Jubilant Life Sciences Limited

Conference Call Transcript
August 10, 2011

Moderator Ladies and gentlemen, good evening and welcome to the Jubilant Life Sciences conference call for Q1FY12. As a reminder for the duration of this conference call, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of theopening remarks. Should you need assistance during this conference call please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Nidhi Agarwal from Jubilant Life Sciences Limited. Thank you and over to you Ms Aggarwal.

Nidhi Aggarwal Good evening every one and thank you for joining us on the Jubilant Life Sciences conference call for the quarter ended 30th June, 2011. Leading the call today is Mr. Shyam S. Bhartia – our Chairman and Managing Director, along with Mr. Hari S. Bhartia – our Co-Chairman and Managing Director and Mr. R. Sankaraiah – Executive Director, Finance. We will begin with the key messages from the chairman and Mr. Sankaraiah on the business and consolidated financials, following which there shall be a Q & A session. I would request everyone on the call to please refer to the investor presentation released earlier for the disclaimer. I would now request Mr. Bhartia, to share his perspective.

Shyam S. Bhartia Thank you Nidhi, good evening and a warm welcome to you all. I hope by now you would have had the opportunity to review our results.

We are happy to share that the company has delivered a strong revenue and earnings growth, both sequentially and on Y-o-Y basis for the first quarter FY2012. During Q1 FY12 the company reported an income from operations of Rs. 948 crore up by 16% Y-o-Yand 6% Q-o-Q. Our international business from 75 countries contributed 69% of the net sales of Rs. 653 crore. Sales from regulated markets of USA, Canada, Europe and Japan together were at Rs. 522 crore and amounted to 55% of the net sales. We witnessed strong 50% Y-o- growth from European and Japanese markets followed by 16% growth from the Emerging Markets and 9% from USA and Canada.

As indicated in our last conference call, EBITDA showed substantial improvement at Rs. 190 crore with margin of 20.1% in Q1 FY12,. Sequentially the margins have improved from 15.4%, recorded in Q4 FY11 Y-o-Y and the margins were up from 17.6% recorded in Q1 FY11. Net profit in the quarter was at Rs. 77 crore, growing from 53% Y-o-Y basis and 25% sequentially. Basic and diluted earnings per share for the first quarter is at Rs. 4.84 per equity shares of Rs.1 face value with fully diluted earnings per share, growing at 69% Y-o-Yand 38% Q-o-Q.

We are proud to share that in a recently released world investment report 2011 by UNCTAD, the company was ranked at number 6 in the top 10 global contract manufacturing services outsourcing player of pharmaceutical industry. Our products business, teams if you see have performed well with a clear objective of aggressive sales growth, innovations led product launches, expansion in high-growth geographies and increased vertical integration. In Q1 FY12 sales from the life science products which contributed to around 78% of our overall sales revenue stood at Rs. 739 crore, and grew at 19% Y-o-Y and 6% sequentially. This improvement has been on account of continued volume growth coupled with positive price variants across products segment. Life science services revenue exhibited a growth of 4% Y-o-Y and 7% on Q-o-Q basis with the net sales of Rs. 205 crore. Service business teams have taken the focus on margin improvement initiatives to substantially increase the profitability. These are yielding good results and we expect to report even better performance from here on. I would like to take the opportunity to run you through the business wise performance and share my thoughts on the progress in each area.

Our Life Science Ingredients business contributed 64% of the total revenue during the quarter with Y-o-Y growth of 16% and Q-o-Q growth of 6%. It comprises of 4 businesses namely API, Nutrition Ingredients, Proprietary Products and Exclusive Synthesis and Life Science Chemicals.

Our API business gained momentum and showed excellent growth in Q1 FY12.The launch of Donepezil in the US and Olanzapine and Valsartan and Irbesartan supplies to Europe and Canada and parts of the emerging markets were key growth drivers. During the quarter the company filed 1 DMF in the US and 2 in Canada and 1 unique EDMFs in EU besides few in other markets including Australia. Cumulative USDMF filings for the company now stands at 52 with many more in other regulated regions indicating a strong pipeline for new launches in future. We are on track to file 18 DMFs in the current financial year to take the year end US DMFs to 69. During the quarter, ANVISA Brazil approval was received for the API plant, creating opportunities for future growth in the Emerging Markets.

Our Nutrition Ingredients business capitalized on the market opportunities in food and personal care industries. We launched an animal nutrition product in the domestic market. Plans to launch five additional nutritional products are progressing well. We expect a good growth in revenues to accrue FY12 once Niacinamide project implementation is completed in the current quarter.

Key highlights of our proprietary product and Exclusive Synthesis business is that we are in advanced business discussions with few clients for large contracts, announcements for which are expected to be in the current quarter.

Coming to Life Science Chemicals, the business witnessed a strong growth due to excellent demand for our products from pharmaceuticals and agrochemical sectors, especially from European and the emerging markets. Our capacity expansion project to cater to the growing demand remains on track and is likely to be completed in Q3 FY12.

Now let me take you through the details of our Generic business. It showed revenues of Rs.131 crore in Q1FY12 and contributed 14% to the net sales. Growth in the generic business was over 33% Y-o-Y and 5% Q-o-Q driven by solid dosage formulations, radiopharmaceutical products and allergy products business.

Our solid dosage formulation recorded a solid growth on Y-o-Y basis due to increased demand for our existing products thereby helping in improving our market share in US. There were three ANDAs filing in US; all in the CNS category of the products. Patent expires of two of these products are due in June 2012. We have 62 cumulative filings in chosen therapeutic areas, with 36 ANDAs in US and 26 Dossiers in EU. Plans to file 30 ANDAs and Dossiers in the current financial year are on track, which would further strengthen our pipeline of products. We received ANDA approvals for Donepezil in the quarter which used to be supplied from our solid dosage formulation plant in Roorkee, India. We also received a dossier approval for Sildenafil, patent expiry of which is expected in June 2013. Besides USFDA and UKMHRA approvals, we also have Japanese PMDA approval for the Roorkee plant now, which would trigger our formulation supplies to large Japanese generic companies in the current quarter.

In our radiopharmaceutical segment, there was a marked improvement in year-on-year basis due to robust growth in diagnostic products namely Lyo kits, MAA, Macro aggregates of Albumin for lung imaging and MDP for bone scan. Allergenic extracts witnessed a robust growth with skin test devices for allergy scratch gaining momentum. Further our ongoing efforts to strengthen sales activities are yielding good results and our product pipeline is progressing well.

In the life science service business, CMO of sterile and non sterile products contributed 16% of the net sales mix at Rs. 151 crore in Q1 FY12, growing at the rate of 8% Y-o-Y and 13% Q-o-Q. Increased capacity utilization and improved product mix resulted in higher revenue and profitability. I wish to highlight here that the steps we have taken to restore momentum have borne fruit. We have a good order pipeline and are in advanced discussions to sign a few large contracts.

Our DDDS business reported net sales of Rs. 52 crore and contributed 5% to the company's revenue in Q1 FY12. The total number of integrated collaborative program in the drug discovery business increased from 17 at the year end to 21 in Q1 FY12. We expect to further add more programs during this quarter and expect increase in margins due to better business mix of integrated programs and cost control measures.

Our increased vertical integration activities led to higher value addition and improved profitability for the company. Vertical integration is mapped by interdivisional transfers which went up by 111% Y-o-Y, 60% Q-o-Q to Rs. 96 crore in the quarter, that is over 10% of the net sales from mere 6% of sales in Q1 FY11 and 7% in Q4 FY11.

We continue to maintain our CapEx target of Rs. 500 crore, 25% of which has already been incurred in the first quarter. This annual CapEx, is expected to generate revenue of more than Rs. 1200 crore at full capacity utilization. Overall underlying strength of our business has been strong due to leadership and cost competitive positioning in many of our products and services. We expect to sustain our growth momentum with innovation led product launches, expansion in high growth geographies, commissioning of new capacities and increased capacity utilization in service business. We are confident of continued delivery of robust growth in sales, substantial growth in operating profit in the subsequent quarters. I would now like to invite Mr. R. Sankaraiah, to share his views to the financial performance of the company.

R. Sankaraiah Thank you Mr. Bhartia. We will start off by taking you through some of the highlights. We have witnessed strong income growth momentum of 15% Y-o-Y at 6% Q-o-Q anchored by life science products and supported by the growth of life science services business. We have seen a strong uptrend in EBITDA margins given overall improvements in businesses, a marked growth of 20% Y-o-Y increase in the product EBITDA and 2.8 fold Y-o-Y increase in EBITDA for services business. We repaid FCCB of US$ 209million due on May 2011, using part of the cash investment which had been made in the liquid funds and are on the way to strengthen our balance sheet.

I would like to take this opportunity to throw some light on the consolidated financials. In the first quarter 2012, on overall income from operations of Rs. 948 crore, the company posted an EBITDA of Rs. 190 crore with a margin of 20.1%.

Product business EBITDA was higher at Rs. 171 crore for the quarter, up by 20% Y-o-Y and 24% Q-o-Q with the improved margin of 23.1%. Services businesses recorded a high growth in EBITDA at Rs. 35 crore for the quarter and a significant improvement in the EBITDA margins at 17.3% compared to 6.3% in Q1 FY11 and 10.3% in Q4 FY11.

Net profit for the quarter grew to Rs. 77 crore up by 53% Y-o-Y basis and 25% sequentially. For Q1 FY12, basic and diluted EPS stood at Rs. 4.84 for equity shares of Rs. 1 paid up, compared with Rs. 3.17 in Q1 FY11 and Rs. 3.87 in Q4 FY11, with fully diluted EPS growing at 69% Y-o-Y and 38% Q-o-Q.

Our net debt position as of 30 at June, 2011 was at Rs. 3,284 crore comprising of Rupee and foreign currency loans including part Rupee debt swapped into dollars denominated debt. Net debt to equity stands at 1.48 times as on June 30th, 2011. Our average cost of total borrowings for the quarter was at 6% per annum with a Rupee debt cost of 11% per annum and foreign funds at 4.8% per annum.

In the subsequent quarters, we expect to continue to build on the robust sustainable revenue and profitable growth momentum recorded in the first t quarter. In the product business, revenue growth would be on account of commissioning of new capacities, innovation led product launches and geographic expansions, while operating profits growth would be backed by improved capacity utilization and increased vertical integration. In the service business, our margin improvements are sustainable and increased capacity utilization, higher margin product mix and cost optimization would continue to lead the higher profitability. Thank you and I would request the moderator to open for Q&A please.

Moderator Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. The first question from the line of Dimple Sheth from SKS Capitals, please go ahead.

Dimple Sheth I would like to know what is the current capacity utilization?

R. Sankaraiah You have to look at current capacity utilization product wise. If you see in the ingredient business like proprietary products and exclusive synthesis, we are more or less running at full capacity that is why we have taken an expansion program in Pyridine derivative products. Other than that nutritional ingredients as you are aware that we are setting up a huge capacity of 10,000 tons which we will be commissioning this quarter that is Q2 FY12.

Dimple Sheth When will it be coming up?

R. Sankaraiah In this quarter, that is Q2 FY12.

Dimple Sheth 10,000 ton capacity?

R. Sankaraiah That is right, it will be operational this quarter. Other than that in the CMO business our capacity utilization as of today is in the range of about 65% where we have adequate capacity to take care of the future growth.

Dimple Sheth You commented that you have some cash investments to build in your balance sheet, what is the quantum of those investments?

R. Sankaraiah No, what I mentioned was, that we had investments as on 31st March 2011 of about Rs. 1000 crore which has been utilized to repay the FCCBs and of today the cash availability is about Rs. 81 crore in the balance sheet.

Dimple Sheth I just missed on the comment that the CapEx is around Rs. 500 crore of which 25% has already been incurred, if all the plants are working in full capacity, you will generate a revenue of Rs. 1,200 crore?

R. Sankaraiah Correct.

Moderator Thank you Ms. Sheth. Our next question is from the line of Sriram Rathi of Anand Rathi, please go ahead.

Sriram Rathi You said that the margins are sustainable in the life science services segment. So just wanted to ask you that on a consolidated basis can we assume this 20% kind of a run rate to continue for the full year?

R. Sankaraiah Yes, Both Mr. Bhartia and myself mentioned, that the margins are sustainable and we see the margin improvement program on track. So we may also slightly land up with higher margins.

Sriram Rathi In this quarter there was some milestone income which was received in the drug discovery services segment. Can you share that number how much was that?

R. Sankaraiah Milestones are becoming a part of normal business nowadays. We will consider new milestones only in the case of commercialization of a product; otherwise it is part of the business operation.

Shyam S. Bhartia Milestone was a very small amount of money that we had received, compared to the total sales of the drug discovery and development business. There was only one milestone we received which is about $450,000.

Sriram Rathi A question on the interest costs, this quarter it was around Rs. 43 crore. So from the next quarter will it increase somehow because the redemption was in May? So for the full year are we looking at around Rs. 200 crore of interest cost or higher than that?

R. Sankaraiah Yes, it will be in that range. That is right.

Sriram Rathi Mr. Bhartia said that, there was around Rs. 125 crore of CapEx which was made in this quarter, and which was more or less equivalent to the cash profit done in this quarter, despite that there has been an increase of around Rs. 200 crore in the net debt?

R. Sankaraiah The debt increase of about Rs 180 crore is on account of three things; if you see the YTM on 31st March, there was around Rs. 250 crore provision on the final FCCB repayment, it was around Rs. 70 crore more because of the two months accrual, so Rs. 180 crore less Rs. 70 crore i.e.- Rs. 110 crore, which is on account of increase in sales. The sales grew by 15% on account of which there is an increase in the working capital. And the third reason is the alcohol purchase, which is the strategic purchase what we made to secure ourselves for delivering good profitability growth. We have secured alcohol which is required for up to the year end. These are all the reasons why there is an increase in the working capital.

Moderator Thank you. Our next question is from the line of Surya Patra of Systematix Shares, please go ahead.

Surya Patra A question on the services front, we have delivered 17.3% of EBITDA margin which is a marked improvement on the margin front. Whereas on the top line front for the particular services business, I am not seeing any marked improvement. What was the real reason, what was the factor that has improved the margins so significantly there and whether this is sustainable?

Shyam S. Bhartia The basic factors are firstly the increased capacity utilization in our CMO business where major part of EBITDA goes into. Secondly in our drug discovery business, we were running only 17 programs at the end of last year, now we are running 21 programs, so that has also increased capacity utilization and which we strongly believe is sustainable.

Surya Patra In fact on the revenue front we have not seen a marked improvement according to the margins that we observe in the quarter.

Shyam S. Bhartia The business mix has also changed and because we are concentrating more on the margin aspect rather than the volume aspect. But you will see growth in both volume and sales but we are concentrating more on the margin improvement.

Surya Patra On the CMO front, what is the kind of outlook that you're foreseeing because the US market was not doing good?

Shyam S. Bhartia Currently as Sankaraiah mentioned, we are having 65% capacity utilized. So we have a good pipeline of orders. We are in the advanced stages of discussion with 3 parties and we are likely to announce few orders during the current year, this will help us to increase capacity utilization and also deliver better results.

Surya Patra And the 65% utilization which you are saying for the quarter, what was the average utilization for the last full year, in the CMO front?

R. Sankaraiah It was in the range of 60%.

Surya Patra So 5% sort of improvement is there?

R. Sankaraiah Yes.

Surya Patra In the opening remarks, you have mentioned that you are in the discussion with a couple of customers for the proprietary product and possibly if that order flow comes in, then the growth will be quite significant, so can you give us some idea what is the kind of growth has the proprietary division has delivered in the quarter and if the news flow comes then what could be the improvement there?

Shyam S. Bhartia We expect a good volume growth and also growth in EBITDA, but we would not like to speculate on the exact amount of growth.

R. Sankaraiah Just to give you a broad understanding on this. In the First quarter there was a volume growth of 11%. Total growth of 16%,and price of 5% that is what the breakup is. And when the new capacities like Niacinamide, the Vitamin B3 plant and also the Sartan plant capacity which we have started utilizing from this quarter onwards. These are all things apart from the regular production levels and the additional capacity which is getting added will add a good volume growth.

Surya Patra In fact in the fourth quarter I believe we have raised cash debt of around Rs. 1,000 crore to repay the FCCBs which is at around 10 to 11% rate. And this quarter, I am seeing the amounts are changed and in fact the foreign currency loan is quite significant rather than the rupee loan?

R. Sankaraiah The reason for that is whatever the money which we have raised in rupee for the repayment of the FCCB, we have converted that into dollar.

Surya Patra When did this happen?

R. Sankaraiah It happened on the same day we repaid, we converted that into dollar. We do not want to get into any fluctuation. So we have done that and that is why Rs. 910 crore has been converted from rupee to dollar.

Surya Patra That is possibly the interest amount?

R. Sankaraiah That is why the average interest costs is 5.1% in standalone and in the subsidiary company it is 4.2%, giving the total interest rate of 6% for the quarter including rupee loans.

Surya Patra Partly that was the reason for slightly lower than expected interest amount in the quarter?

R. Sankaraiah Yes.

Moderator Our next question is from the line of Saion Mukherjee of Nomura, please go ahead.

Saion Mukherjee Two questions here, first on the CapEx you mentioned about Rs. 500 crore, now going forward next year also you are looking at a similar range and if you can help us understand exactly in which business you are going to invest and going forward any big investment plans that may come up in the next 24 months that you envisage?

R. Sankaraiah This year's Rs 500 crore are mainly on account of the spillover of last year, there is no fresh CapEx which we are incurring this year. We are increasing the capacity in life science products like acetic anhydride. Also, we increased the capacity in Pyridine, Niacinamide and Sartan, these were our main four CapEx where the money is going to be spent. There is no new project. And also the Symtet plant on which we made a press release, which is going to come up in the next year. That completes the five major projects where the CapEx is going to be incurred.

Saion Mukherjee So when we look at next year i.e. FY13, what your initial estimate would be, rough quantum of CapEx that you foresee at this point?

R. Sankaraiah It will be next year, like last time also we mentioned about Rs. 300 crore, that is the number we are looking at.

Saion Mukherjee My second question is on the Symtet plant and Niacinamide plant that is likely to get commissioned now. What is the timeline for the full capacity utilization or if you can help us, take us through the ramp up you expect could happen?

Shyam S. Bhartia The capacity utilization would take anywhere between 9 to 12 months.

Saion Mukherjee Full capacity utilization?

Shyam S. Bhartia Full 100% utilization.

R. Sankaraiah In case of Niacinamide, when we say Q2FY12, means in one year time we should be using that full capacity.

Saion Mukherjee So you mentioned in your report that this would be like $75 million kind of revenue that could come from this facility?

R. Sankaraiah That is right, at full capacity.

Saion Mukherjee So you will hit that exact run rate in another 12 months' time?

R. Sankaraiah Certainly, I think.

Saion Mukherjee The Symtet would take how long, in terms of commissioning?

Shyam S. Bhartia 6 to 8 months.

R. Sankaraiah commissioning would be in the Q4 2012, that is in the month of March somewhere around.

Shyam S. Bhartia You can see the whole effect available only in the next year.

Saion Mukherjee It will also take around 12 months to achieve

Shyam S. Bhartia It will take a shorter time because we are negotiating large contracts, already selling almost the total capacity. We should take a lesser time from the day we start full capacity utilization.

Saion Mukherjee In terms of your pricing, we know that last year there have been issues. How do you see the pricing environment at this point and what is your expectation for the remaining year particularly in the ingredient business?

Shyam S. Bhartia We have a strong leadership position in many of our products and also we are market leaders. Therefore the pricing power of the company is good but there is some lag effect if we have increase in cost and raw material prices, we are able to increase prices.

R. Sankaraiah We have always maintained from last two quarters that is Q3 and Q4 an aberration, but we have witnessed in the 1st quarter itself is that the price is going back , not maybe to the level of what we are supposed to be but we have got 5% increase in price which is reflected in increase in our sales .

We are getting back on track and there will be a lag effect like Mr. Bhartia has mentioned maybe a quarter's lag and that will always be there, sometimes it may extend for two quarters, nothing beyond that. As far as the volume growth is concerned, we always maintain whether it is last year or this year, we will be continuously delivering a very good volume growth.

Shyam S. Bhartia We have a strong pricing power that is what he is saying.

Saion Mukherjee Basically the margins that we have seen this quarter, is kind of a base for you?

Shyam S. Bhartia Sankaraiah mentioned that we expect to maintain this margin, not only maintain this margins but also add to it.

Moderator Thank you. Our next question is from the line of Nikunj Doshi of Bay Capital, please go ahead.

Nikunj Doshi Just wanted to understand the standalone performance, we are not seeing any significant improvement on a year-on-year basis. So what is the reason for lackluster standalone performance?

Shyam S. Bhartia What happens in standalone performance is that whatever products goes to our marketing subsidiaries in US & China and any sale which is made out of those subsidiaries so if you transfer a product, it is very difficult to ascertain only the standalone here.

R. Sankaraiah There are three reasons, one, if you see the sales, Rs. 618 crore this quarter compared to Rs. 520 crore, that is a very good sales growth. . The main reason why the performance in the bottom-line is less is because interest expenditure is completely booked in standalone that is Rs. 5 crore last year and Rs. 30 crore this year. That is the reason.

Nikunj Doshi No, I am talking about operating levels also.

R. Sankaraiah Operating like Mr. Bhartia has mentioned is because of the inter-divisional transfer.

Shyam S. Bhartia Intercompany transfers are there, like we have marketing subsidiary in China, another marketing subsidiary in US, so we transfer the products to them, in this a lot of products are sold out to ex-US and ex China.

R. Sankaraiah And also you can see, if you remove the depreciation, I see there is a good growth of 20%.

Nikunj Doshi Secondly, I was also hinting that is there any kind of a raw material pressure in India, which was felt in the current quarter and which may not be there in the subsequent quarters because of the oil prices?

Shyam S. Bhartia We use many raw materials and in most of our cases as I mentioned, the increase and decrease in the raw material pricing have some lag effect. With lag effect we are able to pass on to our customers mostly the increase.

Nikunj Doshi So for the full year is it safe to assume that we can at least multiply first Quarter by 4?

Shyam S. Bhartia That is for you to assume. Your job to do that, we can't do your job.

Nikunj Doshi No, what is your guidance.

Shyam S. Bhartia No, guidance.

Moderator Thank you. Our next question is from the line of Ashi Anand of Kotak, please go ahead.

Ashi Anand I have a couple of questions with relation to our margins firstly on the products business margins. How much of the margin improvement can actually be attributable to the pricing increase in the quarter and apart from the pricing improvement, what would be other reasons be for margin improvements in products?

R. Sankaraiah Pricing, I already mentioned it is about 5%.

Ashi Anand But were there any other initiatives that we have taken in the products business that has led to the margin improvement?

R. Sankaraiah Generic business has done extremely well. Generic business comprises of three parts, the Solid dosage form, Allergenic extracts and radiopharmaceutical. All the three business have done very well and it is expected to continue to do well. So that is one of the main reasons why the product business totally delivered the much better results.

Ashi Anand And just in terms of the pricing in product businesses especially in Pyridine, we saw quite significant pricing pressures last year. Now we have seen the signs of rebound in the first Quarter. What is the outlook in the pricing going forward?

Shyam S. Bhartia Most of our Life Science Ingredient business, is steady and we don't expect much change in pricing because most of the contracts are in place, etc.. All the pricing is linked to raw material prices. As I said like since the raw material price goes up or goes down, the prices may go up or go down.

Ashi Anand Actually the second question I had is on the service business on the margins, you mentioned capacity utilization and the better product mix. Can you just highlight in terms of the better product mix, what is the shift in the business mixes which just hit the margin expansion?

Shyam S. Bhartia When I say better product mix, I mean our drug discovery programs. We are running more integrated programs. Integrated programs mean better results. We conduct functional services which provide us better results, better operating profits rather than sales. So in case of our CMO business also it depends upon the different contracts, different opportunities which are in place like for liquid fill business, Lyo business. So there are different types of value added products which we like to book orders for and our marketing team and business team has done a good job in selling a good product mix to the customer.

Ashi Anand In terms of a better product mix, are we expecting this will sustain going forward?

Shyam S. Bhartia Yes, we have said in our statement that it is sustainable because we have a good order pipeline, existing orders are also in place plus new orders we are negotiating. As I mentioned that we are likely to announce during this quarter, Life Science CMO services and product business also.

Moderator Thank you. Our next question is from the line of Manoj Garg of Edelweiss Capital, please go ahead.

Manoj Garg Just want to check particularly in the drug discovery business, though you have indicated that the number of your drugs which you're working has increased from 17 to 21 but if we look at on the absolute number, I think revenue are more or less of the same number in terms of Rs. 52 crore. Can you throw some light on that?

R. Sankaraiah The drug discovery as you know there are three parts, the integrated program part which is integrated and functional; Biosys, and chemistry services and clinical research. Like last year, we have repeatedly mentioned that the clinical service business is not doing well and it has reported an operating loss. So with the conscious decision, we have cut down the business which is not giving profitability because of which the revenues are more or less flat. If you see the chemistry services and drug discovery part only, there is a very good growth there. So that is the reason on the quarter wise on a combined basis you see a flat or a marginal negative growth.

Shyam S. Bhartia As I told you, we are concentrating more on the margin growth than on the volume growth. In the drug discovery business and in both CMO and all service business you have seen last year our margin was low. so this year we from the very beginning, are concentrating more on the margin improvements and we have been very successful in improving the margins and which is sustainable.

Manoj Garg And the second thing like in the opening remarks, you have indicated that you are in advanced discussions for some of large contracts. Is it more on the CMO side of the business or on the life science ingredient side of the business?

Shyam S. Bhartia Of course, life science ingredients and CMO side also.

R. Sankaraiah Order book is very good.

Manoj Garg Like some of your global competitors has indicated a kind of margin pressure on Niacinamide or even Pyridine. What is your outlook because they have indicated that there was a bit of pressure margin from the Asia-Pacific competitors? Any thoughts on that?

Shyam S. Bhartia No, at least we don't see any margin pressure in these products because we have long-term contracts in these areas.

Manoj Garg I was just going through with some of the international reports and the one trend which I was looking at, that there is lot of consolidation which has happening to the large service providers particularly at the CRO level. Are you also witnessing some kind of similar trends in the CMO side of business or it is still away from the consolidations of the contracts going to the large players?

Shyam S. Bhartia Yes, like we are one of the large players in US, we definitely have an advantage. When we discuss with Pharma companies, we highlight that and we have two operations in CMO, one in US and one in Canada. Two site operations, plus large-size operations have definitely better negotiating power with large Pharma companies.

Manoj Garg And incremental contract which we're looking at the CMO's side, is it more on injectable space or even like you were saying oral solid tablets are also there?

Shyam S. Bhartia CMO is in the injectable space plus also in our ointment liquid creams. We are into two businesses sterile, non-sterile. Non-sterile is ointments liquids and creams. In both the businesses, we are expecting a good pipeline opportunity.

Manoj Garg In terms of your debt-equity which currently stands at around 1.48, how do you see the same debt equity in FY13?

R. Sankaraiah Our corporate objective is to bring it down to the level of one, less than one and given the growth momentum and also the comfort what we have as of today with the pipeline of orders, I think we should be in a position to achieve that.

Manoj Garg So by FY13 we should be having in the range of around 1X?

R. Sankaraiah That is right.

Manoj Garg Any update on Sestamibi?

Shyam S. Bhartia Sestamibi, we have good sales from our Canadian facilities.

R. Sankaraiah That is one of the reason the radiopharmaceutical business has shown a very good growth..

Manoj Garg So, whatever the issues in terms of isotopes and all, they are over now?

Shyam S. Bhartia Yeah. Today at least there is no problem, we don't know because these are large nuclear reactors.

Moderator Thank you. Our next question is from the line of Prakash Agarwal of RBS, please go ahead.

Prakash Agarwal Just wanted to check on basically the CapEx side, you indicated it was around Rs. 500 crore and one quarter is already done. Just looking at the current debt position and the cash flow, the prior question was where do we see the debt equity? I am more towards, where do we see the absolute debt actually coming down? if you continue the similar CapEx which is good for a future growth but which also hits us on the interest cost side. So when do we see the absolute debt going down given the current potential of the CapEx?

Shyam S. Bhartia CapEx is basically funded out of the internal accruals. As far as your question on the total debt is concerned.

R. Sankaraiah You will see the reductions from the next year.

Prakash Agarwal Okay and the confidence that we get is?

R. Sankaraiah About performance?

Prakash Agarwal I mean because your revenue and EBITDA margins continue to grow and you are saying the CapEx would actually come down for next year.

Shyam S. Bhartia CapEx will come down next year. Next year we will have around Rs. 300 crore.

Prakash Agarwal So basically you would have an incremental cash flow going forward in FY13 to reduce the debt , that was the question. And the second question was on the commissioning, when you commission a plant, my sense is there is a front-end cost first and the revenues follow. So are we through with the front-end cost or do we see the cost coming up for this quarter and the next quarter and then the revenue flowing through or do we see both going at same time?

R. Sankaraiah No that is one of the major advantages in our business. Our payback for any CapEx is less than three years. So there is nothing called like a front-end in cost.

Shyam S. Bhartia I have not understood the question front-end cost is basically, is it a capital cost which is involved?

Prakash Agarwal Startup costs?

Shyam S. Bhartia No, startup costs are all normal costs, there is no abnormal cost. All startup costs are taken into account, when we say about the margins, etc.

Prakash Agarwal What I'm trying to ask is when you start up, I mean, when you commission the project, your revenues start with the lag of one quarter or two quarters?

Shyam S. Bhartia Suppose if the plant is commissioned on 1st of August, revenues will start happening from September.

R. Sankaraiah When we say the commissioning means the revenue starts on that day.

Prakash Agarwal No, I understand that but the quantum of revenue because it is the starting up obviously.

Shyam S. Bhartia We do not achieve full capacity from the day one.

Prakash Agarwal That is what I am asking, so the incremental cost-base would be higher than the revenue contribution that is what I am trying to understand, is it a fair assumption?

R. Sankaraiah No, it does not work like that.

Prakash Agarwal So how should we read this?

Shyam S. Bhartia As I told you that it takes about one year to achieve 100% capacity utilization. But it does not mean that at lower capacity utilization, suppose first 12 months we achieved, arguments sake, support for instance we achieved 60%, 65%, or 70% capacity utilization, but in 70% also we have a contribution in the profitability. When a payback period, when Sankaraiah is saying 3 years that means in the first year also we have a positive margin in that business.

Prakash Agarwal So we are unlikely to see any margin pressure because of the commissioning of the plant that is what I trying to understand.

Shyam S. Bhartia No, when we are giving you a picture of increased margins in the coming quarters, we are taking that into account.

Prakash Agarwal And I just want to understand this Niacinamide, the total potential is what, Rs. 750 crore, did I hear that right?

Shyam S. Bhartia $75 million.

Moderator Thank you. Our next question is from the line of Rajesh Pherwani of HDFC Mutual Fund, please go ahead.

Rajesh Pherwani Just wanted to check your other operating income has gone up this year. Could you give a breakup of that please?

R. Sankaraiah Other operating income, it is just Rs. 4 crore. There is nothing which has gone up actually.

Rajesh Pherwani Basically what is that income is that a milestone?

Shyam S. Bhartia No, milestone is part of the business income. The other operating income is basically some utilities.

R. Sankaraiah When we did the demerger, we sold some of the power and steam to the Jubilant Industries. So it is on an arms length transfer price basis and we booked it as the other operating income.

Rajesh Pherwani Europe and Japan sales have gone up this year, what could be the reason for the same?

Shyam S. Bhartia Increase sales in our dosage form, Life Science chemicals.

Rajesh Pherwani Mainly API sales?

R. Sankaraiah By far mainly API sales.

Shyam S. Bhartia Our Life Science ingredients and dosage form sales, you will see have increased. It is a combination of all the products.

Rajesh Pherwani And how are the alcohol prices in the current year compared to the last year?

Shyam S. Bhartia Current year prices are on the higher side than last year.

Rajesh Pherwani What would be the increase over last year, roughly?

Shyam S. Bhartia We do not have exactly the figures, but they are some on the marginally higher side.

R. Sankaraiah We do not want to get into the details please.

Shyam S. Bhartia On the higher side but we have all factored into it, we have alcohol till the fourth quarter, and we have enough stock because this is off-season now, so we have to keep in stock. That is why it is part of the working capital we have used.

Rajesh Pherwani Of late have we seen any reduction in the cost of alcohol?

R. Sankaraiah Internationally alcohol prices have gone up but we are protected because we have a good storage capacity.

Shyam S. Bhartia We cannot comment on the alcohol prices going up, going down. The price has been quite steady. We have enough stock till the fourth-quarter because off-season we have to keep stock.

Rajesh Pherwani And what would be the current year's tax rate, roughly?

R. Sankaraiah About 15 to 16%.

Rajesh Pherwani On a consolidated basis?

R. Sankaraiah On a consolidated basis.

Moderator Thank you. Our next question is from the line of Sangam Iyer of Alfaccurate Advisors, please go ahead.

Sangam Iyer During the call earlier you had mentioned that in DDDS, one of the loss making segments you try to reduce the sales to a large extent and hence improve the profitability of the services segment. Can you give us some idea or quantify the losses that were there in the previous quarter?

Shyam S. Bhartia You cannot quantify individually or segment wise but overall I can tell you the DDDS margins have improved substantially because of the product mix as I have said. Suppose in some of the orders, we are not receiving margins, so we stop those customers, we try not to take any further orders. So that is a part of a strategy for margin improvement. Strategy has been mainly on the margin improvement which has really given us encouraging results. Our people are booking more profitable orders rather than just booking orders.

Sangam Iyer I was just looking at Q4 over Q1 and when we look at the sales growth, sales increased almost by Rs. 14 crore, while EBITDA as well increased by a similar amount of Rs. 15 crore. I just wanted to try and get a sense on the losses where there are high amounts that the reductions of sales were able to actually improve the margins significantly?

Shyam S. Bhartia No, we have to then give you the customer wise information, customer wise profitability. Our product mix, as we have said very clearly has changed and that is what we said it in the fourth quarter results . Our focus has been mainly on the margin improvement in the products we sell & of course, the cost optimization. To some extent we have matched our cost with regards to our service that we provide.

Sangam Iyer In the generics business, if you look at our two segments radiopharma and allergenics, for the last almost 8 quarters or so the revenues are almost stagnant over there, but earlier you had said that radiopharma you are seeing some tractions coming up. So how should one be looking at this segment going forward, because primarily the growth has been contributed from the dosage formulations segment?

Shyam S. Bhartia No, the growth has come from radiopharmaceuticals, allergenic and dosage form, but dosage form the growth has been higher, whereas the growth in the key radiopharmaceuticals, allergenic business is lower than the dosage form. So the total overall growth of 33% which we are showing is all around growth.

Sangam Iyer Could you just give some quantifying outlook in terms of how do you see this product and the service segment and you think the Life Science ingredients and the Generics will deliver going forward in terms of some ballpark outlook in terms of growth?

Shyam S. Bhartia As we said very clearly we expect some sales growth and increase in our EBITDA growth and we might expect a margin growth also but I cannot give you the figures on which we are not giving you any guidance.

Sangam Iyer Since we have a strong pipeline for both the services segment especially CMO and DDDS and also for our products business as well, some kind of an outlook would be very helpful?

R. Sankaraiah No, we are not giving any outlook as of today. We have given enough leads to identify what kind of growth, we will show about the EBITDA growth everything. So now you can conclude what exactly you want to derive.

Moderator Thank you Mr. Iyer. Ladies and gentlemen that was the last question. I now hand over the floor back to the management for the closing comments.

Shyam S. Bhartia I think we had given our presentation. Both Mr .Sankaraiah and I will be available if there are any other questions and would be happy to respond individually. Thank you so much.

R. Sankaraiah Thank you.

Moderator Thank you very much members of the management team. Ladies and Gentleman on behalf of Jubilant Life Science Limited that conclude this conference call. Thank you for joining us and you may now disconnect your lines.