Jubilant Life Sciences Limited's
Q1 FY 2015 Earnings Conference Call
August 5, 2014

Ravi Agrawal: Thank you, and good evening to all of you. I am Ravi Agrawal, Head of Investor Relations at Jubilant Life Sciences. I thank you for being with us today on our Q1 FY 2015 Earnings Conference Call. On the call, we have Mr. Shyam S. Bhartia – our Chairman and Managing Director; Mr. Hari S. Bhartia – Co-Chairman and Managing Director; and Mr. R. Sankaraiah – our Executive Director, Finance. We will begin with opening comments from Mr. Shyam Bhartia on the performance and outlook, thereafter Mr. Sankaraiah will share some key thoughts on the financial aspects of our performance. There will be an opportunity at the end of the opening remarks to get your queries addressed by the management.

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

I now invite Mr. Bhartia to share his remarks with you.

Shyam S. Bhartia: Thank you, Ravi. Good evening to all of you. I am happy to update that we have completed the consolidation of all our Pharmaceutical business under Jubilant Pharma, Singapore w.e.f. 1st July 2014.

During Q1 FY 2015 Income from Operations stood at Rs. 1,473 crore, up 8% year-on-year. Reported EBITDA stood at Rs. 150 crore, resulting in a margin of 10.2%. Revenue from the international markets grew 5% at Rs. 1,051 crore, contributing 71% to overall revenues. Regulated markets contributed 56% to the overall revenues with share of North American market at 33% and those from Europe and Japan at 22%.

Before I get into the details of the business segments, I would like to make some specific comments on the overall performance during the quarter. Our performance in this quarter was significantly impacted by one-off events pertaining to our CMO business. This relates to the extended plant shutdown which we took in our Spokane CMO facility to address specific quality-related issues as raised by the USFDA and some one-time gains accounted in Q1 FY 2014. All this led to our CMO operations being lower by about Rs. 100 crore as compared to Q1 FY 2014. In fact, our Pharmaceuticals sales have grown 8% year-on-year excluding CMO sales. We will normalize our production in Spokane in Q2 FY 2015, and we are confident of recovering some of the business affected in the quarters going forward.

Getting into the details, first, the business segment, in Q1 FY 2015, the Pharmaceuticals segment revenues stood at Rs. 604 crore contributing 41% to overall revenues. Let me share perspectives on the individual businesses. Our Active Pharmaceutical Ingredients business witnessed good volume growth during the quarter, although pricing remained under pressure. As on date we have 31 commercial APIs including 19 in North America, 24 in Europe, and 26 in rest of the world. Our focus on regulated markets together with continued cost optimization initiatives and higher operating efficiencies will augment our margins going forward. During the quarter we made 39 filings globally and launched Paroxetine in Japan.

The Solid Dosage Formulations business grew on the back of robust volume growth. Our facility in Roorkee is now in a ramp up mode and will aid our results going forward. Solid Dosage Formulations business now has 47 commercial products, including 21 in North America, 27 in Europe and 27 in rest of the world. We made 19 filings during the quarter including 7 in US and 3 in Europe.

In the CMO of Sterile Injectables business, I am happy to share that the Montreal facility is back to normal production post warning letter lifted by the USFDA. Spokane facility was inspected by the USFDA in April FY 2015, and we have responded to all the queries of the regulator. The facility has now partially resumed production after an extended shutdown of about 10 weeks and we believe that we will get back to normal operations and profitability in the coming quarters.

The Radiopharmaceuticals business continued strong performance following revenue increase recorded in key products. There is an exciting pipeline of launches that we are working on. We hope to launch Ruby-fill in the latter part of FY 2015 subject to necessary regulatory approvals.

During the quarter we took a strategic decision to make a foray into the attractive Indian Pharmaceutical market through our newly set up Indian Branded Pharmaceuticals business with the launch of Cardiovascular and Diabetic division. We hope to translate our reputation as an international company of quality generic products into growing domestic market.

Our Life Science Ingredients segment stood at Rs. 869 crore in Q1 FY 2015, growing 23% year-on-year and contributing 59% to the overall revenues. Our Advanced Intermediates and Specialty Ingredients business performance was marked by higher volumes and firm pricing in our key products. Pyridine continued to register growth in volumes. Pricing environment for Symtet remained firm and we are seeing robust demand for our products.

Nutritional Products business has gained on the back of price increases we had announced previously. During the quarter, we announced further 9% price increase in Niacinamide.

Lastly, Life Science Chemicals business is witnessing a strong pricing and volume trend. We are looking at growing our presence in Europe.

We have laid the foundation for a strong performance in the remaining quarters of the year, led by our Pharmaceuticals segment. This growth in Pharmaceuticals segment will be driven by new products, new markets, expanding volumes in the CMO business and revenue increases in certain key Radiopharmaceuticals products. Life Science Ingredients should continue its robust performance on account of higher capacity utilization, better pricing of key products and expansion into new markets. We are looking at strengthening the balance sheet further and continue to exercise prudence in our capital expenditure.

I would now like to invite Mr. Sankaraiah to join us with his thoughts on quarterly progress made by the Company. Thank you.

R. Sankaraiah: Thank you Mr. Bhartia, and I thank everyone for joining the call today. Firstly, as Mr. Bhartia mentioned, we have completed the consolidation of all our Pharmaceutical business under Jubilant Pharma, Singapore w.e.f. 1st July, 2014. As indicated earlier, this has been financed by US$ 147.5 million funding from IFC which includes US$ 87.5 million long term loan and US$ 60 million zero coupon convertible loan, and a further loan of US$ 52.5 million to be syndicated by IFC.

Let me now walk you through the financial highlights for Q1 FY 2015. In Q1 FY 2015, Income from Operations grew 8% year-on-year to Rs. 1,473 crore backed by 5% price increase. The EBITDA for the quarter stood at Rs. 150 crore with margins at 10.2%.

During the quarter, the Income from Operations for Pharmaceuticals segment was Rs. 604 crore and contributing 41% of the revenue mix. We saw positive momentum in Solid Dosage Formulations and Radiopharmaceuticals. EBITDA from the segment stood at Rs. 36 crore with a margin of 5.9% impacted mainly due to reported loss of CMO business on account of warning letter and a delayed offtake of certain key products by some of the customers in Solid Formulations business. As mentioned by our Chairman, our CMO business was impacted during the quarter from the extended plant shutdown in Spokane to address the warning letter issue which impacted the operations by about Rs. 100 crore.

Let us now move to the Life Science Ingredients segment. In Q1 FY 2015, Income from Operations for the segment stood 23% higher year-on-year at Rs. 869 crore and contributed 59% to the revenue mix. This was on account of volume buoyancy and better price realization across all businesses. During the quarter, the Company announced a price increase of 9% in Niacinamide, the EBITDA of the segment stood at Rs. 133 crore translating to EBITDA margins of 15.3%.

Let me now discuss some key Balance Sheet figures. As of June 30, 2014 our Net Debt stood at Rs. 3,957 crore. This comprises of Rs. 2,235 crore of Net Long Term Debt and Rs. 1,722 crore debt related to Working Capital requirements. Taking into account the foreign currency fluctuation, the Net Debt stood at Rs. 3,917 crore as compared to Rs. 3,889 crore on March 31, 2014. We are committed to repaying all our debts on scheduled time and maintain a strong focus on the debt reduction. Our blended interest rates for the quarter at 7% with Rupee borrowing at 12% and foreign currency borrowing at approximately 5%. During the quarter, we spent about Rs. 45 crore on CAPEX and incurred Rs. 25 crore on Product Development expenditure. We continue to prudently rationalize this expenditure. We will maintain a strict control on Capital Expenditure going forward to generate cash to reduce the overall borrowing level.

Q1 FY 2015 was impacted by some one-time events in the CMO business, which are getting normalized in Q2 FY 2015, and we thus expect Pharmaceuticals segment to drive the strong results in the coming quarters. The outlook of Pharmaceuticals segment is expected to improve as we move ahead, led by revenue increase in certain key Radiopharmaceuticals products and Solid Dosage Formulations, resumption of normalized operations in our CMO business, and expected new launches in Solid Dosage Formulations business. The Life Science Ingredients segment will witness a growth on account of higher capacity utilization, better pricing, and entry into new geographies.

With these comments I would request the moderator to open the lines for Q&A, please.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from Praful Bohra of Nirmal Bang. Please go ahead.

Praful Bohra: My question was pertaining to the gross margins, QoQ fall in the gross margins is quite sharp, I would understand the CMO business would have contributed to this, but my sense is most of that would come in the other expenses and not in the gross margins. So, can you explain a bit on that.

R. Sankaraiah: It will come in the gross margins also. Because of the CMO business the EBITDA has come down, impacted about Rs. 100 crore. It is coming from the top line.

Praful Bohra: So the gross margin dip is largely because of CMO?

R. Sankaraiah: Largely because of CMO.

Praful Bohra: If you can also talk a bit about the foray in the Indian market, given the fact that most of the other companies are already established, do you think we are already late in the game or you still think there is ample scope and what is the strategy going forward?

Shyam S. Bhartia: There is ample scope, especially in the Cardiovascular and Diabetic section, the growth of the market has been substantially better than the other segments. So, we have started with Cardiovascular and Diabetic section. I think we expect growth to be good and get a market share in the Indian market. We are already present in the international market. We expect to take the benefit of the growth in the Indian market also.

Praful Bohra: Have you already earmarked the products that are going to be initially launched or would it largely own basket or would it be in-license from others?

Shyam S. Bhartia: It is a combination of both.

Moderator: Thank you. Our next question is from Parth Shah of ICICI Bank. Please go ahead.

Parth Shah: My question is pertaining to industry. Basically, what is your outlook on the Contract Research and Manufacturing industry in India and what is your business strategy in particular for Jubilant Life Sciences for that business segment?

Shyam S. Bhartia: We do Contract Manufacturing of Sterile Injectables i.e. for the international market, mainly for the branded large pharma companies. So outlook remains strong, but we need to put the operations back due to our USFDA warning letter at Spokane facility.

Parth Shah: How are the margins in this business segment, sir?

Shyam S. Bhartia: Margins historically have been strong, more than 20%.

Parth Shah: But sir, just wanted to understand, I understand that manufacturing outlook remains strong, but research aspect in Indian scenario, how is the outlook for Contract Research or are we focusing only on Manufacturing?

Shyam S. Bhartia: We focus in Contract Research also. Contract Research outlook is not very good, but it has been steady.

Parth Shah: Few of the reasons for not so good outlook?

Shyam S. Bhartia: Internationally, the large pharma companies have slowed down their new product development. They are going in for more acquisitions of large biotech companies who already have existing products in the marketplace, because of their existing products getting out of patent, they are in a hurry. So the basic research has slowed down a little bit and that is what we experience in the marketplace.

Moderator: Thank you, our next question is from Jagdish Bhanushali of Athena Investments. Please go ahead.

Jagdish Bhanushali: Wanted to know in the Pharmaceuticals segment, what segments have contributed to Rs. 604 crore of revenue in Solid Dosage, APIs, Radiopharmaceuticals, and CMOs, if I could get the breakup?

R. Sankaraiah: We are not giving the Quarter wise business wise breakup at all.

Jagdish Bhanushali: I wanted to know how much price hike we did on the Radiopharmaceuticals products and does everything reflect in the current quarter?

Shyam S. Bhartia: Our sales have been higher than the last year, and quarter-on-quarter we see improvement in the sales and expansion in our Radiopharmaceuticals business.

Jagdish Bhanushali: But we have made certain price hikes as well, right, in the product?

Shyam S. Bhartia: Some price hikes also we did.

Jagdish Bhanushali: So how much would be that?

Shyam S. Bhartia: No, we cannot tell you product wise price hikes what we did.

Jagdish Bhanushali: For the whole segment as a whole?

Shyam S. Bhartia: We expect a much better growth in Radiopharmaceuticals business as compared to last year.

Jagdish Bhanushali: Does all the price hike reflect in the current quarter or is yet to come in the coming quarters as well?

Shyam S. Bhartia: No, yet to come in the coming quarters.

Jagdish Bhanushali: In the CMO side, as you said the impact was about Rs. 100 crore, even if I add those Rs. 100 crore to the margins, it does not add up to the margins what we did in the previous quarters in spite of having price hikes and good performance coming from the Radiopharmaceuticals?

Shyam S. Bhartia: Radiopharmaceuticals price hike was not reflected in this quarter, it will be reflected in the quarters to come. We already have good order booking for the balance of three quarters in the Radiopharmaceuticals business, so I think it will be reflected in the next three quarters.

Jagdish Bhanushali: Another question is Radiopharmaceuticals and that is Ruby-fill, I think the approvals are getting delayed. So is it due to some filing issue from our side or how is it?

Shyam S. Bhartia: No, it is not the filing issue, there is overall delay in the USFDA for approvals, and this is a 505(b) (2) approval, so we expect the approval by the end of the year.

Jagdish Bhanushali: Because it has been almost a delay of a year it seems now, or more than a year now?

Shyam S. Bhartia: In general, there has been delay in the approvals of the new products by the USFDA overall across the industry.

Jagdish Bhanushali: So is it fair to assume that there is no filing issue from our side?

Shyam S. Bhartia: No filing issue. The plant has already been inspected by the authorities and the plant remains approved.

Jagdish Bhanushali: On the LSI front, when we observe volume growth in Pyridine, 9% increase in the Niacinamide prices and higher capacity utilization, Symtet pricing stays firm. So again why the margins are not gaining QoQ and YoY?

R. Sankaraiah: We have already mentioned that there is input material price increase, basically the alcohol price is higher.

Moderator: Thank you, our next question is from Chirag Dagli, of HDFC Mutual Funds. Please go ahead.

Chirag Dagli: What would be the quantum of loss of sales for the CMO business for the quarter – has it gone down to zero?

Shyam S. Bhartia: No, it has not gone down to zero, but the total impact is about Rs. 100 crore. Whatever is the top line loss is a loss of the business, because it is a service business.

Chirag Dagli: So sales are lower by Rs. 100 crore?

R. Sankaraiah: About Rs.90 crore, because another about US$ 2 million we had to spend on account of expenses to correct the facilities requirements.

Chirag Dagli: The presentation talks about some Rs. 10 crore of one-time expenditure on consultation fees, etc.?

R. Sankaraiah: That is the US$ 2 million I talked about.

Chirag Dagli: So this has been reflected in the Pharma business, right?

R. Sankaraiah: Correct

Chirag Dagli: Are all the price hikes that we have taken for the LSI business reflected in the quarter EBITDA?

Shyam S. Bhartia: No, we said that recently we took a price hike of 9% in Niacinamide business.

Chirag Dagli: So that has not been reflected?

R. Sankaraiah: That has not been reflected, yes.

Moderator: Thank you, our next question is from Saion Mukherjee of Nomura. Please go ahead.

Saion Mukherjee: You have mentioned about the price increases and also raw material prices going up. So what is the net impact? If I compare with previous year, net-net do you think that the margins should go up? I am just keeping the CMO issue aside for the time being. So are the price increases able to compensate for all the raw material price increases or is there still a gap?

R. Sankaraiah: In LSI business, the margins will be flat compared to last year. Rather, margins as a percentage may be slightly lower also, because the raw material price increase is there.

Shyam S. Bhartia: But there will be an increase in EBITDA because of the sales increase.

Saion Mukherjee: So basically you are saying that the price increases just compensates for the rise in raw material prices, as far as LSI business is concerned.

Shyam S. Bhartia: That is right.

Saion Mukherjee: Is the impact in this quarter entirely due to CMO business? Is there any change in pricing of the generic business or you mentioned APIs also has come down?

Shyam S. Bhartia: The volume growth is good in API, and there has been a marginal pricing decline in APIs. It is not very much, but the major effect, if you see, the difference between last year and this year of about Rs. 100 crore is due to CMO business.

Saion Mukherjee: So you have been doing somewhere closer to Rs. 250 odd crore of EBITDA, it has come to Rs. 150 crore, you are saying this is entirely due to the CMO?

Shyam S. Bhartia: Yes. CMO business.

Saion Mukherjee: As it comes back, we should get back to Rs. 250 crore you think in the subsequent quarters?

Shyam S. Bhartia: It is difficult to tell the exact amount.

R. Sankaraiah: The problem is that there was an extended shutdown last quarter in the CMO business which has been mentioned in the call both by Mr. Bhartia and myself. And also we have mentioned in the speech that this is getting corrected, rather getting normalized in Q2 this year, so this quarter also you may not get the full impact of the CMO business upside. So what we see is that from Q3 onwards we are very hopeful that the CMO business will get corrected, and the other businesses are anyways going on as usual in the normal way. We should be in a position to get overall results better than the last year on a full year basis.

Saion Mukherjee: You are saying that at the EBITDA level you would deliver growth compared to last year.

R. Sankaraiah: As of today, the management feels yes, it should happen. Even though there is a huge impact which we are facing in the Q1, overall we should be on line.

Saion Mukherjee: Sir, you mentioned about the CAPEX and R&D capitalization. Can you just give me that number?

R. Sankaraiah: We have spent Rs. 45 crore on CAPEX and Rs. 25 crore on R&D.

Saion Mukherjee: Full year CAPEX number what you are expecting?

R. Sankaraiah: As we mentioned in the call, about Rs. 300 crore of CAPEX and about Rs. 100 crore of R&D for the full year.

Saion Mukherjee: Sir, one last question on the Formulations business in India. So what is the game plan here? I know that these are early days, but how the P&L of this business generally looks like – would it be loss making, and if yes and how, what is the extent of loss?

Shyam S. Bhartia: We cannot expect profit in operations from the very first year, but we expect that in 2 years' time, it should break even.

Saion Mukherjee: What is the key offering that we have? Because this is a very competitive market, I know it is growing, but we are a smaller player. So what do we bring to the table?

Shyam S. Bhartia: We bring to the table our international experience in various products and we have launched some of these products in the international market. We are very confident that we have chosen the segments that are growing. Highest growth is in the in the Cardiovascular and Diabetic segments, and these are also long therapy products. So therefore we expect a strong growth, and expect to capture part of the growth in the market.

Saion Mukherjee: What could be the extent of loss in this business on an annualized basis, just to get a sense of how big that impact is?

R. Sankaraiah: Saion, we cannot quantify those numbers, because we are just entering in the market, let us see how it goes, then if there is anything substantial which is happening we will communicate at that point of time.

Saion Mukherjee: You started with 200 people now. So is there any plan to expand it in the near-term, that is next one-year, two-year timeframe?

Shyam S. Bhartia: We do not propose to expand anything.

R. Sankaraiah: That is why we are not entering into all therapeutic segments, it is just a selective, and very few numbers we are getting into.

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

Surajit Pal: Just continuing with Saion's questions on that EBITA level, I believe the CMO, you said it was roughly around Rs. 100 crore impact in sales, so considering your normal company EBITDA margin between 16 to 18%, which you have been doing in the last 6 months to 12 months, now my question is that even if I consider that, in that case your adjusted thing is roughly around 12%, I mean still you are short of 400 to 500 bps in EBITDA level. So if I take Rs. 10 crore again, then it will come another say 1%. So where is the gap? There is a huge gap vis-à-vis your average margin vis-à-vis today's Q1 margin.

Shyam S. Bhartia: No, in the remaining quarters, we expect CMO business to improve substantially and our other businesses, mainly the Radiopharmaceuticals business and Generics business, are likely to show substantial improvement.

Surajit Pal: I am considering that your new products bring or enhance your top line and margin, which is a different case, I am getting away from it. What I am saying is that in your existing product or your existing line, where is the gap actually?

R. Sankaraiah: No, there is no gap, I do not know what your calculation is. Our revenues are Rs. 1,473 crore, if you add Rs. 100 crore, it is Rs. 1,573 crore. Rs. 250 crore which could have been our EBITDA divided by Rs. 1,573 crore is 16%?

Surajit Pal: You said Rs. 100 crore in your top line impact, not your margin impact.

R. Sankaraiah: The top line impact is Rs. 90 crore and the margin impact is Rs. 100 crore.

Shyam S. Bhartia: In the service business the cost remains the same as or maybe a little lower than the total revenue loss of the service.

R. Sankaraiah: We are a contract manufacturing company, where there is no gross margin. Top line reduction will straight away go to EBITDA reduction,

Surajit Pal: That means you want to say any point of time your CMO business increase will increase your margin?

R. Sankaraiah: Correct. If it is US$ 10 million increase in sales, that US$ 10 million will straightaway go to the EBITDA.

Surajit Pal: Second point is I think Ruby-fill you said 505(b) (2) filing?

Shyam S. Bhartia: Yes.

Surajit Pal: So that means which is not reflected in your normal product sales in US.

Shyam S. Bhartia: Ruby-fill is not a product.

R. Sankaraiah: It is basically an infuser, which is a device which is used for doing the scanning of the heart imaging.

Surajit Pal: Imaging enhancer.

Shyam S. Bhartia: It is one product which exists in the US market. Which is being marketed by an Italian company. So 505(b) (2) means our product is better than that product.

Surajit Pal: My question is how will you market it?

R. Sankaraiah: We do not discuss about how we market each product.

Shyam S. Bhartia: There is an excellent market for that product. The current manufacturer is not able to meet the market. Our product being better, we expect to get a good market share of that product. We have already done our market survey.

Surajit Pal: I am just trying to figure it out, what will your strategy be? Will you sell it as a branded product? Will you keep it as with sales reps or will you take as partners?

Shyam S. Bhartia: We hope to market the product to the hospitals in the US and Canadian market. So that is our initial first point strategy. These products will be launched through our sales reps, who are already there in our Radiopharmaceuticals business.

Surajit Pal: In Domestic market you said you have launched your products in Cardiovascular and Diabetic, which is currently under NPPA addition of 108 products. What percentage of your total product launch you are planning or you have launched?

Shyam S. Bhartia: The product launch which we have mentioned here does not include the local market launch.

Surajit Pal: Exactly, so how many of them are currently into that additional 108 products plus the normal NPPA products.

Shyam S. Bhartia: In the local market, we are going to launch about 34 SKUs.

Surajit Pal: I said how many of them are currently under regulated list?

Shyam S. Bhartia: Some of the products are under the price control list, which we have got an approval already.

Moderator: Thank you, our next question is from Lakshminarayanan of Catamaran. Please go ahead.

Lakshminarayanan: I have two questions. One is if I split the business between Contract Research and Contract Manufacturing, now if I just look at your Page #6 of the PDF I have in the website, where does Contract Research actually fit in this whole basket of things, whether it is in the Pharmaceuticals business or it is in the Ingredients business?

Shyam S. Bhartia: Pharmaceuticals business.

Lakshminarayanan: So in the Pharmaceuticals business you have Contract Research?

Shyam S. Bhartia: Contract Manufacturing and Research also.

Lakshminarayanan: The others in the Intermediate and Specialty Ingredients which is present under Life Science Ingredients, that is nothing to do with Contract Manufacturing or Contract Research, right?

Shyam S. Bhartia: No.

Lakshminarayanan: The other question is, you mentioned in the call that there is a reduced pipeline of R&D activity that is taking place, right?

R. Sankaraiah: No. What Mr. Bhartia mentioned is, answering about the industry scenario, why Contract Research in India is not picking up much. He has explained that generally the Contract Research from the big pharmaceutical companies is coming down. Because of that, the outsourcing is going down in India.

Lakshminarayanan: So this entire thing when we talk about Contract Manufacturing, that is essentially the CMO of Sterile Injectables, that is the only thing which we have got?

Shyam S. Bhartia: That is right.

Lakshminarayanan: Just one thing on this Contract Research, because I see that from a R&D spend point of view, it is almost in the order of US$ 135 billion, and even if I take say around 5% or 8% is actually spent on materials, that is still a meaningful number if you actually look at it from an overall thing point of view. Just curious to know why that is not actually translating into something which is beneficial to firms like us because the benefit which we have is immense.

Shyam S. Bhartia: What we do in our Contract Research, is Drug Discovery. We do early research. Large pharma companies are doing less early research than they used to do earlier, but they are engaged in acquiring companies who have advanced products which can be marketed faster. The sales from the existing products are coming down faster because of patent expiry. Any new product which they start, they have not stopped it, just reduced it. It takes about seven to eight years before the product can be marketed whereas if they take early research which are already in phase-II or phase-III, they can reach the market faster.

Lakshminarayanan: This CMO which we do right now for Sterile Injectables, what are the other areas we can actually enhance it in terms of CMO – is there something which we are looking at?

Shyam S. Bhartia: In CMO we are doing both Sterile, Liquid and lyophilize product. So lyophilization has a better margin, so we hope to increase our lyophilization business to improve the margins, plus we are doing some other products like ophthalmic, which should add further to the margins of the CMO business.

Moderator: Thank you. Our next question is from Krishna Kiran of ICICI Direct. Please go ahead.

Krishna Kiran: In the opening remarks, you were saying about the delay in some product launches in our Generic business. Can you just explain about that?

Shyam S. Bhartia: We just mentioned that there have been some delays in the pending approvals of the USFDA across the industry. Therefore there were some delayed launches of our new products which was expected to be launched. So we hope to get approvals in next coming quarters. So as and when we get it in the coming quarters we hope to launch these products. There have been some delays as we had expected earlier in the approval of the products.

Krishna Kiran: The majority of the delays is from US market or any other markets?

Shyam S. Bhartia: US Market.

Krishna Kiran: Is it possible to share the timeline when we have filed – Maybe 24 months before or 30 months before or something like that

Shyam S. Bhartia: I cannot give you exactly the timelines, but review has been completed. I think the approval is taking a little more time under new GDUFA guidelines. So we expect this to be expedited in the next one or two quarters, and we are ready to launch those products in the US market as soon as we get approvals.

Krishna Kiran: Coming back to the same EBITDA impact of CMO business. I understand that CMO has had a huge impact, but removing the CMO business of this year and previous year corresponding quarter, the EBITDA margins has sharply declined? if I remove EBITDA top line of CMO from this quarter and the same corresponding Q4 and Q1 of last year, how the trend was?

Shyam S. Bhartia: The sales has gone up by 8% if you remove the CMO business.

Krishna Kiran: But how about EBITDA margins? I am asking because last year similar quarter we have clocked around 23% margin in total Pharma. So if I remove those things, but still I just want to understand, because from Q1 last year to Q4 last year overall margins in the Pharma segment it has come down, so just want to understand if I remove CMO business from this quarter, have we seen a dip in the margins which is similar to last 4 quarters or we have improved from Q4 to Q1, that is what I am just trying to understand?

R. Sankaraiah: It will be almost in the same range because there may be slightly better margins in Radiopharmaceuticals and slightly lower margins in Generics business, offsetting each other, if you normalize for the CMO business.

Krishna Kiran: One clarification that this plant shutdown, now you said that it is partially operated. So when will full operations will start maybe in the end of this quarter or maybe second half of Q4?

Shyam S. Bhartia: No, we expect to normalize the operations in Q2.

R. Sankaraiah: By end of august we should be there.

Shyam S. Bhartia: The plants have already started, but the total normalization is not there yet.

Krishna Kiran: Sir, lastly maybe in the Cardiac and Diabetic segment of the Indian market recently around 108 Formulations were added. By any chance from NPPA have we got any order or notification that our pricings were slightly higher than whatever the criteria they said higher than for any product?

Shyam S. Bhartia: NPPA has already approved our pricing since we are launching new products. Certain products have got to go through NPPA approval. We were not marketing those products earlier, so the higher or lower does not arise.

Krishna Kiran: I understand that sir. Why I am asking this is, maybe in the April or May month you have launched, and later whether we got a notification, that way I am asking?

R. Sankaraiah: We are just entering into the market.

Shyam S. Bhartia: Certain products we launched were not in NPPA. What was in NPPA, we are launching now, after the approval of NPPA.

Moderator: Thank you, the next question is from Bhagwan Chowdhury of Sunidhi Securities. Please go ahead.

Bhagwan Chowdhury: Once again on the CMO business, is it fair to assume that we have not sold anything from the Spokane facility in this quarter?

R. Sankaraiah: We sold products, of course. Plant shutdown means that the stock which was lying in March that has been sold in April and May also.

Bhagwan Chowdhury: So it means that facility was contributing more than Rs. 100 crore?

Shyam S. Bhartia: It is contributing Rs. 90 crore less than the last year's revenue.

Bhagwan Chowdhury: This was mainly related to this warning letter issue or something else?

Shyam S. Bhartia: Warning letter issues, because we voluntarily shut down the facility to requalify our plant, which we did on our own. It relates to the USFDA warning letter.

R. Sankaraiah: Last year warning letter was there in Montreal, after that we lost one of our major customers there in that facility also.

Bhagwan Chowdhury: When you go to restart the facility, and this may be due to some issues on warning letter, etc., and because of the same concerns, some of your customers may tie up with others, may find out some other sources?

R. Sankaraiah: Obviously, if there is a second source available for them they will continue to procure that product from the second source. But our comfort is that as of today our customer will continue to be with us because we have done flawless delivery for so many years, and our customers are very cooperative with us.

Bhagwan Chowdhury: So don't you think that there may be some permanent loss of business?

Shyam S. Bhartia: As of now we do not expect that. We will see that as we go.

R. Sankaraiah: After opening up the plant again, we have to see that. We have to test it really.

Bhagwan Chowdhury: But not expect it right now?

R. Sankaraiah: One good thing is that as of today we have a very good order book position, and no customer has cancelled any order because of this, because we have communicated about this shutdown properly and we are still working with them. The stock which was there, we started supplying in the first two months, so we are closely working with clients on this.

Bhagwan Chowdhury: Some fund raising part on the Pharmaceuticals side, where we are on that side, what are our plans?

R. Sankaraiah: No, unless all these issues are resolved and we have absolute clarity on going forward, how the operations are going to be, we will not even talk about it. Anyway, as far as the Pharma consolidation is concerned, with IFC funding, we were able to complete the Pharma consolidation, and we have put the management in place, the business has been transferred under Jubilant Pharma Singapore, both the API and Dosage Forms business of India and also the shareholding is completely held by a Singapore company of the entire pharmaceutical business, of global business, Singapore, which is a 100% subsidiary of Jubilant Life Sciences.

So that pharma consolidation has happened already, effective 1st July, 2014 onwards and the management has been segregated and the management is taking care of that business separately.

Moderator: Thank you. Ladies and Gentlemen, that was our last question. I now hand the floor back to Mr. Shyam Bhartia for closing comments.

Shyam S. Bhartia: We would like to thank you everybody for being on this conference call. In case you require any further clarifications, Sankaraiah is available, and will be happy to talk to you.

R. Sankaraiah: Thank you.