J. B. CHEMICALS & PHARMACEUTICALS LIMITED

November 17, 2021

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1,
G-Block, Bandra Kurla Complex,
Bandra (E), Mumbai – 400051.

Stock Symbol: JBCHEPHARM

Dear Sir,

Subject: Earnings conference call Transcript

Ref.: Disclosure under regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30 read with Schedule III and Regulation 46(2)(oa) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, enclosed please find Transcript of Earnings Conference Call scheduled for investors and analysts on Novemebr 12, 2021 at 3.30 p.m. IST to discuss results and developments for the quarter ended on September 30, 2021. It is also available on the website of the Company.

We request you to take this on record.

Thanking you,

Yours faithfully,
For J.B. Chemicals & Pharmaceuticals Limited

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J.B. Chemicals and Pharmaceuticals Ltd.
Q2 FY22 Earnings Conference Call
November 12, 2021

This transcript is published as is what we have received from our vendor who manages the conference call. We would request you to go through the audio recording in case you want to reconfirm anything that has been mentioned in the transcript

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Moderator: Ladies and gentlemen, good day and welcome to J.B. Chemicals and Pharmaceuticals Limited Q2 FY'22 Earnings Conference Call as on the 12th of November 2021.

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 telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Jason D'Souza – Head of Investor Relations at J.B. Chemicals & Pharmaceuticals Limited. Thank you and over to you sir.

Jason D'Souza: Thank you, Lizann. Welcome to the Earnings Call of J.B. Chemicals and Pharmaceuticals Limited. We have with us today the Management of J.B. Chemicals and Pharmaceuticals, Mr. Nikhil Chopra -- CEO and Wholetime Director; Mr. Kunal Khanna – President, Transformation, and Mr. Lakshay Kataria -- Chief Financial Officer at J.B. Chemicals and 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 detail statement in this regard is available on the Q2 FY'22 Results Presentation that has been sent to you earlier.

I would like to now hand it over to Mr. Nikhil Chopra -- CEO to Begin the Proceedings of the Call and give his Opening Remarks. Over to you, sir.

Nikhil Chopra: Thank you Jason. Good afternoon, everyone a warm welcome and thank you for taking time to join us for this discussion on the operating and financial performance of J.B. Chemicals and Pharmaceuticals for the Quarter 2 FY22.

I will start with an overview of our performance during the quarter and share an update on the progress made and the objectives achieved in the first year following the ownership and management changes. Following which Mr. Lakshay Kataria will take you through the key financial highlights, then we will be happy to take all your questions in this call.

Before I get into these discussions, I would like to once again warmly welcome and formally introduce Mr. Lakshay Kataria – our new CFO to all of you. Lakshay is a chartered accountant with around two decades of experience across finance and commercial roles. We look forward to his participation in all our strategic initiatives, and he will be jointly participating with us in the outreach to the investor community as well.

Also, I have with me, Mr. Kunal Khanna who heads the entire operations part in J.B. Chemicals and he has been there also a part of new management in J.B. Chemicals since last one year.

Now to talk to you about the operating performance:

Despite the challenging conditions, we've continued to witness strong revenue momentum. In the second quarter. The domestic formulation business continues to record stellar growth, outperforming our internal parameters as well as the IPM benchmarks. At the same time, our international business performed well despite another challenging period, as business activities and supply chains remain impacted due to the pandemic related issues.

During quarter 2 FY 22 revenues recorded were 593 crore and Rs 1199 crore in H1 FY 22.

Our reported YoY. growth is 34% in quarter 2. Here. I would like to highlight and you may recollect that in quarter 2 last year, we had experienced some logistics related issues and that led to some deferment of sales from quarter 2 FY 21, to quarter 3 FY 21. After adjusting for this deferment in the base period, we recorded robust growth of 18% in second quarter of FY 22. This is what I wanted to bring to the notice of the investor community in terms of where we stand in terms of our performance for FY 22 2nd quarter.

This puts us on the course to achieve the targeted business growth as per plan and create the platform for ongoing expansion.

Our operating EBITDA margins remain healthy, excluding one-off costs and the non-cash ESOPs charge, the operating margin for quarter 2 FY 22 came in at 26% margin for this quarter. Also, it needs to be noted that these margins have been delivered on largely normalized cost structure and significantly higher logistics and supply chain related expense in this quarter under review.

Coming to our domestic business:

Our domestic business maintained the quarter on momentum into the second quarter to deliver 38% growth for quarter 2 and 39% in first six months of the financial year. Our large brands have continued to make a significant contribution to our growth with five of our top brands in 300 IPM brands, not only recorded market beating growth, but also outperformed the covered molecule market.

As per IQVIA MAT data September 21 JBCPL is the fastest growing Company in top 30 in IPM with a MAT growth of 28%. versus covered market growth of 16% and IPM growth of 18%.

Also, I would like to bring to the notice of all of you, that our IPM performance is even more commendable since the portfolio is almost entirely in non-COVID therapies.

In our international business, the South Africa business recorded growth in both public and private market. The South Africa subsidiary gained 10 ranks in the country to reach 15th rank as on September 21.

In Russia the business rebounded well towards the end of the second quarter and we hope the momentum continues in the third quarter.

The ROW branded generic markets continue to be challenging during the COVID 19 lockdowns in key markets but we are glad to share that we have managed to secure one new marquee client for our Lozenges CMO business. However, due to muted demand in the cough and cold segment, our CMO business remain subdued.

Now I would like to spend a few minutes to update you on the key priorities driving the business. I will also focus on the initiatives over the last 12 months since the new management team has took over the entire charge at J.B. Pharmaceuticals.

As you may know, one of our main objectives while driving growth is therapy diversification in the line with our core strengths in domestic formulation business. To achieve this, we have rolled out several programs including implementation of revised go-to-market structure across entire nationwide salesforce. We're also entered into progressive and complementary therapeutic segments, such as diabetes. nephrology, respiratory and allergy by launching three new divisions and subsequently around 15 new products in the market in the last one year.

This has largely been achieved by repurposing the existing resource framework resulting in J.B. Pharmaceutical establishing its position as a fastest growing Company in top 30 pharma companies as per IPM data.

We have improved our productivity by fully automating the salesforce with a full coverage of iPads rollout to our field force on the ground, insights to increase in-clinic effectiveness of our representatives when they are visiting doctors' clinic, invested in technology and training. Also, we have expanded our doctor engagement tracking mechanism, used medical evidence based studies to enhance our patients connect and establish more salesforce headquarters to go deeper into untapped markets across the country. These initiatives are future-oriented investments that we believe will allow us to get an increasingly larger share to our Indian healthcare spending over time and there are promising signs of this initiatives that I have spoken over the last few minutes, which is we have already seen per person productivity improvement of 25% growth from 4.5 lakh to 5.2 lakh per person.

Domestic business has achieved now a monthly run rate of around Rs. 1 billion INR and I'm happy to share that the new product contribution, which was negligible in the past is now close to 4%. We have even seen rank gain and market share improvement. This results are an outcome of continuous focus in areas of best-in-class execution excellence and driving salesforce excellence parameters well supported by digital technology and medico marketing initiative engagement with the healthcare professionals.

In addition, there are several other operating and functional initiatives that has been put in the play in our specialized CMO business. We already have differentiated capabilities in medical herbal, lozenges with global regulatory approvals, low-cost manufacturing infrastructure, and existing relationship with global major partners.

We have now extended the focus from cough and cold segment into new area of lozenges for wellness and immunity. We look forward to a deeper engagement and more widespread coverage in this market to deliver sustained growth.

In the international business, we have also deepened our presence in our established markets on the back of more launches and accelerated filings while also working on stabilizing our operations in Russia.

We have scaled up our R&D initiatives with an expanded team. More CAPEX, commitment and enhanced systems to accelerate the product pipeline across the portfolio of business and geographies. We are supplementing our various organic initiatives with external collaborations and continue to evaluate strategic and M&A opportunities as well and you will hear more of this in the coming time.

We have holistically evaluate our cost structures with the objective of improving cost efficiencies while maintaining service levels. Direct cost reduction has been the primary objective of cost rationalization exercise. Also importantly, following the acquisition of controlling stake by KKR last year, we have the support of strengthened board and best-in-class governance practices that are contributing substantially to all our progressive initiatives.

With that. I would like to reiterate that despite the challenging economic environment, we continue to be positive on the business for the rest of the year. Our domestic business is now on a strong foundation, which will help us to sustain the business growth over the next few years. Our ability to launch products has also been successfully tested and we are glad to see the progress made on the new product launches even though we were late entrance into those molecules and categories. The new go-to-market model has been successfully launched and tested. This model will be the pivotal as we continue to aim to outperform industry growth.

Our investments in R&D will drive growth in the international markets and we remain optimistic about our unique position in the CMO segment. We have added one new global name as a client, and we look forward to adding many more based on our credentials in the contract manufacturing business. We look forward to continue driving execution to create long-term value for our stakeholders.

On this note, I will conclude my opening remarks and I would request Lakshay to share with you a brief perspective on our financial performance. Thank you all for patients hearing over to you Lakshay.

Lakshay Kataria: Thank you Nikhil and a very good afternoon to all of you and welcome to our Earnings Call. Before I move to the financial performance I would just like to share that its matter of great pride for me to be a part of J.B. Chemicals and Pharmaceuticals, I think it's been a very strong legacy business that's been built and a Company that's on path of transformation. So, very happy to be a part of this team and look forward to also meeting you and interacting with a lot of you over the next couple of months.

So, I quickly move to the quarter that's gone by:

So, overall as Nikhil indicated, we saw a revenue growth of 34% so our reported revenue was 593 crores. And as Nikhil mentioned earlier, we did see some sort of delays in shipments, etc., same quarter last year. So, on a like-to-like basis growth for the second quarter, we'll be closer to 18% and were when I sort of split it up between international and domestic business. The domestic business saw 38% growth during the quarter. And when we look at our performance versus market, and we look at IQVIA data, our domestic formulation business has seen a growth of 28% where the IPM growth for the market stands at 18 and the covered market growth stands at 15%.

So, overall it clearly indicates a significant out-performance in terms of growth despite not having a very active COVID portfolio. Growth momentum from here is largely driven by progress initiatives taken by the Company.

Talking a little bit about the international business:

The international business reported a growth of 36%.The logistics related disruptions we covered earlier are largely visible in this part of the business. And the overall growth rate is also lower accordingly. Certain parts of our international operations have seen headwinds while businesses like South Africa continuing to do better, but certain parts are seeing those headwinds and all the logistical challenges.

Coming to the cost side now:

Our gross margin was at a healthy 65%, and this now has started seeing some level of inflation on the raw material and the packing materials side coming through, which we have tried to manage through cost mitigation. As we move ahead as each of you, I'm sure is sort of tracking what's happening in this space, the heat on prices is only going to accelerate, right? And hence the need for us to really step up the pedal on cost mitigation is even more important. So, with various initiatives that we've introduced and Nikhil alluded to, we are also building a little bit of augmentation of our internal effort, with external support to drive some structural cost efficiencies in the business.

If I look at, our operating expenses, all of you would have seen a significant increase in our operating expenses this year-on-year basis. If I was to sort of de-layer the increase we saw this year, I attributed to broadly 3 components:

One as we've come out of COVID, some of the operating costs have started to sort of come back. And we have also seen escalation in the fuel and freight costs during the quarter.

Second, we have a non-cash charge towards ESOP of about 13.2 crore during the quarter. And there've also been certain non-recurring advisory and consultancy services, which have been used for various transformational initiatives, which have impacted other expenses this quarter. So, if you really look at from adjusted EBIDTA stand point, we have explained these variances and the underlying operating EBIDTA in our Investor Presentation.

Other income during the quarter was pretty strong and this was largely led by the fact that we saw good mark-to-market gains and returns on a mutual fund portfolio. So, that continued to be a good story.

Overall, from a cashflow perspective we have enhanced our cash position, we have a net cash of about Rs. 740 crore, which is about roughly Rs. 80 crore, higher than were we were in March. This is despite the fact that we have taken some conscious decisions to our operating inventories, given the biosecurity concerns that we are seeing around the operating environment.

So, as we move forward, we expect the business to progress by largely leveraging the existing infrastructure and resource base, which includes our manufacturing set up our distribution setup and the relationships. We are also seeing financial performance reflect of the strategic initiatives that the team has driven over the last few quarters. We are now focused on driving profitable growth and maintaining strong cash flows in a very very turbulent time.

With that I will conclude my opening remarks will now like to open this forum for an interactive session with all of you, and we'll be happy to respond to your questions.

Moderator: Thank you. We will now begin with the question-and-answer session. The first question is from the line of Rahul Jovani from IIFL. Please go ahead.

Rahul Jovani: If we look at you india business, then again, we have seen very strong growth in second quarter and last quarter, we had indicated that Rantac and Metrogyl had seen very strong demand because of momentum in acute and gastro products. So, has their demand on Rantac and Metrogyl sustained into this quarter as well. And how has the traction been with respect to some of our cardiac products

Nikhil Chopra: This is Nikhil Chopra. In continuing to the commentary that were given in Q1, the momentum continues for Rantac and Metrogyl Which is a good sign that has helped us to deliver 30 plus adjusted (+30%) growth for quarter 2 and equally our antihypertensive a range of products, which is a combination of Cilacar, Cilacar-T, Nicardia also continue to deliver market beating performance and gain market share, and also gaining ranks. In addition to that also, what I was talking in my opening commentary, the adjacent progressive categories that we have got into to, which is in the world of metabolic, which is in the world of diuretics, which is in the world of lung care is also overall helping us in fueling the growth for India business. And that is in line with that and that I believe that we have our new product engine has also started contributing and it is gaining good traction of prescriptions from the healthcare professionals and our people are going and meeting those doctors

Rahul Jovani: So, you refer to the fact that india businesses now tracking at Rs. 1 billion INR kind of a monthly sales. So, is that number largely sustainable or do you think that some part of the gains which we have seen in acute therapy products could normalize going forward?

Nikhil Chopra: But generally, Rahul the way IPM market behaves in terms of what benefits we got from our acute business and when you look at second part of the year and rightly we have we position ourself in terms of getting new launches particularly in the world of chronic play which I just spoke to you in the world of metabolics, in the world of diuretics, in the world of respiratory, and in the world of allergy. So, that is what we are trying to do in terms of maintaining the overall seasonality for first half of the year where you get the benefit of your acute portfolio equally sustained growth in terms of our existing chronic portfolio and new launches will help us to sustain our Rs. 1 billion INR revenue for India business.

Rahul Jovani: With respect to these new launches, so you referred to the fact that new launches account for 4% of India sales in first half. So, is this based on internal number or this is IQVIA reported number?

Nikhil Chopra: This is internal.

Rahul Jovani: And can you elaborate on how the traction has been in some of these newer therapies, like respiratory, pediatrics, and a nephrology for us?

Nikhil Chopra: Just to give you some examples that we were 63rd Company to get into the world of dapagliflozin and dapagliflozin plus Metformin combo. Today we are 16th in rank and we aim to be in top 10 in this category of business. Equally, a very good response from the new launches that we have brought in the world of diuretics. And there are a couple of products which are gaining good traction and prescriptions from the healthcare professional, majorly MD medicine and respiratory specialist in the world of lung fibrosis, in the world of anti-allergic combinations, and in the world of mucolytic agents. These are all the categories, which are more chronic in nature and out of 15 products that Rahul we launched and last time also had indicated that in 18 to 24 months our game plan is how do we at least generate a revenue of around close to $2 million close to 12-15 crore for at least five of these products which overall which talks about the strength of the field on the ground, which has never been in the field J.B. Chemicals so that is what we, intend to do. And equally our existing 5 products, the way we are trying to build the ecosystem and patient-centric initiatives, looking at how we can drive better adherence, closely working with the healthcare professionals in the world of cardiology, nephrology, diabetology, how our existing five brands also continue to grow and deliver market beating performance.

Rahul Jovani: So, the last question, with respect to this 14 crore off advisory expenses, which we have booked in the quarter so can you elaborate on what were the key findings from this exercise and how we have incorporated those findings into the realigning BGTM strategy for all of our India business?

Kunal Khanna: Rahul Kunal here this side. These expenses are largely attributed across three main areas. The first one being design and implementation of the new go-to market model, which was a major part of the transformational initiative underway.

The second piece was around really driving processes and implementation of these processes. The very close monitoring review mechanisms on the ground with respect to our salesforce effectiveness activities and implementation of apps such as salesforce automation platform. And the third piece is largely around cost efficiency, which Lakshay also spoke around which is going to be very very critical in light of the current scenario. The first two are of course attributed to a major part of this you know, non-recurring onetime expense and we can safely say based on the results which we are seeing on the domestic market front, that these initiatives are driving positive outcomes.

Rahul Jovani: In terms of these initiatives being visibility tangibly in our financials. So, do you think that the entire benefit of this realignment strategy would play out in our numbers over the next one year period?

Kunal Khanna: Definitely Rahul, these initiatives are not implemented for a quarter while the design and implementation is underway, the real proof of the pudding is based on success outcomes over our mid and long-term strategy, right. These initiatives were never rolled out with just a quarter in mind or just a half year in mind. So, we have a very solid long-term, much chalked out plan for our India model basis, which the, go-to-market realignment was done. And we are fairly confident that this model will sustain and continue over the next few years

Moderator: Thank you. We'll move on to the next question. That is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: Just on the ESOP charges as a clarification. So, for what period do we expect to incur this for how many quarters?

Lakshay Kataria: So, as far as ESOP expenses concerned. This started from August this year. That's when the scheme was approved by the board and the shareholders, and this will continue. This is almost a six-year sort of scheme. And you know, because of the way the accounting works, you get bulk of the cost actually in the first initial year. And then it starts up tapering off. And just to sort of preempt the next question, maybe on this one overall, I think we had also in the last call indicated that you know, this fiscal year, I think it cost roughly about 62-63 crores. You've seen 13 crore come to this quarter. This was pretty much half quarter cost actually and you will see another 50 crore over the next two quarters.

Sonal Gupta: To understand this so next year also we should see this in this ballpark, or it will step up for the full year basis?

Lakshay Kataria: First two years a little bit heavy because like I said upfront cost identification. You actually provide more in the first one to two years; you will see a significant tapering down happening from FY 24.

Sonal Gupta: On the India performance has clearly been very strong so could you just talk about how it's been the thing on the trade generic side, what's been the sort of response there and how much is it contributing for your revenues?

Nikhil Chopra: So, The trade generic is very insignificant part of the entire revenue that we are operating at. We wanted to be a part of this play. So, that is what I shared earlier in my last comment, you also less than 5% of our prescription portfolio, we have shifted to the entire model of trade generics and we continue to leverage the entire benefit of JB as organization because our prescription products, which is Rantac, Metrogyl are household names and they would be available at nook and corner of the country, perhaps at all 800,000 pharmacy of the country. So, that is what we thought in terms of why don't we get into the world of trade generics and the way we want to play in this world of trade generics is the coming time also it will be to hardly contribute single digit to the overall revenue that will deliver for the India business and smartly we want to play in terms of, we don't want to dilute the margin front. That is what I can comment at this moment of time.

Sonal Gupta: Got it. So, and this your in previous conversation has been that the benefit of a Rantac price increase would sort of come towards the end of Q3. So, would that still be the case? So, I mean, like, we've not really seen any benefit in this quarter,

Nikhil Chopra: Marginal benefit we have seen, but you're absolutely right maximum benefit we will start seeing at end of Q3

Sonale Gupta: While you mentioned that the CMO business remains a bit subdued, but there's a good improvement on a quarter-on-quarter basis. So, should we see this number as being sustainable or improving going forward?

Nikhil Chopra: I did what I was sharing in the commentary that the entire effort in the world of CMO business is to not only look at the existing portfolio, but venture into the progressive new-age portfolio beyond cough and cold, which is in the world of wellness in the world of immunity. That is what we intend to do. And also, we are happy to share that perhaps in the month of December, at some given time, we have got one more big client on the board and our revenues should be fetching in starting December. So, the entire intent in the world of CMO is to look at how do we widen our offerings to the existing big players with whom we have been working closely, and that relationship has been there for two decades and equally add new marquee clients with the entire capability and the capacity that we have and what we are trying to build in by scaling up our entire effort in the world of research and development.

Kunal Khanna: And just to add to that, we only, from an international market perspective you see positive traction sequential basis. And also, what we hear from our customers is that the liquidation and uptick at the pharmacy level for some of the segments, which we are present in has started picking up So, we are very hopeful that if the trend continues and we are not confronted with other uncertain challenges related to the pandemic, then we should be able to sustain this while we gear ourselves for the medium and long-term as mentioned by Nikhil.

Sonal Gupta: And this, my last question would be on the R&D I know it's going to be gradual scale-up, but just, do you have any further thoughts there in terms of how you're looking at that piece and what sort of investment?

Kunal Khanna: As we have always maintained there's not going to be significant change if you really look at our R&D spend as a percentage of sale. We have certainly activated our projects and these new projects call for investments. Overall, if you really look at comparison of our R&D spend versus last year there has been a close to 20% up spend but we'll be very selective and always follow a stage gate approach. And we don't see significant needle moving at least in the near term from R&D as a percentage of Sales perspective.

Moderator: Thank you. The next question is from the line Rashmi Sancheti from Incred Capital, Please go ahead.

Rashmi Sancheti: So, in your earlier comments, you mentioned that in lozenges space, we are now moving from cough and cold segment to immunity sort of lozenges so how different this opportunity is in terms of competition, in terms of margins and when are we fully entering into this space?

Kunal Khanna: So, we have already activated projects. And the good thing is that our clients on the international market they have similar view in terms of diversification, with respect to lozenges as a dosage form in the immunity segment, right? It's a need of the hour. COVID has taught a lot of players like us and also our principal partners that segments such as immunity is the future and new dosage forms will become extremely relevant. In fact, there are new hybrid concepts, such as immunity with sore throat, which is a combination of immunity plus cough and cold segment, which we are present in. And these concepts are seeing initial traction and uptick in various markets where we are present. We have discussed a lot of these opportunities. There's a lot of interest. And certainly, we believe there is a huge opportunity for this space to be captured. It takes time. We also work with principal partners who are very kind of particular about quality aspects. There are approvals which go into it. The good part is that all these projects are underway and well-accepted and recognized by our principal partners. Coming to the second point of what is going to be the margin profile, we really don't see very differentiated margin profiles with respect to these products as well. And we are not a Company which follows our toll manufacturing model, right? For us, we are very clear that we want to work with selected clients and really look at quality reference standards, which suit the requirements of these principal partners. And the same is the case and expectation of those players from our side.

Rashmi Sancheti: Okay. And coming to again on international business like, you mentioned that we are seeing some logistical challenges and that is actually impacting the growth. How do we see second half is it still going on in some geographies or we are going to see that those things will get resolved and we won't see any shipment delays in anything. If you can elaborate more on the international market from covering all the major geography?

Nikhil Chopra: So, in the last commentary as a reference point Rashmi what I have shared that our international business, because of the logistics issues being continued, and the headwinds that we are facing in the world of RMPM, first quarter was flat, but we are happy to report that our quarter 2 adjusted growth for international business is close to 5% to 6%. But the good sign is that our order book is steady for quarter three and quarter four. Markets like Russia have been rebounding, South Africa as I shared in my commentary has been doing fairly well. We have gained ranks. We are the fastest growing Company in the top 15. The US business is performing as per our expectations and some branded generic markets are impacted still due to the entire lockdowns because of COVID, but what we feel that by quarter four starting we should be there close to low double-digit growth. However, we are closely monitoring the entire situation regarding RMPM input cost and supply disruptions equally the freight cost. And wherever is possible in our international markets, we are trying to pass on the cost to our partners, be it increase in the RMPM or be it the freight cost. So, that is where we stand, but we are monitoring the situation and we hope that things improve and overall, we come back to double-digit growth, which is more profitability in our international markets.

Rashmi Sancheti: And lastly, on gross margin that you said that you all trying to transfer the cost to the partners, then this kind of gross margins, which we did in first quarter and second quarter, which was also mainly benefited from the higher domestic business growth, like 65% gross margin, do you think it is sustainable in the second half or do you think that this might get impacted due to the high API prices?

Lakshay Kataria: So, let me pick that up. Yes. At this stage, the visibility we have our endeavor is to maintain similar trajectory in gross margin. Like I said, in my opening remarks that yes, the headwinds on raw materials are going to sort of get stronger, but we are equally putting in place mitigation plans, which include price increases, which include some of the cost transformation work we are doing to offset that. But I would just caveat my comment with the understanding that this is things as it stands today. Every day there is a new news, someday it is papers, someday it is coal, someday it is gas, someday it is aluminum so this is as per the visibility we have today and we'll keep you posted as things developed.

Moderator: Thank you. The next question is from the line of Abhishek Sharma from Jefferies. Please go ahead.

Abhishek Sharma: I just wanted to know, you said in your comments that Rantac and Metrogyl are household names, I just wanted to know how much of the sales for these two bands are coming through prescription versus people's auto buying or self-prescribing and the related question to that do you foresee any threat of substitution in e-pharmacy given the fact that they have become so common and so commoditize?

Nikhil Chopra: Abhishek in terms of look at the entire story the IPM has demonstrated growth over the last one year, the biggest contribution is coming from all the big brands across the companies. So, we are also fortunate to be a part of that entire game in terms of we have five brands in top 300 and out of these two brands are Rantac and Metrogyl, and Rantac and Metrogyl are not two brands, for Rantac and Metrogyl we have got 20 SKUs. And the strategy that we follow is in terms of how do our people go and talk about progressive SKUs news in both Rantac and Metrogyl in the clinic of healthcare professionals in Metro and Tier-1 part of the country, and equally we closely work with the channel in terms of what you are talking about the entire disposal, which is happening at the pharmacy. So, this is a strategy that we have been following, and this is all helping us to not only gain ranks, but also deliver market beating performance. Second part of the question is in terms of how in the rural and Tier-2 part of the country, we have got with entire new go-to market model, which we have put in place, we have what a team, where 50% of efforts are to work with the channels and the distributors and the pharmacies of the country. So, the overall the strategy that we are following for our brands, which is a combination of progressive and legacy mix of SKUs is helping us out to get the maximum benefit for these brands.

Abhishek Sharma: My question was more to do with the fact that how much of it is coming through prescribers because they are so familiar with the band…

Kunal Khanna: Abhishek, the fact remains that if you really look at the prescriptions, which are coming from these brands are far higher, and that is well substantiated with the evidence that if you count JB from a prescription perspective, we are amongst the top 15 companies while by sales perspective, we would be amongst the top 30. So, a large portion of our prescriptions and sales are happening because these are inherent, prescribed brands would be at HCP community. And the benefit of being in the branded generics market is even when there is a repeat purchase, the customer and the patient has such strong affinity because he knows that he's been prescribed that particular brand from the doctor is that he would insist for that particular brand. So, there are prescriptions for these brands. It's not that it's happening through trade push which is much well-substantiated by the number of prescriptions and the fact that just by scale of prescriptions, we would be amongst the top 15 companies.

Abhishek Sharma: That holds true for these two brands also?

Kunal Khanna: That holds true for us because of these two brands, it is essentially because of Rantac prescriptions that it command such high number of prescriptions in the overall market.

Moderator: The next question is in the line of Cinderella Thomas Carvalho from Centrum Broking Limited. Please go ahead.

Cinderella T. Carvalho: Again, going on to the recent headwinds on the raw material side. If we look at our top domestic brand franchisee, like Rantac, Metrogyl, Cilacar and how well we have the control in terms of the supply chain and what is our sense in terms of any kinds of disruptions? How well have we mitigated this risk in near-term if you could throw some light on this?

Kunal Khanna: So, with respect to our top three brands, we would say we have always been much more cautious in terms of maintaining material inventory, right through the last 18 years as we kind of always were living through such uncertain times. And even as we look into the near future, we are reasonably sure of our supply security for these flagship brands. We have never really compromised on managing the inventory to ensure that there is reasonable supply in the market and we are well-covered.

Moderator: Thank you. We'll move on to the next question. That is in the line of Ankush Agarwal from Search Capital. Please go ahead.

Ankush Agarwal: Just one quick question. So, can you talk a little bit about your strategy to use the cash that we have accumulated like in the past we have talked about acquiring brands, doing in-licensing, some opportunities in M&A so any progress on any of these initiatives?

Nikhil Chopra: So, it has been a work in progress. We have been evaluating assets. We are not in hurry to just acquire a asset. We are looking at with the whether the brands or a Company which we can acquire is more EBITDA synergistic to where we stand and equally we are looking at because the way we are poised, we are present in three, four categories of business. So, any new therapeutic segment also could be a big welcome, but still it's work in progress and as and when things materialize, we'll be more than happy to share.

Ankush Agarwal: Just a follow-up to this. So, a larger part of our M&A strategy we focus on the domestic business and not the international business?

Nikhil Chopra: Yes, absolutely.

Moderator: Thank you. The next question is from the line of Viraj from Securities Investment Management. Please go ahead.

Viraj: I just had two questions, first is on Rantac, just from an understanding point of view last year we did close to 200 crore of sales from the brand so the price increase of 50% is applicable on the whole SKUs or any perspective you can share on the part of the portfolio, which will be applicable on the gains if you would see?

Nikhil Chopra: It is applicable Viraj on three SKUs and that is what should happen by what we had commented earlier by end of this quarter which as and when it happens we'll be more than happy to share.

Viraj: Okay, so that three SKUs would that be a larger part of the overall portfolio?

Kunal Khanna: That is a fairly correct assumption for a substantiate part of the main Rantac formulation Those three SKUs covers a good part of the portfolio.

Viraj: And would we be looking to renew that or we will be kind of looking to retain that and I'm just trying to understand what is our approach once we will start realizing the gain? Would we be looking to reinvest part of that gain in markets investments?

Kunal Khanna: So, I think with respect to Rantac, in fact it's kind of a very competitive market as Nikhil has maintained earlier also when the price increase really happened the material cost was going up significantly. And for us whatever healthy margin profile we enjoy will actually help us mitigate the escalated costs which we are kind of confronted with. So, that's how we'll play this.

Viraj: On the second question is on the CMO customer, which we added, any indication you can provide on the kind of annual business the customer does and where we are kind of heading?

Kunal Khanna: Not at this stage. This is the gradual process. You lock in a large marquee client, you start giving them supplies for one market, they test that market. They get confidence and then other markets open up. So, that's the process. It's too early for us to kind of comment on what are the volumes and the value, which we will be kind of gauging from that. But the important point is, as we always maintain that our focus will be to add marquee customers. And despite the lockdown period, we have been able to lock-in one and that process will continue.

Viraj: And the related question is when we say we have added offerings in the wellness and immunity, so from an addressable market point of view how does it change? if any perspective you can share?

Kunal Khanna: We are almost talking about expanding the market size by 2 to 3 times. So, don't really have any specific numbers on that. But most of our lozenges the platform, a large percentage of that was specific to the cough and cold segment and sore throat. Now we are talking about immunity, which generally expands the overall market opportunity. So, from a mid to long-term perspective if we are successful across these therapeutic segment, certainly the market opportunity expands manifold.

Moderator: Thank you. We'll move on to the next question that is from the line of Sunil Kothari from Unique AMC. Please go ahead.

Sunil Kothari: Wonderful cost measures and very good gross profit margin. Sir my question is this benefit of very high or reasonably very respectable gross margin, and your effort to improve productivity, reduce costs, all the measures we are taking will it percolate down to batter EBITDA margin, maybe from current to maybe respectable or further going ahead, or you feel this is the sustainable margin.

Nikhil Chopra: What I commented earlier as we have seen the entire environment in which we are operating, if you look at it's a combination of headwinds and tailwinds that we are seeing in the business. And what we see is currently the run rate that we are up to in terms of top-line, we are to around 600 crore a quarter, which demonstrate strong operating performance which overall will help us to deliver EBITDA margin in the same profile, what we delivered last year. Parallelly what we are also doing within this aspect is managing the headwinds which we are facing in the world of our RMPM, in the world of input costs, in the world of shipping, logistic issues and equally investing in the business for future growth. So, the way we are positioned is to deliver market beating performance in our geographies, where we are present majorly India, South Africa, and Russia, our home markets and also maintain a healthy EBITDA margin profile close to 26% to 27%, which we delivered last year and overall create value for our stakeholders.

Sunil Kothari: My question is related to maybe what the next one- or three-year period. Do you see any improvement in this range of EBITDA or we are very happy with this EBITDA and we would like to invest more and grow faster.

Nikhil Chopra: Yes. Anybody and everybody would be very happy to improve the EBITDA margin profile it can be JB or any Company but the way we are positioned, we are not looking at business from a today or tomorrow perspective. Fundamentally, in terms of the area where we are today and our entire concept is invest to grow, that is what we want to do. You would have been hearing the commentary that I've been talking about, what we have done in India business. We have launched products, now to launch progressive portfolio in the world of international markets, getting product registered, investing in R&D, looking at how do we manage our CAPEX equally manage our employee costs, equally look at the environment that we're operating, if we are able to deliver market beating performance and generate higher revenue and are able to maintain the same EBITDA margin profile, we are very much poised to create value for our stakeholders.

Sunil Kothari: Perfect. And the second question is we are really generating good cash flow. We have a really good bank balance also. So, what is thought process on this? By what times would we expect some respectable acquisition or spending of this bank balance, or you would like to distribute those to investor any thought process on this for a medium-term point of view?

Nikhil Chopra: So, let me answer the first question and then I will invite Lakshay to talk about distribution what you were asking. First of all, definitely we are looking at getting into the world of inorganic opportunity which is definitely on the cards. We are evaluating. Here you don't have choices by the way. So, there are assets which are available which are under evaluation. It takes time and we are not an organization, which are in a hurry to just acquire. We are more looking at least to get that right asset at the right value which is more suited to the way we operate. And this effort will be majorly dedicated for our domestic formulation, but also equally for our ROW markets, for South Africa. If there are opportunities available to buy out dossiers we will not be shying away that is where we stand from the entire world of acquisitions as and when it comes. Over to you Lakshay.

Lakshay Kataria: So, on your point on distribution, I think, again, it sort of links back to the first point you raised. I think M&A is a bit of a binary sort of event. And depending on the scale of M&A that comes through, obviously there are implications and how much, and when we can distribute dividend, but leaving that aside for a moment and generally talking about what our plans are. Our ideas is to maintain a certain consistency in our dividend policy, right. And basically, reward our shareholders on a consistent basis every year like I said, this is only obviously subject to any calamities or significant M&A transaction which is of a certain magnitude in which case we will come back and disclose to all of you what sort of dividend policy we are pursuing.

Sunil Kothari: So, the last question is up to now 28 lakhs options have been granted. 26 up to this quarter and then another 2 lakhs. So, who is the major two, three people, or two, three major employees who got benefit of these options, or if you can say the number of options we have, that has been granted.

Lakshay Kataria: So, I think overall at this stage, we would restrict ourselves to the disclosures we've made in the financial statements. I think it would not be fair for me to sort of call out individual names on the call.

Moderator: Thank you. We'll move on to the next question that is from the line of Prakash from Axis Capital. Please go ahead.

Prakash: On the margins perspective, I heard about 26% to 27%, we are continuing with that kind of margin guidance. Just wanted to understand have we factored in enough of what we are hearing off late in terms of cost pressures, especially on RM sides, solvent, power, etc., so I understand we have large domestic, which will help us relatively better offset on the cost side. But have we factored in enough cost escalation on that side?

Nikhil Chopra: Prakash as we stand today and the way we see next two quarters, and some of the tailwinds that we see in the business, which will help us to mitigate the cost pressures, we definitely see the EBITDA in the range of 26% to 27% and when you were asking the question the positive side of the entire performance is what we are able to deliver in our India business, which has got high gross margins, which is helping us to maintain this EBITDA margin profile overall for the Company and what was not happening in this Company the new launches, which are more progressive in nature will also help us to fuel the growth. So, we are not only depending on all of our five top brands eventually you will see some quarters from here, new launches will also start contributing not only in the top line, but also in the bottom line. So, India business obviously will help us and some of the price increases that we have got are the tailwinds and some of the developmental work that we are trying to put in place and filings that we are trying to do in the world of ROW and at some given time in US, that is where we see in terms of same profile of EBITDA margin we will be able to maintain.

Prakash: And just to clarify this excludes, the one-time ESOP cost, which will be a recurring event every quarter, right?

Lakshay Kataria: The ESOP cost is recurring but it is non-cash in nature. it's more accounting at this stage.

Prakash: I understand that, but it will be a every quarter phenomena, maybe at a declining pace.

Lakshay Kataria: Yes.

Prakash: And this go-to-market one-time cost is actually one time or that also there could be a recurring impact.

Kunal Khanna: The go-to market is one-time. There is no real recurring impact. A very small portion of it, as Lakshay mentioned earlier to drive cost efficiencies, but a substantial part of that go-to-market is one time.

Prakash: And the second question is actually on the growth side of things. So, we have done a phenomenal job during the quarter, but I mean, if you look at the AICD number coming for October, that was pretty soft, both for the market and for JB also. So, would you relate to that number or would you say that they're not captured in well as also confirmed by many companies?

Nikhil Chopra: So, if you look at yesterday the IMS IQVIA number has come Prakash.

Prakash: Sir I don't have access if you could highlight.

Nikhil Chopra: 10% growth of market. J.B. Chemicals is growing. It's the fastest growing Company, 27% growth. We have climbed two the ranks also.

Prakash: This is October data?

Nikhil Chopra: Yesterday only it has come.

Prakash: So, you would relate that this is more acceptable number by you?

Nikhil Chopra: Prakash, just to share with you, we don't look at one data. \We don't look at IMS in isolation. There are some fundamental levers that we put in place in terms of what primary revenue we're generating, the secondary uptake, which we monitor across the country, the efforts that our teams have been putting when talking about our products in the clinic of doctor, overall contribution coming from new products and overall, if you look at the inventory that we have in the market is less than 30 days and what IMS has been consistently reporting in terms of what we refer to the data. And that has been the story in terms of we have been delivering growth, which is a beating market performance by a significant difference without any contribution coming from the COVID portfolio. So, that is where we stand. Equally, what we also monitor for our overall performance is the entire prescription data, which comes from IMS and equally SMSRC. So, these are five to seven levers which we monitor for Rs. 1 billion and our revenue that we generate every month.

Prakash: And lastly, on the MR productivity, where we are and given the expansion, etc., do we plan to add more MRs sorry I missed it if that is already discussed?

Nikhil Chopra: No that is what I earlier also commented. The entire new go-to market strategy is fundamentally based on how do we enhance our capability in the offices of healthcare professionals, drive better productivity. Our productivity was close to 4.5 lakhs today we are at 5.2 lakh productivity per person and with the new launches and the big brands that we have, we see forward this productivity handsomely go at around 12% to 14% and in next 12 to 18 months there is no plan to add any manpower on the ground.

Moderator: Thank you. The next question is in the line of Charulata Gaidhani from Dalal and Brocha. Please go ahead.

Charulata Gaidhani: My question pertains to Russia by when do you see that Russia getting back to where it was earlier?

Kunal Khanna: So, the Russian market was severely hit but the recent trends and on a sequential basis, when we look at the secondary off-take of our business we are really seeing positive momentum built in. The last two, three months give us a good positive visibility that H2 will be much better than H1. And it's not only reflective of our current position, but also the overall pharma market situation in Russia.

Charulata Gaidhani: And in terms of a weak cold and cough season do you see any impact on an annual basis?

Kunal Khanna: We believe that possibly the worst is over for markets like Russia and some of our branded generics market for our other cough and cold portfolio. If things continue the way they are and as markets gradually open up even this segment, we'll see revival overall. So, as we have maintained the feedback, which we are getting from our distributors, not only in our home markets like Russia, but also in some of the other BGX markets, we certainly see revival happening in terms of offtake of these products but we have to be mindful and watchful.

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

Nikhil Chopra: So, first of all, thank you all for participating in the conference call for our Quarter 2 results and as earlier what we commented in our initial remarks and based on the questions that we could answer is we are on a trajectory in terms of delivering around close to 600 crore quarterly revenue and the guidance that we give at this moment of time is to maintain the same healthy EBITDA margin profile close to 26% to 27% for the year that guidance continues to be there. And there are a good number of tailwinds, which we see in the business, majorly our in business continues to deliver those to Rs. 1 billion with high gross margin, high EBITDA profits. Equally, our entire blueprint that we have put into picture is to invest to grow, which will more happen in the international markets which will help us to do serve more and more number of patients globally. And with the entire opportunity that we have in hand in the world of CMO business, we are trying to look at how do we widen our offering, closely work with our marquee players, add on new market marquee big multinational players in terms of what capability and capacity we have in the world of CMO business and look at what how we can create a value for our stakeholders and serve more and more number of patients across the globe from the quality medicines that we offer from J.B. Chemicals and Pharmaceuticals in-house so that is where we stand. Thank you all once again, and wishing you all good health and I hope you and your families are well in this entire endemic of this pandemic and are scheduled to take your second dose of vaccination and at some given time, we'll be more than happy to engage with you physically that is what we intend to do. Thank you once again for participating in the conference call.

Moderator: Ladies and gentlemen, on behalf of J.B. Chemicals and Pharmaceuticals Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines.