Jubilant Pharmova Limited

Q3 & 9M FY21 Earnings Conference Call Transcript

February 05, 2021

Hemant Bakhru: Thank you. Good evening, everyone. Thank you for being with us on our Q3 FY'21 Earnings Conference Call. Please note, effective 1st February 2021, the Life Sciences Ingredients business stands demerged into Jubilant Ingrevia Limited and has been classified as discontinued operations in Q3 results.

Further, name of Jubilant Life Sciences has been changed to Jubilant Pharmova Limited effective 1st February 2021.

I would like to remind you that some of the statements made on the call today could be forward-looking in nature, and a detail disclaimer in this regard has been included in the “Press Release” that has been shared on our website.

On the call today, we have Mr. Shyam Bhartia -- Chairman; Mr. Hari Bhartia -- Co-Chairman and Managing Director; Mr. Pramod Yadav -- CEO of Jubilant Pharma; Mr. Rajesh Srivastava -- CEO, Jubilant Ingrevia; Mr. Syed Kazmi -- CEO, Jubilant Therapeutics; and Mr. Arun Sharma -- CFO.

I now invite Mr. Shyam Bhartia to share his comments. Over to you, sir.

Shyam S. Bhartia: Thank you, Hemant. Good evening, everyone. I hope you all are in good health and keeping safe. We are pleased to report a strong quarter across all business segments. Despite enhanced restrictions and closures in several US states due to the COVID-19 pandemic over the last few months, Pharma business registered a strong EBITDA growth, especially led by new business sign-ups in CMO announced earlier in H1 FY'21. Generics and API segments did well too.

COVID-19 continues to impact the Radiopharma business due to increased restrictions in US. Allergy business had also reached at pre-COVID level during Q2 FY'21, also saw a bit of impact on volumes due to COVID-19.

We continue to see new business opportunities in CDMO, Generics and Specialty Pharma segments.

LSI segment's performance continued to be strong quarter-on-quarter as well as year-on-year EBITDA growth.

Our Contract Research and Development Services witnessed strong growth led by healthy demand from customers during the quarter.

We continue to expect strong performance in our businesses in Q4 FY'21.

The company reduced its net debt on a constant currency basis by Rs.570 crore in 9M FY'21. This is in addition to Rs.514 crore reduction in net debt during FY'20. We remain focused on further deleveraging by generating healthy cash flows.

We received the final NCLT order approving the demerger of our LSI business. Demerger creates separate and focused entities for Pharmaceuticals and Life Science Ingredients businesses that will help in unlocking shareholder value. The Life Science Ingredients business will stand demerged into Jubilant Ingrevia, which should be listed in NSE and BSE with the major shareholding of Jubilant Pharmova, earlier known as Jubilant Life Sciences.

I take this opportunity to thank all our employees who have worked tirelessly across all our plants and offices to ensure continuity in company's operations while continuing to serve our global customers.

With this, I hand over to Pramod to discuss the Pharma business.

Pramod Yadav: Thank you, Mr. Bhartia. A very good evening to all of you. We had a very strong quarter for Pharma, with Q3 revenue growth at 17% year-on-year led by a strong performance in CDMO and Generics. CDMO revenues grew 66% year-on-year and 28% quarter-on-quarter. We continue to see a strong outlook for the segment on back of five deals signed in H1 FY'21. As highlighted earlier, the five deals that we signed in H1 FY'21 could contribute up to Rs.500 crore in revenue over the next 12 to 15-months depending upon product approvals by the USFDA. We have realized approximately half of this. We do see potential upside to this revenue, and will update you as we get better visibility.

We have been manufacturing Remdesivir for Gilead. We also started Contract Manufacturing of Eli Lilly's Bamlanivimab, a drug that has been granted emergency use authorization by the FDA for treatment of COVID-19, and COVID-19 vaccine candidate NVX-CoV2373 of Novavax, a biotechnology company developing next-generation vaccine for serious infectious diseases.

As highlighted earlier, CMO capacity was expanded via debottlenecking initiatives, including new Lyo installations and 24/7 operations in all areas, including inspection and packaging. We are excited about the new business opportunities in the CMO business. Within CDMO, API business grew well on back of volumes.

We are pleased with our Generics business, which experienced 57% year-on-year increase in revenue for the quarter, driven by launch of Remdesivir in India and other licensed countries and also limited competition in select products in the US market. We remain confident of continued growth in this business.

With increased closures and restrictions across numerous states and the recovery in Specialty Pharma, both Radiopharma and Allergy businesses has been impacted. In Specialty Pharma segment, revenue declined by 24% year-on-year. Hospitals continue to prioritize treatment of COVID-19 cases. Further, there is continued impact on lung procedures to avoid risk to medical staff. We have had first commercial launch of RUBY-FILL in Europe in Q3 FY'21. We are also focusing to expand the Specialty Pharma business in international markets.

EBITDA for the quarter was at Rs.499 crore as compared to Rs.411 crore in Q3 FY'20. We continue to execute on our strategic initiatives across the businesses and expect a strong performance in Q4 FY '21 as well.

Our Roorkee dosage form and the Nanjangud API manufacturing facilities have already completed remediations with respect to Warning Letter and Official Action Indicated issued by the USFDA. We are awaiting USFDA inspection. We are confident that our remediation efforts and engagement with the USFDA will soon resolve OAI and Warning Letter status for our two manufacturing sites.

We are pleased to report that our manufacturing facilities in North America and India have been fully operational through Q3, notwithstanding increase in COVID-19 cases and restrictions across numerous states in the US.

With this, I hand over to Rajesh to provide insight into LSI and Contract Research and Development Services business.

Rajesh Srivastava: Thank you, Pramod. A very good evening to all of you. I would like to start by highlighting that despite the challenging market scenario due to the COVID-19 pandemic, Life Science Ingredients business segment reported EBITDA of Rs.155 crore, which is higher on year-on-year as well as quarter-on-quarter basis. Our Q3 FY'21 EBITDA margin is at 17.4%, which is up 483 bps year-on-year. I am pleased to inform that we continue to have normal operations at all our facilities without any disruption.

In our Specialty Chemicals business, Pharmaceuticals segment witnessed significant improvement in demand though Agrochemical segment demand was lower due to inventory corrections by companies.

Our Nutrition and Health Solutions business has shown strong revenue growth of 27% year-on-year during the quarter. Business performance was supported by price recovery in Vitamin B3 and other products from low levels of FY'20. Vitamin B3 business demand picked up in Q3 after the destocking seen in Q2. We continue to see the strong demand going forward.

Our Life Science Chemicals business delivered a revenue growth of 14% year-on-year led by strong demand of all the products, including Acetic Anhydride in domestic and export markets, driven by higher demand in Pharma and Consumer segments. We continue to focus on optimizing product portfolio to improve margins in Life Science Chemicals business. Overall, LSI segment revenue was at Rs.893 crore as compared to Rs.797 crore in Q3 FY'20. As informed in the previous quarters, we expect LSI business to achieve close to double-digit growth in revenue and significant growth in EBITDA and higher margins and a very healthy cash generation in FY'21.

Our Contract Research and Development Services business continue to deliver healthy performance during Q3, driven by a strong demand from biotech companies from integrated services and functional chemistry. The business has healthy pipeline of new contracts and customer acquisition. Q3 FY'21 revenue increased by 17% year-on-year to Rs.79 crore. EBITDA stood at Rs.29 crore, up by 30% year-on-year. As we informed in the previous quarter, the business has committed investment to double the chemistry research capacity. Project is progressing very well. And we expect the facility to be ready by end of Q1 FY'22.

With this, I now hand over to Syed to Discuss the Proprietary Novel Drugs Pipeline.

Syed Kazmi: Thank you, Rajesh. In our Innovative Therapeutics business, we are working on more than four programs to deliver precision medicines focused on both first-in-class and validated but intractable targets to address unmet medical needs in the area of oncology and autoimmune disorders. Our first-in-class lead programs, LSD1/HDAC6 dual inhibitor and PAD4 inhibitor, which are the most advanced in the class today, address multi-billion-dollar segments in hematological malignancies, solid tumors, and autoimmune disorders such as Rheumatoid Arthritis. These two lead programs are undergoing Investigational New Drug studies (IND studies), with a goal to file INDs and initiate first in human clinical studies in H2 FY'22.

We presented efficacy and biomarker data at the Annual Meeting of American Society of Hematology in December 2020 for the novel dual LSD1/HDAC6 inhibitor for the treatment of Hematological cancers. The lead molecule JBI-802 showed a stronger and more potent anti-tumor effect than the standalone inhibitors in multiple AML preclinical models.

We are also excited about the potential biomarkers we have identified specifically for the dual inhibitor, which will be highly valuable in identifying sensitive patient populations and the evaluation of treatment response in clinic.

For our first-in-class PAD4 program, we recently announced research collaboration with the Wistar Institute in Philadelphia to evaluate our inhibitors in reducing severity of COVID-19 pathologies due to cytokine storm.

As we strive to transform Jubilant Therapeutics into a clinical stage company, we are fortunate to have Dr. Robert Glassman join us as independent non-executive board member recently. Dr. Glassman has worked as Senior Investment Banker at Merrill Lynch and as Vice Chairman, Healthcare Group at Credit Suisse. Dr. Glassman is now with OrbiMed Advisors as public equity venture partner. Dr. Glassman is a board-certified Hematologist, Oncologist, who remains on the faculty as a Clinical Assistant Professor of Medicine at Weill Cornell in New York.

With this, I now hand over to Arun Sharma for Discussing Financials.

Arun Sharma: Thank you, Syed, for the brief. A very good evening, and thank you everyone, for taking their time and joining us on our quarterly earnings conference call. I would like to highlight the company's financial performance during the quarter ended 31st December 2020. Revenue from operations during the quarter was at Rs.2,664 crore as compared with Rs.2,315 crore in Q3 last year. Pharma revenue was at Rs.1,692 crore versus Rs.1,450 crore in Q3'20 while LSI reported revenue of Rs.893 crore as compared with Rs.797 crore during Q3 FY'20. Contract Research and Development Services revenue was higher by 17% year-on-year to Rs.79 crore. Reported EBITDA during the quarter was at Rs.653 crore as compared with Rs.513 crore in Q3 FY'20 with the margin at 24.5% versus 22.2% in Q3 FY'20. Pharma EBITDA margin grew 26% quarter-on-quarter, and LSI EBITDA grew 12% quarter-on-quarter. Depreciation and amortization expense during the quarter was at Rs.127 crore versus Rs.113 crore in Q3'20. The finance cost during the quarter was at Rs.59 crore versus Rs.72 crore in Q3'20, a reduction of 17% year-on-year. Average blended interest rate for Q3 FY'21 was at 5.63%, comprising of INR loans at 7.27% and USD loans at 5.07%. Reported PAT during the quarter was at Rs.310 crore, up by 53% year-on-year and 39% quarter-on-quarter. EPS for Q3 FY'21 is Rs.19.5 per share versus Rs.12.8 per share in Q3 FY'20. The company's net debt on a constant currency basis stood at Rs.2,686 crore, a reduction of Rs.570 crore as compared to March 31, 2020.

We continue to have a strong cash position and expect to generate healthy operating cash flow during the year to further reduce our net debt levels.

As of Q3 FY'21, the estimated net debt of Jubilant Pharmova is Rs.2,044 crore, and Jubilant Ingrevia is at Rs.529 crore.

Further, we wish to inform you that Jubilant Pharma Limited as on January 29, 2021, redeemed the principal amount of $100 million on pro rata basis out of $300 million senior notes due 2021.

We have also announced redemption of another $100 million on March 5, 2021, whereupon the notes will be paid in full, and no amount will be outstanding under the notes whatsoever. Out of the total redemption of $200 million between January and March 2021, we have refinanced $150 million, and remaining $50 million will be paid out of company's cash balance. Capital expenditure, excluding R&D was at Rs.104 crore for Q3 FY'21 and Rs.285 crore for 9M'FY21. For FY21, we're trying to spend around Rs.400 crore in all.

Before I conclude, I would like to provide an Update on our Reorganization Proposal. We received the final NCLT order approving the composite scheme of arrangement. Effective 1st February 2021, LSI business demerges from Life Science, which is now renamed as Jubilant Pharmova Limited. And LSI business merges into Jubilant Ingrevia Limited. We have already announced 5th February 2021 as the record date for shareholders who will be entitled for allotment of one equity share of Jubilant Ingrevia Limited for one equity share held in Jubilant Pharmova, erstwhile Jubilant Life Science Limited.

With this, I conclude my opening remarks, and we will now be happy to address any questions that you may have. Thank you so much.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Rakesh Jhunjhunwala from Rare Enterprise. Please go ahead.

Rakesh Jhunjhunwala: I'd like to ask, why is the rate of tax so high at 34%? I thought it should be much lower.

Hari S. Bhartia: No, we are in the 32% bracket. So, the rate of applicable tax is this.

Rakesh Jhunjhunwala: No. Sir, corporate rate of tax is not more than 25.14%?

Arun Sharma: Last year, we had a lower rate of tax, because we adopted for the normal tax, but this year, it's normal tax, so it's a little higher this year, but we'll look into it.

Rakesh Jhunjhunwala: The corporate rate of tax in India is 25%.

Shyam S. Bhartia: For us, we have not opted for 25% because we have a carry forward deferred tax available with us. So, that is why we don't want to opt at this stage. It's not beneficial for us. Outgo is less.

Rakesh Jhunjhunwala: Sir, how much is actual outgo?

Arun Sharma: Sir, the real outgo will be around 24%.

Rakesh Jhunjhunwala: And how much is the deferred tax which you're carrying forward now after this quarter?

Arun Sharma: So, exact figures, we can get back to you, maybe after this call.

Rakesh Jhunjhunwala: And how is the Specialty business, Radiopharma doing in the current quarter?

Pramod Yadav: On the Specialty business and Radiopharma in US, as you are aware that the number of cases continue to increase after going down in Q2. So, the business still continues to operate at about close to 90% of the pre-COVID levels.

Rakesh Jhunjhunwala: Because this is 90%, how much was it in the third quarter?

Pramod Yadav: In the third quarter, also, it's about 90% of the pre-COVID levels plus there is some additional impact on one specific product - DTPA, which is used for the lung perfusion imaging, where patient has to breathe in and breathe out. So, that product has been impacted a bit more.

Rakesh Jhunjhunwala: You expect recovery once the COVID is recovered there in America?

Pramod Yadav: Yes, when the COVID recovery happens and hospitals start giving priority to the diagnostic procedures also, then we expect business to come back to normal.

Shyam S. Bhartia: Rakesh ji, with the vaccinations, we hope that in next three months' time, COVID should come down, hospitalization rate should come down, if the vaccination rate increases in US.

Rakesh Jhunjhunwala: The CDMO business is now at full capacity or is there still a scope to increase it?

Pramod Yadav: As of now, because of the extra demand of the vaccines, the plant is running at full capacity.

Rakesh Jhunjhunwala: And you are debottlenecking and increasing the capacity?

Pramod Yadav: So, we have done those initiatives as I mentioned in the call by running all the lines on 24/7 and installing additional lines by which we had debottlenecked capacity more than 30%. So, that's coming very useful and handy as of now, and it's running on full load.

Rakesh Jhunjhunwala: And when you expect the listing of the LSI business?

Shyam S. Bhartia: I think by 18th, 19th March.

Rakesh Jhunjhunwala: From next quarter, you will be giving different results for both the companies?

Shyam S. Bhartia: Yes.

Rakesh Jhunjhunwala: And you retained the same board of directors in both the companies?

Shyam S. Bhartia: No, there are changes in the directorship. We will keep you informed.

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

Alankar Garude: So, firstly, can you give some broad indication as far as the revenue contribution from these two COVID-19 products and the vaccine is concerned? And any color on the margins of this portfolio?

Pramod Yadav: So, as we mentioned that we increased capacity by about 30%, and as of now, the capacity is running on full load. It will not be appropriate to talk about the product-specific revenue because of confidentialities with the customers. But that additional capacity is leading to a good growth in the CDMO business segment.

Alankar Garude: And any comment on the margin profile sir?

Pramod Yadav: Yes. So, the margins are also higher. We had mentioned earlier that this vaccine business is at a higher margin than the normal margins. Plus, the contracts have been guarded with some additional impact in the revenues with the capacity charge, etc., so the margins are better.

Alankar Garude: My second question, sir, is if we look at our CAPEX spending lower than what we had guided earlier. We were at Rs.500 crore of guidance earlier for this fiscal. Now I think you said Rs.400 crore in your opening remarks, and this is significantly lower than what it was a couple of years back when it was Rs.700-odd crore, and we operating at full utilization, full capacities for our CDMO facility, better demand for Generics as well as API, should we expect some meaningful increase in our Capex intensity over the next couple of years?

Shyam S. Bhartia: You are right on this, but what we did, we conserved on the Capex because of the pandemic uncertainty of the businesses. Now going forward, we are taking steps to increase capacity in our CMO business and also in other businesses.

Alankar Garude: Sir, any ballpark number you can share for FY'22 what is the Capex you're looking at?

Shyam S. Bhartia: I think by March end, we'll be able to share some exact figures. We are continuously evaluating it now.

Alankar Garude: Sir, my final question is on MA. What is the latest there as far as the pricing after the new competitor has come in as well as the market share, any color on that? And how do you see the molecule progressing for us going forward?

Pramod Yadav: So, we had covered this in the last call, and we mentioned that the price drop had not been much, there has been marginal price drop. And the market-share also, what we gave is much lower than our earlier expectations. So, that is not of material.

Alankar Garude: Do you expect more or less that to continue going forward?

Pramod Yadav: Yes because this business runs on multi-year contracts. So, these contracts are already in place.

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

Rahul Veera: Pramod, sir, this question is specifically just to understand ex of the COVID portfolio, what will be the key triggers for our EBITDA to move from the current rate of Rs.2,000 crore to Rs.2,500 or possibly Rs.3,000 crore?

Pramod Yadav: So, without going specifics into the numbers, it's not only CMO, even our other businesses have also run very well, which is including API and the Generic business. In both the businesses, we have seen higher volume growth and we have seen the better pricing. In CMO business, even other than the COVID products, the other products also continue to see higher demand. So, it's not that after the COVID product, again, the capacity utilization will come down. We expect good demand to prevail and plants to run on the capacities. And with regard to Specialty Pharma business, as earlier mentioned by Mr. Bhartia, once this vaccination in the US picks up and the COVID cases continue to go down, we expect all the diagnostic procedures to come back to the normal to the pre-COVID level, both in Radiopharma as well as in Allergy.

Shyam S. Bhartia: And COVID portfolio also is not going to go away. The vaccines are required every year. So, it's going to go up, going forward.

Rahul Veera: So, are they like annual contracts for these vaccines or how will it work?

Pramod Yadav: So, as you know, there has been a lot of uncertainties related to COVID when these contracts were done. So, they have been done as of now for 12 months to 2 years. But COVID situation will continue to evolve. If there is going to the demand of the extra shots everyone year or every two years and the demand will be there in the market, then we are confident that these contracts will be rolled over.

Rahul Veera: In the presentation for novel product, we've given Rs.4 crore revenue from a novel product. Can you throw some light there what is the potential of the product, what is the total market size?

Shyam S. Bhartia: Those are not revenues. Those are just cost adjustments.

Rahul Veera: So, from our Jubilant Therapeutics, there are no molecules that are commercialized as of yet?

Shyam S. Bhartia: No.

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

Rakesh Jhunjhunwala: I have two questions. How significant is the long-term RUBI-FILL in America, Europe, and every other area pharma products also there, because Europe must be a large market?

Pramod Yadav: Unlike US, Europe market is not fully developed yet. But you are right that there is a high potential. And that's why from the last two years, we have been making the efforts to get the RUBI-FILL registered over there in the Europe. Now that has been done. And we are focusing on developing the Europe market also as strongly as US.

Rakesh Jhunjhunwala: And what is the net debt of the Pharma business on January 31, 2021?

Arun Kumar: We have declared debt as of December is Rs.2,044 crore, but I think we should be in the same range as of January end. But the audit is going on. And I think in the March quarter, we'll be to firmly tell you what the debt is.

Rakesh Jhunjhunwala: What was on December 31?

Arun Sharma: Around Rs.2,000 crore.

Rakesh Jhunjhunwala: And of the Life Science business?

Arun Sharma: Life Science, as of now, it is Rs.529 crore, and we expect as of March end because LSI business is doing well to generate cash flows, and we should end at around Rs.500 crore.

Rakesh Jhunjhunwala: Rs.2,500 crore is the net debt as of 31st December 2020?

Arun Sharma: Yes.

Rakesh Jhunjhunwala: How significant will be the growth in contract research business? We did Rs.80 crore turnover in that business no?

Shyam S. Bhartia: Yes, Rs.79 crore.

Rajesh Srivastava: Yes, Contract Research, growth is continuing. And our current capacity utilization is more than 90%-92%. And that's why we are also planning to add capacity because we have currently more business than what we can deliver. So, our new capacity which is coming up and running sometime in Q1 next year, will give us opportunity to take more business.

Rakesh Jhunjhunwala: Sir, how big is the expansion?

Rajesh Srivastava: So, on capacity side, we are increasing to almost 100%, so double the capacity today.

Rakesh Jhunjhunwala: So, then, it can be the big business of Rs.80 crore to double the capacity and margins are very good?

Rajesh Srivastava: Yes.

Rakesh Jhunjhunwala: Is your business similar to Biocon?

Rajesh Srivastava: This business is the Integrated Drug Discovery business. So, this is definitely much different than the normal contract research business. So, this is valuable business, and most of the contract goes for longer term.

Rakesh Jhunjhunwala: This can be a significant contributor.

Shyam S. Bhartia: Yes, right.

Moderator: Thank you. The next question is from the line of R. C. Bhargava from Motilal Oswal. Please go ahead.

R. C. Bhargava: Regarding this Rs.500 crore worth orders, which you mentioned in the CDMO business, I just wanted to confirm, how much of this has already been realized in this quarter?

Pramod Yadav: Since the time we entered into the contract, up to the last quarter, we have realized about half of that.

R. C. Bhargava: 50% of that?

Pramod Yadav: Yes. And I said that we still see upward potential into those estimates, and we will continue to update you as we get a better visibility.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: Just one question on the proprietary novel drugs business now. There are many companies which do such drug development, and that ends up being a very high gestation period as well as highly cash negative sort of a business. So, what's the thinking around it, what kind of cash burn do we envisage in the coming years in this business, and do we have any immediate triggers to realize the potential of any of these that we are developing?

Hari S. Bhartia: To answer your question, our business model is not to take it commercially. So, that is why when Syed explained that we are at an early stage of discovery and we are presently taking it to Phase-I, that is to the clinic. And normally, we start looking at opportunities of out-licensing it, end of Phase-I or beginning of Phase-II. That's the stage we look at. And as you also know that we also have the opportunity when we have a portfolio of products to also raise funds at the Jubilant Therapeutic level as biotech's have done on early-stage to compounds. But normally, the late-stage work, it will be licensed to mostly large pharmaceutical companies.

Sarvesh Gupta: So, we would not have any significant cash burn in this business because we will try to license it out?

Hari S. Bhartia: That's right. We are not going to commercialize these products. That is a long-term… it takes much more time and that's not our objective. What we are good at is early-stage science and translating it to the clinic stage. And that's where the major value creation happens, and we would look at out-licensing it. And the idea is to build a portfolio. There will be successes and there will be failures.

Sarvesh Gupta: On the Generic side, we have seen a fairly strong sort of traction in this quarter as well as the 9M. So, if you can give some commentary, is there some one-offs in this particular growth?

Pramod Yadav: Not a specific one-off except that we had launched Remdesivir. So, that becomes added product in the portfolio, which brought the revenue from India and also the other licensed countries. That has some impact. But even other than that, our normal other products also had a higher demand during the quarter, and some of them also had quite good margins. And we see that the demand for those products continue to remain stable.

Sarvesh Gupta: Sir, our Life Science Chemicals business has seen a lot of volatility in the margin profile. Given where the product mix stands right now and the opportunities that lay ahead of us, where should we see, a sort of, a cross cycle steady state EBITDA margin number for that particular business?

Rajesh Srivastava: So, if you can see, the Life Science Ingredients performance for last three, four quarters, it's more or less static or growing. Now the volatility, as you see in Life Science Ingredients business comes mostly from the acetic acid prices and some of the commodity prices. But more or less now all these commodities are at a very

high level. So, you will see that going forward this volatility will be reduced, and our performance will be more or less consistent.

Hari S. Bhartia: And instead of looking at margin in the Life Science business, you should look at the overall EBITDA value growing because that's very important because of Life Science Chemicals business within the business where margin keeps on varying, but the total EBITDA growth is there.

Sarvesh Gupta: So, in a different way, what kind of incremental ROICs or the IRRs that you are looking at when you are spending cash on this particular business to expand it?

Rajesh Srivastava: So, our ROI has increased significantly from last year. And this is really improving because if you see, we have not spent a lot of money in last one year, and our EBITDA has been growing. So, our ROI is standing in a very good level. It is close to around 20%.

Sarvesh Gupta: That should be the steady state sort of a number like 20% ROIC on this particular business?

Rajesh Srivastava: I would say, more or less same. Of course, it will depend on the future investment on the growth, but I think it will be on the same range of 18% to 20%, or it will be better depending on the product portfolio and prices.

Moderator: Thank you. The next question is from the line of Pratik Kothari from Unique AMC. Please go ahead.

Pratik Kothari: A couple of questions. First, if you can bifurcate the depreciation numbers between LSI and Pharma?

Arun Sharma: If you see overall depreciation, Pharma depreciation fluctuates, 70% and LSI depreciation constitutes 24% and rest goes to the DDDS business. That is the break of depreciation amongst the businesses.

Pratik Kothari: Sir, on the Jubilant Therapeutic side, what would be your R&D spend annually currently?

Syed Kazmi: On the therapeutic side, in FY '21, as we have given the number, it's in the $9 million range. And now that the programs are going forward and moving to clinic, assuming success in some of these milestones, the expenses are expected to be higher than FY'21.

Pratik Kothari: Sir, my last question is, given the asset base that we have built, can you just briefly talk about what kind of revenue potential that we have? So, on the Drug Discovery side, you did mention that we are doubling the capacity. On the CDMO Pharma side, we talked about increasing capacity by 30%, but it's completely utilized now. Specialty Pharma I believe will come back in a few quarters down the line. Sir, given the asset base before we start major CAPEX from next year, what sort of potential do we have?

Hari S. Bhartia: So, as we said, we are looking to expand our CMO business, both at Montréal and in Spokane, the two sites. In both the sites, we are finalizing our plans to expand that CMO business. So, that is a very good traction in future. And at the same time, we are also looking at debottlenecking some of the capacities at the different plants.

Pramod Yadav: We have expanded Roorkee Dosage Formulation plant a year ago. That has a capacity to fill up the additional demand. And as of now, we are also expanding the capacity doing the debottlenecking into the Maryland plant and the Salisbury plant for the Dosage Formulation, and that will start generating additional volumes from mid of next financial year.

Pratik Kothari: And on the LSI side any capacity debottlenecking or expansion?

Rajesh Srivastava: So, some of the product debottlenecking is happening. So, that will give us additional revenue from the existing asset, but also, we have extensive plans for future.

Pratik Kothari: Which we'll be declaring in the next quarter call, right?

Rajesh Srivastava: Yes.

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

Vishal Manchanda: I joined the call a bit late, so I'm not sure whether you have commented on RUBY-FILL. So, wanted to understand if there is an update there in terms of market share, how are we progressing?

Pramod Yadav: About RUBY-FILL, we mentioned after we got the approval in Europe, we have launched our first commercial site in the Europe in last quarter. And we will be investing our time and efforts to develop the Europe market because there's quite a lot of potential, so we'll be doing that. As regard RUBY-FILL in the US, we continue to do installations at the new site, but yes, not as per our earlier estimations due to COVID, the restrictions in the hospitals and the imaging centers or the travel related issue in doing these additional installations. Though we continue to generate a very high number of inquiries, and the customers' interest is there. We have quite a good funnel where the launches or the installation should happen as soon as the COVID situation improves.

Vishal Manchanda: Could you give a sense on what would be your market share now, say, low teens, or some color there?

Pramod Yadav: Market share continues to increase and what I can share with you is that in spite of the COVID issues, we will be doing the additional installations, more or less same as we did last year. So, what I was hinting earlier is that in the past, we have been growing 2x to 3x. So, instead of 2x to 3x, it's only growing 1x. So, that is the impact of COVID in this year. So, we continue to increase our market share.

Vishal Manchanda: As I understand, there were long duration contracts that the competitor has. So, this is no longer a major hurdle for you to ramp-up to a decent market share?

Pramod Yadav: It depends on customer-to-customer, but quite a lot of those contracts have expired. And that's how I mentioned that we have a very healthy funnel of the additional inquiries or the new business development opportunities. Some customers also earlier had the hesitations because of the patents, the litigation which was going on in the ITC court. On this, the decision has already come very much favorable to Jubilant. And though the Bracco has made appeal, but we have a very strong case, and the customers also understand that. So, that issue is more or less behind us.

Vishal Manchanda: On Exametazime, the other Radio pharma product you have launched sometime back, maybe close to when you launched RUBY-FILL, is that a materially important product for you now or that has not ramped up?

Pramod Yadav: So, for that product also we were growing the market share, but as of now, during this COVID as such the demand is low, then the customers also do not have that much of the incentive to make a switch. So, it's not that of much material, but the product is performing as per our expectations.

Vishal Manchanda: Finally, on the Allergy Immunotherapy side, is that kind of market saturated now and difficult to build growth on the current base?

Pramod Yadav: No, the market is not at all saturated. In fact, that's the market which still has a huge potential and that's what we are looking at. Within US, there is a huge potential. To share with you, like venom where we are the sole supplier in the market, so the number of venom is still what you have and the number of patients who are on the venom immunotherapy, the market potential is almost 4x of the current number of customer base we have. Plus, it has a huge potential outside US. So, far in the past, we were limited with the capacity. And we have done the investments. We had other lines which were available, for which we have taken the US FDA approvals. And now those capacity issues have been resolved, and we are in the process of developing the market internationally into many other geographies other than the US. And same way even in non-venom aspects also, there is quite a good potential for growth within US, plus also a huge potential outside the US, which we are addressing now.

Vishal Manchanda: On CDMO side, how long will you take to implement additional capacities? And with the order book you have in hand on vaccines and other, can existing capacities help you serve that demand, or you would need to implement new capacities before you can meet the demand?

Pramod Yadav: We are not taking additional orders which we cannot serve. So, that's why I said that plant is almost on capacity. In this business, to put up a capacity and then do the validation, take the customers' approval and FDA approval, takes a little time, and the period could be somewhere around three years.

Vishal Manchanda: Sir, the run rate that you have achieved in this quarter on the CDMO side, will that peak out at current levels or is there a scope for that to go up in the near-term maybe because of the mix on pricing?

Pramod Yadav: You are absolutely right, and that's what I mentioned in the call that the vaccine contracts, what we have done are at much higher margins than the other products, what we had in the portfolio earlier. So, as the market continues to remain short on the capacity and when our other contracts come up for the renewal, we have opportunity to roll over them at much higher margins. So, the margin for this business has the potential to continue to improve.

Vishal Manchanda: Just one more on the LSI side. On Vitamin B3, there has been an approval for your pharma grade Vitamin B3. So, has that pharma grade component ramped up in the Vitamin B3 sales or it is entirely animal feed as of now?

Rajesh Srivastava: So, in vitamin, we have pharma grade we are still working on, that should be ready sometime in next four to six months. But yes, we have got the new good business from food segment, we have got good business from cosmetic segment. So, our expanding the volume of Vitamin to other segment other than feed has been

having very good traction, which is going to continue in future also. And in addition to that, now we are working to introduce our Vitamin into the Pharma business in next four to six months' time.

Vishal Manchanda: Currently, the feed business would be, say 80%-90% of the revenues?

Rajesh Srivastava: Yes, it should be close to 80% or little less than 80%.

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

Rahul Veera: On the LSI segment, for the past 10-years our EBITDA has been moving around Rs.400 crore to Rs.600 crore, it's been oscillating in that range. So, sir, just trying to understand, what will be the key catalyst to move it from Rs.600 crore to Rs.1,000 crore kind of EBITDA over the next two, three years?

Rajesh Srivastava: So, if you are talking about last 10 years, then probably, we have increased from a level of, let's say, Rs.300 crore to today in the range of about Rs.550 crore or so. So, it is not stable, it is growing. And the major growth has come from our new product, which we are now continuing further and the utilization of capacity. So, that's why if you see last 10-years, there has been growth in EBITDA, and we will now continue to see the growth going forward as well.

Rahul Veera: What will be the key catalyst like capacity increase or number of products coming up?

Rajesh Srivastava: For last two, three years, we have been improving our product mix. So, that is why you see that EBITDA value have been growing. We have been focusing on improving our product mix to improve EBITDA. Now going forward, some of the debottlenecking, which is on way, will give us the additional EBITDA. And also, the expansion of capacity of those products where the demand is growing, that will also give us additional EBITDA.

Rahul Veera: Sir, what is the total percentage capacity going to increase over the next one, two years?

Rajesh Srivastava: So, as Mr. Bhartia had mentioned, we are still evaluating on our expansion plan. And sometime by end of March, probably we'll be ready to share something in specific.

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

Alankar Garude: Sir, can you update us on the progress of the ongoing improvements at Triad in terms of increasing the network, winning more contracts, adding headcount or anything on the cost efficiency front, but largely on the growth front, if you could highlight on that?

Pramod Yadav: On the growth side, the expansions given the time of COVID, as Mr. Bhartia mentioned earlier, we had curtailed our Capex. So, we wanted to wait and see how this COVID situation evolves. As of now, that business remains impacted due to COVID, and I mentioned, is operating at about 90% of the pre-COVID level. But now since the vaccines are getting rolled out and we are seeing that coming in a quarter or two, the COVID should settle down. Now, we are again in the process of

evaluating those expansions, which we have kind of put-on hold and we plan to roll them out.

Alankar Garude: In terms of winning new contracts or regaining some of the lost contracts, which we had say three, four years back, what is the progress on that? Maybe you might have hit a speed bump because of COVID. But maybe once things normalize, are we on track on winning those contracts and executing them?

Pramod Yadav: We have a lot of ongoing discussions with the customers. But especially during the time of COVID, the customers are also not interested to make a switch. It takes a little bit effort for them to make changes when they switch from one source to other source. But we have a healthy funnel over there, but the customers are also waiting for this COVID situation to get settled out. So, in terms of the top line, I'll say that we are more or less stable as of now.

Alankar Garude: And my other question was on the Generics business. So, we have 36 pending ANDAs. And I assume all of these are from Roorkee. And on the other hand, we are also doing a capacity expansion for Salisbury. So, have we site transferred any of these ANDAs from Roorkee to Salisbury, at least the important ones?

Pramod Yadav: You are very right in doing that assumption, and that's what we are also evaluating. But as you may know that if the ANDA is not approved and in between, if you do the site transfer, then it requires additional investment for the BA, BE studies, etc., So, that strategy will depend upon product-to-product. Some of the products, which requires immediate priority will be a good candidate for that. But having said that, we don't expect the latest Roorkee volume situations to last so long. As we mentioned that we have done all the remediation efforts, and we are just waiting for US FDA inspection to happen… as of now, those inspectors are not traveling because of COVID, sometime soon they will either start traveling or they will adopt the alternate mechanisms for the inspections, doing it through documents or virtual. So, we expect the Roorkee site as such out of warning letter. And then that situation will not be there. But we may still be doing that for some of the products to have two sites instead of having only one site.

Hari S. Bhartia: So, there is economic advantage in producing in each of the site, then we decide….it is basically because of economic advantage.

Alankar Garude: And in terms of new filings in Salisbury site, are you looking to the incremental filings more from Salisbury more of a longer-term perspective, any thoughts on that, or Roorkee will continue to be the most important facility for us going forward?

Hari S. Bhartia: See, we decide on the basis of, as I said, economic advantage. Wherever there is a best economic advantage, looking at the transportation cost, looking at the conversion cost, etc., we decide on the basis of that. We don't decide on the basis that we will not file from Roorkee; we will file for Cadista or we file from Roorkee. So, it is not like this. We decide on what is the best economics for that one and which gives the best value.

Alankar Garude: One final question on the API business, we continue to see a strong order book. Any thoughts sir as far as any expansion for API specifically?

Pramod Yadav: In API plant as such we have a lot of scope for doing the debottlenecking and increasing the capacity. We have already evaluated various schemes through which we are confident that within the same plant, we can debottleneck it to more than 35%. Plus, other than that, we are also evaluating options for doing

expansions of the additional plant, either over there or at some other site, and that's under evaluation currently.

Alankar Garude: This 35% is from current levels? And when do you expect that to be completed?

Pramod Yadav: That we have already made the plant depending on the various product streams and their demand, what we see in the market. And we hope to implement that in another one- or two-years' timeframe.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

Shyam S. Bhartia: Thank you, everybody, for joining this call. In case you have any further clarifications, Hemant is available for you as a point of contact. We shall be happy to answer all the questions going forward. Thank you.

Disclaimer - The following transcript has been edited for language and grammar; it however may not be a verbatim representation of the call.