J. B. CHEMICALS & PHARMACEUTICALS LIMITED

February 18, 2022

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 and Audio recording

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 February 15, 2022 at 3.30 p.m. IST to discuss the results and developments for the quarter ended on December 31, 2021. It is also available on the website of the Company.

Audio recording of the call is also available on the website of the Company.

The link to access the same is: https://jbcpl.com/investor-information/

We request you to take this on record.

Thanking you,

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

SPhadnis

Sandeep Phadnis
Vice President – Secretarial
& Company Secretary

Registered Office:
Neelam Centre, B Wing, 4th Floor
Hind Cycle Road, Worli
Mumbai - 400 030

Corporate Office:
Cnergy IT Park
Unit A2, 3rd Floor, Unit A, 8th Floor
Appa Saheb Marathe Marg, Prabhadevi
Mumbai - 400 025

+91 22 2439 5200 / 2439 5500
+91 22 2431 5331 / 2431 5334
info@jbcpl.com
www.jbcpl.com
CIN: L24390MH1976PLC019380

JB Chemicals and Pharmaceuticals Limited

Q3 FY22 Earnings Conference Call

February 15, 2022

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 the JB Chemical and Pharmaceuticals Limited Q3 FY '22 Earnings conference call, as on the 15th of February 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 star then zero on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jason D'souza from JB Chemicals and Pharmaceuticals Limited. Thank you, and over to you, sir.

Jason D'souza: Thank you, Margreth. Good afternoon, everyone, and thank you for joining us on the Q3 FY '22 results conference call at JB Chemicals and Pharmaceuticals Limited. We have with us today, Mr. Nikhil Chopra, Chief Executive Officer and whole time Director; Mr. Kunal Khanna, President Operations; and Mr. Lakshay Kataria, Chief Financial Officer.

Before we begin, I would like to state that some of the statement in today's discussion may be forward looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the Q3 FY '22 investor presentation that has been sent to you earlier. I would now like to invite Mr. Nikhil Chopra to begin the proceedings of the call. Over to you, sir.

Nikhil Chopra: Thank you. Thank you, Jason. And 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 JB Chemicals and Pharmaceuticals Limited for Q3 FY '22. I will start with an overview of our performance during the quarter and share our perspective on the business, following which Lakshay Kataria, our CFO, will take you through the key financial highlights. Then we'll be happy to take all your questions.

We believe that our performance in third quarter reflects a strong business momentum in macroeconomic environment that has continued to be challenging. Revenue growth in India saw positive traction from our renewed go to market model and new product introductions. This resulted in JB becoming the fastest growing company among the top 30 in the industry in current year 2021 as per IQVIA MAT December '21. Further, major parts of our international business, including CMO business witnessed a gradual demand revival.

During Q3 FY '22, revenues on a reported basis have expanded by 10% year-on-year to INR 601 crore and by 19% to INR 1,800 crore in the nine month ended 31st December 2021. Here it is important to highlight that excluding the revenue which got deferred in quarter three FY '21 from quarter two FY '21 in the previous financial year, our revenue growth for quarter three of FY '22 was 23%. So, at an organization level, the positive business momentum was maintained during the reported quarter as well.

Coming to our domestic formulation business as per IQVIA data, JB was a fastest growing company among the top 30 companies for the calendar year 2021. This was in continuation of our ongoing sector outperformance. As per MAT December 2021 JB chemical grew at 27% versus market growth of 18%. For quarter three FY '22, we grew at 27% versus market growth of 10% as per as our realigned go-to-market model continued to deliver positive results. Also, it would be pertinent to highlights that our growth is sustainable given that the contribution from our COVID portfolio is insignificant for the India business. Our new product introductions are performing well in the market and this is reflected from the fact that new product contribution is now close to 4.2% to our domestic sales in quarter three FY '22 and 4% for nine months FY '22.

These initiatives have been backed up by implementing go-to-market model that has repurposed existing resources in an efficient manner via initiatives such as Salesforce automation, Salesforce excellence, data digital adoption, hybrid digital strategies, expanded through geographical coverage. Also, entry into new therapeutic segments have accelerated the new products introduction. During quarter three, the domestic formulation business launched approximately new products including Molnupiravir, Cilacar TM, Azovas-T.

These initiatives may gather further pace after the recent announcement acquisition of brands and related asset from Sanzyme Private Limited in the area of probiotic, therapeutic nutraceuticals and reproductive health market. As you know, Sanzyme is a leading player in probiotics and hormone segments with a portfolio of brands that includes SPORLAC, LOBUN, GYNOGEN, Pubergen, and NANO-LEO. Post this acquisition, we are among the top five probiotic player with additional synergies across a strong prescriber base in gastroenterology and nephrology segments.

In addition to this, we have also entered into IVF segment. We will also derive leverage from JB coverage and reach into states like West Bengal, UP, Bihar, Kerala, where overall, the Sanzyme presence is negligible. Overall, we expect to jump two ranks in our IPM ranking as we start reporting combined numbers.

Coming to our international business, we witnessed steady revival across geographies, except for muted demand in U.S generic business. South Africa, our home market continues to record in both public and private market by leveraging retail pharmacy relationship and our access in both in-house as well as third party products. In Russia and CIS region, we delivered strong growth within our prescription branded generic portfolio during third quarter.

In the CMO business, where we address both pharma and consumer sectors through our presence in lozenges, JB performed well due to demand revival in key markets. Our API business run rate has also improved significantly versus quarter run rate as seen in H1 of the current year. Overall, supply chain disruptions impacted the business during quarter three as well as freight costs increased significantly for all key markets. However, with COVID situation normalizing, we are seeing strong signals of demand revival especially in our CMO segments for our international business.

We now see multiple levers for our continued outperformance. This includes leveraging our existing go-to-market model strength in India business, maximizing new product introduction, lifecycle management opportunities and strengthening our international market through portfolio augmentation. All these initiatives should start translate into enhanced long-term value for our stakeholders. Going ahead, we continue to remain upbeat about the domestic formulation business, the successful implementation of go-to-market model, new product introductions, lifecycle management of our big brands, and Sanzyme portfolio requisition will enable us to continue to record market-beating growth for the business.

Post COVID, our international market should bounce back which we are seeing early signs of revival. We also see medicated lozenges segment picking up as our order book from our global customers have gathered momentum. Our focus will continue to drive faster top line growth with healthy EBITDA margins, which will enable us to create further value for our shareholders. On this note, I conclude my opening remarks. I will now request Lakshay to share with you a brief perspective on our financial performance. Over to you, Lakshay.

Lakshay Kataria: Thank you, Nikhil, and a very good afternoon to all of you, and welcome to our Q3 FY '22 earnings call. I will now take you through some of our key highlights during the quarter. So overall, during Q3, we recorded a revenue growth of 10% at INR 601 crore, and for nine months at INR 1,800 crore with a growth of 19% year-on-year. As mentioned earlier, the underlying revenue growth is 23% due to revenue deferral from Q2 to Q3 FY '21 in the previous financial year. Our strong revenue momentum continues for the overall business and both domestic and international business saw double digit revenue growth during the quarter.

Domestic formulation revenue was up by 20% led by large plans and market leading performance in non COVID therapies. In the nine months, domestic formulations grew 32%. Going forward, with the acquisition of Sanzyme brands, we expect domestic formulations to contribute more than half of company's turnover.

International Business reported a revenue of INR 315 crore during the quarter, which was up 3% due high base last year, as explained earlier. Within this, the export formulation business revenue came in at INR 241 crore, CMO at INR 50 crore, API at INR 24 crore. Within formulations, there was a positive growth contribution from both Russia and South Africa. Our gross margin profile during the quarter remained steady at 66%. Though there was a significant inflation witnessed in API and packing material cost across the industry, we managed to maintain gross margin through cost optimization initiatives, and judicious price increases.

Our major fixed operating costs are now running at normalized levels. We have now completed our build out of the organization and thus employee benefit expenses, excluding the non-cash ESOP charges that have increased marginally. Other expenditure witnessed sharp increase during the quarter on a year-on-year basis because of significant escalation in logistics and freight cost, as well as substantial increase in power and fuel cost. This trend I believe, stands out not just for JB, but also for our peers in the pharma sector.

Despite the sharp surge in expenses, we largely maintained our operating EBITDA margins, excluding non-cash ESOP cost at 25.5% for the third quarter, with the operating EBITDA of INR 153 crore, similar to the previous quarter. While operating EBITDA seems to have declined year on year from INR 171 crore to INR 153 crore, after adjusting for the base impact due to revenue deferral, the operating EBITDA has grown by 7% to 8% on a year-on-year basis.

While cost pressures are expected to remain in the short term, in the medium to long term, any future benefits and normalization of material and packaging cost will allow us to improve our margin profile or provide adequate opportunities to invest in growth opportunities with similar margins going forward. Also, as fixed cost overheads are now stable, we can expect other expenditure to provide further room for operating leverage in the medium to long term.

Other income during the quarter was significantly lower on a year-on-year basis due to Treasury yields being lower in quarter three and a one off income of INR 34 crore in the previous year, on account of sale of certain trademarks. As you know, JB's acquisition of Sanzyme's brands, we have invested our cash resources on our balance sheet, we paid the consideration for the transaction in the first week of February. This is a part of our strategy to expand our footprint in India, and will serve us financially well as we grow the Sanzyme portfolio profitably, especially in this volatile financial environment.

I would also like to take a moment to explain the overall PAT development for the quarter. Sequentially, the PAT softens from INR 98 crore to INR 84 crore due to Treasury yield softening. The year-on-year decline from INR 154 crore to INR 84 crore in PAT can be explained by three large factors. A non-cash ESOP expense of INR 25 crore during the quarter, trademark sale of INR 34 crore in the previous year, and the revenue deferral impact in the prior year base.

Going forward, we expect the business to expand by leveraging the existing base of manufacturing, distribution and relationships. The larger ecosystem available from Sanzyme will provide further cross leverage opportunities. Overall, we remain focused in our pursuit of profitable growth, strong cash flow generation and creating ongoing stakeholder value. With this, I conclude my opening remarks. We would now like to open this forum for a interactive session with all of you, and will be happy to respond to the questions. Thank you.

Question-and-Answer Session

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on the touch-tone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Anyone who would like to ask a question, please press star and one at this time. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Abdulkader Puranwala from Elara capitals. Please go ahead.

Abdulkader Puranwala: Hi. Yes, thank you for the opportunity. So, would it be possible to provide the India group breakup into price, volume and the new launches?

Nikhil Chopra: Lakshay, would you like to take this?

Lakshay Kataria: Yes. So, overall, like Nikhil alluded to, the India growth has a component of 4% roughly that came to new products. And at overall level, we, YTD have seen a growth of about 30%. And between price and volume, price would be closer to about 10% and rest would be volume.

Abdulkader Puranwala: Okay. And my second question is on the margin side. So, if we adjust for the ESOP charge, then the margin should be somewhere around 23% to 24%. So ahead, what is the kind of margin should we look at off over the last 23% - 24% to obtain? Or you think the business can go up to 25% on a EBITDA level?

Lakshay Kataria: Yes. So, let me first just clarify the operating EBITDA for this quarter. Operating EBITDA for this quarter before the ESOP charge is INR 153 crores. What you see as reported EBITDA of INR 128 crore includes ESOP charge of INR 25 crore. So, if you adjust for that, our EBITDA for this quarter is roughly 25.5%. And like we have guided in the past, I think we would maintain close to our run rate of operating EBITDA. Hope that answers your question.

Abdulkader Puranwala: Yes. Thank you. I'll get back in the queue.

Moderator: Thank you, anyone who would like to ask a question, you may press star and one. The next question is from the line of Naresh Vaswani from Sameeksha Capital. Please go ahead

Naresh Vaswani: Yes, my first question is in the India business. So, last time you had mentioned that, we are looking at around INR 100 crore of normal run rate now. So, this quarter we have done slightly lower, around INR 278 crore despite our new products contributing substantially around 4% to 4.2%. And also, if I'm not wrong, you have taken Rantac price hike in December. So, that would have added on top of that run rate of INR 300 crore. Can you explain where the volume was bit lower?

Nikhil Chopra: So, Naresh, this is Nikhil Chopra here. So, quarter three was a soft quarter for India because of the lean season four and Ranta and Metrogyl that are our big brands. But you are right that our run rate is close to INR 100 crore. And going ahead, we see the trajectory close to INR 100 crore and above. In the coming time, with new products contributing and eventually the Rantac price will bake in.

Naresh Vaswani: So, the – so, those Rantac price has -- should start reflecting fully from Q4, right?

Nikhil Chopra: Yes. Some part has been absorbed for Q3 and we'll have Q4 also.

Naresh Vaswani: Okay. And second, on the international, this year has been bit soft due to higher inventory and some European logistical issues. But for FY '23 how are we placed in terms of growth in different geographies, if you can explain?

Nikhil Chopra: So what I shared in my earlier commentary, that when we see the order book for quarter four and quarter one, which I can talk right now, we are seeing demands bouncing back in our branded generic market. CMO business is seeing a big revival. And equally Russia and South Africa, which are our next to home markets, have also performed well in quarter three and quarter four, quarter one also we look for the same performance. So our run rate for international business, which now we have bounced back INR 300 crore – INR 300 crore plus, should see a positive momentum going ahead.

Naresh Vaswani: And in terms of price increases which you have reconciled, considered the increase in overhead cost as well -- freight and power cost?

Nikhil Chopra: Lakshay, would you like to take this?

Lakshay Kataria: Yes. So, overall, I think from a pricing perspective, we are now in conversations with a lot of our customers in the international markets. And the conversation really is around the points you made, which is that the freight and the fuel costs have risen significantly. And also, you know on the API and packing detail part, there is a significant relation. So pricing will continue to be a key focus area for our international businesses as we move forward.

Naresh Vaswani: Okay. I'll join back in the queue.

Moderator: Thank you. The next question is from the line of Vishal Manchanda from Nirmal Bang Institutional Equities. Please go ahead.

Vishal Manchanda: Thank you for the opportunity. Sir, just a clarification on Rantac. So, what percentage of Rantac sales during the quarter would have come from higher prices?

Nikhil Chopra: So, around 67 -- 60% plus sales would have come from the price increase. But equally, Vishal, what you have to understand also, with the entire cost of API, foil packaging material going up, conceptually, this is just helping us to maintain the right EBITDA margin overall for the company.

Vishal Manchanda: Okay. Okay. So API cost has also gone up during the quarter and not only for Rantac but across the board.

Nikhil Chopra: Yes.

Vishal Manchanda: Okay. And sir, second on the lozenges business. Can you shed some color on any developments there in terms of new contracts or new product development, which is basically going to help you in the near term?

Nikhil Chopra: So there are couple of things which have been happening in the world of CMO business, particularly in lozenges, which we shared in our last conference call that we have added Reckitt as a new partner who has come in. And equally, the good sign is that across the CMO business, we are seeing a big demand bouncing back. So that is a positive sign. We are working on some new novel concepts in the world of lozenges, which are more consumer friendly. And those novel concepts includes products like melatonin products, which we are developing for the world of immunity, immunity plus cough and cold. So all those portfolios are on the anvil way of development, where developmental work has been happening. So going ahead, the strategy would be, how do you -- how we offer novel therapeutic portfolio to our existing partner, be it for P&G, J&J, iNova, Reckitt, and equally add more partners, where the entire business development work is on.

Vishal Manchanda: Okay. Sir, on the new client addition, Reckitt, has that started delivering or it will scale up in time?

Nikhil Chopra: It has started. Just a couple of products we have started working -- started supply into Reckitt. But overall, we should see a good demand in the next financial year.

Vishal Manchanda: Understood. And sir, other expenses, would they stay at current levels and ESOP expenses also around the same level for the coming quarter?

Nikhil Chopra: So, ESOP expenses would be close to what Lakshay spoke about, would be close to INR 25 crore and other expenses when I have -- when Lakshay gave the commentary, in terms of the entire capability development that we have -- that we are putting in -- that we have put in place have normalized. Cost of goods, still, conceptually, we don't know what is coming in, in next couple of quarters, but overall from operational perspective, our costs are close to normal.

Vishal Manchanda: Understood. And just one final one. On -- some comments on your initiatives on the nephrology front. So, how is that shaping up in terms as a portfolio, nephrology portfolio?

Nikhil Chopra: For nephrology portfolio, we have a niche division, which ha been working with 2000 nephrologists in the country. Those are our -- all the portfolio is a mix of our supporting products. But what we are trying to do with nephrology as a speciality because nephrologist are a big supporter for our brands like Cilacar and Nicardia, where we continue to engage with them and continue to look at in terms of how we can build this branch bigger, and equally, how do we support this facility in a supportive care portfolio where our team of 30 people is going and working with them. But there's a good uptake in terms of the new products that we have launched, but all those has its own gestation period. Six months we have been in the market with our new products, which is half a dozen products that we have got in supportive care therapy. But the bigger picture that we want to paint is how do we take Nicardia and Cilacar to next level.

Vishal Manchanda: Sir, is dapagliflozin also getting a share from the nephrologists?

Nikhil Chopra: Dapagliflozin is more being detailed in the clinic of MD medicine, cardiologist and diabetologist. And dapagliflozin, just to share with you we were the 60th company to launch dapagliflozin. Today we are in top 15, our run rate is close to around 75 lakhs per month. And we intend in next quarter, three to four months we should be in top 10.

Kunal Khanna: Just to add.

Nikhil Chopra: Yes.

Kunal Khanna: Just to add, nephrology with Sanzyme acquisition, we have a lot of cross leverage FDT opportunity also, in the field of probiotics, that's also part of our plan.

Nikhil Chopra: Yes.

Vishal Manchanda: Right, sir. Yes. That's all.

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

Rahul Jeewani: Hope I am audible.

Nikhil Chopra: Yes, Rahul.

Rahul Jeewani: Yes, thank you for taking my question, sir. Just a few clarification. So, you said that Rantac price rise contributed during the quarter. So, for what quantum of duration we saw the benefit on account of Rantac during the quarter? Would it have been a month?

Nikhil Chopra: Kunal, you would like to take this?

Kunal Khanna: Yes. So, Rahul, substantial part. Just over a month, close to 45 days of demand for Q3 was serviced through Rantac. However, from a pure volume perspective, when we look at it, right, we had earlier also mentioned that the demand would moderate in H2, because the Q1 run rate was -- had seen a huge surge due to second wave of COVID. So surely the -- from a volume standpoint, the demand moderated and operated at a steady state scenario in Q3, but close to 40 to 45 days of sale for Q3 was activated with the price increase.

Rahul Jeewani: Sure, sir. And now if we look at our India portfolio growth for next year, our base India business has been growing at mid-teens. On Rantac we will have the full year contribution next year as well as the Sanzyme portfolio contributing. So how should we look at your India business growth for FY ‘23? So, do you think that the momentum which we had in FY ‘22 that will be sustained in FY ‘23 as well?

Nikhil Chopra: So, Rahul, if you look at the way we are positioned, overall, there are three four hypothesis when we look at India business. In -- first hypothesis is, 70% of our business is coming from big brands; that is Cilacar, Nicardia, Rantac and Metrogyl, which the teams have been working on how do we make the big brands bigger and continue to gain market share. So that is agenda number one, because that is a big chunk of our business. Second, obviously, what you're talking about, Rantac price increase, that should give us benefit. And thirdly, of course, with the transition happening for Sanzyme portfolio, all this coming together, the guidance that we would like to give at this moment of time that we'll be delivering market-beating growth with a significant difference. And overall, look at in terms of how with the widened portfolio that we have got with big brands, with new productions, and with the Sanzyme portfolio, how we can serve more and more number of patients and deliver market-beating performance.

Rahul Jeewani: Sure, sir. Sir, so, this market-beating outperformance will be excluding the Sanzyme portfolio. So contribution from Sanzyme will be on top of that?

Nikhil Chopra: Yes, yes.

Rahul Jeewani: Sure, sir. And in terms of this Rantac price-hike benefit for next year, you have stated that the price -- the API has also seen a price increase and our earlier expectation was that on Rantac we could see a margin benefit playing out for us. So do you think that thesis still holds that the price increase for Rantac will help us to improve our margins in FY ‘23?

Nikhil Chopra: Kunal, you would like to take this?

Kunal Khanna: Yes. Yes. So, Rahul, what we're seeing over the last three to four months, there has been a significant price escalation in ranitidine API cost, right, starting Q3 onwards, which to a large extent, has neutralized the actual margin benefit, which we would have otherwise got through price increase. Our focus will be to continue on maximizing the price hike benefit. But at this stage, all we can maintain is that a significant chunk of margin benefit which was to accrue has, to an extent, got does neutralized because of the ranitidine API price hike.

Rahul Jeewani: Sure, sir. But are you expecting the API prices to moderate? Because generally, the commentary across the industry is with conclusion of Winter Olympics in China, and by end of February, the API prices would start moderating.

Kunal Khanna: Actually….

Rahul Jeewani: So do you think that if API price is moderate, we can then see this benefit on Rantac price hike next year?.

Kunal Khanna: What we are certainly seeing is -- hoping is that the prices don't go from the current levels. There are certain product commodities where the normalization will be much more rapid. And it's a classic demand-and-supply situation. With respect to ranitidine, there are not many suppliers, so the supplier base tends to be limited. What we are very sure of that we should be able to hold on to the current price levels from a mid-term perspective.

Rahul Jeewani: Sure sir. And just one last question before I join back the queue. Although it has been still early days, two weeks only since you've closed the Sanzyme acquisition, but any thoughts in terms of how the integration for the portfolio is progressing, and what you have seen in terms of your initial interactions with the MRs or doctors as far as your Sanzyme portfolio is concerned? Thank you.

Kunal Khanna: We are very hopeful and positive about integration giving us good results. The last two weeks, there have been a lot of cross synergies which have come up. We are happy to report that the business is going go as smooth as it was before our acquisition. Our key endeavor is to ensure that there is no disruption at this stage. From our future strategy standpoint, we are certainly seeing prescriber synergies, as Nikhil mentioned, with respect to nephrologist, the MD physicians, where the probiotic would be a big, big opportunity for us. We see geography synergies, because three to four states, they have negligible presence are also our pockets of strength. And we see product energies. For example, probiotic which is SPORLAC, is extensively prescribed as a co-prescription with our metronidazole. So there are a lot of things which we have to build it together, and so far the response has been very positive.

Rahul Jeewani: Sure, sir. Thank you. That's it from my side..

Moderator: Thank you. The next question is from the line of Amit Kadam from CANARA ROBECO. Please go ahead.

Amit Kadam: Yes, hi. So I have couple of questions, sir. So starting with -- maybe just wanted to know your -- because Russia is a key market, and the other thing -- geopolitically whatever is -- or maybe what's we are seeing it. What's your take and what's our risk mitigation strategy there? So that's point number one -- question number one. Second, I just wanted to know -- pick your mind on this particular -- your CDMO. Where in medium term you want to grow this particular business with change of management and you – and in senior management also and the promoter side also. How do you see this thing shaping up maybe from a three to five year bucket? And my third, I just wanted more clarity that couldn't get the clear on the ESOP thing. How much charge off is yet to happen every quarter? And maybe like just wanted to know what will the per quarter charge off for, maybe till this complete go up?

Lakshay Kataria: Let me take on the question ESOP. Then we'll go to the Russia question.

Amit Kadam: Okay.

Lakshay Kataria: So, as far as ESOP is concerned, we are basically -- we expended out INR 25 crore in the last quarter. Prior to that, our expense was about INR 13 crore. Overall, for the fiscal it'll be about closer to INR 63 crore, right, that's as far as this fiscal is concerned. Next year, the fiscal will have a spend of about INR 68-odd crore and then it starts tapering off significantly.

Amit Kadam: Sorry, I did not get it. FY '23, how much?

Lakshay Kataria: FY '23 will be about INR 68-odd crore and then it'll start tapering off significantly.

Amit Kadam: Okay. Fair enough. And then the balance questions?

Nikhil Chopra: Kunal, you would like to take the question of Russia and CDMO?

Kunal Khanna: Yes. So with respect to Russia, we are closely monitoring the situation. It's uncertain and slightly volatile. However, we need to look at what are the variables under our control. So, over the last one month, we have been extremely watchful and mindful of our supplies to the Russia and CIS market and trying to do everything we can to ensure business continuity remains. And the other thing which we are extremely watchful of is the receivables situation. So these are the two areas where we have put in very high level of check mechanisms. We do believe that the situation is relatively better than what the outlook was a couple of weeks back, but it's wait-and-watch as of now. All we can do is be much more cautious about our overall receivable situation and also ensure that there is no real loss from a business continuity standpoint.

With respect to the second part of your question, which is CMO. This is one business segment where we continue to be extremely, extremely optimistic. In fact, from -- if one really looks at the sequential trending of this business over the nine -- last nine months, we have seen the demand reviving back in our key pockets and with our major customers. Our CMO strategy is certainly going to be two fold. One is, expanding the basket of products and offerings which we have to our current main anchor clients. So our main anchor clients, including big names like P&G, J&J, iNOVA, we have been closely working with them on introducing new concepts like Nikhil mentioned, immunity booster concepts, immunity with cough and cold, different finished dosage formulations for actives like melatonin. These are certainly kind of areas which we are closely working in our in the product development lifecycle right now.

And the second part is, add more anchor clients and increase our presence with the current clients in other geographies. So addition has already started. You've heard of Nikhil mentioning RB, we had our first shipment to them in the last month of Q3. We are certainly expecting good ramp up from them for the next financial year. And what we really want to do is add a couple of more market clients, which are in the same league as the three, four names, which we mentioned. So there'll be a lot of thrust on accelerating business development initiatives to grow our CMO business and we continue to be optimistic about this from a mid and long term perspective.

Amit Kadam: I understand but just wanted to know more on the little granularity, for example, if we want to shape this particular business. Right now we have -- maybe doing like INR 200 crore to INR 250-odd crore thereabout. So, if I have -- we have some objective in mind. So, because this will require a front ending of grander for investment, be it like ramping up the R&D, people or maybe the facilities to show that the -- there is a -- that's how the body shopping at that -- would happen to our clients. So, just wanted to know how that would also happen. Like in terms of investment and then how do we translate that in your future numbers.

Kunal Khanna: See, there are two parts from managing the infrastructure and the resourcing part of it. The good thing is that we are already covered from an infrastructure standpoint. So, our current capacity utilization is close to 60%. We have one line, which is pretty much can be activated and made operational if our business ramps up. So, there is no real huge CapEx investment which we see in the business. From an R&D standpoint, whatever needs to be done has already been activated. Over the last seven, eight months, as Nikhil mentioned earlier also that R&D reorientation and with the focus being on CMO-related projects, was closely monitored. And we are at a stage where we have advanced concepts of all these offerings being taken to our clients. So the R&D reorientation and ramp up has also happened. The third area is where there has to be thrust on the BD activation and that's what we are really working on. So, if the concern from -- if the external concern is more from an investment related to infrastructure or resources, that has already been taken care of.

Amit Kadam: Okay. Thanks. Yes, I'm done.

Moderator: Thank you. The next question is from the line of Alok Dalal from CLSA. Please go ahead.

Alok Dalal: Hi, good afternoon. One question on the U.S. market. What is the current sales in U.S. at the moment?

Nikhil Chopra: Kunal, you would like to take this?

Kunal Khanna: Yes. So, we don't want to really give clear numbers of our international business per segment. For us, Q3 was slightly soft but as our order book stands right now, we see the demand picking up to the H1 levels of FY '22.

Alok Dalal: And Kunal, what's the outlook for the U.S. -- how do you see the U.S. expanding over the next few years? What kind of products are you working on?

Kunal Khanna: So we've always maintained that we have a very selective approach towards our U.S. business. We have an aspiration of looking at three to four filings every year and a lot of our R&D efforts were focused towards that. But these are all things where we believe our strengths really lies. So we are not talking about getting into speciality or complex generics. Our strengths are more on large scale manufacturing in platforms such as OROS platform, and we want to continue to play to those strengths. Our focus will be ensuring selective ramp up, three to four filings per years, which would add to our U.S. kitty, have a very stage great approach. And as we see success, we do a ramp up accordingly. That's the way we want to play to our U.S. business.

Alok Dalal: Okay, thanks. And on the international markets, any plans to expand operations outside Russia and South Africa?

Nikhil Chopra: So, Alok, this is Nikhil here. So outside -- India, Russia and South Africa are our home markets and if you look at the entire ROW business, ROW business is in four clusters; that is Sub-Saharan Africa, Middle East, Latin America and Southeast Asia. So, those are the markets that we are present outside India. Now, the way we are looking at this international market, which is ROW branded generics, Russia and South Africa is not to go wide, but to go deep. And this entire -- these all these markets have been deprived with the new portfolio. So the management has been working in terms of how do we get new products introduced in these markets and how do we go deep because the relationship that we enjoy in ROW market with some of the big distributors who work for us is immense. So there's a immense scope in terms of what we want to do with introduction of new portfolio.

And equally for South Africa and Russia -- there are also Russia this year, we have introduced three new products, South Africa, there are some dossiers which we had bought, where we are doing – where we are looking at how do we launch those products in private markets. So that is the play that we want to work on. So we don't want to get into any new markets but equally we want to look at that how do we go deep and at least get the better output with existing portfolio and new introductions.

Alok Dalal: Okay. So but Nikhil, will the idea be to keep it 50-50 between domestic and export?

Nikhil Chopra: Eventually, Alok, with the Sanzyme acquisition that that we have done, India business would be 55%, ROW would be close to 45%. Going ahead, the way we have engine running in India business, we are looking at how do we at least get India business close to 60% and ROW -- and international mark close to 40%. That is aspiration we have kept. Now overall, we'll see in the coming time, how it is. And within India business, Alok, we are looking at how do we have a better chronic play. That is the intention.

Alok Dalal: Okay. Understood. And just one last question. The pressure on gross margins, how should one think about it, especially in the coming few quarters?

Nikhil Chopra: Lakshay, you would like to take this?

Lakshay Kataria: I'll take that, thank you. So from a gross margin perspective, I think if you look at what's happened till now, I think we've sort of held fort pretty well, with some of the interventions we've done in terms of long range contracts, and certainly in inventory interventions. But our reading right now is that cost have seen no further sort of scale up post December. So I think, at the current level of gross margins of 65-66 is where we would want to hold. And we would want to sort of -- we will have to work still significantly on our pricing lever and also on some of the cogs optimization projects that we're running internally to maintain that level. Otherwise, I think from an inflation perspective right now, I think there is still more pain to sort up.

Alok Dalal: Okay, understood. Okay, thank you very much for taking my questions.

Nikhil Chopra: Thank you. Thank you, Alok.

Moderator: Thank you. Ladies and gentlemen, you may press star and one to ask a question at this time. The next question is from the line of Sonal Gupta from L&T Mutual Funds. Please go ahead.

Sonal Gupta: Yes. Hi, good afternoon, and thanks for taking my question. So just on -- I mean the other expenses, right -- last quarter, you had about INR 14 core of one-time consultancy charges. But even as those have dropped off, we haven't seen that much of a decline. I know you called out freight, etc. So could you just talk about that as to -- I mean, incrementally what has been the pressure point, sequentially?

Lakshay Kataria: Yes. I'll tell you. So, basically, if you see quarter-on-quarter, our expenses have jumped up by about INR 7 crore, excluding manpower. And like you rightly said, if you square off the INR 13 crore, INR 14 crore, one off, then we are still seeing a increase of INR 6 crore, INR 7 crore, which is formally happened in two lines of appearance. One is freight, and the other is power and fuel. Both on natural gas prices and on the freight side, we've seen further hardening towards November and December. So, that's what sort of explains the operating expense quarter-on-quarter.

Sonal Gupta: And like you mentioned to the previous answer, sir, so you're still seeing this on a full quarter basis, there could be more pressure in Q4 on this side.

Lakshay Kataria: While there is pressure -- we are hearing that some of the electricity board, etc. are putting plans to take up the power tariffs. So I think it's a sort of ongoing situation. But we are also working on steps to mitigate that, right? So we are also looking at steps to mitigate our utility cost, our footprint, we're getting into solar. So there are mitigation plans also, so maybe yes, one odd quarter here and there but we should try and hold to the fixed operating cost.

Sonal Gupta: Got it. And how much of your portfolio in India by value would be under Analian?

Nikhil Chopra: Around 30%.

Sonal Gupta: And, -- so just given that we've got Rantac increase, would we be eligible for taking an increase in April again or we'll not?

Nikhil Chopra: Yes, we'll be taking the price increase whenever it comes on the existing portfolio, which is outside price control, and whatever WPI comes for the controlled products, we'll be taking that price increase.

Sonal Gupta: Right. No, so, I'm just trying to understand given that Rantac is a big part of that Analian portfolio as well, so will that -- will you be allowed to take another WPI related increaser?

Nikhil Chopra: Yes.

Sonal Gupta: So you can take on the full 30%?

Nikhil Chopra: Yes.

Sonal Gupta: Got it. Got it. Yes. Thank you.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Valen, India. Please go ahead.

Kunal Mehta: Thank you very much for the opportunity. I had a single question. I wanted to understand your perspective on the long-term growth process of the – growth process of cilnidipine, I mean the underlying molecule for Cilicar. So wanted to understand firstly as we see more HDDT drugs going off patents, do you see the long term growth of this molecule shrinking to some extent and the share being removed -- taken off the HDDT? Because when I look at the data on trials, a lot of the trials are actually giving positive data on the ability of the HDDT plus molecules to give protection for -- to hypertension patients to -- with kidney associated problems. So any view on this would be helpful.

Nikhil Chopra: Kunal, you will take this?

Kunal Khanna: Yes. So, Kunal, SGLT2 is a very, very different class of molecules. Our cilnidipine franchise is a calcium channel blocker. SGLT2 molecule is the line of treatment for diabetes patients. Now, there are studies which really indicate that there are certainly some benefits associated for a SGLT2 molecule as a plant, either with respect to heart failure or management of better renal complications. But that does not mean that it becomes the first or second line of therapy for antihypertensive treatment. That's point number one.

Second thing is, when you really look at the SGLT2 class, it's not a therapy which may be recommended for all age groups or all types of demographics, who may be -- have a very different clinical profile. We certainly do not see any real primary conflict with SGLT2 as a class. It's a very different class where diabetes is the primary indication. For us, what we really want to work on is cilnidipine being the most preferred choice of antihypertensive drug class, which will be prescribed for comorbidity issues, including primary renal complications.

So, that's how we do and we have seen a lot of confidence coming in from prescriber categories such as nephrologist, diabetologist, cardiologist and physicians. And we really see no reason why this continued fate in this category of molecule which is cilnidipine will not continue over the mid and long term.

Kunal Mehta: Sure. Sir, just a follow up on this one. So, if we have to attribute let's say, crucial reasons for why this molecule has done so well as compared to the other molecules in the CVS space and associated CVS space in the last three, four years or five years, I would say, it's grown in high double digit in volumes. So -- as in the molecule as a whole. So, with these three reasons, in the sense, which has worked in favor of cilnidipine…

Kunal Khanna: The most primary reason why CCDC is a lot of accepting too because apart from being a very effective standalone, antihypertensive class of drug as a calcium channel blocker, it has a very soft side effect profile and patients which who suffer from comorbid indications or have complications more on the renal side, they see very limited side effects. In India, what tends to happen is most of the times patients when they approach a doctor, they are in stage two, stage three of antihypertensive with already these comorbid conditions being developed with respect to the clinical profile. So doctors are very particular about the medication which they are prescribing and they should not have any further side effects on various other parts of the organ. And that's where cilnidipine has seen a very, very strong acceptance.

Kunal Mehta: Got it. Thank you very much, Nikhil sir.

Moderator: Thank you. The next question is from the line of Cyndrella Carvalho from Centum Broking. Please go ahead.

Cyndrella Carvalho: Yes. Thanks for the opportunity. Just continuing the brand-related discussion, just want to understand, the recent brand extensions that we have launched for our bigger brands, what kind of potential do you see for them? Can they become as big as our larger franchisee? Is there that kind of market pick up or market share gain that you're seeing or preference from doctors that you are seeing on the prescription level? Anything that you can highlight on that?

Nikhil Chopra: So, Cyndrella, this is Nikhil Chopra here. Overall, the intention -- see JB never -- historically has never been that great in new product launches. So, what I shared in my earlier commentary that the new product introduction value is now close to 4% that itself is a big achievement, and going ahead we are looking forward at how this can at least come closer six for – 6% to 7% in the coming time. Overall, when we look at new product introduction, it is a mix of two categories. One is lifecycle management as you earlier shared. So, obviously we have Cilacar, CilacarT and now we have got CilacarTM that eventually helps us. Cilacar being a INR 300 crore franchisee, in the coming time in next two three years, we are looking at how overall Cilacar as a family becomes INR 500 crores. So that is the intention.

Secondly, some of the new introduction that we have got into new categories of business, particularly in the world of pediatrics, in the world of respiratory, in the world of antibiotic that we have got into, out of 12 products that we have launched, we have identified around five, six products, which if we are able to make a revenue mark of around INR 12 crore to INR 14 crore in 18 to 24 months, that itself will be a big achievement for JB as a company. Because our 70% of revenue is coming from big brands and if these new launches also helps overall fueling the growth, this combined entity of existing brands, lifecycle management and getting into new therapeutic area will overall help us, what I earlier shared, in terms of delivering market-beating growth. So that is the intention going ahead when we look at new introductions.

Cyndrella Carvalho: This is very, very helpful. Just to add to that, if I take your commentary in the right direction, what you're trying to tell me is, we are very focused on gaining market share in our core brands as well as new launches, I understand this. If I put ourselves today, say in the domestic market zone, we're still closer to INR 1,200-odd crore secondary markets -- turnover run rate at max level. Do you -- what are the actual gaps that you feel are product wise which are the most increasing areas that you might have already identified to take us to the INR 2,000 crore range, and from there around to another next leg of growth? So what are the strategic point of view where you still have some gaps? I understand Sanzyme will add some more to this, but from organic perspective, from a brand perspective and when do you see reaching there? Like -- I'm sure this must be part of your strategy.

Nikhil Chopra: So, with Sanzyme entity being added, Cyndrella, we'll be close to INR 1,400 crore next year. So that is where we stand. INR 1,200 crore was the current run rate. Now when we talk of therapeutic areas, we are present in five, six therapeutic areas. If I have to talk about cardiology, which we have extended to cardio metabolic with the introduction of dapagliflozin and vildagliptin, that is what we wanted to do. We are a big player in the world of gastroenterology and nephrology.

With new products that we have launched in the world of pediatrics and respiratory and with the Sanzyme portfolio coming in, it only adds to the or strengthens the area where we are present. See, we want to remain focused. We have close to around 2,000 people on the ground and with Sanzyme, 300 people more being added, we see the opportunity in terms of how do we improve the per person productivity, which today stands to around INR 5.5 lakh per person, and this can easily grow for next 18 to 24 months without adding any feet on the ground at a healthy pace of 12% to 14%.

So that is what we want to do. We just don't want to get into new therapeutic areas, we want to strengthen our existing therapeutic areas, and Sanzyme was in – Sanzyme acquisition was in way -- in that way, the step that we took. So that therapeutic areas where we are present, and the equity that we enjoy with the healthcare professionals, we want to strengthen that and we want to do some work which conceptually helps more and more patients who can take medicine from the JB house, and equally develop a good relationship with the healthcare professionals, particularly in the therapeutic areas where we are present.

Cyndrella Carvalho: This helps. There's one more query that I have in mind in terms of our input cost pressure that we are experiencing as -- and the entire industry is experiencing. But say, in the following year in FY '23, when we get a chance to take the WPI link inflation for our Analian portfolio, should the increase take care of our raw material inflation? Going ahead, do you think it should be sufficing to take care of our EBITDA margin sustaining above 26%?

Nikhil Chopra: So, Cyndrella, as earlier also I have guided that last three quarters if you see, we have been delivering INR 600 crore revenue every quarter. And our EBITDA margins -- operating EBITDA margins are close to around 26%. So, with the WPI price increase coming in, that should help and with the pressure that we have on the input cost, we aspire to deliver market-beating growth in the geographies where we are present. We are looking at how do we augment our presence in our international markets by getting new introductions and equally drive operational efficiency within the organization to at least deliver same margin of EBITDA on a market-beating performance in terms of top line because fundamentally as a company, we believe in profitable growth.

Cyndrella Carvalho: Thank you for--

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

Ankush Agarwal: Good afternoon, sir. Thank you for taking my question. So, firstly of our initial strategy that we presented in March 21, so, we have taken steps on the therapy diversification and also augmented a portfolio in domestic side. So, from now on what would our-- what would be our strategic priorities going ahead?

Nikhil Chopra: So, what was stated earlier also is, if we look at India business with that Snzyme acquisition, our contribution from India business would be close to 55%. So, that is where we stand. We were 32nd Rank company in October 2020. MAT December we are, with Sanzyme portfolio combined, December -- for the month of December, we are 25th rank company. That is where we stand and our intentions are, how do we organically -- and with the Sanzyme acquisition, we want to be in top 20. That is where we stand from India perspective. So the entire transition and the integration with Sanzyme happening in India business, that is key for us. That is what we have guided earlier also.

Second, what I stated earlier was the entire concept of big brands getting bigger, that is what we want to do and that will happen with closely working with the healthcare professionals and the therapeutic segments where we are present, particularly in the field of cardiology, nephrology, gastroenterology and respiratory. That will enhance our presence in those therapies where we have introduced new products and the portfolio that we have. That is point number 2.

Third, our new introductions have started contributing, which is close to now 4% of our revenue. Going ahead, we are looking at how does it come -- how does it go to 6% to 7%. That is the intention for what -- that is our strategy that we have -- what we have did on for India business. And all this is backed up by a lot of discipline which has happened in the system in terms of tight process and systems in place, getting into the world of Salesforce automation, Salesforce excellence, digital detailing, digital adoption. So all this is backed up when we talk of market-beating performance.

About international business, what we have guided earlier, the play that we want to have is particularly in our home markets outside India, Russia, South Africa, where we will enhance our presence and go deep by getting new products introduced and look at that how do we leverage the existing setup that we have got. The -- outside India business is, anything I'm passionate about is the entire world of CMO, particularly for in the world of lozenges and between me and Kunal we shared that the entire strategy is looking at how do we get into the new offerings of portfolio and how do we add new partners in this world.

So, this is where we stand. And at the end of the day, what we are looking at that, that the run rate that we have got for this year close to INR 600 crore, how do we maintain that run rate for quarter four, look at operating EBITDA close to 26%, 27%. And there are multiple levers which are -- which I've stated earlier, which will overall help us to deliver market-beating performance.

Ankush Agarwal: Right, right, So broadly, it stays the same what we discussed in March '21. Got it.

Nikhil Chopra: Yes.

Ankush Agarwal: And sir, secondly, would it be possible to quantify how much of domestic growth during the quarter was led by Rantac price increase?

Lakshay Kataria: Like we said, overall, from a tax perspective, 50% upwards of volumes of Rantac came through the Rantac -- the new price.

Ankush Agarwal: Right, right. But on the domestic growth of 20%, how much of that would be because of the price increase? Because we don't know how much exactly Rantac's contribution to domestic business, right?

Lakshay Kataria: Sorry, we won't be able to kind of separate.

Ankush Agarwal: Okay. Got it. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management.

Jason D'souza: Thanks, Margreth. I think with that, since we have no questions, I think we'll end the earnings call of JB Chemicals and Pharmaceuticals Limited for the third quarter. Thank you everyone for joining us on this call.

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