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May 24, 2024

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: Transcript of Investors/Analysts call

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 Conference Call which was scheduled for Investors and Analysts on May 21, 2024 at 1.00 p.m. IST in relation to results and developments for the fourth quarter ended on March 31, 2024. The same will also be available on the website of the Company www.jbpharma.com.

We request you to take this on record.

Thanking you,

Yours faithfully,

For J.B. Chemicals & Pharmaceuticals Limited

Sandeep Phadnis
Vice President – Secretarial
& Company Secretary

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J B Chemicals and Pharmaceuticals Limited
Q4 FY '24 Earnings Conference Call
May 21, 2024

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

Moderator:

Ladies and gentlemen, good day, and welcome to the J. B. Pharma's Q4 FY '24 Earnings Conference Call as on the 21st of May 2024. 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, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Jason D'souza:

Thank you, Dorwin. Welcome to the earnings call of J. B. Pharma. We have with us today, Nikhil Chopra, CEO and Whole Time Director; Kunal Khanna, President, Operations; and Narayan Saraf, the CFO at J. B. Chemicals & Pharmaceuticals Limited.

Before we begin, I would like to state that some of the statements in today's discussion may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available in the Q4 results presentation that has been sent to you earlier. I would like to now hand over the floor to Mr. Nikhil Chopra to begin the proceedings for the call and give us his opening comments.

Nikhil Chopra:

Thank you, Jason, and good afternoon to all of you, and thank you for joining us to discuss J. B. Pharma's quarter 4 and full year performance FY '24. During today's interaction, I shall walk you through the business performance for Q4 as well as the full financial year 2024 and sell through some light on our outlook for the business for the coming year.



Dear friends at the onset, I'm pleased to share that J. B. Pharma achieved all around outperformance for quarter 4 as well as for FY '24. And our reported revenue for quarter 4 FY '24 was INR862 crores, recording a healthy growth of 13% year-on-year and closed the year with INR3,484 crores of revenue, registering growth of 11%. Overall, top line was impacted by strategic choices we made with respect to our South Africa business, excluding which, revenues grew at 17% in quarter 4 and 14% in FY '24.

When it comes to profitability, our cost optimization efforts and favourable product mix aided in improving it significantly. Gross profit margins expanded by 130 basis points in Q4 FY '24 to 65.2%. And for the year, it expanded by 320 basis points to 66.1%. Operating EBITDA, which is EBITDA excluding noncash ESOP cost, witnessed year-on-year improvement to 23% to INR939 crores in FY '24 and 16% in Q4 FY '24 to INR210 crores.

J. B.'s balance sheet further strengthened in the year, and I'm glad to state that we are now net cash positive company. There has been a reduction in gross debt which was INR357 crores as on 31st March 2024 versus INR548 crores as on 31st March 2023. ROCE has also improved to 27% in FY '24 versus 21% in FY'23.

Now let me take your attention to our business performance, starting with the domestic business, which grew strong to INR465 crores in quarter 4, registering growth of 22% and INR1,897 crores in FY '24, recording a healthy growth of 16%. This was driven by strong brand portfolio, meticulous execution on basing on the field productivities and higher share of chronic products. I'm pleased to inform you that the ophthalmology portfolio integrated smoothly with J. B. Pharma's DNA in January 2024 and has already started registering delivering growth. We remain optimistic about our ophthalmological business.

Our MR productivity metrics has almost doubled in the last 4 years, which stands to 7 lakhs at the end of FY '24, which is per month per medical rep. J. B. has retained position as one of the fastest-growing company in top 25 in IPM, and we have outperformed IPM at 10% versus 7.6% industry growth as per IQVIA, MAT March 2024 data. I am also glad to announce that the company's 5 biggest brands now rank among the top 150 in the industry according to IQVIA MAT March '24, which is Rantac, Metrogyl, Cilacar, Cilacar T, Nicardia. The portfolio of brands that we have acquired has also given us momentum. As per IQVIA MAT March '24 our sporolac franchisee recorded a revenue of 122 crores growing at 33% CAGR in 3 years. Azmarda, our heart failure pill, dropped INR75 crores, and Razel has shown 24% growth year-on-year.

Our latest acquisition of Ophthalmology is integrated well and has recorded 11% growth month-on-month in March '24 as per IQVIA data. I would also like to emphasize that all our big chronic brands have registered strong volume growth. As per IQVIA, MAT 2024 March, Cilacar registered volume growth of 10% in FY '24. Cilacar T registered 10% volume growth. And Nicardia registered 5% volume growth in FY '24. And Razel also had a 22% volume growth in FY '24.



Also, in our domestic business, now the cardiology overall market being as high as \$3 billion market, and we are now 8th rank company, surpassing INR1,000 crores revenue in our chronic portfolio MAT March '24, we are the fastest-growing company in cardiology market today as March 2024 data. Our international business delivered revenue of INR397 crores in quarter 4 FY '24 and INR1,587 crores in FY '24 annually.

The international business was impacted by strategic choices we made with respect to South Africa business, plus, whereas the reported international business revenue at 4% in quarter 4 without including South Africa business, it showed an impressive growth of 15%. In South Africa, as you will all appreciate, we have lowered our tender business, and we are emphasising more on improving the mix and margin profile.

So today, as compared to 3 years ago, we have the private business contribution was 40% for the year FY '24. Our private business contribution to South Africa business has gone up to 70% that is where we stand. US and Russia delivered the group with international formulations growing at around INR267 crores for quarter 4, FY '24. CDMO grew at 9% year-on-year to INR109 crores in quarter 4 and closed the year at INR432 crores in FY '24.

CDMO accounted for 27% of overall international business as compared to 21% in FY '21. Also happy to share the CDMO business has entered. Now we have entered into European market with a couple of strong consumer players in the world of immunity and cough and cold lozenges.

For the last 3 years, J. B. Pharma consistently delivered strong performance every year. Overall, the revenue has grown at CAGR 19% since FY '21, while the domestic business has more than doubled during the same period. J. B. Pharma marked its presence in some of the most progressive therapies 65% of our domestic business gets generated from brands which are in fast-growing therapeutic segments. Besides this, CDMO business almost has doubled over the same period. Domestic business and CDMO business today, both contribute around 67% and the total revenue as against 55% in FY '21. This has helped operating margins and ROCE.

Operating EBITDA has grown at a CAGR of 19%, while operating cash flow have more than doubled to INR801 crores in FY '24 from INR315 crores in FY '21. Operating cash flow as a percentage to operating EBITDA improved to as high as 85% in FY '24 from 56% in FY '21. Net working capital has reduced from 98 days 3 years ago to 87 days in FY '24. The objective of sharing this data of the last 3 years in terms of -- is more to share with colleagues on the call is how J. B. as a company, J. B. Pharma as a company has progressed over the last 3 years consistently, not only in terms of top line, but, overall, in EBITDA, in profits and also in net working capital and operating cash flow.

Concluding, I would like to state that the domestic business will continue to outperform the IPM by 200 basis points. The domestic business share in the overall business will continue to increase while CDMO business will continue to gain traction. We expect both domestic and CDMO to cumulate the account for 75% to 80% of overall business in midterm. Apart from this, the focus for our



international formulation business is to further improve profitability, the right business mix, and a progressive portfolio.

With this outlook, I'm pleased to revise our operating EBITDA margin guidance in the range of 26% to 28% as against our previous guidance of 25% to 27%. This upward revision is despite the addition of ophthalmology portfolio which will be limited gross margins in the short term for the company. I would now like to end my opening remarks and shall be open for the question and answers from all our colleagues on the call. Thank you all for patience hearing.

Moderator:

Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty:

Thanks for the opportunity and just want to know a bit more on the CDMO segment that the first half is normally heavy, second half is normally lower because the seasonality play the role, but despite that we have given a strong quarter 4. So how should we really look at it next year in terms of the annual growth?

And also whether it would be still episodic in nature spread across the quarters or how it would be whether we would be adding new geographies, whether we would be adding new categories like now currently we are into immunity and cold and cough segment. When are we going to add other products like motion sickness and the vitamins and all, if you can give more color on it?

Nikhil Chopra:

It's a good question in terms of the world of CDMO if you look at, we could generate the revenue of close to INR432 crores for the current year. This business should grow between 12% to 14% and you should see probably high teens growth happening quarter 3 onwards that is October onwards. That is how our order book is placed. More so what I spoke earlier that we have got into the world of immunity and immunity lozenges, also our melatonin-based lozenges.

We should start seeing them commercialize probably first quarter calendar year FY'25. Newer geographies what we have entered is in the world of Europe where we have commercialized our lozenges, but it's a small start probably God willing you should see our branded lozenges also available in the US market at the end of the year, but it's a very small order. It's a very small start. That is what should happen.

But we are very much bullish in terms of this business which is USD50 million because the capacity that we have is close to 2 billion lozenges which we can manufacture. Last couple of years, we've been manufactured close to 1 billion lozenges and this business almost has doubled last to last year. For 3.5 years ago this business was contributing 5% of the revenue USD10 million. Today it is contributing 12% of the revenue.

You too also understand that this business has got high gestation period. It takes time for any new lozenges to being commercialized because the way it works with the reference sample. We have to



match the product, develop the product, share with our partners. They will do their own research in the market, come back to us. There will be more tweaking to the product, that is how this world behaves.

But first-in-class immunity lozenges are already there in the market. Melatonin lozenges you should start seeing commercializing probably year-end or FY25 calendar starting year and probably also you should see our pain lozenges Ibuprofen. We should also see commercialization probably sometime in quarter 2 FY'25 that is where we stand as a company in the world of CDMO.

Rashmi Shetty: Okay. And in the US, we will be supplying through the channel, I mean retail channels, or it would be directly to the partners? How the business model is over there?

Nikhil Chopra: It will be same model as what happens in other parts of the world, it will be through one of our partner.

Rashmi Shetty: Got it. And sir, then what would be your capex guidance in FY'25 and FY'26 like after whatever capex we have put in FY'24?

Kunal Khanna: We have already covered for capex as far as our CDMO business segment is concerned and specifically with respect to lozenges. We did make some investments in the last 1 year as well. As stated earlier, we have a capacity of 2 billion lozenges annualized. Currently, we are running at a run rate of 1 billion lozenges. So we have adequate capacity to kind of ramp up our business whatever bottlenecks were there with respect to packaging apart from manufacturing have also been taken care of in the last 12 months.

Rashmi Shetty: So now it would be just a maintenance capex, right?

Kunal Khanna: That is correct.

Rashmi Shetty: Got it. And one more question on the domestic business. In the presentation, you have mentioned that prescription growth is around 20%. Would you like to call out the ratio of specialists versus GPs or if you can give some color that majority how much percent basically coming from the specialist only?

Kunal Khanna: We would not like to particularly call out any specialists versus generalists. The growth has been in line with our focused therapy areas and within focus therapy areas whichever prescribe a category we are covering we have seen significant growth in that. Specifically, cardiologists, nephrologists and consulting physicians have been the key growth drivers for us.

Rashmi Shetty: Got it, sir. And just one last question for your top products. What I'm seeing that they have really grown very well this year. Just want to know that especially in your Cilacar and your cardiac products, whether you have increased the market share of the entire market, or the entire industry representative industry is only growing for those popular products?



Nikhil Chopra:

So overall, if you look at -- Rashmi, if you look at overall IPM, when you look at 7.6% growth, the overall growth is driven by what is happening in the chronic space which is 40% of the market USD25 billion market and there are many other companies who are doing good work in the world of chronic space, but if you look at J. B, our market share in plain Cilnidipine our market share Cilnidipine, Telmisartan all this market share probably quarter-to-quarter have only gone up.

Nicardia, I don't want to tell because Nicardia we hold 90% market share. So actually what we can achieve only 100% that is where we stand, but equally Razel rosuvastatin though we are low in the ranking, but the growth has been what I shared earlier the growth has been in terms of volume, 20% plus volume growth in Razel also.

And equally, in the world of heart failure as Azmarda pill there also our performance has been fair. So overall, our chronic portfolio what I shared also is today we have crossed a benchmark of INR1,000 crores revenue in cardiology. And we have the fastest growth in the cardiology segment with all our [inaudible 18:15] whether it is Cilacar, Cilacar T, Nicardia, Razel, Azmarda that is where we stand as a company.

Rashmi Shetty:

Okay sir. Thank you. That's it from my side.

Moderator:

Thank you. We have the next question from the line of Tausif from BNP. Please go ahead.

Tausif:

So my first question is on India business ophthalmic brands with already 5 months into integration. What has been the key learnings and challenges you have been seeing because this is something a new segment for J. B?

Kunal Khanna:

See, the good thing is that there has been seamless transition. And the fact remains that when we acquired the brand, there was team transition also which happened. So we've got good support from our principal partner Novartis as well in managing this transition. The products are pretty much the same, the sourcing of these products have not changed, and we are seeing a good uptake happening because of them entering the J. B. DNA.

So we are fairly comfortable with what we have seen in the last 2 months to 3 months and are very, very optimistic about how we will kind of drive growth in this portfolio. Given the fact that we believe that these were under leverage and under invested brands earlier.

Tausif:

Sir, any plans to increase the MR count in this business?

Kunal Khanna:

Yes. So we have plans to increase the MR head count going forward within the - in the erstwhile organization this portfolio was being promoted by close to 75. Already the ramp-up has happened and we have gone up to close to 104 and slowly but gradually in the coming year we will kind of further ramp this up. But this is a steady state number, which we will work with for the next six to eight months.



Tausif: Sir, my second question on the CMS segment, you have guided a growth of 13% to 15% for FY'25. Can you highlight this last part of growth will be driven by new product launches? Or there's still room for going to new directly in new regions?

Nikhil Chopra: So it will be -- it will be a combination of both in terms of, the volume growth that you will see with some of our existing partners, existing products. And that is why I told you in second half of the year, probably October onwards, we will start seeing some element of growth coming from our new launches, which will happen. And at the right time, we'll be more than happy to share with the group.

Tausif: Thanks. I'll get back in the queue.

Moderator: Thank you. The next question comes from the line of Tanmay Gandhi from Investec. Please go ahead.

Tanmay Gandhi: Hi. Thanks for taking my question. Sir, firstly on the India business, right? So, you have guided for overall revenue growth of 12% to 14%, but the recently acquired ophthal portfolio itself should lead to 5% to 6% growth in FY'25, right? So, is your guidance on the organic side or that includes ophthal portfolio also?

Nikhil Chopra: This growth, 12% to 14% is outside ophthal.

Tanmay Gandhi: Okay. So is it fair to assume that overall consolable growth could be in high teens?

Nikhil Chopra: Yes, you can take that number, yes.

Tanmay Gandhi: Okay, sure. And secondly, now that we have turned net cash positive, right? So, are we again on the lookout for acquisitions. And again, we have been seeing a lot of in-licensing deals announced by other companies as well, right? So, are you also looking for those kind of opportunities or you are more keen on acquiring brands?

Nikhil Chopra: It will be mix of all things happening across. First of all, the focus is beyond what we are trying to do with as is the portfolio that we have got. How can we make it big? Equally, we are open to anything which is available in the market and the right value. And if we think that we can grow -- make it grow better as compared to where it stands. And thirdly, there are some, some initiatives that we have put that we've been now a dominant company in the era of cardiology, probiotics, ophthalmology, probably God willing, we might get into the world of in-licensing, but it will take its own time.

Tanmay Gandhi: Yes. And sir, lastly, what kind of contribution are we expecting from new launches over the next two years?

Nikhil Chopra: So, if you look at this year, our new product contribution to overall growth as 3%, which will continue to happen.



Tanmay Gandhi: Okay. And so far, I think this was largely led by our legacy brands side where we have extended the lifecycle through new SKUs, right? So, will that continue? Or you're planning to launch under new brand franchise or new product category?

Nikhil Chopra: 70%, 80%, you will see us doing much more in the existing therapeutic segments where we are present.

Tanmay Gandhi: Okay. Got it. Thank you.

Moderator: Thank you. The next question is from the line of Abdulkader Puranwala from ICICI Securities. Please go ahead.

Abdulkader Puranwala: Yes, hi. Thank for the opportunity. Sir, my first question is pertaining to the MR productivity. So, in the last two years, if you see, we have increased the MR count. We added close to 500 MRs and around despite that the productivity has been stopped. I mean going ahead, A, how should we see the productivity ramp up happening here with and without the ophthal portfolio? And in terms of the newly added MRs, is the entire traction visible in this number, what you posted in '24? Or that is still expected to jump in the years ahead?

Nikhil Chopra: So, productivity, what I shared in our -- in my commentary is now close to INR7 lakh. And you should expect the productivity as is without any addition to grow around 8% to 10%.

Abdulkader Puranwala: Sure. And sir, my second question is with regards to the growth. So, India business, as you're guiding, would be, say, somewhere around mid-teens. And on the CDMO side, also a similar kind of a guidance. So, that is the kind of aspirational rate where we expect to grow in the medium to long term? Or it will -- there could be some surprise coming from the international market, and that will lift up the overall growth?

Nikhil Chopra: So, what I shared in my commentary, India, CDMO and our emerging market, which is ROW, should grow between 12% to 14%. US, Russia, South Africa should grow at around high single digit, around 8%, 9%. Overall, you should see us growing as a company, 12% to 14% top line outside the ophthal portfolio.

Abdulkader Puranwala: Got it, sir. And sir, just a final one, if I may. So, considering our recent track record on the acquisition side. So, what is that in terms of the therapeutic exposure in the Indian market? Any specific asset or any specific therapy where you'd like to increase your dominance further?

Nikhil Chopra: See, one year ago, we were not knowing that we will do, we'll do acquisition in the world of ophthalmology. It all will depend upon what is available in the market, and does it suit us, we basically go for a quality asset, not looking at as whether the asset is growing or not. And if you look - - if we see any opportunity of an asset which is available, which is quality, the market is growing at a good valuation that we can get. We will certainly have a look at it.



Abdulkader Puranwala: Sure, sir. And just a final one, if I may. So on the US front, on the CDMO business, you said there would be a small order which you would be dispatching this year. So, sir, any outlook here? I mean, is some kind of a batch order quantity where the customer initially wants to supply and then that will relate to some bit of an order scale-up. Or how should we look at the US as an opportunity for the CDMO business?

Kunal Khanna: It's too early to comment on. We are working on a couple of projects, one of which is likely to get commercialized soon. We'll see how the data passes, and we have more clarity further going.

Abdulkader Puranwala: All right, sit. Thank you for answering questions. And wish you all the best.

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

Neelam Punjabi: Yes, thanks for the opportunity. My first question is on the domestic business. So, I just wanted to understand what would be our expected revenue for our Opthal business in the next in FY'25?

Kunal Khanna: For the Optal business, we are targeting monthly revenue run rate of INR15 crores to INR16 crores.

Neelam Punjabi: Got it. And the acute business has been pretty weak recently. So, how do we see this business going forward?

Kunal Khanna: The acute business last year was largely impacting because of muted season. As we see the trends, we believe that the season will be much better this year. But of course, we need to have a guided approach towards that. If the season is better than last year than we see -- certainly see growth coming in from acute as well apart from our chronic growth.

Neelam Punjabi: Got it. And on the PCP side, since we've reached about seven lakh and you guided for 8% to 9% -- 8% to 10% growth on that. Are we planning to add more field force for the domestic business, organic portfolio?

Nikhil Chopra: Not as of now. No.

Neelam Punjabi: Okay. And lastly, what is the targeted -- like what would be the ESOP cost for FY'25?

Narayan Saraf: Yes. The ESOP costs for FY'25, we are expecting it to be in the range of around INR40 crores.

Neelam Punjabi: Okay. That's all from my end. Thank you.

Moderator: Thank you. The next question is from the line of Sajal Kapoor an Individual Investor. Please go ahead.

Sajal Kapoor: Hi. I have two questions. First, many Indian branded generic companies are now actively looking at trade generics. And so Lupin is a recent example, right? And however, to my knowledge, there is no



policy in India where it can be dispensed without a prescription or a shopkeeper in a remote village directly with [inaudible 29:25] So what do you think about this trade generics movement and that has kind of started with a renewed vigour in the branded generic space. Lupin being an example, recent one, Cipla been doing it for ages.

And second, on the CDMO segment, do you believe that medium to long term, the proposed US Biosecure Act can help grow this segment and significantly. In other words, can Biosecure be an additional tailwind for this CDMO? Thank you.

Kunal Khanna: So I'll take the first question. See, trade generics is something which is not new. Companies have been evaluating this segment. We have always maintained that it will be a very, very small proportion of our business. Whatever we are doing is to evaluate some markets where the conventional distribution model cannot reach. And that's how it will be for us as well. We primarily believe more in branded generic space where the margins are much more accretive. So it's going to be a very, very small part for us going forward as well. And we don't see the fundamental nature of the market changing much. Branded generics will continue to be the dominant segment.

Nikhil Chopra: And on your second question, in terms of US Biosecure. I think that does not have any impact because much of the lozenges – majority of the lozenges that we supply to our partners are more herbal in nature. And it's a business where our partners play that in the consumer world. So limited comment that we can give on this.

Sajal Kapoor: Right. And there is no competition from China that we are facing on the lozenges, right? So that can have a beneficial advantage?

Nikhil Chopra: No.

Moderator: The next question is from the line of Maulik Varia from B&K Securities.

Maulik Varia: I had one question. Just wanted to check what is our outlook for Azmarda for FY '25 and going ahead? And if I'm not wrong, it seems the brand is slightly under pressure as per the IQVIA data. Please correct me if I'm wrong, but I just wanted a little outlook on the same?

Kunal Khanna: You're right in terms of assessment of the competitive intensity has increased in this space. And last year, you saw a huge influx of brands, which did put our market share under some level of stress and pressure. But the good thing is, if we see the trends over the last 4 months, our market share volumes and value have pretty much remained steady.

And going forward, we believe that the market will further consolidate only any LOE event, the first 7 to 8 months, there is attention from a lot of players, but then the market pretty much consolidates between the top 4 to 5 players, and that's where we operate. Overall value wise, if we really look at our share, we are still operating at 14% to 15%. The segment is progressively growing. And we also



believe that going forward, we will see a good volume growth in this arni segment. So we are fairly confident about the prospects of Azmarda in the future as well.

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

Alok Dalal: Question on EBITDA margin. So Nikhil, what is the guidance for EBITDA margin for FY '25?

Nikhil Chopra: Alok, the EBITDA margin, what I shared in my commentary is changing -- operating EBITDA margin is 26%, 28%.

Alok Dalal: Yes. And what will be the levers for margin improvement over FY '24?

Nikhil Chopra: So as I shared earlier in my commentary, overall, the product mix that you will see more improving over a period of time, which has been happening in the last couple of years, more gaining market share in our chronic portfolio. Second, overall efficiency program that we continue to run overall in the company, whether it is productivity on the field, larger bed sizes to bring efficiently better vendor management that will continue to happen, which will bring savings, which will probably help us to drive better gross margins.

And last but not the least, is the journey that we have taken in the South Africa business where we will see some impact in top line in quarter 1 this year. But then going ahead, your absolute EBITDA margins will only go up north in the South Africa business, which, overall, in a more significant way help to range between 26% to 28% EBITDA margins for overall as a company.

Alok Dalal: Okay. Nikhil, the ophthalmologic portfolio, will there be a significant improvement in margin in FY '25? Or is this towards '26?

Nikhil Chopra: No, no, no. So I think that has to be clarified next couple of years FY '25, FY '26, you will see a reverse, probably close 200, again, 50 bps dip in EBITDA margins because of the ophthal revenue. Gross margins -- gross margins, 100, 250 bps decline you may see. But it will be salvaged by the entire effort that we are putting to improve our overall product mix to drive better efficiency and to drive better margins in our South Africa and Russia business.

Alok Dalal: And when you refer to 26% to 28%, this is excluding the ESOP charges, right, noncash?

Nikhil Chopra: Yes, operating EBITDA. That is what we are looking for operating EBITDA margins, which is 27% there of INR939 crores EBITDA absolute value that we have reported, which is 27%. We will be continuing to range between 26% to 28% operating EBITDA margins.

Moderator: We have the next question from the line of Rahul Jeewani from IIFL Institutional Equities.



Rahul Jeewani: Sir, this operating EBITDA margin guidance of 26% to 28%, this obviously has the dilutive impact of the ophthalmic acquisition. So can you comment in terms of how your base margins would have been or would trend excluding the ophthalmic portfolio?

Kunal Khanna: See the way we have to say this is while the gross margin is close to 150 bps dilutive because of ophthalmic. We get very strong operating leverage also on ophthalmic business. And some of the other levers, which we are talking about in terms of improvement of private mix in South Africa, overall portfolio mix in our international business. and the fact that our chronic and the domestic business will continue to grow, will help us maintain this 26% to 28% going forward despite the dilution happening at a gross margin level.

Rahul Jeewani: So yes, just a clarification on that. So by that, you mean that ophthalmic portfolio does not have any dilutive impact at an EBIT margin level?

Kunal Khanna: That is broadly, yes. But what we are saying is despite the dilution at gross margin level, right, we should be able to maintain this range of 26% to 28%. And on the ophthalmic side, Rahul, we get strong operating leverage as well.

Rahul Jeewani: Sure, sir. And on the international portfolio, with the revenue share for the South Africa private market business now increasing to 70%, have we already seen an improvement in profitability in that business playing out? Or do you think that would come largely in FY '25?

Kunal Khanna: Yes, that we have already seen specifically in H2 of this financial year.

Rahul Jeewani: Sure. And apart from the South Africa tender business which you rationalized, on the export side, do you see opportunity to rationalize other parts as well? Or that would not be the case going...

Kunal Khanna: The continuous process, we have been doing that. You have seen improvement this year and that's a continuous process, which we'll strive to kind of work towards and improve on.

Rahul Jeewani: Okay. Specifically, if you can comment in terms of Russia business because that is where I was getting to that Russia -- your own Russia business, your front-end presence in that business, our margins are lower than company average margins. So any plans of rationalizing the Russia business?

Kunal Khanna: In fact, a lot of initiatives were taken in this financial year, and we have seen significant improvement in the profitability for our Russia business. This includes some front-end optimization as well. And also if we club Russia and CIS together, there has been a favourable product mix for our CIS markets. So we have already seen a significant improvement in terms of operating profitability this year, and that will continue to -- we'll continue to witness similar trends going forward as well.

Jason Dsouza: We have one question which has come in on the Q&A panel. So in the Sporlac franchise, we have seen very good growth in Lobun and Pubergen if the management would like to comment on that?



Kunal Khanna: Primarily, even when we acquired the probiotic portfolio, we were very clear with Sporlac, we were operating at the mass end of the market and with Lobun, specifically it was the niche market of nephrologists because of our strong brand equity with Cilacar with nephrologists. We were able to capitalize on this opportunity and that is reflective on the numbers which we see for Lobun. With respect in with respect to Pubergen, I think primarily driving the focus has helped us achieve scale even in a segment where we were not present.

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

Neelam Punjabi: Just wanted to understand what is the reason for higher other expenses during the quarter?

Narayan Saraf: Hi, Narayan this side. So very quickly, the reason of the higher other expenditures have been that during the quarter, we have seen a few one-off integration impact, that was one. And then they have been -- historically, if you see -- we clearly see that they are -- the margins do get impacted at the end of the quarter because of lower domestic things. And then they have been through one-off costs, which have been incurred during the year -- during the quarter. So this was the mainly 3 reasons: One-off integration impact through one-off costs. And yes, those are the two reasons, yes.

Neelam Punjabi: If possible, could you quantify the one-off integration and one-off costs during the quarter?

Kunal Khanna: See, we wouldn't really like to quantify. It's not substantial in nature, as Narayan mentioned. There's one-off integration cost. There is a nominal Red Sea phenomenon because of which our freight costs have gone up. And the third piece is that largely, if you look at Q4, domestic business tends to be soft in March and that impacts some margin profile. But overall, other expenses have been inflated because of -- nominally because of Red Sea and one-off integration.

Moderator: Thank you. The next question is from the line of Harith Ahamed from Avendus Spark. Please go ahead.

Harith Ahamed: So on the export side, this year, we called out some challenges, especially in South Africa and growth for the segment is coming a bit muted at around 6%. So directionally, for FY'25, how should we think about growth for the export segment? Will we get back to a double-digit growth for the 3 markets put together?

Nikhil Chopra: If you look at our export business, which is to be contributing 47% of the revenue, two parts of our export business, that is emerging market, which is \$50 million and CDMO, which is \$50 million should grow between 12% to 14%. Equally, Russia, South Africa and U.S. should grow at high single digit, 8% to 9%. So you should see us going in double digit for the year FY'25.

Harith Ahamed: Okay. And for the CDMO business, in the past, you talked about the aspiration to reach \$100 million of revenues. So do we -- does that number still hold? And do you have any timelines for that?



Nikhil Chopra: So it's a journey is what I shared earlier, probably that is a journey that we want to travel for next 3 to 5 years with a lot of newer projects being on newer partners, geographies, which continue to happen. And you should start seeing what we have been talking about all these newer initiatives happening in the world of CDMO probably October FY'24 onwards and that will continue to happen and our aspiration of \$100 million still holds.

Harith Ahamed: Okay. And last one on the Novartis portfolio, can you remind us on how much of the Ophthal market is covered by the acquired portfolio and when we think in terms of growth, what exactly is the strategy we looking to add MRs? Are we looking to expand coverage in the space. So can you talk a bit about.

Nikhil Chopra: So Ophthalmology portfolio to in India close to INR4,000 crores, growing at 14%. We -- the portfolio that we have got, which is in the world of glaucoma, pain, antibiotic, anti-allergic covers close to INR2,800 crores market. Unfortunately, this portfolio of Novartis was not growing probably for the last couple of years, but the aspiration is to grow in the current year, it is FY'25, better than the Ophthal market growth.

Earlier, I think it was shared that around 70-plus people joined us from Novartis. Today, we have a team of 104 medical reps on the ground. Pan-India, we have coverage. We would also like to expand our portfolio in the coming time in the world of dry eyes, where the portfolio is not there and antioxidants for ophthalmology.

We may get into mid to long-term in-licensing partnering for some biologics in the world of ophthalmology. Those all things planned we have put in place. And we are very much optimistic in terms of how tomorrow at least we can grow better than the market. and improve our penetration with quality drops that we have got.

Moderator: Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the CEO, Mr. Nikhil Chopra for closing comments. Over to you, sir.

Nikhil Chopra: Thank you all for participating in today's call. Once again, emphasizing on the guidance that we have been giving for the company, which is short to midterm. Overall business growing at around 12% to 14%; EBITDA growing it around 16% to 18%; and EBITDA margins -- operating EBITDA margins between 26% to 28%. That is where we stand. And both India and CDMO will contribute overall to the growth of the company. And overall generating gross margins closer to 65% for the coming 2 years. That is where we stand as a company.

Net-net, what we want to do is to overall improve our market share in the portfolio -- progressive portfolio that we have today got in India, which is in the world of cardiology, probiotics, paediatrics, respiratory, ophthalmology. Equally focus and take our CDMO business up north and also look at how do we start launching some of the new products in our emerging market, RoW markets where we have been doing filings for our products.



Net-net, creating value for the stakeholders, looking at how more and more number of patients, not only in India, but globally are treated with the help of medicines which are coming from the from the house of JB. This is what I would like to conclude. And thank you all, once again, for participating and patiently hearing and for the questions that you people asked. Thank you.

Moderator:

Thank you. On behalf of J. B. Pharma that concludes this conference. Thank you all for joining us. You may now disconnect your lines.

