



Jubilant Lifesciences Limited Q3 FY19 Earnings Conference Call

February 01, 2019

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 Q3 and 9M'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 detailed disclaimer in this regard has been included in the press release 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 to everyone. I am happy to report another quarter of strong results with revenues up 15% YoY to Rs 2,377 crore and EBITDA at Rs 522 crore, up 24% YoY. This is also in-line with our guidance of better performance in H2FY19 as compared to H1FY19 which we had shared with you during our last interaction in Q2FY19.

The continued strong performance in revenues and profits is driven by our leadership in key products and markets, global competitive edge due to vertical integration and our de-risked business model. This has helped us to deliver robust results in all key businesses including in Pharmaceuticals and Life Science Ingredients segments. We have all the strategic levers in place to deliver sustainable growth in the near future.

Pharmaceutical segment: Before we start, I would like to highlight that we have re-classified our Pharma businesses under three business lines namely Specialty Pharma, which has Radiopharma and Allergy Therapy Products businesses, Contract Development and Manufacturing (CDMO), which includes our CMO and our API businesses and third one is Generics which includes our Solid Dosage formulations businesses. Our Pharmaceutical segment has delivered another



quarter of record performance, with revenues growing 29% YoY and EBITDA growing 63% YoY with margins of 27.7% in the segment. While I am happy to report that all three key businesses in Pharma have witnessed strong growth during the quarter, both in revenues and in profitability, I would like to highlight there was healthy increase in our profitability in CDMO and Generic segments during the quarter.

Our CDMO segment grew 27% YoY with EBITDA growth of 92% YoY, led by strong growth in both our CMO and API businesses. In CMO, in line with the increased demand and our healthy order book, we increased our production capacity by increasing shifts to 24 by 7 for one of our lines in Spokane during the quarter. We have also installed another lyo line by which we expect to increase capacity by 25% by H1FY20 when it starts commercial operations. In API, we witnessed favorable prices in a few of our products, which aided the growth in the business during the quarter.

In Generics, our US formulations business has seen a significant turnaround and we have recorded margins of 19.6% during Q3FY19 and 19.2% in 9MFY19 in the business as compared to a loss last year. As mentioned in our earlier interactions, we have been witnessing select recovery in some of the products in US formulations market due to rationalization of product portfolio and plants by some generic companies which has led to revenue growth and margin expansion for us in this business. To meet the increasing requirements in EU, ROW and US markets we are also increasing capacities in our Roorkee facility, the first phase of which is in commissioning stage currently.

With regards to the USFDA regulatory action on Roorkee, we have replied to the USFDA and are awaiting response on the same.

Our Specialty Pharma business has grown 24% YoY with EBITDA growth of 20% during the quarter. While we witnessed higher volumes and prices in Radiopharmaceutical manufactured products, in the Allergy Therapy business, we have begun to see the venom sales normalizing, post the unloading of inventory by competitor in H1CY18 which augurs well for us as we are the sole supplier of venom today in North America.

Moving on to the Life Science Ingredients segment, LSI profits have grown 16% QoQ but are muted as compared to the exceptionally high base of last year. Last year in H2FY18, the acetic anhydride business in Life Science Chemicals benefitted significantly due to the closure of a competitor plant, which has now normalized. Also since 2/3rd of the sales in this segment are in the domestic market, the recent strength of the dollar has created volatility in forex rates which in turn has created headwinds in our profitability in this segment during the quarter.

However, it is important to note that the overall demand in most of our LSI businesses remains strong. Also, demand scenario in the Nutritional products business is expected to normalize in the coming quarters and is expected to have a favorable impact on the overall profitability of the business. This will be aided by new product launches and capacity additions through de-bottlenecking initiatives and also expected commercialization of the acetic anhydride facility. I am happy to announce that we have recently bagged a new annual contract with higher volumes and prices in the government ethanol blending program, which augurs well for the business.



Outlook: We maintain our guidance of better performance both in revenues and operating profits in H2FY19 as compared to H1FY19, in both Pharmaceuticals and LSI segments driven by growth in existing products, capacity expansions and new product launches. 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 Press release.

Let me give you a brief of the financial highlights for the performance during Q3 and 9M FY19.

We reported record results for the quarter under review. Revenue from Operations improved by 15% YoY and 5% QoQ to Rs. 2,377 Crore, with Pharma revenues up 29% YoY and 7% QoQ to Rs 1,418 crore, contributing 60% to the overall revenues.

EBITDA grew 24% YoY and 15% QoQ to record Rs 522 crore, with margins of 22%. Finance costs include borrowing costs of Rs. 53 Crore, lower 7% YoY and non-cash Stock Settlement Charge of Rs. 15 Crore. Thus, the Company reported a PAT of Rs. 261 Crore, with Net margins at 11% translating into an EPS of Rs. 16.7 per share of Re. 1 paid.

For the nine months under review, revenue from Operations improved by 28% YoY to Rs. 6,725 Crore, with Pharma revenues up 42% YoY to Rs 3,925 crore. Excluding Triad, Pharmaceutical revenues have grown 26% YoY during the period.

EBITDA, grew 32% YoY to Rs 1,423 crore, with margins of 21.2%. The Company reported a PAT of Rs. 674 Crore, a growth of 38% YoY, with Net margins at 10% translating into an EPS of Rs. 43.2 per share of Re. 1 paid.

The gross debt stood at Rs. 3,800 Crore and net debt at Rs. 3,282 Crore including mandatory convertible loan of US\$56.4 mn with the conversion option into equity. On a constant currency basis, the net debt was Rs. 3,118 Crore and there was a net debt reduction of Rs. 46 Crore during the quarter and Rs. 113 Crore in 9M'FY19. The CAPEX stood at Rs. 134 Crore in Q3'FY19 and Rs. 402 Crore in 9M'FY19. Pharmaceuticals R&D spend in 9M'FY19 was Rs. 177 Crore, which is 4.5% of the segment sales with R&D debited to P&L of Rs. 138 Crore which is 3.5% of segment sales.

We will continue our efforts to strengthen balance sheet by reducing debt and improving financial ratios.

With this, 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 the question-and-answer session. The next question is from the line of Tushar Manudhane from Motilal Oswal Securities. Please go ahead.



Tushar Manudhane: The Generics business reported EBITDA margin at 19.6%, even for the Q2 FY19 it was about 21.6%, given product rationalization and by the peers and some product-specific opportunities, just would like to understand given the competitive scenario, how sustainable do you think this EBITDA margin for the medium-term?

Pramod Yadav: As of now we do not see any headwind in this business. We are confident that for the coming quarters, we will be able to sustain this kind of margin. We are doing many things in this business to ensure that we are able to sustain margin or rather improve little bit more from here. We are expanding the product portfolio; we are launching products in the new markets; we have also done many cost optimization programs. So as of now we remain confident on these margins.

Tushar Manudhane: Secondly, with this OAI status and the response which you have given to USFDA, whatever the remediation work probably you need to do, will that impact any production?

Pramod Yadav: As of now, we do not know the outcome of OAI, though we have given our CAPA which we feel is very robust, but we are awaiting the response from the regulatory authorities. In terms of the production, we do not see any impact of that happening as of now.

Tushar Manudhane: Just rough cut, the Generics if you can just help us how much would be depending on Roorkee?

Pramod Yadav: If you are asking about the US market, it is about 1% of our consolidated revenue.

Tushar Manudhane: Lastly on CDMO margins, how would be the currency impact?

R. Sankaraiah: It will be approximately around 10%.

Moderator: Thank you. The next question is from the line of Vishal Manchanda from Nirmal Bang. Please go ahead.

Vishal Manchanda: In the Allergy Immunotherapy business, when you say the business is normalizing, does that mean it has ramped up to the extent it need to, post withdrawal of competition, and is there further scope still left for the business to ramp up from here?

Pramod Yadav: I think what you are saying is exactly what we said in the speech. So when the competitor was going out of the production, they had offloaded quite a lot of inventory which was to be consumed. So our sales took some time to pick up but now we have reached to the level where we feel that these are at the sustainable level.

Vishal Manchanda: We should not anticipate further growth on Allergy Immunotherapy front if it has reached to 100% penetration for the venom product where the competitor has withdrawn?

Pramod Yadav: Two things are happening in that business – One is that within the US the market is growing. So that organic growth will come plus we have also taken some investments in this business to increase our capacities and with that we are very aggressively looking at the markets outside US. That additional growth which will come into this business.

- Vishal Manchanda:** So the investment in new capacities, have these been commercialized or they are yet to do?
- Pramod Yadav:** They are as of now under regulatory approvals.
- Vishal Manchanda:** So, are these part of the new lyo-line that you intend to put up or are these separate facilities?
- Pramod Yadav:** Both, we have taken one line which was already available there, on that we have done validation of the venom and once we get the regulatory approval, that will be additional capacity. In addition to that we are also putting another lyo-line there. That will take some time.
- Vishal Manchanda:** Within the CDMO part, has the API business done better than the CMO business, is that fair to say?
- Shyam S. Bhartia:** Many of our APIs are developed on contract with the customers, lot of generics customers request us to develop products...of course, we sell to other customers also.
- Vishal Manchanda:** On Life Science business, the Vitamins-B3, have the prices picked up or at the same level has it used to be one year before or the prices are yet to come back?
- Rajesh Srivastava:** In Vitamins-B3, the prices are at the rising trend but it has started later part of the quarter end. So we are seeing the positivity in pricing but the real impact we have to see in the current quarter which is January to March.
- Vishal Manchanda:** How low the prices have dropped when we compare it to the same quarter last year?
- Rajesh Srivastava:** QoQ there is almost 30-35% prices are lower.
- Moderator:** Thank you. The next question is from the line of Ramesh Sutarya, individual investor. Please go ahead.
- Ramesh Sutarya:** Sir, I want to know right now what is the position in Ethyl Acetate business particularly in long-term, it is profitable or loss-making business right now?
- Rajesh Srivastava:** If you take the price of acetic acid which is prevailing today and the price of Ethyl Acetate which we are selling, the business is profitable but the problem is that we are the large consumer of acetic acid, so we always have a lag, so we carry certain inventory which is of course of the higher cost. But till the time that inventory gets over, the profit will not be good. So that is why for lag of a month or so, we will have a challenge, but as such product and pricing there is no problem, product is still profitable.
- Moderator:** Thank you. The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.
- Amit Goela:** This is Amit Goela. I have one question. Periodically we keep reading about the listing for the Pharma business. So that has been going on for a while. So what is exactly happening over there sir?

- R. Sankaraiah:** We are in the process as you know very much, it depends upon the market conditions. So depends upon the market conditions. We are keeping ourselves ready for launching, but the market has to be conducive to do the launch, so we are waiting for the right market conditions.
- Amit Goela:** Do you have any timeframe in your mind like how long because this is kind of a one big outstanding thing on the stock and unfortunately with such great performance also, this is I think acting like a bottleneck on the stock?
- R. Sankaraiah:** It should not because as far as the delivery is concerned, as we committed H2 better than H1, QoQ and highest ever EBITDA, all those things are absolutely in line with whatever we discussed. Particularly, IPO issue is predominantly driven by market. So you know very well the market how it is in international markets in US or other markets. So sometime next year any opportunity which is available, in the first opportunity we will be in a position to go to the market. So we are keeping everything ready.
- Amit Goela:** Whatever you guided, every number has been met, your performance has been extraordinary. Maybe I can be wrong, but I just feel maybe this is acting as overhang on the stock, that is all.
- R. Sankaraiah:** Thank you for the input, but like I mentioned we are keeping all the documentation ready. So the market opportunity comes, we will immediately go to the market.
- Moderator:** Thank you. The next question is from the line of Ranveer Singh from IDBI Capital. Please go ahead.
- Ranveer Singh:** On that Radiopharma business, on Triad side, where we are currently – have we started making profit there or still we are in loss?
- Pramod Yadav:** The Pharmacy business is clubbed into the Radiopharma business. We are not reporting the profitability separately but in terms of the performance, we had mentioned last time that we do not expect it to be a breakeven in this financial year and it is not yet.
- Ranveer Singh:** By FY20, can we expect this going in positive zone?
- Pramod Yadav:** The way the business is performing, we expect FY20 to be substantially better than FY19.
- Ranveer Singh:** What is our debt reduction target by end of FY19 and by FY20?
- R. Sankaraiah:** There is no specific target. Like Mr. Bhartia mentioned in his speech and also in my speech, the focus is always on debt reduction. So, whatever is the essential CAPEX, which is required for meeting the growth needs we are there, otherwise the entire money we are doing for the debt reduction only.
- Ranveer Singh:** What is the CAPEX guidance for FY19 and FY20?
- R. Sankaraiah:** We have given guidance of Rs.550 crore for the full year. We have already done almost like Rs.403-404 crore. So the balance give or take almost Rs.100-150 crore will be spent in this quarter. Whatever the guidance overall we have given, we are dot on target or maybe better than that.



Ranveer Singh: Going by the cash flow what we see from your guidance, so we see the material surpluses could be used for reducing debt. So should I take it as the surplus what we could see if will be used to reduce debt only or we have some other plans also?

R. Sankaraiah: The surplus has to directly go to reduce the debt. There is no doubt on that. During this year, you would have seen that there is a slight increase in working capital to meet the demand of the growth in the US market. We have kept the stock little higher. So that is why the working capital is little more than what is there. Otherwise we would have reduced the debt further actually.

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

Alankar Garude: Firstly, on Roorkee, exactly when did we submit our response?

Pramod Yadav: The audit happened sometime in August and then we had submitted the response and then in the month of December we got that OAI status, on which we had submitted the response immediately.

Alankar Garude: Broadly, sir, when can we expect the USFDA response -- Has there been any communication after you submitted your response or nothing yet?

Pramod Yadav: That is difficult to disclose but after when they issue the OAI, they take close to 45-days to take a decision. So it is up to them whether they take the decision within timeframe or they take a longer time especially with whatever was happening there in the US government.

Alankar Garude: So we might as well see them responding perhaps slightly later than the 45-day usual period?

Pramod Yadav: Yes because they were not working with the full strength during the shutdown.

Alankar Garude: Secondly, any update on Rubyfill? You had indicated earlier that there could be higher installations in the second half. So any qualitative comments you can make with respect to Rubyfill, how is the uptick, how is the installations?

Pramod Yadav: So we continue to win the contracts and we have contracts in place to do the installations.

Alankar Garude: But better than what we had seen in the first half?

Pramod Yadav: Yes.

Alankar Garude: Any comment which you can say maybe for FY20 on Rubyfill?

Pramod Yadav: We see a good traction from the customers. So we are very upbeat. The installations in FY20 are definitely going to be much more than what they are going to be in FY19.

Alankar Garude: With respect to Vitamin B3, while we have mentioned that there has been some improvement over the first half, but by when can we expect complete recovery -- will it happen by fourth quarter or it can go maybe in the first half of FY20, any indicative timeline on that?

Rajesh Srivastava: It is difficult but we are expecting the current quarter which is going on should be better than last quarter and of course the things are looking on improving side.

Alankar Garude: But any comment on when it will be back to normal completely?

Rajesh Srivastava: I do not know what is the meaning of normal because the market situation keeps changing, so there is no normal pricing in market, but, yes, it has drastically got down. So it is slowly improving and we see this quarter should be much better and maybe next quarter is further better than this quarter.

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

Surajit Pal: Your CDMO improvements in margin has come mainly for API price rise which has happened?

Pramod Yadav: It has come from both; from CMO as well as API.

Surajit Pal: So, CMO margin is currently on 25 plus kind of scenario?

Pramod Yadav: CDMO margins are 33%.

R. Sankaraiah: Both are having very good margin, Surajit.

Surajit Pal: What is this quarter revenue from supply of ethanol blending program?

R. Sankaraiah: There is sub-division. We do not want to get into the details of revenue and profitability, but like we have mentioned already we have received a very good government order, which is better than last year at a better price and things are doing well there.

Surajit Pal: In your IPO program, you have filed for IPO to the regulator of Singapore. So that approval has come?

R. Sankaraiah: We will not be in a position to talk about a particular stock exchange and all those things because of the confidentiality. To respond to your IPO question, the company is generating more cash than what is required to reduce the debt level. There is no emergency for us to do an IPO but since we are committed to the market, we are waiting for the right opportunity. Whenever that right opportunity comes in and the market conditions, then we will be in a position to launch it and do the IPO.

Surajit Pal: Actually I was going through your filings in your Jubilant Pharma and I found there is a resolution which is talking about 36.9 million to be settled through cash payment. So, out of the amount which you borrowed which is around 58.2 million from IFC Washington and whatever you will be paying if there is no IPO, say 2020, two years' time, of which 36.9 million to be paid in cash. Is that correct?

R. Sankaraiah: These are all internally they are discussing but if we are going for an IPO, it is up to IFC to what level they wanted to convert or otherwise if they wanted to take full cash or they wanted to partly convert and partly cash, those options are with them. So we can accordingly provide that by way of shares or by way of cash, that flexibility is there.



Surajit Pal: CAGR growing at 12% per annum roughly?

R. Sankaraiah: The formula is 10% discount to IPO price per annum, that is the formula.

Surajit Pal: So cash liability, if there is no IPO, could be roughly on \$112 million?

R. Sankaraiah: We have provided already \$102 million. QoQ the provision is created and we are short on provision.

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

Ashish Thavkar: Sir, on the LSI part of the business, how confident you are of maintaining 14% kind of EBITDA margins? So just to substantiate, as and when the raw material available in Vitamin business comes back and given the fact that you have new ethanol contracts also in place, so can we assume that 14% EBITDA margin in LSI is a given?

Rajesh Srivastava: Last quarter also we have confirmed that we will try to maintain the margin of LSI in the range of 12-15% and we do not see any challenge there because as we said the Vitamin business is looking upside, we are introducing new products which we have declared, we are also adding capacity which will come up in coming quarters and next year. So there is no challenge to maintain this kind of EBITDA.

Ashish Thavkar: If possible, what is the sensitivity of the crude oil price to the margins?

Rajesh Srivastava: In the range of \$4-5 of crude oil does not make huge difference. So, actually the crude oil has been going up and down but it has not made a drastic change, but there are market situation of raw material pricing which is beyond crude oil relationship which is what has happened with STKC. Crude oil actually does not make too much difference now in this range of change. If it changes by \$10, \$20, then of course the whole dynamic starts changing.

Ashish Thavkar: But not at \$4-5, that is what...?

Rajesh Srivastava: No.

Ashish Thavkar: What would you prefer like crude oil prices remaining higher or lower for your business?

Management: What happens is that it is a lag time when you gain or lose depending on it goes up and down but most of the commodities if the prices go up, the end product price also changes. So it is only the lag which one has to live with either side.

Ashish Thavkar: On the CMO part of the business, we have a huge order outstanding, the order book which is huge around \$700 million plus. So on an annual basis, how do you create visibility on this business in terms of what we have to execute during the year?

Pramod Yadav: This business runs on a long-term contract where you have very good visibility of how many batches customer require during the year. So you know how many batch you will make and how much revenue it will generate.

- Ashish Thavkar:** Are you guiding on this part of the business, how much we are planning to do for next year?
- R. Sankaraiah:** Next year numbers we are not discussing now. So we will discuss in the next quarter.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today.
- R. Sankaraiah:** Thank you very much for joining us all. If there is any further clarification, please get in touch with Ravi Agrawal or myself. We are happy to answer all your questions.
- Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Jubilant Life Sciences Limited, that concludes this conference call. Thank you for joining us.