Jubilant Life Sciences Limited
Q4 & 12 Months FY19 Earnings Conference Call

May 17, 2019

Moderator: Ladies and gentlemen, good day, and welcome to Jubilant Life Sciences Limited Q4 FY19 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ravi Agrawal, Head of Investor Relations, Jubilant Life Sciences Limited. Thank you, and over to you, Sir.

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 Q4 and 12M'FY19 Earnings Conference Call. 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.

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. Pramod Yadav – CEO of our Pharmaceuticals business and Mr. Rajesh Srivastava – CEO of Life Science Ingredients.

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 press release that has been shared on our website.

I now invite Mr. Bhartia to share his comments.

Shyam S. Bhartia: Thank you Ravi and Good Evening everyone.

We are glad to report strong performance in full year FY19 with record revenue and profitability driven by robust growth in our Pharmaceuticals segment. This has been driven by the company's strategic focus on a de-risked business model and being closer to customer with leadership position in key products. Our global competitive edge due to low cost and vertical integration and capacity additions with commitment to ensure high level of compliance will further strengthen our businesses.

Revenue during the year was up 21% YoY to Rs 9,111 Crore, while EBITDA was recorded at Rs 1,775 Crore, growth of 14% YoY with margins of 19%. During the year and in Q4'FY19 the company booked a few one-time charges that affected profitability. Our Adjusted EBITDA for the year excluding the one-time charges was at Rs 1,932 Crore up 17% YoY.

I am happy to report that the Return on Capital Employed (ROCE) of the company has increased to 18% from the 16% of last year.

For the Quarter, The Company's Q4'FY19 revenue was up 6% YoY to Rs 2,386 Crore with a reported EBITDA of Rs 351 Crore, however after adjustments for one-off expenses adjusted EBITDA was at Rs 455 Crore.

Pharmaceutical segment

The Pharmaceuticals segment witnessed robust performance in FY19 with revenue and EBITDA growth of 33% YoY and 38% YoY, respectively. The Pharmaceuticals segment accounted for 58% of the Company's topline and over 75% of EBITDA during the year. I am happy to report that all three key businesses in Pharma have witnessed growth during the year, both in revenues and in profitability.

The Specialty Pharmaceuticals segment reported revenue growth of 42% YoY and now contributes 53% of the total Pharma revenues. Growth in topline was driven by Triad acquisition and volume and pricing growth in the radiopharmaceuticals business. In the Allergy Therapy business, we witnessed growth in both venom and extracts. Losses in Triad business however, moderated Specialty Pharmaceuticals segment's profitability during the year.

Our CDMO business revenue grew 22% YoY led by strong growth in our CMO and API businesses. In CMO, in view of the better demand and pricing witnessed and our healthy order book, we increased our production capacity by increasing shifts to operate on 24 by 7 basis as against 24 by 5, for one of our lines in Spokane during Q3'FY19. We have also installed another Lypholization equipment, which is expected to increase capacity by 25% once it starts commercial operations by H1FY20. Our API business witnessed better market conditions in few key products, which led to better performance during the year.

In Generics segment, our US formulations business has seen a significant turnaround, which led to strong growth in EBITDA and improvement in profit margins. Recovery in the US business was led by select recovery in some of the products in US formulations market due to rationalization of product portfolio and plants by some generic companies. To meet the increasing requirements in EU, ROW and US markets, we are increasing capacities in our Roorkee facility, which is expected to complete in H1'FY20.

During Q4'FY19 Pharmaceuticals segment's revenue was up 13% YoY while EBITDA was recorded at Rs 287 Crore as compared to Rs 304 Crore in Q4'FY18. The profits were lower due to certain one-time expenses, which affected profitability. Details on the nature of these one-off expenses is provided in the results presentation.

Coming to regulatory matters, as you are aware, our Roorkee facility received a warning letter while our Nanjangud facility received an Official Action Indicated classification from the USFDA during the quarter. In both cases, we expect to continue to service our current operations but approvals for new products from the facilities maybe delayed.

I would like to re-iterate that Jubilant is committed to the highest level of compliance and quality norms and is taking all necessary remediating steps to ensure further stringent controls at all its facilities. We have submitted comprehensive responses to the USFDA and have engaged 3rd party consultants to help in the remediation activities. We are hopeful of a satisfactory resolution of the issues.

Moving on to the Life Science Ingredients segment,

LSI revenue was up 7% YoY in FY 2019 led by better prices witnessed in the Life Science Chemicals and Specialty Intermediates businesses. Segment's EBITDA was lower at Rs 445 Crore vs. Rs 632 Crore last year.

As reported in FY18 and also in our earlier interactions, the profitability was higher last year due to temporary disruption in market supply of acetic anhydride and better market conditions in Nutritional Products businesses.

LSI segment's Q4'FY19 revenue was at Rs 912 Crore with EBITDA at Rs 101 Crore. Sharp drop in acetic acid prices and higher cost inventory impacted profitability of the segment during the quarter. Also, we are witnessing molasses prices on an increasing trend due to tight market supplies.

We have witnessed normalisation of market conditions in the nutrition business with improvement in prices in Q4'FY19. We are also launching new products in our LSI businesses and adding capacity through debottlenecking initiatives to drive growth in this segment. Our new Acetic anhydride capacity is expected to be commercialized by the end of Q1'FY20, which is expected to add over Rs 300 Crore to the segment's revenue annually.

Outlook:

The Company has all the strategic levers in place to deliver sustainable growth in the near future.

In our Pharmaceuticals business, we expect growth momentum to continue with range-bound margins. There is strong demand for our products and we are continuing to strategically invest in building capacities to cater to this demand. We are also continuing to invest in a strong pipeline of products, especially in our Radiopharma business.

Our LSI business is expected to benefit from a strong improvement in our Nutritional Products. Also, our Specialty Intermediates business is expected to grow on account of new product launches and better market conditions.

We continue to remain focused on generating operating cash to invest in building a R&D led product pipeline particularly in Specialty Pharmaceuticals. We are also committed on strengthening the balance sheet by reducing debt to ensure sustainable growth.

With that, I would request Mr. Sankaraiah to take this discussion forward.

R Sankaraiah: Thank you, Mr. Bhartia. A very good evening and I thank everyone for taking out time and joining us on our quarterly Earnings Conference Call. I hope all of you have received our Financial Results and Press release.

Let me give you a brief of the financial highlights for the performance during Q4 and 12M'FY19.

We reported record results for the year under review. Revenue from Operations improved by 21% YoY to Rs 9,111 Crore, with Pharma revenues up 33% YoY to 5,324 Crore contributing 58% to the overall revenues. Ex-Triad revenue growth of 15% YoY. EBITDA grew 14% YoY to Rs 1,775 with margins of 19%. Finance cost was at Rs 220 Crore vs Rs. 284 Crore last year. Last year's finance cost included stock settlement charge to IFC.

The Company's reported PAT during the year was at Rs. 574 Crore while normalized PAT before the exceptional item of Stock Settlement Charge was at Rs 855 Crore. EPS and Normalised EPS for the year was at Rs 37 and Rs 54, respectively per share of Re 1 paid.

For the Quarter under review

Revenue from Operations was up 6% YoY to Rs. 2,386 Crore, with Pharma revenues up 13% YoY to Rs 1,399 crore. Reported EBITDA was at Rs 351 Crore versus Rs 481 Crore last year. The Company's Normalised PAT before exceptional item of stock settlement charge is at Rs 135 Crore with a Normalised EPS of Rs 8.5 per share of Rs 1 paid.

Before we continue, I would like to spend some time to provide some color on certain one-time expenses, which we have booked and which has had an adverse impact on our reported performance, especially with relation to our Q4FY19 performance.

At an operating level, the company has booked around Rs 103 Crore and Rs 157 Crore of one-time expenses in Q4FY19 and FY19 respectively pertaining to expenses related to litigation, IPO expenses, certain customer claims for Failure to Supply and forex movements on intercompany loans and other assets etc. Also, our LSI business was impacted during the quarter from the sharp decline in acetic acid prices, which affected profitability of the business due to inventory holding cost. After giving effect to the one time non-recurring items, the adjusted EBITDA for Q4'FY19 and FY19 are Rs 455 Crore and Rs 1,932 Crore, respectively, with margin of 19.1% and 21.2%

Further, in March 2019, the Company fully redeemed the outstanding zero coupon convertible loan of International Finance Corporation (IFC), Washington, on a one-time settlement of US$135 mn based on mutual agreement and exited from the loan conversion obligation. With this, all loans outstanding to IFC have been fully paid and the obligation to provide an exit to IFC by equity conversion of the convertible loan has been cancelled. The company booked an expense of Rs 280 Crore related to the Stock Settlement Charge on account of the IFC Convertible loan which included additional premium paid to IFC to fully settle the loans.

The company's net debt was at Rs. 3,490 Crore, which on a constant currency basis was at Rs. 3,370 Crore. Net Debt to EBITDA was at 1.9 as compared with 2.1 as on March 31, 2018.

Pharmaceuticals R&D spend in FY19 was Rs. 244 Crore, which is 4.6% of the segment sales with R&D debited to P&L of Rs. 190 Crore, which is 3.6% of segment sales.

The CAPEX was at Rs. 165 Crore in Q4'FY19 and Rs. 567 Crore in 12M'FY19. During the year, the company has generated operating cash of Rs 848 Crore before capex and product development of Rs 698 Crore. However, the net debt has gone up by Rs 139 Crore on account of the premium paid to IFC in lieu of equity conversion.

For FY20, we expect to incur Rs 500 Crore in Capex with another Rs 200 Crore in product development. Our tax rate in FY20 is expected to be in the range of 28-30%.

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 Aditya Khemka from DSP Mutual Funds. Please go ahead.

Aditya Khemka: My question is for Mr. Bhartia. So, Ministry of Corporate Affairs shows the data on entities like JODPL Private Limited which has debt of about Rs.2,000 crore and there is another entity of JOGPL Private Limited with the debt of Rs.1,000 crore. In personal capacity it seems you have businesses, which have a lot of debt. Is it possible for you to give us an assessment of your liquidity situation and if we may continue to see promoter selling the businesses that they own to satisfy their liquidity needs on the unlisted businesses?

Hari S. Bhartia: At personal level, we have hardly any debt, and we are happy to explain it to you.

Aditya Khemka: Okay, perfect, Sir. But I will still meet you and discuss this with you if that is okay.

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

Tushar Manudhane: Sir, with respect to this warning letter and OAI, so would there be any stoppage in supply which is not yet factored in let us say in FY'19 or Q4 FY'19 for that matter?

Pramod Yadav: So, due to warning letter and OAI, there is not going to be any stoppage of supplies of the current products which are in the market. The only impact is that new approvals will remain on hold for the Roorkee plant in the warning letter is lifted.

Tushar Manudhane: What would be the third-party consultancy charges?

Pramod Yadav: So, it will be difficult to give you the number at this stage as we are working with the consultants as of now.

Tushar Manudhane: Regarding the customer claims, is there something more to come or is it more or less done with respect to the regulatory aspect?

Pramod Yadav: It is not 100% done. We will get some more claims in Q1 also and then thereafter it will be done.

Tushar Manudhane: So, quantum wise will it be more or less same as it was in Q4 or more or less?

Pramod Yadav: We do not know exactly how much it will be, because this will depend upon what is the inventory situation at the buyers end, but it is going to be in the same range.

Tushar Manudhane: If you can just explain this litigation cost, what is it regarding?

Pramod Yadav: This litigation is with the RUBY-FILL®, which is a product we had launched, where Bracco who is the existing supplier of similar product had filed IP case against us. So, this litigation is going on for last one year. Case has progressed in the last quarter and due to that there was the additional litigation cost which we booked in last quarter.

Tushar Manudhane: So, the case continues. There is no outcome at this point of time.

Pramod Yadav: Yes, outcome is expected in the later part of this financial year. So, as of now, case continues.

Tushar Manudhane: The clarity on this CAPEX of Rs.500 crore is the total CAPEX or Rs.500 crore plus Rs.200 crore?

R Sankaraiah: Rs.500 crore is the CAPEX plus Rs.200 crore of the product development.

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

Alankar Garude: My first question is on both the pharma as well as LSI margins. Now, is it possible for you to split these one-offs of about Rs.103 crore in Q4 across both these verticals? So, if I just look at the IPO expense Rs.13 crore; this litigation expense of Rs.19 crore; and I think Pramod Sir mentioned that the litigation expense, the litigation is expected to continue till late FY '20. So, how should we look at this Rs.19 crore number for the full year?

Pramod Yadav: So, on the litigation expense, I will say major cost has been incurred and we do not expect much in this financial year. Of course there will be little, but not to the extent it was last year.

Alankar Garude: What about IPO expense Sir, what exactly is this cost because we haven't really filed the DRHP in any other geography apart from Singapore, right?

R Sankaraiah: This is a legal expense.

Alankar Garude: So, can we construe it as a one-off?

R Sankaraiah: Yes, this is one-off.

Alankar Garude: What are the plans on the IPO because now IFC is no longer there, can we expect the IPO to get deferred or we still have plans to continue with the IPO, any timelines on that?

R Sankaraiah: In immediate future we are not planning to do an IPO. But as and when the markets are better and things are looking good and we are out from the warning letter, we will definitely consider for equity raising.

Alankar Garude: My next question is on this acetic acid. Now if I remember correctly, the prices had actually started correcting towards the end of June or maybe early July. So, can you just explain this Rs.37 crore number? Was it possible for us to manage the inventory situation better? What was the need to take it entirely in the fourth quarter? Is there any inventory still left on our books?

Rajesh Srivastava: In Q1 to Q3, acetic acid prices have been in the range of $600. So, there was $10, $20 here and there, not majorly down but in Q4 lastly this price has come down from $600 to $450. Because once the prices come down in a period of a week or two weeks, that actually gives a dent to us because we are the large volume consumers. But if the prices fluctuate in a broader period time, that impact does not come because we normally pass it on.

Alankar Garude: What is the outlook on Acetic prices -- so is it expected to continue at $450 or…?

Rajesh Srivastava: Sometimes it is less $20, sometimes it is more $10, so right now, it is in the same range of $400 to $450. Actually, from last quarter, it is further down, it has not gone up, maybe $20, $30 lower than last quarter.

Alankar Garude: So, would it be fair to say Sir that if the current prices continue for the full fiscal FY'20, we ...?

Rajesh Srivastava: This kind of impact will not come.

Alankar Garude: Then we will be benefiting on the LSI margins?

Rajesh Srivastava: Not margin, this one-time impact will not come, that is the only thing.

Alankar Garude: You have mentioned in the outlook section, regarding steady revenues and range-bound margins in pharma. Now how should we look at this range-bound margin? Should we just focus on the Q4 number or should we just look at the previous few quarters wherein we have reported anywhere between 27-29%, so how should we look at this guidance of yours?

Pramod Yadav: So, the market remains strong, our all the product demand is good and we continue to have a reasonable growth in our top line. In terms of margins, all these one-times what we had in Q4 are definitely not going to be. So, if you take out all these one-times and whatever margin comes out, we expect it will be in that range-bound margins.

Alankar Garude: This is despite any possible ramp-up in RUBY-FILL®?

Pramod Yadav: Yes, so the RUBY-FILL®, we continue to gain market share, but as of now you can appreciate that we are also incurring quite a good cost on market development for that product. So, it is a product for the long-term where we will have very sustainable revenue and high margins, but as of now we are incurring cost to develop the market.

Alankar Garude: Any guidance on breakeven for RUBY-FILL®?

Pramod Yadav: Product wise it will be difficult to get into that detailing.

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

Vishal Manchanda: There was a news lately that one of your facilities in Pune has seen some accident and that facility is related to Acetic Anhydride. So, wanted to understand, if that facility has been restored and Acetic Anhydride production will be normalized?

Rajesh Srivastava: There was a little disruption in production, but the facility is going to come under production after the complete the maintenance, etc., we are doing it, but we will be starting soon after all the clearances of compliance and regulatory.

Shyam S. Bhartia: One plant has already started. Second plant is going to start.

Vishal Manchanda: So, we will see an impact in Q1 FY'20?

Rajesh Srivastava: There will be a slight impact.

Vishal Manchanda: Just to clarify, the prices you talked about $400, $450, these are Acetic Acid prices?

Rajesh Srivastava: Yes, these are acetic acid prices.

Vishal Manchanda: So, you basically import Acetic Acid prices and that is an input to Acetic Anhydride, right?

Rajesh Srivastava: Yes.

Vishal Manchanda: So, even Acetic Anhydride prices are corrected in the same proportion which lowers your margin?

Rajesh Srivastava: Yes, that is normally it happens with a lag of about one or two months.

Vishal Manchanda: Could you guide about the Vitamin B3 situation, how is it shaping up -- are the prices back to the levels it used to be earlier?

Rajesh Srivastava: So, last quarter also we mentioned that Vitamin B3 has seen the lowest in earlier quarters and last quarter i.e. Q4 has seen slight improvement in terms of pricing and this trend is still continuing, so prices are in the same range or better, but definitely what we have seen the highest price in last 1.5-years is still not there, but it is improving vis-à-vis earlier quarters last year.

Vishal Manchanda: Will the prices be down around 50%, is that a fair thing to assume?

Rajesh Srivastava: No, prices were not down by 50%. Yes, it may down by about 30%, 40%, but the increase is happening gradually, so let us say last quarter it has been 5-10% like that.

Vishal Manchanda: Regarding the Pharmaceuticals business, the EBITDA is down Rs.100 crore QoQ basis. Part of it is explained through the one-time expenses, but not the entire amount. So, about I think Rs.40, 50 crore are one-time expenses. Could you talk about the rest of the EBITDA decline?

Pramod Yadav: Other than the one-time, there were some impact into the sales because of the timing issue. So, in Q3, our sales were higher for few of the high margin products and when you compare between Q3 and Q4, the impact of that actually becomes double because you had plus in Q3 and then that much minus in Q4, so that was there. And other than that, because of the FDA audits and the warning letter, etc., we were doing some of the remediation measures in the plant that had impacted some volumes.

Vishal Manchanda: So, the ramp-up in API that you have seen in FY'19 and also the ramp-up in Generic business, can we expect these businesses to sustain current levels in FY'20 or do you anticipate a decline in this segment?

Pramod Yadav: In both the businesses, we are seeing quite good traction from the customers on the products that we are marketing, and we expect that in Generics the margins are going to remain in the same range what they were last year.

Vishal Manchanda: And overall sales maintain at current levels?

Pramod Yadav: Yes, that is what we expect.

Vishal Manchanda: On the Contract Development and Manufacturing business, is that fully utilizing your capacity or there is still scope for you to ramp it up because the new capacity that you have planned is coming up?

Pramod Yadav: So, we are ramping it up in two phases. So, earlier we had started running one line 24/7. That additional capacity impact is already in. The other line we plan to start in H2. So, in H2 you will see impact of the other line additional capacity. And Mr. Bhartia mentioned that we have also installed another Lyo which will also get commissioned during mid of the year. So, that impact is also yet to come.

Vishal Manchanda: How much the new Lyo will add to the existing capacity in terms of percentage?

Pramod Yadav: So, overall with all these three initiatives that I mentioned, it will be close to 25% capacity ramp-up for both the lines and the Lyos.

Vishal Manchanda: Do you also use these capacities for your in-house Allergy Immunotherapy business?

Pramod Yadav: So, once that capacity is available, it will be used for in-house as well as for the merchant customers. We have the demand of the products. In fact, in this business, there is a bit of a shortage of the capacity in the market. So, customers are chasing us.

Vishal Manchanda: You have just filed for SCIT venom? So, how long will that take and how big is the opportunity?

Pramod Yadav: We have applied for this. We are expecting approval shortly. Now this venom for animals is not a fully developed market. This market has to be developed. We see the opportunity there. So, we have gone ahead and are taking the regulatory approvals.

Moderator: Thank you. The next question is from the line of Surajit Pal from Prabhu Das Lilladher.

Surajit Pal: Good evening everyone. I have one question on RUBY-FILL®. Last time when we met, I think Mr. Sankaraiah told us that regarding the Bracco's product where they had three years of contract of supply in majority of the hospitals, will come to an end in December 2018. So, that will open the opportunity to market aggressively and push RUBY-FILL® during that space because in that case, there will be no contractual obligation to the hospitals anyways. Now it is almost five months since that. Do you see any traction in that where the hospitals came out of the contractual obligations are buying RUBY-FILL® more aggressively?

Pramod Yadav: As I mentioned earlier that we are increasing our market share. We are getting traction from the customers for the RUBY-FILL®. So, what I can tell you is that the number of sites where we are doing the installations of the RUBY-FILL®, those number of sites QoQ are increasing. They could have increased much more than the level at which we are able to do as of now, and that is exactly what the strategy of Bracco is, to start this litigation so that the market or the customers get little confused. So, that did impact a bit. But even then, many of the customers are going ahead and using our product, because they have the confidence that the product is good and the product is not infringing any of the IPR.

Surajit Pal: But litigation cases very normal anyways in terms of IP-related cases. But the point is that could you throw some light on quantity in terms of number of installations you have achieved QoQ or full year?

Pramod Yadav: You need to please appreciate that there is only one competitor out there. And then giving any specific numbers is like disclosing very confidential information which the competition can use against us.

Moderator: Thank you. The next question is from the line of Ashwin Kulkarni, individual investor. Please go ahead.

Ashwin Kulkarni: Good evening everybody. I just wanted to know a little bit more about the royalty for the brand name issue, which was there. Is it deferred permanently or is it going to come up sometime soon?

Shyam S. Bhartia: So, that we had announced that we have deferred it permanently. It is not going to come up again.

Ashwin Kulkarni: And I also wanted to know at what level the promoters will be comfortable in their shareholding because every time we see the share price come at a certain level and the promoters offload their share? So, it is just like the government PSU where the government is waiting for the price to offload the share.

Shyam S. Bhartia: Promoters in Jubilant Life Science have not offloaded shares anytime recently, we only offloaded shares from our employees' trust, which we had to as per SEBI regulation, we had to offload the shares.

Ashwin Kulkarni: But last year also there was some kind of selling of shares from the promoters.

Shyam S. Bhartia: This was October.

Ashwin Kulkarni: Yes. So, at this level the promoters are comfortable with their shareholding or is there any plan for further dilution?

Shyam S. Bhartia: There is no proposal by the promoter to sell any share in the near future.

Moderator: Thank you. We have the follow-up question from the line of Vishal Manchanda from Nirmal Bang. Please go ahead.

Vishal Manchanda: Could you talk about the Drug Discovery Solution business because that has been kind of range-bound for a number of years, so are there any initiatives that you are doing to scale that up?

Pramod Yadav: In our Drug Discovery business, yes, it has been stable for the last couple of years, but we have a plan to grow the business because we are finding the opportunities in market to be better and we have a plan to expand and we have a growth plan in place for Drug Discovery.

Vishal Manchanda: Any specific initiatives that already have been taken on this and do you see a ramp-up happening in this category?

Pramod Yadav: Yes, two, three things -- One is the business development, we are taking key initiatives to expand our business development specifically in US, and that is actually giving the positive traction, and based on some of the customer response, now the traction towards India is getting better, and based on that, we have also ramped up our growth plans which we will implement in next two to three years.

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

Alankar Garude: Any debt reduction target which you can share for either next year or maybe for the next two, three years?

R. Sankaraiah: The objective is to generate operating cash flow and continuously reduce the debt. If you see last three years, debt-to-EBITDA of more than three, we have already become less than two. So, this will continue.

Alankar Garude: On Triad, I think at the time of acquisition, it was slightly profit-making, then the company has been making losses. So, what should we expect from Triad going ahead? Did Triad contribute to losses in FY '19 as well and what is the outlook in '20 and '21?

Pramod Yadav: So, I think on the last call we had mentioned that we expect Triad to be breakeven in FY'21. But the plans are in place to gain higher market share and to have control on the cost, and with that we are already seeing the upward momentum.

Alankar Garude: So, the losses are coming down sequentially?

Pramod Yadav: So, we have plan in place to see that how we are able to make this business breakeven by FY'21.

Moderator: Thank you. The next question is from the line of Chirag Patel from Atom Investments. Please go ahead.

Chirag Patel: The only question I have is a sort of a follow-up question on the debt reduction that the other gentleman was asking. You said your debt-to-EBITDA was 3, now it is 2. But the point is if there is an unforeseen event that happens and you cannot control it, it could be a regulatory event, it could be something other than that which then hampers your operating cash flows. That is a big risk to the balance sheet and to the business at large, right? So, conservative balance sheet and accounting is much more prudent, right, there is a lot happening in the pharmaceuticals sector and you do not know what you do not know at times, right?

R. Sankaraiah: That is why if you see, as far as the pharma is concerned, what is the debt which we have in the books? It is only the bonds what we have raised $300 million, which is due in 2021 October and the other $200 million what we raised recently which is due in March 2024, it is a very long-term. So, that way we do not have any immediate debt repayment obligation in Pharmaceuticals at all. Rather on the contrary you will see almost like Rs.1,300 crore cash sitting in the balance sheet.

Chirag Patel: So, you are saying that if there is a sort of a Black Swan or any unforeseen event, there is no repayment obligation in the near-term and there is cash in the balance sheet, so you should be able to recover from that unforeseen event? I am not trying to predict anything but just in case.

R. Sankaraiah: Absolutely, that is the whole objective.

Chirag Patel: You mentioned that your return on capital employed is 18% close of financial year '19. Are you satisfied with that level of ROCE, because it is a continuous CAPEX type of business? So, your capital employed will continuously rise. And do you have a target ROCE in mind if you could just elaborate on that one please?

R. Sankaraiah: Our defined ROCE is 10% higher than the weighted average cost of capital. If you take in that concept, we are almost equal as of today. But the objective is to go further up.

Chirag Patel: So, your weighted average cost of capital today is 8%?

R. Sankaraiah: Around 8-9%, yes.

Chirag Patel: But your aim is to take it at least be closer to 20%?

R. Sankaraiah: That is objective.

Chirag Patel: But there is no guideline or timeline in your mind at least, so it may or may not happen?

R. Sankaraiah: Guideline is very clear; it is 10% higher than the weighted average cost of capital.

Chirag Patel: But if the money becomes expensive, how will you increase your return? I am not getting that. So, for example if the cost of capital goes up to 12%, how can you report ROCE of 22%?

Shyam S. Bhartia: By improving profitability and reducing the working capital, we can improve the return.

R. Sankaraiah: The cost of capital like I mentioned just now, whatever the debt which is required for running the business plus the cash as of today we are having adequate safety and there is no reason why the cost of capital should go up.

Shyam S. Bhartia: We have to keep the control on both on the CAPEX and also on the working capital.

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

Shyam S. Bhartia: Well, thank you so much everybody, for joining the call. For any further questions, Mr. Sankaraiah and Ravi Agrawal are available.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Jubilant Life Sciences Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.