenue growth in Life Science Ingredients has been led by higher volumes in most of our key businesses. We have laid the foundation for improved utilization of assets and financial discipline, leading to strengthening our balance sheet.

Let us discuss some key numbers now.

In Q1'FY19, consolidated revenue stood at Rs. 2,079 crore, up 34% YoY. Ex-Triad, revenues have grown 15% YoY. International revenues grew 33% YoY to Rs. 1,507 crore constituting 72% of our total revenues. EBITDA stood at Rs. 447 crore, a growth of 30% YoY and EBITDA margins were at 21.5%.

Our Net profit stood at Rs. 203 crore, with a healthy growth of 38% YoY translating into Net Margins of 9.7% and an EPS of Rs. 13.

Mr. Sankaraiah will discuss the financial results in more detail in his presentation

Moving now to the Key Businesses:

In Q1'FY19, the Pharmaceuticals revenue improved 46% YoY to Rs. 1,181 crore and accounts for 57% of the Company's revenues. Excluding the Triad acquisition, revenue growth was 9% YoY during the quarter. EBITDA was at Rs 343 crore, a growth of 31% YoY with margins of 29% during the quarter

I now share the geographical breakup of the Pharmaceuticals business:

Revenues from North America were up 61% YoY at Rs. 985 crore with contribution to business revenues at 83%. Revenues from Europe and Japan stood at Rs. 93 crore, contributing 8% to the revenues. Revenue from Rest of the World was at Rs. 82 crore, contributing 7% to the revenues. Lastly, India revenue came in at Rs. 28 crore, contributing 2% to the revenue.

Let us move onto the key business highlights now.

Specialty Pharmaceuticals reported revenues of Rs. 816 Crore (growth of 74% YoY and 11% YoY adjusted for acquired Radiopharmacy), contributing 69% to Pharma business sales as compared to 58% in Q1'FY18. Rubyfill installations in the US market are progressing as per plan and the integration of our field force in Rubyfill with Triad is yielding satisfactory results. Our strategy of being close to our customers has translated into a healthy order book which provides strong visibility to revenues in the coming quarters in all our Specialty Pharma businesses. To meet the existing strong demand in our CMO operations, we are increasing capacities through increased shifts which we expect to start from Q3'FY19 and also through investments in a new Lyophilization line by FY20 which is expected to generate additional revenue going forward. In our Allergy Therapy business, as you are aware we have recently become the only suppliers of venom and we are currently in the process of getting a new site approved from the USFDA which will increase venom production which should translate into additional revenues going forward.

Revenues in API & Generics were at Rs. 365 Crore, contributing 31% to Pharmaceuticals sales. As indicated earlier, we have recently started witnessing some green shoots in the US dosage formulation business due to rationalization of product portfolio and plants by some generic companies which has led to revenue growth and margin expansion in this business. We are increasing capacity in Solid Dosage Formulations at Roorkee which is expected to be completed in Q3'FY19 to meet increasing requirements in EU, ROW and US markets. We are also taking various initiatives to reduce cost from higher efficiencies and also input material cost optimization.

Coming to filings and registrations, we have filed 107 ANDAs in the US market, including a mix of solid dosage filings, injectable filings and NDA and 505 (b) (2) filings, of which 37 are pending approval. We have filed 2 ANDAs during the quarter and expect to file around 10 ANDAs during the year. We have a very exciting pipeline of at least 5 products in our Radiopharmaceuticals business which we expect to file and launch in the next few years.

I am pleased to share that we have initiated I-131 MIBG Phase II Trials recently in July 2018 in our Radiopharmaceuticals business. The information collected from this study will be submitted to the USFDA under the Orphan Drug Designation program and is eligible for accelerated approval if the clinical trials are successful. Jubilant's MIBG has already been used for over a decade in USFDA approved expanded access trials and two Pediatric Oncology academic consortiums – NANT (New Approaches to Neuroblastoma Therapy) and COG (Children's Oncology Group). The initiation of this pivotal trial is a crucial step for Jubilant's MIBG NDA filing and is a testimony to our Specialty R&D capability to develop complex products addressing advanced medical needs.

I am happy to report that we had successful USFDA inspections at our CMO operations in Montreal and our Salisbury facility for Solid dosage. We have also received the EIR for the CMO Montreal inspections.

Coming to the Life Science Ingredients,

In Life Science Ingredients, we had revenue of Rs. 847 Crore thus contributing 41% to the overall revenues and growing 21% YoY. EBITDA was at Rs. 109 Crore, similar to Q1'FY18 with margins of 12.9%.

To give you a sense of geographical breakup;

Revenues from Key Developed Markets stood at Rs. 218 Crore, up 7% YoY contributing 26% to the business revenues. ROW business stood at Rs. 87 Crore, contributing 10% to the business revenues. India business was at Rs. 542 Crore, up 40% YoY, contributing 64% to the business revenues.

Let me share a few highlights of each business in Life Science Ingredients.

In Specialty Intermediates a new multipurpose Chlorinated Pyridine plant was commissioned in Q1'FY19 with potential to generate annualized revenues of more than Rs. 50 Crore. We also launched one product out of 6 new products planned during the year.

In Life Science Chemicals, while pricing was favorable as compared to Q1 last year, we have witnessed a sharp increase in the price of acetic acid. While we are in a position to pass on this price increase, this typically has a lag of 2-3 months. The new acetic anhydride plant is progressing as per plan to be commissioned by end Q3'FY19. This will provide additional revenues of Rs. 300 crore at full capacity. Also, we are successfully continuing our supplies under the government ethanol blending program. As you may be aware, the government has decided to raise the price of ethanol for blending program by Rs. 2.85 per liter effective for supplies starting 1st December 18, which we expect to be a positive for us.

Nutritional Products have been lower during the quarter as the non-availability of Vitamin A & Vitamin E has led to commensurate lower demand of Vitamin B in Feed applications leading to higher inventory and lower prices. We are now seeing the availability of Vitamin A and E improve and we expect to see demand normalize in the next 3-4 months.

Others Segment

Our Others segment includes the Drug Discovery Solutions and India Branded Pharma businesses. In Q1'FY19, the segment revenues stood at Rs. 51 crore and contributed 2% to overall revenues. In Drug Discovery Solutions, we are expanding customer reach to out-license in-house proprietary molecules. In India Branded Pharmaceuticals, we witnessed steady growth in prescriptions.

Now let me take this opportunity to make an important Corporate Announcement.

Jubilant Pharma Limited IPO Plan

In our press release dated May 23, 2017, we had informed that Jubilant Pharma Limited ("JPL"), Singapore, a wholly-owned material subsidiary of the Company, in its board meeting had resolved that it will evaluate the option of fund raising by way of an initial public offering ("IPO") by listing of its equity shares on an international stock exchange, including the Singapore Exchange, in the financial year 2018 with a dilution of not more than 15% of the issued and paid-up equity share capital of JPL. We wish to now inform you that:

1.The board of directors of the Company has taken on record the resolution dated July 23, 2018 passed by the board of directors of JPL recording that the aforementioned evaluation process is on-going and that any fund raising which may be undertaken by JPL will be by way of an IPO and that the maximum dilution of the Company's shareholding in JPL in the IPO (including any sale of shares of JPL by the Company) will be up to 20% of the fully diluted issued and paid-up equity share capital of JPL.

2.The board of directors of the Company approved that, should an opportunity be provided to the Company in any fund raising by JPL, the Company may offer up to 5% of the ordinary equity share capital of JPL for sale.

Outlook

We expect to deliver higher revenue and operating profits in FY19. The growth drivers for each of the business are expected to be as follows:

In Specialty Pharmaceuticals

• New products and current contracts execution in Radiopharmaceuticals is expected to drive growth

• Addition of new capacities to meet existing strong demand is expected to drive growth in CMO

• Allergy Therapy Products to witness higher sales due to existing products like Venom and new capacities

In API & Generics, growth to be driven by higher volumes from new product launches and market expansions and also from initiatives to optimize costs from higher efficiencies.

In Life Science Ingredients:

• Current momentum in revenue growth is expected to continue backed by healthy demand; Growth in revenues from new product launches, new orders, new capacities coming on stream and debottlenecking of existing plants.

As mentioned earlier, to meet the increased demand in our businesses, we plan to invest about Rs. 550 Crores in capital expenditure and Rs. 300 Crore in R&D during the year. We will continue our efforts to strengthen balance sheet by reducing debt and improving financial ratios.

With that I would request Mr. Sankaraiah to take this discussion forward.

R. Sankaraiah: Thank you, Mr. Bhartia. A very good evening and I thank everyone for taking out time and joining us on our quarterly Earnings Conference Call. I hope all of you have received our Financial Results and Investor Presentation.

Let me give you a brief of the financial highlights for the performance during first quarter of FY19.

We reported healthy results for the quarter under review. Revenue from Operations improved by 34% YoY to Rs. 2,079 Crore. This was on account of enhanced performance in Specialty Pharmaceuticals, US Solid Dosage Formulations and higher volumes in Life Science Ingredients. International revenue grew by 33% YoY at Rs. 1,507 Crore and contributed 72% to the total revenue.

Revenues from Pharmaceuticals improved by 46% YoY to Rs. 1,181 Crore. Within this the Specialty Pharmaceuticals business displayed strong performance by growing 74% YoY to Rs. 816 Crore. Adjusting for the acquisition of the Radiopharmacy business in September last year, the revenue growth in Specialty Pharmaceuticals was 11% YoY. This business now contributes 69% of the total pharmaceuticals revenues, as compared to 58% in Q1'FY18. Our API & Generics business delivered revenues of Rs 365 crore, contributing 31% to Pharmaceuticals sales.

Moving on to our Life Science Ingredients, revenue for the quarter stood at Rs. 847 Crore, contributing 41% to the overall revenue and improved by 21% YoY. This has been aided by strong growth in volumes during the quarter.

The Others segment include the Drug Discovery Solutions and the India Branded Pharmaceutical businesses. The revenue for this segment came in at Rs. 51 Crore, higher by 11% YoY and contributing 2% to overall revenues.

Coming to EBITDA, total EBITDA from operations for the quarter improved by 30% YoY at Rs. 447 Crore with margins of 21.5%. Pharmaceuticals EBITDA stood at Rs. 343 Crore, higher by 31% YoY and with margins of 29%. Specialty Pharmaceuticals EBITDA grew 25% YoY to Rs. 270 Crore with margins of 33.1% while API & Generic EBITDA grew 57% YoY with margins of 19.8% during the quarter.

Life Science ingredients EBITDA was at Rs. 109 crore, up 1% YoY with margins of 12.9%, as against 15.4% last year. The margins have been impacted due to lower demand and prices in Vitamins during the quarter. EBITDA in our Others segment was at Rs. 2 Crore.

Depreciation and amortization during the quarter was at Rs. 88 crore. Finance costs were higher 6% YoY at Rs. 73 Crore. Finance costs include borrowing costs of Rs. 50 Crore, lower 8% YoY and non-cash charge on Stock Settlement Instrument of Rs. 22 Crore. Average blended interest rate for Q1'FY19 stood at 6.03% pa with Rupee loans at 8.37% and Dollar loans at 4.75%.

Thus, the company achieved Reported PAT Rs. 203 Crore, a growth of 38% YoY with Net margins at 9.7% translating into an EPS of Rs. 13 per share of Re. 1 paid.

Let me share balance sheet perspectives now. We saw reduction in debt of Rs. 25 Crore during the current quarter, with the Net Debt now standing at Rs. 3,327 crore Crore as against Rs. 3,231 Crore on 31-March-18. We strongly emphasize our continued commitment to reduce the debt going forward. The Capex for the quarter stood at Rs. 138 crore and Pharma R&D spent was Rs. 58 crore during the quarter.

We expect the improvement of our businesses to generate higher operating cash flows and we will utilize the same for capacity expansion and debt reduction. I would like to emphasis that we will continue our efforts to strengthen balance sheet by reducing debt and improving 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. We will take the first question from the line of Saion Mukherjee from Nomura Financial Advisory & Securities India Pvt. Ltd. Please go ahead.

Saion Mukherjee: Sir, my first question is on the EBITDA for the LSI business. You explained that it has been lower this quarter because of the demand scenario and also raw material prices. But it just has been too volatile and how should we think about this over the next three quarters?

Rajesh Kr Srivastava: So, as Mr. Bhartia explained about EBITDA being lower because of the lower demand as well as excess inventory of Vitamin, it was not expected because Vitamin-A and E demand availability in the market has gone out and therefore the demand went down, and the inventory has went up and that is where the prices has been lower and because the price and volume both EBITDA has been significantly low. Vitamin-A and E has now come in the normal situation. So, it is about three to four months lag we expect the demand to come at the normal level by next quarter end and things should look better because the inventories also will go out from the market and the pricing will definitely increase.

Saion Mukherjee: You also mentioned about higher prices in acetic acid which is the raw material and there is a lag with which you will be able to pass that on. Is that a very significant contributor to EBITDA margins this quarter?

Rajesh Kr Srivastava: I would say that more impact of margins has been from Vitamin, but there is a slight impact because of acetic acid prices also. Though acetic acid prices normally we pass on to customer, but there is always a little bit lag, it goes on to two or three months and therefore little impact of that also has taken place in the current quarter EBITDA.

Saion Mukherjee: Sir, my second question is regarding the impact of some of the things which you mentioned, if you can kind of directionally tell us the quantum of impact, first, you mentioned about the allergy sales, right, I think Rs. 250-300 crore last year and competitors has gone out. How big is the market opportunity there and how much can these revenues increase because of lack of competition?

Pramod Yadav: This is Pramod here. In case of Allergy business, we are getting higher revenue due to two reasons; one is the normal organic growth in all the products and other one is the venom which we mentioned last time we are the sole supplier now and that gives us access to the larger markets within the US and also gives us opportunity to expand beyond the US. So, in the Allergy business, the higher revenues coming on both the accounts.

Saion Mukherjee: How large revenue is the venom portion sir out of the total Allergy business?

Pramod Yadav: It will be difficult to give revenue number exactly for any of the specific business segment but since we are the sole supplier now in the market, so the entire market is with us.

Moderator: Thank you. We will take the next question from the line of Ashish Thavkar from Motilal Oswal Securities Limited. Please go ahead.

Ashish Thavkar: One question on the planned IPO. The proceeds that we would generate where would this be used?

R. Sankaraiah: Initially, it will be mainly used for debt reduction plus whatever the CAPEX programs which we have. Of course, the gap which is getting generated will take care of all the CAPEX requirements, but it will be initially to the debt reduction part.

Ashish Thavkar: So, the debt reduction would be the Pharma business or the LSI business?

R. Sankaraiah: In LSI business, like Mr. Bhartia mentioned, up to 5% should there be any opportunity to place the stock in the secondary market, we will be doing that, upto 5% that money will be utilized in LSI business to reduce the debt. Whatever the money which is being raised in Pharma business, it will be used in Pharma business.

Ashish Thavkar: Second question is on the prices of the Key Starting Materials. So, this quarter because of the China phenomena, have we anticipated this thing in the sense that the API prices are increasing, whether it has affected our LSI business?

Pramod Yadav: The KSM price increase is not new only to Jubilant. It is across the entire market; everyone is impacted by that. so yes, we are also impacted by that but the good thing is that we are able to pass on that increase to the customers in the form of our API prices, so it is almost pass-through, but yes, the prices of KSM have gone up.

Ashish Thavkar: By what timelines do you think these prices could stabilize?

Pramod Yadav: It is difficult to predict because it is more led by environmental issues in China, but as a proactive measure, we have made a very robust de-risking China strategy where we have made plans how to produce all these products within India and these plans are under implementation and we feel that in about a year or two, we will be able to reduce our dependency on China to a great extent.

Moderator: Thank you. We will take the next question from the line of Alankar Garude from Macquarie Capital Securities (India) Pvt. Ltd. Please go ahead.

Alankar Garude: Two questions from my side. One is why was the net debt reduction so low despite a fairly healthy EBITDA? Also, can you share your debt reduction target for FY19?

R. Sankaraiah: Like I mentioned, this year the CAPEX is almost like Rs.550 crore, out of that the first quarter we have incurred almost like Rs.200 crore both for CAPEX and product development and also in LSI business the sales and volume growth,top line grows more than 20%, then it is a little bit of working capital block also which is there. So, these are the two reasons why the net debt reduction has come only Rs.25 crore.

Alankar Garude: Is it fair to assume that once the things normalize as far as the demand scenario as well as the raw material prices are concerned, we should see a reduction in this working capital which has gone up?

R. Sankaraiah: Yes, we should.

Alankar Garude: So, that should take place maybe in the second quarter or at best the third quarter?

R. Sankaraiah: Like Rajesh also mentioned, there is uptick in acid prices which are higher because there is a further working capital block which is there. So, all these things should settle down in Q3 onwards.

Shyam S. Bhartia: Basically, in H2 I think.

Moderator: Thank you. We will take the next question from the line of Cyndrella Carvalho from Kotak Securities. Please go ahead.

Cyndrella Carvalho: Sir, a couple of questions. So, just if you could help us understand in terms of the Specialty business in US, which are the key drivers apart from the allergy that we discussed, so how is the radio and the Contract Injectables business doing, if you can help us with some color and what is the view going ahead?

Pramod Yadav: First, in case of the Radiopharma, we have the contracts in place and we have launched additional products. So, we see the strong revenue and margins coming in during the year. In case of CMO, as you asked also, we are seeing quite a lot of traction of the demand in the market and hence we are taking the measures to increase our capacity. As Mr. Bhartia mentioned, we will be running the plant in more number of shifts, we are also installing additional lyo line. This will give us opportunity to take higher volumes in the market as well as we have been able to introduce the customers and do some of the customer rationalization which is also leading to better margins. On top of that, we have also worked quite a lot in improving the cost efficiencies in this business, that will also boost some additional margins coming in. So, the strategy is in place all across all the three of the business within this facility.

Cyndrella Carvalho: If you would be able to help us through with some color on the Rubyfill installations, is there any update that you can share, what is the rate right now, any further color that you can provide there?

Pramod Yadav: Rubyfill is a product which is getting lot of attraction in the US market. Our installations are going as per the plan but in the plant as such more number of installations are there in the H2 than the H1, the way the customer discussions are going, looks we will be as per our plan.

Moderator: Thank you. We will take the next question from the line of Ranveer Singh from Systematix Shares & Stocks (I) Ltd. Please go ahead.

Ranveer Singh: Just quick two questions; this generic business margin expansion what you see, is sustainable or what actually led this expansion?

Pramod Yadav: I had mentioned on my last call also that we are seeing the upward movement in this business and that is actually helping us also. Higher margins have come from all around due to volume growth, better pricing and also quite a lot of initiatives that we have taken in improving our cost efficiencies. So, all this put together is leading to the better margins and the better revenue in this business. We feel that we will be able to sustain it because we still see quite a lot of demand for a few of the products and some of the cost efficiency programs are working as per the schedule.

Ranveer Singh: So, this expansion has been in US only or across the geography?

Pramod Yadav: This is across the geography in API, in the US and also in dosage formulation within India.

Ranveer Singh: Second one, you mentioned that organic growth in Specialty has been coming from all the three segments that CMO, Allergy and Radio or there is one element driving all these things?

Pramod Yadav: No, it is all the three, that is what I mentioned also.

Moderator: Thank you. We will take the next question from the line of Nagraj Chandrashekhar from Laburnum Capital Advisors Pvt. Ltd. Please go ahead.

N Chandrashekhar: Just two questions; first, could you explain a little bit more detail exactly what happened in vitamins, I think your PowerPoint says that A and E were unavailable, is it common for frankly commodities like Vitamin-A and E suddenly become unavailable and I am interpreting this to mean that because your product is complementary to A and E, if you cannot get A and E, you cannot make the end product, so there is no demand for your product also, so just wanted to understand how you can have such wild fluctuations in the demand for what should be fairly stable commodities? The second question is if I look at your LSI EBITDA, it has really dragged at Rs.100 crore type run rate for the last couple of years with the exception of the last two quarters which were Rs.200 crore or thereabouts. I think you had indicated in the last two quarters that that should be viewed as a steady state run-rate going forward. So, I am assuming what you are saying is once this demand comes back on line and you pass through the acetic acid price, you should be able to get back to that run rate, would that be a fair assumption?

Rajesh Kr Srivastava: The answer to the first question, as you know that Vitamin-A and E is part of the pre-mix along with Vitamin-B3, mainly in the feed business. Now overall vitamin, the feed business has a major segment about 65, 70% of the total vitamin business, Vitamin-B3 is going into the feed segment and because of unavailability of A and E, actually what you said is right that demand for Vitamin B3 has gone down because pre-mixes were not being produced and people have replaced vitamin-B3 with some other ingredients, but little bit. Now, that A and E is coming on track, the expected demand of Vitamin B3 remains same or it is growing year-on-year, so it should come on line, that is the answer to the question #1. The question #2 you said, yes, but in the last quarter some of the product pricing was much-much higher, we still want to see what pricing we will get in market in next two quarters and depending on that and if the Vitamin prices and demand comes back, we will definitely aspire to reach to the EBITDA expected.

N Chandrashekhar: So, maybe not 200, but maybe like Rs.150 crore something is a steady run rate you can do?

Rajesh Kr Srivastava: It is very difficult to commit that kind of number because it depends on raw material prices, market demand and product prices, difficult to commit but yes, our aim is to definitely keep increasing our margins as well as EBITDA.

Moderator: Thank you. We will take the next question from the line of Varun Basrur from AQF Advisors Pvt. Ltd. Please go ahead.

Varun Basrur: What were the revenues from Triad this quarter? I did a rough calculation, I think it is about Rs.380 crore.

Shyam S. Bhartia: We had mentioned that non-Triad we had grown 11% in Specialty, so from that back calculation can be done, but since that number is already available, I think it is around Rs.350 crore.

R. Sankaraiah But you should not take straightaway Rs.350 crore because there is interdivisional sales which is happening during the year from our Radiopharmaceuticals business to Triad, so we have to knock off that. If you knock off but see the real effect of that, it will be about Rs.280 crore, that is how you get the 11% growth.

Shyam S. Bhartia: What happens, from this quarter we had integrated our Radiopharmaceuticals business with Triad business into one business because it is very difficult because both are inter-divisional sales, etc., very difficult to keep the business separately. One business head looks after both the businesses and change the growth of all the businesses. So, we have started evaluating as a combined business going forward from this quarter.

Varun Basrur: Can you share the margins of Triad?

Pramod Yadav: Triad being the distribution business, the margins are definitely not much there, but it acts as a good forward platform or the outlet for us to distribute our Radiopharmaceuticals product in the market.

Moderator: Thank you. We will take the next question from the line of Amit Bhatiani from Canopy. Please go ahead.

Amit Bhatiani: I had a broader question around capital allocation. Given the three-pronged capital approach we have seen over the last many years, R&D of course, CAPEX and acquisition, how do you think about return on capital hurdle that you might apply to any one of these things of course the US generic business has become low return on capital over time, I think that is understood but as you guys go forward and think about building plan both on the Life Sciences side and on acquiring company that given the new cash flow that might appear from the IPO, between kind of debt reduction, CAPEX and for the plant, is there an internal hurdle for capital allocation, would be great to get just some color on that?

Shyam S. Bhartia: It is a very good question. Whenever we take investment decisions, our business people carefully evaluate the return on capital. Generally, in our Life Science business, we see a payback of two to two and a half years' time. We do not invest for a very long-term asset where the long-term payback because we are very careful in selecting projects. In case of pharma, I think because of regulatory reasons, it takes us a little longer time, takes about three years to four years' time to give returns.

Amit Bhatiani: What I take that to mean kind of that would be a greater hurdle than let us say 15% absolute IRR on each project which would be a pretty lower given the payback period you described?

R. Sankaraiah: Just to give a straight answer on this, if you see the ROCE compared to last three years continuously we have improved, today we are in the range of about 20%, that means the existing projects are improving and also that the projects which we are adding like Mr. Bhartia mentioned a payback of less than three years, that kind of projects we are putting ourselves, we are very careful in investing in capital expenditure, so our targeted ROCE is at least 20%. So, that is the way we are evaluating each of the CAPEX and also investment decisions.

Shyam S. Bhartia: As we mentioned during the start of the year, this year our CAPEX has gone up because there is a compelling reasons of the market demand that our capacities are full, and the market needs more products. So, in the areas where the market needs more products as we are extremely sure of marketing our products at a profitable prices, there only we are investing, we are not investing everywhere, we choose very selectively our investments where the market demand is very clear and where we need to expand the capacity since we are almost nearing full utilization of capacity.

Moderator: Thank you. We will take the next question from the line of Surjit Pal from Prabhudas Lilladher Pvt. Limited Please go ahead.

Surjit Pal: I have two questions. Actually, one is question, another one is request. The first question is that your nutritional ingredients which has pushed up your sales of LSI from Rs.740 crore average to the second half of FY'18 to the level of Rs.950 crore around. Now I believe that growth is basically driven by your nutritional ingredients both top line growth as well as your margin in that business. Now, what actually describe that sudden growth in nutrition ingredients to understand the sustainability of that growth which actually has come back to original level, not actually original level, it is in between, between 740 and 950 it is around 850? So, my point is that which one is sustainable – your 740 to 950 or 950 to 740 or 850 and why?

Rajesh Srivastava: Earlier growth which you mentioned, I do not know the numbers, 740 to 940 was not purely on the Vitamin business, it was also on the volume and price of other products in Life Science Ingredients. So, those products also we have little bit of input price increase as well as price reduction if you look at quarter-on-quarter. That is continuing but vitamin has the set back. So, I would say that it is not purely because of vitamin the sales revenue has been down.

R. Sankaraiah: In addition to what Rajesh has mentioned, for the numbers what you said, one is the nutrition part, the profitability is affected mainly because of nutrition and also when the acetic acid prices have gone up accordingly the selling price of Life Science chemicals have substantially gone up, thereby the top line growth was there. So, that is another main reason why you see the huge increase in number there.

Surjit Pal: So, you could not pass it on because of lack of demand?

R. Sankaraiah: No, we were able to pass it on in Q3 and Q4 and still it is continuing in Q1'FY19 but the Vitamin business because of the price pressure the margins have come down.

Surjit Pal: Is it because of Chinese lack of production or the constraint over there?

R. Sankaraiah: Vitamin business reason, Rajesh has explained very clearly because of the Vitamin A and E availability which was reducing the volume.

Shyam Bhartia: Vitamin-A is nothing to do with China, one of the European manufacturers had a fire in its plant, only manufacturer, because of the fire the vitamin production went down.

Rajesh Srivastava: This is not the phenomena only for Jubilant, it is for everyone who makes Vitamin-B3.

Surjit Pal: Because I found that Vitamin-C has a lot of problem in India because the supply from China has been constrained?

Shyam Bhartia: That is nothing to do with this business.

Surjit Pal: Another one, Mr. Bhartia, you are proposing that you are clubbing this Triad with the Specialty business. Because I think that is the two different kinds of business and the nature and the margin and the profile is absolutely different. So, if you club it, it will totally distort the picture without understanding for ours in terms of where it is heading because your generic business and API, both are linked, both are using their one product of the other, that does not mean that you have merged it of API and your generic formulation. So, I think this distribution of Triad and specialty business if you merge it, it will be really tough for us to understand the business how it is growing and how the margin has been expanding?

Shyam S. Bhartia: I will explain you why, the sales force of Triad helps rubidium generator, similarly at API and generics are linked, the Radiopharmaceuticals and Triad is also linked because the output of Radiopharmaceuticals goes into Triad plus some of the case of rubidium generator is examined by the Triad sales force. So, the back end is also linked. Of course, they have two separate business unit heads is report to the head of Radiopharma business, but they are two separate business heads and they are reporting to the Radiopharma business head and then he reports to Pramod.

Surjit Pal: The maximum dilution you will be going for 20% and minimum is not less than 15%, that is what you say, right?

R. Sankaraiah: No-no, earlier what we mentioned was 15% dilution by Jubilant Pharma, now that they have added up to 5% Jubilant Life Science also, if there would be an opportunity available, there would be an offer for sale, so total put together the dilution of Jubilant Life Science will not exceed more than 20%, that is what we are mentioning.

Surjit Pal: The 15% in Jubilant Pharma is inclusive of your FCCB to IFC Washington?

R. Sankaraiah: Yes, that is a mandatory conversion.

Surjit Pal: That will be at a discount after three years, so it will have higher discount, right?

R. Sankaraiah: Yes-yes, the 10% discount per annum compared to the IPO price, that will be converted as per the mandate before the IPO. It will get converted

Surjit Pal: Who is your lead manager for this issue?

R. Sankaraiah: We do not want to get into those details in this call because it is related to more of Jubilant Pharma Singapore. So, the board has intimated to us, so we have taken that into our board and announcing in addition to that we are also interested in doing that 5%, that is what we have mentioned.

Shyam S. Bhartia: We will keep you informed of the developments as happens.

Moderator: Thank you. We will take the next question from the line of Srihari from PCS Securities. Please go ahead.

Srihari: I have three questions principally. Firstly, could you please quantify the business loss in the Vitamin-B3 segment? We have seen a significant traction in the Pharma margins. What is the outlook on this? Do you expect it to grow further from here? Finally, is there any alteration to your top line guidance because of the decline in the B3 business?

R. Sankaraiah: We are not quantifying business loss product wise, segment wise and all those things. We are talking about the segments -- Pharma, LSI and others. Within that, what is the reason broadly we are giving for the market to understand clearly which under the segment which sub-segment is not doing well, we may not be in a position to quantify for each of the sub-segment what is the profitability at all.

Shyam S. Bhartia: About the future expectation, we expect robust growth in our both Pharmaceuticals business and also Life Science business both on revenue and operating profit but we do not give any guidance of our extent of growth and increase in operating profit.

Srihari: I can understand the Vitamin-B point of it but if you could throw some light on the profitability of the Pharma business, what is the trend outlook?

Pramod Yadav: I think you can assume that the margins will be better than what they were last year and the top line will continue to grow.

R. Sankaraiah: And also last quarter we have clearly mentioned that H2 should be better than H1.

Moderator: Thank you. We will take the next follow up question from the line of Cyndrella Carvalho from Kotak Securities. Please go ahead.

Cyndrella Carvalho: Sir, wanted to understand the US generic business, how has been the traction, we have seen some revival, whether it will be sustainable, any launches that we expect in this year which would contribute and how is the base business doing, so what is our view over there?

Pramod Yadav: In the US market, some of the headwinds still continues, but as we mentioned in the last quarter, our products are getting quite a good attraction because either we are the sole supplier, or we are one of two or one of three. On top of that, as we mentioned that with our backward integration of the dosage formulation manufacturing in India and then the API manufacturing within India and we are working on improving the cost efficiencies across the value chain, we are able to make this product strategically very strong in terms of the margins. We have been filing almost eight to ten of the ANDAs every year. This year basis that we plan to launch about 10-12 of the products which will also generate additional revenue. In our launching plan in the next year there are even more number of products. So, with this additional volume coming from the additional launches, with the cost efficiencies, with the higher volumes, we feel that we are in a good position on a strong wicket as far as the generic market is concerned.

Cyndrella Carvalho: Should we expect kind of a double-digit growth for this year over the last year, any color that you can provide there?

Pramod Yadav: It will be difficult to mention exactly how much growth in the single digit or double digit but yes, our top line will also growth and the margins will be reasonably much better than last year.

Cyndrella Carvalho: Sir, in terms of our Specialty Intermediates, the pyridine plant which is commissioned this quarter, any kind of number in terms of revenues that you can put to it?

Rajesh Srivastava: I think in Mr. Bhartia's speech, he has clearly mentioned that this new plant has a potential to give revenue of about Rs.50 crore annually.

Shyam S. Bhartia: This is a chloro-pyridine plant.

Shyam S. Bhartia: Uses one of our derivatives of the pyridine plant as the raw material.

Moderator: Thank you. We will take the next question from the line of Amit Goela from RARE Enterprises. Please go ahead.

Amit Goela: Sir, this interest cost where you have this Rs.22 crore charges every quarter, now once the post IPO, will this be there, or will this go away now?

R. Sankaraiah: It will not be there, it will go away because the outstanding loan amount of 58.2 million will get converted into equity at a discount rate. As of now also it is mentioned very clearly it is a non-cash item, stock settlement charge.

Amit Goela: Maybe I have got a little bit of confusion, once you do the IPO of Jubilant Life as well as suppose you decide to sell 5% of your equity, so you will definitely have some cash inflow, so what will that be done – you will basically use that to repay your debt or you have some plants with it?

Shyam S. Bhartia: We will repay our debt and use parts in our CAPEX plans of existing whatever we have announced, then only the net debt goes down, at Life Science level also at the Jubilant Pharma level.

Moderator: Thank you. We will take the next follow up question from the line of Alankar Garude from Macquarie Capital Securities (India) Pvt. Ltd. Please go ahead.

Alankar Garude: So, just one question on Rubyfill. So, we share that you are planning more installations in the second half versus the first half. Also, can you tell us more about the competitive dynamics and possibly an update on the case which Bracco had filed with the US ITC?

Pramod Yadav: In terms of competitive dynamics, our product is much-much better and much more advanced than a competitor product in the market. As far as the case in ITC is concerned, we have already announced that we deal very strongly, we are not infringing the Bracco patent and accordingly we are going to take it up in the court in the ITC. We have already given assurance to our customers that we will continue to market the product based on our innovative technology. Basis that we also do not see an impact on the demand of the product in the market.

Alankar Garude: Sir, one small feedback. It becomes fairly difficult for us to track the Radiopharma performance in the absence of any disclosures on Rubyfill. So, we would really appreciate any details without you compromising on the competitive positioning of course.

Shyam S. Bhartia: Thank you.

Moderator: Thank you. We will take the next follow up question from the line of Saion Mukherjee from Nomura Financial Advisory & Securities India Pvt. Ltd. Please go ahead.

Saion Mukherjee: Just one small question on Contract CMO business. You talked about some capacity expansion there in third quarter that will come. Can you throw some light on growth outlook for this business and what is the kind of revenue potential you are seeing?

Pramod Yadav: In the third quarter, the capacity expansions coming without the capital investment from the same assets which we have been using for five days in a week, we will be running the plant seven days in a week, so that will give us a higher capacity. Then we are putting up another Lyo which will come in FY20. So, with all these initiatives we expect a good availability of additional capacity and the customers are already having higher demand of the products. So, we will be able to fill up the capacity immediately.

Shyam S. Bhartia: We will be able to fill up the capacity with our existing customer demand.

Saion Mukherjee: I just missed, I think you mentioned about the higher price for the ethanol blending program. Can you just repeat what the number is and what is the impact for us?

Rajesh Srivastava: The price increase announced is Rs.2.85 effective 1st December 2018 and if you look at our annual volume which we will be selling in this year, if you consider that the impact is about Rs.20 crore.

Moderator: Thank you very much. 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 us in this conference call. I think Sankaraiah and Ravi are available for any further questions if you have.

R. Sankaraiah: Thank you very much.

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