J. B. CHEMICALS & PHARMACEUTICALS LIMITED

August 19, 2021

BSE Ltd.
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai 400 001

BSE Scrip Code: 506943

Stock Symbol: JBCHEPHARM

Dear Sir,

Subject: Earnings conference call Transcript

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

Pursuant to Regulation 30 read with Schedule III and Regulation 46(2)(oa) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, enclosed please find Transcript of Earnings Conference Call scheduled for investors and analysts on August 13, 2021 at 3.30 p.m. IST to discuss results and developments for the first quarter ended on June 30, 2021. It is also available on the website of the Company.

We request you to take this on record.

Thanking you,

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

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J.B. Chemicals and Pharmaceuticals Ltd.

Q1 FY22 Earnings Conference Call

August 13, 2021

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

Moderator: Ladies and gentlemen, good day and welcome to J.B. Chemicals and Pharmaceuticals Limited Q1 FY'22 Earnings Conference Call as on the 13th of August 2021. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jason D'Souza, Head of Investor Relations at J.B. Chemicals & Pharmaceuticals Limited. Thank you and over to you sir.

Jason D'Souza: Thank you, Lizann. Welcome to the Earnings Call of J.B. Chemicals and Pharmaceuticals Limited. We have with us today, Mr. Nikhil Chopra -- CEO and Wholetime Director; Mr. Kunal Khanna – President, Transformation, and Mr. Vijay Bhatt -- Chief Financial Officer at J.B. Chemicals and Pharmaceuticals Limited.

Before we begin I would like to state that some of the statements in today's discussion may be forward-looking in nature and may involve certain risks and uncertainties. A detail statement in this regard is available on the Q1 FY'22 Results Presentation that has been sent to you earlier.

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

Nikhil Chopra: Thank you, Jason and good afternoon to everyone. A warm welcome and thank you for taking time to join us for this discussion on the operating and financial performance for J.B. Chemicals and Pharmaceuticals in this First Quarter FY'22.

Before we begin, I hope all of you along with your families are keeping safe and healthy and we hope that the worldwide vaccine drive will enable humanity to conquer COVID and we always come out stronger from this whole experience. We look forward to better times in the future.

I will start with an Overview of our Performance and Share Some of Our Perspective on the Businesses, following which our CFO, Mr. Vijay Bhatt will take you through the Key Financial Highlights, after that we'll be more than happy to take your Questions.

Friends, we have begun the new financial year on a strong note. Taking forward the momentum from the previous year, revenue has grown by 16% to Rs.606 crore during the first quarter which is the highest ever top line recorded in any one quarter in the history of the company. While the operating environment remained challenging during the course of the quarter with lockdowns and supply chain-related limitations, both in India and some key international markets, the strategic initiatives undertaken over the last few months are starting to play out to create a long runway for the growth in the businesses. We reported EBITDA margin 27% for the Q1 and the margin performance takes into account normalized cost structure and higher logistic-related expense in the quarter under review.

We continue our efforts to institute the building blocks for sustainable growth of our organization. You would have noticed a significant number of new product launches, new divisions being introduced, cost efficiency initiatives implemented across the organization, various people-centric initiatives launch and focus on building the robust R&D team.

Friends, while we continue to deliver in the short-term, it's imperative for us to put in place a sustainable long-term growth strategy, thereby creating value for our shareholders continuously.

Coming to our domestic business, which recorded another sterling performance during Q1 growing by 39%. All our big brands continue to record high growth rates which have significantly benefited the businesses. Further, due to limited sales of our COVID portfolio, we feel confident about sustaining our market beating performance. This also is indicative of sustainability and resilience of our revenue streams in the medium to long term once this heightened pandemic phase is behind us and life returns to normal.

As per IQVIA MAT in June 2021, our growth is 24% versus market growth of 19% for the Indian pharma market. And this growth of what we have demonstrated has very limited contribution from the COVID portfolio. Majorly, our growth is supported by therapy diversification and other transitions that derive leverage from the established organizations strengths.

During the quarter, we announced our foray in the world of nephrology segment with the launch of new division, RENOVA, covering chronic kidney disease to end state renal elements.

Also, we have launched our Nova division which will focus on pediatrics and respiratory segments in India with a 350-member team, focus on antivirals, corticosteroids, anti-allergic and nicotine replacement therapies, both of these are the expansions aligned with our core strengths.

Having implemented our new go-to-market model, we also continue to evaluate several new growth opportunities that will further drive productivity on a relatively stable cost base.

We have implemented our new go-to-market model without any increase in manpower. The transformation story is supported by the continuous efficiency driving initiatives like salesforce automation, salesforce excellence, incremental digital adoption, which is a combination of digital and physical, consolidation of resources not only across therapy areas but also in terms of geographical coverage and control.

Coming to our international business, the situation remains challenging because of the uncertainty surrounding the second wave of COVID-19 and shipment challenges that we face which impacted revenue growth for selected pockets in the international business and the CMO business; however, the silver lining is the US and the South Africa business continue to show a strong momentum, each of them delivering a growth in excess of 20% during the first quarter. Overall, the international business delivered flattish top line. We expect these factors to be transient in nature with the underlying demand drivers and our market position remaining intact.

We are also strengthening our R&D capabilities and that should support medium to long-term growth opportunities in the international market where we stand today.

The outlook for the rest of the year remains highly positive. We see continuing growth momentum along while continuing our best cost efficiency initiatives. We are also strengthening our R&D capabilities that should support the medium to long-term growth opportunities in the international market. Consequently, we expect stable margins even as cost structures revert back to normalized level. This will enable continuing cash generation and high return ratios. Overall, we remain well positioned to drive long-term value for our stakeholders based on sustainable gains and some key strategic initiatives.

With this commentary I would like to conclude my opening rematch remarks and I would like to now hand over to Mr. Vijay to share with you Brief Perspective on our Financial Performance. Thank you. Over to you Vijay.

Vijay Bhatt: Thank you, Nikhil. Good afternoon, everyone and welcome to J.B. Chemicals Q1's Earning Call. I will now take you through some of the key highlights of our financial performance for the quarter ended June 30, 2021. During Q1, we have recorded revenue growth of 16% year-on-year to cross the threshold of Rs.600 crore for the first time in the quarter as indicated by Nikhil earlier. Domestic revenue growth was 39% and led by large brands and market beating performance in non-COVID therapies. However, uncertainty surrounding the show, second wave of COVID impacted the growth in some of our international markets.

Most importantly, the gross margin profile remains healthy during the quarter which was aided by a positive shift in product mix. Despite our cost base returning to normalized level EBITDA margin continues to remain strong; compared to the preceding quarter EBITDA margin during Q1 significantly improved to 26.9% against 23.4% in Q4 of FY'21. It also measures up well against full year of FY'21 margin level of 27.4%; however, the decline in EBITDA margin on a year-on-year basis is primarily on account of sub-optimal cost base in Q1 of FY'21 due to the COVID-19 lockdown. Going forward we expect that the margin to remain healthy and in the range of last year's margin level despite cost structures reverting to the steady and normal levels.

I would also like to highlight that the lower other income in Q1 FY'22 is reflection of normalized bond yields in the fixed income funds compared to the volatile yields during the same quarter last year. We expect that this normalized bond yields level to continue throughout the current financial year. Based on the higher revenue and higher cost base, profit before tax of Q1 FY'22 came in line with corresponding quarter last year. Effective tax rate remain unchanged at 25%, therefore profit after tax is also at the same level of Rs.119 crore on a year-on-year basis.

Going forward we will continue to pursue our strategic business objective, that is of delivering profitable growth on the back of multiple business initiatives and maintaining strong cash accretion. We expect that the business to expand by leveraging the existing base of manufacturing, distribution and relationships within our ecosystem. Further, we expect this initiative of continuously driving strong returns and create outstanding stakeholder value over the next few years.

With that, I conclude my opening remarks. We would now like to open this forum for an interactive session with all of you and will be happy to respond to the questions. Thank you.

Moderator: Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Two questions. One is in terms of your international markets while you said US and South Africa has grown, we see it's still flattish. So, what are the moving parts here and what is the outlook in terms of a little qualitative and if possible quantitative in terms of your export strategy and growth numbers?

Nikhil Chopra: Prakash, if you look at the entire mix of business in our international market, major issues that we face because what we shared because of the issues of COVID being hit in some of the geographies and because of the logistic issues in the BGx market, there things were down but if you look at US and South Africa there our growth was excess to 20%, that is what I gave the commentary. But from a perspective of future looking guidance, we are looking forward that things will stabilize and we will return back to low double digit growth in our branded generic market as we stand today because our order book for coming quarters looks very healthy.

Prakash Agarwal: This is for the business which has declined you are saying, it will return to double digit growth?

Nikhil Chopra: Yes.

Prakash Agarwal: So, this is largely the logistics business or there is something more to this?

Kunal Khanna: I just add, Prakash, here. When we look at our international business apart from our key geographies which is US, South Africa and Russia we have two main legs CMO and other branded generics markets such as Asia Pac, Central America and LATAM. The business which has been impacted is largely centered around our Asia Pac, LATAM Central America offtake in these BGx markets and also our CMO business because of the muted trends in the cough and coal segment. As we look ahead and based on the recent order flow, we are quite positive that we will see revival of these specific pockets in the coming four to five months as well.

Prakash Agarwal: In the past we have commented that we have vision or strategy to take this logistics business to higher value geographies since our plant is quite qualified. So, where are we in that journey?

Kunal Khanna: In fact, over the last four months, we have already tapped into one customer in one of our regulated markets. We are working on concepts which go beyond the conventional cough and cold extending ourselves into segment such as immunity as well. Now these things take time because we are talking about established CMO customers where right from the development to the approval at the customers and it's a 12 to 14 month cycle. But we have seen good traction with two customers being tapped to, new customers in red market being tapped into, and we are very confident about our plan. So, that is underway.

Prakash Agarwal: Lastly on the India business, so we have a mega brand in hypertension, then in gastro. What we have done here is now entering some leads into other therapies, I mean, what is our strategy in terms of making another mega brand and which segment would that be?

Nikhil Chopra: So, we are trying to consolidate our position in the world of hypertension, if you look at, Prakash, we have a big brand that is Cilacar, and the line extension in terms of Cilacar T which conceptually is the life cycle management that we have done in the world of hypertension. Equally we have got into the world of metabolics that is with the launch of Vildagliptin and Dapagliflozin, Dapagliflozin as our brand has taken off well and we are getting good prescriptions from the medical fraternity. Outside this world, we have entered into couple of new therapies which I spoke in my commentary, that is in the world of pediatrics and respiratory where we are glad to share that we are seeing a good traction in first quarter of launch of these two initiatives, but building mega brands in India as you know it takes time, it is not easy but you have to influence the ecosystem. So, we are on that journey, but we are confident enough in terms of what we are projecting as guidance in the coming time, we will continue to deliver market-beating performance and also we will get some help in delivering this market-beating performance with some of the newer initiatives that we have put in place.

Prakash Agarwal: I totally appreciate that I do understand that mega brands take time. I was just trying to understand with the various initiatives and great initiatives you have taken over the last six months, in which category do you think the next mega brand coming is what I was trying to understand?

Nikhil Chopra: That is what I told you, within the world of hypertension, the life cycle management that we have done with Cilacar T that you will see, that brand already is gaining market share, gaining ranks. So, that is the next big thing that we are looking forward to and equally you will see not that mega brand but you will see some brands picking up in the field of pediatrics and respiratory in the coming time.

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

Rashmi Sancheti: Sir, just a follow-up on international markets. When you said that there are logistic and the shipment issues, is it something that the revenues have been deferred and they are going to get recovered in the subsequent quarters like for the CMO segment and the geographies which you mentioned?

Kunal Khanna: See, it's a combination of international demand trends and partly because of logistics issues, given the freight cost is extremely high, some of the customers have kind of pushed their open orders because if you really look at the freight container cost, it's gone up from $2,500 per container to almost $10,000. Having said that one cannot run away from the fact that the end demand trends in specific pockets like Asia Pac, Central America, LATAM have also been slightly muted but we hope that things are going to normalize as the world kind of see through this wave of COVID.

Rashmi Sancheti: What about Russia market like you mentioned that there was a growth revival, so are we doing growth better than the Russian pharma industry growth or how is it?

Kunal Khanna: Yes, our growth is definitely better than the overall Russian pharma industry especially in our covered market we are much better than our counterparts. We are seeing revival trends, but the next three months are very critical for Russia market because these are the seasonal months for our product portfolio and some of the signs which we see have been positive. So, we are hopeful that Russia will recover from an extremely low base which we witnessed last year.

Rashmi Sancheti: On domestic business, have you taken price hike during the quarter across the portfolio and specifically for the Rantac franchisee?

Kunal Khanna: See, as far as price hike is concerned across products, there is a cycle for each product and the hikes are taken accordingly. With respect to Rantac franchise, we see the benefits accruing to us at the end of Q3 and Q4; we are still sitting with inventory of close to three to four months. Actually what had happened was during the second wave of COVID to ensure supply security we had kind of ensured that we are sitting with good material and finished goods stock and we will see through it. So, the actual benefit accrual will be somewhere around end of Q3 and Q4.

Rashmi Sancheti: Whatever price hike you have taken on the franchisee that will reflect from Q3, Q4?

Nikhil Chopra: Yes.

Moderator: The next question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: From industry what we are hearing is many of the companies are talking about trade generic as an important growth driver and some of the large ones are focusing, it means the market has grown at higher than the prescription market growth and some of the companies are venturing into it. So, what is your thought process and how do you see this market evolving and does that create some sort of a headwind for the prescription business?

Nikhil Chopra: So, we have ventured into the world of generic generics and that happened in Q1. See, what we believe in is capitalizing on the opportunity which is lying in tier-2 and beyond towns. And through this entire distribution channel and fundamentally what we believe in that philosophy of driving affordable access of medicines to the Indian population. So, this will not only help in improving accessibility of our medicine but also at the same time we are looking at how do we maintain the right balance in terms of contribution which is coming from the generic business to sustain our margin profile going ahead. But this overall helps this entire move and many companies have taken this initiative, this overall helps entire concept of accessible, affordable medicine to the Indian population in the nook and corner of the country and that is how we have also got into this business, and this is overall helping the Indian population from the reach out perspective.

Saion Mukherjee: But sir, this will have an impact on your overall growth, right, because a part of the population will be supported through this channel. So, the overall opportunity to that extent gets impacted, isn't it, I mean the prescription growth business to that extent would be lower than what we had anticipated earlier?

Kunal Khanna: See, there are two parts to this business. As far as we are concerned, we are being very cautious that the products which we launch through generics channel do not cannibalize the prescription products. So, two different channels, two very different set of products to capitalize on the opportunity and provide affordable, accessible medicine as Nikhil mentioned and we don't see any real threat of cannibalization, our strategy is very different and we want to stay away from any cannibalization impact.

Saion Mukherjee: Sir, how large is this business, I mean, is it very small at this point, can you quantify?

Kunal Khanna: It's too early to comment for us. Like what Nikhil mentioned what we are going to be cognizant of is the fact that we maintain the balance effectively for us to sustain a healthy margin profile for our overall domestic business.

Saion Mukherjee: You mentioned about mega brands which will be created. How does that work out, I mean, in the sense, that today we are seeing most of the pharma companies are actually focusing on India a lot more, so how do you see, is it going to be dependent on M&A happening or organically you think it can happen and what would allow JB to kind of differentiate itself and create those mega brands?

Nikhil Chopra: See, first of all, I would like to at least talk to you that, we have enough huge opportunity and scope in the existing big brands where we are placed. And the way we have positioned and I have been talking about the new go-to-market model in terms of how we have bifurcated what we want to focus on metro and tier-1 town and our strategy going ahead in tier-1 and beyond towns. So, we see huge scope in our existing big brands and that is quite reflective as reported externally and what we have reported for Q1 that these brands are not only gaining market share but they are delivering market-beating performance. And mega brands are not created in a day, it takes time. So, conceptually if we are able to generate revenue close to 7 to 10 crore for the first year of launch for a brand conceptually we are more than happy because we have a critical mass of prescriptions which we are getting from the medical fraternity and the brand is getting good support. So, that is what is the intention going ahead and we have selected our spaces where we want to play. Coming to M&A, whenever conceptually we get the right asset to evaluate, will consider it, we will not be shying away from that but that also from an Indian perspective it takes time because conceptually you also have to look at from a M&A perspective what you want to buy also is strategically fit and is a part of your plan going ahead to meet your future aspirations.

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

Rahul Jeewani: How do you see the growth for the India business panning out for the rest of this year given that the base for the acute therapies will still be favorable going into the second half of this year because our Rantac and Metrogyl prescriptions were impacted last year and with respect to driving prescriptions for Metrogyl and Rantac in tier-2 and tier-3 markets which was a stated strategy for you, how are some of those initiatives progressing?

Nikhil Chopra: Rahul, if I have to comment on this, we conceptually saw more than normal growth mainly for the demand itself that we saw in Rantac and Metrogyl in this quarter. But I think this will normalize in next three to four months. But what I spoke earlier that the entire new go-to-market model that we have put in place which is yielding good results for both our flagship segments and equally new launches. So, we maintain our endeavor to grow above market and close to high to mid-teens that is what I can guide at this moment of time. And I think a lot of efforts have been put in terms of nurturing the big brands that we have, not only for Rantac and Metrogyl but also what I spoke earlier in the previous question which is in the world of hypertension where we enjoy market share close to 50% to 60% for our Cilacar franchisee, close to 70% for our Nicardia franchisee and we see huge scope in this brand also contributing and towards fueling the growth in the coming time.

Rahul Jeewani: With respect to this strategy of driving growth for these brands in tier-2, tier-3 markets, so would that growth be driven by the trade generic segment or you are targeting different channels for driving growth in these brands in the tier-2, tier-3 markets?

Nikhil Chopra: It's a combination of both but the more inclination is to get prescription-driven growth in the tier-2 and beyond towns.

Rahul Jeewani: Sir, with respect to this Rantac price hike which you said will start reflecting from fourth quarter onwards, now on the basis of price hike in that product are we revising our EBITDA margin guidance for next year because historically we have spoken about a margin expansion of 50 to 100 basis points every year, so with Rantac price hike benefit, would we be able to deliver better margins than what we have done historically for FY'23?

Nikhil Chopra: Rahul, we are very clear in terms of when we look at Rantac price, Rantac price has been a respite for the industry. And if you look at from a product it is from an accessible perspective, affordability perspective, we believe this comes as a breather, but we are we are likely to see the benefit of Rantac what Kunal spoke earlier by end of Q3, starting Q4. And we still have good inventory in the market, close to three to four months. We had maintained this inventory because of the entire uncertainty during the COVID times and we continue to guide in terms of EBITDA margin, see, EBITDA margin were close to 27% as what we reported for the last financial year and in my previous commentary what we had given guidance that we will be close to the same profile of margin for the current financial year. So, it's a combination of headwinds and tailwinds that is how the business happens. So, some of the issues that we are facing in international market conceptually what we face in Q1 it will return back Rantac price in case benefit will start getting in Q4, so we will continue to guide in terms of maintaining the same profile of EBITDA margin what we delivered in last year.

Rahul Jeewani: What was the free cash flow generation during the quarter?

Vijay Bhatt: The exact quantum I will not be able to quantify for this. There has been a very decent amount of free cash flow during this quarter. As you would see that we do not have any major capital commitment as of now and the profitability is quite healthy. So, it has led to a good amount of free cash flow generation in this quarter.

Moderator: The next question is from the line of Kunal Randeria from Edelweiss. Please go ahead.

Kunal Randeria: Just one question around the two new divisions; RENOVA and Nova. So, if you can just walk us through the kind of investment that you have made, I understand that you made some comments in the opening statement, but all the investments been made or are you looking to still have more sales force, some more details around that will be great?

Nikhil Chopra: If you recall the commentary that we gave last time and what I spoke earlier we have not added a single person on the field, we have reconfigured our go-to-market strategy and we have re-allocated our manpower and we have got a team of around 40 people in RENOVA which are going to nephrologists, there are around close to 2,000 nephrologists practicing in the country and we have a good relationship with nephrologists as they are a good prescriber of our anti-hypertensive drugs. So, we have launched RENOVA half a dozen products which are more into kidney supportive therapy, that is renal supportive therapy that is what we have done and Q1 was the first quarter for our Nova division, equally for our Nova division where we have got 350 people, resource is allocated from our existing team in the entire new go-to-market model and this business had a good starting point because we also shifted some of our products from the existing business in the world of pediatrics and there are half a dozen new launches which we have done in the field of respiratory. So, all this conceptually from a manning perspective, there is no cost which has been added. What we are trying to leverage our existing opportunity for nephrology, pediatrics and respiratory segment and we are also happy to share that what early success that we have got in terms of prescription traction gives us confidence that both the initiatives that we have put in place should help us to deliver market-beating performance across the company in India geography.

Kunal Randeria: At this stage, you're confident you don't need any more investments here, right?

Nikhil Chopra: No, it's a normal investment in terms of the entire medico-marketing initiatives which conceptually helps us in terms of disseminating the knowledge in the field of medical fertility, otherwise the combination of products are in-house and B2B which are helping us in terms of our field force venturing into newer categories of business and more and more number of patients in the field of pediatrics, respiratory and kidney disease.

Kunal Randeria: How many new products would you be launching in the next two to three years?

Nikhil Chopra: We already have launched close to 12 to 15 products in last six months in both these new initiatives and couple of products in the world of metabolics. I think we are rightly poised that how do we get now the maximum from what we have launched. So, we are not in a hurry to launch number of products. Conceptually, what we believe is in terms of how we can make a difference to the life of the patient by getting something which is niche, innovative and also partner with the healthcare professionals in driving better quality of life of the patients.

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

A Puranwala: My first question is with regards to the new launches what we have done. So, going ahead, what is the kind of growth we see because what we are guiding is somewhere slightly higher than the market growth but because of these two new divisions, shouldn't we grow faster than what we are guiding as of now?

Nikhil Chopra: Already if you look at the growth what we demonstrated in Q1 was close to 39% and this was basically we saw good uptick in the field of Rantac and Metrogyl but that growth is going to normalize. But what I gave in my earlier commentary that we will continue to deliver a market-beating performance and 4% to 5% element of growth should come from the newer initiatives that we have taken in place and rest of the growth we look at from a volume perspective of our existing brands and whenever possible, we will be able to take the price increase. That is how we are seeing the business going ahead.

A Puranwala: My second question is on the Rantac price increase. Though we would be allowed to take a 50% price increase, but given in Q3 or in Q4, would we be taking the entire price hike or this will again largely depend on how the market dynamic pans out within the molecule which would compete with the Ranitidine?

Kunal Khanna: At this stage we will try to maximize the price situation. The timing of this has already been communicated and that's how we are thinking about it.

Moderator: The next question is from the line of Ahmed from Unifi Capital. Please go ahead.

Ahmed: A couple of questions: One, can you help us through the numbers of domestic Contrast Media? Also want to understand the IQVIA data shows 22% growth for Q1 whereas we are showing 39% growth in domestic formulations. So, besides Contrast Media, is there any other thing that would cause such a huge variance both the numbers?

Kunal Khanna: See, our Contrast Media business has kind of revived because it was a very, very low base last year and we are kind of having a very good momentum in this quarter. We would not want to specifically discuss the segment or product wise details but it shows a very-very healthy momentum as we look at Q1 of this financial year. With respect to overall variation and difference between IQVIA and what we have internally reported, see, these things kind of vary, right. What we saw was our internal demand really pick up because of huge surge and offtake during second wave of COVID for our products like Rantac and Metrogyl. Now it becomes very difficult for the external agencies to kind of have an exact tap on what that surge is and you will always see those bit of variations. Overall, as we think about our business, our primary and secondary trends are absolutely matching, we have our inventory levels absolutely under control and therefore quite confident of looking ahead as well.

Ahmed: What's been the MR productivity in Q1?

Nikhil Chopra: Last time also what we have spoken, our productivity is now almost at par or more with the industry trend, the industry trend is close to around Rs.4 lakhs, Rs.4.2 lakhs, we are trending close to around Rs.5 lakhs per person productivity which conceptually will continue to grow at a healthy growth of around 12% to 14%.

Ahmed: One finance related question to Mr. Vijay. Now that the ESOP policy and the scheme is out. So, when can we expect ESOP related costs to hit the P&L?

Vijay Bhatt: I think this ESOP-related cost will start coming in from Q2 onwards. As of now it is just approval of the scheme which has happened.

Ahmed: The EBITDA guidance is taking into account such costs or you're considering this as a one-off thing?

Vijay Bhatt: No, this is one-off kind of cost. EBITDA guidance is something independent of this.

Moderator: The next question is in the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: In the Indian market even Nicardia has seen a growth after quite some time. So, if you could throw some light on what led to the growth? And also what would be the COVID-related revenue from domestic market in the sense do you expect some tapering off going forward?

Nikhil Chopra: Nicardia what I spoke earlier, see, Nicardia is our flagship brand and we have a combination of traditional Nicardia of 30 and 60 milligram and we also got XL which is an incremental innovation. And this brand conceptually is rightly positioned and it gets the entire prescription traction from nephrologists in the world of uncontrolled hypertension. So, as a strategy what we have taken in terms of how do maximum number of patients get benefits with the incremental innovative product that we have put in the market in the form of Nicardia, XL. So, that is the strategy that we are following and only this brand enjoys 80% to 90% market share and we only are trying to influence the ecosystem with this entire strategy that we are following for Nicardia From COVID, Kunal, why don't you comment?

Kunal Khanna: From a COVID perspective, see, we have very limited products, just one or two, the contribution of these has been very insignificant to our overall growth. Yes, but what we saw was that during the second wave some of our flagship brands did play an important role as co-prescription during care, but no specific, significant contribution from main COVID therapy.

Charulata Gaidhani: Did you see any peculiar demand coming from the hospitals which were treating COVID patients for Metrogyl or Rantac?

Kunal Khanna: That's what, Rantac and Metrogyl did well, so their pickup was quite significant and we did see a surge in demand for Rantac and Metrogyl during the second wave of COVID. And as was mentioned earlier also as we move ahead, these demand trend will certainly stabilize. But outside this with respect to main core COVID therapy, we just had one or two products and there was very limited contribution to the overall growth profile which you see.

Charulata Gaidhani: My second question pertains to the challenges and shipments that you saw in Q1. By when do you see it coming back to normalcy, like by when will it reflect in the export numbers?

Kunal Khanna: Unfortunately, very difficult to predict by when and how the logistics situation will normalize. Some of the factors regarding congestion at various transshipment terminals in China and all continue to worsen. We hope that the situation should normalize over the next two to three months and that should certainly help our international business going forward. Also, we would not really want to completely attribute the challenges only related to logistics as we maintain that some of the demand trends should also likely improve going forward specifically in pockets like APAC and Central America and that again should have a positive impact on our business going forward.

Charulata Gaidhani: You expect that by when?

Kunal Khanna: We are hopeful that as we look at the next two, three months the demand revival along with logistics situation should ease out.

Charulata Gaidhani: What would be the lozenges utilization currently?

Kunal Khanna: We are operating at close to 65% utilization for our lozenges.

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

Neelam Punjabi: Firstly, I wanted to know given we had a higher contribution from domestic business in this quarter but that did not translate into gross margins. Is it because of higher contributions from Rantac and Metrogyl?

Vijay Bhatt: The gross margin is a combination of several factors. The most important is the product mix. Rantac, Metrogyl did play its own role in this. This is not the only reason but there are some cost factors are also impacting the overall margin, certain API costs are showing some indication of increase. And that's where the margin profile is though very strong but has slightly remained at the same level of last year.

Neelam Punjabi: My second question is on the ESOP cost. So, according to our calculations, given the grant date and the exercise price, the non-cash component we calculated to be around Rs.60 crore in FY'22 and around Rs.75 crore in FY'23. Is that the right number? Of course, the fair value would be dependent on Black-Scholes but ballpark is it in the right direction?

Vijay Bhatt: I think this number we are also just going to get calculated based on this Black-Scholes but more or less I think it should be in this range, I mean, exact number we haven't also calculated.

Neelam Punjabi: So, brands are quite hard to find and expensive to acquire in India. So, what's the ROC profile that you're looking at when you are looking at your inorganic strategy going forward -- is this going to be ROC-dilutive?

Vijay Bhatt: From an inorganic strategy perspective, things are very opportunistic. At this stage difficult for us to comment on how that essentially impacts our ROC profile. One thing which we can assure you is that when we look at these acquisitive options, we are really end of the day looking at value creation and synergies which can come from a revenue side or operating synergies.

Neelam Punjabi: Can you just share any threshold limit for this?

Kunal Khanna: Not at this stage.

Neelam Punjabi: What's the net cash as on June?

Vijay Bhatt: I think I'd already mentioned in my earlier reply to Rahul that exact number is not available with me, but I think it is very close to about 180, 200 crore because there are no major cash expense within this.

Moderator: The next question is from the line of Alroy Lobo from Kotak Investment Advisors Limited. Please go ahead.

Alroy Lobo: I just wanted to check, KKR normally gets very involved with providing strategic inputs to some of your group entities, in all companies they invest in. Is it the same with J.B. Chemicals and if so is there any kind of expense that is being paid to any KKR-related entity for providing such strategic inputs, and so what is the quantum?

Nikhil Chopra: We would not like to get into details in terms of expense, but KKR conceptually have invested in this business; they have got 54% stake and they have got the right management in place, and at the end of the day it's a combination of collaboration which works and we have got four guys from KKR on the board and it's a combination of KKR and the independent board members from where we get the guidance for the right purpose, otherwise the management team is fully responsible for running the business. And equally from an opportunity perspective as KKR has a global network, we look forward for help in terms of how we can enhance our entire work in the world of contract manufacturing, we also look at from a perspective of how we can fasten the opportunity which is available in the form of M&A and that is where we stand from a perspective of how KKR comes in.

Kunal Khanna: Just to add specifically there is no real cash paid to KKR, nothing like that.

Alroy Lobo: So, all these inputs are basically part of their equity stake that they have in the company, they bring expertise to the table with no cash outgo to any other KKR-related entity?

Kunal Khanna: See, very clearly, as Nikhil stated, their strategic guidance will always be there, they being the largest investor and again clarifying no fees in any form.

Alroy Lobo: Could you just comment on Metrogyl in terms of price trends, how are you seeing that product shape up and going forward?

Kunal Khanna: Metrogyl, what we saw was good kind of demand picking up in Q1. As far as the pricing is concerned, the reviewed price was already factored in the base from last financial year. For us it's a very-very important product. We are looking at life cycle management of Metrogyl across various SKUs and we will continue to build on this flagship brand.

Moderator: The next question is from the line of Naresh Vaswani from Sameeksha Capital. Please go ahead.

Naresh Vaswani: So, how much of our total manufacturing is currently outsourced and what was our overall capacity utilization in Q1?

Nikhil Chopra: Our capacity utilization remains close to 65% to 70% and the outsource which is majorly for India market remains close to 25% to 30%, that is where we stand.

Naresh Vaswani: On the international business, you mentioned in the other commentary, but why some markets have been impacted due to COVID and not South Africa and US, if you can help me with some color on that?

Nikhil Chopra: In some of the Southeast Asian markets and African markets, the timing of the COVID wave was conceptually starting close to month of June and if you look at South Africa and US, they already are in the regular flow and the business was less disrupted, that is how we see Q1 going. And this conceptually happens when you operate in different geographies across the globe. So, you will have a combination of headwind and tailwind and that is how the business performs.

Moderator: The next question is from the line of Julie Mehta from Mount Infra Finance. Please go ahead.

Julie Mehta: What is the contribution from the top five brands if you'll be able to help me with that?

Nikhil Chopra: It's close to 75% and when you talk of top five brands these are not top five brands, these are conceptually 30 different SKUs and these top five brands which comprises of 30 different SKUs go to different variety of specialties in different geographies of the country. So, that is what I admire about the company that we have done the right life cycle management of this brand at the right time which is fetching us good results and we are able to deliver market-beating performance. 70% are domestic.

Julie Mehta: How was the growth like from those brands?

Nikhil Chopra: All those brands grew at a healthy pace of around 20%, 25%-plus and quarter-to-quarter are only gaining market share and delivering market-beating performance, conceptually they are leader from a market share of 40% to 70%.

Julie Mehta: Going forward what is the vision for the domestic market?

Nikhil Chopra: I shared that in my commentary, the domestic market will help us in driving market-beating performance which is a combination of big brands that we have and this market beating-performance will also be supported by some of the newer initiatives that we have taken by launching couple of new divisions and around eight to ten new brands.

Moderator: The next question is in the line of Gagan Thareja from Kotak and that will be the last question for the day.

Gagan Thareja: My first question is around Rantac pricing. I think three SKUs have been qualified under the policy for a price increase. Those three SKUs would constitute how much of your Rantac franchise in India?

Nikhil Chopra: Close to 70% to 80%.

Gagan Thareja: Would it be reasonable to assume that going ahead those three SKUs would become more or less the entire coverage of Rantac franchise for you let's say going ahead by FY'23 or so?

Nikhil Chopra: So, we have around seven to eight SKUs in Rantac and there are different products, position at different facilities we have got Rantac OD brand which is conceptually incremental innovative product which we continue to focus in the clinic of gastroenterologists, cardiologists, orthopedics and also beside this traditional brands of Rantac, we have got Rantac MPS Syrup which is for pediatrics specialty. So, the composition will continue to remain the same because these two brands are much more progressive and much more prescription-oriented.

Gagan Thareja: Have you seen new entrants in Ranitidine or maybe a more increased sort of focus of presence from existing peer suppliers in the Ranitidine portfolio?

Nikhil Chopra: There are a couple of brands which are in the market in the field of Ranitidine and they have their own strategy to focus and there will be two to three brands in the world of generic generics also, but every company has their own strategy in terms of how they would like to play the entire opportunity in the field whenever they take it from a prescription, whether it is a prescription product, whether it is a generic generics play.

Gagan Thareja: Cilicar and Nicardia are your pivotal brands and you've demonstrated very healthy volume growth in these brands and you also indicate that the runway is still long there. If you could give us some idea of the market size and the evolution of how Amlodipine versus Clinidipine fair from a therapeutic standpoint, are you seeing continuous shift from Amlodipine to Clinidipine, if you could give us some sense of how this market is evolving, it would be very helpful?

Kunal Khanna: See, first of all just to give an indication of size of the opportunity just in terms of incidence and the patient pool which is on therapy, we are talking about almost 350 million hypertensive potential patient pool and only 140 to 150 million being on some form of therapy. So, there is a big, big opportunity still to shape therapy and expand the patient flow. With respect to its comparison with the other competitor Amlodipine, we believe that both have their own strengths and both have their own place in the treatment protocol. Clinidipine has its own strengths. Where Clinidipine really scores is that it has a very limited side effect profile with respect to renal complications and that's where it's a preferred choice. As we look at how do we really need to expand on our antihypertensive basket, we are very clear of the Clinidipine advantages and where it needs to play irrespective of the other molecules.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Nikhil Chopra: I would like to thank all the participants for patient hearing in whatever capacity we were able to answer all the questions. Just would like to conclude that the outlook for the business for the rest of the rest of the year remains positive and we see continuing growth momentum while continuing our cost efficiency initiatives. Also, the fundamentals remains in place where we are well positioned to drive long-term value growth for all our stakeholders based on sustainable gains from our key strategic initiatives. Also, I would like to wish all the participants, be safe, be healthy and all of you if you have got one dose of vaccination, conceptually, the second dose of vaccination should be taken at the right time because that is how we will be able to get out of this entire pandemic of COVID which the entire world has been facing. Thank you, all for patient hearing.

Jason D'Souza: Thank you, everyone. With this, we will end the J.B. Chemicals and Pharmaceuticals Earnings Call.

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