GOOD PEOPLE
for GOOD HEALTH

November 13, 2023

BSE Ltd.
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai 400 001

BSE Scrip Code: 506943 **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 November 8, 2023 at 3.30 p.m. IST in relation to results and developments for the second quarter ended on September 30, 2023. 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 Anil Phadnis

Digitally signed by Sandeep Anil Phadnis
DN: c=IN, o=Personal, title=8434, pseudonym=108F69E4E868E4C1147674C13B2684AC9CDD8E36, 2.5.4.20=715f7603f235e5d1d74002aec03d24cf432efd8296e6e1c3c0c80534a90c098e, postalCode=411038, st=Maharashtra, serialNumber=CC500FDD638E71336FC58B204E2BA05EA7C4ADE49B8FE438E8F254C300DEC735, cn=Sandeep Anil Phadnis
Date: 2023.11.13 15:08:17 +05'30'

Sandeep Phadnis
Vice President – Secretarial
& Company Secretary

J. B. Chemicals & Pharmaceuticals Ltd.

Q2 FY24 Earnings Conference Call Transcript

November 08, 2023

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 Q2 FY24 Earnings Conference Call of J.B. Chemicals and Pharmaceuticals Limited.

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 the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Jason D'Souza: Welcome to J.B. Pharma's Q2 Earnings Call. I would like to introduce the management, who's present at this call; we have Mr. Nikhil Chopra, CEO and Whole-Time Director, J.B. Pharma; Mr. Kunal Khanna -- President, Operations, J.B. Pharma; and Lakshya Kataria – CFO, J.B. Pharma. I would like to hand this over to Mr. Nikhil Chopra for his opening remarks. Over to you, sir.

Nikhil Chopra: Thank you, Jason, and a big welcome to all of you for the Conference Call for J.B. Pharma.

Overall, we are gathered to discuss the Operating and the Strategic Progress made by J.B. Pharma during Q2 and First Half of the Year. Let me first talk about Q2. During Q2, the business delivered a healthy blend of domestic and international business growth with expansion in domestic business led by our chronic segment and acquired portfolio.

Sharing quick highlights of the results in Q2 FY24, we saw revenues of INR882 crore, which is an increase of around 9% year-on-year. With a combination of good product mix and execution of our strategy, we saw gross margins rising strongly by 350 bps in Q2 FY24 over the last year.

We have a dedicated approach on the cost containment, and this has led to translation of good performance into higher operating EBITDA margins at 28.5% relative to 25% in the same period last year.

Domestically, we saw continued traction in chronic therapies and our acquired portfolio driving domestic business growth of 11% year-on-year to INR481 crore in the same period.

J.B. Pharma Featured as the Fastest Growing Company in Top 25 within IPM as per IQVIA MAT September 2023 Data with a growth of around 18% versus IPM growth of 10%.

We have also earned the distinction of being the "Fastest Growing Business among the Top 25 in Chronic Segment with 18% year-on-year growth versus IPM Chronic growth of 12%." Our entire hypothesis of making big brands continues to be there with our big brands only gaining ranks and improving market share.

The focus on building brand franchise remains and we have seen a good performance from all our big three franchises, that is Cilacar franchisee for hypertension, which is nearing now Rs.600 crore, the Rantac franchisee that is Rs.400 crore and Metrogyl franchisee which is now crossed Rs.300 crore.

In a short period also, we are delighted to share that we have now bid another Rs.100 crore franchise, which is in the form of Sporlac. The Sporlac brand has seen a significant gain in rankings and is now ranked 336 closes to entering the top 300 brands in Indian pharma market.

Now, giving "Highlights of International Business." The international business recorded revenue of Rs.401 crore in Q2 FY24 and Rs.808 crore in H1 FY24. Excluding South Africa, the business grew double-digit in Q2 FY24 and mid-teens in H1 FY24. CDMO has witnessed sustained momentum, giving us revenue of Rs.115 crore in Q2 FY24.

Let me throw some "Highlights of our Financials for First Half of the Year." For first half of the year, that is for six months, revenue saw a growth of 12% at Rs.778 crore. The domestic revenue was Rs.970 crore, growing at 14% aided by favorable product mix and acquired portfolio. In international business, our formulations segment grew by 10%, contributing Rs.538 crore, and CDMO segment 11% at Rs.234 crore. Rest of the world export contributed significantly to the growth in the first half.

Operating EBITDA, which excludes the ESOP charge was at Rs.494 crore versus Rs.392 crore for the corresponding period. Operating EBITDA margins saw an expansion coming in at 27.8% versus 24.6% in the prior year… this I'm talking about first half of the year. Operating cash flow was higher at Rs.421 crore versus Rs.279 crore in H1 FY23.

Gross debt reduced to Rs.427 crore as on 30th of September 2023 versus Rs.548 crore as on 31st of March 2023, and net debt stood at Rs.18 crore as of 30th September 2023 versus Rs.266 crore as on 31st of March 2023.

We have invested close to Rs.93 crore in CAPEX for first half of the year, mainly in expanding our lozenges facility in Daman and estimated CAPEX is of Rs.145 crore for the current financial year.

With fresh fronts opening up in the geopolitical situations, we are cautious about our approach in international markets, using the learnings from past periods and favorable trade and logistic cost, we are driving a curated portfolio in selected markets. The way forward is going to be marked by superior execution of our stated strategy in our domestic business, especially for chronic side, together with CDMO. The combination of India and CDMO should contribute 75% to 80% of overall sales mid to long term.

We are investing in making our big brands bigger as I shared earlier and we navigate growth in chosen categories of cardiac, cardiology, probiotics, pediatrics and gastro segments in the domestic market. The international business will focus on expanding the offering in CDMO and ramp our presence in identified ROW markets by better productivities and costs. Given that the operating environment continues to throw up new challenges, it will be an endeavor to keep control on cost across board so that we have the head rooms to react and readjust.

I would also like to add that being sustainable is just as core to us as our performances. We have published our "Second Sustainability Report" recently and urge those interested to access it at our website.

Thus, I have come to a conclusion of my remarks. I will take this opportunity to wish our CFO – Mr. Lakshya Kataria the best on behalf of everyone at J.B. for his sterling contribution to the company.

And also taking this opportunity to wish everyone on the call to you and your family members a Joyous and Happy Diwali and a Prosperous New Year.

Now, I hand it over to moderator and request to get the forum open for the question and answer session.

Moderator: We will now begin the question-and-answer session. We have a first question from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: Just want to know and understand more on the export formulations business where you mentioned that ex-South Africa, we have grown mid-teen, but in South Africa, since you have taken some restructuring, so what was the rationale behind it, what exactly you have done, how much sales we had foregone in this quarter, if you can give more color on it.

Nikhil Chopra: So South Africa, we have taken a haircut of around… you should assume that it should be close to around Rs.120 crore. So, for first half of the year it is close to Rs.60 crore. What we have done is some part of tender business which we are doing with government, we have let go because the margins were thin and more focus, we are asking our teams in South Africa to put in private market. We are getting into some consumer business, we are getting into some launch of new lozenges, we are closely working with Clicks and Dis-Chems who are the chain in South Africa market, that is what we are trying to do. So outside South Africa if you look at our BGX and CDMO business, they are showing handsome growth. That is what we were trying to communicate and that is what we have done overall resetting our base for our South Africa business for the current year.

Rashmi Shetty: This entire Rs.60 crore is gone from this quarter only or there were some parts sitting in the first quarter also?

Nikhil Chopra: This quarter it is Rs.30 crore. So, assume Rs.25 to Rs.30 crore every quarter.

Rashmi Shetty: Rs.25, 30 crore in the first quarter and more Rs.60 crore is expected to go in the second. Half?

Nikhil Chopra: Yes.

Rashmi Shetty: These products were mainly antivirals, anti-infective sort of the products or which kind of products?

Nikhil Chopra: It was a generalized portfolio, a mix of anti-antibiotics, anti-diabetics and cardiology segment. But also, one thing that we would also like to highlight, this entire Rs.120 crore does not make any big impact on our overall EBITDA margins and EBITDA absolute value.

Rashmi Shetty: So, the gross margins which we have seen improvement is majorly coming from a higher chronic share and to some extent which is coming from this rationalization of this kind of business?

Nikhil Chopra: And third is the CDMO contribution where there is weightage from one or two big players, which has overall helped us to maintain our gross margins.

Rashmi Shetty: In the CDMO businesses, this Rs.115 crore quarterly run rate which we have established, this will be continued in the 2nd Quarter, or we are expected to see higher number because the winter season will be setting in?

Nikhil Chopra: Winter season has already set in in that part of the geography. And when you look at us as a company in the world of CDMO business, if you look at in the last 12 to 18 months, Rashmi, almost we have doubled our business. So, the way this business has a trajectory, I think, in the first half of the year we do 60% of the revenue. You should see some softness in Q3, I think Q4, we should be back to where we are today. And our mid to long term plan which I've stated earlier continues to be there with this business now contributing around 12% to the overall revenue for J.B. which was last year close to $50 million, we continue to stick to our commentary where we want to take this business to $100 million in mid to long term.

Rashmi Shetty: As we are generating good cash, we are looking for more M&A activity or this cash will be used to pay off long term debt completely in this year?

Nikhil Chopra: There's no long-term debt. See, we are generating close to Rs.500 crore cash every year. Let us keep the debt and the M&A issue separate. Irrespective of debt being there or not there we continue to evaluate assets and that is what we have seen. We as a company have done around four acquisitions, invested close to $200 million, buying around 275 crore revenues in India. And whenever we see right opportunity for us which has got more synergy with the business where we see payback period close to 7 to 8 years and where we see a potential quality asset will be more than happy to invest.

Moderator: We'll take our next question from the line of Abdulkader Puranwala from ICICI Securities. Please go ahead.

A Puranwala: Sir, just a bit on the Indian side. So, in the presentation you talked about the acute growth getting slowed down. So, can you just provide some color as to for the quarter what would be your growth in acute brands like Rantac and Metrogyl and vis-à-vis the chronic growth for the quarter?

Nikhil Chopra: If you look at Q2, the acute portfolio grew at around 6%, and we at J.B. also, the growth was 6% for acute. So, you should look at our overall Rantac, Metrogyl franchisee grew around 5% to 7% for the quarter. And if you look at first half of the year, Abdul, the Indian pharma acute market grew at 7% and we also were in line with that growth. That is where we stand. Our portfolio is more dominant towards the GI part of acute. If you look at Rantac, Metrogyl, Sporlac. So, the way we see traction in first half of the year, unfortunately for us and fortunately for the betterment of the mankind and humidity that people did not suffer from the GI infections. That is why you don't see the traction, which we see every year for J.B. portfolio in acute, that is what we would like to share. Going ahead, I think, what I shared earlier also the focus will be how do we improve our chronic contribution in India business where lot of effort has been put by the J.B. team in building the brands, particularly in hypertension and doing justice to the acquired portfolio in the field of heart failure, in the field of statin and launching some new portfolio in the field of diabetics. So, we will continue to focus on chronic and as and when we are supported by acute season I think the portfolio is there and I think the teams will do the needful in the doctors' clinic.

Kunal Khanna: Just to add to the point of chronic, if we look at the chronic growth scenario, in Q2, the IPM chronic grew by 9, whereas we grew at 14, and for H1, the chronic growth was 10% and we outpaced that by 8 percentage points growing at 18%.

A Puranwala: For the full year, what is the kind of growth we should bake in for India, I mean 10% to 15% something still looks achievable and reasonable?

Nikhil Chopra: See, the Indian pharma market, if you look at MAT September '23 is growing at around 10% and we are growing at around 18%. Indian pharma market should grow between 8% to 12% and we should be 200, 300 bps better than the market. That is what I have been stating in my commentary if you hear it. So, you should expect us to grow at around 12% to 14%.

A Puranwala: Sir, from hereon, do you have any plans to add any field force for any particular segment or any new segment you will be planning to enter?

Nikhil Chopra: Not as of now. I think we have adequate presence on the ground; we have close to 2,200 medical reps and we are meeting close to 2.5 lakh doctors across pan India and probably the productivity that we are expecting this year, we should be touching

Rs.7 lakh and we should be pressure testing ourselves in terms of how we can inch up the productivity and grow at around 10% to 12% next year. So, in near future we are not looking at adding any as is medical reps on the ground.

Moderator: We'll take the next question from the line of Rahul Jeewani from IIFL Securities. Please go ahead.

Rahul Jeewani: Sir, can you please comment on this capacity expansion which you're doing on the lozenges business because if I remember correctly our utilization on the lozenges plant was around 55%, 60%. So, what necessitated this CAPEX for the lozenge's facility?

Kunal Khanna: See, Rahul, when you look at the capacity expansion, it has to be looked at it from two perspectives. One is the debottlenecking of the packaging lines, which we have to match the manufacturing capacity and the other part is the long-term land acquisition, which we have taken, for which we are not putting up any capacities right now, but that's a plan which is more kind of futuristic so that going forward, if we have to double the manufacturing through to two to three years from here on, we already have the land available, right. As we have stated earlier, we have a manufacturing throughput of close to 17 to 18 crore lozenges per month. Our packaging throughput was close to 12 to 13 crore lozenges which will match our manufacturing output by end of December. The significant investment which you see in the CAPEX is actually is for land acquisition, which is more of futuristic preparation if we want to double our manufacturing capacity two to three years from here on. And that land was very adjacent to our current unit and therefore we saw synergies because of all the approvals which we have with our current principal partners, so that we don't have a dispersed manufacturing scenario and it also helps us logistically.

Rahul Jeewani: So, of this 145 crore CAPEX which you will be spending this year, what was the quantum for the acquisition of the land?

Kunal Khanna: So, land acquisition is 50 crore and the other we have always maintained there is close to 70 crore of maintenance CAPEX which anyways goes and we are also kind of expanding our granulation tablet unit, but that's again a very marginal CAPEX expansion. So, mainly the investment is on land acquisition close to Rs.50 crore.

Rahul Jeewani: Sir, you indicated that obviously our growth in the India business this quarter for a weak acute season, but what we hear from some of your other peers is that the season has started picking up from September onwards, even the October month growth was very robust for the domestic market. So, have we also seen Rantac and Metrogyl picking up from 3rd Quarter onwards?

Nikhil Chopra: Please understand Rahul, which I stated earlier. There are two hypotheses which are coming in. First of all, October, November, December what you will see in Indian pharma market you will see good growth because of the base being low. Indian pharma market monthly reports around 19,000 crore and October base was 16,000 crore. So, you will see growth as in absolute value, quarter-and-quarter you will not see. Second for us as a company, our portfolio is majorly dominant in the world of GI, Rantac, Metrogyl, Sporlac. So that traction we could not see. That is what was the commentary which I stated earlier. But I think what was stated also parallelly, then that the entire effort of being improving the entire chronic contribution to the business, looking at how we can with giving justice to the brands that we have now in chronic space, that will be the agenda going ahead for us.

Rahul Jeewani: In terms of operating EBITDA margins in the first half, we are closer to 28% kind of a number versus our guidance of 25% to 27%. So, any thought process in terms of revising the margin guidance particularly given the fact that now you are also rationalizing some of your low margin export businesses such as the South Africa kind of business?

Nikhil Chopra: So, fortunately, Rahul for us, I think in the first half of the year we have been on the higher side of the guidance that we have been giving. So, you can take that as a new guidance from us.

Rahul Jeewani: So that implies a 28% operating margin?

Nikhil Chopra: 25% to 27% that was the range that we had given. So, you can assume that we should be on the higher side of the guided margin.

Moderator: We have a next question from the line of Shrikant Akolkar from AMSEC. Please go ahead.

Shrikant Akolkar: Can you provide the update of the CMO business in terms of how should we look FY25, because last two years have been very good for us and FY25 seems to be not a pandemic year or not anyway related to cold and cough, so how should we look at the growth in CMO business?

Kunal Khanna: First of all, none of our growth was attributed to COVID, right? Even in our India domestic business, when we look at our segments in which we are operating, we don't have any core or adjacent COVID portfolio. So, our business particularly was not kind of aided by any COVID portfolio. All the growth which we were driving is essentially excluding COVID. So, it really doesn't affect us much with the external market changing and everyone estimating that it's no longer going to be a phenomenon next year.

Shrikant Akolkar: Even in this CMO business?

Kunal Khanna: The CMO is plain cough and cold. Again, we saw significant offtake last year, but the good thing is that we have seen similar trends this year as well and that's the reason why you see in H1 on a quarterly basis we have been able to maintain Rs.100 crore plus run rate. As Nikhil mentioned, we have almost travelled a journey of taking our CMO business from close to Rs.65 crore to Rs.110 crore levels right now. Q3 generally tends to be soft, but from a mid and long-term perspective as we see FY25 and next year we have our plans with our key clients, we are looking at life cycle management of brands, introduction of new portfolio, so, the growth trajectory will continue.

Shrikant Akolkar: For this quarter in domestic market, what was the acute chronic mix?

Kunal Khanna: So, we are close to 52% to 53% chronic.

Shrikant Akolkar: Coming to Azmarda, so can you talk about the addressable market and the last quarter we had 16% to 18% market share in that market, so how has been the improvement between the quarters?

Kunal Khanna: So, the good thing is that the market has grown, of course, when we were talking about pre-LOE period somewhere around December, the market was closer to 10 lakh units per month, right. Right now, the market is trending at closer to 16 lakh units to 18 lakh units per month. Our overall market share continues to be in the range of 16% to 18% despite the price erosion which we have taken and our steady state-run rate forecast was we had always estimated closer to 1.4 lakh units to 1.5 lakh units and we are pretty closer to maintaining that run rate.

Shrikant Akolkar: And lastly on Razel, so since we have acquired, how has been the impact on the profitability of the product?

Kunal Khanna: From a profitability standpoint, it has of course contributed very well. When we were talking about our overall gross margin profile, we did mention that the reason why the margins have gone up is because of the chronic mix in India improving and some of these acquired assets have significantly contributed to that margin going up. From a top line acceleration perspective, when we acquired the brand somewhere around December last year, it was closer to Rs.4 crore and we are actually closer to Rs.6 crore run rate right now.

Shrikant Akolkar: So, margins would have gone up during that period, right?

Kunal Khanna: Some of the decisions which we have taken in terms of shifting sources and insourcing of brand into our own manufacturing site have also helped us improve margin for the brand itself.

Shrikant Akolkar: Just wanted to understand our respiratory and pediatric play we have launched I think these. So, can you talk about our play in this area?

Nikhil Chopra: In respiratory, we are present with half a dozen products which are more in the oral space, anti-viral, anti-allergy, anti-mucolytic. We have launched nebulization range which is close to Rs.1 crore in the season that is where we have from a respiratory perspective. No plans of getting into the world of inhalation, very clear. In Pediatrics we have done fairly well. We meet close to 25,000 pediatricians. We have a dedicated team and the business if you look at pediatric all put together, it would be close to Rs.150 crore annually. We are present majorly in the world of Gut Health with Rantac Syrup, Sporlac Syrup, we are into Laxolite Syrup, we have cough syrup. So, we have a range of portfolio in pediatrics which will only help us to double our business mid- to long-term.

Moderator: We have a next question from the line of Harit Ahmed from Avendus Spark. Please go ahead.

Harit Ahmed: So, in one of the slides, you've commented that the share of domestic and CDMO combined is expected to go up to 75% to 80% in the near term. That's a sharp increase from around 68% in the quarter. So, what are the timelines that you're looking at for this share increase?

Nikhil Chopra: Mid to long term, around three years from here. So, if you look at, Harit, when we started this journey, the domestic contribution was 45% and CDMO contribution was 5%, today it is almost combination of 53% and 12% close to 65%, 67% and three years from here we should be able to be close to 75% to 80%.

Harit Ahmed: Can you comment a bit on the growth rates that you're seeing for your legacy brands like Rantac, Metrogyl, Nicardia? I'm looking at the MAT values that you've shared. Growth rate appears to be strong; we're seeing almost 20% growth in Cilicar, 30% in Nicardia. So, are the primary sales growth trends in line with these IQVIA growth rates?

Kunal Khanna: So, if your question is more alluded towards primary versus secondary, whatever data you see is largely completely in line with the secondary sales trends. When we compare our inventory in the channel versus the peers, we have possibly the best inventory levels. We do not operate more than 32 to 34 days of inventory. For us Cilicar, Nicardia continue to be the most progressive brands. And as was mentioned earlier, these are progressive therapeutic segments like hypertension. And the life cycle management initiatives which we have taken across these brands have actually helped us drive this level of growth.

Harit Ahmed: Kunal, just to confirm or just an additional clarity there. So, is it correct to assume that these brands are growing above the company average growth for the domestic business, which was around 11%?

Kunal Khanna: Absolutely, absolutely.

Harit Ahmed: Lastly on Azmarda we've seen a patent expiry, but when I look at the net value for September '23 versus September '22, we still managed to record growth in Azmarda. So, have we been able to offset the price decline with additional volumes and is that why there is still growth that we're seeing in this brand?

Kunal Khanna: See, when we compare what is the scenario 12 months back, yes, there has been kind of a volume increase which has happened. Having said that over the last three months we have achieved a steady state-run rate in this portfolio. So, for all said and done, yes, a large, significant percentage of the price erosion has been offset by the volume gain impact which we have seen.

Moderator: We have a next question from the line of Charul Agrawal from Bank of America. Please go ahead.

Charul Agrawal: My first question is on the cardiac franchisee. Given that we have reached a good size over there with the Cilacar brand being among the top four players in the therapy, how should we look at growth from here -- would we expect the growth to moderate given the scale or do we see outperformance versus the therapy growth, and in that case, what would continue to drive growth from here.

Nikhil Chopra: So, overall, the way what we have been commenting on, we want to improve our chronic share within India business. Cilacar is a pivot brand and it is not only Cilacar play. See, when you talk of Cilacar of 600 crore, it's an umbrella brand and we have 10 different versions of Cilacar. And we fundamentally believe in the approach of STP segmentation targeting and positioning. Just to give you an example, what I'm trying to say is when you look at Cilacar T, that is Cilnidipine Telmisartan combination it's a fastest growing combination in anti-hypertensive and the revenue is close to around Rs.120 crore. So, we have targeted that combination for diabetic hypertensive. Cilicar 20, as a brand for newly diagnosed hypertensives. Also, from a statistical point of view, when you look at India as a country, close to 100 million people potentially suffer from hypertension in the country and one in four patients is undiagnosed. So, the way we are looking at this as an opportunity that being 50% market share in Cilidipine franchisee with Cilacar as a brand, we have the onus and the responsibility to grow the category. So, obviously to fulfill that we have to outgo the market and that is the agenda going ahead.

Charul Agrawal: Just a follow up on that. So, when we're talking about growing the market, are we also going to new geographies or do we continue to focus on the areas where we have stronger presence?

Nikhil Chopra: I spoke earlier, I think we have pan India presence, basically we go to cardiologists, physicians, GPs, nephrologists for our entire presence in Cilacar as a franchisee. We are trying to run some patient-centric campaign, we are trying to run some campaigns in terms of how tomorrow people should follow the precautions in terms of monitoring their blood pressure at their home. So, all those efforts have been put. Once you have a sizable brand and you have critical mass, this all helps us in terms of what you can do "Patient-centric campaign and adherence models" that we want to put in place which will only help us in terms of what more we can do. Also, besides Cilacar T, I think what we have also taken the right steps is getting to the right lifecycle management with combination of Cilnidipine and Metoprolol, that is dual combination and then getting into triple combination of Cilnidipine, Telmisartan Chlorothiazide, Cilnidipine Telmisartan Metoprolol. So, all this over a period of time is only going to help us to make this franchisee unique.

Charul Agrawal: My next question is regarding the additional therapy areas. So apart from the therapies you are currently present in, are you also excluding the therapy area?

Nikhil Chopra: I think earlier also what we have stated, we conceptually don't believe in starting things from scratch, and I think the concept which works better for us for India is buy versus build. So, I think we have efficient engine where we look at inorganic opportunities where we have a good starting point, that is from a buy perspective, but also the build that we have put in place is the entire competency model which we have in terms of how we can grow the asset better and the classical example is I think what was stated earlier was what we bought this asset Rosuvastatin from Glenmark which was around Rs.4.5 crore where in a period of one year we have taken it to Rs.6 crore. So, we see that opportunity in terms of how we can grow the asset better as compared to where it is placed by putting the right valuation on the table. So that makes us a company which conceptually are able to put right all the tick box for any inorganic opportunity. So, we find it difficult to start from scratch. That is not that we would like to get into any category of business starting from zero.

Moderator: We have our next question from the line of Tanmay Gandhi from Investec. Please go ahead.

Tanmay Gandhi: Sir, my question is on M&As. We know that chronic is a focus segment for us but if you can give some color on what could be the potential size of these acquisitions because if we look at our India business we have almost doubled our base in last two, three years. So, is it fair to assume that the future acquisitions will be bigger than what we have done earlier?

Nikhil Chopra: Very difficult to give any specific commentary on this. See, done we have acquired Rs. 35 crore revenue of pediatric portfolio from Dr. Reddy's to Rs.150 crore revenue from Sanzyme, that is probiotic and infertility portfolio. It all depends upon what valuation is available, the quality of asset being in progressive market, can we grow the asset better than where it stands today. So, we have to put all those things into perspective and then only you can arrive in terms of if you are interested to buy. Also, it is not that tomorrow everything has worked in our favor. We have let go many of the buying opportunities which I think other companies have bought and they think it suits them better. So, that is how this model works.

Tanmay Gandhi: Sir, how are the valuations looking at, right, in terms of M&A because lot of Indian pharma companies have a huge cash on books and due to acquire in India?

Kunal Khanna: On this point, we cannot comment on valuations or what others would be expected to be paying for the assets which are there in the market. I think the key takeaway for all of us is if you compare the acquisitions which we have made versus some of the other acquisitions which have happened, one will clearly understand that we have been judicious about our capital allocation strategy, right. So, we just don't believe in acquiring top line and paying a higher multiple. Like Nikhil said, it should be progressive, it should fit into our overall thesis, it should be synergistic with our existing focus areas and then we arrive at what value we'll pay for.

Tanmay Gandhi: So, you will continue to do a bolt on acquisitions only, right, so you are not really open to acquire smaller companies or maybe

Kunal Khanna: Again, it's difficult to comment because what we have done over the last 18 months, it's a combination of a small sales marketing, engine being bought from Sanzyme versus bolt-on acquisitions of pediatric portfolio and Rosuvastatin being brought from Glenmark, so, it could be either. Very difficult to comment on that.

Tanmay Gandhi: Again, on the M&A, is it possible for you to give a broad number in terms of what kind of return are we seeing on the acquisitions which we have done, right… I'm not asking for the margins but if you can give a broad number what kind of return on those acquisitions?

Kunal Khanna: See, we are very clear that our payback period should not be more than six years. We have some of our internal hurdle rates and we work around those.

Moderator: We have a next question from the line of Bino Pathiparampil from Elara Capital. Please go ahead.

Bino Pathiparampil: Just a clarification of India domestic growth. This 9% that you have reported I believe has the benefit of some inorganic acquisitions you did in the previous year. If we remove them out, what would the growth look like?

Kunal Khanna: Pretty much now everything is built in the base, right? So, whatever you see is the complete picture of organic and inorganic.

Moderator: We have our next question from the line of Alok Dalal from Jefferies India. Please go ahead.

Alok Dalal: First question is, as you look to enter new geographies, can it lead to some incremental cost and maybe margins remain flattish for next year, is that something that is possible?

Nikhil Chopra: No, no, Alok, I think you would have read something that we are trying to do in the world of Philippines, but that is a very early starting point, nothing is happening probably one, two years from here, these whole things take time. So, there is no cost involved in terms of what you are asking in terms of setting up new geographies. So, no worries about that.

Alok Dalal: So, this 27.6 is not peak margins, right? Nikhil, there is room for margin expansion.

Nikhil Chopra: So, I stated earlier. Fortunately for first half of the year, we are on the higher side of the guidance that we have given. So that is what we continue to guide.

Alok Dalal: Nikhil, I think you were mentioning about some specific launches in CDMO say some sleep related disorder loss and these, etc., Have those been launched in the market already?

Nikhil Chopra: No, no, no. So, you should see I think two, three new launches should happen next year. That is what you should see. See, these all things take time; the gestation period is 24 to 30 months. Because with the entire conception of newer idea, getting the reference sample, developing the product, sending it to our partners, they are doing their own research, they give us back with some specification changes, we go back to them. So, all those things take their own time. You should see things happening probably in second half of next year. Some progress we have made. That is why the guidance that I have been giving for CDMO business is we were fortunate enough that in the last 12 to 18 months because of the good cough and cold season, we could almost double our season. We are trying to explore more geographies with the existing portfolio, diversifying into new portfolio and also looking at cost saving of our existing products that we have to our existing partners. So, these all things put together will help us in terms of getting this business almost close to $100 million in probably three years from here.

Alok Dalal: So, India has slowed down a bit. If you want to come back to the 13%, 15% growth rate, can you do it organically or you will need a small inorganic push here?

Nikhil Chopra: In Q3, you should see that growth coming in, that is not a worry. because it all is a reflection of what I had said earlier that you will see all pharma companies showing good growth in Q3 because of the low base last year. So, for us overall, 12% to 14% growth will happen as is on the existing portfolio that we have got now. We have got a good presence within cardiology, hypertension, heart failure, statin, probiotic, pediatric, respiratory, GI. So, we have got a good range of products. What you did not see this year unfortunately was the traction in the GI portfolio, which is a combination of Rantac, Metrogyl and Sporlac, which did not give us the benefit. Otherwise, if you look at our chronic journey, we are growing at 18% as compared to market growth of 10% in the first half of the year. So that itself tells the story in terms of what building blocks we are putting for us in this journey is helping us to grow better than the market.

Moderator: We'll take our next question from the line of Harsh from Bandhan AMC. Please go ahead.

Harsh: Just two, three questions from my side. One is on the gross margin aspect. This might be a little bit repetitive, but given 2nd Quarter, do we have a fair sense that for H2 FY24 this would be a base to work with in terms of gross margins? You've already highlighted a couple of points in terms of gross margins. But is there any incremental benefit of the raw material pricing scenario from the last three, four months perspective or let's say the last four, five months perspective? Because going forward, your chronic mix might change, your CDMO or product profile, customer profile might also change from that angle?

Kunal Khanna: So, I think first we'll talk about the material prices and inflationary pressure. The situation has been much better off than where we were almost 10-months back. And it's pretty much remained as is for the last four to six months and we don't see the scenario changing over the next two to three months as well. There are certain areas where there are kind of slight blips, but that should not kind of significantly hurt us. And overall, even our portfolio mix should pretty much remain the way it is with chronic continuing to grow for our India business and from a mid to long term perspective, the CDMO business also within the international formulations contributing significantly. So, this is the base we should work upon. Unless something changes as far as the external market situation is concerned, where there is more inflationary pressure which as of now we cannot predict, but otherwise this should broadly be the base we should work with.

Harsh: What is the split at the India level volume pricing and new product introductions in terms of year-on-year basis?

Kunal Khanna: If you really look at it from a reported growth perspective, volume and pricing is evenly split with some part of new introductions coming within the volume.

Harsh: But would volume be somewhere around 5% to 6%?

Kunal Khanna: That is correct.

Harsh: What is the situation on this Azmarda API sourcing as of now?

Kunal Khanna: So, as of now, we are actually sourcing the formulations from Novartis and we are doing finished formulations manufacturing through loan licensing arrangement in India as well.

Jason D'Souza: So, there is a question on the chat from Rajdeep is that, the international business reporting on sub-10% growth, where do you see the international business in the next year?

Nikhil Chopra: So, I think what was stated in the comment is that next year with resetting base of South Africa, we should grow at healthy double digit which is a combination of our branded generic business, which we do in four clusters. CDMO and with South Africa now base being reset of haircut that we have taken of Rs.120 crore. We should grow at around double digit, 12%.

Nikhil Chopra: So, thank you all for all the questions and patient hearing of our commentary. I think the progress that we have made delights us in terms of where we stand as a company in the first half of the year, and we will continue to focus on the entire growth aspect, and looking at what efficiency we can drive with the company, which will only help us to maintain our gross margin and report healthy EBITDA margin on the upper side of the bracket in terms of the guidance that we have provided between 25% to 27%. We as a company would like to go at mid-teens and what was stated that in terms of the combination of India and CDMO close to 80% contribution coming from these two businesses where we see bright future will only help us to serve more and more number of patients in India and serve more and more number of consumers and closely work with some big partners outside India. Wishing you all and your family members Happy Diwali and a Prosperous New Year, and Keep Healthy, Keep Safe, that is what we wish for all of you. Thank you, all.

Moderator: Thank you, members of the management team. On behalf of J.B. Pharma, that concludes this conference. Thank you for joining us and you may now disconnect your lines.