Jubilant Life Sciences
Q1 FY20 Earnings Conference Call
July 26, 2019

Ravi Agrawal: Good evening, everybody. I am Ravi Agrawal – Head of Investor Relations at Jubilant Life Sciences. I thank you again for being with us today on our Q1 FY'20 earnings conference call.

I would like to remind you that some of the statements made on the call today could be forward-looking in nature and a detail disclaimer in this regard has been included in the 'Press Release' that has been shared on our website.

On the call today, we have Mr. Shyam S. Bhartia -- Chairman; Mr. Hari S. Bhartia -- Co-Chairman and Managing Director; Mr. R. Sankaraiah -- Executive Director of Finance; Mr. Pramod Yadav -- CEO, Jubilant Pharma; Mr. Rajesh Srivastava -- CEO, Life Science Ingredients.

I now invite Mr. Bhartia to share his comments.

Shyam S. Bhartia: Thank you Ravi and Good Evening everyone. Before we discuss the company performance during the quarter, I have an important announcement to make.

The Board of Jubilant Lifesciences has constituted a committee to evaluate various options including reorganisation or demerger of the company's business undertakings on a going concern basis. The objectives of this exercise are to create focused entities for Pharmaceuticals and Life Science Ingredients (LSI) businesses to manage different risks, rewards and regulatory requirements; to enable strategic growth for these businesses with optimal capital structure and also to potentially unlock shareholder value with direct ownership in each of the business entities.

Any decision in this regard by the Board will be after due evaluation and consideration of the recommendations of the committee and subject to all necessary consents and approvals. The company will also take necessary steps to comply with all applicable laws and requirements including SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015.

Now coming to the company performance in Q1FY20.

I am sure you would have had a chance to go through our presentation and press release on the quarter. As you can see, we have had a steady performance during

the quarter. Revenues have been 5% higher YoY and while Reported EBITDA was lower 1% YoY, Adjusted EBITDA was higher by 9% YoY.

Pharmaceutical segment has witnessed sustained revenue growth mainly in CMO and Specialty Pharma businesses. Reported EBITDA was down 3% YoY, while adjusted profitability of the segment was 7% higher YoY with margins of 28.1%.

In the Pharma segment, we leverage our competitive strengths of integrated and efficient manufacturing operations and being closer to the customer due to a majority of our manufacturing operations being in North America. We have focused on de-risking our business model, by operating in niche segments like Radiopharma and Allergy Therapy Products with high entry barriers while growing the Generics business. Going ahead, we are investing in building a healthy pipeline of products and capacities in the Specialty Pharma and Generics businesses to cater to the anticipated demand.

I am happy to report a recovery in our Life Science Ingredients segment during the quarter, especially in our Specialty Intermediates and Nutritional Products businesses, which are witnessing both value and volume increases. This has helped adjusted profitability of the segment to grow 19% YoY with margin expansion of 320 bps in the segment.

In the LSI segment, we are leveraging our global scale and vertical integrated manufacturing capabilities, which allows us to offer diverse product offerings at cost competitive prices to our customers.

With this, I would like to request Pramod Yadav to share insights of the Pharmaceuticals business during the quarter followed by Rajesh Srivastava on the LSI and Drug Discovery businesses.

Pramod Yadav: Thank you, Mr. Bhartia. A very good evening to all of you.

Revenues in the Pharmaceutical segment grew 12% YoY during the quarter under review, with all our key business segments witnessing growth.

Specialty Pharma, which includes Radiopharma and Allergy businesses, now contributes 55% of total revenues. In Radiopharma, growth was driven by volume and better value in key products such as MAA, DTPA and I-131. We have also recently received CE certificate allowing Rubyfill to be introduced in the European market. We have a very healthy pipeline of around 7 products with an addressable market of approx. USD 300 million, which we plan to file and launch in the next 2-5 years, including 505 (b)(2) filings and also an NDA in I-131 MIBG. The efforts to increase market share and operational efficiencies continues as planned in radiopharmacy business to achieve breakeven at the earliest.

In our Allergy business, venoms and allergenic extracts both saw volume growth. Additionally we are focusing on catering to venom demand in non-US markets and increase market share in allergenic extracts in the US. We have recently had a satisfactory inspection by FDA of our line for which we expect approval in Q2'FY20, which will help us to increase production of venom.

There has been strong growth in CMO business led by higher capacities, better on-time delivery and operational efficiencies. Demand continues to remain robust and we are taking various initiatives to increase capacities in this business. We have already increased shifts on one line 24X7 last year and are planning on increasing shifts 24x7 on another line from Q3FY20. We have also installed new Lyo equipment with commercialization expected in H2FY20. These initiatives will increase the capacities by over 30% translating into annual additional potential revenues of around $30mn.

In the API business, pricing remains strong for key products. However, production in sartans was lower during the quarter, a result of additional quality checks on all input raw materials to meet enhanced regulatory requirements. We are confident of recovering these volumes during FY20.

Generics business revenue growth was moderated due to lower volumes in certain products, which is expected to normalize going forward. The expanded capacity in Roorkee is now available for commercial production for both US and Non-US markets.

We reported EBITDA of Rs 331 crore, 3% lower YoY, with margins of 25.1%. While CMO, Allergy and Generic business performance was better, lower volumes in API and one-off expenses of Rs 40 Crore related to exchange fluctuation on restatement of deposits, litigation, penalty for non supplies and site remediation costs impacted segment EBITDA during the quarter. Adjusting for the one-off expenses, Pharma EBITDA was up 7% YoY with margins lower by around 130 bps.

Pharmaceuticals R&D spend was Rs. 57 Crore, which is 4.3% of the segment sales with R&D debited to P&L of Rs. 48 Crore, which is 3.7% of segment sales.

With regards to regulatory matters, we have submitted comprehensive responses to the USFDA and have engaged 3rd party consultants to help in the remediation activities in Roorkee. In case of Nanjangud Official Action Indicated (OAI), we are working diligently with the regulatory agencies US FDA and Health Canada for resolution of the matter. We are also taking all necessary steps to ensure further stringent controls at all our facilities.

With this, I would like to request Rajesh to share details on Life Science Ingredients and Drug Discovery Solutions segments performance during the quarter.

Rajesh Srivastava: Thank you, Pramod. A very good evening to all of you.

Our LSI business' Q1 revenues was at Rs. 805 Crore a decline of 5% YoY. While Specialty Intermediates and Nutritional Products businesses observed robust growth, Life Science Chemicals business revenue has declined.

Growth in Specialty Intermediates business was contributed by robust volume as well as value increase in most of the key products. We have witnessed positive traction for new products launched in last one year in the Specialty Intermediates business. The GMP multiproduct facility at Bharuch has been successfully commissioned and is contributing to growth. The overall market trend of Specialty Intermediates business is positive and we are continuously working to maximize output from existing facilities to service strong demand from our customers.

Growth in Nutritional Products business was led by a mix of higher volumes and better prices in Vitamin B3. Jubilant being backward integrated ensures consistent supply and volume availability to its customers.

Lower revenue in Life sciences chemicals was on account of significant drop in Acetic acid prices by around 37% YoY and around 21% QoQ. This drop in Acetic acid prices led to price correction of Life sciences chemicals products. Molasses prices continued to be at higher levels thereby adversely impacting profitability of Life Science Chemicals business.

We reported EBITDA of Rs. 122 Crore up 11% YoY with margins of 15.1% as compared to 12.9% margin in Q1 last year. This has been led by higher profitability in the Specialty Intermediates and Nutritional Products businesses.

We expect growth in LSI to be led by Specialty Intermediates and Nutritional Products businesses during the year. Demand for Life Science Chemicals products is expected to improve in second half of FY20.

Coming to our Drug Discovery Solutions business

Our Drug Discovery Solutions business grew 8% YoY in revenue and 48% YoY in profitability led by gain in new customer accounts and new projects from existing customers. Focus will continue on securing higher integrated projects from pharma and biotech customers.

With that, I would request Mr. Sankaraiah to highlight the Company's financial performance during the period.

R. Sankaraiah: Thank you, Rajesh. A very good evening and I thank everyone for taking out time and joining us on our quarterly Earnings Conference Call.

Let me give you a brief of the financial highlights for the performance during Q1'FY20.

Revenue from Operations was up 5% YoY to Rs. 2,182 Crore, with Pharma revenues up 12% YoY to Rs 1,321 crore and LSI revenues at Rs 805 crore down by 5% YoY. Reported EBITDA was at Rs 444 Crore down by 1% YoY with margins of 20.4% vs. 21.5% in Q1 last year. Adjusted EBITDA after adjusting for one-time expenses was at Rs 493 Crore, a growth 9% YoY with a margin of 22.6% as compared to an EBITDA of Rs 452 Crore and margin of 21.8% in Q1 FY19.

Effective April 1, 2019, the Company has adopted new lease accounting standard Ind AS 116 using the modified retrospective approach. Consequently, operating lease expenses have changed from rent and other expenses to depreciation and amortization expenses and finance costs. Accordingly, the EBITDA for the quarter is higher by Rs 10 crore. However, depreciation and interest for the quarter have also increased by Rs 9 crore and Rs 2 crore respectively resulting in a net impact of Rs 1 crore on the profits of the company. Thus the adoption of Ind AS 116 has not had any material impact on the results for the quarter.

Finance cost during the quarter was at Rs 73 Crore in line with last year. Average blended interest rate for Q1FY20 was @ 6.11%, Rupee loans were @ 8.38% and foreign currency loans at 5.33%.

The Company's PAT was at Rs 185 Crore, a decline of 9% YoY with EPS of Rs 11.6 per share of Rs 1 paid.

The CAPEX was at Rs. 169 Crore in Q1'FY20. The company's net debt was at Rs. 3,286 Crore, which on a constant currency basis was at Rs. 3,293 Crore, a reduction of Rs 196 crore as compared to March 31, 2019.

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

With this, I would like to conclude our opening remarks. We will now be happy to address any questions that you may have, please.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Rahul Veera from Abakkus. Please go ahead.

Rahul Veera: This one-off expense related to penalty is with respect to which product?

Pramod Yadav: These penalties are for the dosage form business for the US market where it will be difficult to specify the product. It is for 3-4 products…

Rahul Veera: Was it because of the issue of the plants or capacity?

Shyam S. Bhartia: It is because of the regulatory requirements because we received warning letter.

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

Alankar Garude: If you just look at the revenue growth in Allergy, it has been pretty strong over the past few quarters, and in the presentation, you have mentioned about strong volume growth in Allergy in this quarter as well. Now assuming that revenue growth was strong for Allergy in this quarter as well the overall 9% growth in Specialty indicates that Radio pharma grew in low-to-mid-single digit. So, first question, is this a fair assessment? Secondly, should we expect a similar growth in Radio pharma for the entire fiscal?

Pramod Yadav: In case of Radio pharma, the growth in the volumes as well as prices is very much in place. Here the business is growing organically as well as price increases happens on the annualized basis so that organic growth is happening. Other than that we are also having growth because of the Ruby-Fill installation. That is a product, which had a smaller market share and we are growing the market share rapidly. However, in comparison to Radio pharma, Allergy business in this quarter has grown better. So, your assessment on that front is right.

Alankar Garude: Is it possible to elaborate on the issue in Generics business, which led to lower volumes and what gives you confidence that it will normalize in the next few quarters?

Pramod Yadav: So, the industry-wide issue is mainly on the sartans. To ensure that any of the sartan going out of our manufacturing location is free of any nitrosamine impuritywe had to put some additional controls into the manufacturing process, which led to some delay in the release of the batches on time. And also, some additional capacities went away into the cleaning validations and meeting other cGMP requirements which led to some of the delays in our supplies to the US market.

Alankar Garude: Related to this Generic business, if we just look at the penalty level, should we expect a similar run rate for the entire fiscal or maybe even going beyond FY '20? And also if you could comment on this litigation expense because I remember last time you had said in the call that we are expecting the litigation to get towards the end of this fiscal. So, if you could guide on both these expenses and should we really construe these expenses as one-off for the next few quarters, that would be really helpful?

Pramod Yadav: So, first, on the Generic business, as of now we are hopeful that all these regulatory issues will get resolved within this financial year. And if that happens then of course we do not expect this cost related to the regulatory issue spilling into next financial year. Similarly, on the Ruby-Fill litigation, we expect that the IPR case will get concluded by last quarter of this financial year. But prior to that, there are various other steps. We expect judge to announce a decision in this quarter and then there will be commission decision and then there may be a president appeal. Everything we expect to get completed in this financial year. So, with that logic, all these expenses are truly as one-off expense.

Alankar Garude: But you said there are a few steps pending. So, could we expect a similar litigation expense till likely fourth quarter?

Pramod Yadav: No, the major litigation expense in this goes during the hearing, which has been completed. But yes, because of these pending steps, some litigation expense will continue in the rest of the quarters as well, and we expect that to be lower than this quarter.

Alankar Garude: Now coming to Life Science Chemicals, we have mentioned about volume growth for acetic anhydride being on the lower side. But if you could comment for ethyl acetate as well and do we expect the second half in terms of volumes for both ethyl acetate as well as acetic anhydride to be better?

Rajesh Srivastava: Yes, for Ethyl acetate also the demand was subdued. So, we expect demand should be better in second half because that is the normal behaviour, we have seen in the past also. Anhydride, yes, I think this quarter it is lower, but we expect to be better certainly in second half, that is what we said.

Alankar Garude: Last question from my side for Mr. Bhartia. For example, if the board decides to demerger the two businesses -- LSI and Pharma -- would we look to list both the entities in India or we are open to exploring other options as well?

Shyam S. Bhartia: Firstly, the board will consider it. As we have said in our press release, that both the business will be separated and will be listed in India. If the Board takes decision favorably, the objective is to split the business and both the businesses will be listed in India.

Moderator: Thank you. The next question is from the line of Ranveer Singh from IDBI Capital. Please go ahead.

Ranveer Singh: Couple of questions; one, on CMO side, can you guide me the order book currently you have?

Pramod Yadav: For the CMO business, we have stopped declaring the order book because if you see the entire capacity is more or less sold out, and in this business, the contract runs for multiple years, and since currently there is a bit of the tightness on capacity, the contracts are getting renewed, and as and when they get renewed, they get renewed at a better price. So, order book with that sense has really lost

the level. And we have informed that we continue to evaluate the opportunities to get more throughput from the same assets and the plants are in place for that.

Ranveer Singh: In CMO, what would be current capacity utilization there?

Pramod Yadav: In terms of capacity utilization, it is very close to 90% which is the capacity you can produce because you have to take out all the downtime, etc., when you make the changes into the batches, etc., So, we are operating more than 90% of the producable capacity.

Ranveer Singh: Since you have increased your shifts, does that include or without increasing 24x7?

Pramod Yadav: Shifts of 24x7 as of now is operating on one line. And when I am saying this capacity, it includes that line additional capacity. The additional shift on the other line will come in Q3. And then I mentioned that we are also installing another Lyo which will come in the second half of this financial year. So, those initiatives, capacities will come towards the latter part of this year.

Ranveer Singh: Coming to Generic business and finished dosages, have you seen a growth in this quarter or there was degrowth?

Pramod Yadav: So, there was not a degrowth, but the growth was kind of muted.

Ranveer Singh: Going forward, you said that you expect better growth on higher volume?

P**ramod Yadav:** One is that the prices of two of the products would be improving. And as we manage all these regulatory issues more production will be available, there will be the volume growth as well. So, growth will come on account of both of them.

Ranveer Singh: In your commentary you mentioned something recent breakeven in Radiopharma. You were talking about Triad?

Shyam S. Bhartia: Yes, we are talking about Triad only.

Ranveer Singh: So, you mentioned in commentary that in Radiopharma we are targeting to reach a breakeven. So, I suppose you are talking about Triad, right?

Pramod Yadav: Yes, that was for Radiopharmacy. We have renamed the business of Triad as the Jubilant Radiopharmacy and Jubilant Draximage as the Jubilant Radiopharmaceuticals, and both the businesses, under common brand Jubilant Radiopharma.

Ranveer Singh: In Radiopharmacy how was the traction like? I just wanted to understand how much loss currently you are making in this business?

Pramod Yadav: We are not giving the numbers for the businesses separately because both the businesses have already been merged together, and they along with the Allergy fall part of the Specialty Pharma.

Ranveer Singh: When we can see Triad reaching to break even?

Pramod Yadav: We indicated that towards the end of the next financial year.

Ranveer Singh: Just on the interest side, what I suppose that after this restructuring of your debt and now IFC-related debts are over, so debt should have been reduced. This quarter, interest cost has increased. So, what maybe the reason also or this level of interest will sustain in next quarter also?

R. Sankaraiah: Interest is at the same level like previous year same quarter. As far as the debt is concerned, we were able to reduce the debt in this quarter of Rs.196 crore.

Ranveer Singh: Yes, that I understand. Previous year's quarter, part of your interest cost was related to provisioning of IFC...

R. Sankaraiah: The gross debt has increased compared to year same quarter but there is a cash balance of more than Rs.1,350 crore which is there in the system. That cash balance earns lower interest rate compared to the borrowings.

Ranveer Singh: Going forward, we should take this interest level to continue in the rest of the quarter, that is what you are saying?

R. Sankaraiah: Interest will be more or less at the same level because we are going on reducing the debt, but the interest rate will be same or it will go down.

Ranveer Singh: Acetic acid price has been very lumpy. So, what is on macro level where you see this price is going to stabilize or this will continue to be lumpy, what is the situation there?

Rajesh Srivastava: I think for last two months; the acetic acid price is almost stable now. It is not further going down. So, there was a sharp drop for almost a month from about 450 level to now 380 level. But at that level, it is standing for last 1.5-months. So, we do not think it should further go down unless there is further lower demand of the end product because this end product demand in China that steadily gone down, which has created the surplus acid. So, there is improvement in China production we are observing and therefore the acid price further is not going down.

Ranveer Singh: For the past few quarters, our Nutrition business was impacted by lower offtake in Vitamin B due to unavailability of Vitamin A, then you saw a stockpile in there. So, the improvement we have seen this quarter is likely to continue going forward in subsequent quarter?

Rajesh Srivastava: In this quarter, we have seen as we mentioned both volume increase as well as price increase. So, we are seeing that volume we will sustain because demand is still good. We are still seeing that the pricing should remain same or should be little better. We think that the performance will maintain whatever we have done.

Moderator: Thank you. The next question is from the line of Amit Goela from Rare Enterprises. Please go ahead.

Amit Goela: First, I would like to complement the management for taking steps to evaluate whether two separate focused entities can be created. We feel it will be very-very good and really want to complement you on this. #2, is there any timeframe in which you will be doing the study or when you will be completing your study of this? #3, regarding the CMO business, you had just mentioned that this business is completely sold out. So, there is no need to give capacity. So, what would be the arrangement for price increases in this like if it is a multiyear contract if you could let me know this?

Shyam S. Bhartia: I am answering you the CMO question. In CMO, we are seeing the volume increases because of our capacity increases. As Pramod said, we expect the capacity of Lyo and with extra line we expect extra revenue of $30 million and both of these are implemented on a yearly basis. And we have a provision of price increase every year in some of our contracts because of the inflation increase, etc., For inflation we get a price increase. Sometimes when you renew a contract after two years or three years, then we can ask for a higher increase at that time depending upon the situation and the relationship with the customer at that particular time. So, regarding your second question on the timing of this board decision, I think we hope to take in our next board meeting in October and during this period we have to do a lot of work and the committee has to also evaluate it.

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

Saion Mukherjee: Sir, my first question is on the Specialty Intermediates where I know we have seen good growth. I am just wondering is it because of the newer products you got? And I am just wondering how sustainable the number that we see this quarter.

Rajesh Srivastava: So, in Specialty Intermediates, you are right, some of the products which we have been talking in last one year we have been introducing, those products are really looking positive traction. So, those products, we are in a position to place in the market and the volume is expected to grow, that is giving and it is reasonably sustainable. And as we also mentioned in earlier calls, that we also see a little bit of positive traction on pricing because of the overall global scenario specifically in China. So, that is also contributing to the overall performance both in revenue as in profitability.

Saion Mukherjee: Last quarter, I remember you talked about this fall in acetyl prices and that created some mismatch in your revenues and cost. I am wondering if there is any such mismatch in this quarter because you have not called out any such one-off in this quarter?

Rajesh Srivastava: We always have a lag of 45-days or so. So, that lag is almost over. We are at cost. But unfortunately, the demand is subdued. So, we are not in a position to take the relevant price increase and volume. So, that is why the Life Science Chemicals performance is not as we expected.

Saion Mukherjee: Sir on the Pharma side, just one thing I wanted to check. The CDMO business, you mentioned that API has been a bit weak I think this quarter, but we still have seen good growth. So, it is entirely from the contract manufacturing? And again the same question, the number that we see is it sustainable?

Pramod Yadav: Because of API being lower, CDMO is still doing good, definitely due to a strong performance from the CMO section on the revenue side. Yes, your estimation is correct.

Saion Mukherjee: Finally if I can on Rubyfill, one on the US side. you mentioned that it is as per your plan, but we do not know what your plan is. So, can you give some more color like how much is the improvement let us say YoY, QoQ and how far are we from what you think could be the peak sales and in which year you think it can be achieved?

Pramod Yadav: So, on the Rubyfill, when you say how far we are from our peak sales, I will say yes, we are probably a couple of years far off from that, we are not there yet, but we are very aggressively growing our market share. You asked some indication in terms of comparisons. So, the comparison I can give you like this quarter, Rubyfill

revenue in comparison to last year same quarter is almost 3x. So, it is a substantial growth that way. And if we look at the projection, probably in FY '20, our revenue will be between 2.5x to 3x of what it was in FY'19. This litigation case still going on which did create a confusion in the market and there is a lot of unmet demand in the market, and that market development takes time. So, it will take a few years for us to reach our peak capacity into the US.

Saion Mukherjee: Sir, on this litigation thing, so when do we expect to get a verdict on this? You mentioned this quarter only, right?

Pramod Yadav: Judge was to announce his decision, but he has held back because there are some other priorities. So, with these regulatory agencies, you can never make the right prediction, but it can happen anytime.

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

Vishal Manchanda: You have announced Ruby-Fill has got a CE mark in Europe. Could you talk about how big is the market there and how would they now basically launch it up there?

Pramod Yadav: In Europe, as of now, no competitor product is not approved. So, we are the first one who got this approval. So, you can safely assume there is no market as of now. So, the market has to be developed. But if you look at the application of this for the aging population and you look at the US market, there is no reason why the European market should not ultimately get developed as big as the US market. But we will have to put the market development efforts and we have to develop the market. But we are very happy that we have got the approval so the regulatory issues have been resolved and now we are ready to enter in the European market as well.

Vishal Manchanda: So, you mean Cardiac PET Imaging is not adopted in Europe? There is a scope for PET scan in Europe.

Pramod Yadav: Cardiac scan through rubidium is not there in Europe as of now because this gives a much better clarity and much more additional features through the Rubyfill generator and elution system what we have, that is not there in the Europe.

Vishal Manchanda: Question on your API business. Could you talk about where are we in terms of capacity utilization and do, we plan any expansion?

Pramod Yadav: In the last quarter, our capacity got impacted because of these regulatory issues. We had the business and some of the business we could not sell because as I mentioned earlier in the call we were doing some remediations to come out of the Official Action Indication status in the Nanjangud. But with traction of the customers and the business lined up, we do need additional capacity. For that additional capacity, we are still looking whether to do the expansion at the Nanjangud or at some other sites or to go for some inorganic growth opportunities. So, the decision is yet to be made.

Vishal Manchanda: So, basically until capacity is expanded, we will not see any significant growth on the API business except for delivering on the existing business contract. There is not going to be major growth that can come through?

Pramod Yadav: That will make the correction. The last quarter for the API was the one-off because we made many corrections in the plant and because of that volumes were really

down. So, if your question is in reference to the last quarter, we should see substantial growth in API business.

Vishal Manchanda: And one on your Vitamin B3 business. So, a couple of quarters back, you had indicated that you got a WHO GMP approval for pharma grade Vitamin B3. So, have you started selling pharma grade Vitamin B3 or it is yet to happen?

Rajesh Srivastava: WHO GMP, we have taken it for pharma grade as well as food grade, and our volumes are growing in these markets. So, we expect to grow the volume, but of course these volumes are not as big as feed market, but we are growing.

Vishal Manchanda: But the pricing should be much favorable for the pharma group?

Rajesh Srivastava: Yes, you are right, pricing are absolutely better than feed.

Vishal Manchanda: You are yet to ramp up your volumes in pharma grade Vitamin B3?

Rajesh Srivastava: Yes. we are ramping up QoQ because is where you have to go and take approvals of customers and customers take little time. So, business has started, it is growing, and it will continue to grow.

Vishal Manchanda: You have a new facility in Roorkee for solid dosage. So, are you filing from that facility for the US market?

Pramod Yadav: Yes, yes, we have done many of the filings from that market into many of the countries into rest of the world. So, all those filings and all those business plans are in place. So, far on the non-US market, we were kind of muted because of the capacity issue. Now with this capacity being available, we have quite a lot of good opportunities to grow the market in all those countries for many of the products.

Moderator: Thank you. The next question is from the line of Srihari C from PCS Securities. Please go ahead.

Srihari C: Firstly, can you please give me the cost of borrowing for local currency and foreign currency for the previous fiscal? Secondly, you have taken a price hike in Vitamin B3. What is the development for the entire quarter?

Rajesh Srivastava: Last quarter, price has gradually increased.

Srihari C: How do you measure it -- I mean it would have been available for what kind of period?

Rajesh Srivastava: It is right now continuing the same pricing. A little improvement we can expect in coming months. But, it is at the same or better level as of now.

Srihari C: Is it possible to quantify how much of these gain on that account?

Rajesh Srivastava: About 20-25% gain is because of pricing.

Srihari C: Second one was pertaining to the cost of debt?

R. Sankaraiah: Cost of debt this year average was 6.11%, rupee being 8.38% and the dollar being 5.33%.

Srihari C: What is the corresponding figure for FY'19?

R. Sankaraiah: Last year blended debt was about 6.18%, Re debt was about 8.40% and USD loans were at 4.91%.

Srihari C: Because the cost of debt has declined?

R. Sankaraiah: Yes.

Srihari C: Why is the finance cost still higher in that case?

R. Sankaraiah: Rs.2 crore is on account of restatement of rental to the interest. And second is we have raised $200 million bond. Out of that, we have utilized only around $135 million to pay IFC, the balance, $65 million, is lying in cash. If you see the total, cash number as of today in the balance sheet is Rs.1,310 crore. That Rs.1,310 crore gives a lower return compared to our borrowing rate. That gives us a return of almost like less than 3% whereas borrowing rate is almost like 5.33%. So, that differential of $180 million is getting a lower interest rate. That is why the overall interest amount has not come down.

Srihari C: You have not given the adjusted PAT figure. What would that be?

R. Sankaraiah: We can give you later.

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

Saion Mukherjee: Just one query on Capex. On the full year guidance, in this Rs.169 crore that you have in this quarter, it includes the capitalized portion of R&D?

R. Sankaraiah: Yes, Rs.169 crore includes everything.

Saion Mukherjee: What will be your guidance sir for this fiscal year?

R. Sankaraiah: We have given Rs.500 crore plus around Rs. 200 crore for product development.

Saion Mukherjee: The acetic anhydride plant is kind of delayed again. So, any specific reason for that?

Rajesh Srivastava: There was a delay for about a month because we have to take a clearance from pollution control board also. That's the process. So, nowadays in Gujarat, there are delays in terms of approval. So, we were ready. But that is done now. So, this quarter, we are already through in commissioning. So, this quarter we finish it.

Saion Mukherjee: Sir, any commentary on the US generic landscape in terms of pricing that you are seeing there for your portfolio and also on the volume side?

Pramod Yadav: The good thing is that a few of the products where we have the leadership position in the US market, either the sole supplier or one out of two, one out of three, in all those products so far we do not see any change. So, we continue to command a higher market share and better margins.

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

Surjit Pal: My first question is that regarding your penalty. How much of that penalty belongs to a failure to meet the supplier's commitment?

Pramod Yadav: All these penalties are on account of the failure to meet the supplier commitment. Those are the penalties.

Surjit Pal: So, that means that this kind of penalty till the time you resume your normal production schedule will continue every quarter?

Pramod Yadav: It will vary quarter-to-quarter depending upon how much is the production from which product and what was the supplier commitment. But yes, until all these regulatory issues are resolved, some penalties to continue.

Surjit Pal: Second question is regarding Rubyfill. Last time you said is that your competitors of the Rubyfill, patented one had a contract which expired with many guys in December 2018. Now after that, the management of Jubilant was expecting that the pace of acceptance of RUBY-FILL will increase and they will make good inroads. So, almost six months is over. So, how much incremental revenue you have in the last six months post the expiry of competitors' agreement?

Pramod Yadav: I mentioned earlier on the call that in this quarter, our RUBY-FILL revenue was almost 3x of the last year same quarter. So, what we said earlier that is definitely getting materialized.

Surjit Pal: If I compare that, how much it will be?

Pramod Yadav: I do not have right now the numbers for the six months, but it should be more or less in the same range.

Surjit Pal: How much total expenditures you have made since you launched the product RUBY-FILL? And when do you think that you will be able to achieve break even?

Pramod Yadav: So, total expense on the Rubyfill is into the double-digit million dollars because the development of this product was really very tricky and it took long time. And we are hopeful that next year we should achieve the breakeven.

Moderator: Thank you. The next question is from the line of Ranveer Singh from IDBI Capital. Please go ahead.

Ranveer Singh: Sir, on Vitamin B business again, I saw that price increase we have taken for a portion of business. What portion of business is actually non-contract?

Rajesh Srivastava: No. Price increase in Vitamin B3 is across. It is not that in one particular order or in one particular business. This is the price increase in the market.

Ranveer Singh: There was some mention of non-contract portion where the increase has been taken, that I wanted to understand.

Rajesh Srivastava: We do not have any long-term contract in Vitamin B3 business. We normally have quarterly contract and that is all.

Shyam S. Bhartia: The price announcement was made only for regulatory reasons. But we have only three-month contracts,

Rajesh Srivastava: But we mentioned as a normal language. It is not that we do not have any long-term contract.

Shyam S. Bhartia: Every quarter we can revise the prices.

Ranveer Singh: We have seen increase in volume. We are talking about QoQ increase in volume or YoY?

Rajesh Srivastava: It was YoY as well as QoQ.

Ranveer Singh: Our Capex is at Rs.500 crore. Where we are going to expense this?

R. Sankaraiah: Almost like 50-50 in Pharma and LSI, almost like Rs.220-230 crore in LSI and almost a similar number in Pharma also. As far as the product development is concerned, mainly it is going into Radiopharmaceuticals.

Ranveer Singh: So, product development is addition of Rs.500 crore, right, so roughly Rs.200-250 crore,?

R. Sankaraiah: Yes.

Ranveer Singh: In Pharma segment, in case we take Rs.250 crore, where that Rs.250 crore is going to because most of capacity expansions we have already now finished with or something is pending there?

Pramod Yadav: So, the investment is happening at all the places; the investment is happening on the CMO side for the installation, commissioning of the Lyo. We are doing investment on the Allergy side. There also some investments happening on Radiopharma side for increase of the Rubyfill capacity. In the API and the Generic business, there are investments happening to ensure that all the compliance remains in place. So, some investments on that front.

Ranveer Singh: And in R&D Rs.200 crore how much would be in Radiopharma?

Pramod Yadav: As Mr. Sankaraiah mentioned majority of that is onto Radiopharma side.

Ranveer Singh: This is towards developing that 505(b)(2) product?

Pramod Yadav: I mentioned we are having a pipeline of seven products, which we plan to launch over the next few years. Investment is going on that.

Ranveer Singh: Because that R&D has been sizable, so wanted to understand the whole the R&D set up there. So, is it on regular yearly receipt of about Rs.200 crore plus kind of R&D expenses? And I believe earlier we had some product development in Generics also. So, in R&D side, five or six products that we have been witnessing in pipeline in Radiopharmaceuticals. We have not added more product there. So, is this a regular scientist expenses or are there some clinical trials also involved there?

Pramod Yadav: So, in Radiopharma, each product development takes almost three to five years, and all these projects which were going on, this year, the investment is at its peak. So, it has really shot up because all those products are coming near to doing more of metal validations, exhibit purchase, etc., in next year one and two, the investments will taper down on the Radiopharma side.

Shyam S. Bhartia: Yes, you are right, also, part of the expenditure is going for our MIBG orphan product.

Pramod Yadav: Yes.

Ranveer Singh: So, clinical expense eventually will increase expense but other expenses will taper down, that is what...

Pramod Yadav: Yes.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for their closing comments.

Shyam S. Bhartia: Thank you so much everybody for joining on the call. And if you have any further question, please get in touch with our Investor Relations, Agrawal and also Mr. Sankaraiah and we will be happy to clarify any questions which you have.