



**J B Pharma**  
**Q4 FY '23 Earnings Conference Call**  
**May 25, 2023**

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**Moderator:**

Ladies and gentlemen, good day, and welcome to the Q4 FY '23 Earnings Call of JB Pharma as on date 25th of May 2023. 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 star then zero on a touchstone 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:**

Thank you, Bikram. Welcome to the 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 of JB Chemicals & Pharmaceuticals Limited.

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 Q4 FY '23 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 with his opening comments, after which, Mr. Lakshay Kataria will address the financial highlights. Over to you, sir.

**Nikhil Chopra:**

Thank you, Jason, and very good afternoon to all of you, who have taken time out to join us for the fourth quarter and annual conference call for JB Pharma. To commence, I would like to take all of



you through the highlights of our performance and then as Jason shared, our CFO, Mr. Lakshay Kataria will follow with his views on the financials. And after our comments, we'll be more than happy to take the questions from all the participants.

So to start with, I'm pleased to announce a robust quarter and a financial year with a healthy contribution from both domestic and international business. During fourth quarter, we reported a revenue growth of 22% to INR762 crore and crossed a milestone of INR3,000-plus crore sales for the financial year. Our domestic business -- formulation business grew at 29% and the revenues increased to INR380 crore in the quarter, whereas annually it stood for INR1,640 crore for the current financial year with a growth of 38%. While our big brands got bigger, the acquired portfolio also ramped up. Our per person productivity improved to INR6.2 lakhs in the year, up from INR5.4 lakhs in FY '22.

Speaking of the brands that we acquired, starting with Azmarda, a very potent addition to our cardiac portfolio, emerged among the top 300 brands in IPM as per IQVIA MAT March 2023, and now ranks at the number of 261 as per IQVIA MAT March data. I'm pleased to share that thanks to our dedicated efforts of our team, Azmarda continues to draw monthly volume similar to those in our pre-exclusivity periods.

Across our big brands, I'm again happy to share that we have made gains in our market rankings. As per IQVIA MAT March 2023, the domestic business witnessed a growth of 22% versus IPM growth of 8%. I'm proud to note that as per this information, we are the fastest-growing company among top 25 in IPM for 2 consecutive years. And if you talk about the big brands, what we have been talking, the entire concept of making big brands bigger, let me talk about Rantac, which gained 10 ranks, which stood at #35. Cilacar, Cilnidipine, our anti-hypertensive franchisee gained 8 ranks to rank at #44. Metrogyl gained 52 ranks to rank at #142. Nicardia gained 68 ranks to rank at #172. Cilacar-T, combination of Cilnidipine and Telmisartan gained 9 ranks to #194. And Azmarda, what I shared earlier, gained 125 ranks to rank at #261.

Why I'm sharing these numbers is in lieu of the business that we have achieved in India is a combination of both organic and inorganic mix that we're trying to drive on the ground with our 2,000-plus medical reps, who day-in and out meet all the healthcare professionals and the entire hypothesis of making big brands bigger and not going wide. But going deep in terms of what we have done for our brands in terms of lifecycle management, incremental innovation, looking at what we can do with the patients in terms of consumerization, looking at what more can be done in terms of driving better adherence in chronic therapy, those all aspects we have taken of building the business that is where we stand.

And in terms of value what I shared that we ranked at 23rd number, fastest-growing company in top 25. But also I'm very happy to share from a backbone perspective, from a prescription perspective, we are now 15th ranked company in the country. JB Chemical generates close to 5 crore prescriptions in a quarter, which enlightens me in terms of the journey that we have travelled in last 8 quarters and we have gained ranks in prescription.



Talking more about what we're trying to do in India, our chronic portfolio continues to outperform. The chronic portfolio outperformed the overall industry chronic portfolio growth at 24% in the year as compared to 11% IPM growth in chronic part. JB Pharma now ranks 20th in overall chronic segment, gaining 4 ranks in last 12 months. And within chronic portfolio, if we're talking of cardiology, we are now 8th ranked company as compared to 13th ranked company 18 months ago. And 3 of our brands feature in top 25 in cardiology. Besides having a progressive portfolio like Azmarda and Razel, we are well placed to drive the therapy shaping initiatives across the care continuum for hypertension to heart failure.

Let me talk about the acquisitions in the inorganic business that we acquired in last 1.5 years. The acquisitions we have made have been strategic, keeping in mind company's overall objectives. Azmarda and Razel have strengthened our presence in cardiology therapy as I shared earlier and now we are 8th ranked company in cardiology overall as a segment and we are the fastest-growing company in the cardiology segment.

As per IQVIA March 2023 data, JB Pharma is the fastest-growing company in top 10 in cardiology and that was shared earlier. And talking about Sporlac, Sporlac gained 152 ranks in -- and is now ranking at #334. And overall in the covered markets, Sporlac is #1 brand when we compare ourselves to Bifilac and Vizylac. Our paediatric brands that we acquired have also performed well during the financial year. Smooth integration of our acquired Razel franchisee, rosuvastatin, which we acquired 4 months ago is as per plan. The company is already beginning to witness good momentum for Razel.

So concluding in terms of the way we are positioned now in India, 23rd ranked company in terms of value, close to INR1,640 crore revenue that we generated for the financial year. In terms of prescription, we are 15th ranked company. Mix of our organic brands, as well as inorganic acquisitions are overall performing as per our plan and we have 2,000-plus medical reps who continue to day-in and out with doctors and our purpose on productivity now stands at around INR6.2 lakhs.

I shall now turn my attention towards international business. We witnessed good traction in the international formulation this quarter and the year. The Russia business witnessed demand normalization, while we continue to focus on increasing our sale in South Africa private market. Our other BGx market, which is a combination of Sub-Sahara Africa, Latin America, Southeast Asia and Middle East, also reported good results on the back of demand normalcy seen back post-COVID times.

Put together, if you look at the way we have performed in our ROW international market, first half of the year we were flat in growth, but if you look at our YTD growth, it is around 12%. So, we have gained growth and overall the demand has come back in quarter 3 and quarter 4, particularly in our business in BGx that is ROW, Russia and South Africa. Also, just to share in terms of the work that we do in our CMO business, our CMO business has been a feather in the cap, registering a growth of 60% to a revenue of INR406 crore in the financial year, while the growth for the quarter has been 18%.



If you look at our CDMO business we have been touching a figure of INR100 crore every quarter, which has been a fantastic performance and it has only helped us in terms of what revenue and what EBITDA we have generated to further invest in the company. The CMO business, along with domestic formulation business today accounts for 65% to total revenue in the year.

I would like to repeat this once again. The CMO business, along with domestic formulation business accounts for 65% of total revenue in the year. The increasing acceptance and continued demand of lozenges was the key driver for this upsurge. We have introduced a number of products in our industrial markets in the world of lozenges with our marquee partners, and expect that they should gain traction in the coming years. We are cognizant of geopolitical issues and economic headwinds and their impact on the demand patterns. Our teams are managing our response in a calibrated manner. Our focus on containing costs continues as we combat inflammatory, as well as environment issues globally.

Now, I would like to hand over to Mr. Lakshay Kataria to take you through the financial details and overall performance of the company.

**Lakshay Kataria:**

Thank you, Nikhil. A very good afternoon to all of you and welcome to our earnings call. I will now be taking you through the financial highlights of quarter 4 fiscal '23 and fiscal '23 overall. We witnessed a strong growth on our revenues, both for the quarter and financial year. Quarter 4, we clocked a revenue of INR762 crore. And the year, we clocked a revenue of INR3,149 crore. Gross margins stood at roughly 63.9% in the last quarter versus 65.9% in the same quarter previous year, with a sequential improvement from 62.3% in the previous quarter.

Gross margins for the year was 62.9% versus 65% last year, largely impacted by cost inflation and higher Azmarda sales in the year. In the quarter, our operating EBITDA, which is EBITDA before ESOP cost, reached INR181 crore, reflecting a 21% year-on-year growth. The margins were flat compared to Q4 FY '22. However, we registered an increase of 26% in the operating EBITDA for the year, which was at INR765 crore versus INR605 crore in the previous year.

On the expense front, our total employee cost, including ESOPs as a percentage to overall revenue, improved both for the quarter and for the financial year. There was a reduction in the non-cash ESOP cost and therefore, this cost as a percentage to reported EBITDA improved from 19.2% in quarter 4 fiscal '22 to 10.4% in quarter 4 fiscal '23, and from 11.4% in fiscal '22 to 9.9% in fiscal '23.

Other expenses as a percentage of sales improved to 24.7% in Q4 fiscal '23 vis-a-vis 27.4% in Q4 FY '22. Also in the financial year, this ratio was 23.6% versus 24.7% in the last fiscal year. Depreciation was INR32 crore in the quarter, up quarter-on-quarter due to new acquisition of Razel, and INR114 crore in the financial year on account of amortization of acquired brands. The increase in finance cost year-on-year and quarter-on-quarter was largely due to term loan for brand acquisitions. Profit after tax for the quarter was at INR88 crore with a growth of 4%, while it stood at INR410 crore in the financial year. ETR for the year, that is the effective tax rate was 26%.



We reported a healthy balance sheet and a strong cash flow during the year. Operating cash flow at INR626 crore versus INR170 crore in the last fiscal. The company's cash and cash equivalents, including investments in mutual funds was at INR282 crore. And our net debt situation also improved from INR429 crore in December '22 to INR266 crore in March '23. There was a substantial improvement in our net working capital metrics, which improved to 89 days from 111 days in FY '22. This is the lowest level of working capital that the company has witnessed in the past many years in an overall challenged macroeconomic environment.

In summary, our journey of growth and transformation continues. And as we move forward, we hope to continue to improve our operational efficiency.

I now request the moderator to please open the forum for Q&A.

**Moderator:** We'll take our first question from the line of Rahul Jeewani from IIFL Securities Limited.

**Rahul Jeewani:** Yes. So, sir, our organic India business growth looks slightly muted this quarter that for the 9 months, our run rate on organic India business was around mid-teens. But for this quarter we have grown in double-digits, likely at 11%, 12%. So what has led to this muted performance on our organic India business? Was it any base effect or the NLEM price revisions impacted us?

**Nikhil Chopra:** So, I don't think there was any base effect or any NLEM impact. Overall, Rahul, if you look at quarter 4 has been soft. This quarter has been soft for us. And if you look at overall the IPM performance, particularly, I think 2, 3 category of elements, particularly if you look at respiratory, you look at conjunctivitis, you look at upper respiratory tract infections. There, I think you could see the upsurge. I'm talking of IPM now. And JB does not have that type of portfolio.

Our portfolio is steady in terms of what we market for cardiology, what we do with our antibiotic and GI product, and whatever new launches we have done, probiotic. So it was a soft quarter for us. But overall the guidance that we would like to give for India business that we should always be 300, 400 bps better than the market that is how -- and you will see more stability in terms of how -- what we report every quarter-to-quarter in terms of what we deliver for India business.

**Rahul Jeewani:** Sure, sir. So for the categories where you are present, can you call out what was the growth at an IPM level for, let's say, cardiac or the anti-infective segment? How would these therapies have grown at a market level?

**Nikhil Chopra:** Rahul, I think -- offline, I think, Jason, will be more than happy to share all the specific details. And I will ask Jason to share all this. So more or less, if you look at the growth that we saw, if I have to give a top view, our chronic portfolio grew at around mid-teens plus and our acute portfolio grew at around high-single-digit. That is what I can share. But more details, we will be more than happy to share with you offline.



**Rahul Jeewani:** Sure, sir. And on the gross margins, we saw a quarter-on-quarter improvement. So was that gross margin improvement entirely driven by lower Azmarda sales during the quarter?

**Kunal Khanna:** Rahul, we have certainly seeing RM and PM prices being in a steady state from November, December onwards, right? Compared to what we saw in H1 of last financial year, the inflationary pressure is much lower. If the trend continues, we certainly see sequential improvement in gross margins as was stated earlier, which should overall help our EBITDA operating margin profile as well. So it's a mix of steady-state RM, PM. And yes, there is a marginal impact of Azmarda portfolio mix as well.

**Rahul Jeewani:** Okay. And sir, our guidance for next year's gross margins earlier was around 64% and we have at 64% in fourth quarter itself. So do you see any upside just to our gross margin estimates for next year?

**Nikhil Chopra:** So Rahul, let me more talk about the guidance that we would like to give for our EBITDA margins. If you look at what EBITDA margins guidance that we have been giving for last 2 years is 24% to 26%, operating EBITDA I'm talking. And for the current financial year as what Lakshay shared, we reported INR765 crore EBITDA, which was 24.3% margin.

Going ahead for next couple of years, we are revising our EBITDA margin guidance from 24% to 26% to 25% to 27%. That is what we would like to share. And this will be backed up by some gain that we will get in Azmarda because of now sourcing becoming more softer for us. And equally, the better mix of products that we see, which we want to sell and probably some benefits that we will get in in overall RM and PM and freight softening. That is how we are trying to at least give the guidance.

**Rahul Jeewani:** So, I was asking a question on your CMO business that this year we saw very strong growth of 60%. So what is the outlook for the next year, given that this year we would have also benefited from, let's say, an acute cold and flu season across markets?

**Nikhil Chopra:** So the fortunate part of the story, Rahul, is that we have a handsome book order for first 3 months, 4 months of the year, which we are trying to look at how do you meet the demand. Probably, we will get some view. Because, see, this all business is happening with our partners outside India, outside India and outside US and Europe in every part of the world. And we work with all the big players. So right now, the demand is there. Probably August, September, we'll be able to put more colour in terms of how do we see rest of the year.

Generally, in this business, the front-end loading in terms of order, which comes in, is the way of business. So first half of the year, you will see a better performance. But if you get a good season, which happened for the last year, then probably you outscore yourself. If I have to give a guidance, low double-digit to mid-teens growth that is what we should get into in terms of what we see our CMO business. But we can outscore ourselves depending upon how the season is there of post viral, cough and cold symptoms and that we will get to know only probably in August, September. And at that time, we will be able to share more details with you.



**Moderator:** We'll take the next question from the line of Sriraam Rathi from BNP Paribas.

**Sriraam Rathi:** Yes. And congratulations on good set of numbers. So firstly, just continuing from the previous question of CMO. So, you said that, I mean, for the next 3 months, 4 months, you have strong order book. I mean, is it fair to assume that the quantum would be higher than what we would have done in the last 3 months, 4 months?

**Nikhil Chopra:** If you calculate backwards, our growth has been 60% for the year and for quarter 4, we grew at 18%. And if you look at the way we see first 3 months, 4 months of the year, we should be at par with what we have delivered every quarter. Going ahead, what I shared earlier, I think by mid of quarter 2, we will be able to share more details.

**Sriraam Rathi:** Okay. Got it. And secondly, in India business in the last, I mean, 12 months to 18 months, we have done multiple acquisitions and now the base is also very strong. So in terms of M&A, what would be the strategy going forward? Which therapies we will target further, similar therapies or new therapies you're are looking at? And if you can share, I mean, what kind of size will be appropriate for JB now in terms of, I mean, doing any M&A?

**Nikhil Chopra:** So, we'll continue to evaluate opportunities in terms of what is available in the market. And we would like to be -- we would like to -- given a choice, we would like to do a deal in the therapies where we are already present, which will be more synergistic to what we are trying to do in India business from a portfolio perspective. But if we get an opportunity, where we think that we can grow this portfolio better than the way portfolio is growing today, with the concerned company who is owning the portfolio today, we will evaluate the right pricing in terms of what historically you've seen us paying 3x, 4x of the top line and around 15x to 18x of -- 15x of EBITDA, that is where we stand.

And more so, it is not that tomorrow we are in a rat race. It is not that tomorrow we want to -- we will look at things from a perspective. If tomorrow it is suiting overall from a portfolio perspective, suiting from a valuation perspective and probably, if we can build some synergy and if those type of assets are available, then we will surely evaluate and look at overall how we can take that ahead.

**Sriraam Rathi:** Okay. Sure. That's helpful. And then lastly on gross margin. I mean, of course, Azmarda sourcing would have benefited to some extent this quarter. So, I mean, are we still continuing to source from the innovator or we have changed the source?

**Kunal Khanna:** See, we would not like to divulge a lot of details on our sourcing strategy. What we can clearly state is that Azmarda as a brand is EBITDA accretive for us. You see the performance even after LOE erosion, we have been able to maintain the market share. The recent month numbers -- figures suggest that our volumes have increased by almost 20%. It's a great, great portfolio for us in a very, very progressive therapy area. Yes, the gross margins will significantly improve. But beyond that, we don't want to further divulge any sourcing details.



**Moderator:** We'll take the next question from the line of Rashmi Shetty from Dolat Capital.

**Rashmi Shetty:** Yes. Just on the CMO segment again. We had seen a huge demand in terms of cough and cold segment, but we were also planning to enter into the other segments like motion sickness and all. So when are we targeting those lozenges?

**Nikhil Chopra:** So very good question. And I missed in terms of what we want to do in the world of lozenges going ahead. You should see us launching lozenges in the category of sleep disorders, in the category of anti-inflammatory lozenges probably Q4 of the current -- of the financial year, probably FY '24. And immunity also, immunity, sleep disorders, overall, anti-inflammatory.

These are some of the products that we have developed, and we have got the inputs from our partners. See, please understand this entire process has got its own gestation period. The discussions, they happen with our partners, then you get the reference product, you develop the product, you share the product with them, our partners, they do their own research and study and then they come back to you. And then you do modification and then go back to them.

So all this takes time. That is why whenever we are talking in terms of the way new category of lozenges, we will be able to get business. It will come, but it has its own modality. But we are onto that journey. These are 3 category of products, which you should see us launching FY '24, probably quarter 4. That is the task that we have taken and more so. And more so in our offering. At the right time, we will be more than happy. Not only this, but if you look at anti-fungal lozenges for dry mouth, those all things at some given time you will see us entering into more categories.

**Rashmi Shetty:** Okay. And sir, in terms of geographical expansion, we are currently present in some of the European countries, in some of the emerging markets. But any plans for the US entry in terms of lozenges? Or do you think that it is like, the company would be struggling and we won't get a proper tie-ups? Or do you think that it is a commodity business? Any colour if you can give on how lozenges business is basically in the US and are you planning to enter?

**Kunal Khanna:** See, our first focus is definitely deepening our presence in current markets with our existing partners and look at pockets of expanding in the geography areas like APAC itself, identifying more countries like parts of Middle East, parts of Europe, Russia, CIS, right? In addition to that, there is certainly more opportunities we are evaluating in other geographies such as LatAm, parts of Central America as well.

As far as North America is concerned, yes, a long-term view on that, but too early to comment on what exactly will be our strategy there. Also please note, we have always maintained like Nikhil mentioned earlier, we operate in the medicated lozenges space, right? We don't want to do conventional lozenges. So just because North America is a big private market for conventional lozenges, that is not something which pretty much hits our out sweet spot.





**Nikhil Chopra:** Couple of more addition to this. We also are on the roadmap of launching around some of the lozenges in our home market that is South Africa. Should happen probably in quarter 2 and also we are testing waters in terms of what we're trying to do in India. We have introduced around 3, 4 lozenges in the country where we are trying to now put a very different model not to market and not direct to consumer, but we are trying to look at how do you have the mind space of the entire digital ways of selling and making your product exposed to the community. So, we are trying to put some different model, how can you do some retail activities, which will help you to expose your products. So, these are some of the trials that we are trying to do. At the right time, once we have some more substantial things to share, we will be more than happy to talk.

**Rashmi Shetty:** Okay. And regarding your export formulation business. Russia, we have seen some demand revival, but is this temporary or you see that things are stabilized and Russia could actually grow better? Also in your South Africa business, if you could call out the proportion of private and public share in terms of the business. Because I think that we are seeing some increasing share in the private market business, so if you could tell that. And finally, on the US business, if you can comment something whether we are growing in that market, we are still launching 1 to 2 products. What exactly is happening over there?

**Kunal Khanna:** I will take the Russia piece first. We have always maintained that for Russia and CIS region, H1 tends to be strong and we were expecting a revival when the demand comes in Q3 and Q4. And the same was witnessed in FY '23. As things stand right now, the demand is much more normalized than what the situation is, and we expect the same trends to continue going forward as well. Yes, there were some benefits of currency gain also, which will be pretty much normalized going forward.

South Africa, as the team has also always mentioned that our focus clearly will be to drive profitability through increasing private share mix and that is going to be the main objective for the coming next couple of years that how do we really drive our profitability by increasing our private market share mix. And that's in line with our strategy what Nikhil spoke about launching our own lozenges and looking at other product categories.

From a long-term standpoint, we have always looked at expanding our portfolio and that is for ROW and US market as well. We are pleased to state that as we had mentioned that we will be doing close to 3 to 4 filings every year. In the last financial year in H2 particularly, we were able to do filings and we expect that the approvals for the same should come over the next 14 months to 16 months.

**Moderator:** We'll take our next question from the line of Dheeresh Pathak from WhiteOak Capital.

**Dheeresh Pathak:** Yes. For the international formulations business, what is the share of branded generic in that INR1,000 crore of revenue for the full year?

**Kunal Khanna:** So for international formulation business, we really don't divulge geography wise or portfolio wise share.



**Dheeresh Pathak:** Okay. To the earlier question of the growth in the India business, organic growth down from mid-teens from 9 months to fourth quarter low double-digit. I didn't understand the answer. So, you're saying that there is no base impact, there is no NLEM impact this quarter. And we are growing faster than the market. So, are we saying that the market growth decelerated in the fourth quarter? And what is the baseline growth to expect? Is it mid-teens? Or is it low double-digits?

**Kunal Khanna:** No, I think the conclusion drawn there is slightly erroneous to what you have stated right now. See, when you look at the Indian market overall, let's understand at what rate the Indian market has grown over the last 12 months, right? The Indian market grew at 8%, okay, which I'm talking about total, right? Compared to that, our growth was pegged at 22%.

Now in the last quarter of -- when you look at Jan, Feb, March MAT, the IPM reflection was slightly higher, which was at 14%, 15% to what Nikhil had stated that, that was because of some categories growing significantly because of a very high season, specifically in upper respiratory as well as conjunctivitis, right? Now just because certain categories have grown significantly, that does not mean that we should be stressed about why we've not been able to grow those categories because we don't have the portfolio in those categories as well. So as far as our growth momentum is there, it is maintained. Overall, Q4 tends to be slightly softer than Q1, Q2, and Q3. And that is what the reflection is in terms of our double-digit growth, but there is nothing else to be stressed about.

**Dheeresh Pathak:** No, I'm still not understanding. So what I'm saying is, I'm not comparing your growth to the market growth rate. I'm saying, as per your disclosures, for 9 months, your growth in organic growth in your business -- keeping the market aside, organic growth in your business was mid-teens. In Q4, it is low double-digit. So clearly, there is a deceleration in your growth in the organic portfolio. Now what is the correct assumption to have in mind? Is your organic portfolio growing in low-double-digit or is it growing in mid-teens?

**Kunal Khanna:** So the right way to look at it is that the organic portfolio is in a steady-state scenario growing at mid-teens only. March tends to be soft and that's a reflection of what you have seen.

**Dheeresh Pathak:** Okay. Last question. Azmarda, in one comment you said volumes are up 20% pre-exclusivity. In the presentation, it says March month volumes are flat. So, can you just explain like volumes pre-exclusivity, are they up, are they flat?

**Kunal Khanna:** So pre-exclusivity, the volumes are up. When we said that volumes are up 20%, they are as per the latest figures reflection of April if you look at it and you compare that with pre-LOE and post-LOE, you see a significant difference, which is 20% up delta.

**Dheeresh Pathak:** Okay. But the market volumes are up by 50%. So, we've lost some volume market share, right?

**Kunal Khanna:** We have lost some market volume share. Our overall value share pretty much remains the same. We have maintained an 18% overall market share. Yes, the competition increasing, generics coming,



there will be some kind of competition, which will be there. But overall, we've been able to maintain the run rate and market share, which we have projected.

**Moderator:** We'll take our next question from the line of Shrikant Akolkar from AMSEC.

**Shrikant Akolkar:** Just on the CMO business. Is it possible for us to rank the largest market for our CMO business? And is it possible to talk about which markets are seeing very strong demand currently?

**Nikhil Chopra:** So what we -- there are -- the way CMO business is poised, I think overall Southeast Asia is doing well. That is where we stand. We have business in MENA region. We do business in Australia, New Zealand, Canada also. But if I have to rate, I think Southeast Asia has performed much better for the last financial year.

**Shrikant Akolkar:** Okay. And on the domestic market, we have seen very strong price increase led growth in FY '23? Within that, I think Ranitidine probably also saw some of the very strong growth in last 2 years. So going in FY '24, what should be the outlook on the pricing? And specifically on Ranitidine, if you can provide commentary on pricing, as well as one of the litigation that has been filed in the Gujarat High Court?

**Nikhil Chopra:** For the litigation part, we still have to receive the details, which we have not got. So, I can't comment on that. On the pricing point, if I have to talk about, we will adhere to what pricing policy government adopts in terms of the control portfolio. Otherwise outside the control portfolio, what we think will be competitive in the market, there is a price increase. It will take between 6% to 7%. That is where we will stand.

What was your first question?

**Shrikant Akolkar:** On Ranitidine. It has seen very strong growth because of pricing. So...

**Nikhil Chopra:** We should see high-single-digit, low double-digit growth in Ranitidine. That is what we want. That is what you should see.

**Moderator:** We take the next question from the line of Cyndrella Carvalho from JM Financial.

**Cyndrella Carvalho:** So first question is, we are seeing increasing strong growth on an annual basis in the domestic market. We are growing the domestic market share also. But somewhere like I'm trying to understand the gross margin profile. Is there any impact of the raw material costs, still they're sitting in which is troubling us apart from Azmarda? Or should we be able to see a 65% gross margin level in FY '24? Can you help us understand this? I'm looking at an annual level. I'm not looking at quarterly numbers.

**Kunal Khanna:** See, that's a fair assumption, which you've made in terms of FY '24. If things remain the way they are, then we should certainly be looking at those levels. From an FY '23 perspective, specifically for the first 6 months to 8 months, there was inflationary pressure. Since end of Q3, Q4, we are seeing that



pressure being eased out. And as we mentioned earlier, if the situation remains the way it is and with the Azmarda sourcing mix also improving, we should be closer to the number which you stated for FY '24.

**Cyndrella Carvalho:** Okay. This is helpful. Now coming to the PAT growth number. I mean, we understand the acquisition impact. We know that. But is there any thought process to pass on the EBITDA level growth? Or should we start seeing it more from FY '26 perspective that this growth number at the EBITDA level will start flowing in? But of course, I know our focus on acquisition. So, I'm just trying to understand what is the management's thought process on this working or looking at the PAT growth levels?

**Lakshay Kataria:** So you're absolutely right. I think there should be a transformation of the EBITDA growth into the PAT numbers. As we are looking at FY '23, '24, you will start seeing some of that reflection. The drivers clearly being, one, strong cash flow generation that the business has seen. So, we will sort of turn cash positive or zero debt by Q3 this year. So, that will take off a fair bit of charge from a borrowing perspective on the P&L.

Second, from a perspective of the investments in M&A, as you know, each of these assets are seeing significant growth, both in terms of top line and bottom line. So that operating leverage impact of EBITDA will also start reflecting in PAT. So those will be the 2 drivers. So as we move on from here, with the portfolios we right now have, you will start seeing improvement in the PAT margins as we move forward.

**Cyndrella Carvalho:** Okay. We have mentioned ROCEs of around 35%. Any update, when can we expect these in terms of timeline? Can you highlight what should be ideal timeframe to look at these levels for ROCE?

**Lakshay Kataria:** So if you look at last year, we are at a ROCE of about 21%. Steady state right now with no more acquisitions, we should inch up to about 25%, 26% by end of next fiscal. And you will see that sort of sequential growth happening year-on-year to ROCE. So in the next, say, about the 3 odd years, we should target 30% upwards in terms of ROCE.

**Cyndrella Carvalho:** Okay. This is helpful. One more thing on the performance side. On the India performance side, if I'm looking at the prescription growth that you've highlighted and your equity, as well as your MR productivity. It has improved significantly. What were the key -- is it, again, our top key 5, 6 brands are the key drivers of this? Or even the new products that we are able to bring on our platform are also aiding the entire process here? Can you help us understand the mix a bit in terms of the MR productivity, as well as the prescription growth drivers for us? That's it.

**Nikhil Chopra:** It's a mix of many things. It's a mix. First of all, I would like to talk about -- it's a mix of -- it starts with discipline in terms of the way discussions happens with our feet on the ground in terms of what we expect from them to do when they visit healthcare professionals in terms of what products have to be detailed.



And company has not shied away in terms of investment that we have done with equipping all our teams on the ground with iPads, looking at in terms of the investments that we have done in putting teams in head office in aspect of sales force excellence, sales force automation, getting into the world -- embracing technology, getting into the world of digital retailing. All those things over a period of time it has helped us in terms of when we talk of prescriptions and when we talk of productivity enhancement.

Obviously, the mix has been a combination of all our big brands, which I shared in my commentary, which only have been gaining ranks, which only have been gaining market share. Also, there are some other brands outside the 7, 8 brands, which range between INR10 crore to INR15 crore revenue annually, which also have been growing handsomely and there we are gaining good momentum.

And last, but not the least, overall, the acquired portfolio is also helping us in terms of garnering more and more prescriptions, particularly in mass category, be it in the area of probiotic, be in the area of now heart failure, be in the area of organic portfolio for Rantac and Metrogyl. So, this is overall, which has helped us in terms of being now 15 ranked company for prescriptions and our productivity going up from INR5.4 lakhs to INR6.2 lakhs. That is where we stand. By the way, we have top 2 brands in top 10 prescribed brands in the country, which is Rantac and Metrogyl. That also, I think, details are there as we talk about prescriptions. I hope this helps you.

**Cyndrella Carvalho:**

It does.

**Moderator:**

We'll take the next question from the line of Sayantan Maji from Credit Suisse.

**Sayantan Maji:**

Yes. So, my first question is on the guidance that you've given that organically we are expecting 200 bps to 300 bps to 400 bps above IPM. Now that Sporlac, Azmarda, they are also in the base and whatever synergies are left, we will continue to grow. But is it coming more from your base molecules of Ranitidine, Metrogyl and Cilacar? Or is it more from the acquired brands further ramping up?

**Nikhil Chopra:**

Both. If I have to talk about -- if I have to talk about Sporlac, probiotic, we started, we have 7.5% market share. Today, we are close to around 9%, 10% market share. We have huge opportunity in terms of where we stand. The revenue at that time was close to INR60 crore when we acquired. The revenue is INR90 crore. Lot of -- I think better penetration that we have done across the country, better distribution practices, lifecycle management, launching new versions of Sporlac, that is what we have done.

Azmarda, Kunal spoke about in terms of where we stand. Let me talk about the burden of disease. 15 million to 20 million people suffer from heart failure and only 10% to 15% are getting the treatment. And now with the cost of therapy annually going down from 45,000 to 25,000, and the way we are facilitating with 500 plus heart failure clinics that we are running with healthcare professionals and



point of care diagnosis being available at that place. I think more and more patients are only going to get benefit who are suffering from heart failure.

Equally, when you look at Razel, rosuvastatin, the product that we have acquired, we are 10 ranked company in rosuvastatin in the country. We want to only inch up. We want to gain ranks. And there we have good portfolio. So, this was more from an acquired perspective. But equally, I think the teams, both on the ground and in the corporate have done good work in terms of new launches, lifecycle management for our organic brands, incremental innovation, exploring those opportunities, whether we talk of Metrogyl.

Metrogyl, we have traditional -- Metrogyl 200 and 400 milligram. But the entire focus now is on Metrogyl ER 600, which is really dosage formulation, which is more accepted from surgeons and gynaecs. We acquired this product called Z&D. Z&D is zinc supplement from Dr. Reddy's in the form of crops. We are now launching Z&D liquid syrup formulation.

Lot of opportunities are there in terms of when we look at how do we want to look at growing better than the market and we have identified our spaces. And what earlier also I spoke about that we don't want to go wide and start getting into new category of portfolio and launch new businesses. But we would like to do better lifecycle management. We would like to penetrate deep and increase our market share in the existing portfolio that we have got.

**Sayantana Maji:**

Sure. So, my next question is on, now that we are a formidable player in the cardiac therapy, we are now ranked 8th with addition of Azmarda and Razel as well. Do you see some rub-off benefit in improvement in Cilacar prescriptions among cardiologists? And do you expect that there is further headroom to this?

**Nikhil Chopra:**

Not only from cardiologists, we are looking at -- from the diabetologists also. Because if you look at Cilacar-T, that is what I spoke, is now close to around INR120 crore brand. It's a drug of choice for diabetic hypertensive. Cardiology, overall, we can share details with you in terms of the prescription that we are gaining at the level of cardiologist for our Cilacar franchisee. And it's a combination of Cilnidipine, Cilacar and Cilacar-T, and now teams are also focusing on combination of Cilnidipine and Metoprolol, which comes from cardiologists.

Combination of Cilnidipine and Nebivolol, which once again targets specialty cardiologists and also 2 versions of Cilacar, which are triple combo that is Cilacar-TC; Cilnidipine, Telmisartan and Chlorthalidone and Cilacar, Telmisartan and Metoprolol. So all these prescriptions, we are targeting to get from cardiologists as a specialty only. Cardio, diabeto, endo, that is the agenda going ahead.

**Sayantana Maji:**

Sure. Okay. And my last question is on Razel. So like -- you mentioned that in Sporlac there were or in acquired Sanzyme portfolio, there are multiple synergies in terms of improving the geographical reach or improving prescriptions among general physicians as well. So what would be, say, the top 1



or 2 revenue synergies that you expect to play out in that acquired label franchise? Are there any gaps that you see where JB is already strong, which you can fill to grow this franchise?

**Nikhil Chopra:**

So the teams on the ground -- I met a couple of teams when I was in Jaipur and Delhi. We've been a dominant player in the world of hypertension. People -- the teams on the ground have started organizing cross talks of diabetologists, cardiologists and physicians under the banner of Lipid tension, lipid-lowering pills and hypertension treatment tablets. So what we're trying to do in terms of how do you partner with the healthcare professional and position yourself as a company who care for their patient.

So, we try to run different types of programs, whether it is for doctor education, as well as what we ran a campaign for consumers in the world of hypertension, "BP right karo", in terms of how you can create more awareness at the level of patients with the help of healthcare professionals. By the way, just going and promoting product in the clinic of doctors is not going to give you results. That era is gone. Because you are not first to launch. You're a 10th ranked company.

So, you need to either have opportunity of lifecycle management or a different drug delivery in terms of what you have or to go with the partner with healthcare professional or directly got to the consumer with the help of healthcare professionals in terms of how they can live a better quality of life and drive better adherence. So, these are some of the elements that we use. And at the end of the day, better segmentation, targeting of the right SKU to the right specialty with a discipline helps you long term. So that is what we follow at JB.

**Sayantana Maji:**

Okay. Got it. And finally, can you give the number of the revenue contribution from the 4 acquired portfolio in this quarter?

**Nikhil Chopra:**

We have shared in the presentation. It's close to around INR300 crore for the year.

**Jason D'Souza:**

For the acquired, we have given the growth rates, right?

**Nikhil Chopra:**

It's close to INR80 crore.

**Sayantana Maji:**

INR80 crore. Okay. Sure.

**Moderator:**

We'll take the next question from the line of Prakash Agarwal from Axis Capital.

**Prakash Agarwal:**

Yes. My questions are related to 2, 3 things. One is, if you see the AICD data, it had a soft April and I hear the May is also soft. And the main reason was volume decline. And I heard you saying that you are seeing good growth across the newly acquired brands double-digit and one product you said 20%. So what do you think is the key here? And do you think the market volume growth can revive soon?

**Nikhil Chopra:**

So first of all, Prakash, we unfortunately don't follow AICD audit data. But we subscribe to IMS, we subscribe to SMSRC prescription audit data. And I can talk more about that if you want to hear more



about April. In April, the market was -- market grew at around 11% as per IMS data and we grew at around 18%. And out of 18%, JB volume growth was 11%, which was highest and we were once again the fastest-growing company in top 25. Obviously, when you look at INR2 lakh crore market in IMS, we cover close to INR45,000 crore market. That is what is our penetration when we look at the portfolio that we have got.

So Prakash, what we have done, we have identified our winning propositions and our winning portfolio, where we would like to either gain market share like what we want to do for Sporlac, what we want to do for Razel, what we want to do for Azmarda. Azmarda, at least -- the status now is that we want to maintain our market share. Somewhere in the world of hypertension with 50% to 80% market share, there we are looking at how do you influence the ecosystem, how do you drive better campaigns with the consumers. So that is what we are trying to do in the company. That is how at least what we can talk about ourselves.

Market tomorrow may grow at 8%. Market may grow at 11%, 12%, but this is how we are focusing, the way we are positioning as a company and being focused, this helps us. We are not into 15 categories of portfolio. We are into half a dozen. So, that helps us with now 3, 4 teams, one team focusing on chronic business, one team focusing on acute business, one team focusing on hospital and your overall business in respiratory and paediatrics. So, that is the way we have structured. That is helping us in terms of driving better volumes and better prescription opportunities.

**Prakash Agarwal:** Perfect. And you mentioned your volume growth was higher. So this price increase that companies are taking starting 1st April, so this is more effective from second quarter is what I understand from?

**Nikhil Chopra:** Prakash, every company carries 41 days to 60 days inventory, so that price benefit probably you should start seeing probably June starting or some part of May. That is what practice I have seen over a period of time.

**Prakash Agarwal:** And sir, you mentioned in your presentation. Slide 19, you given this MR productivity. If you could just break it down into the field force and the manager and the total number of the mass staff we have?

**Nikhil Chopra:** This is MR productivity, nothing do with managers. We calculate productivity based on the number of MRs. There is nothing to do with managers.

**Prakash Agarwal:** Okay. And what is that number?

**Nikhil Chopra:** It is around 2,200.

**Kunal Khanna:** 2,200.

**Prakash Agarwal:** Okay. And would you split it versus chronic and acute?





**Nikhil Chopra:** 50/50, 50/60 -- it is 55-45. That is how it is.

**Prakash Agarwal:** 45 being acute?

**Nikhil Chopra:** 45 being acute. 45 being chronic. 50-50 would be a good figure to use.

**Prakash Agarwal:** Okay. And in the last slide, you mentioned that our target is to in the medium term to achieve 60% in chronic share. So where are we today and where are the gaps that you plan to address over the medium term?

**Nikhil Chopra:** So from a gap perspective, I think we have been addressing every 6 months. So we start -- what we did with Cilacar and Nicardia in terms of lifecycle management, that is what we started doing when we -- in early 2021 when we acquired Azmarda. That is once again in the space of chronic part. Then we acquired Razel. So, I think we have got the right portfolio now in terms of where we are. We are 10 ranked company, especially.

Only opportunity for us is to gain ranks, is to gain market share. Cilacar, Nicardia, we want to look at what we can do with the line -- with the extensions, where we can look at how we can get market share there and build the ecosystem. Azmarda, right now, the competition is stiff. But I think the story would be very different in 6 months, where you will see selective players and being patient and looking at in terms of continuing to do what we have planned.

So from a chronic perspective, we want to be a 60% chronic portfolio over a period of time and probably that should happen 18 months to 24 months from here. So, we have got a portfolio. We have got the portfolio. It is not that tomorrow, we are looking at anything that we have not got. So this will happen in the existing portfolio.

**Prakash Agarwal:** With the existing portfolio, you plan to move it to 60% is what I understand, is that right?

**Nikhil Chopra:** Yes.

**Prakash Agarwal:** And there would be some additions were -- if there are any gaps?

**Nikhil Chopra:** If it comes across, yes.

**Prakash Agarwal:** Yes. And the current number is what, sir, for chronic?

**Kunal Khanna:** Closer to 53.

**Nikhil Chopra:** 53.

**Prakash Agarwal:** Okay. Perfect. This is very helpful.

**Moderator:** We'll take the next question from the line of Alka Katiyar from Centrum Broking.



**Alka Katiyar:** My question has already been answered.

**Moderator:** We'll take our next question from the line of Ankit Shah from Canara Robeco.

**Ankit Shah:** Sir, you mentioned that by Q3, we'll turn net cash and you also touched upon M&A opportunities. But if attractive opportunities do not turn up, can you give some sense on how the capital would be deployed going forward?

**Lakshay Kataria:** So, I can only give you scenarios because like you rightly said, we don't know how M&A, etcetera, and some of the other investment opportunities are in it. So currently, if you look at our borrowing, it's about INR550 crore and at an average cost of about 8.5%. We will watch out the situation for 1 or 2 quarters. If there is no significant investment opportunity, we can start repaying some of the loans. That is always an opportunity.

In the short run, we are invested in liquid and mutual funds, which generate in the range of about 7% to 7.5%. So incrementally, if you see what we are carrying is about 1%, 1.5% of costs, which at the right moment during the year, we will take a call in terms of whether we want to start repaying the loans or there is more opportunity to invest.

**Kunal Khanna:** Just to add to that, there is no real significant greenfield expansion. So, our capex addition is largely steady at the rate of INR70 crore.

**Lakshay Kataria:** I hope we've answered your question.

**Ankit Shah:** Say, in case, you do turn net cash and don't find investment opportunities, I mean, would you deploy - I mean, would it be distributed to shareholders like what we will do?

**Lakshay Kataria:** Ideal would be to repay the debt, right? We would want to start repaying the debt.

**Ankit Shah:** No. I'm talking about once the debt is repaid. So by maybe end of next year, it might get repaid.

**Lakshay Kataria:** At least our calculation shows we will have cash enough to run the liquidity of the company. I mean, ideally, we want to retain that level of cash in the company. I think that question probably will arise next year and we'll address it next year when we get there.

**Ankit Shah:** Got it. And couple of clarification on financials. So on the other expenses front sequentially, there was an increase of around INR7 crore, INR8 crore or so. Any non-recurring item in that? Or this kind of run rate will continue going forward?

**Lakshay Kataria:** So, there are a few non-recurring items. One, there have been a few integration-related costs as we acquired the Razel portfolio last quarter. There were few integration-related costs that we've taken. In addition, some of the expenses seasonality change this year. So some of the expenses moved into Q4. But I think overall from a year perspective, like I covered in my commentary, I think we've seen



reasonable operating leverage. And some of this should even out as we move forward, right? So, I think you should look at year as a whole and not look at really a quarter in trying to extrapolate numbers.

**Ankit Shah:** Right. But would you be able to quantify the integration-related costs in this quarter?

**Lakshay Kataria:** We wouldn't want to quantify. Like I said -- see, it's re-phasing and integrated, so look at year as a whole, don't sort of try and extrapolate the quarter.

**Ankit Shah:** Right. And similarly, on the depreciation side, there was an amortization cost of INR14 crore related to brands. So, this will continue at a similar rate going forward as well?

**Lakshay Kataria:** Yes. It will be at a similar pace for next year.

**Moderator:** Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session. And I would now like to hand the conference back over to the management for closing comments. Over to you, gentlemen.

**Nikhil Chopra:** So first of all, thank you for attending the Annual Conference Call for J. B. Pharmaceuticals. Just once again, in my concluding remarks, I would like to share the overall guidance that we see for next couple of years. Business growing at around 12% to 14%. EBITDA growth, we should be better off. We should be growing at around 16% to 18%. EBITDA margin, what we have revised to 25% to 27%. That is what we would like to, at least share. We would like to see in terms of the journey that we have travelled in terms of the portfolio for India business organically in organic business that we have done, how do we continue to at least build a robust company in India with leading ranks in prescriptions, not only in terms of value.

And couple of opportunities that we see outside India is in the world of CDMO, which I shared earlier, more therapeutic options that we would like to share with our partners. And equally new launches in the BGx world. Net-net, the journey that we have travelled as the leaders in the company and I can talk on behalf of our company that we want to see our organization, and we want to build our organization which is resilient to difficulty.

You don't know, you can't predict the future. But overall, it has been a good year for us in terms of what milestones we have achieved in terms of INR3,000 crore plus revenue and close to INR765 crore EBITDA. I'm also happy to share in terms of where we stand from a guidance perspective.

Thank you, all. Thank you, all, for patient hearing, and we will continue to be in touch with all of you.

**Moderator:** Thank you, members of the management. Ladies and gentleman, on behalf of JB Pharma, that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.

