# Jubilant Life Sciences Limited
# Q2 & H1'FY19 Earnings Conference Call
# October 22, 2018

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**Ravi Agrawal**: Good evening to everybody. I am Ravi Agrawal – Head of Investor Relations at Jubilant Life Sciences. I thank you again for being with us today on our Q2 & H1 FY19 earnings conference call. In the call today, we have Mr. Shyam S. Bhartia – Chairman; Mr. Hari S. Bhartia – 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. Pramod Yadav – CEO of our Pharmaceuticals business and Mr. Rajesh Srivastava – CEO of our Life Science Ingredients.

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

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

We are happy to report another quarter of strong results. The record performance in our Pharmaceuticals segment has been led by continued growth in Specialty Pharmaceuticals and smart recovery in our Generics & API businesses. Demand in our Life Science Ingredients segment remains strong. We have created a differentiated business model by investing in Specialty Pharma business with unique pipeline of products which we are confident will deliver sustainable growth in the current year and in the future.

Let me share few highlights of Q2 and H1 performance.

In Q2'FY19, consolidated revenue was Rs 2,269 crore, up 38% YoY. EBITDA was at Rs. 454 crore, up 45% YoY with margins of 20% and PAT at Rs 210 crore, up 64% YoY. This translated into a Net Margins of 9.3% and an EPS of Rs. 13.5 during the quarter.

For H1'FY19, consolidated revenue was Rs 4,348 crore, up 36% YoY. EBITDA was at Rs. 901 crore, witnessing a robust growth of 37% YoY with EBITDA margins at 20.7%. Our Net profit came in at Rs. 413 crore, recording a healthy rise of 50% YoY translating into Net Margins of 9.5% and an EPS of Rs. 26.5.

Mr. Sankaraiah will take you through the financial results in detail

**Pharmaceutical segment**

In Q2'FY19, Pharmaceuticals revenues increased 55% YoY to Rs. 1,326 crore. EBITDA grew 67% YoY to Rs 364 crore with margins of 27.5% during the quarter. It is important to note that the Pharmaceutical segment today contributes 58% of the total revenues and 76% of the EBITDA of the company.

The record performance in our Pharmaceutical segment is a result of our clearly defined growth strategies which we have implemented leveraging our strengths in the segment. I would like to take this opportunity to share some key strengths and strategies.

Firstly, we have leading market position across business lines, with high barriers to entry for Specialty Pharmaceuticals. We are the number three radiopharmaceutical manufacturer and also have the second largest commercial radiopharmacy network in the US. We are market leaders in lung imaging products and having large market share in I-131 which is used for therapeutic and diagnostic treatment of thyroid cancer. We have innovative products like Rubyfill which is used for myocardial imaging in PET scans. Similarly, In Allergy Therapy Products, we are one of the top three players in the US and are the sole producer and supplier of venom products in the US.  In CMO we benefit from our proximity to customers and the limited number of manufacturers with the required know-how for sterile injectables. We have a well-defined strategy to leverage our leadership position in existing products and expanding our product portfolio through the launch of niche and differentiated products.

These businesses have significant barriers to entry such as extensive regulatory and licensing requirements and are also capital intensive in nature. These entry barriers limit the number of entrants providing significant opportunities to the company to capitalize on growth potential in these businesses.

Secondly, we have a de-risked business model which benefits from diverse product offerings, as well as a broad customer base with a global manufacturing and distribution footprint. Almost 90% of the revenues are in regulated markets like North America and Europe. Also, our global and diversified manufacturing footprint provides us a locational advantage, as our four facilities in North America are closer to the customer base while the two locations in India leverage the cost leadership and R&D capabilities in the country.

Thirdly, we have a strong pipeline of products with deep R&D capabilities supported by R&D centres in India and North America. Our R&D capabilities are demonstrated by our specialized and niche product filings like Rubyfill and Drax Exametazime, wherein we received 505 b (2) approvals. Today the company has a basket of around 107 ANDA filings in the US, including 11 radiopharma registrations in sterile products. We also have a product range of more than 200 different allergenic extracts which are Biological products with grandfather status. We continue to focus on developing differentiated and complex offerings including at least 4 to 5 niche 505 b (2) filings and one potential NDA in I-131 MIBG with Orphan Drug Status where we have started Phase 2 clinical trials in July this year.

Lastly, we have global competitive edge due to integrated and efficient manufacturing operations. This integration exists across three key businesses. Radiopharmacies business integrates with radiopharmaceutical business as it provides direct access to network of hospitals and imaging centers CMO business integrates with radiopharmaceuticals and allergy therapy business as all cold-kits for radiopharmaceuticals and certain allergy products are manufactured at CMO facility. The API business integrates with the generics business as 35% of APIs produced are utilized in-house in the solid dosage formulations business. The integrated business model provides product and services which are cost effective and also helps the company to improve profitability and competitiveness.

The outlook continues to remain very positive in terms of growing our businesses in this segment, both in revenues and profitability. In Radiopharmaceuticals, we continue to witness growth in our base of manufactured products through our existing contracts and also from new products launched in the market. In CMO, we are witnessing strong demand from our clients and plans are underway to increase capacities to address this demand. A new Lyo line is under validation with commercial operations expected from H1FY20 and also we have implemented measures to operate certain manufacturing lines 24 by 7 from this month onwards.

In our Allergy Therapy Products, we are very well poised for further growth, given the strength of our brand and our focus on increasing coverage with allergists and ENTs with our dedicated sales force calling on these specialists. The increase in production of venom and expansion in international markets is expected to translate into adding revenues in the coming quarters.

The improved performance in our Generics & APIs vertical has been aided by higher volumes, better pricing and also initiatives that we have taken in improving our cost efficiencies. As we have been indicating for the last few quarters, we have been witnessing select recovery in some of the products in US formulations market due to rationalization of product portfolio and plants by some generic companies which has led to revenue growth and margin expansion for us in this business. Also, we have witnessed some favourable market conditions in APIs which has helped us to perform well in the quarter. To meet the increasing requirements in EU, ROW and US markets we are also increasing capacities in our Roorkee facility, with the first phase of expansion expected to start commercial production by end of the year. We are also evaluating options to increase our capacities in API business.

Moving on to the Life Science Ingredients segment,

In Q2’FY19, Life Science Ingredients, revenues stood at Rs. 887 Crore contributing 39% to the overall revenues and showing a robust growth of 20% YoY. EBITDA was at Rs. 109 Crore, with margins of 12.3%.

Let me share a few highlights of Life Science Ingredients.

The overall demand in most of our LSI businesses remains strong, as can be witnessed by our 20% YoY growth in revenues in this segment during the period. Almost 70% of our sales in this segment are in the domestic market and we import most of our key inputs like ethanol, methanol and acetic acid. Since there is a time lag of 2-3 months to pass on any input price increase, the recent strength of the dollar has created volatility in forex rates which in turn has created headwinds in our profitability in this segment during the quarter. Also, the profitability in LSI has been impacted due to lower performance of slightly higher margin business like Vitamin, where as we discussed in the last call, the demand for Vitamin B3 had been impacted due to non-availability of Vitamin A & E. This is now improved but will take another 5-6 months to get normalised

We expect the strong demand to continue in the segment aided by new product launches and capacity additions through de-bottlenecking initiatives and also expected commercialization of the acetic anhydride facility. We also expect that the volatility in the exchange rates to stabilize going forward, which will aid the overall profitability in the segment. With the escalating US-China trade war, US manufacturers are expected to shift their buying from China gradually to Indian manufacturers. However, the possible effect of this will only be visible in the next year.

**Others Segment**

Our Others segment includes the Drug Discovery Solutions and India Branded Pharma businesses. In Q2'FY19, the segment revenues came in at Rs. 57 crore, a growth of 15% YoY and contributed 2% to overall revenues. EBITDA stood at Rs. 4 Crore as against a loss of Rs. 3 crore last year. For H1FY19, revenues were Rs 107 crore, growth of 14% YoY with EBTIDA of Rs. 6 crore during the period.

Outlook

We expect better performance both in revenues and operating profits in H2 FY19 as compared to H1 FY19 in Pharmaceuticals and LSI segments driven by growth in existing products, capacity expansions and new product launches. We will continue our efforts to strengthen balance sheet by reducing debt and improving financial ratios.

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

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

Let me give you a brief of the financial highlights of second quarter and half year ended of FY19.

We reported healthy results for the quarter under review. Revenue from Operations improved by 38% YoY and 9% QoQ to Rs. 2,269 Crore. International revenue was up by 37% YoY at Rs. 1,618 Crore and contributed 71% to the total revenue.

During the quarter, the company has received dividend of Rs 59.3 crore from its subsidiary Jubilant Pharma Limited Singapore, which has been accounted in other income in the standalone accounts. Please note that this has no impact on the consolidated profits of Jubilant Lifesciences as it gets eliminated at the consolidated level.

Coming to the various segments

Revenues from Pharmaceuticals improved by 55% YoY and 12% QoQ to Rs. 1,326 Crore.

International revenues in this segment were at Rs. 1,306 Crore, up 57% YoY and contributing 98% to the total revenues. This was led by North America revenues of Rs. 1,076 crore, which formed 81% of revenue mix and was up 60% YoY

Specialty Pharmaceuticals business displayed healthy performance and grew 71% YoY and 11% QoQ to Rs. 908 Crore and now contributes 69% of the total pharmaceuticals revenues, as compared to 62% in Q2'FY18.

The growth in Specialty Pharmaceuticals has been driven by growth in demand in radiopharmaceuticals, CMO and Allergy Therapy Products and also addition of acquired Radiopharmacy business which was acquired in September 2017. Excluding the Radiopharmacy business, Pharmaceutical segment revenues have increased 33% YoY.

The Generics & API business delivered revenues of Rs. 418 Crore, contributing 32% to Pharmaceuticals sales, growing a healthy 29% YoY and 15% QoQ led by better market conditions in APIs and US solid dosage formulations.

Moving on to our Life Science Ingredients, revenue for the quarter were at Rs. 887 Crore, contributing 39% to the overall revenue with a growth of 20% YoY, led by higher revenues in Lifescience Chemicals offset by lower sales volumes and prices in Nutritional Products. India revenue were higher by 45% YoY at Rs. 623 Crore accounting for 70% of the segment's revenue. International markets share was at Rs.264 Crore, 30% of segment's revenues, including revenues from key developed markets of Rs. 165 Crore contributing 19% to segment revenues.

The 'Others' Segment include the Drug Discovery Solutions and the India Branded Pharmaceutical businesses. The revenue for this segment during Q2 FY19 were at Rs. 57 Crore, increasing by 15% YoY and contributing 2% to overall revenues.

Coming to EBITDA, total EBITDA from operations for the quarter was up 38% YoY at Rs. 478 Crore with margins of 21% and reported EBITDA up 45% YoY to Rs. 454 Crore with EBITDA margin of 20%, up from 19.1% achieved last year. Pharmaceuticals EBITDA was at Rs. 364 Crore, improving 67% YoY with margins of 27.5%, contributing 76% to the overall EBITDA. Specialty Pharmaceuticals EBITDA increased by 33% YoY to Rs. 238 Crore with margins of 26.2% while Generics & API EBITDA grew 225% YoY and 75% QoQ with healthy margins of 30.2% during the quarter as compared to 12.0% last year and 19.8% in Q1FY19.

Life Science Ingredients EBITDA was at Rs. 109 Crore with margin at 12.3% As Chairman indicated, since there is a time lag of 2-3 months to pass on any input price increase, the recent strength of the dollar has impacted our profitability in this segment as most of the key raw materials are imported. Also, the profitability in LSI is lower due to lower margin in vitamin business as the demand for Vitamin B had been impacted.

Depreciation and amortization during the quarter was at Rs. 89 crore, up 13% YoY. Finance costs was lower by 5% YoY at Rs. 63 Crore. Finance costs include borrowing costs of Rs. 54 Crore, lower 3% YoY and non-cash Stock Settlement Charge of Rs. 9 Crore, lower 14% YoY.

Thus, the Company reported a PAT of Rs. 210 Crore, a growth of 64% YoY with Net margins at 9.3% translating into an EPS of Rs. 13.5 per share of Re. 1 paid.

Let me discuss H1'FY19 numbers

Revenue from Operations improved by 36% YoY to Rs. 4,348 Crore with International revenue growing 35% YoY at Rs. 3,125 Crore and contributed 72% to the total revenue.

Revenues from Pharmaceuticals improved by 51% YoY to Rs. 2,507 Crore.

International revenues were at Rs. 2,464 Crore, up 53% YoY contributing 98% to the total Pharmaceuticals revenues; led by North America revenues of Rs. 2,061 crore which formed 82% of revenue mix and was up 61% YoY.

Specialty Pharmaceuticals business displayed strong performance by growing 72% YoY to Rs. 1,724 Crore. This business now contributes 69% of the total pharmaceuticals revenues, as compared to 60% in H1'FY18. Excluding the acquisition of the Radiopharmacy business, the Pharmaceutical revenues have increased 20% YoY. Our Generics & API business delivered revenues of Rs 783 crore, contributing 31% to Pharmaceuticals sales registering a growth of 18% YoY.

In our LSI business

Revenue stood at Rs. 1,734 Crore in Life Science Ingredients, contributing 40% to the overall revenue and improved by 21% YoY. India revenue increased by 43% YoY to Rs. 1,166 Crore, contributing 67% to segment revenues while International markets share at Rs. 568 Crore, 33% of segment's revenues, including revenues from Key Developed markets of Rs. 383 Crore, contributing 22% to segment revenues.

In the Others segment, H1FY19 revenue stood at Rs 107 Crore, up by 14% YoY.

Coming to EBITDA, total EBITDA from operations improved by 32% YoY at Rs. 931 Crore with margins of 21.4% while reported EBITDA was up 37% YoY to Rs 901 crore, with margins of 20.7%. Pharmaceuticals EBITDA was at Rs. 707 Crore, higher by 47% YoY with margins of 28.2%, contributing 76% to the total EBITDA while Life Science Ingredients EBITDA was at Rs. 218 crore with a margin of 12.6%

Specialty Pharmaceuticals EBITDA grew 29% YoY to Rs. 508 Crore with margins of 29.5% while Generics & API EBITDA grew 134% YoY with margins of 25.3% during H1'FY19.

Depreciation and amortization during the period was at Rs. 177 crore, up 17% YoY. Finance costs at Rs 135 crore was at similar levels to last year. Finance costs include borrowing costs of Rs. 105 crore, 5% YoY lower and non-cash stock settlement charge of Rs. 30 Crore. Average blended interest rate was at 6.2% pa with Rupee loans at 8.4% and Dollar loans at 4.8%.

Thus, the Company reported a PAT of Rs. 413 Crore, a growth of 50% YoY with Net margins at 9.5% translating into an EPS of Rs. 26.5 per share of Re. 1 paid.

Let me share balance sheet perspectives now. The gross debt stood at Rs 3,953 crore and net debt at Rs 3,430 crore including mandatory convertible amount of US$62.7 mn with the conversion option at IPO of Jubilant Pharma. On a constant currency basis, the net debt was Rs 3,164 crore and there was a net debt reduction of Rs 83 crore during the quarter and Rs 108 crore in H1FY19. We continue to strongly emphasize our constant commitment to reduce the debt. The CAPEX stood at Rs. 130 crore in Q2 FY19 and Rs. 268 Crore in H1 FY19. Pharmaceuticals R&D spend in H1 FY19 was Rs. 113 crore, which is 4.5% of the segment sales with R&D debited to P&L of Rs 86 crore which is 3.4% of segment sales. I would also like to highlight that the net working capital has reduced from 23% of total revenues in Q2FY18 to 20% during this quarter.

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

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

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Surjit Pal from Prabhudas Lilladher Pvt. Limited. Please go ahead.

**Surjit Pal:** I have one question about the commentary as per which you are expecting that your H2 will be better off. And your last year H2 performance was fabulous with around 38% YoY growth, so base is pretty high and if I go by your average what you have done already in this first half, which has definitely benefited from the lower base, so do you still believe in LSI particularly that you can have 15 to 16% growth rate in Q3 and Q4 of FY19 given the high base last year?

**R. Sankaraiah:** What we have clearly mentioned in Mr. Bhartia's speech is that H2 will be better than H1, that is absolutely clear. Other than that we are not commenting anything. This we mentioned in Q1 also. Now also we are confident that our H2 will be better than H1 of this year.

**Surjit Pal:** Your H1 YoY growth is around 34%. Do you think the similar growth rate could be maintainable at the end of the year or H2 also?

**R. Sankaraiah:** We are not commenting on the growth rate, we are just simply stating that H2 will be better than H1.

**Shyam S. Bhartia:** Both in revenue and operating profit H2 will be better than H1.

**Surjit Pal:** As you have given commentary about the fall in demand and price of Vitamin B, which is affected due to Vitamin A and E, do you think that without the support of Vitamin B which I think was one of the main ingredients of your volume growth as well as value growth in LSI last year vis-à-vis this year, LSI will be performing as good as it was in last year?

**Rajesh Srivastava:** So again I think what Mr. Sankaraiah says, we will maintain that our H2 performance will be better than H1 including in Vitamin.

**Surjit Pal:** The current 12.8% kind of LSI margin will be maintained or it will be increased?

**Rajesh Srivastava:** So we say it will be better than H1, and as Mr. Bhartia said both in revenue as well as profitability.

**Surjit Pal:** That is without support of even Vitamin-B?

**Shyam S. Bhartia:** We are commenting overall and we have also said that Vitamin B price increase will take at least five to six months' time. So we do not expect a huge increase in price when we make this statement.

**Surjit Pal:** My second question is regarding your US generic business particularly that of injectables. Now US FDA has two lists where the generics are very less. So the second list where the company's products are there, is Jubilant trying to get into that space of injectable where it is a complex one but long time of generic, not many guys are there, USFDA has invited to come and sit with them and to understand how to achieve those things, so are you getting into that space?

**Shyam S. Bhartia:** In US, when we are talking about Radiopharmaceuticals, there are two lists: One is the generic list, other is the list in which accelerated approvals will be granted because there are no generics already in the market. So four to five products which we hope to introduce will be on that list where there will be accelerated clearance because there are no generic products.

**Surjit Pal:** But size is also very small, but in the list-B, there are also very few generics, or in some cases there are no generics and it is a complex product, size is quite good, so are you also getting into that List-B or you restrict yourself in List-A where accelerated program continue to churn out?

**Shyam S. Bhartia:** This is the list in which there are no generics, as per the USFDA program, that is available for accelerated clearance because there are no generics. These may be in the List-B, I have no idea, I cannot talk about List-A or B because I do not remember whether it is A or B.

**Moderator:** Thank you. We will take the next question from the line of Ashish Thavkar from Motilal Oswal Securities Limited. Please go ahead.

**Ashish Thavkar:** Would you like to give a flavor on your ethanol supplies to the government blending program considering that there are price hikes announced by the Government?

**Rajesh Srivastava:** Ethanol pricing is actually changing from 1st of December 2018. We have already talked in the last quarter that will give us some positive traction with respect to our pricing as well as profitability.

**Ashish Thavkar:** The pricing would be fixed for a year's time?

**Rajesh Srivastava:** Yes, the pricing is for 12-months starting 1st December till end of November 2019.

**Ashish Thavkar:** Any color you can give on the quantum of the supplies that you would be doing?

**Rajesh Srivastava:** We are supplying almost 7 crore litres. So whatever impact on price increase will come to our profitability.

**Shyam S. Bhartia:** For next year we hope to supply little higher quantity than what we have supplied during this year.

**Ashish Thavkar:** On the acetic anhydride, we were looking to commission the facility by Q3 of this fiscal. So are we on track?

**Rajesh Srivastava:** It is in the latter part of H2 and not Q3.

**Ashish Thavkar:** How long do you feel the shortage of Vitamin-A and E would continue in the market?

**Rajesh Srivastava:** The availability has already started but to normalize it will take five to six months' time.

**Ashish Thavkar:** So by the year end we should see some normalization?

**Rajesh Srivastava:** Yes.

**Ashish Thavkar:** But as such there is no disruption in demand, right?

**Rajesh Srivastava:** Now the availability is there, but not in the full swing as it was a year before.

**Ashish Thavkar:** Because of the ongoing issues in China, are we still continuing to have some favorable impact on our Pyridine and the Intermediates business?

**Rajesh Srivastava:** There is favorable situation but actual impact as Mr. Bhartia has stated will take some time for us to really see the actual impact of that because development of customer and business takes time.

**Moderator:** Thank you. We will take the next question from the line of Vishal Manchanda from Nirmal Bang Securities Pvt. Ltd. Please go ahead.

**Vishal Manchanda:** What has been the constant currency growth for your pharma business on QoQ basis?

**R. Sankaraiah:** On a constant currency basis, the revenue will be around 5% impact.

**Vishal Manchanda**: How about LSI?

**R. Sankaraiah:** LSI imports and exports almost the same, there is no major impact whereas in pharma it will be a positive impact, around 5-6% on account of constant currency on QoQ basis.

**Vishal Manchanda:** Secondly, on your IPO plans, is that intact for the second half or is there a change there?

**Shyam S. Bhartia:** Our IPO stand remain the same as we are exploring in the international markets and we hope to complete it by 31st March 2019, subject to market conditions.

**Vishal Manchanda:** During the quarter, other expenses grew 15% compared to Q1. So was there a special item or is it …?

**Rajesh Srivastava:** We will get back to you on this.

**Moderator:** Thank you. We will take the next question from the line of Saion Mukherjee from Nomura Financial Advisory & Securities India Pvt. Ltd. Please go ahead.

**Saion Mukherjee:** My first question is on the LSI business. I understand that there are impacts because of vitamin supply being lower and also the raw material prices not being passed. My understanding is that if I look at the numbers for this quarter it seems that you have been able to pass some of these increases this quarter and Vitamin-B supplies are still kind of slow. The margins are hovering at around 12-13% because of this. Now you have the added pressure of rupee as you mentioned. Because we have seen 16-17% EBITDA margin in this business, how should we think about steady state margin when all these issues gets resolved and by when do you expect that number to come by?

**Rajesh Srivastava:** So margin is definitely the factor of product mix, raw material pricing, etc., so it is very difficult to comment on margin but definitely on overall basis as we said our demand situation is good and we would expect to have the H2 performance definitely better than H1.

**Saion Mukherjee:** My second question is on your API Generic business which again recorded strong growth sequentially. You mentioned about API. Are you benefited from situations like Valsartan and if yes are they sustainable and can it fall in the subsequent quarter? Also, if you can quantify the impact of such opportunities which cannot be sustainable?

**Pramod Yadav:** We have quite a good capacity available with the production of all the sartan and we are not impacted due to this impurity issue from the China supply. So we have augmented the production and we are serving the market.

**Saion Mukherjee:** So the benefit that you have in this quarter is sustainable is what you would say going forward?

**Shyam S. Bhartia:** Yes, of course, this will depend upon the market conditions and you know in any such kind of the issues with the FDA, it takes quite a lot of time for the company to get out of it. We hope and we expect that this market condition will continue for few quarters.

**Saion Mukherjee:** I am asking this question because just prior to your call, we had a call from another pharma company which benefited from Valsartan and their comment is the prices have come back, there was a short window of opportunity, which they benefited from and it is not going to reoccur in the subsequent quarters. Because the jump is pretty significant in API, generics EBITDA from Rs. 73 crore to Rs.126 crore, so the question is can it fall in the subsequent quarter, is there any one-time opportunity that has come in this quarter?

**Shyam S. Bhartia:** I can only tell you, we have orders in hand for the coming quarters. So we are well placed with, only that since our sartan capacities are high we are able to ramp up the capacity also from our client to meet their increased requirements and we clearly have for the next few quarters orders in hand with us. So we do not expect any changes happening in the next few quarters.

**Pramod Yadav:** Plus this all the upswing is not only because of the Valsartan price, there is a price increase in the other products, there is the efficiency improvement across all the products, there is expansion of the volume and market share, so it is not only Valsartan which has brought this change.

**Saion Mukherjee:** On Triad, how is that business doing in the sense that we have seen a fair bit of loss in the last quarter, I think Rs.70-odd crore of loss you have mentioned, how is that loss run rate now – has it come down and what is the outlook there, where should it stabilize going forward?

**Pramod Yadav:** I do not remember whether we mentioned that loss in the last quarter but yes, as of now, the business is not at the breakeven, you are right, we are improving the efficiency there, we are improving market share there, we are also doing some investment into upgradation of the pharmacies and we expect that in the next year we will be at break even.

**Saion Mukherjee:** Sir, FY’20, you are saying it will be breakeven?

**Pramod Yadav:** Yes.

**Saion Mukherjee:** Given that these are special pharmacies, what is the kind of EBITDA margin this kind of a business will command?

**Pramod Yadav:** It is more of a distribution business, of course, this distribution is little different than the distribution of the retail drugs of the pharmacy, it requires the compounding into plain room, etc., but in any such kind of business, the margin generally will be into single digit of the business.

**Saion Mukherjee:** So mid-single digit do you think is possible?

**Shyam S. Bhartia:** Yes, mid-to-high single-digit.

**Saion Mukherjee:** A couple of questions on the financial front. Firstly, you mentioned about net working capital improving. I think one of the things is your payable days have gone up particularly in the LSI segment. Can you explain the dynamics there and is that sustainable?

**Shyam S. Bhartia:** In our LSI segment, the working capital requirements are QoQ lower than the requirements in the pharma, so on average it is about 20%.

**Saion Mukherjee:** But the payables have gone up, right, last year also it has gone up, of course, the six months it is more or less stable but over a period we have seen that rising. So I am just wondering is there anything which is helping the working capital there?

**Rajesh Srivastava:** In LSI, as you know, we have large volume product imported. So what happens is that sometimes if the consignment is imported at the latter part of the quarter at the quarter end you see the value but in a normalized scenario, we have absolutely not gone ahead anywhere wrong in terms of our overall net working capital.

**Saion Mukherjee:** On tax rate, what is the guidance like and you have mentioned rise in contingent liability on account of income tax a significant one you have disclosed, what is that about and how should we think about it?

**R. Sankaraiah:** That is more of a procedure, we do not think that will be issue at all, but since it has to be mentioned as contingent liability we have given that note, it is a non-issue. As far as the tax, last time also we have guided, it will be in the range of 28-29% for the full year.

**Moderator:** Thank you. We will take the next question from the line of Nitin Agarwal from IDFC Securities Limited. Please go ahead.

**Nitin Agarwal:** Sir, just sort of taking on the earlier question, on the sartan market, given that we have significant market share in the sartans and there has been reasonable price increases at least which is visible in the results of one of our peers, the EBITDA gain that we have shown on QoQ basis does not seem to be that meaningful especially given our size. So is there something which is there, which has prevented us from capturing the full benefit of the market situation in the previous quarter and more of it will come through as you go through?

**Pramod Yadav:** I think it is the same question you are asking which we just mentioned that yes, there is impact of Valsartan into profitability but Valsartan only has not played the role, there are the other products for which we have seen better prices, we have improved quite a lot of the efficiencies into the processes and we have also increased our market share in some of the products, so it is overall gain.

**Nitin Agarwal:** I understand. My point is given the kind of gain that we saw in one of your peers, our gain seem to be relevantly subdued versus that given the fact that we have pretty high market share in sartans. So what I meant to say is, is there something which has capped our gains in this quarter and probably see more of these gains going forward or how should we look at that, QoQ it is not that much of delta in our numbers?

**Shyam S. Bhartia:** We cannot comment about other competitors but in our case, we are a continuous producer of sartans, so we have continuous orders in hand. So it is not necessarily that in one quarter the prices will go up and other quarters the prices will come down. There is a continuous relationship with our customers. Yes, there is some upside in the pricing but there is not such upside in the pricing that is going to affect the one-time big profit and then again it is going to come down. We have long-term relationship with our suppliers.

**R. Sankaraiah:** The important point what you have to note is 20% margin have gone up to 30% if you see QoQ. So like Pramod has mentioned it is not the only product of Valsartan, it is more API and dosage form put together the margins what we are talking about, 20% has gone up to 30%, there are certain good traction in dosage form business also we have seen, that is why the margins are higher. We are not depending on one product like Valsartan, let me make that point very clear.

**Moderator:** Thank you. We will take the next question from the line of Pranav Tendolkar from Rare Enterprises. Please go ahead.

**Pranav Tendolkar:** I just wanted to understand your Pharma and Generics business. What are the pricing trends and what are the reasons behind those pricing trends that you are observing and what is the sustainability of those?

**Pramod Yadav:** In both the businesses in API as well as into solid dosage form, we have very good product range and as Mr. Bhartia mentioned in his call that few of the large players has vacated the market because of the competition but even at these prices, we have the healthy margin and there had been opportunities for us to increase our market share as well as expand our margins. We are seeing this trend from the last two to three quarters. We have been mentioning this on our call that we continue to stay the margins of our generic business improving further, that is the trend we are continuing as of now.

**Moderator:** Thank you. We will take the next question from the line of T Rajeshwar, individual investor. Please go ahead.

**T Rajeshwar:** I want to understand what are the current growth drivers for our company? I can see that the growth is primarily from the inorganic way of growth like the acquisition has helped us this quarter. So going next quarter and two quarters after that, so will a very high base imperil our growth or like where is the growth going to come from because we have got only I think a few products like the 131, please help me with this?

**Shyam S. Bhartia:** Let me explain you where the growth is going to come; growth is going to come firstly in pharmaceuticals and within pharmaceuticals I think both our generic API and Specialty Pharmaceuticals are growing extremely well, both these products and also the new products that we hope to launch. So our base products are also growing in most of the Specialty Pharmaceuticals. If you see our Life Sciences, our both Life Science Chemicals and Specialty Intermediates businesses, in both we expect a good growth going forward.

**Pramod Yadav:** Plus we also see growth which will come up from our CMO business. Mr. Bhartia mentioned in this call that we have started one of the line on 24x7 operations. We are also in the process of installing the lyo which will be operational in mid of next year. This is the business where currently market is little tight on the capacity. Once this capacity is available with us, it will bring in additional growth.

**Shyam S. Bhartia:** And we are also ramping up our allergy business, the products in Venom, we expect good growth in most of our allergy products.

**T Rajeshwar:** I believe we are probably one of the competitors in the market leaders in US for Venom. Please correct me if I am wrong…

**Shyam S. Bhartia:** We are the few manufacturers as of today of Venom products in US market.

**T Rajeshwar:** The point is like what is the market potential for this Venom market in US?

**Pramod Yadav:** The player who was there in the market has just vacated the market in the month of April. They had certain stocks which they have offloaded in the market. Now is the time when the entire market is coming to us because we are the only supplier.

**T Rajeshwar:** I understand that. Like can you please help me with some numbers of the market potential that is there, if possibly you can give the whole market number like for all the products probably, a rough figure, what is the share in the Venom total consolidated revenues?

**Pramod Yadav:** For the Venom as I mentioned earlier we had about close to 50% market share, so that will now go to 100%, regarding numbers, we will talk about it later.

**Shyam S. Bhartia:** There is opportunity in the international market also to increase our market share.

**R. Sankaraiah:** Product wise we never share the numbers, business wise we share the numbers only at year end. QoQ business wise we generally do not share the numbers because there will be always ups and downs in every quarter, we will share the numbers.

**Moderator:** Thank you. We will take the next question from the line of Tushar Manudhane from Motilal Oswal Securities Limited. Please go ahead.

**Tushar Manudhane:** Just on LSI side, just would like to understand the second half to be much better than the first half, so are we seeing prices also on the major products of LSI improving compared to first half FY'19?

**Rajesh Srivastava:** Prices not a significant increase but we see the volume growth, the capacity utilization and the order situations are going to be better.

**Tushar Manudhane:** This volume growth is coming on the back of…?

**Rajesh Srivastava:** Overall products, H2 seems to be better.

**Tushar Manudhane:** The reason to ask was is there any competitor having any issues in the plant and so there is relatively better volume off take or it is a purely industry level?

**Rajesh Srivastava:** No, it is basically from better capacity utilization, new products and also the new capacity which we have mentioned.

**Moderator:** Thank you. We will take the next follow up question from the line of Saion Mukherjee from Nomura Financial Advisory & Securities India Pvt. Ltd.. Please go ahead.

**Saion Mukherjee:** Just on the question on allergy therapy business and particularly on Venom, do you have enough capacity and will you be able to get 100% of the market, I understand this is a seasonal product, so have you seen that impact in this quarter or is it likely in the coming quarters?

**Pramod Yadav:** First on the capacity. So as of now we have capacity to serve the entire market. You just heard from Mr. Bhartia that we are also exploring the possibilities of increasing our market outside the US. So we are in the process of taking approval of another line for this product which we expect to get from FDA in expeditious manner by end of this year. With that new line approval, it will serve as a good back up for the US market as well as allow us to expand our market in the non-US market also.

**Saion Mukherjee:** One clarification, correct me if I am wrong, I think this Venom extract is a part of your overall allergy therapy business and the allergy therapy business as you mentioned in one of your presentations; the ex-US market is very large out of 1.8 billion, 1.5 billion is non-US. I just want to understand what is the opportunity for us, can we participate in that space fully and also what is the competitive dynamics like in the US, you mentioned just one more player is there in Venom and even in other products, the number of players are very limited, so I am just wondering how big is the opportunity can be in the ex-US market for us?

**Shyam S. Bhartia:** No, let me tell you one thing that we are basically participating in the US market. In the international market we collaborate with other allergy companies to supply our Venom product. We are not existing in Europe in the final treatment of the allergy like in other allergy companies. So our base market is US and we supply to other international markets like Canada and Europe to supply to the allergy companies, some of our allergens like Venom.

**Saion Mukherjee:** But how big is that opportunity, the Venom extract market, like ex-US, how large will that be for us to participate, is that a really meaningful number in the overall scheme of things as we think forward next two, three years?

**Pramod Yadav:** Opportunity is there in Europe and Canada especially, they also have a large market for the Venom extracts. There we are present currently to some extent but we are requiring additional capacities available which we are in the process of augmenting now and then we will increase our market share in those markets.

**Saion Mukherjee:** Sir, one question on Rubyfill; what is the status in terms of the number of installations that are now covered?

**Pramod Yadav:** The number of installations currently are going as per our plan, we are happy with the performance and we continue to see quite a good traction from the customers for this product.

**Saion Mukherjee:** What is the total number of installations that will be covered eventually and what is the total number of sites which are there?

**Pramod Yadav:** You know that there is only one competition here, so it will be difficult to share the product specific detail especially for this due to competitive reasons.

**Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to Mr. Bhartia for his closing comments. Over to you, sir.

**Shyam S. Bhartia:** I would like to thank you all for joining this call. Wish you all a very happy and prosperous Diwali.

**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.