J.B. Chemicals & Pharmaceuticals Limited

Q4 and FY21 Earnings Conference Call Transcript
June 15, 2021

Moderator: Ladies and Gentlemen, Good Day and Welcome to Q4 and FY21 Earnings conference call of J.B. Chemicals & Pharmaceuticals Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jason D'Souza, Head, Investor Relations, J.B. Chemicals & Pharmaceuticals Limited. Thank you and over to you, Sir.

Jason D'Souza: Thank you Margareth. Welcome to the Earnings Call of J.B. Chemicals & Pharmaceuticals Limited. We have with us today Mr. Nikhil Chopra – CEO and Whole Time Director; Mr. Kunal Khanna – President (Transformation); and Mr. Vijay Bhatt – Chief Financial Officer of J.B. Chemicals & Pharmaceuticals Limited.

Before we begin, I would like to state that some of the statements in today's discussion maybe forward looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the Q4 FY21 results presentation that has been sent to you earlier.

I would like now to hand over the floor to Mr. Nikhil Chopra to begin the proceedings of the call and give his opening remarks.

Nikhil Chopra: Thank you Jason and Good Afternoon everyone. This is Nikhil Chopra, a warm welcome and thank you for taking time to join us for the discussion on the operating and financial performance of J.B. Chemicals & Pharmaceuticals for the fourth quarter and financial year ending March 31, 2021. I hope all of you, your families and colleagues are keeping safe through this difficult phase of time. As the situation continues to ease and the lockdown opens up, we look forward to better times in future.

I will start with an overview of our performance and share some of our perspectives on the business following which Mr. Vijay Bhatt – our CFO, will take you through the key financial highlights. After that, we will be more than happy to take all your questions.

We announced our results yesterday with company recording 15% top line growth in the revenue of Rs. 2000 crore which was a milestone for us in the history of JBCPL as a company. This performance has been delivered during one of the most challenging periods in recent history on account of pandemic. Further, the strong revenue growth has been achieved with our core brands and non-COVID portfolio, thus the growth achieved during this year reflects the resiliency and the sustainability of our business. EBITDA margins expanded from 21.3% to 27.4% in this financial year and profit after tax was higher by 65% which was close to Rs. 450 crore for the year.

Our domestic formulations business performed well during the year registering a growth of 12% at Rs. 892 crore. As per IQVIA MAT '21 data, we recorded a robust 21% growth as compared to 4.5% growth of Indian Pharma Market for the same period.

I am also happy to share that overall, our ranking in IPM has improved from 32^{nd} to 28^{th} rank. We are, by the way, the fastest growing company in top 30 today as recorded by IPM. This was just another year of secular outperformance driven by our strength in chronic therapy segments and acceptance of our products prescriptions that is now extending deeper into Tier-2, Tier-3 and beyond.

During the year, we have implemented a new go-to market model for our domestic business and introduced selected new products in complimentary therapeutic areas of our strength. We have also instituted a core Nephrology task force to capitalize on our strengths in this therapeutic area.

Next, our foray into the field of respiratory and pediatric therapy has been taken forward by a strong 350-member team task force which is, the name of the division is Nova, which focus on antivirals, oral corticosteroids, anti-allergic and nicotine-replacement therapies.

The transformation journey is supported by continuous efficiency driving initiatives like sales force automation, excellence and overall incremental digital adoption that is what I believe that how do we complement the presence of our field members in the clinic with the help of digital adoption.

Overall, we expect our India business to maintain its outperformance based on the growing visibility with prescriber, specialist and the pipeline of new launches in line with our therapy diversification plans in complementing therapies.

Talking about our international business – we are currently putting in place a growth strategy for key markets, which will be aided by new product introductions. As you may know, we remain committed to going deeper into some of the existing market and geographies without diluting our focus. We are also strengthening our R&D capabilities that would support the medium-to-long term growth opportunities in our international markets. During FY21, I am very happy to share that we have seen a good momentum aided by strong performance in South Africa and US business.

Also, I would like to talk about the industry growth in Russia, especially in the field of the cough and cold segment, has slowed down in the last financial year and this impacted our business momentum in that country.

In other emerging markets, we are well-placed with a strong export order book. Also, happy to share, the entire API business recorded a positive growth for the year which was both in US and Europe market.

Friends, over the years our initiatives across both domestic and international business segments have yielded positive results with a revenue growth of 13% CAGR over last four years. Also, our operating margins have continued to expand throughout this period and profit after tax has grown at a CAGR of 48% in this four-year-period. ROCE has continuously expanded from 15% in FY18 and it stands at 42% for the year FY21. We strongly believe that our endeavor will be to maintain a healthy ROCE, which indicate our commitment of delivering value to our stakeholders community.

Most importantly, we continue to generate a free cash flow during this financial year. Our healthy and strong balance sheet will provide us opportunities to grow our business especially India business consistently and we will continue to focus on organic growth which will be market beating and also invest in inorganic opportunities which will add value to the organization in the medium-to-long term.

Going into FY22, we expect the top line trajectory to continue with commensurate benefits of operating leverage. Even as the cost are normalizing, the cost efficiency initiatives instituted over last one year are supporting the profit growth and further improved working capital levels are enabling continue and strong cash flow generation which is overall helping in maintaining the better EBITDA margins.

Overall, our strengthening business position based on multiple corporate initiatives that we have taken over last one year, places us well to enhance value for all our key stakeholders.

On this note, I would like to conclude my opening remarks, and now I request Mr. Vijay Bhatt – our CFO to share a brief perspective on our financial performance. Over to you, Vijay.

Vijay Bhatt: Thank you Nikhil. Good Afternoon everyone and I welcome you to J.B. Chemicals' Q4 Earnings Call. I will now take you all through some of the key financial highlights of our performance for the quarter and the year ended March 31, 2021.

As you have noticed, Q4 saw 19% growth in revenue at Rs. 528 crore. Margin also expanded by 270 basis points to 23.4% even as our operating expense normalized to a large extent. However, as Nikhil indicated earlier, we have looked very closely at our cost structure and some of the interventions made have enabled structural improvement.

Our EBITDA expanded by 35% to Rs. 124 crore primarily driven by growth in top line and the operating leverages. Profit after tax also doubled to Rs. 101 crore. During the fourth quarter, domestic formulation revenue increased by 9% to Rs. 221 crore based on positive sales traction in line with our expectations and improvement in demand from acute and hospital segment. Growth for the quarter in this segment has also achieved over the higher base of the corresponding quarter last year. Apart from the domestic business, the international business also delivered a healthy growth of 31% in Q4. Revenue expanded to Rs. 303 crore. Overall, both domestic as well as international business have performed well on a normalized level.

For the full year '20-21, revenue grew by 15% to a value of Rs. 2,043 crore, what is more encouraging is margin expanded by more than 600 basis point to a very healthy level of 27.4% and profit after tax expanded by 71% to Rs. 597 crore. This translates into an EPS of Rs. 58 for the whole FY20-21.

The Board has recommended final dividend of Rs. 8 per share, this of course is in addition to the interim dividend of Rs. 8.5 per share declared earlier in the current financial year. This takes the total dividend payout to Rs. 16.5 per share for the full financial year.

I would also like to highlight some of our other facets of financial performance, most importantly ROCE has improved significantly from 29% to 42% during the financial year. This follows a strong track record of continuous expansion in return ratios, we have also grown by leveraging our existing manufacturing distribution and relationships and expect to continue a similar direction in the FY22 as well.

Our cash balance position also indicates that it has substantial liquidity, and it has grown over the last year, our net cash position as on March 31st stands at Rs. 663 crore. Our current balance sheet position indicates there is substantial amount of liquidity available to the company based on which we look forward to pursue growth opportunities to drive further value in the business.

I conclude my remarks and would like to open this forum for the interactive session with all of you. We will be happy to respond to your questions which you may have. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sriraam Rathi from ICICI Securities. Please go ahead.

Sriraam Rathi: Thanks for the opportunity and congratulations on great set of numbers, Sir particularly in the India business this year we have seen that the growth momentum has continued to be strong and if you can share some perspective in terms of the progress which has happened in terms of launching new products in the new segment, so I mean which segment we have already seen the product launched already have started in FY21 and how should we look at in terms of FY22 from the new segments which we are planning to enter?

Nikhil Chopra: From perspective of new launches that the new initiatives that we have taken up in India business that we started doing in Q4 of the last financial year what I shared in my earlier talk that playing to our strength and keeping it focused, we are a dominant player in the world of hypertension within Cardiology. We have extended that in the world of metabolics by launching couple of products in diabetes that already products are in the market, which is dapagliflozin and vildagliptin, that is point number one. Equally, we have taken initiative to launch a niche division in the field of Nephrology. Today at J.B. Chemical, Nephrologist as a specialty is number one prescriber specialty for us, so we have launched around half a dozen products in the field of Nephrology which are in case of launch which is going on with a taskforce of around 30 people and that products are co-prescribed in supportive therapy, that is point number two, and equally we are in the process of getting into the world of Pediatrics and Respiratory which is a combination of antiallergics, corticosteroids, and some other cough and cold products, so all put together you will see around 8-10 products within next six months which will start getting support from the Doctor community in the field of Pediatrics, in the field of Respiratory, in the field of Nephrology, and Metabolics.

Sriraam Rathi: Sir, will existing sales force be able to manage all this or you will be looking to add more sales force?

Nikhil Chopra: Last time also in our investor presentation we had shared that there are no plans short-to-midterm to add any field force. The entire new go to market strategy that we have put and the entire transformation piece that we are putting in place, we have realigned our field force and we are optimizing our entire field force of 2,000 people in India business with a focus that we want to put in terms of making our top big five franchisee bigger by focusing in metros and Tier-1 town and looking at what we can get maximum from our legacy product in Tier-2 and rural part of the country, and also we have realigned our field force where the newer initiatives will be baked in and the same number of people will be more focused in not only delivering organic growth with the help of our existing products but also give justice to our newer markets.

Sriraam Rathi: Sir, secondly export growth has also been quite strong this year, is it possible to share the details of how has South Africa done and how has US done, how much revenue they would have reported?

Kunal Khanna: We do not want to discuss the details of each geography, but international business continues to show a very strong momentum. The two key geographies which have done extremely well for us are South Africa and US. Apart from that, we also saw very good strong growth through the last year in our API business. As things stand right now, our order book momentum continues to see a similar trend and we are confident of the momentum continuing.

Sriraam Rathi: Sir, lastly on the margins, this year of course we have done around 27% plus margins, so any direction you would like to give, how should we look at this number going forward, will we be able to sustain this or improve from here on?

Nikhil Chopra: So overall if you look at the expansion which has happened in margin from 21% to 27%, the way we look at from a margin perspective and going ahead the way we are looking at it, we are looking at margins to flow from top line, we are looking at profitable growth and the cost initiatives that we have taken over last one year and we are looking at enhancing the productivity not only in India business, but across the company will help us in terms of maintaining healthy margins which will be close to where we are positioned today, but also I would like to talk about that we are looking at business not only from short term but we are looking at business from mid-to-long term where there will be some of the initiatives maybe in the field of R&D and some of the investment which we will do to fuel the growth for the coming time.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Ashmore Investment Management. Please go ahead.

Ashwini Agarwal: Good afternoon and congratulations on a very nice set of financial performance, two questions, could you provide an update on the lozenges business, I note that word has come up couple of times in your company summaries, obviously you feel quite strongly about it, where is this now and where can it go to?

Kunal Khanna: Our lozenges business we have very strong franchisee and relationships with some of the large multinational consumer companies globally, and as stated earlier, we are amongst the top five and some of the selected geographies which includes Russia, CIS, parts of APAC and Australia, we are the largest manufacturer for these multinational clients and their respective brands. We are currently at a stage where we are investing on the R&D side to come out with different varieties of lozenges because our current portfolio comprises of a lot on the cough and cold segment. While we have been very aggressive in terms of introducing and discussing these new concepts with our partners, our attempt right now is to go beyond the conventional cough and cold and introduce concepts like immunity, which are going to be extremely, extremely relevant as we look at the post-COVID scenario. What we can say is our current focus is to strengthen and deepen our presence with our existing clients based on some of these newer concepts and also add a couple of more anchor clients who could support the lozenges business expanding in a few other geographies where we are not present.

Ashwini Agarwal: Would it be possible for you to get the same multinational clients to extend coverage into Europe and the US or is that already done?

Kunal Khanna: There is a slight gestation period because there are some registration timeline which one has to go through, but having said that there is still a lot of opportunity in geographies where we are currently also present because we believe that some of the new concepts particularly centered around immunity will see a lot of traction going forward in this way, having said that these things take time because you are dealing with the large clients and you have to go through the entire development cycle.

Ashwini Agarwal: Could you share with us how big is the lozenges business?

Kunal Khanna: There are multiple reports which actually state, which actually kind of peg the market at close to $ 5-7 billion. Having said that what we operate is in the complimentary medication and wellness segment and that is close to 30-35% of the overall market opportunity. We do not want to spread ourselves thin across plain confectionary lozenges and those plain vanilla segments. We are very clear that we will be operating in a space, which is much more niche and which kind of goes through the registration cycle which is very similar to conventional pharma products.

Ashwini Agarwal: Another thing was on APIs, you mentioned in the opening comments that API has did quite well for you over the last one year, what are the plans here, because this is again an area where you have launched capacity currently?

Kunal Khanna: We have a very selective play as far as API business is concerned and strong marquee clients for whom we are a dedicated supplier. What happened with API business last year was especially in H1, there were certainly some level of stocking which happened from the buyers end given the uncertainty in global markets. Our mid- and long-term focus as far as our API business will continue to be much more selective and focused. We will certainly be expanding our portfolio base, but again we are not talking about a spurt of launches of 15 or 20 products, we are looking at some 3-4 niche products which we want to play in and which we are working on which should be ready for the market over the next 12-18 months, so that is the way we are really thinking about our API business. In addition to that, part of our API business will also be aligned to our overall ANDA strategy, so as we have discussed earlier also, we want to kind of increase our filing run rate. We currently have a run rate of one to two filings per year, which over the next 12-18 months should go up to 3-4, and some of these ANDA filing which we will look at will certainly be supported at the backend by our API business.

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

Rahul Jeewani: Sir, thanks for taking my question, now as far as the outlook on the India business is concerned, this year we saw very strong growth despite the overall market being weak, now as far as the recovery in the domestic market is concerned, April and May have seen very strong growth for some of the acute therapies and I am assuming that Rantac and Metrogyl brands would have also seen some sort of an uptick in prescriptions, so given that background, do you see that for FY22 our India business growth would be higher than 13-14%, which we have been delivering?

Nikhil Chopra: Rahul as I stated in my commentary conceptually the CAGR that we have demonstrated over the last now four years has been 13-14% which has been market beating, and obviously we are looking at where we stand from a productivity perspective where we have got 2,000 people and the entire new go to market strategy and the transformation that we are putting in place, we are looking at that how do our productivity in our last investor presentation what we spoke should go at around healthy pace of 12-14% so that is where we stand. With our organic brands, the initiatives that we have taken in terms of how do those brands become bigger, beat the market as they are leaders in their space and with the newer initiatives that we are taking in with the help of entire combination of digital and physical presence should overall help us to deliver market beating performance.

Rahul Jeewani: Sure Sir and on Metrogyl and Rantac, so last year our prescriptions were impacted to certain extent, so have we seen prescriptions in these two products coming back for us now?

Nikhil Chopra: Yes, if you look at the Rantac performance, we have been handsomely growing at around 15% plus as reported in IPM and we were fortunate enough that the entire season for Metrogyl also came back and we saw a good uptick in overall Metrogyl prescription across, because in Metrogyl we have around 10 SKUs, so across all the 10 SKUs, we could see a good uptick in terms of product being adopted at the prescription of the customer.

Rahul Jeewani: Sir, on the CMO business we have seen maybe strong growth this year, so historically our CMO business has been growing at around 11-12% rate, but this year we saw almost 27% growth in the CMO business, so is there any one-off components sitting in there or what led to such strong growth on the CMO portfolio?

Vijay Bhatt: Rahul it looks like that this number seems to be not correct, in any case this percentage where from you are getting we cannot comment, hence we can take this offline, but this is not something that can be answered now.

Kunal Khanna: So strategically without comment, I do not want to get into the number which you have stated Rahul because there seems to some deviation but having said that, yes, our CMO business has grown very strongly. In fact, Q4 performance for CMO was much stronger than what we saw throughout the year, but this business has to be kind of analyzed and tracked over a much more longer period. What we maintain and what we have discussed earlier also, our focus is that how do we expand our CMO client base from three to four key customers to almost six to seven and our efforts are underway to do that, but more importantly with the current client base which we have, how do we further deepen and strengthen our relationship, and the good thing is that you know with the level of R&D enhancements which we are doing, we have got more airtime with our key customers in talking new concepts, and hopefully, some of them should kind of materialize over the next one year.

Rahul Jeewani: Sir, lastly on the margins, so you said that some of the cost initiatives which the company has been implementing that has allowed us to derive structural improvements as far as our cost structures are concerned, but this quarter we saw that with other expenses coming back, our margins have gone down to 23.5%, so with respect to margins for next year, FY22, so we should be working with the full year number or the fourth quarter run rate which you had and in terms of any guidance which you can provide as far as margins for FY22 is concerned?

Nikhil Chopra: Rahul, what I said earlier in terms of when we look at from a margin profile, margin will flow from the top line that we are able to achieve, and we firmly believe in profitable growth, that is what we have laid down as ethos of running the organization, and equally if you look at Q4 in isolation, conceptually Q4's March is a muted month particularly for India as overall reported in IPM, so that was one-off, but with margins flowing from the top line which is market beating and equally some of the cost improvement measures that we have taken in and looking at how do we announce productivity across the company, I think we are very much there in terms of will be able to maintain our healthy EBITDA margins as we are positioned today.

Moderator: Thank you. The next question is from the line of Monish Shah from Antique Stock Broking. Please go ahead.

Monish Shah: Thank you for taking my question, Sir my question is on the exports business, so what would be our growth plans and growth drivers for markets like Russia, South Africa, and some of the Southeast Asian markets?

Kunal Khanna: As far as Russia is concerned, we are planning to have a couple of launches through FY22. Our registrations are in very, very advanced stages. Having said that given the current market situation, we want to be very mindful of what is the right time to launch these products. If things improve from hereon, then we are extremely hopeful that we should be in a position to have these couple of products launched by September of the coming financial year. Overall, the situation was grim not only for us, for the entire pharma market in Russia with secondaries being significantly impacted, but we do see improvement gradually kicking in.

South Africa has done extremely well and it is a mix of public and private business. The good thing is we have good visibility on our public business side and we have worked a lot on side variation projects to ensure that we have sourcing done from India, which kind of helps us better manage cost as well, so we will continue to see the good mix and traction in public and private kicking in with the visibility which we have in hand right now.

As far as APAC geographies are concerned, the APAC is something where our focus will be to grow these markets through our CMO business and as mentioned earlier, we are looking at ramping up our R&D with our CMO customers and looking at some variants in dosage form such as lozenges, but that takes time, the efforts are already underway.

Monish Shah: For the ROW business, do we intend to open up new markets, are they working on that direction, or they are focusing on the markets that we are?

Kunal Khanna: Our efforts are to continue in the markets where we are present. We are present in almost 40-42 markets, we want to deepen our presence there and the other we discussed South Africa and Russia in detail because these are our home markets, but even in other markets, our efforts will be to deepen our presence through our expanded portfolio, so what we are really looking at is how do we kind of have a portfolio engine over the next 12-18 months which gets us faster registrations, faster approval so that we can expand our basket, but right now there is no real intention of expanding our geography there.

Monish Shah: Sir, lastly on the CMO lozenges business, there we intend to expand our capacity given that we are confident of the growth continuing forward, anything on that?

Kunal Khanna: We already have built-in capacities for lozenges as far as our CMO business is concerned, so there is no real immediate plan to expand on our lozenges manufacturing capacity. We are well covered for that even if our business has to go up by almost one-and-a-half times from here on, that is not a challenge. Having said that, you know CMO business goes much beyond lozenges as well, many of our current customers are talking about some other dosage forms as well and you know those are also concepts underway.

Monish Shah: Sir, lastly on the lozenges business here in India, do we plan to take more products via OTP route or it is something too early to say right now?

Kunal Khanna: Initial stages of conceptualization from our side, we will discuss more details at the right time.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Invesco. Please go ahead.

Nitin Gosar: Thanks for the opportunity, I wanted to understand how should we see Pediatric and Respiratory, until so far we had some of the other complementary for existing therapy like it could be metabolic or it could be hypertension along with Nephrology, but in Pediatric and Respiratory, it may be slightly more concentrated and more specialized doctors who will be seeking our attention for the first time, could you help us understand how we intend to build relationship out there and how is our positioning out there?

Nikhil Chopra: Let me break this Respiratory into two parts, Respiratory is a combination of cough and cold, antiallergics, and there are variety of products that doctors prescribe and when we look at Respiratory which has been Pediatric, because Pediatric patients land in the clinic of Pediatricians where JB as a company has very good relationship based on our portfolio which is a combination of Rantac franchisee, which have got syrup formulations and there are some other products which already we are going and equally when we talk of respiratory, we also talk of physicians and Pulmonologist. There are a portfolio mix which we already have taken initiatives to put half a dozen products in the market, which is complementing when we go in the clinic of Pediatricians, physicians, and chest physicians, and there is an ongoing relationship building exercise with the help of entire medico marketing excellence which we have taken some steps in getting close to the customers and how do we help our team when they go in the offices of doctors, so overall Pediatricians, we as a company are close and physicians also with the work that we have done in the world of hypertension, so they know JB Chemical as a company, and equally Pulmonology as a category basically starting from me and there are people who are working with me as a team, we know this subject over last decade, over the previous experience that we have. Just to talk to you Nitin we are not getting into the world of inhalation, but we conceptually want to build our franchisee around cough and cold, antiallergics, oral corticosteroids, antibiotics and antivirals, that is where we stand when we talk of respiratory which is a combination of Pediatricians and chest physicians.

Moderator: Thank you. The next question is from the line of Aditya Khemka from Incred AMC. Please go ahead.

Aditya Khemka: Thanks for the opportunity, Sir firstly on the promotion and traveling expense savings that we keep talking about, so how much would have we saved in FY21, I saw in your annual report of FY22 would be three cost put together was about Rs. 155 crore, traveling, conveyance, and commission on sales, and promotion expenses, so if that was about Rs. 155 crore or in FY20, how much would that be in FY21?

Vijay Bhatt: In promotion and traveling is primarily driven because of the lockdown, so the amount what you are seeing is just around Rs. 155 crore. In the current financial year, this is at a very subdued level of close to about in the range of about Rs. 135 crore, I do not have the exact number, but the saving is not that too great extent because after the H1, the normalization was gradually starting and we also started our field activity, so I would not put that as a big potential saving that we had got and got reflected. In a way, things are now gradually back to the normal level and the saving that we had in the early part was not that too big in the absolute term.

Aditya Khemka: Vijay Sir I asked the question because your total other expenses was Rs. 417 crore in FY20 and this year we have done almost Rs. 400 crore and this is excluding R&D, so including R&D maybe last year was Rs. 440 crore and this year we are at Rs. 440 crore, so similar numbers YoY, but there would have been some escalation in your power and fuel cost, transportation cost because you know those things have gotten dearer because of the COVID situation, so you must have paid cost somewhere to compensate to report flat numbers and if that saving you are saying is only Rs. 20-odd crore then which means the inflation in power and fuel, freight cost etc. was only 5%, can that be true?

Vijay Bhatt: I think that this calculation is not 100% true. Secondly, the number which you are reflecting is not excluding R&D, R&D is not separately otherwise published, but the fact now the observation of yours is on logic true, yes there are certain normal activities like power because we as a part of essential service we continued our operations, so with the increase in the overall business volume, the power cost does go up, but there are some advantages because of this lockdown and that overall helped us not to have the higher expense based growth and that is where the overall expense you would have observed is close to around Rs. 400 crore, so I do not think that we should more get into the numbers of how much would be saving or how much would come back and all. The Management's focus is more on which are those cost efficiency improvement areas where we can try to optimize and that drive only our main essence and then focus is going forward, which only is going to drive over the EBITDA expansion that we are looking at present.

Aditya Khemka: Sir, another question on similar lines, we had export incentives of Rs. 29 crore in FY20 and this year obviously export incentive was there only for five months, can you quantify how much export incentive did we realize this year FY21?

Vijay Bhatt: No, I think this export incentive there is a lot of confusion, more particularly the confusion has emerged after the 1st of January, but what is the challenge I mean for us the incentive is not reduced to a great extent subject to only the capping which came in somewhere in the Q3 of the financial year, so from the accounting point of view we do have to accrue the benefit which is entitled as per the scheme, which we have done. The only challenge as of now which practically all exporters are facing is the new scheme of RoDTEP where the benefit of percentage is not defined, so that is something is an ambiguity as of now and something which is anybody's guess, we cannot comment upon what would be that percentage the Government will come out with, so subject to that our export incentive is more or less in line, of course little lesser than what it could have been going by the growth in overall international business, but that is what it is because there is an ambiguity about the incentive rate as of now.

Aditya Khemka: Sir, also another question on the business, we said that we were planning to ramp up our export business and we are investing in filing more ANDA, that sort of gives me an impression we are underutilized in terms of our current capacity that we have in exports or we see more opportunity going forward and will lead more capacity to cater to that opportunity, so can you talk a little bit about what your current capacity utilization is on the export side in terms of manufacturing capacity, and therefore, do you need further CAPEX, if yes, how much in the next one or two years?

Kunal Khanna: The capacity utilization varies across different dosage forms, the average utilization for us currently is pegged around 60-65%, of course given the export market situation it tends to be slightly fluctuating over different periods of time. For us what is important is for us to expand our export business, what are the new products we are working on, which should have a good commercial opportunity in markets we are already operating. We had some initial plans already laid out and the next 12-18 months will be to kind of focus on development of these projects and get them at least to the filing stage. Capacity utilization as of now does not seem to be a challenge and if we have to take a call, we believe we will be in a better position once some of these products are firmed up and once we have some more visibility on what the actual offtake volumes will look like and that call can always be taken one year down the line, but right now we are very covered.

Aditya Khemka: Sir, any guidance you want to give us on the CAPEX side as to how much capacity capital expenditure we will have to incur in FY22-23?

Kunal Khanna: Right now our CAPEX will go in the same the maintenance CAPEX which has been historically there, we are close to around Rs. 50 crore and that is what we see. There is no real incremental CAPEX for adding capacities, having said that we will certainly take a stock for the situation, maybe 12 months down the line in terms of how much more incremental capacities we need to add but right now it is largely what we are foreseeing is maintenance CAPEX.

Aditya Khemka: Understood and one last question on the domestic business, on the domestic business you said you are looking to increase MR productivity and at the same time you are also entering the new segments like Pediatrics and Respiratory, could you talk a little bit about where the digital strategy or the phygital strategy sort of features there, I mean because it is the same number of MRs and the product basket is expanding, so how would do you reallocate the brands to the MR, I know you guys have done an internal sort of rejig of the divisions that you have had, and you have further made divisions, so how do you incentivize the MRs, how do you educate them, what is the gestation period required to get success in some of those new ventures?

Kunal Khanna: The fundamental model or operating model of the rep detailing and all will not change much, we have implemented digital platform to augment the capabilities of our people on the ground, so that they can get better more A time with the physicians and in such times where getting face to face time with the doctors become difficult, they are multiple opportunities built-in to do remote detailing. But the fundamental operating model of the rep going in, calling onto the doctor, building the relationship and detailing new product does not change and that is going to be the basic premise for us going forward as well. The digital platform also helps us build better discipline and sales force excellent practices helps us monitor the practices of our teams on the ground, our entire focus has been to when we have looked at this realignment is to ensure that there is enough attention which is given to progressive portfolio as well and we also at the same time have opportunities to leverage our current relationships with the same set of doctors, so as Nikhil was talking about because we already had relationships with Pediatrician, why cannot we have 2-3 more products on the pediatric side because we already had relationships with cardios, diabetos and consulting physicians, why cannot we get a couple of more diabetic products as well because those relationships already exist, so our strategy remains the same, bank on the relationships which you have. We do not believe that at this stage we need to add more MRs but to drive their productivity, we are augmenting them with better digital capabilities that is pretty much it.

Moderator: Thank you. I now hand the conference over to Mr. Jason D'Souza to take the questions received online.

Jason D'Souza: There is a question we received online from Saion Mukherjee of Nomura, gross margins are lower in Q4, are there any raw material specials that we are seeing, how are sales promotion cost in India likely to rise in FY22?

Nikhil Chopra: There are some raw material price increase pressures which overall the industry is facing and conceptually as a business continuity plan conceptually the commitment and the SLAs that we have laid down and the commitment to our partners across the globe, there were pressures in Q4, but I think over a period of time in next three to six months that pressure should ease, that is the status as of now. Looking at he overall cost which for India business operation I think Vijay stated rightly that cost are going to come back as normal because I think as of today in the month of June we have 95% of our people operating today and going in the clinic of doctors and as we fundamentally believe that we are in a very growth-oriented market which is growing at a pace of around 8-9%, so the entire objective is to look at EBITDA margins from a perspective of how can we have market beating growth, so we will not hesitate in investing in terms of what our people should be equipped to do in the clinic of doctors by helping them maybe what Kunal was talking with the help of digital initiatives, medico-marketing initiatives, but we are very much confident in terms of how we can bring the best out of our people and deliver market beating growth in India.

Moderator: Thank you. The next question is from the line of Naresh Vaswani from Sameeksha Capital. Please go ahead.

Naresh Vaswani: Sir, question was on the new seven products which you plan to launch in April or June, can you help us understand what is the market size of this products in India and who are the competitors and what sort of revenue are you targeting from this new products over new two years?

Nikhil Chopra: We cannot get into details in terms of what revenues and what is the market price, but conceptually we leverage the relationship that we are having with Nephrology as a specialty. The products that we have launched are not the products which is first in line, but all the products are more in from a supportive therapy prescription that would be any prescription of a Nephrologist and we see as an opportunity that we can get a better output when we have a niche taskforce which can go to the specialty and get the prescriptions from the doctors by actually participating with them in disseminating the knowledge that is what we can share at this moment of time.

Naresh Vaswani: Second on the cash balance which is there around Rs. 690 crore and net of that also it is around Rs. 650 crore, so what is the plan to utilize that, currently are you finding inorganic approach if it is right price which can align well with our existing set of portfolio where the returns are also sustained post the acquisition, are you seeing that visibility as of now?

Kunal Khanna: We are certainly very actively and aggressively looking at inorganic opportunities for our India business. As we had mentioned earlier also, we will be very aggressive in looking at value accretive opportunities something which aligns very well with our current operating model and these discussions are always on, but you know it is always very difficult to pinpoint the time and really mentioned that when something like this can get closed. All we can say right now is that inorganic opportunities are very, very important growth lever and we are actively looking at such opportunities.

Naresh Vaswani: Lastly, can you help me with the overall capacity utilization, both domestic and exports?

Kunal Khanna: What we mentioned earlier also, we are looking at overall 65% capacity utilization, we would not want to get into details of how much is allocated for domestic and exports though I would also want to mention out here is the large percentage of our domestic business is also B2B based and there are always more flexible options to service your domestic business.

Moderator: Thank you. The next question is from the line of Jayesh Shah from OHM Portfolio Equi Research. Please go ahead.

Jayesh Shah: Big congratulations to the Management team for the impressive work done, Nikhil, my first question again qualitatively is do you think you have managed to get all the low-hanging fruits or you still think that there is some juice left for the next two years which would set a new normal for the company and then the growth path and the related question is would you like to give us some target over 3-5 years maybe qualitatively if not quantitatively in terms of milestone targets that you would look at and perhaps what the investor would be expecting out of the Management team.

Nikhil Chopra: From a low-hanging fruit perspective, it is as per the situation in which we are staying, and unfortunately, we had a very difficult year but in that difficult year also, I would like to compliment the team which came across and there was a whole business continuity plan from overall from manufacturing, supplier chain, commercial units, so as and when the opportunity comes whether we are looking at organically how do we continue to grow and beat the market, look at maintaining our EBITDA margins which are close to the current financial year for the coming time and equally from an inorganic opportunity as and when we because there are some assets which we are evaluating from an inorganic opportunity those are the opportunities which we as a company are looking forward to and you were asking about some color in terms of how are we looking at business in next 3-5 years and what is the expectation from PE fund, the fundamental name of the game Jayesh is that what I believe in how do we have the right people in the bus who are going to drive the aspiration for the company which should be more delivering profitable growth and creating value for our stakeholders and shareholders, that is what we believe in and that is what we have demonstrated I think what I was talking about in last four years with a CAGR growth of around 13-14% and with ROCE improving from 14 to now 42 which we have achieved and I am confident with the right team that we have in place at JV, we will continue to look at all the opportunities which are there and continue to deliver market beating growth, profitable growth, and create value for our stakeholders, that is what I can state at this moment of time.

Jayesh Shah: Just coming back on cash acquisitions and dividends, in the past JB Chemical used to have much higher payout if I look at last three years, so any stated dividend policy, I can obviously understand if you are waiting to look for opportunity but any timeline after which you could actually say that the dividend payout would be much larger than what it is given that your business is not so capital intensive?

Vijay Bhatt: Jayesh, we have our dividend policy, maybe you would not have had a look at it, but I think in history company has made payouts which were in some years much larger but as a company going forward what we believe in that we would follow some consistent dividend payout policy, company is generating good amount of cash and we will continue our legacy of rewarding the shareholders. This year we have announced the dividend of Rs. 16.5 per share and I think as a Management we believe that this is a reasonable amount of rewarding to the shareholders going by the profitability that we have. It is in line with our policy, our policy is about 10-30% of profit, of course, Board does take cognizance of the future plans and then the decisions for the payouts are taken accordingly, so as of now we would maintain the dividend payouts, the quantum of it is as of now reasonable and in future it would be based on the prudence on what the Board would guide us basis the plans that company is looking at as of now.

Jayesh Shah: Yes, my limited point was your business does not require that much of capital, so you could easily have a dividend payout policy of much higher than 30%?

Vijay Bhatt: This is not what we guide or that the Board considers, I mean we are now looking into a forward and futuristic growth for the business and that is where the cash comes to us as a strength and that is where I think paying out the cash is not a prudency, Management would take a cognizance of it, how to effectively utilize the cash sitting on the balance sheet.

Moderator: Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Good Evening and thank you for the opportunity, my question is on working capital. Last to last quarter, we saw it spiking and there is some moderation, but do you expect working capital to be similar levels, or you expect release of cash in FY22?

Vijay Bhatt: I think working capital is quite dynamic in the current scenario, of course your observation is correct in the past it was slightly updated. We are consciously constantly monitoring it, it has come down to our expectation, but I think going forward it would more be driven by how the market shapes up particularly the international business that we are into, so this is I would not say that there would be a very big amount of working capital release that may happen because as of March 31st we are at a very reasonable level of working capital. There might be little bit of further savings, which we may try to aspire for, but I do not think that now any significant release of working capital is feasible.

Prakash Agarwal: Okay, thank you for that. Second one is more of a clarification; did I hear right that Nikhil statement on expect to maintain FY21 EBITDA margins of 27%?

Nikhil Chopra: What I shared Prakash is conceptually the way we are poised, we will be able to maintain EBITDA margin as of FY21 and it would be probably at the same range that is what we can share at this moment of time.

Prakash Agarwal: Okay, and lastly the cash which is lying what is the nature of investments we are into?

Nikhil Chopra: Prakash we are evaluating some assets as last time in my investor call also I shared and there are some assets which we are evaluating from a perspective of inorganic opportunity, at the right moment we will be more than happy to share the details because the engine that we operate particularly in India if I have to talk about conceptually if we are growing at a pace of around 15% which we have demonstrated the growth philosophy, we will be more than happy to invest in some inorganic opportunities and complement our business and overall improve the value for our stakeholders by improving overall the top line and margins, that is what we believe in.

Prakash Agarwal: But just some clarity in terms of looking at assets within our core areas where we already have significant market share like Cardio and Gastro or it would be totally new areas where we are planning to expand?

Vijay Bhatt: It can be combination of both Prakash.

Prakash Agarwal: Last one was on the cash, which is lying in the books, what is the quality of investments that has been done today?

Vijay Bhatt: Today we have policy, which is very clearly laid down by our Board, we generally deploy this cash into mutual funds, very highly rated papers AAA rated generally of the debt category and that is the policy that we have been consistently following. The investments are made are also public in terms of my annual reports, so one can have a look at it also.

Moderator: Thank you. The next question is from the line of Ayaz Motiwala from Nivalis Partners. Please go ahead.

Ayaz Motiwala: Good Evening Gentlemen, Nikhil and team thank you for taking my call, my question was regarding the gross margins and the OPEX improvement which has resulted what Mr. Vijay called out the sharp set of 700-800 basis point improvement in EBITDA margins over the last three years, it is quite a dramatic number, I spent some time on some of the initiatives which have led to the margins and the confidence that these will sustain rather than sort of pinpointing at that it will be a 21 or 22% margin, that would be very helpful Sir that you have had maybe 400 basis point improvement in gross margin, what was the factors which have led to this thing from you know product to raw materials through any other aspects, and in OPEX you had a near 700 basis point saving, most of it is dramatically come in the last year I would say, so that if you could express Sir, please?

Vijay Bhatt: I think we would answer this in two parts, the EBITDA expansion in the current year is also the factor of the benefit due to the subdued expense because of the lockdown. Operationally, it could not have expanded honestly with this level of expense base that we are holding. The other part you are talking about the gross margin that is actually speaking, it is a focus of the company. We have been focusing more on the progressive portfolio and trying to improve on our product mix which brings more profitability at the bottom and that is reflected in the numbers for last three-four years with the Cardiology segment performing better to our expectation and some of the international market particularly some of the regulated market as well as in the chemo business that we are into, so those are all combination of which has helped us to improve the overall gross margin. The EBITDA expansion of the current year I would say it is slightly not in the normal range, in the ordinary business the EBITDA does not expand in such a big way but yes this was an abnormal year, but we are confident that some initiative would definitely help us at least maintain or sustain the range in which we are in as of now.

Ayaz Motiwala: Sir, like the way you described about Cardio international markets and CMO contributing towards a certain business mix which has better gross margins if I have understood it correctly, on a similar note what part of the OPEX is where you think you have talked about the efficiencies of the MR team and any other three or four interactions, could you highlight some of those which are as you said as an organization building on and takeaways which means basically benefits to the organization?

Vijay Bhatt: I think this would be too much of a detailing of it, in the early remarks Nikhil also mentioned that as a team we are more looking in to how to optimize our overall operational expense base, getting into some of these details in today's dynamic world it is very difficult to pinpoint and talk about some number how it will shape up, so I think we would not be able to comment much on it as of now.

Moderator: Thank you. The next question is from the line of Neelam Punjabi from Perpetuity Ventures. Please go ahead.

Neelam Punjabi: Thanks for taking my question, Sir I just wanted to know if you could just give us a medium-term outlook that over the next 2-3 years, what is the overall revenue growth that we can achieve say can it be mid-teens, high-teens if you can just directionally guide us there?

Nikhil Chopra: So Neelam I think what I shared in my overall commentary that what we have demonstrated over last four years with a CAGR growth of around 13% and that is what team has shown the capability of delivering, and going ahead I think what we have shared also is from a perspective of how do we make our big brands bigger, how do we deliver market beating performance, how do we get the best out of the newer initiatives that we are putting in place, and how close we can be of maintaining the same margin, same range EBITDA margins going ahead, I think the team at JB Chemicals, our leadership team at JB Chemical is more than confident in delivering value for the stakeholders, deliver profitable growth, and look at how particularly India which is 50% of our business deliver a robust market beating growth and look at what is the best opportunity which is available in international markets which are Russia and South Africa, our home markets, and in the world of CMO which Kunal was talking, look at augment the growth going deeper into the markets where we are present by introducing new products as we are strengthening our R&D capabilities, that is the commentary I can give as of now in terms of what is the horizon for next two to three years.

Neelam Punjabi: Okay that is helpful and last just lastly, I wanted to know that we have had a good 27.5% EBITDA margin this year and given that our asset utilization stands at 60%-65% blended for the entire business altogether, with growth going ahead and scope for improvement in the Russian business, can we see in the medium term these margins go further up and maybe cross a 30% level?

Nikhil Chopra: Neelam I will not be able to give any specific commentary on any number, but what I shared earlier in terms of from a capacity that we have for our manufacturing plants which is close to around 60% what Kunal spoke and what initiatives we are taking in terms of cost improvement measures and more EBITDA margins flowing from the top line growth which is market beating, we will be in the same range of maintaining the EBITDA margin as of what we stand for the year FY21.

Kunal Khanna: Neelam just to add to what Nikhil mentioned as we continue our focus to drive more efficiencies in our current business line, equally the focus is to invest for future as well, so certainly we are looking at expanding our portfolios for some of the international markets for the Indian market and you know those are things which we need to be cautious on, but the intent and the overall objective is to be close to the same range as we have recently delivered.

Moderator: Thank you. Ladies and Gentlemen, that was the last question for today. I now hand the conference over to Mr. Jason D'Souza for closing comments.

Jason D'Souza: Thank you everyone for participating and we will ensure that whoever's questions were not answered, we will make an attempt to answer those questions also.

Nikhil Chopra: From my side, thank you all for patience hearing, I along with my team thank you all for participating in our first conference call and we will be more than happy to meet you next quarter and I wish all of you safe health and with the markets opening up, I think we are looking for a better future and at the end of day, the way we think at JB Chemicals and Pharmaceutical as a company that how we can work towards bringing more and more smiles on the faces of the patients who tomorrow are prescribed JB Chemicals' medicines with the help of the work that our people are doing maybe in the manufacturing plant, maybe in the markets with the help of doctors, so that is what we believe in creating the entire ecosystem where we can contribute in our own way to the well-being of the patients in India and across the globe. Thank you once again all and we will meet once again next quarter in our conference call.

Moderator: Thank you. On behalf of J.B. Chemicals & Pharmaceuticals Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.