Jubilant Life Sciences Limited
Q2 & H1 FY'21 Earnings Conference Call Transcript
November 4, 2020

Hemant Bakhru: Thanks. Good evening, everyone. I am Hemant Bakhru, Head, Investor Relations at Jubilant Life Sciences. Thank you for being on our Q2 & H1 FY'21 Earnings Conference Call. 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 press release that is also shared on our website.

On the call today we have Mr. Shyam Bhartia – Chairman; Mr. Hari Bhartia – Co-Chairman and Managing Director;, Mr. Pramod Yadav – CEO, Jubilant Pharma; Mr. Rajesh Srivastava -- CEO, Life Science Ingredients; Mr. Syed Kazmi – CEO, Jubilant Therapeutics, and Mr. Arun Sharma – CFO of Jubilant Life Sciences.

I would like to invite Mr. Shyam Bhartia to share his comments now. Over to you, sir.

Shyam S. Bhartia: Thank you, Hemant. Good evening, everyone. I am sure you would have had a chance to go through our "Presentation" and "Press Release" which we have shared with you.

Q2 has seen a substantial improvement over Q1 despite continued adverse impact of the COVID-19 pandemic in at least first half of Q2.

LSI segment's performance continue to be strong with quarter-on-quarter as well as year-on-year EBITDA growth.

Our Drug Discovery and Development Solutions segment witness strong growth led by continued healthy demand from customers during the quarter.

Pharma business performance improved substantially quarter-on-quarter, led by growth in CMO and Generics.

Radiopharma continue to have temporary negative impact due to COVID-19 related restrictions on hospital visitations.

Demand conditions have started improving and Allergy business is already at pre-COVID level during Q2 FY'21.

We continue to see new business opportunities in CDMO, Generic and Specialty Pharma segments.

We have announced a strategic partnership with SOFIE Biosciences, where Jubilant will become the largest shareholder with 25% equity stake. Pramod will elaborate on this partnership.

We continue to see improvement in demand in most of our business segments with strong demand recovery and expected new business signups.

We expect strong performance in our Pharma, LSI and DDDS businesses in H2 FY'21.

The company reduced its debt on constant currency basis by Rs.193 crore in H1 FY'21. This is in addition to Rs.515 crore reduction in net debt during FY'20. We remain focused on further deleveraging by generating healthy levels of cash flow.

We also have on the call Syed Kazmi -- CEO of Jubilant Therapeutics, he will elaborate on our opportunity for Proprietary Novel Drugs business.

With this I will hand over to Pramod to discuss the Pharma business.

Pramod Yadav: Thank you Mr. Bhartia. A very good evening to all of you. Pharmaceuticals Q2 revenue grew 4% year-on-year led by a strong performance in CMO and Generics.

In Specialty Pharmaceutical segment, comprising of Radiopharma and Allergy businesses, revenues declined by 21% year-on-year with continued impact of the lockdown, priority given by hospital systems to treat COVID-19 cases and also extra cautious approach for lung procedures to avoid risk to the medical staff. Both Radiopharma and Allergy businesses have recovered in second half of Q2 with Radiopharma at around 90% of pre-COVID level, just barring lung procedures, and Allergy business has fully normalized to 100% of pre-COVID level. We continue to see improvements in volumes in Specialty Pharma segment.

In CDMO business, we continue to witness a strong growth led by higher capacity with new COVID related deals as announced in Q1 call.

CMO business grew, led by capacity expansion via debottlenecking. initiatives including new Lyo installation and 24x7 operations in all areas, including inspection and packaging.

We signed another "Supply Agreement in CMO business" taking total deals to five in H1 FY'21. We believe these signed deals could contribute up to Rs.500 crore in revenue in next 12 to 15-months depending upon product approvals by the US FDA. Like Remdesivir of Gilead approved by US FDA has contributed to CMO revenue growth already.

Under our five COVID-19 related contracts, we have already produced about 1 million vials, including Remdesivir for Gilead. We are excited about the new business opportunities in the CMO businesses.

We are pleased with our Generic business which experienced a 43% year-on-year increase in revenue for quarter, driven by launch of Remdesivir in India and other licensed countries and limited competition in select products in the US market. We remain confident of continued growth in this business. We have doubled Remdesivir manufacturing capacity in India so that allows us to service more demand in India as well as expand access to more countries.

As mentioned by Mr. Bhartia, the Jubilant Radiopharma will become a strategic investor in SOFIE Biosciences with 25% equity holding and the largest shareholder. SOFIE is an innovation leader in molecular theranostic, one of the fastest growing field in the medicine. Theranostic is a combination of diagnostic and therapy, using the same target molecule.

SOFIE has three lines of businesses that are highly synergistic to Jubilant Radiopharma. The first is a network of 14 Radiopharmacies dedicated to PET tracers, which is complementary to Jubilant's work.

The second business line is a specialized CMO facility in New Jersey, which is dedicated to early clinical developments of theranostic agent by which Jubilant can also partner with innovators early in the development phase.

Finally, SOFIE owns 70% exclusive rights of a proprietary 'Fibroblast Activation Protein Inhibitor' called FAPI. This molecule developed by University of Heidelberg, the most celebrated Center of Excellence in Theranostic. FAPI has received worldwide acclaim for its value as a key next-generation theranostic agent with the ability to greatly enhance the detection and treatment of a wide variety of oncology diseases. With our deep expertise in R&D, regulatory affairs, marketing and uncompromised quality, SOFIE and Jubilant are partnering to become a theranostic powerhouse.

The EBITDA for the quarter was at Rs.343 crore as compared to Rs.386 crore in Q2 FY'20. CDMO and Generics delivered a strong growth. Specialty Pharma continue to have temporary impact of COVID-19.

We continue to execute on our strategic initiatives across the businesses and expect better performance in Q3 and Q4 over Q2 FY'21.

Coming to regulatory compliance status of our Roorkee dosage form and Nanjangud API manufacturing facilities. The two sites have already completed remediation measures with respect to warning letter Official Action Indicated (OAI) issued by USFDA.

DGDA of Australia during their inspection of both the facilities in November, verified active actions regarding the observations provided by FDA and Health Canada and awarded with highest compliance rating "A1" which provides an assurance that our remediation efforts were effective. As a result of this successful TGA inspection, Health Canada which had performed a joint inspection with USFDA of the Nanjangud facility in December 2015, also converted the Non-Compliant (NC) status to Compliant status in November 2019. We are confident that our remediation efforts and engagements with the USFDA will soon resolve the OAI and warning letter status of our two manufacturing sites. We are pleased to report that our all manufacturing facilities in North America and India have been fully operational through Q2.

With this I hand over to "Rajesh to provide Insight into LSI and DDDS Business."

Rajesh Kr Srivastava: Thank you, Pramod. Very good evening to all of you. I would like to start by highlighting that despite the challenging market scenario due to COVID-19 pandemic, Life Science Ingredients business segment reported EBITDA of Rs.139 crore, which is higher on year-on-year as well as quarter-on-quarter basis. Our EBITDA margin is 17.7%, which is 559 basis points higher on year-on-year basis, and 89 basis points higher on quarter-on-quarter basis.

I am pleased to inform that we continue to have normal operations at all our facilities without any disruptions.

I would like to thank all of our colleagues for working diligently following a strict safety measures and new practices aiding continuity of our regular business operations, while continuing to serve our global customers.

In our Specialty Intermediates business, Pharmaceutical segment witnessed significant improvements in demand, though Agrochemical segment demand was lower due to extreme weather conditions in certain geographies like cold weather in Northwest Europe, and excessive rain in North America.

Our Nutritional product business has shown strong revenue growth of 11% year-on-year during the quarter.

Business performance was supported by price recovery in Vitamin B3 and other products from a low level in FY'20. Vitamin B3 business has witnessed lower demand during end of quarter due to destocking by the customers, especially in Europe and USA, where lockdown started easing up. However, we expect demand to improve going forward while pricing environment continues to be strong.

Our Life Science Chemicals business delivered revenue growth of 6% year-on-year, led by strong demand of all the products including Acetic Anhydride in domestic and export market, driven by higher demand in Pharma segment. Revenue growth of Life Science Chemicals business was modest due to lower price of acetic acid year-on-year basis. We continue to focus on optimizing product portfolio to improve margins in Life Science Chemicals business, which has led to improvement in margins both year-on-year and quarter-on-quarter.

Overall, LSI segment Q2 FY'21 revenue was at Rs.784 crore as compared to Rs. 753 crore in Q2 FY'20. We expect LSI business to achieve close to double-digit growth in revenue and significant growth in EBITDA with higher margins and very healthy cash generation in FY'21.

Now, coming to our "Drug Discovery and Development Solutions Segment". DDDS business continue to deliver healthy performance during Q2, driven by strong demand from Biotech companies from integrated services and functional chemistry. The business has a healthy pipeline of new contracts and customer acquisition. Q2 FY'21 revenue increased by 23% year-on-year to Rs.75 crore. EBITDA stood at Rs.21 crore versus Rs.29 crore in Q2 FY'20. As we informed in last quarter, the business has committed investment to double the chemistry research capacity, project is progressing well, and we expect the facility to be up and running by Q1 FY'22.

With this, I now hand over to Syed to discuss the Proprietary Novel Drugs pipeline.

Syed Kazmi: Thanks, Rajesh. Good evening, everyone. In our innovative therapeutics business, we are working on more than four programs to deliver precision medicines focused on both first-in-class and validated but intractable targets to address unmet medical needs in the area of oncology and autoimmune disorders with the potential to fast track promising assets from discovery to clinical stage. Our First-in-Class-LSD1/HDAC6 dual innovator and PAD4 programs, which are the most advanced in the world today in the class, address multi-billion dollar market segments in hematological malignancies, solid tumors and autoimmune disorders, such as

Rheumatoid Arthritis. We plan to initiate phase-1 clinical trial for our lead program in second half of FY'22.

Arun Kr Sharma: Thank you. This is Arun Sharma. Thank you, Syed, for the brief on Proprietary Novel Drugs pipeline. Very Good evening to all of you and thank everyone for taking out time and joining us on a quarterly earning conference call.

I would like to highlight the company's financial performance during the quarter-ended September 30, 2020. I would also like to highlight that from this quarter onwards we are highlighting Proprietary Novel Drugs as a separate segment. Revenue from operations during the quarter was at Rs.2,375 crore as compared to Rs.2,266 crore in Q2 last year. Pharma revenue was at Rs.1,516 crore versus Rs.1,452 crore in Q2'20. While LSI reported revenues at Rs.784 crore as compared with Rs.753 crore during Q2 FY'20. Drug Discovery revenue was higher by 23% year-on-year to Rs.75 crore. Reported EBITDA during the quarter was at Rs.493 crore as compared with Rs.481 crore in Q2 FY'20, with a margin at 20.8% versus 21.2% in Q2 last year. Pharma EBITDA grew 91% quarter-on-quarter and LSI EBITDA grew 12% quarter-on-quarter. Depreciation and amortization expense during the quarter was at Rs.116 crore, down 1% year-on-year. Finance cost during the quarter was at Rs.64 crore, down 11% year-on-year. Average blended interest rate for Q2 FY'21 was at 5.72%; INR loans at 7.48% and USD loans at 5.47%. PBT grew by 7% year-on-year. Q2 FY'20 had a lower tax this year due to deferred tax liability reversal of Rs.50 crore. Reported PAT during the quarter was at Rs.224 crore as compared with Rs.249 crore in Q2 FY'20. However, adjusting for tax reversal, PAT is up 12% year-on-year. EPS for Q2 FY'21 is Rs. 14.1 per share Vs Rs. 15.7 per share in Q2 FY'20. The company's net debt on a constant currency basis stood at Rs.3,063 crore, a reduction of Rs.193 crore compared to March 31, 2020. We continue to have a strong cash position and expect to generate healthy operating cash flows during the year to further reduce our debt levels. Capital expenditure for the quarter excluding R&D calculation was at Rs.110 crore. For FY'21 we plan to spend around Rs.500 crore.

Before I conclude, I would like to provide an update on our "Reorganization Proposal." After filing the composite scheme of arrangement with BSE and NSE stock exchanges, we received no objection letters from both exchanges in January 2020. Post this, company had filed application for approval of the composite scheme of arrangements with NCLT Allahabad bench. On August 8, 2020, the company arranged an NCLT convened meeting of shareholders, secured and unsecured creditors of the company at its Gajraula facility for voting on the composite scheme. I am glad to mention that equity shareholders, secured creditors and unsecured creditors of the company have approved the proposed composite scheme of arrangement with a requisite majority and the same has been mentioned in the scrutinizer report dated August 8, 2020, which has been filed with the stock exchanges. With unlocking underway, we expect NCLT to function at normalized level and expect reorganization to get completed by January 2021 timeframe.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-answer session. The first question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Sir, on the specialty business where we have seen 21% decline, you talked about COVID related disruptions. Now we also seen an approval for MAA by Curium, I am just wondering is that having an impact in terms of pricing and volume for this product because I understand this is one of your large products in the specialty space, can you throw some light?

Pramod Yadav: So, in specialty, the major impact is because of COVID; one is the hospital visitations are less, so we are operating at about 90% of pre-COVID level, and there is also impact I mentioned in my speech about lung procedure. So, we have a product called DTPA and in lung procedure, the patient has to inhale and exhale multiple times. So that exposes the risk to the medical staff who is there in the room. And that product currently its consumption has gone down. So these two are having a larger impact. There is some impact because of the competition, but that was anyway planned. So that is not a major impact.

Saion Mukherjee: And sir, do you have a visibility like how this would play out because typically what we see in Generics, whenever a competition comes, we see significant erosion, I mean, what gives you confidence that it would not be very disruptive?

Pramod Yadav: So what you see in the Generics generally does not happen in the nuclear medicine or Radiopharma business, because here the number of players are very limited. So, when Generic comes, what happens is that market share to certain extent gets adjusted, but that also takes little time because when the new player comes, their capability to consistently produce a product of the right quality and maintaining the supply consistency is not known. So, yes, you have to give some market share, but not much. And the price erosion generally does not happen the way you see it into Generic industry.

Saion Mukherjee: And sir, just second question on the CMO business. I might have missed some of the numbers you said. So, you mentioned Rs.500 crore revenue from COVID-related contracts that we have over the next 10 to 12-months. I remember last quarter you mentioned about Rs.50 Crore upfront. And then you also mentioned about Remdesivir sale happening this quarter. So, this Rs. 500 crore include the Remdesivir sales also made and have we already booked any of that Rs.50 Crore upfront or licensing amount that was expected for this fiscal year?

Pramod Yadav: So, first let me clarify on Remdesivir. We have two business in Remdesivir; one is we are doing contract manufacturing for Remdesivir in US. So, that is what I mentioned in my speech and I mentioned that we have already produced about a million vials including Remdesivir on the vaccine related products in our Spokane facility in US. The second that we have is our voluntary license for manufacturing and marketing Remdesivir in India and other 126 developing countries where we are making Remdesivir ourselves and then we do fill in finish over here. This business what we are doing in India and other 126 countries booked into our Generic business. So, that is on Remdesivir. And your other question was on about capital charge for COVID-related products what we had the capacity charge, etc., Yes, quite a good portion of that has come into the Q2 revenue.

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

Alankar Garude: Sir, continuing from the previous question regarding Curium. So, Curium has also commented on launching a series of products over the next two years in Radiopharma in US. So in general, can you comment on the competitive intensity within the Radiopharma manufacturing space? And are we expecting any further

competition say over the next couple of years for any of our products in the portfolio?

Pramod Yadav: So, we have also announced that we have about seven to eight products pipeline and Curium also may have announced. Overall, the Radiopharma business is now attracting quite a lot of interest from the manufacturers, from the investors, from the medical community, from everybody. And a lot of interest of that is happening because there are huge opportunities of using these products, which so far traditionally have been only used for the diagnostic purpose, but also for the therapeutic purpose. And there have been the molecules where the same molecule with the different cases, you can use for the diagnostic as well as the therapeutic, which is called Theranostic , which I mentioned in the speech where we have done this partnership the SOFIE Biosciences. You may have seen couple of deals happening in the billions of dollars where the large pharma companies have acquired those of the businesses which were getting used for theranostic. So, there is a huge opportunity, huge interest. This is our field which will continue to attract investment, which will continue to attract the interest, and we are at the forefront of this.

Alankar Garude: So basically, there is some likelihood that competitive intensity in this space could increase over the coming years, is that right?

Pramod Yadav: It will, but this is not as easy to enter in this business as you can enter into the Generic business. One is that it has its own issues of managing entire supply chain because you are handling the radioactive material. Then even into the Generic takes a long time for the development. Third barrier of entry comes, how do you distribute the product? So like in the US, there are only three major players who are having this distribution network of Radiopharmacy, and we are one of them with the second largest network. So there are many entry to barriers to this business, much, much more than what you see into the other delivery forms or the other kind of the Generic businesses.

Alankar Garude: Sir, my second question is on the LSI segment. Now, 17.7% margins in this quarter you have called out good demand and improved pricing in Vitamin B3 and some other products. But historically, if we look at the LSI margins, they have been fairly volatile. So would you like to call out any short-term benefit or would you say that there has been a structural improvement in LSI margins possibly because of some low margin segments contribution coming down?

Rajesh Srivastava: So as you know in LSI, the margin depends on two things; one is the product mix; and secondly is the raw material prices. Now, we are working continuously to improve our product mix to improve margins. And that has actually shown results in last two, three quarters. And we continue to make our efforts to churn out the product mix in a way so that we can keep our margins improving. And therefore, we can say that going forward also, we expect the margins in the same level of 15% to 17%, at least for next couple of quarters.

Alankar Garude: Any comments on Triad, what is the traction which you are seeing, the plans which we had and on breakeven, if you could comment on that, that would be helpful?

Pramod Yadav: So yes, as I mentioned, this business has many entry barriers and the entire distribution network of Radiopharmacy is an important factor and that was the reason that we did that strategic acquisition. We have already integrated that business entirely with our business of Radiopharmaceuticals, and we have been

reporting the margins of both those businesses clubbed together. So there is no need tracking that business separately.

Alankar Garude: Okay, but sir, earlier you used to comment on whether we will achieve breakeven or not. So no comments on that as well?

Pramod Yadav: Yes, because we integrated the business, after that when we made this announcement, where earlier we were operating this under the name of Triad, and the other business we were operating under the name of DraxImage and then we say that now both our businesses get clubbed together and we will operate under the name of Jubilant Radiopharma.

Alankar Garude: Are you happy with the progress as far as the distribution side of Radiopharma is concerned or do you expect material improvement there coming through on the operational side?

Pramod Yadav: So in terms of performance, I will say, we are tracking as per of our budget. We are quite satisfied with that. And more important that we see the future of that business, the kind of the strategic advantage it will bring to the portfolio of the products we are working upon.

Moderator: Thank you. The next question is from the line of Sunil Singhanja from Abakkus AMC. Please go ahead.

Sunil Singhania: Sir, just one question. On the Radiopharma side, the degrowth has been pretty sharp. And you mentioned that you are back to 90% normalcy. Is there a significant drop in pricing because the revenue growth has been 30%? And the second thing is on the Triad business. Last year, there was a loss of almost $30 million and when you acquired it, that time it was profitable, can you shed some light there?

Pramod Yadav: So I will not say there is significant erosion onto the prices. When the competition enters, you have to make the minor adjustments into the prices, so that happens, but it is nothing close to significant level. And as regards to the Triad business, I just answered to another colleague that we have clubbed the businesses both under the brand of Jubilant Radiopharma. But the number when we acquired it was making profit and then in year one, we made losses. For that the reason was that during the time of acquisition, we lost some of the customers, because the acquisition process took quite long due to various regulatory approvals which were required there to transfer the licenses, etc., We are now tracking quite well on the growth chart and we have the plan in place by which we are expecting to continue to grow the bottom line.

Moderator: Thank you. The next question is from the line of Aditya Khemka from InCred AMC. Please go ahead.

Aditya Khemka: Pramod, sir, one question for you; so I know you have been responding to the questions on AMA competition from Korea. When you say there has been some price erosion because we do not understand that Radiopharma business as much as you guys do. Can you just kindly give some flavor on what is the extent of price erosion? Is it like a single digit price erosion? Is it a double digit price erosion? And on similar lines, can you also comment on the level of market share loss? So Korean has been in the market for three to six months now. So have we lost like a single digit market share to Korea or a double digit market share, that will be really helpful to understand how that industry works?

Pramod Yadav: We had sole supply position earlier and now there is competition. So there are two players sitting in the market. Any information product specific I will share will hurt our competitive interest. But to give information to you at a broad level, like in case of the normal Generics, when the Generic player enter, there could be price erosion or market share erosion to the extent of 30%, 40% or so, in our case, it is much-much lower than that.

Aditya Khemka: Sorry, so the benchmark you took was when the new Generic player enters, the price or market share erodes by 40%, 50%, is that the benchmark you are taking?

Pramod Yadav: Yes, I said that somewhere around that, but in this case, as I earlier mentioned, that when the generic player enter the price erosion, does not happen to that extent. So, it is much-much-much lower than that.

Aditya Khemka: Secondly, on the Triad the profitability, so you mentioned to the previous participant that while we made $30 million loss in FY20. And I know you are not sort of breaking the numbers out, but from a front end presence perspective from Triad, given that we lost a few contracts during the restructuring of the business, now, are we back on our front end sales to be original number and profitability, or are we still behind what the original numbers were before we acquired the Radiopharmacy?

Pramod Yadav: So, I can mention you about the sale. So, we did lose the business, but we also then gained quite a lot of business. And we also mentioned that, we are doing the renovations of the pharmacy network, we are also opening up new locations where we are not and with that, we have firm plans in place to grow the top line quite aggressively. And more important than that as I mentioned earlier this network gives us the assured availability for the network to move our products and especially the innovative products which we will be bringing out in the market. And now with our partnership with SOFIE who has a network of 14-pharmacies on the PET side and we have most of the SPECT, we have only three PET which are operating. With this partnership approach now, we will be able to leverage our strength in the distribution network even much more.

Aditya Khemka: So, could you quantify what is the market share now we will have in frontend Radiopharmacy business, once we combine the Radiopharmacy of SOFIE and Triad?

Pramod Yadav: So both the markets are slightly different. We are into SPECT, and within SPECT we say that we are the second largest. And within the PET network, if you look at the market share for the PET, SOFIE is close number two again.

Aditya Khemka: A question to the CFO on the NCD raise. So I see Rs.100 crore NCD approval put up today. So for the past two, three years, we have been in a phase of paying down debt. I am just wondering why this Rs.100 crore raise, what is it that we will be using the funds for?

Arun Kr Sharma: No, this is enabling resolution we have taken. In case we go ahead with this NCD, this will be primarily be used to reduce the debt which is at high cost. So we are not going to add any debt as such and only this will go in reducing the interest cost further.

Aditya Khemka: So sir, while we have reduced debt by Rs.200 crore in the first half of FY'21, is there a number you would like to guide investors as to how much we can reduce

debt in the balance of the year, and then what is your debt repayment target for FY'22, if you have thought about that?

Arun Kr Sharma: It is very difficult to quantify a number but its our edeavour to reduce debt continues, and we will try to deleverage as much as possible, depending on the cash generations we do in second half.

Aditya Khemka: On the bookkeeping side, I sort of missed the comment on the restructuring. So did management mention in the opening remarks that you expect the restructuring to happen by Jan 2021 and that mean both the differentiated stocks be listed by Jan 2021, is that how I should interpret it?

Arun Kr Sharma: Yes, we are looking forward to NCLT to operate in a normal manner and give us the approval maybe somewhere in Q3. And what will happen to be clear on this, once we do a demerger then this company, Jubilant Life Science Limited, LSI company will be listed immediately and the Jubilant Engrevia which is the LSI portion that will get shifted to this new company Jubilant Engrevia Limited will get listed within 30-days time.

Moderator: Thank you. The next question is from the line of Ranveer Singh from Sunidhi Securities. Please go ahead.

Ranveer Singh: My question pertains to that R&D activity. So those four programs we have currently, what R&D budget we have for FY'21 or FY'22 for this program?

Arun Kr Sharma: The Capex program for the R&D is around $15 million what we have going forward. And this all will be funded through monetization of a few of the molecules what we have going forward.

Ranveer Singh: Monetization means we will be doing out licensing?

Arun Kr Sharma: We are working on it quite vigorously and we hope so that we should be able to do it something in next 12 to 18-months.

Ranveer Singh: And what we have invested in SOFIE, 25% stake?

Pramod Yadav: So in SOFIE, we have invested $25 million for the 25% of the equity.

Moderator: Thank you. The next question is from the line of Weiting Seah from DBS Bank. Please go ahead.

Weiting Seah: Now, we earlier had some discussion on deleveraging. Now, I would like to move down a similar vein and understand that under the pharma business, there are currently two issues of bonds. Specifically, I am referring to the one in 2016 and I believe that 2016 issue will be coming due sometime in October 2021 just next year. I would like to understand what are the company's plans specifically the pharma business on refinancing?

Arun Kr Sharma: A good question. We are working on a few options to see how we can partly refinance and partly use our resources to take care of these bonds which are coming up for repayment in October 2021. And what I can tell you is that we are working very closely with a few banks to commit the line for this and maybe we should be able to give you some concrete answers in maybe next quarter, and we will try to refinance it before the end of FY'21.

Moderator: Thank you. The next question is from the Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: On Remdesivir you mentioned you are increasing the capacity for India. But now with cases coming down do you see still such high demand to put up additional capacity for Remdesivir?

Pramod Yadav: So we have already increased capacities and they are already operating. So far we have been running the plants at the capacity and we have the demand. But you are right that the number of cases are coming down but we have the license for another 126 countries and how the COVID situation will develop, we do not know. So it is good that we have capacity in place as well to meet the requirement of the patient as per the need.

Saion Mukherjee: And sir on the nutritional product business, you mentioned there is demand and the pricing also has improved, but now we have some inventory issue. So, how do you see the second half playing out for the segment?

Rajesh Kr Srivastava: So, this inventory issue was in the beginning of the second quarter, because what had happened in the first quarter when the lockdown started in India in this part, all the customers in US and Europe started stocking the material and then in a month or two, they realized that availability and supplies have no problem at all. So, after two, three months of stocking, they have started destocking. So that destocking scenario I think it was over by mid of last quarter. So now the situation is that people need materials. So actually, the demand in vitamin business should be better in Q3 than Q2.

Saion Mukherjee: One question if I can ask on proprietary programs? I see, some of the trials starting, you mentioned you will monetize also. So I am just wondering, is there a risk of significant cost increase in the proprietary program which can hurt overall margins or EBITDA for the business?

Syed Kazmi: In terms of the risk of these programs, of course, in the innovative business, there is always risk. But we have carefully selected these programs, and have done all the necessary preclinical, if you will, studies in collaboration with a number of scientific advisory board members and key opinion leaders to manage that risk. And going forward initiating the clinical programs in a specific patient populations with certain gene signatures to increase the feasibility of success. And we are working in a semi-virtual mode, and with our scientific work going on in Bangalore, and our development stage work to initiate investigational new drug filing is happening here in the US. So we are managing cost, and at the same time, we continue to explore partnership with Pharma and Biotech companies for some of our other pipeline programs.

Saion Mukherjee: Sir, is there a cost number that you can guide to in terms of what can be the potential increase over the next two years?

Syed Kazmi: In terms of the cost number for the innovative business at this point, I think it is very hard to tell if and when we are going to do those partnerships that we are exploring. As we generate more data, and especially because these programs are first-in-class, and novel with the clinical proof-of-concept, the chances of having a meaningful partnership and the revenue coming in from that partnership would be higher. But that depends on a number of factors depends on the science, depends on the data that we generate. But we are being very diligent in terms of going after indications where there is a higher probability of success to generate meaningful

clinical benefit data which then can be partnered with appropriate Pharma companies.

Moderator: Thank you. The next question is from the line of Rahul Veera from Abakkus AMC. Please go ahead.

Rahul Veera: For Triad like by which year we are expecting it to breakeven?

Pramod Yadav: So I think that you missed the earlier question-answer where I mentioned that we are no longer tracking the Triad separately. This as well as our earlier business, both are under the same name of Jubilant Radiopharma, and the businesses have been integrated.

Rahul Veera: But sir after entering Europe, will there be any additional cost now since we are expanding, on the European side now?

Pramod Yadav: So on the European side, what we are doing is, we are doing installations of the RUBY-FILL which is our another star product which is very, very innovative state-of-the art, and that has been developed over the many years of the research and innovation efforts on to that. We are expecting to do our first installation of the RUBY-FILL in the Europe as approved product this year. And then we have plan to continue to ramp up the installation.

Rahul Veera: Sir, on the Remdesivir side, I understand that we have increased our capacity and possibly the cases are going down, but even after including the 126-countries that we are planning to export, how many license have we got till now and by when we can expect our plants to be fully utilized?

Pramod Yadav: So, as of now, our plant is already fully utilized. And we have many orders in place already for the coming month for India as well as also for export. We have already filed for the registrations in almost 70 countries. By exporting a product, I may not be able to tell you exactly how many countries, but I know it is somewhere close to 15-plus, we are already at that, and we continue to get more and more approvals into the countries and will continue to export them.

Moderator: Thank you. The next question is from the line of Dikshit Doshi from Whitestone Financial. Please go ahead.

Dikshit Doshi: Firstly, sir, can you give the sale of Remdesivir for the current quarter?

Pramod Yadav: So, we do not disclose the specific product revenue or product EBITDA, but I mentioned this is clubbed into our Generic business.

Dikshit Doshi: And secondly, sir, as of now, our net debt is around Rs.3,063 crore. So, can you just break this up in terms of demerger, how much will go to Pharma business and how much for LSI?

Arun Kr Sharma: To be precise in this, Rs.2,200 crore will be at Pharma level and balance will be at LSI level.

Dikshit Doshi: Can you give a rough breakup of depreciation in terms of percentage?

Arun Kr Sharma: Total depreciation for this quarter is Rs.95 crore; so, major depreciation, it will be around Rs. 45. crore will be for LSI business and balance will be Pharma and DDDS business.

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

Alankar Garude: Sir, one question on the API business. You mentioned about a strong order book. So can you just elaborate on that? Also, any thoughts on participation in the PLI Scheme especially after the recent changes?

Pramod Yadav: So, as our plant was closed for about two months, we had mentioned that now for the rest of the year, we will be operating the plant almost at full capacity. And we continue to make the effort to do the debottlenecking end up quickly or less possible time we can. And with the plant running at capacity, we have the order book. And that is how in Q2 you have seen that there has been a substantial improvement over Q1 and we expect that in Q3 and Q4 the performance will be even better than Q2. On PLI scheme, anyways our deadline is I think 30th November, which is quite close. As per the earlier scheme, we were not making any plan to participate and we do not have concrete plan as of now.

Alankar Garude: Sir, my last question on RUBY-FILL. Any comments on the traction over there? And in general, as far as the market is concerned, could you comment on how quickly the market is transitioning from PET to SPECT, any thoughts would be helpful?

Pramod Yadav: So, market is transitioning from SPECT to PET. The PET is the segment which is growing more than SPECT. SPECT is also growing, but PET is growing more. And in terms of the RUBY-FILL overall, I will say that this product continues to do well. Whatever we have planned for this year for a number of installations, we are already having a very strong funnel for that, and we have plans to install that many sites within US and also now we are expanding outside the North America getting into Europe. We also have plans to do the installations into the other part of the world slowly. So, whatever projections we had made earlier for this product, we are tracking on them quite good.

Alankar Garude: On SPECT itself, if I remember correctly earlier, the overall share was less than 10%. So any thoughts on the market how is it moving?

Pramod Yadav: So, PET is growing by about 7% to 9%. And that is a very healthy growth rate into the PET and that is the current rate at which it is growing. As more and more of the theranostic product comes into the market, it is likely to grow even much faster pace.

Alankar Garude: And would it be fair to say that PET would be growing at about 3%, 4%?

Pramod Yadav: Yes, PET, as of now continues to grow with that rate. But when the theranostic product comes in the market, it is not necessary that all the products will come through PET, there are also products which are through SPECT and they will also lead to even more growth.

Moderator: Thank you. The next question is from the line of Pratik Kothari from Unique Asset Management. Please go ahead.

Pratik Kothari: A couple of questions around the stake which we took in SOFIE Biosciences. One is what kind of business, etc., that it generates in terms of top line, bottom line? And also, second, I understand the part where you said that they are in similar business line as compared to our Radiopharma, business. But if you can maybe briefly talk about what do you expect to do with them, what kind of synergies do we expect, what would that business relation look like?

Pramod Yadav: So, in terms of top line, they are about 68 million. And in terms of businesses, I briefly mentioned in my speech, so they have three business lines; one is they have this PET network. And we have we have the network of SPECT and PET but the majorly of SPECT. In three of the locations, we have PET. They have PET at close to 14-locations. So, there are quite a lot of synergies possible on this entire network of the distribution through the pharmacies. Then the second business they have is state-of-the art CMO. So, you may have seen there many of the CMOs available for the traditional pharmaceutical products, but for the radiopharma that kind of CMO facilities are not available. So if you develop a product which requires its compounding with the radioactive materials, and you do not have all those facilities, then you are kind of handcuffed. So, most of the innovations which will be happening will be going through such kind of the CMO facilities. They already have many good contracts for such CMOs and that will help us to get close to those innovations at a much early stage and either acquire the innovations or in-license or do the partnership even on that front also. So, we will be much earlier into the game. And the third piece they have is their own innovative platform of the FAPI which is Fibroblast Activation Inhibitor, which along with the different radioactive materials can be used for the various sign of cancers, almost 20 different kinds of cancers it can be used for diagnosis and it can be also used for the therapeutic use. And you imagine that if in the therapeutic use, it can be used even at a stage earlier than the cancer is developing, it will also help to overall manage the entire disease in a much more efficient way. This is expected to be another blockbuster. So, when the Novartis acquired the AAA at about 4 billion, that was being talked about the LUTATHERA®**,** was talked about a blockbuster. If the FAPI development is happening, and if it happens that way, it is expected to be equivalent or even a better product.

Pratik Kothari: What margins would they be making currently?

Pramod Yadav: So, the margins have not been disclosed so far.

Moderator: Thank you. The next question is from the line of Ranveer Singh from Sunidhi Securities. Please go ahead.

Ranveer Singh: I understand. You may not give a separate number for Remdesivir. But just for understanding purpose, ex-Remdesivir, whether our growth has been healthy even without Remdesivir in generic business?

Pramod Yadav: So, in the generic overall growth of the 43% what we have reported, that has been contributed by Remdesivir as well as the other products into the US as well as non-US markets.

Ranveer Singh: Even in CDMO business also, which includes API, so have we seen Remdesivir API also from going into sales of CDMO?

Pramod Yadav: Yes, the plant is already approved by the DGCI. And that API, we are transferring for the formulation.

Ranveer Singh: Yes. So, if we exclude this Remdesivir finished doses as well as API, then what would be the growth in pharma segment?

Pramod Yadav: Even if we exclude that, there would have been a good growth. The growth is there in CDMO, plant is running at full capacity because of COVID-related business we have. And the growth is there also in API. Plant is also running at full capacity and into the Generics, we continue to play hopes.

Ranveer Singh: In case demand goes up, then how we are going to cope with it?

Pramod Yadav: In API, we have debottlenecking plant, I mentioned. So, we are making those investments. In CMO, yes, currently or plant in Spokane is running at capacity, but in Montreal, we have capacity. So in Montreal, we can take more of the business and we can grow. In case of generics, we have the capacity available. So we can produce more volumes and even in case of the generic we had expanded the Roorkee plant earlier, and now we are in the process of expansion into sales where we are increasing the capacity almost by about 80%, 90%.

Ranveer Singh: And earlier, you used to give order book position in CMO. So is it possible to indicate something what kind of order book currently we have for CDMO business?

Pramod Yadav: So if the orders are on a long-term contract and they continue to get renewed, and the plant is running at 100% capacity, then order book number loses the relevance, so we stop reporting that.

Ranveer Singh: And sir, in LSI segment, that acetic acid prices, what has been the trend now as on today? Price has been a stable or we see volatility continue there?

Rajesh Kr Srivastava: So in Q2, the price increased from Q1 level and at present also the price is higher than Q2 level; the price has gone up from Q1 to Q2 and now also price has gone up a little bit. So currently it is at $370 per ton while in Q2 it was in the range of 330, 335.

Ranveer Singh: So any increase in prices is translated into our improvement in margin or margin will remain same?

Rajesh Kr Srivastava: Mostly, the acetic acid price is passed on. But, as we always keep saying, there is a lag of about a month, but mostly, it is passed on to the customer in the end product pricing.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments. Over to you, all.

Shyam S. Bhartia: Thank you, everybody for being on the call. If you have further questions, I think Hemant will be able to answer it one-to-one. Thank you and wish you all a Very Happy Diwali.

Moderator: Thank you. On behalf of Jubilant Life Sciences Limited, that concludes this conference. Thank you, all for joining. You may now disconnect your lines.