

“J.B. Chemicals and Pharmaceuticals Limited’s Q3 FY20 Earnings Conference Call”

February 05, 2020

Moderator: Ladies and gentlemen, good day, and welcome to the J.B. Chemicals and Pharmaceuticals Q3 FY20 Earnings Conference Call. As a reminder, all participants’ 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Please go ahead.

Anuj Sonpal: Good morning, everyone and a warm welcome to you all. My name is Anuj Sonpal, CEO of Valorem Advisors. We represent the Investor Relations of J.B. Chemicals & Pharmaceuticals Limited. On behalf of the company, I would like to thank you all for participating in the company’s earnings conference call for the third quarter and nine months ended financial year 2020.

Before we begin, some of the statements made in today’s concall maybe forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties which would cause actual results to differ from those anticipated. Such statements are based on management’s beliefs as well as assumptions made by and information currently available to management. Audiences are cautioned not to place undue reliance on these forward-looking statements and making any investment decision. The purpose of today’s earnings conference call is purely to educate and bring awareness about the company’s fundamental business and financial quarter under review.

Now, I would like to introduce you to the management participating with us in today’s earnings conference call and give it over to them for their opening remarks. We have with us Mr. Pranabh Mody – President; Mr. Jay Mehta – President of Global Business of Russia and CIS and CRAMS; Mr. Nirav Mody – President of Global Business and Business Development; Mr. Vijay Bhatt – Vice President of Finance and Accounts; Mr. Mayur Mehta – Company Secretary and Legal Head.

I now request Vijay Bhatt to give his opening remarks. Thank you and over to you, sir.

Vijay Bhatt:

Good morning, everyone. I thank you all for participating in company's earning conference call. Let me start by giving you a brief introduction about our company so that we are all on the same page. As you maybe already knowing, J.B. Chemicals & Pharmaceuticals Limited is a conglomerate incorporated in 1976 under the Chairmanship of Mr. JB Mody. Since its inception, the company has established various brands not just in India but globally as well with present in more than 30-countries, the company is well known for supplying quality products spread across chronic and acute therapeutic segments like cardiovascular, gastro, anti-infective, pain management. We manufacture wide range of dosage forms like tablets and capsules, injectable, creams and ointments, lozenges and liquids. The company's manufacturing facilities are located in Gujarat and Daman and we also have USFDA approved tablet and API plants. Our domestic business which comprises of Branded Generics and Contrast Media contribute approximately 45% of our consolidated revenue. Our international business contributes to the balance 55% of revenue and comprises of branded generics, contract manufacturing, ANDAs and APIs.

Now, I would like to summarize the key financials for the third quarter of FY'2020. Our consolidated net revenue for the quarter was around Rs.420 crores, which grew by 12.7% on year-on-year basis. Our operating EBITDA in absolute terms for the quarter grew by 15% to approximately Rs.89.6 crores. And operating EBITDA margins were around 21.3% as against 20.9% for the same period last year. The company reported net profit of Rs.66 crores which grew by 33% on year-on-year basis. Our sales growth was driven by our domestic formulations business which grew by around 14% quarter-on-quarter on year basis and also the branded generics export which grew by about 17% on year-on-year basis. While our other business which are relatively smaller, grew cumulatively at about 6.5%. The EBITDA margin for the quarter improved against the same period last year primarily due to cost optimization. For nine months ended financial year 2020, our consolidated net revenue was around Rs.1,331 crores, registering a growth of 9% on year-on-year basis. Absolute year-to-date operating EBITDA reported year-on-year growth of 19% at Rs.285 crores and EBITDA margin stood at 21.9%. Net profit for the company increased to Rs.222 crores, reporting a growth of 51% on year-on-year basis.

Lastly, I am pleased to inform that company completed its buyback of approximately 29 lakh shares. Additionally, the investors are aware that the company has trademarks licensing arrangement with Unique Pharmaceutical Laboratories Limited under which company has licensed several brands named under "Unique" logo and company has been annually paying restricted royalty of about Rs.10 crores for last several years. Unique Pharmaceutical Laboratories has agreed to sell and the board of directors of the company has approved to purchase the entire trademark portfolio of Unique Pharmaceutical Laboratories at one-time consideration of Rs.8 crores. This transaction will be consummated before the end of this financial year. Consequently, the aforesaid licensing arrangement will stand submitted as such and there would be no royalty payment beginning next financial year and hence this

would be an EPS-accretive to J.B. Chemicals and Pharmaceuticals Limited from next financial year.

With this, I would like to open the call for question-and-answer. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Sriram Rathi from ICICI Securities. Please go ahead.

Sriram Rathi: Sir, firstly, just one thing is that on India sales this quarter was around 13.7% versus first half growth of around 17.5%, though 13.7% is also good growth. Just want to understand, has there been any impact of Ranitidine, any temporary issue in between during the quarter?

Management: If you look at our growth, Ranitidine has been impacted, Ranitidine for the quarter was more or less flat as compared to the other business groups. There is a bit of revival towards the December but still there is a bit of challenge on the Ranitidine business.

Sriram Rathi: Is it possible to attribute how much of the growth would have been impacted because of that in this quarter?

Management: No, at this time, Ranitidine business was more or less flat for the quarter.

Sriram Rathi: Do you see any kind of opportunity to potentially gain some market share because one of the largest players has already exited for the time-being?

Management: We will let this whole controversy kind of die out before we can really make any statement because tomorrow you never know they may come back, so at this time it is difficult to kind of say anything.

Sriram Rathi: The other operating expenses have been quite flat year-over-year and is down actually quarter-on-quarter. So, what is leading to that – is there any cost control that we are implementing and how to see this trend going forward?

Management: In fact, your observation is good and correct. There are some drive which management has taken over consciously which has helped us. So we hope that this will continue going forward. This year it has shown good results and that is how the numbers are more or less same as last year. So there is no growth over the previous period in the nine months as well as in the quarter.

Sriram Rathi: What is the net cash position now as on 31st December?

Management: It is about Rs.580 crores.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital Partners. Please go ahead.

Ankit Gupta: Can you please talk about the MR productivity gain since the MR increased activity that we took a few years back, so have we reached the optimum leverage that you are looking for or is there still lot of room for improvement going around?

Management: Since we have done this whole restructuring and we have done about 100-odd people during the last year, so we believe that each of the business units have enough opportunity to grow. The activities within the team will be continuing to enhance productivity which is whatever revenue growth we get, it will be going directly to the productivity. So we believe that there is still good opportunity to grow the revenue.

Ankit Gupta: What was the growth between chronic and acute segment during the quarter?

Management: The chronic has been growing by about 20%-odd, the acute is about lower obviously because of the Ranitidine issue and yes, this is the combination of acute and chronic.

Moderator: Thank you. The next question is from the line of Tanush Mehta from Dalal & Broacha Stock Broking. Please go ahead.

Tanush Mehta: Sir, can you just speak about the royalty part that you said in the opening remarks?

Management: Basically, there were certain brands which were owned by Unique Pharmaceuticals laboratories which is a promoter company and basic chemicals it has been a royalty on the sale of these brands. So in order to kind of make things little okay or transparent, we have gone ahead and Unique Pharmaceuticals Laboratories has agreed to sell the trademarks through J.B. Chemicals and hence that royalty in turn which was about Rs.10 crores per year is no longer repaid by J.B. Chemicals going forward.

Tanush Mehta: Sir, my another question is that about Ranitidine, so we did not find any issue on our product and why is it that we are having a slowdown there or why are we having a flattish revenue there?

Management: Through Whatsapp messages, all the negative news spread very fast as compared to the good news. So before even good come out with an analysis I think the amount of news that has been spread through social media has had impact. Two, if you see in terms of Ranitidine, there are basically three large manufacturers which are Cadila, GSK and ourselves and obviously the competition which is the PPI, you have about 10-20 different companies, so the noise level also put in by the competition is fairly large. So here we need to reestablish ourselves. Good news does not spread as fast as the bad news but this is a constant effort that as the company will have continue to do to bring things back.

Tanush Mehta: My last question would be sir how is the contract manufacturing business going?

Management: Obviously, we are working with a few MNC companies and the business is growing. Obviously, we have had certain issues because of one of our clients in Russia because of the concern in the market there, but we believe that should change in the year going forward. Obviously, we are adding newer clients to the basket. So that should help in the growth in the coming year.

Moderator: Thank you. The next question is from the line of Ujwal Shah from Quest Investments. Please go ahead.

Ujwal Shah: Coming back to Rantac, you did mention that we are seeing some positives coming at the end of the quarter. So is it that doctors are now again looking at Rantac for prescription and how do you see the year ahead? And also, are we looking at exporting Rantac because GSK has any which ways stopped production globally is what I understand?

Management: First is today when we talk to doctors, Ranitidine has been in the market for the last 35-years and across the board you can talk to any doctor, all the doctors really have a comfort that the product is basically relevant, important and needs to continue. Currently, the controversy that has been created for this impurity and if you see the working behind it, the level that today USFDA is talking about, which they said, what it means is that today if a patient takes Ranitidine continuously for 70-years, one out of 1 lakh patients has the probability of generating cancer. So the probability itself is low, MDM has a normal impurity that is present in foods, etc., So we have been able to fairly convince the doctors probability of really anything adverse happening and their own experience about that. So, the doctors are there but today there is a bit of fear in the patient mind which is due to all the social media that has spread quite a bit and obviously competition is playing its part. So the revival will happen but I guess how soon it happens, time will only tell. It is difficult to predict but we are seeing a slight improvement in the last one or two months.

Ujwal Shah: And the export opportunity if at all we are looking at?

Management: We have ANDA approval for Ranitidine tablets in the US, but we have not launched it yet because of the DMA issue. So the FDA is working with the API supplier. So the API supplier has to reply to the queries and once those queries are satisfactorily answered by the API supplier and then FDA communicates to us, then we will be able to launch it in the US. We have the approval, but we have not launched it yet at all. In other markets also wherever there has been an issue, we have stopped supplies there but that is very small in the other export markets.

Ujwal Shah: Secondly sir, we have seen very strong growth in domestic formulations last year as well as these nine months. How do we see our domestic business shaping up for FY'21, what would

be the growth levers for that? And even the margin performance has been really stellar, how much more margin expansion is possible and what is the management targeting?

Management: Again, we have been growing, we hope to maintain the trajectory, obviously this trajectory has come because of the expansion and as the productivity keeps increasing, obviously there could be a little bit of slowdown there. But clearly we will grow faster than the market and we are very-very confident on that. As far as margins is concerned at this time, we hope they will remain flat going forward because there maybe a couple of expansions that we may do in the coming year.

Ujwal Shah: What are the CAPEX plans for next year as well as by this year-end are we looking for?

Vijay Bhatt: As of now there are no major CAPEX plans that we are having. Probably it would be more on regular maintenance CAPEX which would be to the tune of about Rs.40-50 crores annually.

Ujwal Shah: Lastly, can you throw some light on our Russia business as well as South Africa business in light of how things are shaping up over there, private market, tender market as well as in Russia we have started direct supply, so how is that shaping up for current year as well as next year, how are we looking at things?

Management: Russia, CIS markets, obviously, you know the concerns around the market there because of the sanctions that are there on the country. So obviously the market is not growing at a very fast pace but we have a limited set of products which are registered there. We are in the process of registering few more products. So going forward we believe that that should change once we have the approvals in place. The CIS is something similar where obviously there is a lot of turbulence because they are also quite dependent on Russia. So they are also going through the churn. So we believe that we will see a bit of issue in those markets but that should hopefully change in the next six months to a year down the line.

Ujwal Shah: How many products we have in Russia and how many are under filing?

Management: We have about seven to ten products which are currently registered... I am not talking of the SKUs in the product, but I am talking about these products, so seven to ten products which are registered and we have about four to five products under approval which should come in this year.

Ujwal Shah: Any thoughts about the South African market?

Management: South Africa has done well for us over the last 12-years. We entered the market first. We have grown at a CAGR of about 15% year-on-year. So I think that trend should continue. Private market continues to do well for us as well as the public tenders also do well for us. I think South Africa is the focus market for us going forward and it continues to do well.

Management: Just for the Russia subsidiary for the first nine months we have registered a growth of about 21%.

Moderator: Thank you. The next question is from the line of Kunal Randeria from Antique Stock Broking. Please go ahead.

Kunal Randeria: Firstly, on the domestic market, four big brands have been the main drivers of growth and these are showing really good growth. So what is your strategy in the coming years to look beyond these, or you see enough headroom in these brands itself?

Management: Each of these divisions we have these brands which are supporting the division and we keep on adding newer products to the division and obviously these are very large, the other brands obviously will take a little time to make their present felt. But the whole idea of the divisionalization was to create extra headroom for growth, making sure that the existing SKUs also grow as well as our ability to introduce new products. So each of these divisions, there are new introductions that keep coming up and there is still enough of headroom to grow even for our main brands.

Kunal Randeria: When would the Metrogyl price hike that start reflecting in your numbers?

Management: There were four SKUs; one of them has already starting in the beginning of this month. I think by middle of March, all the SKUs, the new price will be in the market, by middle of March, we will have the increased price, stocks available in the market will be selling those.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Just a continuation of the previous participant's question. We have a product concentration fairly high. So what are we doing incrementally in terms of getting the product concentration lower? And we had formed the therapy wise team I think three years back and we are trying to address newer therapy. So if you could give us some update there as well?

Management: Again, while we have brand concentration, in each of these brands you will see number of SKUs, let us take for example almost about 12-15 SKUs and each one is positioned in the market differently and each one has the potential to grow. Having said that, what I answered for the question earlier was that in each of these divisions we have also introduced new products which will help support whatever the initiative we are taking with the main brands. So yes, brands is a strength clearly but we now need to use that effectively to be able to generate additional business in the SKUs as well as our ability to generate business from new products. So that is the plan going forward. To your next question, the four divisions which we have announced and that result is what you are seeing in terms of the domestic performance.

Pritesh Chheda: In these existing four brands, the growth is largely penetration-driven means is what ...?

Management: Compared to one large team managing so many brands, now each of the teams manage these brands individually. So obviously the focus in the therapy improves, the relationship with the doctors improve and all that is today what is showing in the results for us.

Moderator: Thank you. The next question is from the line of Varun Goenka from Nippon Mutual Fund. Please go ahead.

Varun Goenka: Just if you could give us some assessment of our dependence on China API imports direct or indirect, maybe our supplies might have some kind of dependence also?

Management: So there are two parts: one is the direct API that we get from China and two would be the APIs where the key materials used are coming from China. So we are looking at this entire list of APIs as well as both the categories, and at this time the whole plan is to add inventory if necessary and make sure that tomorrow if supply chain gets interrupted, at least our business does not get interrupted. So the supply chain team is working on that. There is still spurt at least in pharmaceuticals for the main APIs using alternates, it is a long process. So therefore switching over is not so simple. So the whole strategy is obviously to pick up as much as inventory as we can hold inventory. Our hope is this issue gets resolved pretty fast. But yes, the plan at this time is to add inventory and keep a higher safety stock.

Varun Goenka: So what percentage of our imports is from China if you could quantify a percentage or value for this financial year?

Management: My import kitty is too small. So out of my total material cost, roughly about 100-120 crores is worth an import material, rest all are domestically procured. But out of these Rs.100 crores worth of import that we do, almost 70% to 75% comes from China, so in that major imports are from China.

Varun Goenka: Have we seen any kind of interruptions till now?

Management: As of now, no. But it is like the purchase team is closely monitoring the developments happening there. But currently we do not have any concern. We also have built up some safety inventory also.

Varun Goenka: Just a ballpark CAPEX or OPEX?

Management: Roughly about Rs.50-odd crores on an annual basis which is just maintenance CAPEX.

Moderator: Thank you. The next question is from the line of Manoj Garg from White Oak Capital. Please go ahead.

Manoj Garg: Just like to understand in the recent economic survey, there was a mention of that the government is realizing that price control on drugs is more of inflationary trend than the deflationary trend. Anything you would like to share on this that is government thinking about doing away with the price control on the medicines or the DPCO?

Management: I think today the way the government is moving, I cannot see. Unfortunately or fortunately the medicine has always been under price control right from '75. So I would be very surprised to say just remove the DPCO. I think the bigger issue which the government is grappling in terms of the overall rules, regulations, the marketing codes, etc., they cannot just look at pricing without looking at the entirety of the nature of the business and that I believe will probably be how the government would look at it but today in isolation I do not believe they will remove the DPCO.

Manoj Garg: Second thing like the kind of initiatives which you took around two, three years ago in terms of expanding sales force and obviously driving the penetration, we have clearly seen the fruits of operating leverage playing out. How much scope do you still think that we have in terms of expanding the further operating margins and what could be the optimum level of margin which you probably are looking over the next two to three years?

Management: I am not looking at the margins, I am looking at more from an opportunity perspective. Today, I have about 1,600 people in the field and 1,600 in relationship to competition is miniscule. So if you ask me what is the potential. The potential is still huge. The issue is as you are aware we need to do it more systematically in a manner because what we did in the past, I am talking about five years back have not paid off and then subsequently what we did in the last three years is where we are seeing the results. So we will follow the similar model of subdividing and moving brands into newer divisions but we still believe the potential is big. 1600 are miniscule compared to large companies who have over 10,000 people in the field.

Manoj Garg: If you look at in terms of formulation export like this year has been a bit of subdued though the subsidiaries both in Russia and Africa have done well, so any color you would like to give on the formulations exports like which part of the oral business, is it US, is it CRAMS which is just pulling down the growth out there?

Management: For the first nine months, US was slightly impacted because one of our ANDAs where the API supplier had some FDA queries but that is resolved and so in the next quarter for that product which is a big contributor to our US business, the sales will resume again. So I think going forward the formulations exports will continue to grow but what helped us also was some clients of our CMO business as well as the branded generics into semi-regulated markets which help the growth. But US will normalize again in the next quarter.

Moderator: Thank you. The next question is from the line of Gautam Gupta from Nine Rivers Capital. Please go ahead.

Gautam Gupta: I have two questions; one is more of a housekeeping question, I will start with that. I remember a couple of quarters back, we had decided to not use the subsidiary any more for our Russia sales. I just wanted to know whether we will be winding up that subsidiary or do we have some other use for it because you also had if I remember about Rs.90, 95 crores of investments in that balance sheet?

Management: As of now there is no plan of winding up this company because we already have one investment of my South Africa entity. There is no big significance of any benefit of winding it up, maybe at a later date if situation changes we will revisit that.

Gautam Gupta: If you could comment on new product launch and new market entry plans over the next 12 to 18-months, any broad roadmap for us?

Management: If we look at it from a domestic, each of the divisions we have introduced some new products, so let us take in the cardiovascular we have introduced the ARVs which is the sartan, we have introduced beta blockers which is Bisoprolol, we have introduced the product in the wound management, Cadomer is a brand name, Probiotics has been introduced, pain killer. So across each of the divisions there are products which we have introduced and these opportunities are large enough for us to be able to build around that. A couple of line extensions that we are also looking at in each of these large brands. So, these would be broadly some of the new products.

Gautam Gupta: Just in terms of markets, I think the current market is where we focus on, any new market that we are looking at globally?

Management: Our focus is going to be on the current markets where we already export to South Africa, Russia and the semi-regulated in US. So that continues to be our focus and we put all our efforts in that.

Moderator: Thank you. The next question is from the line of (Karanveer Singh) from Sunidhi Securities. Please go ahead.

Ranveer: I am Ranveer. Just on royalty part, this Rs.10 crores royalty relates to domestic business only or it has been overall business?

Management: It is overall business.

Ranveer: Going forward the ANDA would be now on J.B. Chemicals name or Unique will continue to have...?

Management: They are already in the name of J.B. Chemicals. The royalty was not on those ANDA. ANDA were held by J.B. Chemicals even earlier also.

Ranveer: So going forward also the same arrangement?

Management: Yes.

Ranveer: On an overall basis in domestic market, what has been contribution of new product launches?

Management: At this time, it would be around 10%.

Ranveer: How much has been the contribution of hike in prices?

Management: Today, overall about 15% business, price hike is around 4%-5% and there is a volume growth of about 9% and I think new introductions would have added 1% or 2% in the growth.

Moderator: Thank you. The next question is from the line of Hari Belawat from Techfin Consultant. Please go ahead.

Hari Belawat: Sir, any more plans on the buyback of the shares or you have already surplus funds of around Rs.500 crores or something or is buyback issue complete now?

Management: Anyway no buyback if we done for another 12-months, after this buyback I guess we will visit this at the appropriate time, anyway nothing more we can do.

Hari Belawat: This domestic contrast media, what is this product?

Management: Basically, these are dyes that are injected during MRI, during an angiography, during CT scan. So they are RD-based products which is used for investigative purposes in cath labs as in MRI centers.

Hari Belawat: It has shown a good growth there? Just one more related thing, this global business RoW was Rs.156 crores. How much is US in that?

Management: US is about Rs.40 crores.

Hari Belawat: Dependence on US will be really less. That is why I think it is showing a good result to the company.

Management: Yes, dependence is less, so we are not heavily dependent in US.

Moderator: Thank you. The next question is from the line of Rohit Balakrishnan from Vriddhi Capital. Please go ahead.

Rohit Balakrishnan: Sir, you talked about domestic formulations growth that you are fairly confident about growing more than the industry. Can you also talk about what is your sense on the export formulations business in terms of growth over the next couple of years?

Management: We should be able to maintain at least 10%-12% growth in the branded generics business going forward. Branded generics comprises basically of all my businesses, whether it is Russia, Ukraine, CIS, South Africa, semi-regulated markets.

Rohit Balakrishnan: On the overall margins sir in terms of a couple of statements where you said there is still more room to increase productivity as well as overall addition to the MR. So just wanted to understand, do you see given that we can have increase in productivity as you mentioned, is there more scope for the margins to increase from here because you mentioned that margin will sustain at these levels and may not expand?

Management: No, we believe margins will remain flat because there also the expansions that we are looking at and I guess they will be a bit of compensatory impact between the two.

Rohit Balakrishnan: Any new products that you have introduced in this financial year and what kind of contribution have they generated?

Management: The scope for the ARVs, developers, all those products which I spoke about.

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

Prakash Agarwal: Sir, a question on the volume and the price and new product introduction. So versus fiscal '19 we see a drop in the volumes. Could you help us understand what would have been the breakup for the nine months and particularly for the quarter in terms of price, volume and new products?

Management: Your statement is that the volumes have gone down is based on what is the source of the data because...?

Prakash Agarwal: AICD data, 1% volume growth in Q3 versus 7% for nine months which means that first six months would have been great and fiscal '19 5% growth in volume. So would it be largely Ranitidine led or ex-Ranitidine what would have been our volume growth sir?

Management: This would be all Ranitidine-led because Ranitidine as you know we are selling huge, huge quantities and obviously that impact will be there in the numbers. If you ask me without Ranitidine, I have not looked at it because Ranitidine we are looking at separately but other than that if we look at all the growth and all my divisions, we are doing reasonably well. So I believe that the volume growth will also be a decent along with the price growth. I do not see a concern other than Ranitidine.

Prakash Agarwal: Do you expect recovery on these Ranitidine, or it is too early to talk about it given that there still issues are remaining and doctors are switching to other medicines?

Management: It is too early to say but as I said earlier also in the call that today whatever in terms of limits, etc., we are working to mean that, and we have successful met those levels. But changing perception on the doctors levels along with in the presence of all the competition is a big task which we are working on.

Prakash Agarwal: And sir, you mentioned about entering into other ARVs, the beta blockers. So anything you are doing on the PPI side also to capture the Rantac downfall?

Management: While we do have a PPI in our portfolio which is relatively small, focus will continue to be on Ranitidine where we believe there is enough opportunity because as we speak also there are a lot of other reports along the PPI in terms of some of the side-effects. It is a long, long game that we will play in Ranitidine versus PPI.

Prakash Agarwal: Lastly, you spoke about the new segments you are entering. Have you increased your sales force with that or is there a plan for next year to increase the sales force from the current 1,600 that you just mentioned?

Management: These new product introductions that happened in the existing divisions. The whole idea of divisionalization was to create that extra headroom for growth which is now possible. So 1,600 is what we have. Obviously, going forward as we roll out plans, we will announce them to the market, but we will be adding as we go ahead.

Moderator: Thank you The next question is from the line of Anubhav Mukherjee from Prescient Capital. Please go ahead.

Anubhav Mukherjee: How many ANDAs approvals do we have and the pipeline that we are working, can you share some details?

Management: We have about 16 approvals so far and we have about three pending approval with FDA and our plan is to file about two ANDAs a year.

Anubhav Mukherjee: In the US like is a focus area for us and like do we intend to increase R&D spend like increasing the filing?

Management: The US obviously you know the market situation. It is not very encouraging. All companies are facing challenges with respect to pricing. And luckily we have not gone very aggressive in that market. And we have always been very cautious of that market. So our R&D spends and investments are very limited. As I said, we plan to file only two ANDAs a year and we will go cautious in that market.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: What I understand from your talk that our domestic formulations business, branded business will grow at faster pace than the other piece of the business. So over next two, three years, how do we see this domestic mix vis-à-vis other business? And second thing, how that will play out for the margin over the next two, three years?

Management: Today, domestic is contributing close to 45% of our business. Our full plan is obviously this will continue to grow, we will continue to invest. So I guess over the next two years probably a little more than half of our overall business. In terms of margin, again, lot will depend upon the levels of investments, etc., that we do in each of the business. So at this time, we can assume that margins can more or less would remain same because each of additional plans that we roll out would involve some levels of investment and take a bit of time to fructify. So at this time we will make efforts to make sure that the margins would remain same.

Bharat Sheth: Second thing, other than this domestic business, is there a room to improve this company level margin?

Management: Obviously, there is some benefit that we are going to get in the next year because of the price increase of Metrogyl. The royalty itself will not be there in the next year. So all that will hopefully add to the bottom line and whatever normal growth, etc., we can grow faster than our expense growth, we should be able to do something better.

Bharat Sheth: Last, a book-keeping question. We have seen that typically in Q4 our margin is much lower than the nine months margin. So is there any seasonality or just to get some kind of color what has happened?

Management: There is nothing like seasonality. Sometimes in the international market as we see we are spread across many geographies. So generally it happens that some companies do build up an inventory, basically it is a distribution channel. So it depends. We have actually noted in that fashion that our margin is lesser in Q4 or in Q3. We target and see that our targets are achievable. So basically the mix of the countries and the product probably it may take out, but frankly we do not have the numbers on hand to just give a proper answer to this question.

Bharat Sheth: But are we working on to make it more even?

Management: We generally see a quarter-on-quarter performance how it improves. On Q4-to-Q4, we try to see that performance is better than last Q4.

Moderator: Thank you. The next question is from the line of Jayesh Shah from OSM Portfolio. Please go ahead.

Jayesh Shah: I was wondering if there is a disconnect in our thinking. When we look at this price hike for this big product and no royalties and perhaps MR productivity, it should logically lead to margin increase and you are talking about some investments. Now these investments do not seem to be in the form of CAPEX. So are you looking at more OPEX-based investments which may help to just maintain margins rather than improve margins which look quite logical and inevitable?

Management: Let us say today we are being a bit conservative. When the things will clearly flow to the bottom line, there would be minor OPEX increases based on field force expansion, maybe a bit of R&D. But I think from realization perspective, we are being a bit conservative.

Jayesh Shah: In terms of cash on hand, would you review your dividend announcements given the budget change or would dividend payout remain high?

Management: We do review these developments very closely. We have already made an intimation to the stock exchange for convening a board meeting for any dividend consideration. So those things are like on a case-to-case are an opportunity-based. So we would consider this at this stage.

Jayesh Shah: But any change in your dividend policy, or you would review that post budget, I am not asking what you would review but would there be a change?

Management: There is no need and as such we do not have any plan to do a major review for a dividend policy. We will continue our distribution policy in the way we have been doing in the past.

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

Cyndrella Carvalho: Just wanted to understand, we refer to a source for Ranitidine API for our US filing. So could you elaborate a detail who this is and what is the status?

Management: Due to confidentiality reason, we cannot reveal the source of the name, but they are working with FDA and they are working to resolve it. FDA I think given them a deadline to reply and within that timeframe they should reply and once those queries are answered, and if FDA is satisfied, then we will be able to resume supply.

Cyndrella Carvalho: Any color on the deadline like is it near-term, is it end of ...?

Management: It is in the next two to three months.

Cyndrella Carvalho: And it is a domestic player only?

Management: Yes, it is a domestic player.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: Just to an earlier question, you said that you will continue the same dividend policy. So just for my benefit, what is the current dividend policy?

Management: Basically, we look in at about anywhere between 10%-30% of the PAT in the form of dividend.

Dheeresh Pathak: And then there are certain buybacks also you do, right. So you think buyback and dividend as a common kitty or pool, right, it will cover under 10%-30%?

Management: Buyback we look at it separately, we kept dividend separate. Buyback is driven more from an opportunity in terms of the value of the share. Dividend is a distribution to the shareholders.

Dheeresh Pathak: Even just looking at the slide #6 you have given the breakup of the revenue. As per my understanding, there is a contract manufacturing that we do for J&J, right, that you show in which revenue breakup?

Management: Second line, formulation exports.

Dheeresh Pathak: How much is that roughly on annual run rate or quarterly run rate basis?

Management: Overall this business is about Rs.150-odd crores to our total business. We do not go into customer details.

Dheeresh Pathak: And the other sales which is the second last line there, what does this represent?

Management: Exchange gain.

Management: There are some miscellaneous items which forms part of my revenue, service revenues, the exchange fluctuations on the export business, these are clubbed under the other sales line.

Dheeresh Pathak: So on a pro forma basis like can you just give the three bigger brands that we have for year-to-date in the domestic formulations, what would be the breakup between Cilacar, Metrogyl, Rantac?

Management: Cilacar today is over Rs.200 crores so is Rantac which is about Rs.200 crores, Metrogyl would be in the range of at least put together close to about Rs.140-150 crores.

Dheeresh Pathak: This Rantac would have degrown from what level, Rs.200 crores?

Management: This was approximately last year sales. Because in the first nine months we have done well. Next quarter this controversy came up. Obviously, lot will depend upon what happens in the next three months. But we expect that at least we will be able to maintain the sales of the product.

Dheeresh Pathak: This slide #7, Russia, CIS, which is shown here is 39.26 crores for the quarter , and then the slide below that you have mentioned sales of Russian subsidiary, included in Russia, CIS was 26.5 crores, which is lower than Rs.39.2 crores, because Rs.39.2 crores is sales to Russia, CIS from India and the number which ...so the difference is that in slide #7, this is sales from the India subsidiary to Russia is higher than the final sales of the Russian subsidiary, is that the way to understand it?

Management: I think you have understood it right. The number of Russia, CIS is the total sales including the sales to CIS countries. But when we talk of these which is our 100% subsidiary in Russia, that sale is a part of it which is shown in the subsequent slide. So just to differentiate between the CIS numbers and the subsidiaries number.

Dheeresh Pathak: And the sales that Russia does is, they buy entire products from us or do they also buy from outside?

Management: No, they buy from us.

Dheeresh Pathak: Similarly, South African subsidiary buys 100% from us, right?

Management: No, South Africa is buying also from the other manufacturers products actually locally.

Moderator: Thank you. The next question is from the line of Rajat Sethiya from Vriddhi Capital. Please go ahead.

Rajat Sethiya: Sir, what would be the revenue contribution from new products that we would have launched in the domestic market in the last two years?

Management: It would be about little less than 10%.

Rajat Sethiya: How is the traction coming up there, what kind of growth rate are they growing with?

Management: New product growth rate is zero, it does not make growth any significant this time.

Rajat Sethiya: Now that we have increased our number of MRs on the ground over the last two, three years. So I assume our geographic presence would have also increased compared to how we were placed three, four years back.

Management: Not necessarily because basically we were covering all India earlier, we are now covering all India with four divisions. So it is not like we were not covering certain areas which we have now begun to cover.

Rajat Sethiya: So, in terms of our own penetration levels into different regions in India, are we fairly penetrated or do you think there is more scope to grow there?

Management: If you look at each division, one of my cardiovascular division, I have about 200 people and one of them I have about 500 people. So obviously, depending upon the products and the profile of the doctors that we want to cover, the strength of those divisions would obviously vary. So it is not like uniform for all the divisions.

Rajat Sethiya: In terms of the productivity metric, I think you had reported in September 2019 presentation that we are doing somewhere around 3.8 lakhs per month basis. So where would we be currently and where do you think this number has potential to go to?

Management: Since we are looking at 1,600 people constant, revenue divided by 1,600 will give you an idea. Whatever the growth in terms of overall revenue probably will also flow down to the productivity level.

Rajat Sethiya: With the same level of MRs, where do you think what kind of productivity levels we can achieve?

Management: As I said earlier, we like to grow faster than the market and obviously that will show down straight to the production.

Rajat Sethiya: In the domestic formulations business, what kind of EBITDA margin would we be making?

Management: We are not reporting separate EBITDA margins for our business. We are just reporting it at a company level.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Vijay Bhatt: So thank you all for participating in the conference call. We hope to see you in the next call in the next quarter. Thank you again everybody for participating.

Moderator: Thank you. On behalf of J.B. Chemicals & Pharmaceuticals, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.