



Jubilant Life Sciences Limited Q2 & H1 FY2016 Earnings Conference Call Transcript October 29, 2015

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

Ravi Agrawal: Thank You and Good Evening to Everyone. I am Ravi Agrawal – Head of Investor Relations at Jubilant Life Sciences. I thank you for being with us today on our Q2 & H1 FY-2016 Earnings Conference Call. On the call today we have Mr. Shyam S. Bhartia – our Chairman; Mr. Hari S. Bhartia – our Co-Chairman and Managing Director; and 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. GP Singh – our CEO of our Pharma business; Mr. Pramod Yadav and Mr. Rajesh Srivastava – our Co-CEOs of our LSI businesses.

Before we commence the call today, I would like to remind you that some of the statements made on the call today could be forward-looking in nature and a detail disclaimer in this regard has been included in the 'Presentation' that has been shared on our website. I now invite Mr. Bhartia to share his remarks with you.

Shyam S. Bhartia: Thank you, Ravi. A Very Good Evening to All of You. I am happy to report a strong performance during Q2 FY-2016. This is a continuation of our good growth momentum of last two quarters with better earnings across both segments. Our Pharmaceuticals segment witnessed sustained improvement due to increase in revenues across all geographies including growth led by North America. Margins in our Life Science Ingredients segment was better led by Specialty Intermediates and Nutritional Products. Revenues for the quarter stood at Rs.1,463 crores, a growth of 7% year-on-year. This growth was led in Pharmaceuticals segment by strong performance in Specialty Pharmaceuticals and in Life Science Ingredients by Nutritional products. EBITDA during the quarter was Rs.325 crores, registering growth of 137% year-on-year. Margins were 22.2%, up from 10% in Q2 FY-'15.



Profit after tax stood at Rs.116 crores compared to Rs. (94) crores in Q2 FY-'15 and earnings per share of 7.27. During Q2 FY-2016 revenues from our Pharmaceutical segment stood at Rs.747 crores, up 22% year-on-year contributing 51% of the revenue mix.

Geographic Distribution of Revenues in Pharma stood as follows: Revenue from North America stood at Rs. 573 crores increasing 26% year-on-year. Revenues from Europe and Japan stood at Rs.93 crores growing 14% year-on-year. Revenues from India stood at Rs. 34 crores, up 9% year-on-year.

In Generics, our portfolio now consists of 38 commercial APIs including 24 in North America, 23 in Europe and 28 in rest of the world. Also, we have now 49 commercial Solid Dosage Formulation products including 27 in North America, 29 in Europe, 27 in rest of the world. We have filed total of 71 ANDAs in US, of which 32 are pending approval. During the quarter in Solid Dosage Formulations we received approval for Zolmitriptan in US and we have launched Zolmitriptan in US and Citalopram in Canada.

Strategic initiatives that we have taken to continue to help improvement in Specialty Pharmaceutical business performance. During the quarter we have signed a term sheet with Cyclopharm Limited for exclusive license to market and distribute Technegas (imaging agent for Pulmonary Embolism) in the United States. Our CMO of Sterile Injectable business has seen enhancement in performance and ramp up of operations in our CMO Spokane facility is underway.

That brings me to our segment Life Science Ingredients: During Q2 FY-2016, revenues from LSI stood at Rs.716 crores, and contributing 49% to the overall revenues. Geography wise international sales contributed 48% with sales contribution from Europe and North America standing at 31%.

Commenting on our Specialty Intermediates and Nutritional Products business: Our Nutritional Products business benefited from new contracts as well as robust pricing during the quarter. We have also signed new contracts after successful completion of key customer audits and Specialty Intermediates. Pyridine performance remains stable on quarter-on-quarter basis although pricing pressure in China continues. MOFCOM has reviewed the anti-dumping duty on Pyridine during the quarter and we await the outcome.

In Life Science Chemicals, there is a decline in year-on-year revenue due to lower selling price of Ethyl Acetate as a result of lower raw material pricing; however, the overall operating margins in this business remains on expected lines. We entered USA and South America in Ethyl Acetate and we also started commercial supply of Acetic Anhydride in Vietnam. New orders were also received across Europe, Africa, Middle East, and Asia.

As earlier indicated, the company has been exploring various options to strengthen its balance sheet to enable greater focus on business growth. Accordingly, the board has approved an enabling resolution for raising equity or equity-linked instruments up to \$200 million primarily for de-leveraging the balance sheet to enhance returns to shareholders of the company. We believe that our performance is back on track and we expect to sustain the momentum during the year. In FY-2016, revenue growth is expected to be driven by Pharmaceuticals segment primarily led by growth in North America in Specialty Pharmaceuticals business. Our Life Science Ingredients segment is expected to deliver better margins



compared to FY-2015 led by improved operational efficiency and growth in Specialty Intermediates and Nutritional Products. We are working with an objective to get a better return on capital employed by increasing capacity utilization and operating margins going forward.

With that I would like to invite Mr. Sankaraiah to carry forward the discussions by sharing his remarks on the Financial Performance of the company.

R. Sankaraiah:

Thank you Mr. Bhartia. I thank everyone for taking out time and joining us on today's Conference Call. Let me provide you the brief Financial Highlight for Q2 & H1 FY-2016. During the quarter under review, our income stood at Rs.1,463 crores. Pharmaceuticals segment contributed 51% to the overall mix at Rs.747 crores, increasing 22% year-on-year. Revenue from Life Science Ingredients stood at Rs.716 crores contributing 49% to the overall revenue. Pharmaceuticals segment EBITDA continues to show improvement at Rs.215 crores, an increase of 211% over the corresponding period last year. EBITDA margins for the segment were higher at 28.8% as compared to 11.3% in Q2 FY-2015. The improved performance in the Pharmaceuticals segment was aided by sustained improvement in the performance of Specialty Pharmaceuticals business and increased capacity utilization in our CMO business.

Moving to the Performance in the Life Science Ingredients: EBITDA in the segment stood at Rs.118 crores, an increase of 92% year-on-year and translating to EBITDA margin of 16.5% as compared to 8.2% in the corresponding quarter last year. The improvement in margins were led by Nutritional Products. The depreciation and amortization for the quarter stood at Rs.75 crores as against Rs. 69 crores in Q2 FY-2015. The finance cost for the quarter stood at Rs. 97 crores as compared to Rs. 96 crores last year and Rs. 97 crores in Q1 FY-2016. The blended interest rates for the borrowing stood at 7.7% with the rate of rupee borrowing at 11.7% and the foreign currency borrowing at 4.8% p.a. The profit after tax was Rs. 116 crores and the EPS was Rs. 7.27 per equity share of Re.1 each paid up.

Let me now give you an Update of H1 FY-2016 Performance: Income stood at Rs. 2,922 crores as compared to Rs. 2,844 crores in H1 2015, a growth of 3% year-on-year. In H1 2016 income in Pharmaceuticals segment stood at Rs.1,488 crores, up 22% year-on-year and contributing 51% to the overall revenue. The income of Life Science Ingredients segment was at Rs. 1,434 crores in FY-2016 contributing 49% to the total revenue, decline of 12% year-on-year due to reduction in selling price from the lower raw material prices.

The overall EBITDA in H1 FY-2016 stood at Rs. 658 crores with the margin of 22.5% translating into a growth of 129% year-on-year. The EBITDA for the Pharmaceuticals segment was higher at Rs. 441 crores as compared to Rs. 105 crores in H1 FY-2015 with a three-fold growth and translating to an EBITDA margin of 29.6% compared to 8.6% in the previous period. The EBITDA of Life Science Ingredients segment stood at Rs. 240 crores with a growth of 23% year-on-year translating with EBITDA margin of 16.7% compared to 12% in the previous period.

The depreciation and amortization for H1 FY-2016 stood at Rs.145 crores as against Rs.142 crores in H1 2015. The finance cost for H1 FY-2016 stood at Rs.194 crores as compared to Rs.174 crores in the previous period. The profit

after tax was Rs.244 crores and the EPS of Rs. 15.31 paise per equity share of Re.1 each.

I would like to touch upon some perspective on the Balance Sheet now: As on September 30th, 2015, net debt on a constant currency basis stood at Rs. 4,207 crores as compared to Rs. 4,396 crores at the end of March 2015, showing a reduction in debt of Rs.189 crores in H1 FY-2016. This comprises long-term debt of Rs.3,161 crores and working capital debt of Rs.1,176 crores. Also, I would like to mention that the company has reorganized its debt portfolio in such a way that free cash flows will be adequate enough to take care of the scheduled loan repayments going forward. In addition, the company has prepaid all the rupee loans scheduled to be repaid in the next 2-years. During H1 FY-2016, our capital expenditure stood at Rs. 167 crores including Rs. 50 crores for product development. We expect full year CAPEX to be around Rs. 300 crores for FY-2016 and the product development of about Rs. 100 crores.

I would like to reiterate what Mr. Bhartia earlier mentioned: Our operational performance has witnessed a turnaround and we expect to continue the momentum going forward. With the Pharmaceuticals segment expected to drive growth on account of growth in Specialty Pharmaceuticals, Life Science Ingredients are also expected to deliver better margins led by improved operational efficiency and growth in Specialty Intermediates and Nutritional Products. I would like to conclude our opening remarks.

With that I request the moderator to take up for Q&A please.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: A few questions from my side; Can you just a little bit further elaborate on the big turnaround what we are witnessing from the first quarter in both the segments – Specialty Pharmaceuticals as well as Life Science – which is resulting into significant improvement in margin although despite the revenue growth is not that strong and how do you see going forward from that low value added commodity kind of products to the real high Specialty business, what actually went through in this period?

R. Sankaraiah: If you see, among two of our segments i.e. Pharmaceuticals and Life Science Ingredients, in Q2 FY-2015, Pharma recorded revenue of Rs.614 crores and in Q2 FY-2016, Rs.747 crores, a growth of 22% and quarter-on-quarter growth of about 1%, whereas Life Science Ingredients business there was a negative growth of 5% on a quarter-on-quarter basis. As we have just now explained in our speech, in Pharma, the CMO business is back to the normal and going forward expected to ramp up. Also, Specialty Pharmaceuticals is doing very well which is mainly driving the growth. If you see the geographic growth, in US and Canada for the quarter-on-quarter we have recorded 26% growth, and Europe and Japan we have recorded 14% growth, overall international growth of about 22%. So it is a very good growth which we have witnessed in Pharmaceuticals business; however, in Life Science Ingredients business, as we have mentioned just now, there is de-growth mainly because the input material prices have come down, on account of which the selling prices come down. So the growth is not there in the top line; however, because of operational efficiency and also compared to the previous year, in the Nutrition Products business we have increased the price. So on

account of these two reasons, the margins have increased whereas the top line has not increased. It is a negative growth in top line. That is why if you see the EBITDA quarter-on-quarter the Pharmaceuticals segment have shown growth in EBITDA compared to the previous year same quarter versus the current year 211% growth and Ingredients business 92% growth. So on an overall basis the EBITDA improvement is of 137%.

Rajesh Kothari: So is it because that the capacity utilization was very low last year, that is why the margins were lying low. What is the reason for last year very dismal performance?

R. Sankaraiah: Last year, as we have mentioned, there was a warning letter in our Spokane facility. There were a lot of one offs, and also to correct the warning facility we had shut the facility for a few months, corrected it and restarted the facility. So there was old inventory write-off and also the correction, etc., because of which there was additional cost which has been incurred. The sales were down, the profitability was down and also one-time costs were there. All those things have got corrected and it is turning around and going forward it is expected to ramp up the capacity utilization.

Rajesh Kothari: Would you like to share details in terms of your top five products in both the segments and their contribution to revenue as well as EBITDA?

R. Sankaraiah: We do not share product wise details at all.

Rajesh Kothari: Any further subsegments which you would like to highlight?

R. Sankaraiah: That is why we want to focus on two segments – one is Pharmaceuticals, other is Life Science Ingredients. Further details on a yearly basis we will share, but on quarterly basis it is better to focus on both the broader segments and stick to that.

Rajesh Kothari: Any guidance you would like to provide? Over next two years how do you like to see the business?

R. Sankaraiah: We refrain from giving any guidance given the current market conditions, but overall, we expect the growth momentum to continue because the warning letters have got lifted and we are back on track and also in Life Science Ingredients business we have seen price increase in Nutrition business. Even though a top line degrowth is there, because of the operational efficiency we were able to maintain our margins much better than last year.

Moderator: Thank you. The next question is from the line of Sai Prabhakar from Karvy Stock Broking. Please go ahead.

Sai Prabhakar: I think if I am not wrong we have seen four quarters of degrowth in Life Science segment. Do you think since we have factored in de-growth we can show stronger growth or higher positive growth going forward in the Life Sciences?

R. Sankaraiah: The degrowth in last four quarters because of various reasons – the crude prices have come down, accordingly, the input prices have come down, there was a time lag, and high cost inventory which has got exhausted. All those things have happened in last four quarters. Over and above that there was anti-dumping duty in China which has got affected and in Nutritional Products business which was an integrated business, we saw competition which was there. All those things have



been settled now. Now going forward, we expect the growth momentum what we have seen to continue and Life Science Ingredients also to expect a same kind of result if not better.

Sai Prabhakar: Since we have factored in all these factors and more or less they are expected to repeat. So, on a year-on-year basis, positive growth can be expected?

R. Sankaraiah: On the top line we cannot comment. On the margin side we expect this kind of EBITDA margins to continue.

Sai Prabhakar: When you say Specialty Pharmaceuticals, is it to mean Radiopharmaceuticals?

R. Sankaraiah: Radiopharmaceuticals, CMO, and Allergy Therapy Products, all three put together.

Sai Prabhakar: What is the status on Ruby-fill?

GP Singh: This is GP. Ruby-fill status is same what we shared last quarter, it is still under FDA review and we are hopeful to hear back from FDA and launch in Q1 FY17. Nothing has changed.

Sai Prabhakar: For Symtet we were expecting 30% capacity utilization by FY16 if I am not wrong?

R. Sankaraiah: I think Symtet we should start taking away from our minds because since the product is not stabilizing our team has reworked on the whole thing. Since it is a multi-purpose plant they are planning to come out with various different products in the same plant with a very marginal CAPEX, so that will come maybe in a year's time. So during this period, whatever little quantity we are manufacturing as of today will continue and the additional capacity will be used for developing the new products which will give an impact may be in a year or year and a half.

Sai Prabhakar: Those new products, which segment?

R Sankaraiah: Same, LSI segment. More related to Chlorinated Pyridine business. It is an integrated business again. It is raw material for the insecticide and pesticides.

Rajesh Srivastava: In that plant we are now moving up to the other products and product mix.

Sai Prabhakar: Considering that we are facing pricing pressure in Pyridine and Pyridine related Insecticides over Europe or China, so how do you factor in new product in the same segment?

R. Sankaraiah: So long as we are able to increase our internal consumption for Pyridine, it is a good sign. That is the whole reason of setting up this Symtet plant and the product what we are going to introduce in future also is going to consume Pyridine capacity. Because of that we expect the margins to grow going forward in this business also.

Sai Prabhakar: So just like Pyridine, this is also moving up the value chain you mean to say?

R. Sankaraiah: That is right.

- Rajesh Srivastava:** In Pyridine derivatives we do not have that much competition from China as much what we have in Pyridine. So in Pyridine derivatives our situation is better globally. We are much ahead than any other competitor.
- Sai Prabhakar:** Can you give us your view on China or the anti-dumping duty even if it is lifted, assuming it is lifted, with the pricing pressure in place, do you see any strong upside or do you think even after the dumping duty will continue with this way?
- Pramod Yadav:** Pramod Yadav here. Yes, as of now in China, the Pyridine price pressure continues because there is low demand of Agrochemicals especially Paraquat globally. Until the Paraquat demand picks up we do not see the prices of the Pyridine improving in China. With regard to anti-dumping duty, the MOFCOM continues to do the investigations and as mentioned by Mr. Bhartia and Mr. Sankaraiah in their speech they have visited us, they have verified our documents and we are awaiting the outcome of the result. Having said that, if you look at the performance of our Advanced Intermediates business which is related to Pyridine, which is a part of Specialty Intermediates, in spite of very low volume and very low prices our margins in this quarter are almost double of the previous quarter of the same quarter last year. So for us as such China Pyridine is no more an issue. We have moved much ahead of that in terms of increasing our consumption for the captive use in terms of entering into the new geographies and improving our margins.
- Rajesh Srivastava:** And in Pyridine derivatives we do not have that pressure in China.
- R. Sankaraiah:** Just to sum up, the pressure on Pyridine on account of anti-dumping and also the global pressure, with all these things in the first half year we were able to demonstrate an EBITDA growth of 23% despite a reduction in the top line. So we believe these things are coming up because of our operational efficiency, better utilization of capacities and whichever the segments where we do not see a competition from China or somewhere else, then we are in a position to better supply the products and get a margin out of that. So that way we are very well positioned as of today in LSI also in margin level.
- Sai Prabhakar:** You are saying that even in the second half we may see degrowth, the margins will be around 16-17%?
- R. Sankaraiah:** Margins would be in that range, yes.
- Sai Prabhakar:** But degrowth in the top line is something?
- Shyam S. Bhartia:** Degrowth may happen or it may not happen, depending upon the final raw material prices and product pricing, which is very difficult to predict because of the international situation. But our margins will always be steady.
- Moderator:** Thank you. The next question is from the line of Mahesh Sarda from Exide Life Insurance. Please go ahead.
- Mahesh Sarda:** I was just looking at the number from 1st quarter to 2nd quarter and just witness that the top line has been fairly stable and despite we are getting a couple of approvals in some of the products, we have not seen an increase traction but there is a slight flattish kind of. Just wanted an outlook on this as to going ahead how are we seeing both the segments?

- R. Sankaraiah:** Q1 to Q2 the top line growth is flat. It is because there are no new products which have been launched except one. But going forward, whatever approvals we got are expected to launch going forward. So when the new products are getting launched you will see a growth in top line.
- Mahesh Sarda:** On the margins, we are seeing some pressure on the other expenditure which have gone up in this quarter by almost 100 basis points. Any specific reason for this?
- R. Sankaraiah:** No it is actually regrouping. In the last year same quarter, there was one time profit which was booked on various reasons. So, because of that, the other expenses have gone down. Otherwise generally, it is more or less the same.
- Mahesh Sarda:** I am talking of first quarter to second quarter. First quarter it was 15% of the net sales. Just wondering we got some benefit on gross margin, but...
- R. Sankaraiah:** Expenses usually you should not compare quarter-on-quarter because one quarter to other quarter movement will be always there because of the provisions, etc., but you got to see the year as a whole.
- Shyam S. Bhartia:** But you would see that the total margin on a Pharmaceuticals business is about 28.8%, which is a very good margin in the business and it has shown a growth of more than 20% which is also good. So I think overall I would say our performance has been extremely satisfactory.
- Mahesh Sarda:** No, I was just looking at from first quarter the Pharmaceuticals margin which were 30.5% despite it has come down to slightly less than 29%. Just wondering any specific reason for that or not?
- Shyam S. Bhartia:** I would say 29% is a good margin, right? Every quarter 1% plus/minus will happen. It is very difficult to explain that.
- Mahesh Sarda:** Just wanted to understand the thought process of this resolution which the board has passed to raise equity. Any specific reason for this or it is just to reduce the debt?
- Shyam S. Bhartia:** It is an enabling resolution. We would evaluate that wherever there is an opportunity. You know our debt is high. So we would like to deleverage our company little bit by raising some equity at the appropriate time. So we do not have a definite plan as yet, but this is just enabling resolution.
- Mahesh Sarda:** This is only to deleverage and no CAPEX activity which we are looking at?
- Shyam S. Bhartia:** To de-leverage. We already have cash coming from operations. We have already reduced our loans also in the first half by Rs.190 crores.
- Moderator:** Thank you. The next question is from the line of Srihari from PCS Securities. Please go ahead.
- Srihari:** On the Pharma side, I would like to know what is the addressable market size of the 32 pending filings? How many filings we expect to make during the current fiscal? What are the kind of approvals you would expect? And the Symtet



restructuring, can you please throw some light in terms of let us say what would be the tonnage or the potential revenue?

GP Singh: Unfortunately, we have not assessed the market size overall because of the changes which are taking place in the Generic industry, the values are changing, so that data is not available readymade at the moment. As we shared before, we are targeting to file around 8 to 10 this year. Regarding number of approvals expected, it is very unpredictable. I hope with the GDUFA coming completely in play, it becomes little more predictable, but as you would agree with me, it is unfortunately very difficult to predict. Especially if it is not date certain, it is very-very difficult to predict.

Srihari: In the 32 pending filings, are there any let us say \$250 million plus kind of a product?

GP Singh: We have never shared this information in the past. Unfortunately, I am unable to share.

Rajesh Srivastava: Regarding Symtet restructuring, as we have earlier said that right now we are not in a position to give much details about restructuring. So it will be difficult to really give any detail on that.

Shyam S. Bhartia: But basically what Sankaraiah said that we would like to produce a few more products in the same plant using the same facility which are also used as Agrochemical Intermediate. So that we will be able to make more use of this capacity and ultimately generate more income out of it.

Srihari: How much capacity would get unlocked due to this process?

Rajesh Srivastava: It is a question of which product you are bringing in and when you are bringing in. So it is difficult to really talk so much in detail, but while developing a multipurpose plant, it is our endeavor to keep a product mix which gives better return. So we have a product pipeline in our list of strategy, we will bring in those products where we can immediately do the business and get returns. So it is difficult to talk about which product we will give and what will be the utilization.

Srihari: I mean to say what was the installed capacity of Symtet?

R. Sankaraiah: Again, let us just get away from the Symtet question please because we are answering this every quarter. I wanted to make this point absolutely clear. This Symtet plant what we have put up it has not worked. It is a multi-purpose plant. Ultimately, our objective is to use this as a Pyridine derivative. The businesses have already identified many products to be manufactured in the same plant as a multi-purpose plant. So that work is already done and we are in the process of getting the products manufactured in the same plant. That will happen like I mentioned it is about 1 to 1.5-years. During this period there will not be any additional revenue which will get generated other than what is being generated out of Symtet, the small revenue which is being done. The point what I am trying to say here is that it is a multi-purpose plant which we wanted to use it for Symtet, it did not work out, so we are going away from Symtet and going to the other products where we can use our Pyridine capacity as an internal consumption and create a demand for Pyridine thereby as an integrated player we will be in a much better position to generate better profitability.



Srihari: All I wanted to know is what is the installed capacity of Symtet, that is all?

R. Sankaraiah: That does not matter because we are exiting from Symtet. We are not going to generate or produce Symtet out of that.

Srihari: But you will be installing similar capacity for other products, right?

R. Sankaraiah: Product wise the capacity or the manufacturing tonnage will be different.

Shyam S. Bhartia: Let me just give you some idea from a revenue side. What revenue we expect out of the multi-purpose facility whenever we implement that it is likely to be much more than what we can achieve out of Symtet revenue.

Srihari: Could you give some guidance on that?

Shyam S. Bhartia: As soon as we finalize our plans, we will come to you and give you some guidance.

R. Sankaraiah: Again I wanted to say only one point; it is a multipurpose plant with a minor modification the existing plant can be changed/alterd/modified to produce a Pyridine derivative which our research people and also the business people both have identified the market and the product. So may be 1-1.5 years we will be in a position to share what kind of products we are introducing and what are the details on that.

Rajesh Srivastava: This is a very general phenomena, this is nothing very exclusive, you have a multipurpose plant, you keep thinking what product will give you better return and you keep churning out products which are not giving return.

R. Sankaraiah: Just to give you better clarity, may not be a Crop Sciences product, may be a part of Fine Ingredients, like that.

Moderator: Thank you. The next question is from the line of Vaibhav Kumar from Chrys Capital. Please go ahead.

Vaibhav Kumar: I see a few product launches in this particular quarter. I was wondering if you could tell us when exactly during the quarter would be the launch? What will be the revenue traction from these products on a quarterly basis? Even some guidance on the margins here?

GP Singh: Mr. Bhartia very clearly stated that we would not be able to discuss product-specific details in this call.

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

Surajit Pal: As you always said, you do not give any product-specific things, if I remove your Specialty Pharma business where you were getting both price push as well as volume push, particularly Radiopharma if I remove that part, how is the other Pharma business doing, without specific any numbers or any products, if I compare year-on-year, keep CMO also other than this, is there any growth you are seeing or just flattish kind of things?



- Shyam S. Bhartia:** Let me tell you one thing that the strength in the foundation of our Pharmaceuticals business is the diversity of the business. So I think I must tell you all our Pharmaceuticals business are doing well and we are seeing growth in some of the businesses, some of the businesses have seen less growth, some of the businesses have seen more growth. That is where our strength lies in our different product portfolio. So you should treat it as strength instead of weakness.
- Surajit Pal:** I am not saying weakness, what I would like to understand is that how are those businesses currently doing for you?
- Shyam S. Bhartia:** We never look at our business, we look at our Pharmaceuticals business as a whole as one business, and North America is one of our important geographies. As you see that in North America, Europe and Japan itself we have 89% of our business, and North America itself has about 77% of our business. So North America as a segment and different products have a very important bearing on our market and we see growth in North America is 20%.
- Surajit Pal:** Your latest agreement with Cyclopharm, if you can throw some light in terms of revenue potential of the deal?
- GP Singh:** We are still in a middle of diligence, as you would have seen in the press release. Unfortunately, seems like I am a bearer of saying no, but contractually we cannot share anything at the moment since nothing has been firmed up. We are still in the diligence process and the final agreements are yet to be concluded.
- Surajit Pal:** No, I am not talking about particularly for that product but the market of those products including the competitors and overall size of the market, growth of the market is growing. So that is where I would like to know?
- Shyam S. Bhartia:** I will give you some flavor of this product since you may not be knowing it but if you see that Technegas is already approved in Europe, in Canada, in Japan and in many countries. Only in US it is not approved. So what we are doing is that we are working with Cyclopharm to see that this product is approved in US. US is the largest market in the world for this product. And we being already present in our Lung Imaging segment through our other products, so with this product we can be king of lung in our US market. That is our objective. Now as GP said, we are in the process of having a due diligence of the facilities. So we will be signing off the agreement in next couple of months. But the whole objective is to see that and for this product the largest market is in US. So when we sign the final agreement, I think GP will come and talk about the total size and the market structure.
- Surajit Pal:** Is there any sizable development is happening in China in non-liquid Paraquat like gel or powder which those end producers are supposed to put in terms of coming out with new technology for producing these?
- Pramod Yadav:** So far we have not seen any development for change in the regulation. So the Paraquat in the liquid form remains banned for the sale in China for the new production. Whatever production that happened before the due date only that quantity is being sold. The gel and powder form so far we have not seen any company doing a major investment, only some trial quantities are being made. So, as of now, there is no clarity what the farmer will do once the Paraquat liquid form is banned totally for the sale. So either the farmer will have to shift to some different products which are at a much higher price or he will be left high and dry. So these are the uncertainties in the China market and it continues as of now.



- Surajit Pal:** Do you have any feeler with those companies, they definitely have some market strategy with the end users and by what time they believe that some kind of certainty will come off from the form of Paraquat use in non-liquid segment?
- Shyam S. Bhartia:** We are following this market very closely but we have moved away from this market, in a sense that our bread and butter is not lying on Pyridine total production and supply. If it does well, we will do well. As Pramod said, there is no clear cut complete uncertainty, but in our situation it is good, in a sense that we have moved away to other markets.
- R. Sankaraiah:** In fact if you recall about four quarters before when the antidumping duty has commenced, we clearly stated in order to create a better profitability, we are with the antidumping duty and we may not be that profitable with the reduction in prices. So we are evaluating the options of entering into the different markets. So that different market which has already been entered into and because of that we are able to deliver this kind of result. Whenever the problem of antidumping duty getting resolved or the duty is reduced then at that point of time we will evaluate depends upon the profitability what we can make, whether to go into the market or continue with the existing market or grow somewhere else.
- Moderator:** Thank you. The next question is from the line of Veena Patel from iWealth Management. Please go ahead.
- Veena Patel:** Sir, in your opening remarks, you just mention about the CAPEX budgeted plan of Rs. 300 crores for this financial year. How much would you be going for the Pharma segment and how much you would be going for the Life Sciences?
- R. Sankaraiah:** Overall about Rs. 100 crores for Life Science and Rs. 200 crores for Pharma.
- Veena Patel:** What would be the utilization levels of Spokane facility?
- GP Singh:** It is progressing well, but since we have just come out of the warning letter and come into voluntary action indicative, business ramp up is slow because there are several regulatory process which you have to follow. But we still stay on track as we have said that we will be trying to become efficient again within this financial year. So we remain within that guidance itself. So it is progressing well.
- Shyam S. Bhartia:** I think GP is very moderate for the good work that people have done and I can only say that the customers are very enthusiastic about it in the CMO and they have placed a lot of confidence and the orders started coming back and they have increased the products order also. So I think the good work is being done. As we have said last time also by the fourth quarter we should be able to get to the normal operations.
- Veena Patel:** Apart from the CAPEX of Rs.300 crores we would be even having product development expenses around Rs.100 odd crores, have I heard it correct?
- R. Sankaraiah:** That is right.
- Veena Patel:** This would be a kind of routine CAPEX which will be there for FY17?
- R. Sankaraiah:** Yes, product development will be in the same range almost.

Veena Patel: What about the CAPEX?

R. Sankaraiah: CAPEX should be lower.

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

Tushar Manudhane: To start with on LSI segment, the MOFCOM review, just would like to understand any tentative timeline with which they would come out with the conclusion, any hint on that?

R. Sankaraiah: We do not have any clue on that. The audit has been completed. We are waiting for the outcome.

Tushar Manudhane: With the new contracts for Nutritional and Specialty Intermediates, can you give some color in terms of size of contract or maybe incrementally sequentially for the second half how is it going to pan out?

Shyam S. Bhartia: Order book is strong and we continuously get these orders every quarter for the whole year. In month of December, many contracts will be finalized for the whole year from January to December next year. It is like this, but what I would like to give you a flavor that the order book is strong in Specialty Intermediates and Nutritional Products and continues to be strong.

Tushar Manudhane: So would that result in year-on-year for LSI for FY16 or because the raw material prices are going down so?

Shyam S. Bhartia: It is very difficult to tell you because very difficult to predict the raw material prices and finished goods prices how it is going to move, but what Sankaraiah said again and again, that we are very confident of the operating profit margins, all the products are steady on the expected lines. So total sales whether go up or go down it is difficult to say that because of the product price movement, we cannot give you any guidance on that.

Tushar Manudhane: With respect to Spokane facility, would like to understand the past maybe let us say there were 10 contracts before the facility got regulatory hurdle, so approximately how much have been renewed or how many new contracts have come up post clearance of the facility?

Shyam S. Bhartia: Let you give you some flavor of it, Spokane facility was already producing and serving the existing customers. As far as I remember, none of the significant customers have left the company and gone to somebody else. So they had confidence in the way that we are dealing with our customers in our communication. Relations with our customers are very good, we kept them informed about what we are doing and they were very happy with the developments and ultimate result was very good from the point of view of the withdrawal of the warning letter. All the customers have shown confidence and some of the customers have increased their order booking. Some of the customers are also trying to give us some more products. Discussions are very good. So I would say overall the customers have shown great confidence in our action what we have taken and they are very happy with it. So we expect the orders to increase in the months to come because the customers cannot give the new products and new products cannot be executed, it takes time before we get an approval. We expect them to increase their orders for the existing products. That is



the surest and the fastest way of increase capacity utilization. That is what our team is focusing on there. We have got an excellent response from all our customers.

Tushar Manudhane: So which means that sequentially also it should start showing incremental growth?

Shyam S. Bhartia: That is what we have been saying. Sequentially we will see the substantial effect as the ramp up is happening.

Tushar Manudhane: I understand you do not give the guidance, but just would like to understand, the first half you have done very good margins in the Pharma segment. So here is there any one-off which might result in lower EBITDA margin or these kinds of margins are sustainable for second half also?

Shyam S. Bhartia: With this overall performance, we are very confident to sustain the momentum of growth which we have achieved in the first quarter. We have said in the beginning and that we stand by.

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

Shyam S. Bhartia: We thank you all for joining us in this con call and I wish you all a very Happy Diwali and Prosperous Diwali.

Moderator: Thank you very much members of the management. 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.