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J B Pharma
Q1 FY23 Earnings Conference Call Transcript
August 5, 2022

Moderator: Ladies and gentlemen, good day, and welcome to J.B. Pharma Q1 FY'23 Earnings Conference Call as on 5 August, 2022. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Jason D'Souza: Thank you. Thank you, Stephen. Welcome to the earnings call of J.B. Pharma. We have with us today the management of J.B. Pharma, Mr. Nikhil Chopra, CEO and Whole Time Director; and Mr. Lakshay Kataria, Chief Financial Officer. Mr. Kunal Khanna has taken ill today, and as a result, is not able to attend this call.

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 Q1 FY'23 results presentation that has been sent to all of you earlier.

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

Nikhil Chopra: Thanks. Thank you, Jason, and good afternoon, and a warm welcome to everyone joining us today for the discussion on the operating and the financial performance for J.B. Pharmaceutical during Q1 FY'23. I shall



commence with a review of our first quarter performance and share some thoughts on our business. Later on, our CFO, Mr. Lakshay Kataria, will continue with the financial highlights. After our remarks, we would be glad to engage with all of you over a discussion.

Gentlemen, we are all on the call, we are pleased to report a healthy growth in top line underlined by strong sustained trends in the domestic business and complemented by robust improvement in our international business. It is heartening that we have been able to deliver this performance despite the challenging operating environment.

During Q1 FY'23, revenues on a reported basis increased by 30% year-on-year to INR 785 crore. Domestic formulations delivered good growth and crossed a revenue INR 400 crore in a quarter. This is all-time high revenue that we have generated for India business as on today. Organic growth for domestic business was in mid-teens as compared to flat growth as reported in IPM for quarter 1. We continue to be the fastest growing company among the top 25 as per IQVIA MAT June '22 data. Our approach on enhancing field-force productivity is yielding intended results, so also our focus on driving our chronic business.

As we nurture our new product launches in the adjacent therapies, our big brands continue to get bigger. Just to give you some perspective, our brands like Metrogyl, Cilacar-T, Nicardia have each further improved their rankings within Top 300. J.B. Pharmaceuticals has also announced its prescription ranking and now stands to number 15 in IPM as per IQ. And also happy to report that J.B's. prescription base increased from 2.6 crore prescription in quarter 1 FY'22 to 4.09 crore in quarter 1 FY'23, growing at 57%.

Just to give brief highlights on what has been happening in our inorganic business that we acquired in last 6 to 8 months. The acquired product portfolio from Sanzyme has performed well, whereas in Sporlac, which is a leading brand in Sanzyme, we have seen market share gains. Azmarda represents an extension of our leadership portfolio in the cardiology segment. Heart failure is relative a new sub-segment and vastly underserved. We are presently in the investment mode for Azmarda and are witnessing good results month-on-month. Our teams on the ground are fully geared up with an end-to-end portfolio from hypertension to the prevention of heart failure.

In keeping with our outline strategy to be present in high potential categories, we have also completed the acquisition of 4 paedia brands, on a combined basis, this account for INR 33 crore in sales in FY'22. This acquisition will provide J.B. a comprehensive portfolio with well-known brands to cater pediatrician as a specialty. It will increase our market coverage and align with our go-to-market model.

Moving along, our international operations have demonstrated a healthy uptick in focus markets. South Africa is showing attraction in the generic segment across both public and private market. We are also seeing robust demand in tenders and new launches in private market in South Africa. Russia and CIS has shown a stable demand trend given the challenges. As all of you are aware, in the geopolitical realities, we continue to have a



cautious approach, and I'm happy to note that our receivables position is positive.

In the CMO segment, we enjoy global leadership in the world of lozenges, more so in herbal and medicated varieties. We have grown the scope of our relationship with our key clients through continued new product development in both lozenges and liquid formulations during quarter 1 FY'23 as we reported. Also happy to share that we could surpass a revenue of INR 100 crore for quarter 1 FY'23 in the world of CDMO segment, which is ever highest that we have achieved. With a strong order book position, we are in a comfortable position to drive this business further.

The CMO business tends to be front-loaded with first 2 quarters of the financial year performing better than the later half. We are pleased with the progress that we have made in last 2 years in transforming our company and business. There is a scope to further improve our share in the domestic market through a combination of better growth in core therapies, whereas we are continuing to support the line extensions and developing new brands.

The emphasis on growth is clearly coming across with operating parameters building up as per plan. Our aspiration in domestic market is to make our big brands bigger, focus on both market share and prescription gains for our acquired portfolio and organic portfolio, target focused life cycle management in existing brands and pursue new brand launches, which will continue to do as committed.

There is an exciting opportunity to be had in the international operations as well, where we have selective approach and are focusing identified geographies as well. In case of international market, we will continue to benefit from consistent execution in the world of CMO segment through new launches as well as adding new partners, healthy mix between private and public market in South Africa and continued demand revival in selected RoW markets. As the corporate growth accelerates and the business mix enhances, we shall see a transition into maintaining or increasing our EBITDA margins, given our disciplined focus on cost optimization initiatives.

That brings me to the conclusion of my remarks, and I would like to call upon now Mr. Lakshay to share his views more on the financial performance for the quarter. Over to you, Lakshay.

Lakshay Kataria:

Thank you, Nikhil. A very good afternoon to all of you, and welcome to our Q1 earnings call. I will now take you through the financial highlights of the quarter. On the revenue front, the domestic business and international business reached new highs during the quarter. The reported revenue growth of 30% comprised of 20% organic growth and the rest coming through the new acquisitions made last quarter and this quarter. The depreciation in rupee vis-a-vis dollar also aided our growth.

Overall, for the quarter, the domestic business reported a revenue of INR 418 crore, and international business reported a revenue of INR 366 crore, which is a growth both year-on-year and quarter-on-quarter. The gross margin for quarter 1 came in at close to 63% compared to 64% in the previous year. Excluding Azmarda, gross margins for the business were relatively flat.



The gross margins, as you all know, have taken the impact of inflationary pressure in terms of input costs, packing material costs, which have been managed through a slew of cost management and pricing initiatives. The good news is that we've seen softening in certain packing materials like aluminums and also on the international freight costs. But given the continued volatility that we see on the geopolitical and the economic front globally, we continue to monitor the situation, particularly for the fuel supplies and API prices.

Overall, we hope to sustain the gross margin closer to 64% for the fiscal with the March improvement coming through in Azmarda margins on the expiry of LOE. Given the high inflation prevailing across the world, we've been trying to maintain our operating margins in the range of 24% to 26%, and this quarter's operating margin was in line with our guidance.

On the EBITDA front, the Q1 FY'23 operating EBITDA was at INR 190 crore, including an adjustment for non-cash ESOP charge of INR 17 crore. This, when compared to Q1 FY'22, operating EBITDA of INR 164 crore is a growth of 16% year-on-year. During the quarter, the employee expenses, excluding ESOP charges, have increased by 19% on account of the annual increments and the integration of the workforce from acquisitions. Operating expenses have now largely normalized with the normalization of operations post-COVID, baking of operating expenses of acquired businesses and increase in freight and power and fuel expenses.

Depreciation during the quarter was at elevated level due to amortization of acquired brands. The PAT for the quarter came in at INR 105 crore, which saw a year-on-year decline of 12% on account of higher treasury income in the previous year, non-cash ESOP cost, which was not present in the same quarter last year, depreciation of the acquired brands and finance costs. On the cash flow generation also, I'm happy to report the business continued its strong trajectory. Overall, we ended with a debt of INR 325 crore, which was largely to fund the acquisition of Azmarda. And on the cash and investment front, we ended with cash of over INR 180 crore compared to INR 56 crore last quarter.

That's all from my side for now. We would now like to open this forum for an interactive session with all of you, and we'll be happy to respond to your questions. Thank you.

Moderator:

The first question is from the line of Rahul Jeewani from IIFL Securities Limited. Please go ahead.

Rahul Jeewani:

Now on the CMO business, we saw a very good traction this quarter. So if you can just comment on what led to the growth on the CMO business this quarter in terms of which clients and which markets contributed to growth? And then the second part on the CMO business, you have indicated that the CMO revenue tends to be front loaded in 1H of every year. But last year, in fiscal '22, the second half was heavier for the CMO business. So given the growth which you have seen on the CMO business in 1Q, what is your outlook for the CMO business for the full fiscal '23?

Nikhil Chopra:

Yes, Rahul. This is Nikhil Chopra. So overall, we saw the demand coming across all the markets outside India because the CDMO business, what we do is outside India. And this was overall more happened because of the



cough and cold, which where our major dominant portfolio is. Equally, if you look at in quarter 4 last year, we could see the surge happening, which has continued in quarter 1. And as I see, because this all businesses, we do with all the multi-national partners and for them, quarter 3 of ours is the last quarter for them. So the way we are seeing trajectory this year that the orders for our CDMO business are more front-loaded, that is what we see and that is what I commented that we have a robust order book for at least next 3 to 4 months.

And overall, as the year-end comes and Christmas comes in, there we see overall demand overall being tepid, and they keep enough stocks to cater the market. Our guidance for overall year for CDMO business, the way trajectory we are looking at and this quarter, we could plunge INR 100 crore, we will continue to see plus/minus 10% demand for which we have order book for next 3 to 4 months. And overall, the contribution that, Rahul, we have been talking from this business, which was last year 10%, and this year, we are seeing this business contribution should be close to around 13% to 14% for overall business. That is what I can say at this moment of time.

Rahul Jeewani: So you are saying that FY'23, the CDMO business contribution to full year revenues will be around 13%, 14%?

Nikhil Chopra: Yes.

Rahul Jeewani: And sir, second question on the India business. You spoke about the organic growth for our India portfolio being mid-teens. But if you can also comment quantitatively on how Sanzyme and Azmarda have grown during the quarter because on Sanzyme, you have been trying to implement this prescriber overlap as well as geographical synergies, which you see between your and Sanzyme portfolio. So anything which you could highlight on the growth trends for both Sanzyme and Azmarda?

Nikhil Chopra: So overall, both the assets, Rahul, which is a combination of Sanzyme, let me start with Sanzyme, we are seeing a monthly render of around INR 12 crore to INR 13 crore. And this is showing growth of mid to high teens, that is what I can say at this moment of time. And the overall plan that we have put in place with 3 benefits that we enjoyed, J.B. as compared to Sanzyme as an entity was more from a prescriber base, more from a geographical footprint and equally life cycle management. So we have started seeing some benefits coming out of geographical footprint and prescriber base. More from life cycle management, you should see a couple of more products coming into the market in next 2 to 3 months. That is where we stand from Sanzyme as an entity.

Equally, when you look at Azmarda, our monthly run rate is now around close to INR 7 crore to INR 8 crore, that is where we stand. More so, we are in an investment mode as Lakshay stated, more so in terms of looking at how much more we can get patient pool and more and more patients getting diagnosed because as you are aware, last time also I had commented that the incidence of heart potential patients in India of heart failure are close to 11 million to 12 million patients and the treatment today which has been offered is close to around 15% to 20% patients are getting treated. So the emphasis is how more and more number of patients can get diagnosed with the help of 2D and 3D echo, that is the intention. And we have a dedicated



teams, who are going and promoting this product to cardiologists and physicians. And we are seeing good uptake in terms of more and more patients getting diagnosed and the run rate is close to around INR 7 crore to INR 8 crore, which should go up in the coming time.

Rahul Jeewani: And just one follow-up on Azmarda. so anything which you could comment on how the market would form out, post the patent expiry in December '22? Anything which you would have seen in the Sitagliptin market, which you can conclude for Azmarda as well?

Nikhil Chopra: See, there are cases in terms of when you saw what happened with Vildagliptin and now what you are seeing happening with Sitagliptin, there are more than 100 brands in the market. But what I would like to point out that as compared to Vilda and Sitagliptin, heart failure is a very specialized market. Obviously, we will see more than 50 players coming in, price erosion will happen, but obviously the brand which stands will have its own value. So we are keeping fingers crossed in terms of the overall strategy that we will put in place when the LOE sets in.

And right now, what is stopped on the agenda is to how to at least have critical mass of patients who are getting diagnosed, and this is overall more beneficial for the patient community and post LOE sets in, let us look at it in terms of where the price sets in because it will be overall more benefit for the Indian population who will be getting quality medicine at affordable price. And if the overall uptake, which I'm telling that around 15% to 20% population today or the potential people who are suffering are getting the treatment, it may go up to 30%, 40%. That is what is going to happen. That is what I can say at this moment of time.

Rahul Jeewani: Just one last question before I join back the queue. So if we look at the comment that our gross margins are flat except Azmarda, then that implies that Azmarda has impacted our gross margins by 150 basis points to 160 basis points. But at least the calculations, which I'm working with, per my calculations, the impact should have been around 90 basis points. So the impact on account of Azmarda seems to be higher on the gross margin side. So if you can please explain that.

Lakshay Kataria: Rahul, let me pick that. Yes, you're right. The impact is actually higher because this was transition period. So we wanted to make sure there is continuity of supply, and we had to incur certain extra cost in terms of air freighting, etc. and sourcing, which we've done to make sure during the transition period, we do not lose out on the volume. But the impact on gross margin is, yes, significantly higher than 90 basis points.

Rahul Jeewani: Okay. So going forward, can we expect that the impact would be closer to 100 basis points then on a normalized basis?

Lakshay Kataria: I think it will take some more time as the inventory sort of transitions as we consume the opening inventory, I think it will probably be Q3, where you'll see some relief. And as we come out of LOE in Q4 is when you will see a significant improvement in the gross margins.

Moderator: The next question is from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead.



Nikhil Mathur: So sir, in the Capital Markets Day that you've hosted, you had mentioned that there's a chance that J.B. Chemicals margins might take a hit in FY'23 because of the high cost of procurement for raw material and other stuff, which was toward second half of FY'22. But since you mentioned that on a Q-on-Q basis, the gross margin was stable as much as Azmarda, just trying to reconcile, there should have been some bit of gross margin hit, right? Or why hasn't that happened?

I'm asking is that your gross margins are stable on a quarter-on-quarter basis. But in the Capital Markets Day, you had highlighted that J.B. Chemicals which will be working with higher cost of inventory in FY'22 because there was a lot of procurement that was done towards second half of FY'22. So basis that, shouldn't the gross margins come under pressure in this particular financial year, but Q1 you have supported stable gross margin?

Nikhil Chopra: So that is what Lakshay stated earlier that when you see the gross margin, which we reported last year was close to 64%.

Lakshay Kataria: We were at 65%.

Nikhil Chopra: 65%, then this quarter, if you see our gross margin is close to 63%. So there is a 1.5% dip that we see. That is what we will see for next 3 to 4 months. And once the LOE expires for Azmarda, overall, the gross margins will go up in a significant way and will come back to our gross margin trajectory by quarter 4.

Nikhil Mathur: Sorry, sir. I'm not clear. In 4Q, reported 66% gross margin.

: Nikhil, I think the product mix is very different between Q4 and Q1, and thus that comparison is not apt.

Nikhil Mathur: Okay. So you believe that the impact of higher raw material costs is there in this particular quarter?

: Yes, that's what we stated, that higher raw material cost is there in the quarter.

Nikhil Mathur: Okay. And sir, you also had given up EBITDA margin guidance of 24% to 26% for FY'23. We have done 24% this particular quarter, and you have also mentioned that you are starting to see some things starting to soften now. So can it be assumed that from 2Q onwards, the margin could possibly towards the higher end of this range?

Nikhil Chopra: See, Nikhil, if you look at our operating EBITDA margin is still 24% plus. So the guidance that we have given is a guidance of range between 24% to 26%. So you will see some quarter 25%, some quarter you will see 26%, maybe we can get back to 24%. So that is our guidance that we are putting across because you are living in a very volatile world. Please understand the overall geopolitical issues, the currencies, the receivables, all those things have to put in place. So somewhere we are seeing some tailwinds in terms of the commodity price going down overall, but there are tailwinds in terms of the fuel and gas price is going up. So that up and down will happen, and that is how we have guided for the year, 24% to 26% margin.



Nikhil Mathur: And sir, one final question on the acquisitions that the company is undertaking. So the pediatric brands from Dr. Reddy, Azmarda did. Any synergies that we see with the existing portfolio because on the face of it, the multiple seems to be slightly on the higher end of these acquisitions, but can they be complemented with some higher sales of existing portfolio, which can be cross sell by the same set of medical reps?

Nikhil Chopra: So Nikhil, a very good question. And if you look at the 4 brands that we have acquired from Dr. Reddy's, they now are being promoted by our team, which are 300 people under the division of Nova, who already are promoting respiratory and pediatric products. So if you look at what we are trying to do is to position ourselves as a company in the clinic of pediatrician, which will be more getting in the world of gut product promotion, which is a combination of Rantac Syrup that we have, Exotus syrup that we have. And now we have got Z&D, equally we have got a brand, which is Pecef, which is antibiotic, which has got a good starting point.

So this will, over a period of time, probably we'll be able to add more color, very initial studies that we are into. You will see probably Q3 onwards where we'll be able to share more information in terms of how the tax rate is happening in terms of the acquisition that we did of this 4 brands. Azmarda, we have a team, field force of around 180 to 200 people who are promoting Azmarda as a brand, and we are looking at 1 or 2 product additions that we will do over a period of time within the team more in the field of cardiology, maybe in the world of arrhythmias. So all those synergies will come into place. That is what we are looking forward.

Moderator: The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: Just a couple of clarities. First, the sales force incremented the total, including supervisors, etc. has gone from 2,100 to 2,500. So the delta 400, Nikhil, you just mentioned Azmarda may be taking 200 delta and the remaining 200 is all at Sanzyme because I still remember Sanzyme when it came to you, they had about 300, 325 people. Can you just clear the math here?

Nikhil Chopra: Yes. So J.B. is organic, we were having 2,000 people, 300 people are now as a part of team for Sanzyme and 200 people are a part of team of Azmarda. So in totality, we have 2,500 people.

Anubhav Aggarwal: Okay. And for this pediatric acquisition we've done from Dr. Reddy's, what's the payback period do you have in mind for that?

Nikhil Chopra: So generally, a payback period is 6 years. That is what task that we have taken. But as you see, what we are trying to do with Sanzyme and Azmarda, obviously, the expiration would be much more higher as compared to what we have committed to the Board. So we will look at how we can get it sub 6 years.

Anubhav Aggarwal: Okay. And the same applies that pediatric acquisition as well?

Nikhil Chopra: You should track us quarter-to-quarter. You will get to know more in terms of how we are faring.



Anubhav Aggarwal: Sure. And for this quarter, when we look at the base products for us, some of the larger products like Rantac and Metrogyl, how would they have grown for this quarter year, rough idea?

Nikhil Chopra: So they are growing low double-digit. That is where we stand because last year, if you look at particularly to talk about Rantac as a brand, it was a part of COVID regimen treatment. And today, where we stand and we had a very good season for Metrogyl. So we are working now at a very high base of both the products. So low double-digit growth is what we could achieve for the quarter.

Anubhav Aggarwal: So when we look at the base business, the organic growth, so Cilacar would have grown at about high teens to 20% and the rest of the portfolio the Rantac, Metrogyl, Nicardia would have grown about low double-digit. That's the time framework we can work with?

Nikhil Chopra: So you can look at Rantac, Metrogyl, Nicardia growing at 12% to 14%. You can count on Cilacar brand growing at around 14% to 16%. Obviously, there are other brands also. There are other 10 potential brands, which we never talk about that we have in our kitty, just to give you an example, we have a product called Bizfer Xt, which is iron segment, which is a INR 1 crore brand, then we have brands like LAXOLITE, Zecuf syrup, there are many brands where we have seen very good uptake. Some of the new launches that we have done in the field of respiratory, they are also seeing good traction in terms of prescription. So overall, this is what you can assume 12% to 14% growth for our acute portfolio and close to mid-teen growth for our chronic portfolio.

Anubhav Aggarwal: Okay. And next question is on Sanzyme. How strong is seasonality in this portfolio? Is second quarter significantly high for this or one is significantly higher for this?

Nikhil Chopra: You should see the same traction what you saw in quarter 1, probably quarter 3 onwards. Overall, the demand gets overall, you will see things going down. But what we are trying to do is we are looking at by that time if we have 1 or 2 good products in the terms of life cycle management that we'll be putting in the market, that is a plan. Now let us see in terms of how much we are successful in getting those products at that time. But rightly, so the first half of the year is overall a better demand for probiotic as a market.

Anubhav Aggarwal: So Nikhil, how do we look at this molecule? If you run it to INR 12 crore, INR 13 crore, so yearly-wise, give and take, INR 150 crore kind of number we guys can roughly work with for the Sanzyme portfolio?

Nikhil Chopra: So just to clarify that when we are talking about INR 12 crore to INR 13 crore revenue for Sanzyme portfolio, Sporlac is around close to INR 6 crore to INR 7 crore. There are other parts in the portfolio, which is a combination of products for infertility, products for store management. There are some supplements. So overall, probiotic contributes around 60% and 40% we have rest of the portfolio. And you are rightly in terms of, we should see revenue traction for the year close to around between INR 140 crore to INR 150 crore for the year.

Anubhav Aggarwal: A couple of more questions. One is the CMO business. So just trying to understand this. You mentioned across markets, there was a little higher



orders from the customers. Now at the customer end, is this restocking about the inventory only the end market sales, they are seeing it higher because now you've seen 2 quarters, which is a very high demand.

Nikhil Chopra: Obviously, the end customer demand is on the higher side. That started some time, I think, in mid of last year quarter 4, and that we continue to see. Probably the stocking part happens for us, calendar quarter is quarter 2. That is how things happen. And if the end customer demand continues to be there, then it should surprise all of us.

Anubhav Aggarwal: And Nikhil, when you talked about this can be 13%, 14%, so like very roughly your revenue this year will be about INR 3,000 crore. So roughly are you talking about INR 380 crore to INR 400 crore for the CMO business?

Nikhil Chopra: No. We are not talking about INR 380 crore, INR 400 crore for CMO business. So if you understand the overall orders, this is the orders, which we procure for our CMO business are more frontloaded for H1 part of the calendar. As the festivity and the festive season starts more so Christmas and in western part of the world, probably there are holidays for 45 days, 60 days, so that is how they at least look at stocking the products and look at it in terms of how they will be able to make the demand which will start coming for them in quarter 1, which is January onwards. For them, January to March is the first quarter and for us, January to March is the last quarter. So I don't want to get into any absolute figure on revenue we will do. But the trajectory that we are seeing is around INR 83 crore, if I'm not wrong, Lakshay, for quarter 4, INR 85 crore for quarter 4, INR 100 crore for quarter 1. We should be close to between these 2 figures probably in quarter 2. Quarter 3, we'll be able to give more color probably in our quarter 2 results commentary.

Moderator: The next question is from the line of Rashmi Sancheti from Dolat Capital. Please go ahead.

Rashmi Sancheti: Congratulations on good set of numbers. Just a clarity again on CMO segment. So earlier, when you commented 13% to 14% of the overall revenues, that is what the CMO segment would contribute. That basically was not the contribution and it wasn't the growth which you were expecting for FY'23?

Jason D'Souza: Rashmi, I think when you are modeling the CMO business, Nikhil clearly mentioned that in the first half, it is a heavier base and then the latter half it is subdued. So I guess when you're modeling the CMO business is best to look at a like of a mid-teens growth. That's what I think we are more comfortable with, and that's what we've kind of already guided to.

Rashmi Sancheti: Okay. And coming to the domestic business, in the presentation, it is mentioned that the overall prescription base has become 4.09 crore. Can you just give a split between the GPs and the specialist prescription in this? And how does it look like in Q1 FY'22, I mean, last year?

Nikhil Chopra: Exact details, Rashmi, I don't have, but Jason can come back to you. But just to give you a rough guidance in terms of the way I see it would be around 60%, 65% GPCB and around 30%, 35% specialist.

Rashmi Sancheti: This is as of today, right? I mean, generally, 60% to 65% is what we are running now. And how does it look like 1 year back?



Nikhil Chopra: Yes. It would be 5%, 7% up. It would have been 60%, it would be 70-30. Please understand, then if you want exact details, we'll come back to you.

Jason D'Souza: But the reason why we have given prescription, very strong prescription growth that clearly shows the kind of work that is happening at the doctor level and clearly shows how primary sales are also will get impacted because of this higher prescription. That's the reason we have indicated those numbers.

Rashmi Sancheti: And related to the South Africa sales, can you give the figures like what kind of growth we have seen and how many launches we have done in this business?

Lakshay Kataria: So in South Africa, it's been upwards of 25% growth during the quarter. And both public and private business continue to do well. Overall, from a new product perspective, sorry, I can't share those details on the call.

Rashmi Sancheti: And private public ratio would be 50-50 in this quarter also?

Lakshay Kataria: Yes, roughly in that so.

Rashmi Sancheti: And my last question is related to debt. If you can give the figure for FY'22 between long-term debt and short-term borrowings?

Lakshay Kataria: So end of quarter, we had a debt of about INR 325 crore, of which roughly INR 300 crore was long-term debt, which was taken by acquisition of Azmarda and balance was working capital. And we had a cash and investment of about INR 180 crore plus at the end of the quarter.

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

Abdulkader Puranwala: Sir, my first question is with regards to Azmarda profitability. So when we spoke about the monthly sales of INR 7 crore to INR 8 crore, and on the gross margin level, the entire impact was largely alluded to Azmarda sales. Would it be fair to assume that currently at an EBITDA level, this would still not be a major contributor?

Lakshay Kataria: Yes. In fact, Abdul, we've been guiding all of you that actually we are in an investment mode, particularly till the time the LOE expires. So actually, it's a negative EBITDA from the brand as of now.

Abdulkader Puranwala: So sir, I mean, from Q4 onwards, then once the LOE expires, I mean what is the kind of margin we should expect from this product?

Lakshay Kataria: Overall, I think we should aim for at least a company level of EBITDA. And like Nikhil said, obviously, there are moving parts. We need to see how the pricing, etc. pans on. But our minimum aspiration should be that we should do slightly better than the company average EBITDA on this portfolio.

Abdulkader Puranwala: Okay. And sir, my final question was on the MR count. So we added close to 400 to 500 MRs for these 2 portfolios that we acquired. So sir, for future acquisitions, would you further go to increase your MR account in order to increase your reach? Or this will be largely absorbed within this existing?



Nikhil Chopra: See it will all depend upon Abdul the type of opportunity which comes on the table. For example, let me give example of the 4 pediatric brands that we acquired, there was no addition of any medical representative on the ground. But equally for a specialized promotional products in the world of heart failure, you need to have a team because you already are having a revenue of INR 60 crore to INR 70 crore where we will need people to go and this is a big opportunity according to the heart failure is a disease of next decade. So it will all Abdul depend upon the type of portfolio, whether we can fit that portfolio within our existing business or we want to give it or we see better opportunity in having field force, which will give justice to the acquired brands.

Moderator: The next question is from the line of Gagan Thareja from ASK Investment Managers. Please go ahead.

Gagan Thareja: Sir, the first question is around sacubitril Azmarda. Dapagliflozin also has an indication expansion for heart failure. And NIH data from U.S. actually shows dapagliflozin has better outcomes than sacubitril. You already have DAPA with you. So I was just wondering what's the thought process or rationale behind going into sacubitril as well?

Nikhil Chopra: See, dapagliflozin has been promoted by different team. And you are right, absolutely right in terms of dapagliflozin has a role in patients with heart failure. But we are not a big player in the world of dapagliflozin, and we're making slow inroads. But if you look at sacubitril/valsartan the product has been there in the in U.S. market for last now, I think a decade. And Jason correct me that, it's a \$4 billion product for Novartis. So it has got a lot of studies and supporting evidence in terms of what sacubitril/valsartan bills on the table as compared to dapagliflozin. So that is how we have taken a call of looking at the primary therapy in heart failure is going to be sacubitril/valsartan and dapagliflozin will have its own role. And once I think the LOE expires, probably you will see not much difference in the price point of both the products and you may see better uptake of sacubitril/valsartan, which has got its own benefit and improvement in the quality of life of the patients who are suffering from heart failure.

Gagan Thareja: And the reason I was asking was also one more reason I was asking is because these are possibly very comorbid conditions, both diabetes and heart failure for a fairly significant chunk of the population, especially in India. So from an Indian context, you feel what worked in U.S. would equally work well in India as well?

Nikhil Chopra: So if you look at for our products, which is a patented product to generate a revenue of around INR 500 crore in 4 years for its existence in India itself talks about the strength of the molecule. And there are enough evidence available in Indian population also. And when we are going and talking to the top cardiologists of the country, they are very much very aligned in terms of the stage 3 and stage 4 patients of heart failure where they are using sacubitril/valsartan as a starting therapy. And at some given time, as LOE expires and the medicine will become more affordable, you will start seeing acceptance of sacubitril/valsartan in stage 2 part of the journey of the patient also.



Gagan Thareja:

Sir, and on your acquired Sanzyme portfolio, if you could give us a little more sort of detailed understanding as to how post acquisition Sporlac and Lobun and some of the other brands are working out and how you're strategizing around these because overall, you've indicated they're growing well in the mid-teens, but is there a difference between how Sporlac is picked up and how Lobun and the others are doing?

Nikhil Chopra:

So this entire entity of Sanzyme is into 3 clusters. The cluster 1 is Sporlac and different variants of Sporlac, which is 60% of the revenue where we have seen market share gain. And quarter 1, if you look at Sporlac as a brand, which has grown at 26% as compared to Bifilac and Vizylac which have grown at around 18%, 20%. So we are seeing good uptick in terms of prescription for Sporlac. And the intention going there is what I spoke earlier that how do we at least encash the J.B. strength of GPCB prescriber base, which is today very much giving us benefit for Rantac and Metrogl as a brand. And equally, in next couple of months, you should see some more variance of Sporlac, which will be premium priced to be in the market. That is point number one.

Point number two, which I have spoken earlier also, Oxalo and Lobun are class probiotic, high-priced probiotic more for chronic kidney disease patient. And there, we are going to nephrologists, the intentions are how do we generate more scientific data and make this brand bigger. These both brands contribute around 15% to 20% of the revenue, and we are seeing the June uptick because J.B. as a company, we cover all 2,000 nephrologists and we have got a very good prescription uptake from nephrologists as a specialty for our Cilacar, Cilacar-T, Nicardia. So there, we enjoy equity.

Third part of this business is, business in the world of women health, more so in the world of infertility, which is once again, 15% to 20% of the revenue where we have teams who visit around 1,200 in fertility clinics. And there also, we are on the verge of doing life cycle management in terms of the portfolio gap that we see. So that should also see overall uptick, probably it will take more time because this is a highly intensified competitive market where we have very big players who enjoy better market share. So this is what commentary I can give on what we have observed in last 3 to 4 months of operation of Sanzyme as entity.

Moderator:

The next question is from the line of Ashish from IIFL AMC. Please go ahead.

Ashish:

Sir on the CMO business, obviously, we have plans to double the scale, but then would we be sticking to medical lozenges? Or you feel there is an opportunity for us to diversify then grow the business accordingly?

Nikhil Chopra:

So the entire opportunity on the table for CMO business is twofold. First is, how do you widen your portfolio? And earlier also what I have shared that we want to venture into areas like sleep disorders, motion sickness, oral thrust, sexual wellness, acid reflux disorders. So there are some proof of concepts which we have developed, and we have shared with our partners. And this understand getting into new category of business and when you get a reference product, when you develop the product, you have to share with your partners, they do their own research and then they come back depending upon what potential the product has. So that is a process which is on. That is point number one. And that as and when happens, we'll be more than happy to share.



Equally, the business development work that we are trying to do is to add more partners because we have enough capacity in terms of the lozenges that we can make and look at working with more partners across the globe, maybe in the Eastern part of Europe, some parts of Russia, some parts of Southeast Asia. So there are some more partners where have been on. So as and when things proceed, we'll be more than happy to share with all of you.

So just to share with you, Reckitt we started for their brand called Strepsil in Australia as a market. Now we are looking at opportunity with Reckitt in Russia, in Southeast Asia. So that is how things happen. But this business has got its own gestation period that has to be understood. We were fortunate enough that we could see a good uptick because of supposedly more a seasonal flu type cough and cold season, which probably has happened in Western part of the world in where our partners are in Southeast Asia, Australia and New Zealand, Canada, South Africa, Russia, where our partners sell these products.

And this is what we want to do in the world of CMO, and we have got all the capabilities and we have got all the capacities. That is where I see and it's a differentiated entire approach where we can bring enough opportunities on the table. And it takes time for any company to get into this scale of having partners whom we have been working for last now 2, 3 decades and equally, rightly also have the capacity to add more partners.

And third part is to get into new age portfolio because what COVID has taught us that cough and cold will be more seasonal, but immunity, wellness, motion sickness, sleep disorders, these are the new areas where our customers are looking forward if this therapeutic delivery can come in the world of lozenges, which has to be overall low dosage form.

Ashish:

So to double the scale from, say, INR 250 crore to INR 500 crore, would you need very high investments? Or you feel we already have the facilities at our disposal?

Nikhil Chopra:

We have the capability to manufacture 2 billion lozenges across the year. Right now, our output is close to 1 billion plus. That is where we stand. So we have enough capacities.

Ashish:

Got that, fair enough. And another question was on these branded markets of Russia CIS. Obviously, we had plans to launch 2 to 3 products every year. And obviously, on the OTC side and there on build on the legacy, but how is the market shaping up currently? Because the larger distributors control almost around 50% of the market. So given the current construct around Russia, Ukraine, how this market panning out?

Lakshay Kataria:

So the way we've seen quarter 1 pan out, it is not the strongest sort of quarter for us because of the seasonality of the portfolio we offer. Usually, we start seeing traction towards July, August. So sequentially, we do expect the traction to get better. And as far as the new launches are concerned, we are pretty much on path. So we haven't sort of made any change to our strategy on that part of our business.



Ashish: Okay. And any time on the South African generic market, you would like to contribute because so much less talked about market. I understand it's a smaller proportion of the overall skin, but still.

Lakshay Kataria: Like I mentioned, during the quarter, we saw upwards of 25% growth, and both public and private business continue to do well. And our focus there has really been to sort of scale up that subsidiary, and it's pretty much on track.

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

Neelam Punjabi: I wanted to understand if you can just comment on your Russia business. How has it done during the quarter?

Lakshay Kataria: So like I mentioned, this is not the strongest quarter for Russia because of the portfolio that we carry. This is usually a bit of a leaner quarter, but the demand has held steady year-on-year. So I think the business overall hasn't sort of seen any deterioration on headwinds. And as we now get into Q2 and as you know, we start getting for the cough and cold season, etc. it should start seeing better traction from this quarter onwards. And on the receivables side, also, we've seen decent traction in the last quarter.

Neelam Punjabi: My second question is on your PAT. So if I look at over the last 2 years, our revenues and EBITDA have grown quite well. But on the PAT level, we are largely flat, which is understandable given the soft cost, higher depreciation due to acquisitions and loss of treasury income. But going forward, what's the trajectory that we can see in terms of earnings growth?

Lakshay Kataria: Let me just explain you, I think, a little bit more conceptually as how we look at it as a management team. When we started this journey on acquisition, we had a cash of about INR 700-odd crore. It was earning us about INR 50 crore a year. We've invested it in a business called Sanzyme, which we brought EBITDA of about INR 50 crore a year. We feel that this INR 50 crore in the next 4 to 5 years can become INR 100 crore, right? That's our hypothesis and that was the whole logic of buying this business.

So we personally feel that while there will be a depreciation hit and the treasury income has gone away, but we've created a more sustainable income stream and a cash flow stream for the company. And given today's age and world where our treasuries across the board are struggling with varying yields and currencies and interest rates moving up and down, I think this whole strategy served us better. That's how we look at it as a management team.

And to your question on PAT, I think if I look at it from a sequential basis, now ESOP costs are largely stabilizing. And as we move into Q2, Q3 of the year, they will sort of become comparable with the base as well because the base also carries ESOP cost and some of the treasury income also will get normalized. So you will start seeing the benefit of EBITDA growth also into PAT growth. So I think you have to bear for 1 or 2 more quarters in, you will sort of start seeing upward trajectory on the PAT as well.



Neelam Punjabi: And if you look at ROCEs, they have come down from 42% to 22% given the acquisitions. Do we see this ROCE numbers going back to the historical levels as the growth from Sanzyme and the acquired portfolio companies?

Lakshay Kataria: So I think when I look at 42%, I think I personally feel 42% was coming on a back when probably we were not investing as much into acquisitions and the business, right? And a lot of our sort of PAT, etc. was being driven by treasury income. Will we go back to 42%, maybe no. But can we get back to 30%, 35% over the next 3 to 4 years, for sure. But I just want to caveat this understanding, this also depends on overall our M&A strategy and further investments that we may choose to make. So that will come and explain to you as and when those opportunities arise. But with the portfolio we have as of today, can we go back to 30%, 35%, for sure.

Neelam Punjabi: And sir, you have been a guidance of 24% to 26% EBITDA margin this year, do we start seeing our historical FY'21, 27% margin that will starting next year?

Nikhil Chopra: See, Neelam, very difficult to talk about next year because please understand the guidance that we are giving is on the basis of the volatile world that we are living into, at some given right now, we are seeing some tailwinds in the case of commodities, in the case of freights stabilizing. But if you look at still there are pressures in terms of gas, in terms of fuel, in terms of currency volatility, in terms of RMPM procurement for some specific products.

So net-net what we are looking at that how overall the EBITDA margins should flow from delivering market beating growth. That is the intention going ahead, and we are building an organization, which is more future ready, which is more into progressive portfolio. Never we have launched new products in the world of RoW market. You will see us launching new products in the world of RoW market next year, which are more progressive in nature, which are more in the world of cardiology, diabetology. So those will need investment.

Equally, we now have a team of 2,500 people on the ground in terms of if what earlier was spoken that the payback period has to be sub 6 years. So we have to make the right investment in terms of how do we drive better prescription traction. And from 2 crore, if we have 1 crore to 4 crore prescription, why not to aspire for 6 crore prescription in the coming time by making right investment. So we are looking organization from a theme of invest to grow, that is what is the intention.

And equally, a huge opportunity in terms of what we are ranking in the world of CMO business, where there are new proof of concepts which are in the entire journey of development. So these all things will play as and when things stabilize. Once things stabilize, we'll be able to give better direction in terms of what trajectory of EBITDA margin we are looking at. And we plan to do some time that in quarter 3 as we see things normalizing.

Neelam Punjabi: And just one last question on my end. Given we have acquired Dr. Reddy's like pediatric portfolio 4 brands. And our current depreciation as of Q1 is INR 26 crore. How much will it go going forward?



Lakshay Kataria: The DRL acquisition will not impact so much, the annualized impact of that portfolio will be about INR 5 crore again.

Moderator: Ladies and gentlemen, we take the last question for today from the line of Rahul Jeewani from IIFL Securities Limited. Please go ahead.

Rahul Jeewani: Now the 57% prescription growth, which we have indicated for the quarter, does that include Sanzyme and Azmarda as well? And if yes, can you please talk about how over organic prescriptions would have grown?

Nikhil Chopra: We can come back to you on that data, but this includes Sporlac and Azmarda. That is what I can say at this point of time. And please understand, this was on a low base. That is how you see 57% growth. But the agenda going ahead is what I've spoken Rahul, earlier also that how do we start getting more and more prescription from the specialist. And more so, PYD has also increased in a big way. That is the number of prescriptions which we are getting from the same doctor is also showing encouraging and healthy data.

So we are trying to look at prescription from a view of how do we have a fundamental strong base of prescribers and more so coming from the specialists because from a GPCB base, we have got now a prescription for Rantac, Metrogyl, Sporlac, which are 3 big brands in the country. So we are looking at that new products that we have launched, which should be coming from specialty, which is in the case of cardiology, nephrology, pediatrician, Chest physician, diabetology, that is the agenda. That is why we wanted to share in terms of we have seen uptake in prescription overall and the PYD also is increasing, and we are seeing some uptake in terms of the prescription uptake from the specialists. But more data, Jason can share with you probably in a day or so.

Jason D'Souza: But, Rahul, just one point. This is IQVIA data. So if it is there in the base this year, it is also there in the base last year, Sanzyme and the other brands.

Rahul Jeewani: Okay. So this is like-for-like growth for the overall portfolio?

Jason D'Souza: Right. Correct. That's correct.

Rahul Jeewani: And just one follow-up, sir. So on the specialist doctor coverage, so what is our doctor coverage on the specialist side as of now in terms of our coverage and how do you see it expanding over the next, let's say, 2 to 3-year period?

Nikhil Chopra: We don't want to expand. See Rahul, we are covering close to 3.5 lakh doctors. And I think the specialty coverage would be close to around 1.5 lakh doctors. We have enough doctors that we are covering. Please understand what I was trying to talk earlier, that we are looking at how do we start getting prescriptions from the doctors who are today not supporting us and how do we start getting prescription from the doctor who are already giving us prescription, that is what we want to do. So we don't want to start covering 5 lakh doctors. That is what we don't want to do and what earlier also I have spoken that we do in short to mid-term, we don't have any plans to increase the field force.

Basically, the agenda going ahead is how to at least have a motivated, better trained, charged field force on the ground who are doing the right job, getting



into the world of digital retailing, getting into the world of retailing progressive portfolio, helping them in terms of how we can get into the world of medical marketing, conferences that we can hold and at least come close to the doctor community. Wherever at least we want to play, we want to win. That is what we want.

Moderator: Thank you. I would now like to hand the conference over to the management for their closing comments. Over to you.

Jason D'Souza: Thanks very much, Stephen. I think with that, we have run out of time. So I would like to thank all the participants who have attended the J.B. Pharma's Q1 FY'23 call. With this, we would like to conclude the earnings call. Thank you, everyone.

Nikhil Chopra: Thank you.

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

