J. B. Chemicals & Pharmaceuticals Ltd.

Q3 FY23 Earnings Conference Call Transcript
February 09, 2023

Moderator: Ladies and gentlemen, good day and welcome to JB Pharma's Q3 FY23 Earnings Conference Call as on the 9th of February 2023.

As a reminder, all participants' 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 "*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Jason D'Souza – Vice President at JB Pharma. Thank you, and over to you, sir.

Jason D'Souza: Welcome to the Q3 Earnings Call of JB Pharma. We have with us today Nikhil Chopra – CEO and Whole-Time Director; Mr. Kunal Khanna – President (Operations); and Mr. Lakshay Kataria – Chief Financial Officer.

Before we begin, I would like to state that some of the statements in today's discussion may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the Q3 FY23 results presentation that has been sent to you earlier.

I would like to hand over the floor to Mr. Nikhil Chopra to begin the proceedings of the call for his 'Opening Remarks'. And after that, Mr. Lakshay Kataria will address the 'Financial Highlights'. Over to you, sir.

Nikhil Chopra: Thank you Jason and good afternoon to everyone for joining us on our Conference Call. We plan to discuss the performance during Quarter 3 of FY23.

I shall commence with the remarks on the performance and provide updates on the business. I will be followed by our CFO – Lakshay Kataria, who will address the financial perspectives to you. After our remarks, we will take the queries from the participants.

Friends, I am glad to share a solid performance backed up by expansion in both our domestic and international businesses. In Quarter 3 of FY23, we saw a 32% increase in our revenues at Rs. 793 crores. The domestic market saw market-beating growth trends prevailing during the quarter, with an improvement of 42% year-on-year, witnessing revenue at Rs. 407 crores. Organic growth came in at mid-teens with JB leading the industry on the growth path. As per IQVIA data, we have emerged as the fastest-growing company in top 25 in the year 2022. Thus, for the second consecutive calendar year, we have been the fastest-growing company in the industry in top 25.

In the acquired portfolio, we have witnessed similar growth trends. We have shown 34% growth in Quarter 3 of FY23 as per IQVIA data on a like-to-like basis. The probiotic range continued to perform well, and Sporlac witnessed good growth rates and is now ranked at 361 number. Azmarda, which is creating a niche for itself in the cardiac segment, saw a 50% growth in the quarter. As per MAT December 2022 data, Azmarda appeared in IPM in top 300 list as well, ranking at 270 number. The traction in this brand is healthy, and we continue to bet the brand with the revamped go-to-market model. We have announced a price reduction of 50% in Azmarda in December and are already beginning to see a good volume uptick post the price reduction.

We have put in place a cost-effective sourcing model for Azmarda, which will focus on delivering high-quality products to the patients. Also wanted to share the competitive intensity has significantly increased in the market for the sacubitril/valsartan combinations.

The quarter marked the acquisition of Razel, i.e., rosuvastatin range, formalizing our entry into the statin market, which is the largest segment within the cardiology segment. Razel trends among the top 10 brands in rosuvastatin molecule category whereas rosuvastatin and its combination have delivered 3-year sales CAGR of 14% as per IQVIA data. We are thus present in 3 major segments in cardiology segments, namely antihypertensives where we lead with our brands Cilacar and Nicardia; heart failure, where we have Azmarda, has created a strong niche for itself; and now statins where we have recently acquired Razel. The combination of being present in all these segments helps capture us into top 10 companies by sales in cardiology as per IQVIA MAT December 2022. I am also proud and happy to share with all of you that we are the fastest-growing company in the cardiology segment among the top 10 players as per IQVIA MAT December 2022. This is indeed an achievement considering the space is dominated by large pharma companies.

Moving on to our international business:

Our international business recorded good performance overall. The business saw momentum continuing in each of the segments, whether it is CDMO business which delivered a robust set of numbers with revenues growing at 92% during the Quarter 3 of FY23 and we once again could achieve Rs. 100 crores revenue for our CDMO business. New launches in specific markets are showing good progress. Export formulations delivered the highest ever sales during the quarter. Rest of the World and U.S. markets showed marked improvement in sales. Russia and CIS countries also witnessed enhanced traction on the revenues. In South Africa, our public business is witnessing some competitive pressures. Given the prevailing geopolitical scenarios and economic uncertainty, we expect to witness some impact on the demand in South Africa market.

I shall draw your attention now towards the outlook of the business for the coming quarters:

In domestic business, we are aiming to grow ahead of market. That is what we have been guiding since the last 6 to 8 quarters. This will be based on growth in our selected brands where we are leaders in the respective categories and continued traction in our portfolio of acquired brands. In line with our revised go-to-market strategy, we are building in higher productivities of our MR teams on the ground. The outcomes are being tracked through high momentum in prescriptions. Also, what we have been talking about in our earlier commentary, our new product contribution is also now close to 5% for the quarter, which is inching up as compared to when we started our journey; in October 2020, the contribution was only 1.5%. This all shows overall the strength now what JB enjoys in the market with healthcare professionals, particularly for the new progressive portfolio.

In our international business, we have a sharp focus on driving the right market mix with our portfolio of offerings. Demand from export formulations, especially in the ROW business, remains good.

I've just come to the end of my note and would like to invite our CFO – Mr. Lakshay Kataria, to share his views on the financial perspective. Over to you, Lakshay. And thank you all for patient hearing.

Lakshay Kataria: A very good afternoon to all of you and welcome to our Earnings Call.

I will now take you through the financial highlights of Quarter 3 of FY23. The revenue for the quarter was Rs. 793 core, an overall growth of 32% over the same quarter FY22. The mix of domestic and international business stood at 51% to 49%. Our domestic business reported a revenue of Rs. 407 crores, a year-on-year growth of 42%. And organically, the business saw a growth in the mid-teens.

Our international business saw a 23% growth year-on-year and another quarter of Rs. 385 crores of revenue. Performance in this business was particularly supported by international formulations and CMO business along with strong performance in our Russia operations.

Gross margins at 62.3% for the quarter, pretty much closer to where we were last quarter and compared to 65% in the last financial year. The margin saw an impact of cost inflation and higher Azmarda sales during the quarter. During the quarter, we delivered an operating EBITDA before ESOP costs of Rs. 193 crores. We saw a growth of 26% year-on-year. Margins came in at 24.3% versus 25.5% in the same quarter last year.

During the quarter, other expenses as a percentage of sales improved versus last year to 22.8% vis-a-vis 24.5% last year. As you would have seen, the depreciation during the quarter was higher as it includes the amortization charge of Rs. 11 crores towards acquired brands. The amortization number will move up marginally due to acquisition of Razel franchise towards the end of Quarter 3. Profit after tax was at Rs. 106 crores, which increased by 26% year-on-year.

Quickly covering the cash part; as of 31st December, we had a debt of Rs. 571 crores and cash and investments to the tune of Rs. 142 crores. This debt is after funding acquisitions of the Razel franchise. Our operating cash flows continue to be strong. And in the recently concluded Board meeting, we declared an interim dividend of 8.5 per share.

Overall, we continue to remain optimistic about the business, and we see operating leverage increasing for the business as we move forward. With this, I now request the moderator to please open the forum for discussion and questions.

Moderator: We will now begin the question & answer session. The first question is from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: Sir, first question on debt. This Razel acquisition amount has been completely funded by debt or it is partly funded by debt? If you can give me that number. And what is the cost of debt also?

Lakshay Kataria: As far as Razel was concerned, we took a further loan of Rs. 250 crores towards this acquisition. And the balance, roughly about Rs. 130 crores was funded through internal accruals. This is the total cost with all the applicable taxes and working capital. In terms of cost, it's closer to 8.5%.

Rashmi Shetty: Now what will be the blended cost of debt for your overall debt that is Rs. 573 crores?

Lakshay Kataria: It will be closer to 8.1%, 8.2%.

Rashmi Shetty: Sir, on the CMO segment, this quarter also we have seen a good run rate and this year probably we will be ending with a very high base in the CMO segment. From FY24 and FY25, how should we look at this business? Is it that Rs. 70 crores to Rs. 80 crores per quarter CMO business would continue to give this kind of base? Or you feel that on the higher base, we should expect a decline or a lower growth on this peak of the business?

Nikhil Chopra: Fortunately, we were able to take care of the demand, particularly in the world of cough & cold lozenges, which has happened this year. And overall, for quarter 4 also, the order book is healthy. But going ahead, the dialogues that we have been having with our partners is you should expect moderate growth probably for the next year. And next to next year, there is a lot of developmental program which is happening in the world of CDMO, particularly for lozenges where the intention is to add new partners and also widen our portfolio. Today, our major portfolio is in the world of cough & cold. We have developed some new proof of concept, which I have been talking and that should see some daylight probably 8 to 10 months to 12 months from here, particularly in the world of sleep disorders, motion sickness, oral thrush, all those lozenges we have developed the proof of concept and we have shared those with our partners. These all programs that we are working with our partners takes its own time. It has got its own gestation period. So, the short answer is we should expect moderate growth next year. And going ahead, we are very much aspirational in this part of the business. This business today is contributing 12% to our revenue. Going ahead probably 3 years from here, this business should contribute 20% of our revenue.

Rashmi Shetty: As we have become large in terms of cardiology therapy, can you give the top 3 therapy **(Inaudible)** which you want to make it big for your domestic business? And their current contribution towards the 9 months of FY23?

Nikhil Chopra: We don't share and we don't measure in terms of contribution from therapy, but just to share with you, we are a dominant player in the world of cardiology; Cilacar being a big brand, close to Rs. 500 crores; Nicardia being a big brand, close to Rs. 150 crores as reported in IMS. And now with our venturing into the world of heart failure and getting into the world of statins, overall if I have to talk about the chronic contribution today to India business is close to 50%. The intention is how do we improve this chronic contribution to India business close to 60%. That is short to midterm.

Rashmi Shetty: How has Metrogyl and Rantac have done during the quarter in terms of growth?

Nikhil Chopra: Metrogyl overall, it is more a seasonal product, if you look at it. With summers coming in, I think March onwards, we will see the demand ramping up. Overall, from a volume perspective, both the products are flat in terms of what we have achieved in the last 6 months. And I think March onwards, March to July-August is the season where we see good traction for Rantac and Metrogyl.

Moderator: The next question is from the line of Sriraam Rathi from BNP Paribas. Please go ahead.

Sriraam Rathi: Sir, my question was on India business. That we took a price cut in Azmarda, so is it fair to assume that the contribution of Azmarda would have been significantly higher this quarter versus in the normal scenario?

Kunal Khanna: The price cut has been taken effective January. We are talking about Q3 numbers which are reflective of pretty much the same scenario which existed when we actually took the Azmarda brand from the innovator partner. So, you really don't see any price cut impact for Azmarda in Q3. What you clearly see is a significant growth, which Nikhil added in his commentary, where we have actually been able to double the volumes and the value at the same price since the time we took this brand from Novartis.

Sriraam Rathi: Secondly, a related question on the gross margin. The gross margin in 9 months has been lower because of inflationary pressure on the costs as well as the higher sales of Azmarda. Now going forward, how should we look at it? Because historically, we used to be around 65% gross margin business and now we are at 63%. So, how should we look at this number going forward?

Kunal Khanna: When you look at our gross margin trends, we are not very different from the industry given the inflationary environment, and there is a product mix impact largely stemming from Azmarda. But of late, very recently, we do see the intermediate cost from China easing out a bit. And hopefully, the situation in Europe should also improve going forward. And with the local sourcing of Azmarda already being activated, we see our gross margin profile inching upwards towards 64% and northwards moving ahead.

Moderator: The next question is from the line of Shrikant Akolkar from Asian Market Securities. Please go ahead.

Shrikant Akolkar: Two questions. First question is on the U.S. business. If you can talk about what has changed for us in the U.S. business in the ongoing quarter? And the second question is, if you can talk about the kind of synergy that exists between our chronic products, which is Cilacar, Azmarda, Nicardia, and the recently acquired rosuvastatin franchise?

Nikhil Chopra: The U.S. business, conceptually, if you see the overall track over the last 3-4 years, quarter 2 and Quarter 3 are good quarters. That is what things are there in terms of we as a company today have 15 ANDAs and the biggest product being glipizide that is giving us the benefit in terms of the revenues that we are generating for U.S.

business. This was in line with what we had planned for the year. That is where we stand for the U.S. business. And equally, if you are asking about what is happening in the world of chronic synergy of this brand what I shared earlier now. When we started our journey, we were 13th ranked company in cardiology, i.e., Cilacar and Nicardia. When we acquired Azmarda heart failure pill, we were the 11th ranked company. And with Razel coming in, today we are 8th ranked company and we are the fastest-growing company in the world of cardiology in top 10. Lot of synergy buildup in terms of cardiologists, physicians, nephrologists; these very close specialties where JB has strong foothold and with widening of our portfolio, I think this gives us benefit in terms of how we can closely work with all these 3 specialties and help more and more patients in terms of getting right diagnosis; that is the intention, early stage diagnosis. Just to also share with you, with the heart failure pill, Azmarda, that we have launched, JB is the only company which is running 200-plus heart failure clinics. And the intention is how do we get more and more patients of heart failure in stage 1 and stage 2 get diagnosed with the help of 2D and 3D echo which is a marker of measuring the patient's severity of heart failure. All these initiatives have been put in place. Also a lot of consumer campaigns with the help of healthcare professionals we would be running for in the world of hypertension because of the burden of the disease being so high, close to 100 million people suffer from hypertension in the country and one in four hypertensive patients is undiagnosed. A lot of those emphasis we are giving in building the ecosystem, influencing the ecosystem in collaboration with the healthcare professionals. This is what we are trying to do and strengthen our place in the world of chronic, particularly in the world of cardiology.

Shrikant Akolkar: Just one follow-up on the U.S. business. How should I look at the next year from the U.S. revenue or pricing erosion sort of perspective?

Kunal Khanna: Just to add to what Nikhil mentioned, we have always maintained for us it's basically as far as the U.S. is concerned, we will be looking at very limited set of product opportunities. And the good part is the R&D journey which we started. In the last 4 to 5 months, we have had 3 new filings. These filings have an approval timeline of close to 12 to 18 months. As we continue to organically scale up our business with OROS technology and platform, the recent filings which we have done should ideally be commercially available for the markets 12 to 18 months from here on.

Nikhil Chopra: And the last approval that we got was in the form of venlafaxine. That was the ANDA which we got approved. What has been spoken in the world of U.S. business is we are a very small fish in a big point. So, we conceptually are working in accord to our strengths in terms of the products that we manufacture based on the technology backup that we have got, be it extended release, modified release. That is the technology that JB owns. That is the dialogue that we continuously have with our partners in the U.S., and that is how they help us to distribute the product. And that is how we do the business in U.S., it's a costless model.

Moderator: The next question is from the line of Alok Dalal from Jefferies India Private Limited. Please go ahead.

Alok Dalal: Nikhil, a quick question on cardiac and diabetes market from IPM perspective. We have been seeing a remarkable slowdown in growth rate for cardiac and diabetes. Apart from some of the big brands going off-patent and reducing the overall value size, are there some other trend changes that you are seeing in the market on the ground?

Kunal Khanna: Not really, actually. The slowdown is attributed to a few things which are not completely volume based. There have been big molecules and big brands which have been subject to price pressure which has led to a slowdown in the recent past. With respect to offtake of the molecules, patient adoption, or the compliance rates, systemically there is nothing really changing in the market. Yes, there are certain molecule categories where the combinations and the FDCs are doing much better than the single molecules because the doctors see patients who are already there with comorbid conditions. Also with respect to Indian market, cost of therapy is a very very important parameter. So, you may see trends that some of the single large molecules are being substituted by FDCs. But from an adoption-compliance-prescription perspective, there is systemically nothing really changing. The large product insulins which were there in the market, historically with large market share, have been subject to price pressure, which are reflected in the overall slightly muted growth in the overall therapy area.

Alok Dalal: Per se, no change in prescription trends as such in the market?

Kunal Khanna: No, there is no change in prescription trend. The prescriptions continue to increase. In fact, for most of the product categories in our basket, what we have seen is that the prescription numbers have actually surpassed the pre-COVID levels as well, which clearly indicates that the prescription-practicing pattern is all pretty much inching towards normal steady-state levels. And quite honestly, some of the feedback which we have got from patient perspective, the research work, the patient compliance has improved significantly in the market. So, there is nothing really systemically changing out there.

Alok Dalal: And second question is on the company. The company has, in the last 2-3 years, undergone a significant change. You have bridged the portfolio gaps through acquisitions. Do you think now the low-hanging fruits are kind of done? And say when you want to reach the 50-50 chronic-acute mix, what else does the company need to do to achieve that target?

Nikhil Chopra: What I shared in my earlier context setting is if you look at what we have built organically and what we have acquired probably gives us confidence in terms of how we can improve the chronic contribution towards India business. And besides the brands outside the chronic space, there are a lot of opportunities in the area of pediatrics, respiratory, GI, antibiotics where we are confident enough in terms of wherever we are present, we want to look at how do we go more in the depth and improve our penetration in terms of prescription. By the way, we may be 22nd or 23rd ranked company in terms of value, but from a prescription perspective, we are 15th ranked company. Also, in the area of probiotic that we have acquired, it's a huge opportunity. Probiotic being a Rs. 2,000-crores market, we are the 5th largest player with 7.5% market share. We are looking at an opportunity on why not to double our market share because we have got a good brand in terms of Sporlac. We have the fundamental work of life cycle management getting into women health Sporlac and pediatric Sporlac versions, all those things. We see opportunity in terms of the portfolio that we have got today in our hand.

Alok Dalal: Nikhil, no plans to enter any new therapies; just bridge portfolio gaps within existing therapy area?

Nikhil Chopra: Yes, absolutely right.

Moderator: The next question is from the line of Abdulkader Puranwala from Elara Capital. Please go ahead.

A. K. Puranwala: Sir, my first question is on the price cut what we took on Azmarda. Is this what we had already planned or this was largely because of the competitive pressure that we had to? And secondly, when we talk about some gross margin improvement to happen from the next quarter onwards because of the sourcing, how should we look at the gross margins? We guided close to 64% but with the kind of sales volume we are witnessing currently, would that be any risk to the margin guidance what we have provided?

Kunal Khanna: We will take the first question in terms of the price cut. When we actually looked at this acquisition, we were very certain that there is going to be price erosion in the market. And we were quite prepared in terms of at what price we will be positioning our product, at what price point. We continue to maintain that price point. The scenario for us has not changed from what we initially envisaged in terms of how the market will shape up. For all the similar molecules and brands where such LOE has happened, you do see that eventually it's the innovator and the innovator partners who pretty much hold significant majority market share. And for us also, we believe that that's how the market is going to shape up. In fact, the first month post LOE gives us good confidence that we are on the right path of increasing volumes even if it comes at the cost of price erosion by making the product much more affordable. And in the first month itself, we have seen a volume uptick of closer to 1.25x to 1.3x than what we used to do pre-LOE scenario.

Coming to the point of how the local sourcing of Azmarda will change the overall gross margin profile, we don't want to comment on product-specific margin and its impact on our overall gross margin profile. But the overall key elements which will play out, which we believe that the recent trends with China opening up, some prices easing up, and if the overall situation in Europe further eases out going forward, then there is no reason for us to not believe that we will be closer to 64%.

Lakshay Kataria: And the fact that in terms of gross margins, this will build more towards Q1 and after that. I think Q4 pretty much will be similar in this range.

Kunal Khanna: Because we are still in the transitionary quarter.

A. K. Puranwala: Sir, my second question is on the CDMO business where we earlier spoke about the revenue contribution increasing from 12% to 30%. Sir, are we indicating that the M&A focus would shift from India to this line of business? Or this would be entirely achievable through the capacities what we have created so far?

Nikhil Chopra: There are no plans of getting into M&A in the world of CDMO. What I shared was the contribution going from 12% to 20%, not 30%. And overall, there is a two-fold strategy. One is the entire journey that we have started to work in the world of CDMO is to add new partners. There as and when the progress happens, we will be more than happy to share. And second, what I shared earlier was some new products within the world of lozenges what we have developed should help us probably in this journey, which is beyond the world of cough & cold where there are continuous dialogues with our partners in terms of what do they want in the form of lozenges in their markets. This entire buildup will be organic and just to also share with the teams is the capacity that we have in terms of lozenges that we can manufacture is around close to 2.5 billion. This year, we will be selling close to 1.1 billion lozenges. Capacity is not an issue, capability we have, good partners we have got. This is the journey that we would like to travel mid to long term in terms of CDMO business.

Moderator: The next question is from the line of Aarti Rao from Anand Rathi. Please go ahead.

Aarti Rao: Sir, I had a question regarding Sanzyme. How would have that been growing for 9 months? And how do we expect it to grow for the next 2 years? Because I believe probiotic segment would be growing at 12% to 14%. Are we doing better than that? Or how do we see that?

Nikhil Chopra: This entire Sanzyme business is a part of 3 segments, first is probiotic, second is women health, and third is infertility portfolio. Particularly in the world of probiotic, the market has been growing at 12% to 14%, and our growth that we have demonstrated for the last 2 quarters is (+20%). This has happened because of 3-4 reasons. Overall, when we acquired this asset, this asset overall was under-penetrated and under-represented and with now coming from the JB house, we have improved the penetration and we have improved our presence. Secondly, the synergies that we got in, in terms of the prescription because generally a probiotic is being prescribed with an antibiotic for antibiotic-induced diarrhea, in the world of IBS, from gastroenterologist, that is where JB has a strong foothold. And third is the life cycle management that we have done. We have launched a couple of more versions of Sporlac, i.e., Sporlac GG for pediatric and Sporlac Eva for women health. This all is helping us in terms of outscoring the market and delivering better performance in the world of probiotic. Equally, there are steps that we have taken in terms of how do we improve our performance in the word of women health and infertility portfolio.

Aarti Rao: I believe, sir, there are some 320 MRs coming from Sanzyme. What's the total MRs that we have? And how much of that is kept for Sanzyme?

Nikhil Chopra: You are absolutely right. There are 300-plus people who came from Sanzyme. And today the MR strength for JB on the ground is close to 2,500.

Aarti Rao: How do we see this MR productivity, particularly for Sanzyme growing ahead in future? I believe it will be 3 million per MR per year, if I am not wrong, if I just go by the numbers.

Nikhil Chopra: I think it is better than 3 million. It is, I think, close to 3.5 million if I am not wrong. And now growing at a pace of around 20% because if you look at the productivity of JB as a company now, what we are enjoying is close to 6.5 million, i.e., 65 lakhs. So, there is a huge scope in terms of how do we come at par. And with the way we are growing at (+20%) and with the expansion in portfolio that we are doing, there is no need that we want to add people, but to penetrate better, widen our portfolio, and meet the same set of doctors, be it in the world of infertility, be it in the world of mass and class probiotic, be it in the world of gynecologists so that overall will help us in terms of how do we enhance the productivity in the world of Sanzyme.

Aarti Rao: And sir, if I may ask, the last question, given that ranitidine is now out of NLEM, we used to have like 30% plus kind of exposure on a company level. How much can that possibly come down to probably 20% is something I have been estimating….

Kunal Khanna: The current exposure to NLEM portfolio is closer to 12% to 13%.

Moderator: The next question is from the line of Cyndrella Carvalho from JM Financial Limited. Please go ahead.

Cyndrella Carvalho: Any color that we can provide on the Russia and the ROW business that we have? And what kind of growth estimates should we work with for the coming year?

Kunal Khanna: Overall, the good thing is that our international business even outside of CDMO has trended very well in terms of if you see the Q3 performance. As Nikhil mentioned, further if we really dissect this business, the 2 to 3 key parts are rest of the world, South Africa as well as Russia. Russia, we saw a very good demand coming from the cough & cold segment, which is pretty much reflective in our international business growing. Our overall ROW markets have also rebounded well. And as we see the order book position, we are quite confident of maintaining that trajectory. South Africa, there is possibly some level of moderation which we are seeing more on the public side. And as the next 2 quarters progress, we will have a further firmer visibility on how the mix of public and private portfolios will stack up. But despite all this, we are still looking closer to double-digit growth for our international business.

Nikhil Chopra: Also just to share one more point, in terms of our BGx market in the world of ROW, which happens in 4 clusters, i.e., Sub-Sahara Africa, Latin America, Southeast Asia, and Middle East, you should see us launching some progressive portfolios in the second part of next year, i.e., H2, because this part of the world had been denied new launches. So, the teams have been working in R&D in terms of identifying the right portfolio. And this overall business model is distributor-led where we have been talking to the regulatory bodies of that part of the world. And with the product development that we have done, you should see us doing BE filings. And as and when things progress, we will be more than happy to share.

Cyndrella Carvalho: And one clarification. You mentioned the CDMO contribution from 12% to 20%. Is that 20% for FY24? Or what's the time line?

Kunal Khanna: This is essentially our long-term aspiration. When we look at the contribution coming in from CDMO and it is inching up to closer to 20%, it's a long-term 3- to 5-year time period which we are looking at.

Cyndrella Carvalho: And in terms of all the cost efficiencies that we were talking about, considering a majority of the acquisitions and synergies that you have already spoken on the call, how should we see this going ahead in FY24?

Kunal Khanna: There are certain areas where we have got operating leverage and cost synergies on day 1, particularly when we acquired the pediatric portfolio. For example, even when we are looking at the Razel acquisition, because there is no real need for us to add incremental feet on the street, cost synergies for those have already been realized. Our main focus is to drive these brands which we have acquired. Some of them were under-invested. If you take an example of Sanzyme's Sporlac, you see what we have done with the pediatric portfolio or Azmarda portfolio. Our main focus and thrust is how do we keep on increasing our market share, get more top line synergies and revenues which will further help us drive better operating leverage. That's the way we are looking at our acquisitions.

Cyndrella Carvalho: But in terms of further synergies or overall cost efficiencies that we have been working on, we should be able to see some more benefits coming in, in FY24 as well as we have seen so far?

Kunal Khanna: Certainly, yes. And there is always an area for improvement as far as cost synergies go, be it on the front-end side or the back-end side. And the fact that we are not committing to any significant feet-on-the-street addition, yes, there will be certain marginal pockets and territories, but the fact that we are not committing to significant go-to-market addition of numbers, we will certainly see more synergies and benefits coming up.

Cyndrella Carvalho: And if I may ask one last question. On the women health side, Nikhil was mentioning that we have a good strategy working. But do we see ourselves well in place from a WH category side? Or do we still see some gaps there on the women health, which we may need to address over the coming 12 to 18 months' time frame? What are we thinking?

Kunal Khanna: Our main strength in the women health portfolio is basically reproductive health and IVF portfolio. There we have some very strong relationships with CAM accounts which we continue to build upon. We don't see ourselves as a company which will be present in every molecule and every subcategory of women health. We want to continue to expand our presence in areas where we play with, which are essentially reproductive health, IVF portfolio, and some hormones category. As long as we are playing and building on our strengths in those categories and increasing our market share, we will be pretty much well placed with respect to our aspirations. But we don't aspire to be there in every molecule within women health portfolio.

Moderator: The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Just to understand the price, volume, new launches growth for the domestic formulation base business for the quarter without acquisitions?

Nikhil Chopra: If you look at the market first of all, the market is flat to negative for volume growth. And our volume growth is 4% to 5%. Price growth is close to 7% to 8%. And the new introduction contribution is close to 5%.

Tushar Manudhane: And in constant currency terms, how much would have been the growth for international formulations – overall, exports?

Lakshay Kataria: In terms of top line, if you look at it, there will be an impact roughly of about Rs. 20 crores on the revenue. What we reported is about 23% growth. That will come down to about 17% to 18% on constant currency terms.

Tushar Manudhane: Broadly, what could be the gross margin breakdown for domestic formulations and exports?

Lakshay Kataria: Sorry, we don't share that number.

Tushar Manudhane: In terms of presence across, let's say, top 1 or top 2 Tier-cities or top 3 cities, that way what would be the presence of JB brands?

Kunal Khanna: You are talking about our field force presence across metro, Tier-1, Tier-2, and beyond?

Tushar Manudhane: Yes, both on the MR side as well as on the brands.

Kunal Khanna: Where the MRs are present, that's where the brands are present. Essentially, our presence varies depending on the portfolio which we are operating in. For our acute portfolio and especially where we have our mature brands such as Rantac and Metrogyl, our presence is very strong even in Tier-3 and Tier-4 markets and semi-urban towns. For our chronic portfolio, 70% of our business is essentially coming in from metro, Tier-1, and Tier-2. And the remaining 25% to 30% comes from Tier-2 and beyond towns.

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

Neelam Punjabi: My first question is on the CMO business. The business has been quite strong for this year, and we have been sustaining the Rs. 100 crores quarterly run rate plus or minus 5%. Are we confident of sustaining this kind of numbers for FY24, about Rs. 400 crores annually? And how is the order book looking for this business for us?

Nikhil Chopra: Neelam, I think one of your colleagues had asked this question but let me repeat in terms of the way we see. The order book for quarter 4 looks good. That is point number 1. This year our business almost has doubled in the world of CDMO, which does not happen in a hurry. And this has happened because of the entire upsurge that we saw in the world of anti-inflammatory and cough lozenges, particularly in South East Asia, Australia, New Zealand, and Canada. Depending upon the seasonal variability, we will be able to add more color probably in our next conference call. We may be close to what we are doing today. We have the capability in terms of giving the output. Today, we are manufacturing close to around 8 crores to 9 crores lozenges a month. Long-term agenda what we spoke earlier, probably 2-3 years from here, you should see us getting into a new portfolio of lozenges, which is a little long-term plan; in terms of what I shared earlier – sleep disorder, motion sickness, irritable bowel syndrome, and some of the new concepts that we have developed. And equally, the business development team is working in terms of adding new partners across geography outside India. Those are the plans that we are putting in place in terms of the way we look at this business.

Neelam Punjabi: Secondly, my question is on the operating EBITDA margin. Could you please give us guidance for FY24? Are we planning to be in the range of 24% to 26% or higher?

Lakshay Kataria: In terms of EBITDA margins, our endeavor is to up the level of operating margin next year compared to this year. We are still working through the plans. This is obviously the budget season. Probably once we meet in May, I think we will be able to give you a better sense, but it will surely be upward from where we are standing this year.

Neelam Punjabi: And lastly, on the API business, I am not sure if this was touched upon earlier, but the business is down about 4% Y-o-Y, although it's small for us. Could you highlight what were the reasons behind the same?

Kunal Khanna: It's just got to do with some offtake patterns. Last year there was a significant uptick for us in Q3. So, the business, we believe, will end with moderate growth, but there is no real aberration from what we see fundamentally in our business. And Q4, we expect the muted offtake which happened in Q3 to cover up for that.

Moderator: Next question will be the last question that is from the line of Yash Sinha from MIPL. Please go ahead.

Yash Sinha: I wanted to understand why on the balance sheet the purchase of stock-in-trade metric has almost doubled year-on-year?

Lakshay Kataria: That is because this heart failure product that we acquired this year is largely being acquired on a P2P basis. That's why you are seeing a significant upsurge.

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

Jason D'Souza: I'd just like to hand over the mic to Nikhil Chopra to say the final remarks.

Nikhil Chopra: First of all, thank you all. Thank you all participants for participating in today's Conference Call.

Closing remarks in terms of what I have shared earlier, JB continues to deliver performance in terms of market beating. And the guidance going ahead is, in terms of India business where we will continue to gain market share, in terms of the portfolio that organically made, inorganic acquisition that we have done, and equally the new products that we have launched which will help us to deliver market-beating performance, maybe close to mid-teen growth. That is where we see ourselves positioned. International market, if I have to comment, overall, the way we see volatility and opportunities, probably our growth should be close to low double digit. That is where we see ourselves in the coming time. And as Lakshay shared, in terms of EBITDA margin guidance, I think we should be better placed for the coming year in terms of inching up as compared to where we stand in terms of operating EBITDA margin. That is the closing remark from my end. And once again, thank you all. We will be more than happy to share the proceedings and the development happening in the company as we have been doing it regularly.

Moderator: Ladies and gentlemen, on behalf of JB Pharma, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.