Jubilant Life Sciences Limited

Q1 FY17 Earnings Conference Call Transcript
August 10, 2016

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Jubilant Life Sciences Limited Q1 FY17 Earnings Conference Call. As a reminder, for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Ravi Agrawal – Head of Investor Relations. Thank you and over to you, Mr. Agrawal

Ravi Agrawal: Thank you and Good Evening to Everyone. I am Ravi Agrawal, Head of Investor Relations at Jubilant Life Sciences. I thank you for being with us today on our Q1 FY17 Earnings Conference Call. On the call today we have Mr. Shyam S. Bhartia – Chairman, Mr. Hari S. Bhartia – Co-Chairman & Managing Director and Mr. R. Sankaraiah – Executive Director, Finance.

We will begin with opening comments from Mr. Bhartia on the Business Performance and Outlook; thereafter Mr. Sankaraiah will share some key thoughts on the financial aspects of our performance. There will be an opportunity at the end of the opening remarks to get your queries addressed by the management including Mr. G.P. Singh – CEO of our Pharma Business and Mr. Pramod Yadav and Mr. Rajesh Srivastava – Co-CEOs of our LSI Businesses.

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 detail disclaimer in this regard has been included in the presentation that has been shared on our website.

I now invite Mr. Bhartia to share his remarks.

Shyam S. Bhartia: Thank you, Ravi. And a very good evening to all of you and thank you for taking the time out to join us on Jubilant Life Sciences' Q1 FY17 concall.

During the quarter, Jubilant Life Sciences reported strong profitability with record EBITDA of Rs 372 Crore, up 13% YoY, margins of 26.2% up from 22.7% last year and net profit of Rs 162 Crore, up 22% YoY. I am happy to report that the Company repaid Rs. 247 Crore of debt in Q1'17.

The strong results have been led by the performance in Pharmaceuticals segment which contributed about 70% of the company's operating profit. We are glad to state that our company has built a robust long term sustainable business model with the growth engine of Pharmaceuticals and Drug Discovery Solutions segments. By creating focused management teams for all the three segments of businesses, we are able to clearly define strategic initiatives with the right mix of capital allocation. We believe that the company will continue to deliver better performance going forward given the robust product pipeline in place.

The detailed financial commentary and perspectives will be shared by Mr. Sankaraiah, who will follow me during this presentation.

I will now walk you through our segmental performance:

Our Pharmaceuticals segment revenues grew 7% YoY led by growth in our Specialty Pharmaceuticals (Sterile Products) segment. The EBITDA in our Pharmaceuticals segment grew a healthy 13% YoY with margins of 34.0%. Our Pharmaceutical segment now contributes 53% to total revenues and about 70% of the company's EBITDA. Moreover, around 94% of our revenues in this segment comes from International markets making it a true global operation. Our Q1 FY17 geographical mix within the Pharmaceuticals segment is as follows:

- Revenues from North America were at Rs. 501 Crore, contributing 67% to the Pharmaceuticals segment revenues; lower by 6% YoY. Sales were lower mainly due to the impact of supply chain consolidation in the US which impacted our US formulations business.

- Revenues from Europe and Japan were at Rs. 119 Crore, higher by 61% YoY and contributing 16% to Pharmaceuticals segment revenues

- Revenues from Rest of the World stood at Rs. 84 Crore, up 39% YoY and contributing 11% to the Pharmaceuticals segment revenues

I will delve into the 2 key businesses under our Pharma Segment namely Generics and Specialty Pharmaceuticals (Sterile Products).

Our Specialty Pharma business grew 13% YoY and contributes 54% of the total Pharmaceutical segment sales. We are witnessing strong traction in all our key businesses in this vertical. In CMO of Sterile Injectables, we witnessed good growth in order book. We are now servicing 38 clients including one new client added during the quarter.

The Radiopharmaceuticals business continued to deliver robust performance and we are confident of launching new products in this segment, going forward. I am happy to share that our Rubidium generators are approved in Germany, Switzerland and Canada and we are expecting a CE-Marking for the infuser in H2 FY 17. After the CE Mark approval, we will be in a position for launch in these markets.

Our Generics business includes our API and Solid Dosage Formulations businesses. This business was flat during the quarter, with strong growth in our ROW business offsetting US formulations business. As highlighted in the last quarter, the growth in our ROW business is due to our strategy of focusing on

some key ROW markets to geographically diversify our business and we are confident of maintaining the growth momentum in these markets.

I would like to take some time to highlight some key aspects of our R&D to you. As a company, our R&D philosophy has been to build a strong pipeline in differentiated products, where we can leverage our skill sets of costs and differentiated technology to file difficult to make products. Our 505 (b) (2) filing in Rubyfill and our recent approvals in injectibles are a testimony to our capabilities in this regard. In addition, Jubilant had decided to make strategic investments in proprietary drug discovery of small molecules with an intent to out-licence the same for upfront payments and phased milestone payments and royalties.

We have a total of 850 filings across geographies including 770 filings in Oral Solids and 80 filings in Sterile products. Of this, 649 filings (578 Oral solids and 71 Sterile Products) have been approved while 201 filings (192 oral solids and 9 Sterile Products) are pending approval.

Of the above, in the US market, we have a basket of 81 filings across oral solids and Sterile products of which 52 have been approved and 29 are pending approval. This includes 70 ANDAs filed in oral solids of which 44 are approved as end Q1FY17 and 11 filings in Steriles of which 8 filings are approved. We plan to file 10 ANDAs and also some niche and differentiated filings including 505 (b)(2) filings in our Radiopharma business in FY17.

I would like to draw your attention to our pipeline in Radiopharmaceuticals business, which we have detailed in our Press Release. We have a very exciting portfolio of niche products under various stages of development in the US, which includes differentiated filings such as 505(b)(2) filings and NDAs. The addressable market size of these products is estimated at US$ 800 Million. We expect to have at least one product approval every year for the next three years. This includes our Rubyfill in which we are expecting approval in H2 FY 17 in the US.

Moving onto the Life Science Ingredients segment:

In our Life Science Ingredients segment, Q1'17 revenues stood at Rs. 618 crore, contributing 44% to the overall revenues. While businesses such as Fine Ingredients witnessed robust growth, overall sales declined 14% YoY led by lower crude prices which have resulted in decrease in prices of finished products. More importantly, our focus has been to improve profitability, which has led to lower sales in some low margin markets.

EBITDA margins improved 181 bps YoY to 19% in Q1FY17, led by above focus on profitable sales, cost optimization initiatives and process efficiencies

International markets share stood at 48% of total Life Science Ingredients segment revenues. Revenues from Key Developed Markets stood at Rs. 209 Crore, contributing 34% to Life Science Ingredients revenues. India business was at Rs. 322 Crore.

Moving onto the Drug Discovery Solutions segment:

Drug Discovery Solutions revenues stood at Rs. 50 Crore, growing 102% YoY and contributing 3% to total revenues. Drug Discovery Solutions EBITDA stood at Rs.

16 Crore, including out-licensing income of US$ 2 Million or Rs. 13 Crores. Drug Discovery Solutions EBITDA margins stood at 32.2%, up from -3.5% in Q1'16.

During Q1FY17, we signed an exclusive agreement for out-licensing agreement for novel BET inhibitors for cancer treatment, with upfront payment of US$ 2 million and contingent payments totaling up to US $180 million. We have an exciting pipeline of Novel Products under development in the segment and we continue to evaluate further licensing opportunities of some of our existing pipeline.

Similarly, in Q4 FY 16, we had received upfront payment of US$ 4.6 Million with potential contingent payment up to US$ 18 Million from 10% interest as a limited partner in one of the venture funds specialized in seeding and investing in early stage drug discovery firms.

To conclude, I would like to state that we are confident of maintaining the momentum going forward led by key initiatives in all our segments. Revenue and profitability growth in Pharmaceuticals segment is expected to be led by new product launches in Generics with robust growth in ROW business, expected launch of Ruby-fill and strong pipeline in Radiopharmaceuticals and ramp-up of operations in Sterile Injectables with new customer acquisitions and strong order book.

In Life Science Ingredients segment, focus is on generating operating cash by strategic initiatives of retrofitting plants for better capacity utilization with new product introductions and improved margins by cost optimization and better product mix.

Our endeavors to reduce debt through free cash flow will continue and focus will be on improving key financial ratios. As mentioned earlier, we have achieved Net Debt reduction of Rs. 247 Crore in Q1 FY 17.

I would like to emphasize that although we have obtained in-principle shareholders' approval for raising USD 200 Million in Jubilant Life Sciences, the company does not have any intention to go to the market to raise fresh equity through QIP.

I would now invite Mr. Sankaraiah to add to the discussion by sharing his thoughts on the financial performance delivered during Q1 FY2017.

R. Sankaraiah: Thank you Mr. Bhartia. I thank everyone for taking out time and joining us on today's earnings conference call. Let me give you a brief of the financial highlights for Q1 FY2017.

I would like to state that the published numbers for this quarter have been drawn up as per IND-AS. Also, the other quarters and Full Year FY16 numbers have been restated to make them comparable. The consolidated unaudited results of the Company and its subsidiaries are prepared in accordance with principles and procedures as set out in IND-AS 110 prescribed under section 133 of the Company's Act 2013. Reconciliation of Net Profit as reported under erstwhile Indian GAAP and under IND-AS has been provided in notes to accounts and also in the presentation. During Q1 FY 17, the Net Profit reported under IND-AS is Rs. 162 Crore. Had we continued the erstwhile I-GAAP, our PAT would have been 159 Crore. Hence you may observe there is no major difference in PAT of the current quarter. Also, in the PAT of the previous quarters and Full Year FY 16, there is no major difference but for a timing difference on account of recognition of certain investments at fair value and accounted in the opening retained earnings as on 1st April 2015.

As per IND-AS 108, operating segments have been defined and presented based on the regular review by the company's chief operating decision maker to assess the performance of each segment and to make decision about allocation of resources. Accordingly, the board has decided to report three operating segments, namely, Pharmaceuticals, Life Science Ingredients and Drug Discovery Solutions.

In Q1FY17, Income from operations stood at Rs. 1,420 crore. In the pharmaceuticals segment, the growth engine of the company, our revenues stood at Rs. 752 crore, up 7% YoY and contributing 53% to the overall revenues. Key developed markets share stood at 83% of Pharmaceuticals segment revenue. Other international markets share stood at Rs. 84 Crore, 11% of the Pharmaceuticals segment revenues.

This growth has been led by our Specialty Pharmaceuticals (Sterile Products) revenues which grew 13% YoY during the quarter and now contributes 54% to total Pharmaceutical sales. Our CMO of Sterile Injectables business is seeing a ramp up in operations led by new customer acquisition and backed by strong order book of US$ 534 Million. We are now servicing 38 clients including one new client added during the quarter.

Revenue from Life Science Ingredients segment stood at Rs. 618 crore, contributing 44% to the overall revenues. LSI revenues declined 14% YoY mainly due to lower input prices from lower crude prices resulting in decrease in prices of finished products. As Mr. Bhartia mentioned, the focus of this segment is to generate cash and we have also had lower sales in some low margin markets and segments.

Revenue from Drug Discovery Solutions stood at Rs. 50 Crore, growing 102% YoY and contributing 3% to total revenues. This includes US$ 2 Million or Rs. 13 Crore of out-licensing revenues received during the quarter.

EBITDA for the quarter increased 13% YoY to a record Rs. 372 crore. EBITDA margins were higher at 26.2% as compared to 22.7% in Q1'16, led by growth in our Pharmaceutical segment. Pharmaceuticals segment reported highest-ever EBITDA of Rs. 256 crore with a healthy increase of 13% YoY. EBITDA margin for the segment was higher at 34.0% as compared to 32.2% in Q1 FY2016. I would like to highlight that we have consistently been able to deliver healthy EBITDA margins in the last six quarters in this segment and our Pharmaceuticals segment now contributes about 70% of company EBITDA.

Life Science Ingredients EBITDA was at Rs. 117 crore and we have maintained the upward trajectory in margins with EBITDA margins at 19.0%, up from 17.2% in Q1FY16 and 16% witnessed during Q4FY16. This improvement has been due to various cost-optimization initiatives and process efficiencies and also higher contribution from better margin products.

Drug Discovery Solutions EBITDA stood at Rs. 16 Crore, including the US$ 2 Million in out-licensing income, with EBITDA Margins at 32.2%.

Our R&D spent during the quarter in the Pharmaceuticals segment was Rs 54 Crore, translating into 7% of our Pharmaceutical sales and R&D charged to P&L was Rs. 30 Crore.

Depreciation and amortization for the quarter was at Rs. 72 crore as compared to Rs. 70 crore in the corresponding quarter last year. The finance cost at Rs. 83 crore for the quarter was lower by Rs. 8 Crores as compared to Rs. 91 crore in the corresponding quarter last year. The blended interest rates for the borrowing stood at 7.9% in Q1FY2017 with the rupee rate of borrowing at 11.1% and that of the foreign currency borrowing at 5.2%. The tax rate for the quarter stood at 25%. The profit after tax was at Rs. 162 crore, a growth of 22% YoY with an EPS of Rs. 10.15 per equity share of Rs. 1 each for the quarter.

Let me give you some perspective of the balance sheet: During Q1FY17, I am happy to share that the company has generated net cash flow of Rs. 247 Crores. This is in addition to the net cash flow of Rs. 368 Crores generated in FY 16. The Net Debt as on 30 June 2016 stood at Rs. 3,984 Crores.

In Q1FY2017, our capital expenditure stood at Rs. 41 crore. For FY 2017, we maintain our guidance of annual capital expenditure of Rs. 300 Crore.

To conclude, I would like to reiterate what Mr. Bhartia has said. We continue to deliver strong performance on a consistent basis and we expect to continue the momentum in FY2017.

Revenue and profitability growth in Pharmaceuticals segment is expected to be led by new product launches in regulated markets and growth in ROW markets in Generics, expected launch of Ruby-fill and strong pipeline in Radiopharmaceuticals, and ramp up of operations in Sterile Injectables, with new customer acquisition and strong order book.

In Life Science Ingredients segment, the focus is on generating operating cash by strategic initiatives of retrofitting plants for better capacity utilization with new product introduction. The margins are expected to be improved by cost optimization and better product mix.

We will continue to focus on generating free cash flow to reduce debt and improve our financial ratios going forward.

I would like to conclude our opening remarks with that. I request the moderator to take up 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 is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: I have many questions actually. To start with on the margins front, if I look on a sequential basis, let us say material cost to sales, that has come down quite significantly. Any particular reason and how sustainable are the margin profile that we have seen in Q1?

Shyam S. Bhartia: Regarding the material cost to sales, as we have mentioned, our raw material prices are coming down especially concerning the Life Science Ingredients section. So therefore the contribution of materials is going down. If you see, our fuel costs are also going down while our volumes remain the same, but if you see our sales realization is less. That is why you see the selling price coming down, but our margins are improving.

Saion Mukherjee: So this is pretty much sustainable, I mean, there is nothing one-off?

Shyam S. Bhartia: Of course.

Saion Mukherjee: On the CMO business you mentioned $534 million of order book. How should we look at in historical context, how much was this order book let us say before the warning letter, given that your business is just around 100 million at this point?

G.P. Singh: This order book is spread over the period of the contracts which we have and these contracts can be from a period of 3 to 5-years. So, it is not for a short period of time, it is not annual order book, it is the contract order book which some of the contracts can be as long as 5-years.

Saion Mukherjee: How should we look at, let us say $534 million versus how much was it let us say at the start of last year or before the warning letter, just to put it in perspective?

R. Sankaraiah: If you see before the warning letter, it was in the range of about $450 million. After warning letter has been lifted and the new customer acquisition, order book is becoming better.

Saion Mukherjee: So can we say that now we have a visibility of going back at least to the kind of revenues we were doing before the warning letter in a very short-term?

G.P. Singh: No, it is not. It will be a ramp up. So these orders are there, but as the capacity utilization improves and the productivity improves, it will be a slow ramp-up. So like I mentioned, this is the contractual period, but does not mean that kicks in right away. So it is the same thing which we mentioned last time also, we are seeing a steady growth in business on the CMO side, that growth pace will continue and we will reach our peak potential in next year or so.

Saion Mukherjee: On the Radiopharma business, you mentioned in your presentation some bit of detail and in your prepared remarks you mentioned about the potential size of this market at $800 million. If you can just help us understand, for instance, Ruby-fill, you had mentioned earlier the $60 million kind of market that you see, similarly for some of the other products which adds up to $800 million, that would be helpful?

Shyam S. Bhartia: I'll explain. For Ruby-fill, the market was about $250 million – total market size. And Exametazime is about $50 million. As we have mentioned that we are also developing six new products, which we are going to file one or two every year. The total market size of all these products including our MIBG, which is about $100 million, is about $400 million. And our pipeline of six products what we have further adds to about $350 million. So the total is about $800 million.

Saion Mukherjee: This MIBG NDA that you mentioned, so this product is not yet approved by the FDA, right?

Shyam S. Bhartia: MIBG is a product which we are already producing and it has been used in out of about 25 or 26 children's hospital in US, in about 12 or 13 hospitals. We already use it under Expand Access Program of USFDA, which means that under special dispensation by USFDA, there is a limited use and Neuroblastoma is in the children's pediatrics. There are about 26 paedriatic hospitals where it is being treated, and in 13 it is used under Expand Access Program which shows that the product is already effective. Now, when we went and discussed with USFDA, USFDA granted us orphan drug status and also told that special dispensation, that by doing the successful Phase-II trial on 65 patients, the drug can be approved by USFDA. In fact, this has already been used in hospitals effectively and as per our information, and since we are supplying drugs, the drug has been very effective for some treatment of Neuroblastoma in paediatrics. So we are very confident that after this Phase-II trial, the USFDA has agreed to consider the results on an expedited basis and since they are also very keen that these drugs should be widely available in US, but from the hospitals where the patients can be treated.

Saion Mukherjee: So currently very small percentage is getting treated and volume will increase once you get approval?

Shyam S. Bhartia: That is right. That is the objective of USFDA since they have seen, of course they have also discussed with the key opinion leaders while approving our product from

the orphan drug under Phase-II. So I think the key opinion leaders we have also discussed with them. They are also very keen that this drug should come to the market so that more and more patients can make use of this drug.

Saion Mukherjee: Continuing with Radiopharma because over the last couple of years this segment has done very well for you. Of course the new lever of growth would be these new launches, but without these new launches is the growth still continuing or we have seen this business stabilizing currently in this quarter?

G.P. Singh: Yes, growth continues and it continues with access to newer markets expanding our market reach and increase in volumes in the existing products. Of course, the major growth comes from the new launches, but our existing portfolio also continues to grow.

Saion Mukherjee: So it is a double digit kind of growth you are sustaining, Sir?

R. Sankaraiah: We are not giving segment wise growth, but it is a good growth.

Shyam S. Bhartia: During this year, especially in the second half, we expect a good growth and going forward in the next year also from existing products we expect a good growth. As GP said, we are expanding the market reach and also more and more procedures are being conducted on these products because these are very specialized products. So we are encouraging people to have more procedures under it and the clinical promotion of this product. So we are very hopeful of growing this market this year also and next year also.

Moderator: Thank you very much. The next question is from the line of Jagdish Bhanushali from Florintree Advisors. Please proceed.

Jagdish Bhanushali: Could I get the market size of Germany and Canada where we expected to launch Ruby-fill?

G.P. Singh: It is a small market, if we look at Germany, Switzerland and Canada collectively it will be about $10 million, so it is not a huge market as compared to the United States.

Shyam S. Bhartia: Having said that, in these markets Rubidium generator is not available, so we hope to increase that market also in couple of years by making the generator available, we strongly believe that because of the benefits of growth, the exposure in the market is likely to grow also.

Jagdish Bhanushali: Any further communication have you received from US FDA regarding Ruby-fill?

G.P. Singh: We are on track what we have mentioned earlier, so we are still looking forward to the Q4 launch of Ruby-fill.

Jagdish Bhanushali: Wanted to confirm Radiopharma size that you mentioned about $800 million product size, I just missed the number that you gave for Ruby-fill?

Shyam S. Bhartia: $250 million in total market size.

Jagdish Bhanushali: How much is the addressable market for us at the moment?

Shyam S. Bhartia: We hope to start in a small way in the last quarter this year and next year we hope to expand our market. This market is a growing market, the availability of the generator is limited in this market, and we expect to not only increase the market size in times to come in next 3 to 4-years' time, but also take a good share of the market.

Jagdish Bhanushali: Right because what numbers we had was about $60 million or $70 million was the market of Ruby-fill?

Shyam S. Bhartia: So market has grown. Today our estimate is about $250 million.

R. Sankaraiah: The current market size what you are talking of that $60 million is based on the supply which is made by the innovator.

Jagdish Bhanushali: Other part was the orphan drug that we are talking about, the MIBG, so the market size of that is estimated about $100 million at the moment?

Shyam S. Bhartia: That is right.

Jagdish Bhanushali: Any sales that is coming out from the testing that we are doing at the moment?

R. Sankaraiah: We are selling the product currently.

Shyam S. Bhartia: Those products are being sold under special expanded access program in very limited quantities but the number of hospitals are large.

Jagdish Bhanushali: Could you help me out with the Ceretec market size?

Shyam S. Bhartia: It is about $50 million.

Jagdish Bhanushali: In terms of understanding how was the Pyridine's volume this quarter, is it growth in terms of pricing or volume or how has that moved?

Shyam S. Bhartia: We are not giving section wise volumes but I can give you a picture of the total volumes in the Life Science Ingredients segment. I think year-on-year the volumes have gone up marginally and in quarter-on-quarter also volumes have gone up marginally but the pricing is not in our control. For instance, the pricing in the Q1 of petroleum prices were about $50 plus and now it is $40 plus. So I think the price of raw materials, price of product, etc., keeps on shifting, but one good thing is that the volumes are marginally higher than in the Q1 last year and also in Q4 FY-'15.

Jagdish Bhanushali: This is coming mainly from the site that we had for Symtet, the multipurpose?

Shyam S. Bhartia: I am talking of overall volumes in the Life Science Ingredients.

Jagdish Bhanushali: Any price benefits are we getting in Radiopharma like the percentage hikes that we did in past years, so any price hike is it possible or we have already taken this particular year?

Shyam S. Bhartia: We continuously evaluate pricing and wherever there is a possibility of price hike, we take price hike and of course, we cannot take a price hike every quarter. So maybe once a year or once in two-years' time.

R. Sankaraiah: But there is no price increase which has been there for this quarter compared to previous year.

Jagdish Bhanushali: But we do see a position of price hikes in coming quarters if possible depending on the product?

Shyam S. Bhartia: We continuously evaluate. We cannot comment on the pricing and we would not like to comment on that. But, I can tell you that our people are very close to the market and they continuously evaluate the possibilities.

Jagdish Bhanushali: The thing you mentioned is that Rs. 300 crore is our CAPEX, so does this also include the R&D that has been capitalized or is that separate?

Shyam S. Bhartia: No, that does not include R&D which is being capitalized.

Jagdish Bhanushali: So that target stays at about Rs.120 crore?

Shyam S. Bhartia: Our R&D expenditure of about 7% of total sales of Pharmaceuticals and we hope to give you around that, it is for the whole year and part of it which would be charged to profit & loss account and the part will be capitalized depending upon the markets that we are addressing.

Jagdish Bhanushali: Last question what I want to ask is are all the US FDA sites compliant at the moment?

Shyam S. Bhartia: Yes.

Jagdish Bhanushali: So we do not have any observations from any of the plants pending to be resolved, right?

Shyam S. Bhartia: We continuously get inspected at all the plants by different authorities. So we cannot tell you 100% that there are no observations somewhere or the other but there is no observation which can affect our approvals.

Moderator: Thank you very much. The next question is from the line of Runjhun Jain from Nirmal Bang Securities. Please proceed.

Runjhun Jain: Just to take the earlier participant's question sir, we do have some pending observations on Roorkee facility, is that correct and what is the current status of it?

Shyam S. Bhartia: You are right. We have already replied to the observations that we have complied with all the observations. As you all know, in every plant inspection you have some observation but these observations we believe are not serious. We have replied to the observations and we hope to get the EIR in next couple of months.

Runjhun Jain: So there is nothing pending from your side and you are expecting EIR soon from US FDA?

Shyam S. Bhartia: That is right.

Ranjan Sen: You think that any of the observations which were there is nothing of serious nature?

Shyam S. Bhartia: We have replied to them that we have complied with all the observations.

Runjhun Jain: Just one more clarification on the MIBG, the product which you are talking about. You were saying that there are few players in the market currently. What is the expense you anticipate for the clinical trial which you are expected to do?

Shyam S. Bhartia: NDA trials will be expensive, but we have already accounted for them in our total year of R&D expenditure, which we have told you. The trials will last for almost 18-months. So the expenditure would be spread over that period.

Runjhun Jain: But you think this is quite profitable like we have other opportunities, this will be also as equally profitable opportunity for us?

Shyam S. Bhartia: We strongly believe that it is extremely profitable opportunity, once the drug is approved by US FDA. As you know, this has orphan drug status. So, we strongly believe that there is opportunity at the asset of $100 million and it will give a good payback to the company.

Moderator: Thank you very much. The next question is from the line of Ranvir Singh from Systematix. Please proceed.

Ranvir Singh: In LSI segment in last quarter we mentioned that at the facility of Symtet we were planning to do some alteration and filter some other derivatives of Pyridine. So what is the status in this direction, whether we are in a process to produce some new derivatives sort of Pyridine?

Rajesh Srivastava: This is Rajesh here. As we mentioned in the last quarter with our work is already going on of retrofitting the new products and as we said the new products will start coming from Q4 onwards. The same thing we still maintain.

Ranvir Singh: So it will be a substantial one to substitute the kind of potential we had from Symtet or things will come gradually and we can see some meaningful revenue in long-term?

Rajesh Srivastava: As of now we see it is going to be gradual but you never know if any product demand goes up substantially we will pick it up fast, but as of now it is gradual.

Ranvir Singh: So it is only two products and we are planning more products or that two products are enough to consume our Pyridine?

Rajesh Srivastava: No, we are planning more products, two is definitely in the pipeline but there are more products where the work is going on and that is why I said it will be gradual.

Moderator: Thank you very much. Our next question is from the line of Anmol Ganjoo from JM Financial. Please proceed.

Anmol Ganjoo: My question is a follow-up on one of the questions that an earlier participant asked. I understand that in the LSI segment there has been some drop in raw material prices but how do you want us to think about the gross margins given that 70% of our EBITDA now is Pharma and a lot of your peer commentary is around multiple

challenges like pricing, etc., So in that environment how should we be looking at the current quarter gross margin performance in particular and extrapolate it going forward?

Shyam S. Bhartia: As we have mentioned that prices of raw material have come down. That is why you see the total raw material as a share of the total has also gone down. Fuel costs are also coming down as compared to last year this quarter. So we expect the prices will come down. But as we mentioned, we are concentrating on operating profit margin. So as you have seen, our margins have gone up. So continuously we have the same focus because we have no control on the price of raw materials or price of finished products. Sometimes the price of raw material comes down, the price of finished products also comes down, but our concentration is basically on the margins and we expect constant margin and cash flow from this business.

Anmol Ganjoo: Second is when we look at the R&D expenditure, 7% is what we should work with? I also wanted to understand what is it that we are capitalizing and what will the breakup be going forward, and how should we be thinking about it?

Shyam S. Bhartia: 7% of the total R&D expenditure is around what you should work with and we also hope that it will be around 7%. Regarding the capitalizing I think some of the large markets where we are developing the products we are capitalizing the R&D expenditure because it has a long-term benefit as per the Ind-AS rules.

R. Sankaraiah: 7% is on Pharmaceuticals sales, not on the total sales. So as per Ind-AS there are certain capital expenditure which can be capitalized. Where there is a definitive of achieving a product which are enduring in nature which is going to give economic benefit subsequently on the longer period, we have the option to capitalize. So we follow exactly the principles of accounting standard and do the things.

Anmol Ganjoo: My third question is around the Drug Discovery Solutions business. From a 2 to 3-year perspective how do you kind of look at it in terms of size and scale from a contribution standpoint and obviously some greater details on the $2 million upfront that you have received this quarter and the potential of that particular opportunity going forward?

Shyam S. Bhartia: I think that our Drug Discovery Solutions business is in excellent shape. We have two business models -- one in which we provide services to the pharma companies for discovery of their drug products, we have many drug portfolios running in. We help them to make their portfolio forward and we get a service fee for that. The other portion is that we do proprietary drug development and we have many programs running where we do proprietary drug development and one of the licensing of our own proprietary development which happened in the last quarter where we received US$2 billion as a down payment, and a contingent payment depending upon the success of various milestones which are to a maximum of $180 million which we might receive in years to come. More than that, we have long pipeline of drugs. So we keep on evaluating at the appropriate time about the licensing of these molecules to large or biotech pharma companies.

Anmol Ganjoo: Sir, I understand that but would $180 million be a multi-year thing?

Shyam S. Bhartia: Depending on the success of the various milestones which the pharma company which we have license, if they achieve those milestones we will get the milestone papers.

Anmol Ganjoo: But $180 million the headline number if I understand will be a multi-year thing?

Shyam S. Bhartia: Of course, yes, a multi-year thing.

Anmol Ganjoo: Are there any interim milestones that we should kind of look forward to?

Shyam S. Bhartia: We would not like to comment on the success period of these molecules because it is very difficult because it depends upon what is their development program and when do they hope to achieve this milestone. But there are various milestones, just not one milestone; there are various milestones, in different payments.

Anmol Ganjoo: My second question is around the CMO business. You talk about an order book of $534 million. We were just kind of thinking about it theoretically that optimum capacity utilization how many years would it take to execute the existing outstanding order book?

R. Sankaraiah: 3 to 4 years.

Shyam S. Bhartia: As GP said some of the orders are going for 5-years also. So we will continuously be looking for more orders and I can give you some idea about current capacity utilization is around 65%-70% depending on the product mix what we have. So we hope to continuously increase our capacity utilization.

Anmol Ganjoo: In Radiopharma you didn't share an exact number in terms of the growth outlook but when you internally think about the business how would this look in the absence of very few approvals versus growth which is just volume and price dependent, so any thoughts around that will be helpful?

Shyam S. Bhartia: So we have lot of products approvals already which we are marketing in our Radiopharmaceuticals business. Some of the products are cold products, some of the products are hot products. Hot products mean which involves which has a half-life problem. So we have various products which we are marketing in US market is our largest market and then in Canada and then many other some of the Latin American countries and other countries. So we strongly believe that our existing product portfolio itself should grow during this year and next year.

Anmol Ganjoo: What I was trying to understand was that what is the split between growth of existing products versus what are you budgeting in terms of growth driven by new product approvals?

Shyam S. Bhartia: We cannot tell you about the budgeting of the future growth, but what I can tell you is that the immediate growth is going to come out of a new product called Rubidium generator, which we have highlighted to you and which we have been highlighting. So this is one of the products which we expect approval in H2, so this should give us a good growth in next 2 to 3-years' time.

R. Sankaraiah: As of today, if you see in Radiopharmaceuticals in US market, we have eight products filed, out of which we have six approvals. The existing sales which is coming is from the six products which are approved. So like we have mentioned in the concall also, that every year we plan to launch one product going forward, that is going to drive the growth. Like GP has mentioned existing products there will be growth. Over and above that the main growth is going to be driven by the new

product launches like Rubidium and also we have mentioned that in 2019 we expect I131-MIBG. So that is how you can make a complete assessment.

Anmol Ganjoo: This Rs.247 crore repayment looks like a fairly accelerated and aggressive repayment schedule. Is this the run rate which is likely to get repeated for the remaining quarters also?

R. Sankaraiah: You are absolutely right, in this quarter we were been able to reduce the working capital very well and also we were able to repay the loan, but going forward our focus will continue to be debt reduction. So having said that we have also mentioned that approximately about Rs. 300 crore CAPEX will be there with the product development. So we will be targeting to generate adequate cash to continuously reduce the debt and to generate cash at least over and above what is required to be repaid during the year as scheduled repayment.

Moderator: Thank you. The next question is a follow up question from the line of Saion Mukherjee from Nomura. Please proceed.

Saion Mukherjee: On CAPEX how should we think about the next 2-3-years? In the last few years there has been a tight control. Based on your business plan any major CAPEX or investment that you are looking at or it should be in this range of Rs.300 crore?

R. Sankaraiah: As of today you have to assume Rs.300 crore, Saion.

Moderator: Thank you. The next question is a follow up question from the line of Jagdish Bhanushali from Florintree Advisors. Please proceed.

Jagdish Bhanushali: Could you also share with me the market size of Magnevist?

G.P. Singh: The generic Magnevist market size at the moment is around $40 to $50 million overall, it is changing because from the newer generation products.

Jagdish Bhanushali: Could we get a sense that what is our progress at this particular drug?

G.P. Singh: We have already filed as you know and we are waiting approval, it is in the normal process of review and queries which we are replying.

Jagdish Bhanushali: Do we expect the approvals to come after Ruby-fill or it can come before that as well?

G.P. Singh: It is a generic filing, so it is in a generic kind of review process, which is definitely a longer time line as compared to 505(b)(2) or ANDA filings.

Jagdish Bhanushali: This filing has been done from which of our site?

G.P. Singh: This is from Montreal, Canada.

Moderator: Thank you. Ladies and Gentlemen that was the last question. I now hand the conference over to Mr. Bhartia for closing comments. Over to you, sir.

Shyam S. Bhartia: So I would like to thank all of you for joining on this conference call. If you have any further questions I think Ravi, Sankaraiah and we all are available, we will be happy to discuss with you. Thank you.