



Jubilant Life Sciences Q3 & 9M FY14 Earnings Conference Call Transcript February 6, 2014

Ravi Agrawal

A very warm and good evening. I am Ravi Agrawal – Head of Investor Relations at Jubilant Life Sciences and I extend a warm welcome to all of you for our Q3 & 9M FY-'14 Earnings Conference Call. We have on the call today Mr. Shyam S. Bhartia – our Chairman and Managing Director; and Mr. Hari. S. Bhartia – our Co-Chairman and Managing Director. We also have Mr. R Sankaraiah – our Executive Director - Finance.

We will begin with perspectives from Mr. Shyam Bhartia on our businesses, operating environment and the outlook. Mr. Sankaraiah will share his thoughts on the financial performance during the quarter and nine month ended period. We shall then open the session for Q&A once the management has completed its opening remarks.

Before we proceed 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 'Investor Presentation' that has been shared on our website.

I now invite Mr. Bhartia to share his views with you.

Shyam S. Bhartia

Thank you, Ravi. Good evening and thank you for joining us. Jubilant's operational performance has grown stronger and I would like to walk you through some of the key achievements during the quarter.

In Q3 FY2014 Income from Operations stood at Rs. 1,443 crore, 10% higher on a year-on-year basis. EBITDA came in at Rs. 255 crore with margins at 17.6%. Revenues from the International market grew 14% YoY and contributed 76% to the overall revenues. The share of the regulated markets was at 62%. North America contributed 39% and Europe & Japan contributed 22% to the overall revenues respectively.

In the 9M FY2014 period, Income from Operations came in at Rs. 4,236 crore, growing 12% over last year. The EBITDA in 9M stood at Rs. 772 crore with margins at 18.2%. The international markets drive our



performance to a large extent and revenues from exports improved by 15% YoY, with 75% share in overall revenues. The regulated markets contributed 60% to overall revenues with North America contributing 39% and Europe & Japan contributing 21% to the mix.

Moving on to the segmental discussion, in Q3 FY2014 our Pharmaceuticals segment showed revenues of Rs. 675 crore, up 2% over the previous year and contributing 47% to overall revenues. I am happy to share that we now supply our products and services to customers in more than 100 countries across the world. In 9M FY2014 revenues stood at Rs. 2,018 crore, showing an increase of 3% and contributing 48% to overall revenues.

Our solid dosage formulations business led the performance in the Pharmaceuticals segment during the quarter, led by higher volumes in most of our key products, including methylprednisolone. This more than offset the expected price declines in few key products. With the filing of two ANDAs in the US during the quarter, we have now filed a total of 60 ANDAs in the US and expect to file at least 10-12 ANDAs annually from here. We also received approval for Bupropion and Quetiapine in the US and Donepezil in Canada and Solifenacin in Europe during the quarter. Our Roorkee plant was successfully audited by Vietnamese and Korean regulators during the quarter.

Our solid dosage formulations is well on the path of sustained growth, led by expected enhanced approvals in the US and initiatives in ROW markets. The strategy is to expand geographically on the back of approvals that we have received. At the end of Q3 FY2014, the company has total 689 filings for Formulations in various regions of the world and we entered four new markets during the quarter in the CIS region.

Our API business continued its strong performance during the quarter, led by strong volume growth in our key sartan portfolio. Being an integrated player we are in a position to align our costs with market dynamics. In each of our major products we are a global player of significant measure and this is a result of our focus on driving productivity gains and cost containment. This has led to continued improved profitability in the business.

Moving to the Sterile Injectables and OCL business we have a healthy order book of US\$ 671 million. We have also received new business awards during the quarter. However both facilities have witnessed production downtimes owing to customer delays at Spokane and mechanical downtime at Montreal, which negatively impacted production and sales. We are looking at a resolution for Montreal Warning Letter issue with resumption to full compliance in the coming months. In Spokane, we have responded to the FDA warning letter and await follow-up response and audit.

The Radiopharmaceuticals segment showed steady performance. We continued partnering with the USFDA and Health Canada to produce MAA which is used in evaluation of pulmonary perfusion in adults and pediatric

patients. This product has been designated as a critical drug in shortage. HICON used for treatment of hyperthyroidism and selected cases of carcinoma of the thyroid, benefitted from pricing and volume growth. As you would know we have a rich pipeline of products in this business. RubyFill, our product indicated for use in PET for imaging of the myocardial perfusion–this is slated for a launch in the second half of FY2015.

Moving over to the Life Science Ingredients segment, in Q3 FY2014 the LSI segment showed revenues of Rs. 767 crore giving a growth of 20% and a 53% share in the overall revenues. In 9M FY2014 the revenues showed 22% growth to Rs. 2,218 crore while giving a share of 52% to the overall revenues.

I shall spend some time on the individual businesses in LSI. In Q3 the Proprietary Products and Exclusive Synthesis business maintained healthy realization in pyridine prices both in domestic and export markets. We have seen a very good overall quarter backed by orders. Regarding the China anti-dumping duty, MOFCOM released its final findings in the third quarter. Accordingly the levels of duty remain the same as in the interim findings at 24.6%.

Our Symtet plant is under stabilization. I am pleased to share that we continue to receive excellent feedback on our initial deliveries. The order book is growing at a healthy pace with a contract received from an International Agro company at attractive prices.

Moving along to Nutrition Ingredients I am happy to share that we have attained nearly full capacity utilization. The pricing has remained stable and was matched by stable demand.

In the Life Science Chemicals business we are seeing continued growth in European markets. Ethyl Acetate exports were higher on the back of growth in Europe, Far East Asia & MEA region. Acetic Anhydride sales grew both in the domestic and exports markets. The objective is to expand geographically where we are leveraging our cost advantages to drive a leadership position. We entered Vietnam and Thailand for Ethyl Acetate and Korea for Acetic Anhydride.

Looking at the year ahead we are confident that Jubilant is placed on a strong footing in terms of growth in Revenues and EBITDA.

The Generics business is being driven by a rich pipeline of product launches and our entry into newer geographies. As you will know we have a vast pipeline of products in Solid Dosage Forms that have received approvals or are awaiting approval in key regulated markets which will support this plan. The APIs business is poised for consistent growth. We are optimistic of a favorable resolution of the Warning Letters in our Sterile Injectables facilities.



The LSI segment is seeing a combination of volumes growth and stability in pricing across business lines. This momentum is expected to continue. We have made strategic investments in certain value added initiatives and these are yielding steady results. In the vitamins business we are already reaping the benefit of normalized pricing. Similarly, in PPES, growth continues in our core Pyridine business with robust demand for Symtet and other products.

We continue to explore options for fund-raising and are in discussions with potential partners for our endeavor.

I would now like to invite Mr. Sankaraiah to continue the discussions with his thoughts on financial performance of the company. Thank you.

R. Sankaraiah

Thank you Mr. Bhartia, and thank you all for joining the call today. I will walk you through the financial highlights.

In Q3 FY2014 our income from operations was higher by 10% year-on-year at Rs. 1,443 crore. This was contributed by 1% volume growth and 9% exchange gain. The EBITDA in Q3 FY2014 was at Rs. 255 crore with margins at 17.6%. The reported profit after tax stood at Rs. 143 crore which includes an exceptional gain of Rs. 11 crore. The normalized profit after tax was Rs. 133 crore translating into normalized EPS of Rs. 8.35 per equity share of Re. 1 each.

Let me now provide you with update on segment-wise performance. The Pharmaceuticals business showed income from operations of Rs. 675 crore, contributing 47% to overall revenue mix. The EBITDA from this segment stood at Rs. 149 crore translating to an EBITDA margin of 22.1%. Revenues and margins were impacted due to price correction in few key products in formulations business as expected and order deferrals in Sterile Injectable business.

The Life Science Ingredients segment shown income from operations of Rs. 767 crore, higher by 20% year-on-year. The contribution to the overall revenue stood at 53%. The EBITDA in the segment was Rs. 118 crore and the EBITDA margin was at 15.4%. Excluding Symtet, all our other businesses in this segment have demonstrated good performance and we are continuing our efforts to stabilize Symtet.

Coming to 9M FY2014 performance, income from operations was Rs. 4,236 crore, up 12% year-on-year. Volume growth stood at 8%. The EBITDA during the same period was at Rs. 772 crore with EBITDA margins at 18.2%. The normalized profit after tax was Rs. 261 crore and the corresponding normalized EPS stood at Rs. 16.39 per equity share of Re.1 each.

In 9M FY2014, the Pharmaceuticals business had income from operation of Rs. 2,018 crore contributing 48% to the overall revenues. Pharmaceuticals segment growth was driven by growth in Specialty Pharmaceuticals and



Generics. The EBITDA stood at Rs. 473 crore translating to an EBITDA margin of 23.4%, due to price declines as expected in some key products in formulations business and order deferrals in Sterile injectables.

Moving on to the Life Science Ingredients segment, the income from this segment increased by 22% YoY to Rs. 2,218 crore, contributing 52% to the revenue mix. The EBITDA in the segment was at Rs. 352 crore and the EBITDA margin was at 15.9%. Revenues were positively impacted by robust pricing in PPES business and strong volumes in Life Science Chemicals and Vitamins businesses.

I will come to discussion on the balance sheet now. As on December 31, 2013 our net debt stood at Rs. 3,856 crore, out of this the long-term debt stood at Rs. 2,663 crore and the working capital debt stood at Rs. 1,193 crore. If we adjust the foreign exchange difference then the net debt stood at Rs. 3,589 crore as compared to Rs. 3,623 crore in Q2 FY 14. We are on a healthy growth trajectory and are firmly committed to meeting all our repayment schedules on time without fail.

Our blended interest rate stood at 5.8% combining the rate of the Rupee borrowing at 12% and foreign currency borrowing at 4%. We have spent Rs. 200 crore on CAPEX so far during the year as against our full year budget of Rs. 350 crore. We have a strict control on a stage gate process for the CAPEX now.

As already announced earlier, the Board has approved the transfer of the API and Dosage Forms businesses of the Company and part of the shares held by the Company in US and European subsidiaries to Jubilant Generics Limited – a wholly owned subsidiary of Jubilant Pharma, Singapore which is a 100% owned subsidiary of the Jubilant Life Sciences India, for a net equity consideration of Rs. 1,145 crore. We continue to explore options for fund-raising and are in advanced discussions with potential partners in our endeavor.

In conclusion, I would like to state that we are confident of sustained operational improvement in FY15, which would be driven by product launches and geographic expansion in both our Pharma and LSI businesses. Our focus is to generate positive cash flow to reduce the overall debt of the Company and make the Balance sheet strong. With these comments, I would request the moderator to open the lines for Q&A please.

Moderator

Thank you very much, sir. Participants, we will now begin with the question-and-answer session. We have the first question from the line of Saion Mukherjee from Nomura Financial Advisory & Securities India Pvt. Ltd. Please go ahead.

Saion Mukherjee

You talked about improvement in the business performance last time in the second half over the first half. Clearly, we have seen a material decline in margins across both the segments.

- R. Sankaraiah** Not in both the segments.
- Saion Mukherjee** The presentation I have - the Life Science Ingredients show 16.8% in Q2 and Q3 it is 15.4%, and also in Pharma it is 25.3% and now it is 22.1%. I would assume very significant corrections; understanding was that the Methylprednisolone pricing which was one of the key things I think you were referring to have stabilized as of last quarter. So why is this decline in performance when we have talked about much better second half over the first half?
- R. Sankaraiah** As far as the Pharmaceuticals business is concerned, because of the deferral of order off-take by the customer in Sterile Injectable business, we have been badly hit in the Q3, which we have not anticipated may be partly because of the warning letter which has come in Spokane facility. Also we expected by Q3 there is a possibility that warning letter may get lifted, and we will restore to the normal operations which has not happened, the warning letter we expect with everything goes on well, they have asked certain clarifications again which we have given the clarification, we expect that good things should happen anytime. That is the reason in Pharmaceuticals business there was a decline in profitability which has happened.
- Shyam S. Bhartia** Which has also resulted in the overall profitability of the company, not as per expected lines.
- R. Sankaraiah** And as far as the Life Science Ingredients business is concerned, like you mentioned 16.8% is the Q2, but when you compare with Q3FY13 V/s Q3FY14, it is marginally up; about 15.1% has gone up to 15.4%, but the reason why the profitability is depressed here is because the Symtet facility has not stabilized so far. Whatever is the expenditure which is happening on Symtet which is being debited to profit and loss account; it is an unabsorbed, excess cost over the revenue which is debited to profit & loss account which we thought in the second half Symtet should stabilize which has not yet got stabilized so far. So net-net because of the Injectable facility, the Pharma business margins have come down, and in Life Science Ingredients even though the other businesses like Proprietary Products, Nutritional Ingredients is doing very well, but because of the unabsorbed cost of Symtet, we have to debit the profit & loss account to that extent because of that the margins have come down.
- Saion Mukherjee** The cost associated with Symtet, this would have been expensed in the previous quarters as well, right, so that would not change things on a sequential basis?
- R. Sankaraiah** Sequential basis, yes, it should not, but this quarter the unabsorbed cost was much higher.
- Saion Mukherjee** So is there any particular reason for that, because operationally has anything changed for the costs to go up so much?



- R. Sankaraiah** There were some trials which has gone ahead, there are two plants, both the plants we operated because of which the costs have gone up because we wanted to try both the plants that is the reason.
- Saion Mukherjee** We have these margins despite improvement in most of the Ingredient prices, we have seen a couple of products where we have taken price hikes in the Dosage Form as well, currency has been favorable. So had any of those things not happened then these margins would have been significantly lower then?
- Shyam S. Bhartia** Of course, but some of the things which were supposed to happen also did not happen. So if that would have happened the margin would have been much higher.
- R. Sankaraiah** If you see on quarter-on-quarter currency is flat, there is no additional gain on Q-on-Q, currency wise. If you compare with the previous year, yes, there is a gain.
- Saion Mukherjee** What would be your quarterly loss on this Symtet operation, and also the kind of loss that you are making on the CMO business because of lower off-take to understand the revenue mismatch that we have?
- R. Sankaraiah** We will not be in a position to give that bifurcation in this call.
- Saion Mukherjee** But you are saying that let us say if these two things have not happened you would have got the similar margin as last year or last quarter. I am just trying to understand because the point is ...
- R. Sankaraiah** Not even similar, in Life Science Ingredients it would have been much better.
- Saion Mukherjee** Sequentially, there is a 300 basis points decline in the Pharma margin, so that is quite significant. The impression at least I carried was that the operations that is impacted because of the FDA order, it is going to have a negative impact, but not to the extent that gets reflected in the numbers.
- R. Sankaraiah** There are two things. If you had listened to my speech, I have clearly mentioned there are two reasons for margin pressure in Pharma business – one, compared to last year, if you see 28% margin has come to 22%, two reasons – one in Formulation business there is a price decline in Methylprednisolone which we have already mentioned many times, so the margins are expected to go down, that we have clearly mentioned. And also the new products that has come in, we are not able to compensate the price reduction which has happened in Pharmaceuticals business. And also the new launches has got delayed because of the delay in FDA approval. Like we mentioned earlier, the second half is expected to be better than first half. I can summarize in 3 reasons – the FDA issue is one – the warning letter. Two, the Symtet in Life Science Ingredients business. Three in Formulations business, the product what we have expected to launch which has not been fully launched. And also like you would have noticed very



much, there are certain price increases which is happening in the US market for certain particular products, and those price increases which is happening it is not fully compensating the price decline which has happened in Methyl. So because of that we are not able to catch up the margins fully.

Saion Mukherjee Since half the quarter has gone in Q4, so what should we expect in the fourth quarter compared to what we see in the Q3?

R. Sankaraiah I think we have stopped giving guidance because there are few uncertainties which are there in the system like the product approvals, two, the warning letters, three, Symtet stabilization. It is a question of time-consuming actions but it is not that complete deferment or cancellation of revenue.

Saion Mukherjee It is just 1.5 months or so left, there is a low probability to that extent. So Q4 do you think would mimic Q3 more or less. Or can there be more cost or something like that you mentioned about Symtet and all which can further depress the numbers?

R. Sankaraiah We are not giving any guidance, but since you are asking this question, it should be slightly better

Moderator Thank you. We have the next question from the line of Chirag Dagli from HDFC Asset Management Co. Ltd. Please go ahead.

Chirag Dagli Can you tell me what are the Methylprednisolone sales for the third quarter?

R. Sankaraiah We are not addressing in the call, we are not disclosing product wise sales.

Chirag Dagli This will come with a lag in Cadista filing, so I was just wondering...

R. Sankaraiah Exactly that is what I am trying to say, you can always go through the Cadista filing.

Chirag Dagli But that will come with a lag?

R. Sankaraiah No, it is going to come very soon.

Chirag Dagli How many pending filings do we have for the US market?

R. Sankaraiah We have total filing of 60 ANDAs, out of that we have already got the approval for 28, 32 is pending.

Chirag Dagli If one were to categorize these 32 products, are there some buckets which these fall into like hormones.

R. Sankaraiah It is mainly CNS, CVS, Anti-Infectives and GI.



Chirag Dagli Mostly Oral Solids is how one would want to put it?

R. Sankaraiah Yes

Moderator Thank you. We have the next question from the line of Jagdish Bhanushali from Athena Divitie Investment Services. Please go ahead.

Jagdish Bhanushali Could you give me a sense about how much would have been the impact due to Sterile Injectables in this current quarter and how much were the margins affected because of that?

R. Sankaraiah The reduction in EBITDA is mainly on account of Sterile Injectables.

Jagdish Bhanushali How much would that be in terms of margins and the EBITDA?

R. Sankaraiah Division wise we are not giving the numbers, like I mentioned majority is only because of Sterile Injectables.

Jagdish Bhanushali How do we look into FY15 coming up to us in terms of Pharma and the LSI and in terms of margins as well in each?

Shyam S. Bhartia I think that we will be able to tell you in April. We are in the process of finalizing our budgets.

Jagdish Bhanushali In Q4 would there be any improvement in the margins in LSI segment because as the prices are going up and the duties have gone up, so do we see that there is actually flow coming to the Jubilant in LSI segment in the price hikes?

Shyam S. Bhartia: Margins would be almost in the same range.

Jagdish Bhanushali: Any price hike flows to Jubilant as well because the taxes have gone up, duties have gone up.

Shyam S. Bhartia: Yes, in some of the products already price hike which was there in Q3 also. From Q3 to Q4 we do not expect any price hike.

Moderator: Thank you, we have the next question from the line of Bhagwan Chaudhary from India Nivesh Securities Pvt. Ltd., please go ahead.

B Chaudhary: Of this Cadista that you are saying that Methylprednisolone is almost stable there, and I think the same number was in the previous quarter in Q2 also. When I am looking at the minority interest side, it is mainly coming from that Cadista business and it is very healthy in this quarter, and the same was the scenario in Q3 previous year. So, it is some quarterly impact, but in that quarter I think it was Methylprednisolone. What is in this quarter?

R. Sankaraiah: Q2 profitability was lower for Cadista compared to Q3. You will see the details in the filing.



- B Chaudhary:** It was too lower; there was just Rs.1 crore?
- R. Sankaraiah:** I will not be in a position to talk on Cadista because it is a registered company. Without publicizing the number, I will not be in a position to share that is why I am requesting all the participants to refer the filings rather than ask the question in detail because I want to be 100% compliant.
- B Chaudhary:** Again, if I am looking at this entire profitability and this minority interest part, it looks that almost 50% of the profitability is coming from the Cadista?
- R. Sankaraiah:** I am not going to comment on that please unless the filing in SEC is done.
- B Chaudhary:** The next side is, how are you looking at the pricing scenario into the Chemicals business? And finally what are the problems we are facing in stabilizing Symtet business – is it technical part or some external factors impacting us?
- Shyam S. Bhartia:** First question, pricing scenario is likely to be stable, and the demand is good as it was there in Q3 FY14. And regarding the stabilization of the Symtet facility, we are taking certain corrections in our plant, that is why our cost was higher in Q3 FY14, and it should stabilize by Q1FY15.
- B Chaudhary:** My question is what the problem we are facing there – is it technical or something else.
- Shyam S. Bhartia:** We are not producing up to the capacity, producing much below capacity. We have to make some changes to move up to the capacity, that is why we need to make some changes in the plant, and when we do some changes you have to stop production, so whatever is the lower capacity also, that stops. So, we are doing continuous changes, because this technology was developed in-house as in case of Niacinamide plant also. But, in case of Niacinamide plant, like this also, we had faced 6 to 7 months problem and then we now achieved 100% capacity utilization. Similarly in this facility, although we expected to achieve in this year by Q3 FY14, but it is taking a little more time. So I think we should be achieving good capacity utilization by first quarter or second quarter next year.
- B Chaudhary:** Finally, on the listing plan of this Pharmaceuticals business, and after this warning letter issue, is there any change, or some delay, how are you evaluating that?
- Shyam S. Bhartia:** As we mentioned in our concall, we are in discussion with our various partners for financing. As soon as we get it finalized, we will come back to you very soon.
- Moderator:** Thank you. We have the next question from the line of Subhankar Ojha from SKS Capital & Research. please go ahead.

Subhankar Jha: Basically the question was with respect to your Jubilant Pharma fund raising, which you have just answered. And secondly, do you expect similar kind of margin for Q4 also for your Pharma business., right?

Shyam S. Bhartia: Mr. Sankaraiah mentioned that margin is likely to be around the same level.

Moderator: Thank you. We have the next question from the line of Parth Shah from ICICI, please go ahead.

Parth Shah: Contract Research and Manufacturing activity contributes what percentage of Company's total revenue?

Shyam S. Bhartia: We have not classified the Contract Research and Manufacturing, now we have classified into Life Science Ingredients, in which we say about Pyridine and its derivatives business, Nutrition Ingredients, and Life Science Chemicals.

Parth Shah: That is what percentage of total revenue.

Shyam S. Bhartia: The total revenue of our Life Science Ingredients business is about 52% and 48% is our Pharma revenue.

Moderator: Thank you. We have the next question from the line of C Srihari from PCS Securities Limited, please go ahead.

C Srihari: Could you please tell me what is the opportunity for Bupropion and Quetiapine and how have been performing in the quarter? And secondly for the Symtet facility you said that you are having two plants. So what would have been the weighted capacity utilization during the quarter?

Shyam S. Bhartia: The capacity utilization is very low in the case of Symtet facility, and in case of Bupropion and Quetiapine we do not give product wise expected sales and information.

C. Srihari: No, how big is the opportunity for you?

Ravi Agrawal: We have put out some press releases for that, you could refer to them please.

C. Srihari: So you will not be mentioning anything about the market share or anything?

Shyam S. Bhartia: No, we cannot mention about the market share and expected sales that means you are asking us the expected sales product wise, which is very difficult to provide such information on individual products.

C. Srihari: How was the price erosion, could you tell me that at least?

Shyam S. Bhartia: Because those are competitive information, we would not like to provide any information.

C. Srihari: Symtet utilization, was it around let us say, 15-20% or lower than that?.

Shyam S. Bhartia: That is right, around that 15%.

Moderator: Thank you. We have the next follow-up question from the line of Chirag Dagli from HDFC Mutual Fund. please go ahead.

Chirag Dagli: I was looking at our presentation, and on Slide #5, we have this normalized net profit after tax. I just wanted to understand how you are computing this?

R. Sankaraiah: You just remove the exceptional item, then you get the normalized.

Chirag Dagli: Our PBT for the third quarter of FY14 before exceptional item is Rs.97 crore.

R. Sankaraiah: You take the reported profit, that is Rs.143 crore, exceptional item is minus Rs. 11 crore which is positive, therefore Rs. 143 crore – Rs. 11 crore = Rs.133 crore.

Chirag Dagli: So effectively what you are suggesting is that our tax payout would have remained the same whether or not the exceptional items would have been there?

R. Sankaraiah: That is right.

Moderator: We have the next follow-up question from the line of Saion Mukherjee from Nomura, please go ahead.

Saion Mukherjee: There is a tax write back of Rs.49 crore.

R. Sankaraiah: For two quarters if you see there was a huge tax provision. After the assessments are over we have done the reassessment of the whole tax provision. There was an excess tax provision, which has been reversed based on the assessment completed, and also the previous year.

Saion Mukherjee: So much will be for the previous year?

R. Sankaraiah: That will be about approximately 4% to 5%.

Saion Mukherjee: 4 to 5% of?

R. Sankaraiah: Of the PBT.

Saion Mukherjee: Going forward what should be taken as the effective tax rate?

R. Sankaraiah: 18% for this year and next year we have to see.

Saion Mukherjee: But, I mean directionally if you can guide us, can it go up/down?

- R. Sankaraiah:** We told in the year beginning, it should be about 25%
- Shyam S. Bhartia:** But we will come back to you once our projections are worked out.
- Saion Mukherjee:** Can you share the free cash generation number for the 9-month period, I mean before the dividend payout and any debt repayment that you had done?
- R. Sankaraiah:** Free cash generation is marginally negative. The main reason is for that. We have a total control on capital expenditure that is why if you see the total capital expenditure, what we have told about Rs.350 crore, but we have spent only Rs.200 crore till date, but we have a strict control on CAPEX now. The main reason for the debt remains at the same level is because of the working capital increase. Like we mentioned in CMO business the stocks have not been lifted by some of the customers because of the revenue deferral, which has happened from the customer end, the delays in customer end, which has created a huge stock in the system, because of which the working capital has gone up, and also some of the products were in other segments, in Life Science Ingredients, there was a little bit of stock addition, so net-net, there is no reduction in overall debt, is mainly on account of increase in working capital. That we expect, next quarter also it will be higher because of our purchase of alcohol and molasses because this is the season, and we have already started purchasing in December also, and that is another reason why the working capital has gone up.
- So we are very cautious in spending money, and our objective is basically to create a free cash flow and reduce the overall debt of the company going forward, and we are working on doing the business consolidation also, so that will help to move certain dollar debt from India to outside India, thereby the fluctuation what is happening as of today should come down in the next year substantially because of the movement of the debt, once we complete the transaction, and also the interest should be slightly better because the rupee debt will get converted into dollars and those kinds of things, so we are taking all the necessary action to strengthen the balance sheet hopefully by next year we should be in a much, much stronger position.
- Saion Mukherjee:** This FCMITDA amortization that would continue for the next two years?
- R. Sankaraiah:** Yes, that is because this is basically on dollar loan what we have taken. The exchange fluctuation which is happening, which will be provided in the books over the life of the loan. So that will continue for another three years.
- Saion Mukherjee:** I am just also wondering that minority interest has also gone up, if Cadista has been weak relatively, why is the minority interest number going up?
- Shyam S. Bhartia:** I just now mentioned, I cannot respond to Cadista's questions because it is a SEC registered company, the filing has not happened, once the filing happens you will get all the information product wise also, please wait for some time.



Moderator: Thank you. We will take the next question from the line of Krishna Kiran Konduri from ICICI Securities Limited, please go ahead.

KrishnaKiran: Just to understand, in the conference call, you said that 10% growth in total revenue, 1% is volume and remaining is completely foreign currency, is it right?

R. Sankaraiah: That is right.

KrishnaKiran: Other than our Formulations business which impacted, what are other businesses which have seen price erosion?

R. Sankaraiah: Mainly this Sterile Injectables.

KrishnaKiran: Sterile Injectable will impact two types, right. One is because of deferment of shipment and the second is warning letter, or both the same?

R. Sankaraiah: Yes that is right, because the new product launches have got delayed because of the warning letter and there is deferment in taking the offtake of the material by some of the customers, because of which the sale has not been booked in the last quarter, so there is an impact on the profitability.

KrishnaKiran: About debt repayment, how much we will be repaying? As per our annual reports, around Rs.1,000 crore plus we need to repay in FY15. So how would the funding take place?

R. Sankaraiah: When we are doing the business reorganization that will obviously be taken care, and also we are already talking to a few of the banks to get the credit lines in place so that we will be in a position to meet all our debt obligation on time without fail.

KrishnaKiran: That means we are not going to raise more than Rs.1,000 crore from this listing?

R. Sankaraiah: No, I am not talking about the listing at all. I am talking about the business reorganization because of which it can be loan, it can be anything. We are working on all the angles. Whichever comes first, we will do it.

KrishnaKiran: How about debt repayment schedule in FY16?

R. Sankaraiah: In FY16, it will be about Rs.700 crore.

KrishnaKiran: FY15 is Rs.1,000 crore plus, that is right.

Shyam S. Bhartia: That is right.

Moderator: Thank you. We have the next follow-up question from the line of Jagdish Bhanushali from Athena Divitie Investment Services, please go ahead.

Jagdish Bhanushali: Could you tell me what is the current order book in the Sterile Injectables part?

R. Sankaraiah: We have about \$670 million order book.

Jagdish Bhanushali: So basically there have not been any erosion in the order book, right?

R. Sankaraiah: No, this quarter also there is an addition of order book of \$17 million.

Shyam S. Bhartia: But these orders we cannot execute because of the warning letter.

Jagdish Bhanushali: Another question is, then from where are we looking to execute this additional coming up? Because Canada is one of the facilities where the Steriles are being executed, and this Spokane is another facility where the CMOs are getting executed. So what is the further plan of action looking out first, because as we know that US FDA timeline has been getting delayed, it might take about 1-1.5 years or 2 years as well?

Shyam S. Bhartia: No, no, within this year we expect, like in case of Montreal, we expect in a couple of months to expect the warning letter to be lifted, that is what we have mentioned also, and during this year we expect Spokane also.

R. Sankaraiah: The main point here is, existing products will not get affected on account of warning letter. So, whatever the orders which we have, it will get executed in the same plant, because it is not an import alert, it is just a warning letter, and the existing products and existing customers will continue.

Jagdish Bhanushali: Right, but there has been a considerable deferral, that is what it comes out to be?

R. Sankaraiah: The deferral is because of customers delay, it is not purely because of warning letter. On account of warning letter, the new product launches, out of that the revenues have got delayed.

Moderator: Thank you. Participants that was the last question. I now hand over the floor to Mr. Bhartia for closing comments. Thank you and over to you Sir.

Shyam S. Bhatia: Thank you so much. I would like to thank you all for participating into this Concall. If you have any further questions, we will be happy to answer individually, Mr. Sankaraiah is available, Ravi is available, in case you are required to have a discussion with me, I shall be happy to be there. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Jubilant Life Sciences Limited, that concludes this conference call. Thank you for joining us.