Jubilant Life Sciences Limited
Q1 FY2021 Earnings Conference Call
September 04, 2020

Hemant Bakhru: Thank you. Good evening, everybody. I am Hemant Bakhru, Head, Investor Relations at Jubilant Life Sciences. Thank you for being with us on our Q1 FY21 Earnings Conference Call.

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 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, Jubilant Pharma; Mr. Rajesh Srivastava – CEO, Life Sciences Ingredients and Mr. Alok Vaish -- President and CFO, Jubilant Life Sciences Limited.

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

Shyam S. Bhartia: Good evening to everyone. I am sure you would have had a chance to go through our 'Presentation' and 'Press Release' which we have shared with you. Despite COVID-19 lockdowns, we have been able to ensure continuity in our manufacturing operations across all business segments while at the same time ensuring safety of our employees.

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 operation while continuing to serve our global customers.

Q1 has been a challenging quarter for all of us due to adverse impact of COVID-19 pandemic. We too witnessed a temporary negative impact on our operations especially the Radiopharma, Allergy Therapy and API businesses within the pharmaceutical segment. This was partly mitigated by strong traction in CMO and Dosage businesses

In the first week of August 2020, the company launched its Remdesivir product in India and other countries under the brand name "JUBI-R."

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

Our Drug Discovery and Development Solutions segment witnessed strong growth led by continued healthy demand from customers during the quarter.

We have witnessed a substantial improvement in demand in most of our business segments from June 2020 onwards, be it a Speciality Pharma, CMO, API or Speciality Intermediates.

I would let Pramod and Rajesh elaborate on this in their respective commentary.

With the strong demand recovery and expected new business signups, we believe COVID-19 is not likely to have a material impact on our overall performance during FY21 provided going forward the pandemic situation does not materially deteriorate.

Overall, we expect strong performance in our Pharma, LSI and DDDS businesses in the remaining three quarters of FY21 driven by pickup in revenue growth and cost rationalization across businesses.

The company reduced its net debt on a constant currency basis by Rs.343 crore in Q1 FY21. This is in addition to Rs.515 crore reduction in the net debt during FY20. We remain focused on further deleveraging by generating healthy levels of cash flow.

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. As mentioned by Mr. Bhartia, COVID-19 pandemic negatively impacted pharmaceutical Q1 revenue by 18% year-on-year due to a temporary decline in elective procedures in Radio Pharma and Allergy segments and a temporary suspension of Nanjangud API production due to COVID-19 cases.

We are pleased to report that all our manufacturing facilities in North America and India barring Nanjangud have been fully operational. Further, Nanjangud operations have resumed from June 2020.

Speciality Pharmaceuticals segment comprising of Radiopharma and Allergy businesses, the revenue declined by 26% year-on-year as elective diagnosis and treatment got impacted due to authorities restrictions like shelter in place in the US and priority given by hospital systems to treat COVID-19 cases. We saw demand going down to about 50% in April and some part of May. Both Radiopharma and Allergy businesses however are continuing to experience a rapid recovery as these procedures cannot be postponed for long and also safety restrictions are being lifted due to stabilization of COVID-19 cases across the US. And accordingly, June 2020 onwards the Speciality Pharmaceutical business sales for both Radiopharma and Allergy businesses have begun to normalize and have now reached 100% of pre-COVID level in Allergy and about 90% in Radio Pharma. We are very encouraged by these early signs as the market reopen and expect sales to continue to improve.

With a strategic focus on our Radiopharma leadership position, we recently entered into a MoU of Technetium 99 Tilmanocept with Navidea Biopharmaceuticals Inc. outlining terms for an exclusive licensing and distribution agreement post completion of due diligence. This product is currently entering into phase-3 clinical

trial and has the potential to be a important new diagnostic imaging agent for rheumatoid arthritis and would complement our existing product portfolio.

In CDMO business, API segment impacted and production was suspended for about two months at Nanjangud API manufacturing facility due to unfortunate incidents of COVID-19. The facility resumed production in June 2020 and is working normal. We see a strong demand and improved pricing for certain APIs that will partly mitigate lost volume in the business.

In CMO business, the business development initiatives are underway to drive growth. With capacity debottlenecking initiatives of running lines 24x7 and new Lyo installations completed, we entered into four separate clinical and commercial supply agreements for COVID-19 treatment and vaccine candidates. These contracts will contribute additional about Rs.50 crore as one-time capacity and tech transfer fee through rest of the FY21 and may contribute additional Rs.230 crore to Rs.450 crore revenue in next 12 to 15-months depending upon product approvals by US FDA.

We are pleased with our Generic business which experienced a 9% year-on-year increase in revenue for the quarter driven by certain key products in the US market. We remain confident of continued growth in this business.

As mentioned by Mr. Shyam Bhartia, we launched Remdesivir with brand name “JUBI-R” in India and other countries during the first week of August. We are working to further scale up capacities to support the high demand of the medicine in India as well as other 126 licensed countries.

EBITDA for the quarter was Rs.179 crore as compared to Rs.330 crore in Q1 FY20. We continue to execute on our strategic initiative across the businesses and expect substantially better performance in the remaining three quarters of FY21 which is subject to pandemic situation.

And coming to regulatory compliance status of our Rourkee Dosage Form and Nanjangud API manufacturing facilities, the two sites have already completed remediation measures with respect to warning letter and Official Action Indicated (OAI) issued by USFDA. The TGA of Australia, during their inspection of both the facilities in November 2019, verified the corrective actions regarding observations provided by FDA and Health Canada and awarded with highest compliant rating ‘A1 Good’ which provides an assurance that our remediation efforts were effective. As a result of this successful TGA inspection, Health Canada which had performed a joint inspection with US FDA of our Nanjangud facility in December 2018 also converted non-compliant status to compliant status in November 2019. We are confident that our remediation efforts and engagement with the US FDA will soon resolve the OAI and warning letter status of the two manufacturing sites.

With this I hand over to Rajesh to provide insight into LSI and DDDS 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 COVID-19 pandemic Life Science Ingredients business segment reported EBITDA of Rs.124 crore which is 1.8% higher year-on-year and 4.8% higher quarter-on-quarter. Our EBITDA margin at 16.8% which is 170 basis points higher on year-on-year basis and 240 basis points higher on quarter-on-quarter basis.

I am pleased to inform that we continue to have normal operation at all our facilities without any disruption. I would like to thank all our employees for working diligently, following strict safety measures and new practices, aiding continuity of our regular business operations while continuing to serve our global customers.

Our Speciality Intermediates business had minor impact in demand at the beginning of Q1, which improved in the later part of the quarter. Business started production of hand sanitizer with the brand name “Hands Together” after acquiring all necessary approvals. We have started distribution to pharmacies as well as directly to hospitals and now to eCommerce platforms. Business is ramping up capacities and distribution network further.

Our Nutritional product business has shown strong revenue growth of 9% year-on-year during the quarter. Business performance was supported by the price recovery in Vitamin B3 and other products from low levels in FY20. Pricing environment continues to be strong.

I am pleased to inform you that our Animal Nutrition business has launched its first ever Herbal product with brand name ‘LivoBoost’ for our poultry uses under our umbrella brand of herbal product called ‘PhytoShield’ with target to sell both in domestic as well as international markets. Further details can be obtained from our website. LivoBoost is based on 100% herbal ingredients and hence is expected to have increased demand globally. Further, the business is planning to launch one more herbal products during H2 FY21.

Our Life Science Chemicals business witnessed mixed performance in Q1. Overall revenue is lower due to significant drop in acetic acid price which is 20% lower year-on-year and about 10% lower quarter-on-quarter basis. Our margins have improved quarter-on-quarter. Ethyl Acetate is used in certain industry segment has faced lower demand during the beginning of the quarter. However, acetic anhydride has seen higher demand as well as better prices. Acetic Acid price has now stabilized while demand in all the products have improved and prices are stable.

As mentioned by Mr. Shyam Bhartia in his opening remarks, Life Science Ingredients business also generated healthy cash during the quarter by optimizing net working capital. We are continuing our efforts towards generating healthy cash flow and reducing our net debt during FY21.

Overall, for Life Science Ingredients segment Q1 FY21 revenue was Rs.737 crore as compared to Rs.805 crore in Q1 FY20. 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 FY21.

Now coming to our Drug Discovery and Development Solutions segment. DDDS business continue to deliver healthy performance during the first quarter driven by strong demand in Drug Discovery Services business from biotech companies from integrated services and functional chemistry. The business has healthy pipeline of new contracts and customer acquisition. Q1 FY21 revenue increased by 26% year-on-year to Rs.60 crore and EBITDA increased by 85% year-on-year to Rs.16 crore. To meet growing demand in this segment, the business has committed investment to double the chemistry research capacity which is expected to be commissioned by Q1 FY22.

In our Innovative Therapeutic business, we are working on more than six 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 disorder with potential to fast track promising assets from discovery to clinical stage. For our LSD1 and HDAC6 dual innovator program, we are targeting IND filing by end of FY21 and will start phase-1 clinical trial in first half of FY22. For our PAD4 program we are targeting to complete IND enabling studies in H1 FY22 and start phase-1 clinical trial in H2 FY22.

With this now I hand over to Alok to discuss the Financials.

Alok Vaish: Thank you, Rajesh. A very good evening to everyone and I thank everyone for taking out time and joining us on a quarterly earnings conference call.

I would like to highlight the company's financial performance during the quarter ended June 30th 2020. Our revenue from operations during the quarter was at Rs.1,893 crore as compared with Rs.2,182 crore in Q1 last year. Pharma revenue was at Rs.1,096 crore versus Rs.1,328 crore in Q1 FY20 while LSI reported revenues at Rs.737 crore as compared with Rs.805 crore during Q1 FY20.

Drug Discovery's revenue was higher by 26% year-over-year to Rs.60 crore. Reported EBITDA during the quarter was at Rs.310 crore as compared with Rs.444 crore in Q1 FY20 with margin at 16.4% versus 20.4% in Q1 of last year. Adjusted EBITDA during Q1 FY21 was at Rs.318 crore as compared with Rs.478 crore in Q1 FY20 with margin of 16.8% versus 21.9% in Q1 FY20. Our depreciation and amortization expense during the quarter was at Rs.112 crore, higher by 9% year-over-year. Finance cost during the quarter was at Rs.76 crore as compared with Rs.73 crore during Q1 FY20. Average blended interest rate for Q1 FY21 was at 5.95%, of which rupee loans were at 7.88% and foreign currency loans were at 5.14%. Profit after tax during the quarter was at Rs.88 crore as compared with Rs.185 crore in Q1 of FY20. EPS for Q1 FY21 is Rs.5.53 per share. The company's net debt on a constant currency basis stood at Rs.2,913 crore, a reduction of Rs.343 crore as compared to March 31, 2020. We have improved our cash position during the current quarter and expect to generate healthy operating cash flows during the year to further reduce our debt levels.

As the company's demerger being effective as of March 31, 2020, company's consolidated net debt of Rs.3,228 crore as of that date would have been split back as Rs.2,203 crore for Pharma business and Rs.1,025 crore for LSI business. The actual net debt split would depend upon the change in net working capital and debt repayments by the time of demerger. The effective date of demerger would be on filing of the NCLT order with ROC. Capital expenditure excluding R&D capitalization for the quarter was Rs.71 crore and for FY21 it is expected to be around
Rs.500 crore.

Before I conclude, I would also like to provide an update on our reorganization proposal. After filing the composite Scheme of Arrangement with BSE and NSE, we received no objection letters from both the exchanges in January of 2020. Post this the company had filed application for approval of the composite scheme of arrangement with National Company Law Tribunal, Allahabad bench. On August 8, 2020, the company arranged an NCLT convened meeting of shareholders, secured and unsecured creditors of the company at our Gajraula facility for voting on the composite scheme. I am glad to mention that the equity shareholders, secured creditors and unsecured creditors of the company have approved the proposed

composite scheme of arrangement with the requisite majority and the same has been mentioned in the scrutinizer report dated 8th August 2020 which has been filed with the stock exchanges. With unlocking underway, we expect NCLT to function at normalized levels and we expect the reorganization to get completed during December to January timeframe.

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

Moderator: Sure. Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Alankar Garude from Macquarie. Please go ahead.

Alankar Garude: Pramod sir, you mentioned about strong demand in CMO. Based on your discussions with clients, can you throw some light on what exactly is driving this and has the outlook for the CMO business improved further post-COVID?

Pramod Yadav: So as I mentioned that we have been debottlenecking our CMO to get more throughput and we have completed all those initiatives including operating both the lines 24x7 and installing of the additional Lyo line. Now these additional capacities have come at a very right time because I mentioned that we have already entered into four contracts for COVID-related treatment and the vaccine candidate. And, of course, vaccine candidate are subject to FDA approval, but if that happens we will be running the plant on 100% capacity.

Alankar Garude: In general, if I just exclude the four contracts you mentioned for the COVID side, other than that for the rest of the business on CMO, are you seeing any tailwind currently?

Pramod Yadav: So on the CMO products we really did not see impact due to the COVID-19 situation. So as such the CMO demand would have been good but because of these COVID-19 candidates on treatment and the vaccine side, that demand has further gone up.

Alankar Garude: My second question is on the API segment. Now, most API companies reported a pretty strong performance in the first quarter. In our case we lost out due to the Nanjangud issue. So now post resumption of production in Nanjangud starting June, are you seeing any material improvement in demand as well as pricing for our API products?

Pramod Yadav: So you are right in saying that there is a upward demand in the API business. We are also seeing the impact of that and I mentioned in my speech that we expect to recover the part of the losses and that is because now we expect the plant to be running at full capacity. We have the demand of the product. We also expect a better pricing. So overall in the rest of the three quarters we expect API to be performing very well.

Alankar Garude: On the proprietary Drug Discovery Program, so two programs would be entering phase-I in next year. So how are we planning to fund these programs and not just phase-1, even going forward, what is the plan here?

Shyam S. Bhartia: I think we have already funded these programs up to the IND level and after the phase-one also we hope to fund through our own internal accrual.

Alankar Garude: Beyond that sir, would we be looking for a partnership?

Shyam S. Bhartia: We will be looking for partnership. Even after IND also, we will look for partnership before the phase-one, but phase-1 will create more value to the programs and there is already a lot of traction for both the programs from the large pharma companies and the biotech companies. So, we keep on discussing our licensing at different stages. So we are open to always licensing, as you know that we have already licensed a few programs earlier. So we are already in touch with large Pharma companies and Biotech companies for licensing, but we keep on advancing our program as we are very confident of a good value creation after IND.

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

Vishal Manchanda: I have a question on Remdesivir. So just wanted to know whether we are manufacturing in-house or we are outsourcing it to third-party and what is the capacity that we have on this?

Pramod Yadav: So the manufacturing of key starting material and the API is in-house. The manufacturing of Formulations is within India. We have the capacity available as of now and as I mentioned in my speech we are also ramping up and we will have a capacity of almost double of what we have in another about one and a half to two months' time, and we are seeing very strong demand from India as well as from the other countries for which we have licenses.

Vishal Manchanda: So basically since we have limited distribution reach in India because we do not have a branded business as large as some of the peers who are marketing Remdesivir, how are we reaching out to the hospitals? Is it through our own sales force or is there something else that you are doing?

Pramod Yadav: So both; we have our own sales force; we have the (IBP) Indian Branded Pharma business which we have been developing from the last few years as well as we have distribution tie-ups. With that, we are already placing the entire production and we have the demand more than that.

Vishal Manchanda: Could you share a number as to what is the current capacity in terms of number of doses that you can do in a month?

Pramod Yadav: So the current capacity is about close to 200k and it maybe more than double very shortly.

Vishal Manchanda: On the LivoBoost product that we have launched in the animal nutrition side, has it some synergies with our existing business or it is a very different product?

Rajesh Srivastava: This product is for Animal Nutrition. We sell Choline Chloride. So, it has a similar impact. So, this is sold to the farmers only the same way we sell other nutrition products. And the advantage is this herbal in origin, so it could be attractive to some of the customers not only in India, worldwide that it has good impact on productivity. So it is a part of our range that we have added to.

Vishal Manchanda: Just on the CDMO business side, any guidance on what kind of growth can we look for in FY21 over the FY20?

Pramod Yadav: So our one line started operating 24x7 last year. So when I say that we were debottlenecking capacity by about 32%, so some growth had come last year and the balance entire growth will be coming this year because other line started operating 24x7 as well as the Lyo, The Lyo got installed in the last quarter and other lines started operating 24x7 towards the fag end of the last year and plant is running at full capacity. So from whatever was the status about one and a half year ago it will be more than 30% growth.

Moderator: Thank you. The next question is from the line of Amit Goela from Rare Enterprises. Please go ahead.

Amit Goela: This question deals with your Radiopharma business. See, in the balance sheet which came out for last year, it showed in the subsidiary that the distribution company for Radiopharma is losing a fair amount of money like apparently about Rs.200-odd crore. So when do you plan to break even in this operation because it will make a very significant difference to the profitability and margins, if you could throw some light on that?

Pramod Yadav: We mentioned earlier that we have merged both the businesses under the brand of the Radiopharma which is Radio Pharmaceuticals which was the manufacturing and the radio pharmacies which was the distribution piece. Now we look at both these businesses as a combined profitability and the combined top line. And this we have done because as such the acquisition had been more of a strategic nature to be able to reach to the customers directly and ensure that all the products what we are marketing are getting compounded with the good quality standards and have a wider reach. And we are happy that this strategy is playing very well. And this like the deal which we announced about the Navidea is the part of such initiatives where we will be able to bring more and more of the products which are innovative or new to the US geography and we bring them and take them through the same channel and reach to the wider patients.

Amit Goela: Pramod, I understand that you are reporting the business together and it is a part of the business, I have no questions on that or I think it is a good strategy. Just that since the balance sheet came out separately, I was just wondering like how long will it take for the extent of losses to come down because they will make a significant difference to the profitability of the Radiopharma business?

Pramod Yadav: So, as such, we are growing in this business. We have been mentioning that we are planning to increase our customer base. We are planning to increase the network of the pharmacies. We are doing some remodeling in the pharmacies to make them much more efficient in terms of operational efficiencies and the quality. And those initiatives are on track. We are implementing that. So the standalone profitability loses its meaning once you have clubbed the businesses and start seeing them together.

Amit Goela: I agree with you that the standalone profitability loses meaning but if the losses come down in this, the profitability of the combined business will go up quite a bit.

Pramod Yadav: Yes, so, in the combined business you are right, as those losses go down, overall combined profitability will go up and that is what our guideline also says that this business is very strategic to our entire portfolio and we have a strong R&D pipeline in this business which will continue to launch the product and in this business the profitability as well as top line will continue to grow plus as such the RUBY-FILL continues to do well. So overall we are adding the products in this business. We have our own network of the distribution and we continue to invest in this.

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

Tushar: Just on the Radiopharma business again, like we have seen some of the states in America where the cases are rising again, so any impact on the business likewise or you are seeing any which case the recovery into the Radiopharma segment?

Pramod Yadav: Though these are called elective diagnosis, but ultimately you cannot postpone them for long and that is the reason that though in the month of April and May, the demand had gone down, it was quite low, I mentioned in my speech, almost 50% but it quickly came up in the June itself; it was at about 80%, 85% level and now we are already seeing it close to 90%. So when this number of cases of COVID-19 in US started going up again, in that phase we did not see negative impact on this demand and the demand continues to build up and we are as such seeing that more and more imaging centers and the hospitals are now accepting the elective diagnosis patients and hence we are hopeful that the situation will continue to improve. Of course, this pandemic should not deteriorate much materially from here.

Tushar: But with these COVID cases, social distancing and all, are you seeing the increased cost on this business which would have come let us say till COVID scenario eases out, you will have impact on the margins?

Pramod Yadav: So impact on margins, we have seen so far already related to the lower volume. We have not seen any pressure on the prices and as such in this business the prices are governed through the long-term contracts.

Tushar: I was referring to the increased cost at managing the facilities in terms of the supplying and all?

Pramod Yadav: In terms of the facilities, we do not see any impact on the operational efficiencies. I mentioned that all the facilities in North America even during the peak of the COVID-19 had been operating as normal.

Tushar: Just on this debottlenecking exercise in CDMO and then getting four contracts. So while you have given the revenue outlook, just a clarity, would this be also like kind of a pharma EBITDA margin where we have currently or it will be higher or lesser than that as and when then it comes for the approval?

Pramod Yadav: I think you can safely assume that these businesses have been contracted at prices better than whatever current products are. So if these products get approved and we make more additional number of batches and they will be at higher margin.

Tushar: In FY21, any timeline like third quarter, fourth quarter you would like to highlight?

Pramod Yadav: That is what the entire world is waiting for, that when the vaccine gets approved. So in terms of timing of that I have the knowledge and information as good as yours, but yes everyone is waiting, it should get approved at the earliest and the announcements are already being made in US that at least one or two vaccines should be available in the last calendar year's quarter of this year.

Tushar: And for those vaccines, now with given the kind of global requirement, there would be like more than one manufacturer who would be addressing this product or if you could just throw some light there?

Pramod Yadav: So any vaccine which gets approved will be required in the millions and the billions of the dosage. And no sterile manufacturing facility has that much of the capacity. So our assumption is that every vaccine which gets approved, will be manufactured at the various places within US and Europe and also globally.

Tushar: Just on the LSI business, the presentation highlights that we expect double-digit growth in revenue and significant growth in EBITDA. Just looking at run rates of the EBITDA in the LSI business, we have been more or less in the range of Rs. 120 crore plus/minus 10 crore for more than 10, 11 quarters. So structurally are we seeing any changes which will aid this number grow further from here on?

Rajesh Srivastava: Yes, as we said in our speech, our growth is going to be double-digit, it is mainly because our demands of products like specialty ingredients, vitamin and some of the products in LSI, they are growing as well as prices are strong. So with these two reasons, the growth is going to be good in the business as well as the EBITDA is going to be improved vis-à-vis last year.

Tushar: So, is this to do with this, I mean, typically at least in the India side, we are seeing **traction** as a segment showing significant growth given that there is a good amount of consumption, any which way as a proxy or rather keeping oneself healthy in this COVID scenario, so is this to do with that and so which would die down as the COVID scenario eases out ?

Pramod Yadav: No, so as you know we are mostly in pharmaceutical, agrochemical and various other industries. So this is not very much to do with the COVID. Of course, of course we are in pharma and agro and other products. So this is as such the demand in India for us is good and we are finding in some of the products because of the de-risking, the international customers are looking at more supplies from India. So this is not purely because of COVID and it will go away.

Tushar: It is more about the supply side disruption market share gain, rather than on the demand side?

Rajesh Srivastava: On the demand side, yes.

Tushar: And we have a good amount of contracts in place and that is what gives you the confidence of growth assumption?

Rajesh Srivastava: In this business, we do not have long-term contract, but yes, we do annual contracts, quarterly and half yearly like that. So we have good traction and we can see that enquiries are increasing. So we have better traction in the business.

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

R Jhunjhunwala: My first question is that your last year you reduced about Rs.525 crore of debt and this year first quarter you reduced Rs.340 crore, but you are holding large cash. Any reason for this?

Shyam S. Bhartia: We are holding cash because of the pandemic situation initially we were very much particular of the fact that there can be any reason for fund requirements, but as we move forward we are keeping some cash but paying off debt.

R Jhunjhunwala: Why is there a significant reduction in debt in this quarter of Rs.343 crore but only Rs.500 crore last year because there is no capital expenditure?

Shyam S. Bhartia: There is a cash generation this quarter and we kept our working capital cycle low and also improvement in the overall EBITDA in the LSI business.

R Jhunjhunwala: My second question is on the CMO business. That was very much affected in the first quarter because in that business the revenue should be equal in all the quarters no, because that is a sort of a contract research business. So you are very badly affected in the first quarter because everything was closed. I think we should come back very-very well in the second and third quarter. Should it not?

Rajesh Srivastava: Yes, yes, we have also made a commentary for the rest of the quarters the business is going to come back very strongly, both including Drug Discovery and Service business.

R Jhunjhunwala: You said you have done some contracts in the CDMO business in what you call injectable manufacturing. I did not understand that. What have you done there?

Pramod Yadav: This is a Sterile Injectable facility where we do fill and finish of Sterile vials in the liquid form as well as in the lipolyzed form. So most of the Pharma companies who have sterile products, they do the formulation and then either they give us the intermediate or they ask us to formulate and fill and finish it into the vials in a sterile environment, then supply. So these four contracts which we announced are for COVID-19 treatment in the vaccine candidates where with four different pharma companies the contracts have been done who will supply us either their API or the Formulated product and we will fill and finish that into vials and supply it back to them. So that is our contact manufacturing of sterile injectables.

R Jhunjhunwala: But that business will come only if the products are approved?

Pramod Yadav: I said that we already have received some capacity charge and the tech transfer fee. And as product goes through the clinical trials, phase-2 and phase-3, for that also they require those batches. So they will manufacture those batches at our place. If the product gets approved, then the demand of those products will be many times more. And since we just de-bottlenecked the capacity so all that additional capacity gets filled up and we expect that at least if one or two product gets approved, we will be running our plants at full capacity.

R Jhunjhunwala: And how much time does it take for approval?

Pramod Yadav: So right now many vaccine development programs are ongoing at various stages and the assumption is that at least one or two products should get approved within this calendar year and a few more should get approved early next year.

R Jhunjhunwala: That means once it gets approved, we will get a major boost to that business?

Pramod Yadav: Yes, if those products get approved out of these four contracts what we have, we will get a major boost, but however as I mentioned that the demand will be much-much higher than the capacity available. So even when other vaccines will get approved for which we do not have CMO, but wherever they are getting manufactured, those products will be getting pushed out from there. So, overall, within the sterile injectable space, there will be a capacity crunch.

Moderator: Thank you. The next question is from the line of Sriram Rathi from ICICI Securities. Please go ahead.

Sriram Rathi: Just two things, sir. Firstly, the gross margin improvement for the quarter has been almost I think two to three percentage points despite the fact that pharma revenue has been down much more. So, ideally pharma business will have higher gross margin. So any specific reason for the same?

Rajesh Srivastava: This is a mix of Pharma, LSI and Drug Discovery. Given that Drug Discovery also has much higher margins and even in LSI, we actually saw marginal improvement. So on a weighted average basis, that is how you see the overall margins towards that extent.

Sriram Rathi: This gross margin is something which we can expect it to be sustainable going forward also on an overall basis?

Shyam S. Bhartia: Yes, the margins in pharma business expected to be better going forward in this quarter. And as Rajesh said, our Life Science Ingredients business is also having a better margin going forward and other business is also very strong like Drug Discovery Services.

Sriram Rathi: Secondly, just a bookkeeping question. Since we are expanding the capacity in CMO, so what kind of Capex we should expect this year?

Shyam S. Bhartia: Total Capex in the first quarter was about Rs.71 crore. For the whole year it should be around Rs.500 crore for all the three businesses combined.

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

Surajit Pal: How much inventory gain because of Forex in your gross profit?

Shyam S. Bhartia: I do not think that there is any foreign exchange gain this quarter because of inventory.

Surajit Pal: Second question is your Capex which you have guided around Rs.500 crore. Is it including your intangible R&D?

Shyam S. Bhartia: Yes.

Surajit Pal: How much that will be intangible and how much will be your non-intangible Capex?

Shyam S. Bhartia: We will come back to you on that separately.

Surajit Pal: Third point is that Remdesivir which you have launched, where did you manufacture that injectable?

Shyam S. Bhartia: APIs being manufactured at our plant and then injectable is contract manufactured in India.

Surajit Pal: The third-party?

Shyam S. Bhartia: Third-party.

Surajit Pal: You have launched your Remdesivir and you have also launched generic of Vildagliptin. What is your proper plan for domestic formulations going forward, how much revenue we could expect or growth we could expect out of that or is it just one off?

Pramod Yadav: So for the Remdesivir, as I mentioned that we have a very good demand as of now. In India the COVID-19 cases continue to increase. Even there is a demand from those other 126 countries. So whatever capacity currently we have that is getting sold and we are also increasing capacity.

Surajit Pal: No, I was just asking, what is your midterm plan for your domestic formulation because you have launched two important molecules?

Shyam S. Bhartia: Yes, we are in cardiovascular and diabetic segments and quarter-on-quarter we are increasing our growth there.

Surajit Pal: How many people are there? What is our Capex plan in that? How many launches are there for the next two, three years?

Shyam S. Bhartia: We hope to keep it to the cardiovascular and diabetes segment and of course Remdesivir is there.

Surajit Pal: Any idea how many products you have in this segment?

Shyam S. Bhartia: We can discuss this separately because I currently do not remember how many products we have.

Moderator: Thank you. The next question is from the line of Vidhi Dharya from Hridhaan Securities. Please go ahead.

Vidhi Dharya: So out of the current debt outstanding, how much of it do you intend to retire during the coming quarter? And, apart from the current cash generation, we already have a cash balance of Rs.1,523 crore. Could you give us the number?

Shyam S. Bhartia: As we said, continuously quarter-on-quarter we will evaluate debt retirement at the earliest as we generate more cash.

Vidhi Dharya: Any rough estimate sir?

Shyam S. Bhartia: Difficult to give you at this moment of time. But we hope to retire more debt going forward.

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

Pratik Kothari: Again, the question on debt part. You mentioned that we will be repaying the debt from the cash that we generate in the business, right, over the coming quarters and nothing from the 1,500-odd crore that we already hold in our book?

Shyam S. Bhartia: We use part of that also, but we are talking of net debt after reducing the cash.

Pratik Kothari True sir, because for the past I think five, seven-odd quarters we have been holding about Rs. 1,400-odd crore cash on our book. I understand the prudence right now because of pandemic.

Shyam S. Bhartia: Yes, but the main cash we have been holding is on our pharma business and there we have to retire our bonds going forward. That is why we hold cash to retire our bonds.

Alok Vaish: Just to add to that, we have $2 million of bonds which are due for repayment next year in October, so about a year from now. And given that most of this cash is in the Pharma business, we will obviously hold this to repay that at some point of time.

Pratik Kothari: So going forward, we will be using this Rs. 1,500-odd crore and also the cash that we generate via our operations to repay this debt, right?

Alok Vaish: Correct.

Pratik Kothari: So only post-demerger we will be doing this, even before that we are okay to do it?

Shyam S. Bhartia: But demerger is likely to be completed by December 2020 or January 2021.

Moderator: Thank you. The next question is from the line of Pawan Teja from Mould Tech. Please go ahead.

Pawan Teja: So basically you just mentioned that you envision the market actually moving down from China to you in the upcoming year, right. So what do you see the potential of that one?

Rajesh Srivastava: We are seeing the positive traction in fresh enquiries of custom manufacturing products and also the products which we are producing right now. And those enquiries we are planning to convert into business as soon as possible.

Pawan Teja: So do you have any kind of an estimate as to what do you think the potential growth over there for the upcoming quarter?

Rajesh Srivastava: In LSI business, I have already mentioned in my speech the overall outlook that this year growth we will try to do close to double-digit growth. So that considers the new opportunities as well as existing business.

Pawan Teja: So basically, mostly we will see the impact of those enquiries in the LSI business you mean to say, right sir?

Rajesh Srivastava: I am sure also we will have enquiries for Pharma business. Pramod can tell you.

Pramod Yadav: There is already impact in the Pharma business especially in the US where we have very large presence. During the pandemic there were issues on the availability of many of the products which had a dependency on China of the other countries outside US and the entire administration is now making efforts to make supply chain of the US pharmaceutical products much more resilient. So there we see opportunities. We have a very sizable presence in the US in the manufacturing as well as we have this backward integration in India on formulations side as well

as the API side. So that positive impact will be seen in the businesses in the quarters to come.

Pawan Teja: Just a follow up question; you envision like other countries also to follow up in the suit or how do you think of that one?

Pramod Yadav: So Indian pharma industry is one of the largest players in the generic market in the US and they have been to some extent competent with China. So any movement in the US to de-risk them from the China dependency will be beneficial to the Indian industry. And within the Indian industry, the player like us who already have a large presence and the setup will get more benefit.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for the closing comments. Thank you. And over to you.

Shyam S. Bhartia: Thank you everybody for joining this call. I hope you all and your families are safe.