Jubilant Life Sciences
Q4 & FY'20 Earnings Conference Call
May 29, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Jubilant Life Sciences Limited Q4 & FY'20 Earnings Conference Call. As a reminder, all participant lines will be in the 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. Vineet Mayer –from Investor Relations Jubilant Life Sciences Limited. Thank you and over to you, sir.

Vineet Mayer: Thank you. Good evening, everybody. I am Vineet Mayer from Investor Relations at Jubilant Life Sciences. I thank you for being with us today on our Q4 & 12-months 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. Pramod Yadav -- CEO, Jubilant Pharma; Mr. Rajesh Srivastava -- CEO, Life Science Ingredients and Mr. Alok Vaish – President and CFO, Jubilant Life Sciences Limited.

I now invite Mr. Shyam Bhartia to share his comments.

Shyam S. Bhartia: Thank you Vineet, Good Evening everyone. I am sure you would have had a chance to go through our presentation and press release, which we have shared with you.

We are glad to report record profits in FY20 with improvement in margins resulting from strong performance in the Pharmaceuticals and Drug Discovery and Development Solutions (DDDS) segments. Pharmaceuticals segment delivered a 27.2% EBITDA margin and the DDDS segment saw EBITDA margin increase to 28.1% from 8.3% margin in Q4FY19. The LSI segment's FY20 revenue was at Rs 3,179 Crore as against Rs 3,545 Crore last year. Strong growth in Specialty Intermediates and Nutritional Products businesses led to margin improvement by 100 bps to 13.6%.

I am pleased to also highlight that during the year the Company reduced its net debt by Rs. 514 Crore and is focused on further deleveraging by generating healthy levels of cashflows. Further details on Debt and other key financials will be provided by Alok in his remarks.

I would also like to discuss the impact of COVID-19 pandemic on our business. I am pleased to report that despite the tough Covid-19 situation, we have made all efforts to operate all our facilities with safety of our people and plants. The demand conditions across most of our businesses continue to remain stable. We have been able to continue to operate almost all of our facilities in North America and India. Our Nanjangud facility, which had temporarily suspended operations, has also received regulatory approvals to restart – Pramod will provide more details on this in his remarks.

We have ensured adequate stocks of all key raw materials in our businesses, along with the security of future supplies and have not witnessed any significant variation in the availability and purchase prices of key raw materials. We have also been able to overcome the logistics related challenges, thanks to the rigorous efforts of our Manufacturing and Supply chain teams. We are conducting a stringent review of our overall cost structure to reduce both fixed and variable costs. We are also rationalising our capex plans, without sacrificing growth, until the business environment stabilizes.

Across all our operations since the onset of Covid-19, our paramount focus has been the safety and wellbeing of all our employees and their families, business partners, and local communities. At work places we are following necessary guidelines of sanitation, Social distancing and emergency preparedness to deal with any eventuality related to Covid-19.

In response to Covid-19 pandemic, we have also started production of hand sanitizers in our plants and have donated significant quantities to various government, regulatory and healthcare facilities. We have also contributed Rupees 5 Crores to PM Cares fund to support Government of India's initiatives in mitigating the COVID-19 crisis – this includes one day's gross salary of about 5300 employees.

As announced recently regarding our Licensing Agreement with US-based Gilead Sciences, to register, manufacture and sell Gilead's investigational drug, remdesivir, a potential therapy for Covid-19, we are working towards initiating production of the drug by July 2020, subject to all regulatory approvals.

I am confident that, notwithstanding the current challenges unleashed by COVID-19 pandemic, we will be able to deliver sustained growth given our leadership position in all our businesses and presence in niche and high potential Specialty Pharmaceuticals, CMO, Specialty Ingredients, Nutrition and Drug Discovery businesses. I also take this opportunity to thank all our employees who have worked tirelessly across all our plants and offices to ensure continuity in operations.

With this, I would like to request Pramod to discuss the Pharma business.

Pramod Yadav: Thank you, Mr. Bhartia. A very good evening to all of you. I would like to share overview of the Pharmaceuticals business' performance during the quarter.

During Q4'FY20, Pharmaceuticals segment's revenue was up 6% YoY driven by a 13% YoY increase in Specialty Pharmaceuticals and 17% growth in the Generics businesses.

Growth in Specialty Pharmaceuticals during the quarter was led by strong performance in the Radiopharma business, a result of higher volumes in key products including Ruby-Fill®. We are also working on our unique pipeline of around eight products currently under development with an addressable market of over USD 300 million. We are confident that the strategic alignment of our radiopharmaceutical business with the radiopharmacy business positions us strongly to capitalize on current market demand. We are taking several steps, including opening up of new pharmacies, acquiring new customers and increasing operational efficiencies to drive growth in topline and improvement in profitability in the distribution business.. Allergy Therapy Products business also reported revenue growth during the quarter led by better prices.

CDMO business' Q4'FY20 revenue was Rs. 388 crores vs Rs. 447 crores in Q4FY19 due to lower revenues in API, which was partially compensated by higher sales in the CMO business. API business' revenue decline during the quarter was due to lower dispatches from plant on account of the Covid-19 situation at site and additional quality checks on all input raw materials to meet enhanced regulatory requirements.

Generics revenue growth in Q4'FY20 was driven by healthier performance in the US market, which witnessed higher volumes and better prices.

EBITDA of Pharmaceuticals business segment was up 50% YoY to Rs 429 Crore from Rs 285 Crore in Q4'FY19. Apart from higher revenue and better margins, the quarter also benefited from better comparison from Q4'FY19 since that quarter had significant litigation costs and Failure to Supply penalties.

With regards to the COVID-19 situation, I would like to mention that it is business as usual on the operations front. All our plants in North America are operating normally. We continue to witness stable demand across CDMO and Generics segments. The only Covid impact we have witnessed is in the Specialty Pharma segment, which has been impacted by fewer hospital visitations. However, with the lifting of lockdowns in North America, we have witnessed business recovering to about 70% of normal sales last week from a low of 40-50% of normal sales in early April. We expect normalization of sales in the Specialty Pharma business in Q2'FY21.

I would now like to provide an update on the API Nanjangud plant. In last week of March 2020, operations at our Nanjangud plant were temporarily suspended due to the positive testing of a few employees at the plant for COVID-19. The Company has provided full support to the district administration and health authorities including ensuring quarantine of all employees, and importantly, following Government protocols. We are pleased to report that all the employees have also fully recovered and ready to get back to work. We have assigned utmost importance to the wellbeing and safety of our employees and the nearby community and have distributed masks, soaps/ sanitizers and ration to support fight against COVID-19. We have now received the permission to restart the plant and expect the production to start in the next few days after following all protocols. We expect to partly mitigate the impact of the temporary suspension of operations at the API plant through the existing finished goods inventory at site and by increasing production of a few high demand products where we have additional capacities available.

With regards to regulatory matters, the site remediation activities at Roorkee in consultation with 3rd party consultants to address US FDA observations are progressing well and we are hopeful of resolution of the same, once the Covid-19 related disruptions subside. The Nanjangud plant, during the quarter, was assigned GMP compliant status by Health Canada. We are working diligently with the US FDA regarding resolution of the OAI status in Nanjangud and are hopeful of a resolution of the same as well.

We continue to maximize our capabilities to remain competitive and meet the needs of our customers as we continue to invest in operational improvements. We are committed to doing our part to make available treatment for COVID and feel a profound responsibility to help improve the health of people around the world. We are well-positioned through our combination of scientific expertise, operational scale, and financial strength to bring together our resources in collaboration with others to accelerate the fight against this pandemic.

With this, I would like to turn today's discussion over to Rajesh for providing insights into the LSI and DDDS business.

Rajesh Srivastava: Thank you, Pramod. A very good evening to all of you. I would like to share details on Life Science Ingredients and Drug Discovery and Development Solutions segment's performance during the quarter.

LSI segment's Q4'FY20 revenue was at Rs 823 Crore compared to Rs 912 crores in Q4FY19. This was due to lower revenues in the Specialty Intermediates and Life Science Chemicals businesses.

Our Nutrition business reported robust revenue growth of 50% YoY during the quarter led by higher volume and better prices in vitamin B3. We expect pricing scenario to improve further in Q1'FY21.

Specialty Intermediates' revenue was impacted by subdued demand of Pyridine and its derivatives resulting from weak demand in Crop protection products due to Covid-19 impact in China.

Life Science Chemicals business' revenue was impacted due to subdued demand for Ethyl Acetate resulting from lower demand in segments like Automotive (Paints), Consumer durables (Packaging) and Electronics industries. Revenue in LSC business also impacted due to continued decline in pricing resultant of lower demand and significant price reduction in key raw material ie. Acetic Acid.

EBITDA during the quarter was at Rs 118 Crore, up 17% YoY and 18% QoQ led by margin improvement in Specialty Intermediates and Nutritional Products businesses. EBITDA margin was at 14.4%, up from 11% in Q4'FY19 and 12.6% in Q3'FY20.

I would like to mention that demand in our Nutritional business as well as Specialty Intermediate business continues to be strong, both domestically and internationally. All our customers globally are buying products at pre-Covid levels. We are also realising better pricing than that during the last quarter. In Life Science Chemical business ("LSC"), we are witnessing stability in demand and prices of Acetic Acid and expect demand to improve going forward.

About 70% of our revenue in LSI segment is from Pharmaceuticals, Agrochemicals, Nutritional products and other essential material industries and hence we expect our performance at pre-Covid levels.

I am happy to announce that our R&D team has developed formulation for hand sanitizer using own-produced ethanol. The company has got necessary approvals from Government authorities and has realigned its manufacturing facility to start producing hand sanitizers. We have supplied these sanitizers free of cost to national and state Govt's to support their efforts against COVID-19. To meet the strong demand in the market for good quality sanitizers, we have started producing sanitizers at a commercial scale.

Our Drug Discovery and Development Solutions business witnessed robust growth during fourth quarter due to strong demand witnessed for integrated services and for chemistry and scale up opportunities by the Drug Discovery Services business.

Q4'FY20 revenue of the segment increased by 25% YoY and EBITDA increased to Rs 35 Crore from a loss of Rs 1 Crore in Q4'FY19. In view of the strong demand in this segment, and as discussed in our Q3FY20 Earnings call, we are making investments in this business to double capacities in the next 2-3 years.

In Drug Discovery, both Chemistry and Biology business have shown strong momentum and experienced only minimal impacts from COVID-19, with no delays or cancellations to existing programs. All signed projects continue to be on track. COVID-19 is offering some new and important opportunities, which we are reviewing.

In our innovative therapeutics business, we are working on more than six programs to deliver precision medicines focused on both first-in-class and validated but difficult to drug novel targets to address unmet medical needs in the area of oncology and auto-immune disorders with potential to fast track promising assets from discovery to clinical stage.

On the operational front, we are implementing capex reduction actions, while ensuring that we run operations safely & are compliant with various regulations. Our focus is to maximise utilization of existing assets at optimal level through minor debottlenecking wherever required to meet growing customer demand. We have significantly reduced our planned capex in FY'21 without affecting the revenue plan as per expected demand of our products. In our Life Science Chemicals business, which is more susceptible to commodity prices, we have taken action to immediately revise minimum inventory levels of raw materials as well as finished products. We are closely working with customers to keep control on our account recievables. A very high level of rigour is being followed to conserve cash and also ensuring that we meet all our customers' demands.

Taking into account the present market demand scenario, we expect to generate even stronger cash in business with tighter control on working capital especially in Life Science Chemicals business and lower capex investment.

With that, I would pass this discussion on to Alok.

Alok Vaish: Thank you, Rajesh. A very good evening and I thank everyone for taking out time and joining us on our quarterly Earnings Conference Call. I would like to highlight the Company's financial performance during 12 months and quarter ended March 31 2020.

Revenue from Operations during the quarter at Rs. 2,391 Crore was in line with last year's corresponding quarter, with Pharma revenues higher by 6% YoY to Rs 1,483 crore, LSI revenues at Rs 823 crore vs Rs 912 crore during Q4FY19 and Drug Discovery's revenue higher by 25% to Rs. 85 crore. Reported EBITDA at Rs 556 Crore was up by 58% YoY and 8% QoQ with margin at 23.3%, which was higher by 852 basis points YoY and 107 basis points QOQ.

Depreciation & Amortization expense during the quarter was at Rs 129 Crore, higher by 36% YoY and higher by 14% QoQ. Increase in depreciation cost was largely due to adoption of new lease accounting standards.

Finance cost during the quarter was at Rs 71 Crore, higher by 16% YoY and higher by 1% QoQ. Average blended interest rate for 12M'FY20 was @ 6.1%, Rupee loans were @ 8.2% and foreign currency loans were @ 5.3%. PAT during the quarter was at Rs 260 Crore as compared with a loss of Rs 99 Crore in Q4'FY19, with an EPS of Rs 16.35 per share. Q4'FY19 had an IFC stock settlement charge of Rs. 235 crores. Normalised PAT during the quarter was at Rs 260 Crore as against Rs 135 Crore in Q4'FY19. Normalised EPS during the quarter was at Rs 16.35 per share of vs. Rs 8.50 in Q4'FY19.

For FY20 financials, the key highlights are the revenue achievement of Rs. 9,154 crores, marginally up from FY'19; EBITDA of Rs. 1,995 crores, up 12% from FY'19; Profit after Tax of Rs. 898 crores, up 56% from FY'19; and EPS of Rs. 56.39, up 53% from FY'19 EPS of Rs. 36.86. For rest of the details, please refer to our investor presentation and press release shared with you.

The company's net debt on a constant currency basis was at Rs. 2,976 Crore, a reduction of Rs 514 crore as compared to March 31, 2019. At the end of FY20, our Net Debt/FY20 EBITDA has improved to 1.6x from 2.0x at end of FY19. We have improved our cash position further during the current quarter and expect to generate healthy operating cashflows during the year to further reduce our debt levels. I would also like to mention that, given our strong liquidity position and normal operations, we have not requested any deferment of loan and interest payments and we will continue to service all our debt obligations on time.

The CAPEX was at Rs. 89 Crore in Q4'FY20 and Rs. 516 Crore in 12M'FY20. During the year, the company has generated operating cash of Rs 1,290 Crore before capex and product development of Rs 624 Crore.

During the quarter, the Company paid an interim dividend @ 500% i.e. Rs. 5 per share of Rs 1 paid up for FY20, which is the Final dividend for the year as well.

Despite the challenges posed by Covid-19, we have been able to deliver strong performance. We will continue to strengthen our leadership position in all our businesses and create value for our shareholders.

Before I conclude, I would also like to provide an update on our reorganization proposal. After filing the Composite scheme of arrangement with the BSE and NSE stock exchanges, we have received no objection letters from both the exchanges in January 2020. Post this, the Company had filed application for approval of the composite scheme of arrangement with National Company Law Tribunal, Allahabad

Bench. Given the lockdown situation, we expect some delay in the process timelines and expect completion of this process by October/November 2020.

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

Moderator: Thank you. 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: I was just trying to understand the interest cost. On an annualized basis, from Rs.219 crore last year, we paid Rs.287 crore this year and that too when we are reducing debt close to Rs.500 crore. Can you throw some light there?

Alok Vaish: So we also have the lease accounting standards which requires us to capture that interest cost because of the lease expenses, that is also coming in here, adding to the difference.

Rahul Veera: How much would that be sir approximately?

Alok Vaish: I will not have that number. I will come back to you on this.

Rahul Veera: Pramod sir, on the Drug Discovery side, last year same quarter we did Rs.68 crore of revenue, our EBITDA margin was slightly negative. But at Rs.85 crore, we have EBITDA of Rs.40 crore. So what change in the Drug Discovery segment?

Rajesh Srivastava: Basically, one is because of pricing, we have improved our pricing of FTEs, and secondly our capacity utilization has gone up, we have improved our capacity utilization and of course there is some positive impact of exchange rate as well. So these are the three key reasons.

Moderator: Thank you. The next question is from the line of Kimberly Wu from Value Partners. Please go ahead.

Kimberly Wu: My question would be mainly on the Jubilant Pharma side. So for the pharma segment, how much CAPEX we are expecting for fiscal '2021?

Pramod Yadav: The CAPEX is for FY'2021 post this COVID scenario we are controlling to conserve the cash and we are continuing to watch the situation and take the decision basis that. But however, it will be somewhere plus/minus of the $50 million this year but we are watching the situation.

Kimberly Wu: Like kind of we have around $60 million CAPEX we are expecting this year for pharmaceuticals segment?

Pramod Yadav: As I said that, we are watching the situation and as of now we need to conserve the cash, so anything which can be avoided without impacting safety or the compliance, we are a bit holding that.

Kimberly Wu: So could you give the breakdown on the Jubilant Pharma side for the debt level and the cash level?

Alok Vaish: We have bonds of about $400 million and we have a small working capital facility of about $30-odd million as of March 31, 2019. On the cash side, we have about 75 million there. So net is about Rs.200 crore of cash that we have which is roughly about $300 million of net debt.

Kimberly Wu: I have another question on the international rating agency's rating update from FITCH and S&P. So any change on the rating?

Shyam Bhartia: There is no change in rating

Alok Vaish: Rating agencies obviously have put us on a positive watch for the pharma business. Basically, they are waiting for the demerger to happen which that will probably happen sometime in October and November, then the rating agencies will come on to the final rating.

Kimberly Wu: On the pharmaceuticals side, like for the first quarter fiscal '2021, what is the expected impact on the revenue?

Pramod Yadav: As you see, we have been growing on our top line and in FY'20 we have delivered strong performance. We are expecting this performance to even improve more in FY'21. However, we do have COVID-19 situation as of now which is evolving almost on the daily basis. So, at this point of time, it will be slightly difficult to project but the way we are seeing the demand in the market, we are very confident that we will be able to deliver the stable performance.

Kimberly Wu: Any expectation for this year's revenue growth?

Alok Vaish: We do not give out growth guidance for our financials, but as we said earlier, obviously, Q1 we will have some COVID impact, but for the full year we believe we should be able to come back from the COVID impact and not have a significant impact in our financials.

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

R Jhunjhunwala: Congratulation on fine performance. On what basis the board is declaring dividend?

Shyam S. Bhartia: We are trying to conserve cash because of the COVID situation and we are going through a demerger also.

Considering that we have to repay the debt and we have a high debt of almost 2 times of the EBITDA. So you will see that we are able to reduce our debt. Overall it will really help the investors in reducing debt.

R Jhunjhunwala: And other thing is why are you holding such large amounts of cash? You have about Rs.1,200- 1500 crore cash.

Shyam S. Bhartia: We have cash, which will be used normally for repayment of the debt.

R Jhunjhunwala: It is a large amount no?

Shyam S. Bhartia: The main cash is in the US which we will use for repayment of the debt as and when it is due next year.

R Jhunjhunwala: Thank you and congratulation on your fine performance.

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

Hitakshi Chandrani: My first question is the margins that you have for the Drug Discovery business this time. You said there are three reasons, but how far are these margins sustainable going forward?

Rajesh Srivastava: In fact, as I said in my speech that our demand remains strong and we are in a position to continue to utilize capacity not only as per last year, in fact, we are planning to debottleneck capacity and we are trying to improve going forward. So I definitely see that the demand continues, we are utilizing higher capacity, our pricing of our FTEs is also stronger. So I do not see any reason that this will not continue. In fact, it should improve any further if possible.

Hitakshi Chandrani: My other question is I think there has been an increase in gross debt by Rs.600 crore. So, is there any specific reason for it that you would like to point out?

Shyam S. Bhartia: As I said that we have cash in US and we are holding the cash for our repayment of our debentures.

Alok Vaish: Also, there has been a restatement of the debt due to the foreign currency translation. So in the previous year that exchange rate was about Rs.69 which has now gone up to Rs.75. So that retranslation also increases the gross amount of debt.

Moderator: Thank you. The next question is from the line of Sajal Kapoor, an individual investor. Please go ahead.

Sajal Kapoor: I have got two questions. First one is on your Drug Discovery Solutions business where you are doubling investments to around Rs.400 crore, which is good news of course. Just wanted to better understand the nature of these investments. Is that going into new capabilities or additional lab space or purely human capital, I mean, are we looking to add new growth, high growth areas like cell and gene therapy as part of this CAPEX, what exactly are we planning?

Shyam S. Bhartia: Firstly, we are not investing Rs.400 crore.

Sajal Kapoor: No-no, taking it to Rs.400 crore. So we are doubling, right. We are currently about Rs.200 crore, we will take it to Rs.400 crore.

Shyam S. Bhartia: In two to three years' time. So immediately we are adding more labs space to take care of the additional requirement. As you see that from a lot of business is increasing towards India from other countries, so we see a lot of business coming in and we see a lot of inquiries in order to meet the requirement of our customers, we are increasing the lab space and also the people.

Sajal Kapoor: In terms of capability, if you could just add some more color, what exactly are our customers? I know we mainly deal with big pharma or are we into dealing with a small biopharma, the virtual ones as well, because cell and gene therapy is the new thing on the horizon, is that one area we are looking at or are definitely?

Shyam S. Bhartia: We are evaluating cell and gene therapy, but we have not entered as yet, but we are dealing with big pharma also and medium size biotech pharma also.

Hari S. Bhartia: More and more it is on an integrated drug discovery as well as medicinal chemistry right now. And we are not adding on cell and gene therapy.

Sajal Kapoor: Second question I have an on ground presence, we are on the US soil significant part of our assets are there. US currently has a high dependency on India and China for its pharma supply chain. So how feasible you think it is to move the entire supply chain back to US soil because that is what they are hinting at? And two, will the gestation period and the economic support such a threat or is it just purely an election rhetoric?

Shyam S. Bhartia: Let me tell you one thing that we are also present in dosage form in US also and in India also. We continue to increase our presence in US in our dosage form for US business and also from India also, we have continued to increase our business. So it is both the combination of US business and India business. US business is also growing, at the same time from India also exports to US and to Europe are growing.

Sajal Kapoor: My question sir was more on the industry perspective. So do you think it is feasible to move the entire supply chain because that is what these politicians are talking about, I mean, is it economically viable?

Shyam S. Bhartia: Since we are present in both India and the US in dosage forms, so for us it is good that we are also growing in US and India, but 100% cannot be transferred, there is always been a big focus in US. So when there is a focus in US we are also concentrating in increasing capacities in the US also.

Sajal Kapoor: Are we still guiding for round about Rs.500 crore of CAPEX for foreseeable future, what is the sort of trajectory looking like?

Shyam S. Bhartia: As we said that we are trying to reduce CAPEX this year which has a long-term investments, which are only for debottlenecking and some small CAPEX for safety and regulatory reasons. So, CAPEX this year we hope to reduce substantially.

Sajal Kapoor: Which means that we should be at a much lower net debt end of the fiscal?

Shyam S. Bhartia: That is right. As we have said also that we hope to reduce net debt at the end of the year.

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

Prateek Mandhana: So I had a couple of questions. The first one was on the API. You told in the initial remarks that API segment was impacted during 4Q. So can you please substantiate on that how much was the impact during 4Q on the API segment?

Pramod Yadav: So quite a lot of dispatches were lined up towards the end of the March. That is the time when this COVID situation got escalated and we had to suspend the operations. So we could not dispatch the inventory which was there in the system. Now as we plan to open up the plant very shortly in the next few days, we will be starting to dispatch that inventory.

Prateek Mandhana: So that impact would be partially or fully reversed in this quarter if the inventory dispatch was the major issue, right, is my understanding correct?

Pramod Yadav: Yeah, the inventory will be dispatched immediately, but then we also lost the production for two months, but we have the capacities available, we have demand in the market, so, we will be making our all-out efforts to recover the gap what we have.

Prateek Mandhana: One more thing on Drug Discovery business. So what I got is that your EBITDA margins improved substantially because EBITDA improved more than the sales improved, that was partially because of pricing as well. So what will be the trend going forward -- do you expect similar trend to continue and pricing to improve further and the growth to continue?

Rajesh Srivastava: Yes, that is what I said earlier also. The pricing trend is continuing and the capacity utilization is as high as it was earlier.

Prateek Mandhana: So why was the pharma segment asset went up at this time?

Alok Vaish: That again is largely on account of the foreign exchange translation given the sharp increase in there and there was also some bit of increase in working capital on account of inventory, where in the previous year our inventory had come down and we eventually had to build it back up to ensure we did not have any backlogs for customer orders.

Shyam S. Bhartia: At the end of the March, actually there was some logistic disturbance also because of certain announcement of this thing, some dispatches were also held up.

Alok Vaish: Especially in the API business and others, we had some inventory buildup on account of that.

Shyam S. Bhartia: Dispatches were held up for a few days.

Prateek Mandhana: You were saying on the pharma asset was there inventory and gone up because of dispatches as well as that last year the inventory was pretty low. So it was more because of the Forex translation inventory, correct?

Alok Vaish: That is right.

Prateek Mandhana: So LSI business, are people also looking for outside China benefit?

Shyam S. Bhartia: Yeah, overall I think in all our businesses we are seeing some benefit of people want to move out of China. But there is not such big movement, but yes, there are sentiments which are in favor of India.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: I just wanted to understand in terms of 23% EBITDA margin we reported this quarter, so what sort of sustainable and aspirational EBITDA margin we are looking at going forward

Shyam S. Bhartia: We can't commnent on the future EBITDA margins

Our businesses are strong. In the medium-term, we are quite confident to maintain reasonably good margin.

Moderator: Thank you. The next question is from the line of Rahul Veera from Abakkus. Please go ahead.

Rahul Veera: Just wanted to understand since we are launching the Rubyfill in Europe, what is the market size there and how long will you take there to breakeven?

Pramod Yadav: The Rubyfill in Europe as of now the market there is quite a lot of pent up demand. It is an unmet need. But the market is to be developed because the product commercially is not available.

Rahul Veera: What are the expectations from us like how much investments will we require like how long will we take to breakeven there and what will be the key markets within Europe?

Pramod Yadav: So the investment is required only in terms of our overall capacity to produce. It is not much of the investment on that front. We plan to launch the product in the Europe market commercially this year. And once we launch the product, we will be aggressively doing sales and business development activities and we will be developing the market. We are already in touch with a lot of hospitals and the imaging centers there and we see quite a strong demand over there.

Shyam S. Bhartia: First, we hope to launch in Germany and Switzerland, then in other countries.

Rahul Veera: In terms of pricing, what will be the gap because Europe is largely price controlled based healthcare infrastructure, so how are we going about that?

Shyam S. Bhartia: This product is listed in this attached procedure. I think there is no control on pricing as such. New norms have to be fixed in Europe for this procedure since this procedure is not existing today.

Alok Vaish: Rahul, to your earlier question on the finance cost, the lease capitalization was about Rs.9-odd crore number and also year we had the 2019 bonds for the full year whereas in the prior year, they were there only for the one month. So that reason is the big difference in the number.

Moderator: Thank you. The next question is from the line of Sajal Kapoor, an investor. Please go ahead.

Sajal Kapoor: Got a question on our CDMO business. So this 30% incremental capacity will be potentially generating a revenue for USD30 million, so that is good. I am just trying to understand, so we have just added more lines with the same, so we are still doing those sterile fill, finish and lyophalization that type of work and we are not into any biologics as such, right?

Shyam S. Bhartia: There is incremental CAPEX which we implemented for one Lyophilizer which we commissioned last year plus we have increased the number of shifts of operations in US from two shifts to three shifts operations at both our facilities. That has given incremental capacity in all seven days.

Sajal Kapoor: And for the biologics, can you just remind again, is that all dominial or microbial or both?

Shyam S. Bhartia: No, no, we do fill and finish, we do not do manufacture of API. Fill and finish we do all, biological, vaccines, small molecules we do everything.

Sajal Kapoor: Not the drug substance.

Shyam S Bhartia: Yes, Not the drug substance. right

Moderator: Thank you. The next question is from the line of Mr. Ankur Jain, an individual investor. Please go ahead.

Ankur Jain: So my query is though revenue looks flat in terms of INR, but on constant currency basis, it seems to be 5-6% down because the currency has also dropped whether we compare on quarter-to-quarter basis or whether we compare on year-to-year basis. So what is the reason of the same? And the second question is what is our hedging policy?

Alok Vaish: So, the dollar has appreciated over last year's quarter, so that is in the numbers. In terms of our hedging policy, we have decided as a policy one, we are fairly hedged from a natural perspective, our exports, imports, there is not much of a difference. Whatever little one there is that we do not usually hedge because usually we end up turning out to be even out without the hedge. So as a policy we decide not to hedge whatever the small amount of net exposure we have.

Ankur Jain: Because of the currency fluctuation our debt in INR has increased by around 200, 300…

Shyam S. Bhartia: Our major debt of $400 million which is in US dollars and major revenues and income are also in US dollars in pharma business. We are naturally hedged.

Ankur Jain: And what was the reason for drop in the revenue in constant currency basis?

Shyam S. Bhartia: If you see the average foreign exchange is around Rs.69. Alok, if I am not wrong?

Alok Vaish: Correct. Yeah, Rs.69 versus Rs.75, for the whole year weighted average would be about Rs.72 something, the year end was Rs.75 and the previous year was about Rs.69. The previous was about Rs.72.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand over to Mr. Shyam S. Bhartia for his closing comments.

Shyam S. Bhartia: I would like to thank all of you for joining on this conference call. I wish all of you and your families have good health and please stay safe. If you have any further questions and any clarifications, Alok Vaish is available, please call him and discuss with him. Thank you.

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