



## Jubilant Life Sciences Limited

### Q2 FY18 Earnings Conference Call Transcript

### October 30, 2017

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**Moderator:** Ladies and gentlemen, good day and welcome to the Jubilant Life Sciences Limited Q2'FY18 Earning Conference Call. I hand the conference over to Mr. Ravi Agrawal, Head of Investor Relations. Thank you and over to you, Mr. Agrawal.

**Ravi Agrawal:** Thank you and Good Evening to everybody. I am Ravi Agrawal, Head of Investor Relations at Jubilant Life Sciences. I thank you for being with us today on our Q2 and H1'FY18 Earnings Conference Call. On the call today, we have Mr. Shyam S. Bhartia – Chairman; Mr. Hari S. Bhartia – Co-Chairman & Managing Director and Mr. R. Sankaraiah – Executive Director 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 – Whole time director of the company and co-CEO of our LSI Business, Mr, Rajesh Srivastava – co-CEO of our LSI Business and Mr. G. P. Singh – CEO of our Pharma business.

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 detailed disclaimer in this regard has been included in the presentation that has been shared on our website. I now invite Mr. Bhartia to share his remarks.

**Shyam S. Bhartia:** Thank you, Ravi. Good Evening to everyone joining us on today's call. We shall be discussing perspectives on Jubilant Life Sciences Q2'FY18 performance. We have had another strong quarter in our Specialty Pharmaceuticals – Injectables business led by continued growth in our Radiopharma and Allergy Therapy products businesses. The acquisition of Triad's radiopharmacy business has been successfully completed, which will add to our niche Specialty Injectables portfolio. The Life Science Ingredients segment has delivered strong performance, both on Year on Year and Quarter on Quarter basis, due to higher demand and a healthy price environment. Our Generics business, on the other hand, was impacted by ongoing supply chain consolidation in the US and deferment of sales in some of our businesses.

Let me share some of the important headline numbers:



During Q2'FY18, consolidated revenue was at Rs. 1,642 crore, up 19% YoY. EBITDA from Operations of Rs. 332 crore with margins of 20.2% after giving effect to one-off acquisition related costs of Rs. 19 Crores. Net profit stood at Rs. 128 Crore, with Net Margins at 7.8% and Reported EPS of Rs. 8.23 and Normalized EPS of Rs 9.03.

During H1'FY18, consolidated revenue was at Rs. 3,198 crore, up 14% YoY. EBITDA from Operations of Rs. 677 crore with margins of 21.2% after giving effect to one-off acquisition related costs of Rs. 19 Crores. Net profit stood at Rs. 275 Crore, with Net Margins at 8.6% and Reported EPS of Rs. 17.67 and Normalized EPS of Rs. 18.48.

Mr. Sankaraiah will provide you further details on the financials.

Moving on to the Key Business Segments:

In Q2'FY18, our Pharmaceuticals segment grew 12% YoY to Rs. 860 crore. In H1'FY18, this segment grew 10% YoY to Rs. 1,675 crore and comprising 52% of the Company's revenues.

I now share the geographical breakup of the Pharmaceuticals segment:

In Q2'FY18, Revenue from North America grew a healthy 27% YoY and 10% QoQ to Rs. 672 crore, contributing 78% to the revenue. This has been achieved despite increased pricing led competition in the US generics market, demonstrating the strength of our Speciality Injectibles business and the relatively lower share of US formulations to our overall sales mix.

Revenues from Europe and Japan were at Rs. 86 crore, contributing 10% to the revenues. Revenue from rest of the world stood at Rs. 72 crore, contributing 8% to the revenues. India revenue stood at Rs. 30 crore, contributing 3% to the revenue.

In H1'FY18, Revenues from North America stood at Rs. 1,283 Crore, contributing 77% to the revenues and up 23% YoY. Revenues from Europe and Japan were at Rs. 188 Crore, contributing 11% to revenues. Revenues from Rest of the World stood at Rs. 137 Crore, contributing 8% to the revenues. India revenues stood at Rs. 67 Crore, Contributing 4% to the revenues.

Let us now discuss the key highlights of the businesses:

In Q2'FY18, Specialty Pharmaceuticals - Injectables revenues of Rs. 531 Crore reported robust growth of 42% YoY and 13% QoQ, contributing 62% to Pharma segment sales and 32% to Company revenue. Generics revenues stood at Rs. 329 crore, contributing 38% to segment sales and 20% to Company revenue. The process of diversifying our revenue base in pharma with high quality niche businesses in Specialty Injectables is bearing fruit and its share in total Pharma sales is expected to increase to above 70%, while the US formulations share will be about 12% of total pharma sales.

In H1'FY18, Specialty Pharmaceuticals - Injectables reported revenues of Rs. 1,000 Crore, showing robust growth of 28% YoY and contributing 60% to Pharma segment sales and 31% to Company revenue. Generics revenues stood at Rs. 675 crore, contributing 40% to segment sales and 21% to Company revenues.



During the quarter, I am happy to report that USFDA inspections for Spokane facility and Radiopharmaceutical facility at Montreal were successfully completed. We Received 505 (b) (2) approval from USFDA for Drax Exametazime, a product used in SPECT scan in identifying of White Blood Cells in intra-abdominal infection, and Health Canada approval for Rubyfill Elution System.

As on September 30, 2017, We have a total of 973 filings across geographies of which 754 filings are approved and 219 filings are pending approval.

In our CMO business, there was a lower production in Q2'FY18 which has led to an order backlog. This has been corrected by the end of the quarter and we expect higher production in H2'FY18 to meet the order backlog. Also the order book for the business remains healthy at US\$ 630 Million.

Life Science Ingredients segment:

In Q2'FY18, Life Science Ingredients segment reported revenue of Rs. 738 crore, contributing 45% to the overall revenues and growing strong 27% YoY. During the quarter, demand was strong and pricing environment for Vitamin remained robust. For H1'FY18, Life Science Ingredients reported revenues of Rs 1,438 crore, a growth of 20% YoY.

Let me give you a sense of geographical breakup for LSI segment:

In Q2'FY18, Revenues from Key Developed Markets stood at Rs. 186 Crore, up 7% YoY and contributing 25% to segment revenues. ROW business stood at Rs. 122 Crore, up 82% YoY and contributing 16% to segment revenues. India business was at Rs. 430 Crore, up 26% YoY and contributing 58% to segment revenues.

In H1'FY18, Revenues from Key Developed Markets stood at Rs. 390 Crore, contributing 27% to segment revenues. Revenues from ROW stood at Rs. 230 Crore, up 50% YoY and contributing 16% to segment revenues. India business was at Rs. 818 Crore, up 23% YoY.

Lastly, let me give you an update on our Drug Discovery Solutions Segment. In Q2'FY18, revenues from this segment stood at Rs. 44 Crore, contributing 3% to the revenues, up 16% YoY. In H1'FY18, Drug Discovery Solutions Revenues stood at Rs. 85 Crore, Contributing 3% to total revenues.

Outlook: Due to strong business performance in Specialty Pharmaceuticals – Injectables and better demand and pricing environment in LSI segment, we are confident of delivering significantly higher earnings in H2'FY18 as compared to H1'FY18 on account of the following:

- In Specialty Pharmaceuticals - Injectables:
  - Higher revenues in H2'FY18 in CMO business due to higher production to meet the order backlog
  - Continued better performance in Radiopharmaceuticals and Allergy Therapy Products
  - Revenues from Triad acquisition in H2'FY18
- Generics: Addition of new customer approvals and execution of deferred sales orders in API business



- Life Science Ingredients: Better demand, favorable price environment, new capacities/product additions

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

I would now request Mr. Sankaraiah to share his perspectives on our Financial Performance during Q2/H1'FY18.

**R. Sankaraiah:**

Thank you, Mr. Bhartia. I thank all participants for taking out time and joining us on today's Earnings Conference Call. Let me give you a brief of the financial highlights for Q2 and H1'FY18.

Before I start, I would like to mention that we have successfully completed the Triad acquisition on 1st September 2017. Accordingly, the Q2 and H1 FY18 financials include Rs. 103 crore of revenues from Triad for the month of September 2017.

With respect to GST, I am happy to report that our operations are going on smoothly with our ERP systems having been suitably modified and all the stakeholders are being updated continuously on changes in the GST for full compliance.

In the published results, the Revenue from Operations for the current period is not comparable with previous periods since the same is net of GST whereas excise duty formed part of Sales and Expense in the previous periods. Accordingly, the Revenue and Expenditure comparison has been made for this discussion net of Excise Duty.

During the quarter, Revenue from Operations increased 18% YoY to Rs. 1,642 crore, led by healthy growth in both Pharma and LSI business segments.

In Pharmaceuticals, we achieved revenues of Rs. 860 crore, up 12% YoY and contributing 52% to total company revenues. I am particularly pleased to mention that this growth has been led by our niche Specialty Pharmaceuticals - Injectables business which grew 42% YoY and 13% QoQ.

The Specialty Pharmaceuticals - Injectables business now contributes 62% of the total pharmaceuticals segment revenues, up from 58% in Q1'FY18 and 49% in Q2FY17 and is expected to exceed 70% of our Pharma sales. As mentioned by our Chairman, Jubilant has always had a strategic focus to operate in niche specialty segments like Radiopharma, Allergy Therapy Products and CMO, and we see these forming a larger share of our revenue base going forward. Accordingly, the US formulations business, which is under continued pricing pressure, is expected to only form around 12% of our total Pharma mix.

Revenues in Generics business stood at Rs. 329 crore contributing 38% to the Pharma segment sales and 20% to Company revenue. The Generics revenue was down 16% YoY. This segment was impacted by ongoing supply chain consolidation in the US market and deferment of sales for certain customers in our API business.



In our LSI segment, revenue for the quarter stood at Rs. 738 crore, contributing 45% to the overall revenue and grew strong 27% YoY and 5% QoQ, mainly led by the growth in Vitamins and Life Science Chemicals.

Drug Discovery Solutions revenue stood at Rs. 44 crore, up 16% YoY and contributing 3% to overall revenues.

Coming to EBITDA, our Q2'FY18 EBITDA from Operations stood at Rs. 332 crore with margins of 20.2% after giving effect to one-off acquisition related costs of Rs. 19 Crores.

I would also like to highlight that during the quarter, on a constant currency basis, we had an impact of about negative Rs. (10) Crore on account of USD/INR exchange rate from 67.02 to 64.31.

Pharmaceuticals EBITDA stood at Rs. 211 crore with margins of 24.5%, while Life Science ingredients EBITDA stood at Rs. 131 crore, up 28% YoY and 21% QoQ with margins at 17.7%.

Drug Discovery Solutions segment EBITDA stood at Rs. 5 Crore with margins of 10.7%.

Depreciation and amortization in Q2'FY18 was at Rs. 79 crore, up from Rs 72 crore in Q2FY17, mainly due to higher amortization and additional depreciation due to the acquisition.

Total finance cost stood at Rs. 66 crore versus Rs. 80 crore in Q2'FY17, down 18% YoY. Finance costs include Rs. 10 Crore for charge on stock settlement instrument, being a non-cash debit to P&L, on account of convertible instrument issued to IFC of US\$ 60 Million as a mandatory conversion option at IPO of JPL.

Thus, PAT for the quarter stood at Rs. 128 crore with an EPS of Rs. 8.23 per share of Re. 1 paid. Normalized PAT, after adjusting for acquisition related one-off expenses stood at Rs. 141 Crore with Normalized EPS of Rs. 9.03.

Let me discuss H1'FY18 numbers.

During H1'FY18, Revenue from Operations increased 14% YoY to Rs. 3,198 crore, led by healthy growth led by Specialty Pharmaceuticals – Injectables and Life Science Ingredients. In Pharmaceuticals, the revenues for the segment stood at Rs. 1,675 crore, contributing 52% to the revenue and up 10% YoY. Specialty Pharmaceuticals - Injectables reported revenues of Rs. 1,000 Crore, showing robust growth of 28% YoY. Revenues in Generics business stood at Rs. 675 crore contributing 40% to the Pharma segment sales with a decline of 9% YoY.

Moving on to other businesses, LSI revenue for H1'FY18 stood at Rs. 1,438 crore, contributing 45% to the overall revenue and grew 20% YoY. Drug Discovery Solutions revenue stood at Rs. 85 crore, contributing 3% to overall revenues.

Our H1'FY18 EBITDA from Operations of Rs. 677 crore with margins of 21.2% after giving effect to one-off acquisition related costs of Rs. 19 Crores. During H1'FY18, on a constant currency basis, we had an impact of negative Rs. (17) Crore on account of USD/INR exchange rate difference.



Pharmaceuticals EBITDA stood at Rs. 463 crore with margins of 27.6%, lower 9% YoY.

Life Science ingredients EBITDA stood at Rs. 239 crore, up 9% YoY with margins at 16.6%. Drug Discovery Solutions segment EBITDA stood at Rs. 5 Crore.

Depreciation and amortization in H1'FY18 was at Rs. 151 crore as against Rs. 144 crore in H1'FY17.

Total finance cost stood at Rs. 135 crore versus Rs. 163 crore in H1'FY17, down 17% YoY and includes Rs. 24 Crore for charge on stock settlement instrument. The reduction in finance costs is due to lower borrowing costs for the company and also reduction in Debt levels compared to previous year.

During H1'FY18, the average interest cost of Debt stood at 6% with cost of Rupee Term Debt at 8.3% and that of the dollar borrowings at 4.7% as against an average interest cost of 7.95% in Q2FY17.

Thus, PAT stood at Rs. 275 crore with an EPS of Rs. 17.67 per share of Re. 1 paid. Normalized PAT stood at Rs. 288 Crore with Normalized EPS of Rs. 18.48.

Let me share Debt perspectives now. Even after funding the Triad acquisition out of internal cash generation, our Net Debt level has seen a marginal Increase of Rs. 16 Crore during H1'FY18. The Net Debt stood at Rs. 3,641 Crore compared to Rs. 3,625 Crore on 31-Mar-17 on constant currency basis. I would like to strongly emphasize our commitment to continue to reduce the debt.

In H1'FY18, the CAPEX stood at Rs. 186 crore. Pharmaceuticals R&D spend in H1'FY18 was Rs. 100 crore, which is 5.9% of the segment sales. Pharmaceuticals R&D charged to profit & loss account in H1'FY18 is Rs. 58 crore that is 3.4% of revenues with the balance being the product development expenditure taken to the balance sheet.

For FY2018, we expect our capital expenditure to be around Rs. 400 Crore.

The full year FY2018 tax rate is expected to be about 28%.

As mentioned by our Chairman, we expect significantly better earnings results in H2FY18 as compared to H1FY18. This will be driven by our continued strong momentum in Specialty Pharma – Injectables business as well as better demand and favorable price environment in our LSI segment.

With that, 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, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

**Saion Mukherjee:**

One question on the Life Science Ingredients business. We have seen some improvement in EBITDA. So how should we think about environment going forward?





- Shyam S. Bhartia:** In the Life Science Ingredients business, as we have said, we see that both the volume and price environment is favorable in H2 and our order book position is also good. So, going forward in H2, we expect around the same margin as what we have in Q2.
- Saion Mukherjee:** So you have done like Rs.130 crore EBITDA in Life Science, you are saying that it will improve from that level or it will remain at this level?
- Shyam S. Bhartia:** It should improve from that level. In H1'FY18, our total EBITDA is about Rs. 130 crore. In H2'FY18, it should be higher than H1'FY18 EBITDA.
- Saion Mukherjee:** On the Pharma business, you talked about strength in the Specialty business but it seems that the rest of the business is struggling, we have seen EBITDA coming down, I know there is Rs.19 - 20 crore charge there, we are seeing a decline there. So is there a lot of pressure on the Generics business, and is there any increase in cost related to Radiopharma launches, etc., which is hurting the margins there?
- Shyam S. Bhartia:** I will give some opening remarks and then GP may follow me after this. Let me tell you that we have a strong API business and a strong Specialty Pharmaceutical business. In Generics, the pricing from Q1 to Q2 was almost the same level although the volume differences might be there. But overall, I think that API business in H1'FY18 has not done as expected because some of the volumes have been shifted to H2'FY18. So therefore, we hope to complete the backlog of orders in H2'FY18, and therefore we hope to do better in API. Formulations business will almost be in the same level as about what we have seen in H1, but this business is only 12% of our total business. Specialty business continues to have a strong performance, and in this, I think we expect higher production in H2 in the CMO business. Therefore, I think that we will be able to show a better result and we have continued better performance in Radiopharmaceuticals and in the LSI business.
- G.P. Singh:** Thank you, Mr. Bhartia. I think you have covered most of the points. I will only add that everybody is aware about the headwinds in the Generics business in the US. We faced the same but it is stabilizing. As Mr. Bhatia mentioned, the pricing pressure from Q1 to Q2 has not changed much, it continues at the same levels and we feel that it is more stabilized and we expect similar performance on quarter-to-quarter basis for the Generic business.
- Shyam S. Bhartia:** But the Solid Dosage Forms which GP is talking about, is only 12% of our business. So, we do not have high exposure in US, whereas in case of other markets like Europe, Japan, Australia and rest of the world business, whatever we have is highly profitable in that business.
- R. Sankaraiah:** Saion, in summary, if you see the Specialty Pharmaceuticals business, we have done very well. Like I mentioned, quarter-on-quarter growth is there, year-on-year growth is there. But that has been more than compensated by our Generics business. Reduction in EBITDA is in both API and Dosage Forms business, as Mr. Bhatia mentioned. In API business, there was certain deferment of orders which was there in the first half. So we expect the second half to recoup that orders. In the Generics business, the same pricing pressure is going to continue. That is what our expectation is. But still the Specialty Business is doing well. Also, in the outlook, we have mentioned very clearly that there was an extended shut down, which was taken to correct some lyophilization machinery which has got completely overhauled properly, in our CMO business. There is a very good order book position in our CMO business which has not been serviced in Q2 and which is



expected to get serviced in Q3 and Q4. So, in CMO business also, we expect much better result in H2. So that is why we have clearly stated that our overall earnings will be much better or significantly better than H1.

**Moderator:** Thank you. The next question is from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.

**Ashish Thavkar:** Sir, the distortions in the API and the CMO business, we have been saying that we will be recouping those sales in the second half. So the recovery would be skewed towards the fourth quarter or you feel the third quarter as well...?

**R. Sankaraiah:** It will be spread in both the quarters.

**Ashish Thavkar:** So this would be over and above our normal businesses that we would be recouping the lost orders?

**Shyam S. Bhartia:** That is right.

**Ashish Thavkar:** Sir, like this quarter we had one month of Triad acquisition and we ended up doing around 20% odd EBITDA margins adjusted for the Triad cost. So on a full quarter basis, considering Q3 wherein Triad will be available for full three months. What kind of EBITDA margins one could assume?

**R. Sankaraiah:** Earlier also we clearly mentioned at the time of acquisition itself that since Triad is more of distribution business, the EBITDA margins will be very marginal there. It is going to add a good amount of top line which is more than about \$200 million p.a. So this year, like I mentioned in my speech also, one-month sale of Rs.103 crore has been consolidated with the H1 and Q1 number. So we expect similar numbers accruing every month for the next six months. EBITDA wise, like we already given the guidance at the time of acquisition, it will be very-very marginal. So that is why if you see in overall Pharmaceutical business, we were clocking the EBITDA margin of about 32% which going forward is expected to come down to the level of about 25-26% because of the higher addition in top line and the lower EBITDA addition on account of this acquisition.

**Ashish Thavkar:** So on a consolidated basis, are we guiding anything including the LSI business as well?

**Shyam S. Bhartia:** We are not guiding any numbers on this. We are saying that in both the businesses we expect a substantial increase in our earning as compared to H1.

**Ashish Thavkar:** Another question would be on the sales potential from Drax Exametazime. I believe we are in the process of making the batches. So if you could throw some light on what is the market size currently, what is the competition and how we plan to scale it up?

**R. Sankaraiah:** We never give product wise details. So we are not in a position to talk about the expected sales and all.

**Shyam S. Bhartia:** We expect to launch this product sometime in the end of the last quarter or first quarter FY'19 or between both quarters.





**Ashish Thavkar:** On the competition, I understand it is just the innovator there or there are other generic guys as well?

**Shyam S. Bhartia:** There is only one innovator and ours is the first generic.

**Ashish Thavkar:** So we would be potentially using the same field force that we already have in the US, there is no need for setting up a specialized field force, is that the right?

**Shyam S. Bhartia:** This product is distributed through Radiopharmacies and it will be distributed to basically four or five large Radiopharmacies chains.

**Moderator:** Thank you. The next question is from the line of Ranvir Singh from Systematix Shares and Stocks. Please go ahead.

**Ranvir Singh:** This is related to the acquisition cost of Rs.19 crore which you have provided. This is spread across the line item or this is in other expenditure?

**R. Sankaraiah:** This is actually an acquisition cost of two parts – One is on account of the diligence fees, etc., what we have paid, and other one is on account of stock adjustment which was there in closing stock at the time of acquisition because Draximage supplies the product to Triad. So one time we have to make that adjustment. So on account of that, this Rs.19 crore is the one-time expense which is there only in this quarter. Going forward this adjustment entry will not be there.

**Ranvir Singh:** So this Rs.19 crore is sitting in other expenditure?

**R. Sankaraiah:** Yes, as of now it is sitting in expenses and also it is in EBITDA.

**Ranvir Singh:** At the time of acquisition, we saw that the revenue was kind of Rs. 225 million in 2015 for Triad. Now for one-month revenue it is Rs.15 million or you are guiding for 200 million kind of thing. So why this revenue has come down?

**R. Sankaraiah:** If you see the consolidated number, obviously, we have to knock off the intercompany sales. So that is why we are talking about \$200 million.

**Shyam S. Bhartia:** Intercompany sales on account of what we sell to Triad will have to be knocked off.

**R. Sankaraiah:** Jubilant DraxImage is a supplier to Triad. So, in the consolidation, the purchases and sales will get knocked off and the net sales will get reported.

**Ranvir Singh:** Employee cost whatever increment we see is only due to Triad or we have other part also?

**R. Sankaraiah:** It is mainly due to Triad and also annual increments, both.

**Ranvir Singh:** Only one-month cost has been included in this quarter for employee cost?

**R. Sankaraiah:** That is right.

**Ranvir Singh:** These run rates continue going forward on quarterly basis?

**R. Sankaraiah:** Yes.



- Ranvir Singh:** I see for promoter's side, the share pledging has increased. So any reason why this has been increased? Promoter share pledge is around 15%.
- R. Sankaraiah:** That was the old number; there is no fresh pledge which has happened during this quarter or this year.
- Ranvir Singh:** On API side, there is some deferment. So just I wanted to understand structurally because on generic front, most of the players are facing pressure. So this deferment is something to do with the pricing pressure there and so the customers are not taking the others. So this is the reason or the reason was particular to Jubilant?
- GP Singh:** You are right. The API business is dependent on the performance of our customers. So a delay from their side leads to delay in supply.
- Shyam S. Bhartia:** It is to do with the volume delay and their requirement has been deferred. The order and the price remains the same.
- Ranvir Singh:** As this generic pressure is likely to continue and scenario is anyways not improving, so what gives you confidence that API volume would again be recouped there?
- Shyam S. Bhartia:** We had a strong order book position. Some of the customers deferred their supplies from H1 to H2. Their requirements got deferred. As per whatever orders we have, we are telling you that we expect better performance in API business in H2 than H1.
- Moderator:** Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.
- Anmol Ganjoo:** My first question is around the Pharmaceuticals margins not for the quarter but if you look at things on a full year basis, the mix is clearly improving; last quarter we had a mix of 57% Injectables, 43% Generics and this quarter we had 62%-38%, a) where does it settle in terms of the split of our Pharma business? Second is how do you reconcile this to an overall weakening margin profile and what is the outlook on margins if we look two, three quarters out? I am just summarizing my question, basically I was trying to understand that we are recording sequential improvement in the mix and worsening of the margin. So, a) how does this reconcile and where do we see it settling down if we look out two, three quarters both from a split standpoint because we are now pretty comfortable at 62-38% kind of split on Injectables and Generics? Second, on the exact margin side. Where do you see stabilizing is my question?
- R. Sankaraiah:** Anmol, like I already mentioned, in H1 the overall EBITDA margins was about 21%, whereas if you see the Pharmaceuticals business, it was about 27.6% and LSI business is about 16.6% in H1. Like we already mentioned, in H2, LSI business should be slightly better because of the better demand and also price environment. Instead of 16.6%, it should be in the range of about 17%. In Pharmaceuticals business, since Triad acquisition has happened, the margin as of today is 27.6%. Going forward, like we have already guided, it will be in the range of 25-26% because of the simple reason that the top line is getting added in Triad whereas the EBITDA margins are very marginal or almost like break-even or maybe we can see maybe a small loss also in the first six months or seven months. So, the EBITDA margin of Pharma on consolidated including Triad is expected to be in the range of



25-26% whereas the LSI it will be in the range of about 17%. So, the overall margin should be in the range of 20-21%. Still there is a very good demand which is going on in LSI business, and the top line is expected to grow very well in LSI, in Pharmaceuticals business the top line will of course be very good because of Triad. Without even Triad, the rest of the businesses are expected to do better in H2 compared to H1. Like we already mentioned, our Radiopharmaceuticals business and Allergy business continue to do well and in case of our API first half year it was not very good which is expected to do better in H2. In case of Generics business, it may be more or less at the same level. So the overall top line is expected to grow very well, at the same time accordingly the EBITDA also is expected to grow compared to the first half, that is why we have clearly guided our second half will be significantly better than the first half.

**Anmol Ganjoo:** A couple of other things; one is what is the R&D which has been charged as a percentage of sales for the quarter?

**R. Sankaraiah:** It is about 5.6% to Pharma sales, out of which about 3.6% to segment sales has been charged to P&L, the balance about approximately 2% which has been taken to balance sheet as a product development.

**Anmol Ganjoo:** My last question is any updates would you want to share on a) the Radiopharma business and b) the IPO plans or timelines that you have spoken about in the past?

**R. Sankaraiah:** We continue to evaluate the IPO prospects. So as and when we do, we will communicate to the market directly. As far as the Radiopharmaceuticals business is concerned, like I mentioned, it continues to do very well.

**Shyam S. Bhartia:** Basically, let us tell you that we would like to go for an IPO sometime next year positively, that is our plan.

**Moderator:** Thank you. The next question is from the line of Cyndrella Carvalho from Dolat Capital. Please go ahead.

**Cyndrella Carvalho:** Sir, just wanted to understand the Radiopharma business. It has been quite some time with RUBY-FILL now. How is the sales force coming back? What is the new learning over there? How is the outlook? Is there any change in the strategy? Can you help us with some color on that front? As you also mentioned that Drax Exametazime will be launched via the pharmacy chains only and not via our own portfolio. So how should we look at it and overall some volume growth sense if you could help us on the Radiopharma side?

**Shyam S. Bhartia:** In the Radiopharmaceuticals business, we have grown from last year same period to this year; we have grown in sales. Our strategy going forward in the Radiopharmaceuticals business is that we hope to file about six products. One is already approved, Exametazime and these products are highly specialized products with little competition. As I said, in Exametazime, there is only originator and us. We strongly believe that we will be able to get a good market share in next one or two years' time on these products. Going forward, we hope to launch some newer products and also our Rubidium Generator product, for which the sales have been limited during this year because a lot of contracts which are already there are expiring during this year-end and we hope to accelerate our sale of Rubidium Generator both in US and Canada sometime from the fourth quarter 2018.

**Cindrella Carvalho:** So sir, in terms of the Canadian approval, that will also help us in the next fiscal?



- R. Sankaraiah:** Yes.
- G.P. Singh:** Yes, it will help, we will have the commercial launch in the coming months but overall as compared to the US market, I would caution that the Canadian market is very small.
- Shyam S. Bhartia:** Canadian market as GP said is very small, but of course our commercial launch will start from January in Canada. Our main concentration is in US market. A few installations in Canadian market will help us. US is the largest market.
- Cindrella Carvalho:** Any color that you want to add on RUBY-FILL specifically?
- Shyam S. Bhartia:** I think you may see a number of installations coming in. As we grow QoQ, we will see number of installations increasing in US.
- Cindrella Carvalho:** Seeing the experiences coming up well, and our strategy is going good that we will market it via our own sales force only, there is no change in strategy on that front, right?
- Shyam S. Bhartia:** Acquisition of Triad also helps to expand our presence all over US at one time because Triad presence of 50 pharmacies in 30-states and direct approach to the hospitals is helping us to market RUBY-FILL Generator. So therefore I think it will help us to overall strengthen our marketing in RUBY-FILL Generator.
- Cindrella Carvalho:** Sir just coming back to the Generic side of our Pharma business, though it is small, but somewhere it has hit us on our margins, do we see any stability coming in the Pharma Generic side because most of your peers are saying like it is almost bottoming out now, is that also your opinion or do we see some more pricing pressure coming in , so what is your view on that?
- G.P. Singh:** Very similar to what our peers are saying in the industry. It is very difficult to speculate. We are hoping that it stabilizes and we do not see the headwinds which we have seen in the past and on the quarter-to-quarter there is little more stability going forward. That is our hope. Again, it will be speculative to predict what is going to happen.
- Shyam S. Bhartia:** I would like to add to what GP says. On our existing portfolio, we feel that there is a stability at this stage. We hope next two quarters should be stable, plus we are trying to launch our new products, which will further add to our sales during Q3 and Q4.
- Cindrella Carvalho:** Sir, coming to one on the finance side, any debt numbers that you would like to guide us for the year end to look at?
- R. Sankaraiah:** We are not giving the guidance. Our focus is always to reduce the debt level. That is why we put a ceiling on CAPEX. It will not be more than Rs.400 crore for this year and whatever the cash which is getting generated will be used to reduce the debt level. Since we are very clear on our focus, even after making this acquisition, we are at the debt at the same level compared to the beginning of the year. So that clearly tells us that the focus is to reduce the debt level.
- Shyam S. Bhartia:** We hope to reduce debt in the next two quarters.



**Moderator:** Thank you. Next question is from the line of Aditya Ahluwalia from Invesco. Please go ahead.

**Aditya Ahluwalia:** My first question is what is the Pharmaceuticals margin ex of Triad at the moment?

**R. Sankaraiah:** It is about 29%.

**Aditya Ahluwalia:** Because I cannot reconcile that. Can you tell me the absolute?

**R. Sankaraiah:** We do not want to confuse the market with the reconciliation. That is why we clearly guided after taking into account Triad the pharmaceutical margin, because in last quarter we committed to the market that once the acquisition is done, we will inform what is the EBITDA margin range is after acquisition including Triad. So that is why we are guiding the market now that EBITDA margin for Pharmaceuticals business would be in the range of 25-26% including Triad.

**Aditya Ahluwalia:** So your absolute EBITDA for the quarter was Rs. 306 crore and there was Rs.20 crore one-off in that, am I right?

**R. Sankaraiah:** Absolute EBITDA is Rs.313 crore, that includes Rs.19 crore of one-off. If you the one-off away, it is Rs. 332 crore. Like I mentioned, there is exchange fluctuation from 64 versus 67 and on account of that an impact of about Rs.10 crore. So net-net if you see overall this year also the EBITDA is at the same level compared to the previous year of Rs. 345 crore.

**Aditya Ahluwalia:** My second question is on the absolute revenues. So if I knock off the Triad revenues of Rs.103 crore, then the absolute revenue level is around Rs.1540 crore.

**R. Sankaraiah:** It is about 11% growth.

**Aditya Ahluwalia:** Yes, but on a sequential basis it has come down from the previous quarter. So I understand Generics is the only business that should be degrowing. But apart from that our Contract Manufacturing, Specialty Pharma and the LSI business also since the crude prices are going up, all other businesses should be seeing sequential improvement I suppose?

**Shyam S. Bhartia:** As we said, there is downward growth in sequential basis.

**R. Sankaraiah:** It is mainly driven by Pharmaceuticals business like I clearly mentioned.

**Aditya Ahluwalia:** So on full year basis in all these businesses we expect growth Y-o-Y like a high single digit or double digit growth in Contract Manufacturing, API...I am excluding Generics, is that a fair assessment?

**R. Sankaraiah:** That is right.

**Aditya Ahluwalia:** Specialty Pharma, we should expect to grow by 20%, but business grew very fast to...

**R. Sankaraiah:** Business wise we cannot guide. We already mentioned very clearly what is the Pharma EBITDA margin, we are not giving any guidance on the top line.



**Moderator:** Thank you. Next question is from the line of Tushar Manudhane from Motilal Oswal Securities Limited. Please go ahead.

**Tushar Manudhane:** Just on the Radiopharma products, are we going to file any product in FY'18?

**GP Singh:** Yes, we continue to focus on R&D. Again like Mr. Sankaraiah said, we cannot go into product details, but yes, we do plan to make more filings in Radiopharmaceuticals, that is a focus area for us.

**R. Sankaraiah:** Like already Mr. Bhartia mentioned, there are six products on pipeline depends upon the completion of the work we will be filing every year for next three to four years some products or other.

**Tushar Manudhane:** Secondly, the debt reduction would be even without IPO, right?

**Shyam S. Bhartia:** Yes, this debt reduction we are talking is without IPO. We have a definite debt reduction.

**Tushar Manudhane:** Because in the first half it has been more or less same?

**R. Sankaraiah:** Because the internal cash generation has been used for acquisition, that we have clearly mentioned. Before acquisition, you know very well, there was about Rs.120 crore debt reduction. In H1, there is a marginal increase of about Rs.16 crore, so that is after acquisition.

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

**Alankar Garude:** My first question is can you broadly bifurcate the 27% growth in LSI between pricing and volumes?

**Shyam S. Bhartia:** LSI has many products and it is a combination of both price and also volume.

**R. Sankaraiah:** 27% is 10% and 17%. That is a very broad indication I can share with you. 10% is price growth and overall growth is mainly driven by volume.

**Alankar Garude:** Going forward you expect more or less this ratio to be maintained?

**R. Sankaraiah:** Volume growth will be very good because the demand is very good.

**Alankar Garude:** My second question is, is it fair to say that the weakness in the non-US Pharma business, it is largely because of the API sales getting postponed?

**R. Sankaraiah:** That is right. We cannot call it is non-US, it is the API business. Majority of API goes to US and also rest of the world. So it is mainly because of API business going down. Of course, for Generics overall whatever Mr. Bhartia and GP has mentioned that holds good.

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



- Vishal Manchanda:** One question on your Solid Dosage business. You have about 50 approvals in the US. So can you just guide all those 50 ANDA you have not launched, so maybe what percentage of those ANDA you have launched?
- Shyam S. Bhartia:** We do not have the exact figure or percentages but certainly few ANDAs we will be launching this quarter and few ANDAs we will be launching in the next quarter.
- Vishal Manchanda:** With 30 ANDA pending approvals, how should we look at this business over next two years FY'19 and FY'20?
- Shyam S. Bhartia:** As you know that the approval timing has improved substantially. So I think on pending approvals, every quarter we expect some approvals, and as we receive approval it takes about a quarter to launch the product.
- Vishal Manchanda:** Can we look at this business growing and come out of price erosion pressure?
- Shyam S. Bhartia:** As GP mentioned, on existing portfolio we are not expecting any price erosion. We would see new product additions and in Q3 and Q4 also we do not see on our existing sales any price erosion. At least it is not visible today, we cannot guarantee too much if suddenly some price erosion happens, but at least there is no visibility today and we do not expect that whereas new product additions would add to the sales.
- Vishal Manchanda:** One question on RUBY-FILL. Just wanted to understand, currently your customers are using Cardiogen. So in case if they come to RUBY-FILL, would they have to incur some capital expense for this shift to RUBY-FILL or they can just directly replace Cardiogen with RUBY-FILL without incurring any capital expenditure?
- Shyam S. Bhartia:** It is a very complicated exercise, in a sense that either they will buy Cardiogen or buy RUBY-FILL. Some newer installations also we have done. We are talking there. It is like product decision process to buy RUBY-FILL or Cardiogen.
- Vishal Manchanda:** Finally, on Drax Exametazime approval, does that approval have the same label as the innovator product or the label is restricted for your product versus the innovator product?
- Shyam S. Bhartia:** It is 505(b)(2), so it is almost for the same use of white blood cells.
- Vishal Manchanda:** Because I could see in the innovator level, there is an additional indication for cerebral scanning but I could not see it on your label. So is that the difference between your and ...?
- Shyam S. Bhartia:** Label for which we had approved has 90% of the sales whereas the other label for which we have not approved as yet is only for 10%.
- Moderator:** Thank you. The next question is from the line of Jagdish Bhanushali from SUD Life. Please go ahead.
- Jagdish Bhanushali:** Can you put some light on Life Science Chemicals part – do we see prices moving up from here on the contracted prices along with the margins?
- Shyam S. Bhartia:** I think what we said is overall including Life Science Chemicals we see both volume and price environment better. Rajesh, if you would like to add?



- Rajesh Srivastava:** From H1 to H2, our volume and price, both are going to be better.
- Jagdish Bhanushali:** In terms of spread, how does the raw material act in this – are the raw material prices just the same or how is this?
- Rajesh Srivastava:** Raw material prices in H1 has already seen upside and we expect it to be same. But it can go up, you never know. We cannot comment anything for the future.
- Jagdish Bhanushali:** I was just trying to understand whether the margin expansion is mainly to do operational levers or the increase in spread itself?
- Rajesh Srivastava:** Actually the raw material prices, as I mentioned, have been little higher. So our margins are better because of volume and price.
- Moderator:** Thank you. We have a follow up question from the line of Saion Mukherjee from Nomura Securities. Please go ahead.
- Saion Mukherjee:** Sir, just one clarification; when you say Rs.103 crore from Triad, it is the net figure, right, after adjusting for the intercompany sales?
- R. Sankaraiah:** That is ultimately the sale is accounted, Saion, in Triad. To that extent, whatever the interdivisional sale is there, that will get knocked off in DraxImage. It is a third-party sale from Triad.
- Saion Mukherjee:** On the LSI business, you mentioned that second half will be better than first half. But slightly longer-term there are many products out there, we are hearing some capacities in China for instance closing down. If you take all that into account, can you give a broad picture in terms of pricing? Where we are from a historical perspective and where we can potentially go going forward? Or have we already recovered a fair bit from the bottom?
- Shyam S. Bhartia:** Saion, you have made a very good point. As you see that in China, there is so much uncertainty because of environmental reasons. In many areas, certainly the plants are closed down, etc. So the reliability factor in China has reduced from consumers. So the consumers are coming back to us on a reliability factor and we are at the same time getting better volumes and prices also come down.
- Saion Mukherjee:** Going into FY'19 also, you expect this traction to continue or probably improve, we do not know the quantum but it should improve is what do you think given what is happening in the market?
- Shyam S. Bhartia:** Gong into '19 we are going to have more number of products also. So that will also be better. But this environment in China can change, you do not know. But as of today it feels that up to March there should not be possibility of change. We will keep you informed as in every quarter what is the situation.
- Saion Mukherjee:** My next question is on Radiopharma, particularly RUBY-FILL. Now it has been sometime. So if you can throw some light what has been the traction like and how should we see the ramp up like you are talking to people, installing the equipment there, so in terms of gaining traction and kind of having an inception in sales, how should we think about the timelines of RUBY-FILL?

- GP Singh:** Like we have always said, this is the next-generation product and we remain very excited about the potential. The feedback from key opinion leaders in the industry has been excellent. So we remain very optimistic, very aggressive on it and like what Mr. Bhartia mentioned earlier, we already made installations. We are expecting more installations to be done within this quarter and the trend to continue going forward also. So bottom line is, for us, it is a great product, great potential, great future which we are looking forward to.
- Shyam S. Bhartia:** But Saion, the selling cycle, what we thought initially will be shorter, will go longer. Because once the decision is taken, we do not change the supplier. They like our product, but they will have to see that within their existing contracts how to change the supplier.
- Saion Mukherjee:** Is it therefore that the new installations in the first market and if somebody is using an alternate product, that is not easy to chase, that is not going to happen in the next two, three years?
- Shyam S. Bhartia:** No, we are talking the ramp up will be basically from Q4.
- R. Sankaraiah:** Beginning of the calendar year.
- Saion Mukherjee:** No sir, I did not get. You are saying that from Q1 of calendar year '18 is when you start seeing traction in RUBY-FILL?
- Shyam S. Bhartia:** From Q4 we will see some increase in installations, we have been doing some increase in installation in Q3 also, but main ramp up will start from Q4'FY18, that is calendar year Q1 which is January to March.
- Saion Mukherjee:** I was just trying to get a sense like it has been sometime when you mentioned there is a slow process. I am just wondering like whatever feedback you had for the market and the feedback from key opinion leaders, etc., your estimate of peak sales, are you sticking to that, do you think there is an upside/downside and the fact that how long do you think it will take to reach that point and is there any change in timeline on that?
- Shyam S. Bhartia:** We remain very optimistic about the product. Our product has received very good response from the market from the key opinion leaders on the basis we have revisited, on the basis we have demonstrated. So no doubt, we are very confident of achieving our projection what we initially estimated. But the initial sales cycle is taking little more time than what we have expected. But now with the ramp up, with our Triad network, we expect the sales cycle to grow faster.
- Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I now hand over the conference to Mr. Bhartia for his closing comments.
- Shyam S. Bhartia:** Thank you everybody for joining the call today. If you have any further clarifications or questions, both Ravi and Sankaraiah will be happy to answer it. Wishing you all the best.
- Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Jubilant Life Sciences Limited, that concludes this conference call. Thank you for joining us.