Jubilant Life Sciences Limited

Q3 & 9M FY20 Conference Call Transcript
January 31, 2020

Ravi Agrawal: Good evening 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'FY20 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 detailed disclaimer in this regard has been included in the press release that has been shared on our website.

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; Mr. Alok Vaish – CFO designate; Mr. Pramod Yadav – CEO Jubilant Pharma and Mr. Rajesh Srivastava – CEO Life Science Ingredients.

I now invite Mr. Bhartia to share his comments.

Shyam S. Bhartia: Thank you Ravi and 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.

We reported stable performance YoY and growth in EBITDA with better margins sequentially and PAT was lower due to certain exceptional charges.

I would like to highlight following crucial aspects of our results:

First, EBITDA margins in our Pharma business have improved 112 bps YoY and 180 bps QoQ to 28.4% during the quarter. 70% of our Pharma revenues comes from niche business segments like Specialty Pharma and also high quality services businesses in CMO and Radiopharmacies. These have high entry barriers, strong demand conditions and we enjoy leadership position in many of our key products.

Second, in our LSI business, we have witnessed sequential improvement in business performance, with revenue and EBITDA higher by 6% and 10% respectively, which has been led by better market conditions in our Specialty Intermediates and Nutritional Product businesses.

Third, our Drug Discovery and Development Solutions business has witnessed strong growth of 26% YoY in revenues and a robust increase in EBITDA during the

quarter. In view of this strong demand, we are making investments in this business to double capacities in the next 2-3 years. Also, in our Proprietary Drug Discovery business, we are working on more than six programs targeting small molecule therapies in the area of oncology and auto-immune disorders with potential to fast track promising assets from discovery to clinical stage.

Fourth, we made partial redemption of $100 mn of our high yield bonds during the quarter from our cash reserves and also did an early redemption of NCDs of Rs 745 Crore by taking term loans with longer maturity.

I would like to emphasize that demand conditions across all Pharma businesses, Specialty Intermediates and Nutritional Products are strong. Overall we are confident of delivering strong performance going forward.

Before I conclude, I would like to provide an update on the reorganization proposal.

We have filed the Composite Scheme of Arrangement with the stock exchanges. Once we receive a no objection certificate from the stock exchanges, we will file the scheme with the National Company Law Tribunal for approvals.

With this, I would like to request Pramod to take the discussion forward.

Pramod Yadav: Thank you, Mr. Bhartia. A very good evening to all of you. I would like to share insights of the Pharmaceuticals business during the quarter.

We reported steady revenue growth during the quarter, with revenues and EBITDA higher by 2% and 6% YoY respectively. Specialty Pharma, which accounts for 53% of our revenues and includes Radiopharma and Allergy businesses, witnessed stable performance during the quarter.

In the Radiopharma business, we recorded higher volumes in key products including RUBY-FILL. We are pleased with the favorable ruling from the US International Trade Commission for RUBY-FILL, finding no violation by Jubilant.

As we move forward, we are well poised for continued growth in the Radiopharmaceuticals business. In Radiopharmacy business, we are witnessing certain challenges in ramping up of revenues. However, the strategic alignment of our radiopharmaceutical business with our radiopharmacy helps us to improve upon our capacities to capitalize on current market demand as well as advance our unique pipeline of around eight products currently under development with an addressable market of over USD 300 million.

In our Allergy business, we witnessed growth both on YoY and QoQ basis led by higher volumes in venoms and allergenic extracts. We have become the number two player in the US allergy market and are the only supplier of venom in this market.

CMO business performance has been steady during the quarter and demand outlook continues to remain robust due to a strong order book and new opportunities. I am pleased to report that the shift on our Line 1 has been increased to 24X7 during the quarter. We have also installed new Lyo equipment on Line 2 with commercialization readiness expected during the fourth quarter of FY'20. These initiatives will enable us to increase our capacities by more than 30% translating into additional growth opportunities going forward.

API business witnessed improved performance during the quarter due to better pricing and higher volumes in most key products. In valsartan, while our volumes were impacted due to the additional quality checks on all input raw materials to meet enhanced regulatory requirements, we have been able to get better prices. As mentioned in our Q2'FY20 concall, we believe we have resolved the challenges pertaining to sartans impurities and are confident of better performance in our business, going forward.

Our Generics business experienced a decrease in revenue for the quarter primarily due to lower volumes in some key products due to customer scheduling. Profitability was higher due to better pricing in certain products, a result of favourable market conditions. Going forward, we have plans to ramp up production on our expanded capacity in Roorkee for both US and Non-US markets. We are also pleased to report that we received an ANDA approval during the quarter for Clomipramine HCL capsule from our US Salisbury facility.

In regards to regulatory matters, the site remediation activities at Roorkee and Nanjangud in consultation with 3rd party consultants to address US FDA observations are progressing well. During the quarter, we had a US FDA inspection at our Roorkee facility and received six observations. We have responded to all the six observations. The US FDA has not imposed any further action.

With this, I would like to turn today's discussion over to Rajesh.

Rajesh Srivastava: Thank you, Pramod. A very good evening to all of you. I would like to share details on Life Science Ingredients and Drug Discovery and Development Solutions segment's performance during the quarter.

LSI business has shown mixed performance during the quarter. Revenues and EBITDA are lower 11% and 21% YoY but are higher by 6% and 10% QoQ respectively.

Specialty Intermediates revenues have grown 16% YoY. This was led by strong demand and better prices in most of the key products. We have also witnessed positive traction for new products launched in this business. Also as announced, the Ministry of Commerce (MOFCOM), China has terminated the 17.6% anti-dumping duty on imported pyridine from India during the quarter.

Growth of 17% YoY in Nutritional Products revenue was driven by a mix of higher volumes and better prices in Vitamin B3. We expect demand scenario to be strong in the near future and we are strategically placed to take advantage as we are backward integrated thereby ensuring consistent supply and volume availability.

Life Science Chemical business' revenue was lower by 30% YoY with demand in acetyls affected by significantly lower input prices of Acetic Acid and Ethanol business affected by substantially higher molasses prices.

We expect LSI performance to be led by Specialty Intermediates and Nutritional Products businesses. We also expect demand conditions to remain subdued in the Lifescience Chemical business during the year.

Coming to our Drug Discovery & Development Solutions segment

As mentioned by Chairman, Our Drug Discovery and Development Solutions business has witnessed strong growth of 26% YoY in revenues and a robust increase in EBITDA during the quarter, with margins of 25.4%. Drug Discovery

Services, which include Jubilant Biosys and Jubilant Chemsys, continue to witness strong demand for integrated services and for chemistry and scale up opportunities. In view of this strong demand, we are making investments in this business to double capacities in the next 2-3 years.

Also, in our innovative therapeutics business, we are working on more than six programs to deliver precision medicines focused on both first-in-class and validated but difficult to drug novel targets to address unmet medical needs in the area of oncology and auto-immune disorders with potential to fast track promising assets from discovery to clinical stage.

With that, I would pass this discussion on to Mr. Sankaraiah.

R. Sankaraiah: Thank you, Rajesh. A very good evening and I thank everyone for taking out time and joining us on our quarterly Earnings Conference Call. I would like to highlight the Company's financial performance during Q3'FY20.

On a consolidated basis, Revenue from Operations at Rs. 2,315 Crore was 3% lower YoY, with Pharma revenues higher 2% YoY to Rs 1,450 crore and LSI revenues lower by 11% YoY to Rs 797 crore. Reported EBITDA was at Rs 513 Crore lower 2% YoY but higher 7% QoQ with margins of 22.2% with improvement in margins both YoY and sequentially.

Depreciation & Amortization expense during the quarter was at Rs 113 Crore, higher by 15% YoY and lower by 3% QoQ. Year on Year increase in depreciation cost was largely due to adoption of new lease accounting standards.

Finance cost during the quarter was at Rs 72 Crore higher by 36% YoY. Factoring in the IFC Stock settlement charge of Rs 15 Crore in Q3'FY19 and Rs 2 Crore of impact due to adoption of new lease accounting standards, the finance cost has been higher by 3%. Average blended interest rate for 9M'FY20 was @ 6.08%, Rupee loans were @ 8.21% and foreign currency loans were @ 5.34%.

In Q3'FY20, we booked an exceptional charge of 23 Crore related to the prepayments of high yield bonds and NCDs and Rs 11 Crore related to write-off of fixed assets not in use.

PAT during the quarter was at Rs 203 Crore as compared with Rs 261 Crore in Q3'FY19, with an EPS of Rs 12.8 per share of Rs 1 paid up.

For 9M'FY20 financials, I would request you to please refer to the investor presentation and press release shared with you.

CAPEX was at Rs. 428 Crore in 9M'FY20. The company's net debt on a constant currency basis was at Rs. 3,273 Crore, a reduction of Rs 217 crore as compared to March 31, 2019. There was a QoQ increase in Net Debt of Rs 128 Crore, which was on account of payment of dividend and increase in working capital debt in LSI business mainly due to seasonal raw material purchases. Pharma and DDDS generated positive cash flows of Rs 68 Crore in Q3'FY20.

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. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Ashi Anand from Allegro Capital Advisors. Please go ahead.

Ashi Anand: I just wanted to understand, firstly, on the Radiopharma business, how many products have we launched till date and how many products we are working on in pipeline? And if I'm looking at growth in this business, is growth likely to be driven more by new launches? Or is it a scale-up of products that we've launched so far?

Pramod Yadav: So we have close to 13 products in the market as of now. And as we mentioned, we have a very healthy R&D pipeline of about 8 products, which we plan to launch over next 2 to 3 years. So, growth will come from the ramp-up of the existing products, especially the RUBY-FILL and also from the new launches. From both fronts, we expect quite healthy growth in this business.

Ashi Anand: Excellent. And secondly, on RUBY-FILL. Is there any pending litigation? Or is there a chance of an appeal? Or have you now cleared all regulatory barriers?

Pramod Yadav: So, the competition had filed case in ITC where initially, administrative judge gave the decision in favor of Jubilant that we are not violating Bracco's patents because the Bracco's patent claims themselves are invalid. Bracco had appealed against the judge's decision, which was heard by full commission. And in the last quarter, the full commission also gave the decision and upheld the administrative judge verdict. With that, the case stands terminated in ITC. However, Bracco has taken a decision to file an appeal against that in Federal Circuit in Washington. There, the case will go on for another about 1.5 years. However, we are very confident that we have a very strong position in terms of the IPR on RUBY-FILL. So we don't see any disturbance happening because of that. We are continuing to serve all the customers, and we continue to get more and more traction from the customers.

Ashi Anand: I think in the past, we had indicated that because of this kind of litigation that was ongoing, that was actually a bit of a barrier in terms of some customers are taking in RUBY-FILL. So would that now be kind of taken care of? Or would they kind of still wait for Federal Circuit Court ruling? So is this still kind of a barrier in terms of adoption?

Pramod Yadav: So this litigation was not a complete barrier because since the time we have launched the product, we are continuing to do more and more installations at new sites and are growing the business. However, the growth rate could have been better if this litigation was not there. Now since the ITC decision is there, all the customers understand that they don't have any risk. And we have already seen, since the time the administrative judge decision came and then the commission decision came, we are getting many more inquiries and we are signing up the contracts for many more installs.

Ashi Anand: Sir, it would really helpful if you could kind of break up the Specialty Pharma business between the Radiopharma business, the Triad acquisition and the Allergy business, which will help in terms of how we model growth etc. going forward.

Pramod Yadav: We have been reporting revenue for the entire Specialty segment. And the way we are seeing growth in the RUBY-FILL, the way we plan to ramp up existing products of the Radiopharma and the new launches and growth we are seeing in venom as well as other allergenic extracts, we feel that we'll continue to grow our Specialty business with quite a good growth rate.

Ashi Anand: So will it be possible to give the break up between these three businesses? And how much of the Specialty revenues come from Radiopharma, how much from Triad and how much from Allergy?

Pramod Yadav: As of now, we are reporting all these three businesses clubbed into Specialty, and we plan to continue to do that.

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

Alankar Garude: So just continuing from the previous question. This 1% growth in Specialty Pharma seems a bit low, given that we are seeing traction in RUBY-FILL as well as on the Allergy side. So while you might not want to share any numbers, any qualitative comments on the growth rates, particularly seen in this quarter, across these segments within Specialty Pharma would be useful.

Pramod Yadav: In my speech, I mentioned that we have a bit of a challenge in ramping up of the Radiopharmacies revenue, so that has balanced a little bit to the additional growth that we had because of the RUBY-FILL and the Allergy business.

Alankar Garude: And the follow-up to that question would be, sir, in Triad, that has been a pain point for the last, more than 2 years now, and we have guided for a breakeven next year. But are we seeing losses coming down either on an annual YoY basis or perhaps even on a sequential basis?

Pramod Yadav: We have quite a robust strategy in place for this business for growth which includes opening up of new pharmacies and acquiring more customers to grow the topline, and our those strategic action plans are progressing well.

Alankar Garude: And when do we expect to see some results from that, sir, both on topline as well as profitability of Triad?

Pramod Yadav: We will expect results to start growing QoQ in the next financial year, but it will be little difficult to put a firm timeline on to that. But we will continue to see this improvement QoQ.

Alankar Garude: Understood. Sir, my second question is on the CDMO growth, 5%. Can you comment on what benefit we have seen on the incremental capacity in the CMO business till now and what potentially the benefit could be in the coming quarters?

Pramod Yadav: So we had mentioned that all the three initiatives of asset sweating will be implemented, that is to run both the lines 24/7 instead of 24/5 and to put a new Lyo. These all will get completed in the next quarter. In fact, our two lines have already started running 24/7, and the Lyo will get commissioned in the next quarter. So in next financial year, we will see full impact. With all these three initiatives, the same plant will be able to produce close to 30% additional capacity.

Alankar Garude: So broadly, from a growth perspective, CDMO should ideally grow in double digits in FY '21. I'm not assuming that 30% growth and there's also API, but at least double-digit growth in CDMO would be possible next year.

Pramod Yadav: Yes. So I am not putting a number, but yes. We have already started signing contracts for these additional capacities and since one line we started running 24/7 in Q3 FY'19 itself. So some impact of that has already started flowing into and the balance will be coming into next financial year.

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

Sahil Mukherjee: Sir, on the Pharmacy business, you mentioned some challenges. So is the business still declining? Or is it stable? And from an EBITDA perspective, is that a big loss because of the issues that you have in the Pharmacy business.

Pramod Yadav: I am not saying that there is something like big challenge. In Q3, we had the revenue little bit lower than the last year, but that was compensated by higher revenue in Radiopharmaceuticals, especially from RUBY-FILL and from the Allergy business. Yes. In terms of EBITDA, as of now, it's in that. But we expect that with the firm strategy plans we have in place, the losses will continue to go down and then eventually it will come into plan.

Sahil Mukherjee: Sir, on RUBY-FILL ramp up, so how should we think about the ramp-up? Is there an inflection point that you see that is likely or the number of additions that you have would be a constant number, which will keep getting added every year, it will be more of a linear trajectory? How should we think about growth there?

Pramod Yadav: So since we launched this product 2 years ago, we started, of course, with a small base. So YoY, we are growing this business almost in the range of 2-3 times. And even the same was the trend in the last quarter also. And this is in spite of the issues going around in the market because of litigation. And now as the litigation is behind us, we expect this growth rate to expedite further.

Sahil Mukherjee: And sir, one last question. On the Discovery Solutions, there was a comment said that you want to make some significant investment over the next 2-3 years. If you can just let us know what exactly are you planning here and what is the quantum of investment that we should be looking at?

Rajesh Srivastava: So in Discovery Services segment, we are looking at making investment in both biologics as well as chemistry. And in terms of tune of investment, I think next year, probably, we will be adding up somewhere around 100 crore of investment. And then in next 2-3 years, it will be furthermore.

Sahil Mukherjee: So your total capital employed is just around 200-odd crore, right, for this business. So that's a very significant scale up.

Rajesh Srivastava: Yes, it is a significant scale up.

Sahil Mukherjee: Okay. So this would be largely the outsourcing business, right, with the MNC or the big pharma that you would be able to.

Rajesh Srivastava: Yes. So it is Discovery Services for big pharma.

Sahil Mukherjee: What is the rationale to step it up now? I mean what are you seeing in the horizon which is leading to this decision?

Rajesh Srivastava: The customers who have been sourcing services from us, are willing to increase the business in number of FTEs. And also, we are adding up new customers because of our integrated solutions, which is little bit of unique services. So with this demand from customers, we project that this business growth can happen if we have the extra capacity. So we are, right now, running our FTEs full. So we need the capacity immediately.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.

Chirag Dagli: Sir, you talked about innovation. How many of the molecules are currently in the clinic? Or potentially can go to clinic in the next, 12 months?

Hari Bhartia: This is Hari Bhartia. Presently, none of our molecules are in the clinic. We are planning to take the first one next year. So we are getting ready to file the IND next year and then take it to Phase I. And the second one, we are preparing the IND strategies next year. So probably the following year, we will take it to clinic. That is the PAD4, which is the autoimmune. And the first one to go clinic will be the LSD1/HDAC, which is a dual inhibitor, which is an epigenetic target.

Chirag Dagli: How much are we spending, sir, annually on this? And is this being capitalized or passed through at the end?

R Sankaraiah: It's approximately $5-7 million, but it is written off in the book as of today.

Chirag Dagli: Annually, $5-7 million, sir?

R Sankaraiah: That's right.

Chirag Dagli: And what is our current CMO utilization, sir?

Pramod Yadav: So since we had mentioned that there's a good demand and we are trying our best to sweat asset as much as we can, we can safely assume we are running on capacity.

Chirag Dagli: We are running it optimally, sir?

Pramod Yadav: Yes, definitely. And in fact, we've done quite a lot of improvements to see how we reduce the change over time, how we reduce the shutdown time so that we are able to increase overall plant utilization.

Chirag Dagli: The exceptionals on the buying out etc. of the bonds as well as the IFC deal, is there more to this? Or are we broadly done?

R. Sankaraiah: No. This exceptional item, like I mentioned in my speech also, it is mainly on account of the $100 million, early redemption of high-yield bonds by Jubilant Pharma, Singapore. It is a onetime and we had to pay prepayment premium of 2.45% as per the document. It is actually 3 non call 5. So at the end of the third year, immediately, we utilized the surplus cash which has been generated by the business, to redeem our bonds. So that is the main reason why there is an exceptional item, which is there. It is not recurring.

Chirag Dagli: And how much will be saved, sir, in terms of interest going forward?

R. Sankaraiah: See, if we kept this $100 million in deposits, we would have got about 1.5% whereas we redeemed it by 4.875%, practically about 3.3% we have saved the interest.

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

Tushar Manudhane: Sir, just on the LSI segment EBITDA. Given the headwinds you're seeing on Life Science chemicals segment, so if you can elaborate on the demand for acetic anhydride and further outlook on it?

Rajesh Srivastava: Acetic anhydride, demand in last quarter has not been good because of the end-use industry demand, which has been slower, and we expect now the demand which we see in the market it is showing a positive sign. So we find that the demand is definitely going to get better in coming quarters.

Tushar Manudhane: So can that take the number back to like 125-130 Cr kind of an EBITDA per quarter?

Rajesh Srivastava: EBITDA is not only coming because of the volume. EBITDA is also the factor of other raw material prices etc. But yes, the raw material prices had been at very low levels, so now that has touched the lowest. And even at the price level, we are seeing the positive traction. So yes, we would like to see that time when we can achieve that kind of EBITDA, definitely or even better because now we have added capacity available, and nowhere else in the world the capacity has been added.

Tushar Manudhane: Okay. But do you see the molasses prices moderating? Or that remains still at a high level?

R. Sankaraiah: No. So molasses price actually has touched the peak in last quarter. So it has already moderated, but we don't see that it is going down as low as it was last year. It has moderated and it will be at this moderate level which we see today, so we have already factored in our projections for the year.

Moderator: Thank you. The next question is from the line of Deepan Mehta from Elixir Equity. Please go ahead.

Deepan Mehta: So my question is regarding the pharmaceutical business. If you can please explain why we have got such a flattish type of revenues and profits, and this has been there for the last, I think 2, 3 quarters or so. So what exactly are the challenges which you are facing, because of which, you're unable to grow the business double digit or even higher?

Pramod Yadav: So we have had a bit of lower growth, lower revenue in our generic business, and that was mainly because some of the key products' sales were lower because customer had a different scheduling. So that is ramping up in next quarter. That's normal. Other than that, in other key products, Valsartan, there were lower volumes in the quarter and that was mainly because of regulatory issue. We have put extra checks into the process to ensure that the product is free of nitrosamine impurities. There were some extra checks put in the quality system and some extra validation etc. were to be done before the product could have been released. All those issues have been taken care of. So from the next quarter, we feel that issue will also be behind us. These two are the major ones and the small one which we discussed about the Radio pharmacy. As other businesses are growing and on the CMO side, we take a bit of a larger shutdown for the maintenance as per the plant. So the quarter, in which the shutdown comes, you have a little bit lower production, and it impacts on that quarter's revenue. So that's also had a little impact in the last quarter.

Deepan Mehta: Any guidance you are giving as regards to long term what sort of growth rates can be generated from the pharmaceutical business?

Pramod Yadav: Yes. So the guidance we are giving you, definitely we'll continue to grow this business because in all the businesses, we have quite a good strategy in place. And if you actually see for the 9 months, that the revenue we have already grown by 7% in spite of a few of the challenges I mentioned to you. And more than that, if you look at our margins, the margins also were at healthy levels. So the business is in a good shape. And we feel that for the next year, our growth rate will be even better and the margins will remain at healthy levels.

Moderator: Thank you. The next question is from the line of Hari Belawat from TechFin Consultants. Please go ahead.

Hari Belawat: This is regarding US FDA inspections. For Nanjangud, it was done in the month of December '18, almost a year back. And for Roorkee, also it was done in August '18. And in both the cases, this OAI was issued. You have mentioned that still you are in contact with the USFDA. What is the status of this? When do we expect clearance for both these units?

Pramod Yadav: As far as Nanjangud is concerned, this was a concurrent inspection by US FDA as well as Health Canada. And they issued an OAI. We immediately got engaged with them with all the corrective and preventive actions. We feel that authorities were satisfied with that. And because of that, they did not accelerate OAI status. So we still remain engaged with the authorities. In the last quarter, TGA Australia inspected this plant who have a mutual collaboration with Health Canada. And TGA Australia went back very satisfied, in fact they issued us A1 GMP rating. So, we feel that the plant is out of the trouble. We are now expecting Health Canada and US FDA either to take a decision or maybe USFDA can come for the inspection. And we are hopeful that we will be able to convert OAI into Voluntary Action post that inspection. So that's where we are as far as Nanjangud is concerned. For the Roorkee, it is not under OAI, it is under warning letter. So USFDA inspected the plant last quarter. And that was a regular as per scheduled inspection, and they have looked at our remediation plans. They have reviewed that. They issued six observations. However, we don't see that they are the critical ones. We have already given very detailed corrective preventive action plans on the six of the observations, and we are awaiting to hear from FDA as of now. But the kind of remediation plans we have put in place, we feel that as and when FDA will come for the inspection again anytime, this plant should also be out of the water.

Hari Belawat: Okay, sir. These are good developments. Have these observations affected exports to U.S., particularly?

Pramod Yadav: Yes. So I will give a reply to that. Just before that, I missed to mention that even TGA Australia also had inspected the Roorkee plant as well. And for that plant also, they have given the GMP rating. So all that's in place. So they were satisfied with all the remediation work we have done.

Now with regard to supplies to the U.S. market, for our already approved products, we haven't seen any impact. We are continuing to export our products. And in fact, for some of the products, our volumes are expected to grow. And also our prices have been very good, so our margins are good. Only issue is that our new approvals are on hold. So as and when this warning letter issue will get resolved, then our approvals will start coming in. However, we also have a manufacturing plant in Salisbury in the U.S. And from that plant, also we continue to supply to the U.S. market, and that plant has a GMP rating as of now.

Hari Belawat: Just a related question. In China, there are some problems. Are we more dependent on imports from China now? Or how much is the dependence on China for your imports?

Pramod Yadav: We are not much dependent on China for the APIs. Most of our APIs are either in-house or from elsewhere. So for a few of the APIs, we are also buying some of the key starting material (KSMs) from China. And though we already had the strategy in place to de-risk our API business from all the procurements from China and those action plans are already ongoing. However, we continue to monitor the situation very closely. As for our restocking policy, we have the stocks. So it's not an immediate cause of worry, but we are monitoring the situation very cautiously.

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

Alankar Garude: Sir, one question on Radiopharma margins. So from the current 28-odd percent, once we see higher traction in RUBY-FILL and possibly lower losses and breakeven in Triad from next year onwards, and even further, we will see more launches happening on the Radiopharma side. What do you think will be the peak margins in this business going forward?

Pramod Yadav: Yes. So it will be difficult to put a number, but yes, the way we are ramping up this business, we expect quite a healthy topline growth and healthy margins. And as such in the call earlier, when we had this lot of discussions on the margins, we need to see the margins plus for both Radiopharmacy and the Radiopharmaceutical products because it had been a very strategic acquisition by us to ensure that while we have a very strong R&D pipeline and we'll be launching many products in the near future, we also had a distribution set up in place through which we can place those products in the market and reach up to the customer. So it's important to see the margins at a consolidated level than to actually see at the business segment level because that is more to see where we need to improve upon efficiencies.

Alankar Garude: Okay, sir. And one small clarification on Roorkee. Out of these six observations, are there any repeat observations?

Pramod Yadav: So out of six, there is one repeat observation from previous audit of December '19 on which remediation work was already going on. And we have been submitting status on the remediation. And even the last status what we had submitted, we had mentioned that this remediation will get completed in the coming quarter. So FDA is aware that we are already working on that.

Alankar Garude: Okay. And do you expect further re-inspection to happen before we get any EIR for this facility? Or there is a possibility that no further inspection will be required and still will get an EIR?

Pramod Yadav: We would love for this EIR without the inspection, but it all depends upon the FDA. So we can't comment on that.

Moderator: Thank you. Next question is from the line of Runjhun Jain from Nirmal Bang Securities. Please go ahead.

Runjhun Jain: Sir, I just need one clarification. We have already discussed too much about it, but still the reason for the pharma business you said there, it seems that it is temporary. You're confident that it should come back from next quarter? Any of the points which you have discussed about the decline or the muted growth. Can you quantify any of that, sir?

Pramod Yadav: So in the last call also we mentioned that our H2, we expect to be better than H1. So we have factored in issues we are facing on the Valsartan etc. And since we

feel that all those issues have been resolved. So we are confident that with a better Q4 performance, H2 is going to be much better than H1.

Runjhun Jain: Yes. So you're saying that but even Q3, from the H2 had gone, sir, which we have not able to recover, so do you think that from Q4 onwards, it would come? Or we will start revenue from the Q1 onwards? I mean my idea is have you started seeing a benefit in January month or not?

Pramod Yadav: I am saying that H2 is going to be better than H1 and Q4 is going to be better than Q1. So yes, you can assume that even from January onwards, we are seeing that improvement.

Moderator: Thank you. Next question is from the line of Aditya Poddar from Fortune Financial. Please go ahead.

Aditya Poddar: My questions are on the Nutritional Product segment. You mentioned that a mix of higher volume and better prices drove Vitamin B3 sales to be better. Can you give a breakup of this higher volume and better prices, please?

Rajesh Srivastava: So the higher volume is contributing to about 5-6%vis-à-vis same quarter last year. And price is about 12-14%.

Aditya Poddar: We've taken a 12-14%price hike with all clients?

Rajesh Srivastava: Yes.

Aditya Poddar: What price trends are you seeing in niacin from the decadal lows of 3.62? What's the average selling price for the quarter been?

Rajesh Srivastava: It's very difficult to quantify.

Aditya Poddar: Yes, a ballpark figure is fine.

Rajesh Srivastava: Yes. So current pricing, which is going on, an average, is around $4-4.4.

Aditya Poddar: What are the raw material trends you're seeing in Beta and 3CP now for the last quarter?

Rajesh Srivastava: We have mentioned in our presentation that the raw material is really becoming tight, and therefore, we can see a positive traction of pricing further.

Aditya Poddar: Okay. So the pricing going down or going up?

Rajesh Srivastava: Going up. And since we have our own internal backward integrations, so we see this as a very positive thing for us for future.

Aditya Poddar: Any inorganic opportunities in the B3 space being explored? Or you guys don't want to build any capacity in the B3 space anymore?

Rajesh Srivastava: B3 has a global production. It is already more than the demand. So I don't think there is any new capacity required. And as such, adding capacity may not make sense because the ultimate backward integration raw material is not available.

Aditya Poddar: So that's why it's inorganic?

Rajesh Srivastava: Yes. So inorganic, yes, there are not many players, and we don't see any synergistic inorganic company which we can think of.

Moderator: Thank you. Next question is a follow-up from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.

Chirag Dagli: So this China calling off antidumping duty, what has this meant for us in the past? And now that this is off, what does it mean for the future?

Rajesh Srivastava: China calling off antidumping, it means that we have the China market open for us for Pyridine. But we will go very judiciously because prices in China are very low. So we don't see a huge impact on our Pyridine sales. And as such, more than pricing, the overall volume of Pyridine has gone down overall, globally. So we don't see a great opportunity of a huge volume growth. But having said so, there is an opportunity for us to sell some volume in China. So that gives an opportunity for us and it opens China market.

Chirag Dagli: Currently, is the China market volume zero for us?

Rajesh Srivastava: No, it is not zero. We are selling some volume where our customers have approved us, and we get a good pricing. Even though they pay duty, they have been buying from us. They will continue buying from us. And probably, we might increase our share in those customers because now that they don't have to pay duty. So those things, we will definitely have positive advantage.

Chirag Dagli: But even with the 17% disadvantage, you were selling in China, profitably?

Rajesh Srivastava: Yes, we have been selling to some Chinese customers, who have approved us as a source because of our quality and reliability. So that, we will continue. Not very big volume, but we have been selling products.

Chirag Dagli: So there will be a part of the business where your spreads will be fixed, right, on a per tonne basis or a per kilo basis. Is there any part of the business, which falls in that kind of a bucket? Or is the entire business sort of open?

Rajesh Srivastava: Overall, for LSI, I think our Specialty Intermediate business is, of course, not so volatile as our Life Science Chemical business is. Same with Nutritional Products. So as you can see, Specialty Intermediate as well as Nutrition Products is quite a stable business. But LSC, yes, it gets affected because of the commodity, raw material prices etc.

Chirag Dagli: Even the margins on these businesses are as stable as the sales, sir?

Rajesh Srivastava: Yes, they are much more stable than LSC business, yes.

Chirag Dagli: So the margin volatility is essentially largely because of the LSC business?

Rajesh Srivastava: Yes. Margin volatility mostly because and in the past, we also have seen some volatility into the Nutritional Products business, as we just said, because of Chinese entry, which is now stabilizing because of the raw material position.

Moderator: Thank you. The next question is from the line of Ashi Anand from Allegro Capital Advisors. Please go ahead.

Ashi Anand: I just want to understand a bit more about the 17 products that we have in the market. So the questions were, one, are all of these going basically into the same kind of marketing channel? Secondly, what kind of market shares would we have in these products? And any kind of concentration, as in the top 3 or top 5 products, how much would that account for the Radiopharma part of the business?

Pramod Yadav: So we are the third largest in the North America, in that business. That's what we mentioned. A few of the products, we have a sole supplier position. So we have an entire market with us. In few of the products, we have competition. But since this business has a high entry barrier, so even for the rest of the product, there's only either one competition or twi, but not many. So these are the products which, even if they are the generic, you don't feel that kind of the price competition what you see in the rest of the generic business like oral solids etc.

Ashi Anand: Okay, that's very helpful. And just secondly, in terms of if you could help in terms of the product concentration as we receive the top 3 or top 2 sub products? Or do they account for a very substantial part of the business? So is it kind of equally spread across the 17?

Pramod Yadav: It will be difficult to mention product with specific details because of the competition regions. But overall, we mentioned that we have a very good leadership position in that business. We have a good spread of the products, and we have a healthy pipeline. And we have a good market position. We have our own distribution center. So we have the integration advantage as well. So we are the most strategic player in the North America market.

Ashi Anand: And just lastly, is it possible to share how much of our products go through our own distribution?

Pramod Yadav: So all the products are going through our own distribution as well as we are also supplying them through other distribution channels.

Ashi Anand: So what I meant is what percentage of our sales will be through our own distribution?

Pramod Yadav: No. That will be a little difficult to specify because it's a market where there are only 2 or 3 of the major distribution channels.

Moderator: Thank you. We'll move to the next question from the line of Viraj Mahedeva, an individual investor. Please go ahead.

Viraj Mahedeva: My question is regarding the net debt on the business. Mr. Bhartia, Mr. Sankaraiah, while we have made all endeavors and statements regarding strengthening the balance sheet, the reality is net debt hasn't reduced meaningfully over the last year to year and a half. One is CAPEX continues to remain fairly high at roughly 428 crore in 9 months, averaging 500 to 600 crore in the financial year. Do you see the CAPEX moderating in the years ahead? And consequently, a meaningful paydown in the net debt?

R. Sankaraiah: So CAPEX, we basically have for both the 2 businesses, the LSI and the Pharma. So in Pharma business, we are continuing to invest in further for our growth plans. As far as LSI is concerned, like Rajesh has mentioned, it is more mostly sweat the asset, generate cash and reduce the debt. But overall, if you see in the last 3 years, we have almost reduced 1800 crore of the total debt. So that way because last 2-2.5 years, there was a very strict control on capital expenditure. But now this year, because of the essential CAPEX which are required for either

debottlenecking or growth plans, so the CAPEX has been invested. So that will really augment our growth going forward. That is the reason this year, the CAPEX is higher than last year and last before-year. But going forward the next year and all, now that this CAPEXes are settling down. Next year, LSI may not be that much, but pharma will be continuing a little more for the growth. And as of now also if you see the total debt to EBITDA, we are almost like just less than 2x, about 1.8x. So where we are and where we came in last 2- 2.5 years is a remarkable improvement we made compared to the debt-to-EBITDA level from 4.5x to less than 1.8x.

Viraj Mahedeva: Yes. So Mr. Sankaraiah, not taking away from the fact that the company has made huge progress in the last 3 years, particularly net debt-to-EBITDA, but that has largely been achieved by a step-up in EBITDA as opposed to reduce in the absolute debt in comparison.

R. Sankaraiah: No. Debt was 4,400 crore, which has come down to 3,200 crore now.

Viraj Mahedeva: Understood. So it's reduced by about 1,200 crore. EBITDA has more than doubled since the difficult period 3-4 years ago.

R. Sankaraiah: That is because previously, those investments, which have been done, those things have grown the EBITDA. Rather, the EBITDA has more than doubled now in the last 3 years.

Viraj Mahedeva: Exactly my point, and that has driven the reduction in net debt to EBITDA.

R. Sankaraiah: That is because of all the investments. Without the investments, how EBITDA will double. So that's why. See, last 2 years, we have not invested big time. But this year, we have invested almost like. In the beginning of the year itself we said that it will be about 500 crore. So that's what we'll be in the range of about 500 to 550 crore, that kind of thing this year. So that is, like I mentioned, mainly it is the investment in pharmaceutical business for the expansion plan like in Radiopharmaceutical, expanding the capacity of RUBY-FILL and also in CMO business, again, the lyophilization capacity and also the additional capacity for debottlenecking the lines and also in generic business, in dosage form business, expanding the capacity from 2 billion to 3.2 billion. So like this, these are expansion capacities which we have done and also in LSI business, acetic anhydrite capacity has been increased, there we have invested. So these are all mainly going for investment in for growth plan.

Viraj Mahedeva: Understood, Mr. Sankaraiah. My only simple question is, granted these expansion investments have happened in financial year FY '20, for the next financial year, given that now you have debottlenecked LSI, you got your Lyophilizer, you've increased your scope of operation, you've invested in LSI, how much CAPEX do you see yourself spending over the next year or two? You did mention Drug Discovery, you will probably invest about 100 crore. What, over and above that, can we expect the CAPEX to be? Because at some point, CAPEX also needs to moderate, right? Only then will the net debt...

R. Sankaraiah: I will say that the debt level will definitely come down. If you see first 9 months, the debt level has come down by 217 crore. And in the fourth quarter some debt level will come down. Next year, the cash generation should be better than this year.

Viraj Mahedeva: And is that because CAPEX will moderate to...

R. Sankaraiah: So one is CAPEX moderation, other one is on EBITDA also, there will be a growth, both.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing remarks. Over to you.

Shyam S. Bhartia: Thank you, everybody, for joining the call. And for further clarifications, Mr. Sankaraiah and Ravi will be here to answer all your questions. Thank you so much.

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