GOOD PEOPLE
for GOOD HEALTH

December 26, 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 December 22, 2023 at 2.30 p.m. IST in relation to the Company's entry into the ophthalmology segment. 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

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Sandeep Phadnis
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JB Chemicals & Pharmaceuticals Limited

Conference Call Transcript
December 22, 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

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Moderator

Ladies and gentlemen, good day and welcome to the Conference Call of JB Chemicals & Pharmaceuticals Limited hosted by the Company to discuss its entry into Ophthalmology. This call is on the 22nd of December 2023.

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 this 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. Jason D'Souza - Executive Vice President at JB Pharma. Thank you and over to you.

Jason D'Souza

Thank you Yashasree. Good afternoon and welcome everyone to the conference Call of JB Pharma to discuss the company's foray into ophthalmology.

We have with us today Nikhil Chopra - CEO and Whole-time Director and Kunal Khanna - President Operations at JB Pharma.

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. I would also like to state that during this call, we will entertain questions only pertaining to the Ophthalmology acquisition and we would not be able to answer any other questions.

With this, I would like to hand it over to Mr. Nikhil Chopra to begin the proceedings of the call.

Nikhil Chopra Thank you, Jason and good afternoon, ladies and gentlemen, and thank you for joining us on today's call.

As you are aware, JB Pharma has entered into a trademark agreement with Novartis Innovative Therapies AG in perpetuity for select ophthalmology brands portfolio for India region. This is effective only January 2027 following the consideration of USD 116 million, which is payable on or before December 31st 2026. The transaction also includes a promotion and distribution agreement with Novartis Healthcare Private Limited for the same brand portfolio for 3 years commencing December 2023, a consideration of Rs. 125 crore is associated with this.

I am excited with the development as it positions us at JB well within the Ophthalmology segment and the overall market. Not only does this deal enable us to raise 2 ranks in Indian farmer market, most importantly, JB enters the fast growing Ophthal segment and is now ranked among the leading players in this segment. Five of the brands are number one in its molecule category as many of you would have seen in our investor presentation and four brands are in top 3. The molecule segments are growing in a range of 10 to 20%, which is faster than the IPM growth. As per IQVIA MAT October 2023 data, the combined sales contribution from the portfolio was at around Rs. 207 crore.

As a therapeutic segment, Ophthalmology has consistently outperformed IPM and thus sits right within our objective of having a diversified high potential high growth product mix domestically. This portfolio helps us step into the growing segments such as anti-glaucoma, anti-allergics, antibiotics and NSAIDs within ophthalmology. At an overall level, you will acknowledge that Ophthalmology itself is the third fastest growing therapy in IPM with the 15% three-year CAGR.

As there are numerous reasons why we believe that the acquired portfolio will complement our growth agenda well as India is home to a large and expanding pool of patients that require continued eye care and there is a rising awareness around it. We are also witnessed to enhanced infrastructure and diagnostic for eye treatment combined with the advancements in surgical techniques, eye surgeries have become more accessible. The government trust in the area is under key driver.

I would now like to touch upon how this agreement impacts us favorably across multiple aspects of business. The strong brand equity follows for higher IPM even in short term, which will be complemented by absorption of Novartis field force, and we have plans to further expand the footprint. Friends, post grant of Perpetual License, which happens in December 2026, January 2027, this acquisition is gross margin accretive. I would like to share that the operating margin profile here will be significantly higher than our domestic business margin posts the grant of Perpetual License. All in all, this complements the outlook we have on business. With this strategic agreement, JB Pharma now has the portfolio of leadership brands within Ophthalmology underlying our emphasis on growth through our powerful brands.

On that note, I conclude my opening comments. We would now like to open this forum for our interactive session for the next 15-20 minutes and I will be happy to respond to all your questions on the announced transaction. Thank you all for patient hearing.

Moderator Thank you very much. We will now begin the question-and-answer session. We have a first question from the line of Harith Ahamed from Avendus Spark. Please go ahead.

Harith Ahamed First questions on the September MAT face value that you that you have disclosed of around Rs. 208 crore, so how should I think about the primary sales for modeling purposes? Is it in line with this Rs. 200 odd crore number?

Kunal Khanna Harith, the way to look at it is all the external market reflection is PTR and one can look at a normal margin profile between the distributor, retailer and the company. So, in that sense it is consistent with what the margin distributed to the channel is.

Harith Ahamed So, one of the reasons why I asked this question is because when I checked the AIOCD MAT value it is significantly lower number?

Kunal Khanna Yes, so basically from the PTR, just kind of deduct the distributor margin and you will have a sense of what the primary numbers are.

Nikhil Chopra For reference point is the way we look at we follow IMS-IQA number, so that will be a good reference point.

Harith Ahamed You talked about the gross margin and operating margin for the acquired portfolio after we execute the Perpetual License Agreement, which I believe is in Jan 27, so until then, under the promotional distribution agreement, how should we think about margins, especially gross margins typically for licensed products is seen around 20 or 25%, 20 to 30% range, so is it going to be similar?

Kunal Khanna The way to look at this is the gross margin profile in the short term for the interim 3 years will be very similar to the conventional in-licensing margins, which exist in the industry. Overall, what we are looking at is absolute EBITDA, cumulative EBITDA of close to Rs. 75 to Rs. 100 crore over the next 3 years after which the operating margin profile, as Nikhil stated earlier also will be significantly higher than our domestic business margins.

Harith Ahamed And lastly, when I look at the growth profile of this acquired portfolio over the last couple of years basis, the numbers that you disclosed the IQVIA MAT these numbers if it is around 10% now, if I look at our acquisitions in the recent past, we have managed to turn around these acquired brands and accelerate growth, so should we look at a similar acceleration here versus the last couple of year’s growth of around 10% and does that mean there should more MRs to be added to achieve that growth?

Kunal Khanna So, we are certainly looking at boosting this business and acceleration of the historic growth rates. The way to look at this is we are quite certain as we absorb the current field force and expand on the footprint in the near term, we should be looking at mid-teens growth over the near to midterm.

Moderator Thank you. We will take our next question from the line of Nitin Gosar from BOI Mutual Fund. Please go ahead.

Nitin Gosar Just wanted to understand how should we look at the agreement the way it has been drafted in two parts, so is there any obligation with regard to patent or something which is stopping us to buy out the brands upfront? How should we think about it?

Kunal Khanna There is no obligation with respect to any patent as far as Perpetual License is concerned. One has to understand that these trademarks which have been acquired are global trademarks what would be kind of as part of their overall global ophthal divestment process is individually divesting in different geographies, right. The organization was more comfortable in handing over the perpetual license 3 years hence, to be clear about what the global implications could be and that is why the grant is effective 3 years from now.

Nitin Gosar Second is with regard to understanding the agreement or the arrangement over next 3 years were Novartis still has the ophthal team or does JB also continues to add or build up ophthal team alongside of Novartis team?

Kunal Khanna So, for this particular ophthal portfolio, which we are acquiring from Novartis, we are absorbing a team of close to 100 from Novartis. Over the next 12 to 18 months, we will be evaluating on expanding that footprint. The current number which we will be absorbing from Novartis stands closer to 100. Over the next 12 to 16 months, we can look at increasing this into 130 to 140.

Nitin Gosar And P&L implication of the same because we are onboarding the cost of those employees, so we will have the cost sitting in our books, but we will continue to get gross margin which are similar to the in-licensing one?

Kunal Khanna That is right. Since we will be absorbing this manpower, it will have impact on our manpower cost, but given that we are looking at gross margin, which is in line with the conventional in-licensing margin profile and as stated earlier, even for the next three years, cumulative EBITDA will be somewhere close to Rs. 75 to Rs. 100 crore. One has to understand that YPMs, the productivity per rep in this business is very high. So, one does get a significant fixed operating leverage and despite the lower gross margin profile, one is still EBITDA accretive.

Nitin Gosar And last one, are there any milestones which could be required to be achieved to close this deal or this deal is now casted and there is no change in the valuation profile as well going forward?

Kunal Khanna This deal is pretty much casted, no change in valuation profile. It is just the nature of the deal given some of the global dynamics that for the first 3 years we have an in-licensing agreement and post that there is a Perpetual License grant.

Moderator Thank you. We will take our next question from the line of Abdul Kadar from ICICI Securities. Please go ahead.

Abdul Kadar Sir, just one question to start with on the chronic brands, what you have acquired, so sir, based on the data what you shared it more looks like these are pure kind of a mature brands sitting at a sizable market share, so when we talk about a mid-teen growth, what is giving us confidence that in spite of the market being quite small, when we talk about the chronic portfolio, you would be still growing in mid-teens?

Nikhil Chopra So, Abdul, if you look at overall, the burden of disease and you look at ophthalmology market, it is close to Rs. 4,000 crore and we with around Rs. 200 crore revenue holds 6 to 7% and the burden of disease of glaucoma is so high that we see good opportunity in terms of what we can do with our existing brands. Equally, within post chronic we also have antibiotics and combination eye drops and also we have antiallergics and NSAIDs. So, overall, I think what JB over a period of time has demonstrated not only with this transaction, but also historically if you see whether we see probiotic market, women health market, all those acquisitions that we have done, we are confident enough to drive maintain growth.

Abdul Kadar And sir just a final one, if I may, so on funding the transaction, how do you plan to fund? It is quite a distance away, but do you think you will turn cash positive till the time you have to make this US $116 million payment?

Nikhil Chopra Abdul, just for your information, we are right now today cash positive. Anything and everything that will be funded from internal funding will be done.

Moderator Thank you. We have our next question from the line of Sayantan Maji from UBS. Please go ahead.

Sayanthan Maji Just guiding on from previous participant question, so if I look at your chronic portfolio, the market share especially in the chronic portfolio for the molecules that have acquired is already high, so do you expect the categories itself to grow at a faster pace or do you expect that there is potential to expand the category similar to how you had thought for heart failure that a lot of population is undiagnosed and hence the category itself can grow, do you think that this can happen for some of your chronic acquired brands?

Nikhil Chopra So, I think it is a mix of both. If you look at what we have demonstrated over a period of time in our entire chronic therapies whether it is in hypertension, heart failure and what we are trying to do in the world of lipid lowering agents, similarly for glaucoma based brands that we have acquired, earlier what I have stated that we have identified unmet needs, we are looking at the entire burden of disease with glaucoma and the relationship that we want to develop with the ophthalmologist equally what was stated in the commentary with currently high YPMs and in short term we are looking at how can we boost that and eventually with JB strength, we will look at how do we improve our footprint. All this will help us in terms of improving our market share and driving better growth as compared to the way the ophthal market is going and this is why we have acquired. So, please understand the entire hypothesis of anything and everything that we acquire at JB is to grow the entire category better than the market growth and fortunately, what we have acquired is in the leadership area. So, leadership area, obviously you have to put effort in terms of creating firewall for the competition and looking at how differently you can look at the brands and with the specialty and eventually look at how do you grow all the category. That is the task which we have taken.

Sayantan Maji And also when you are suggesting that you will expand the field force space say by 30% to 40% over the next 1-1.5 years, so where will this extra field force deployed, is it that the new prescribers you would target or if are there any geographies where probably these plants underpenetrated, so just wanted to understand where will that field force be deployed?

Kunal Khanna Essentially, it is going to be new geographies targeted by us. Currently, as we understand, almost 75 to 80% of the ophthalmologist coverage is serviced by the current team. So, certainly new geographies which give us access to the remaining 25% to 30% is what our endeavor will be.

Sayantan Maji And one last question, so if I look at the covered market of the brands that you have acquired is close to Rs. 1,000 crore, the total market for Ophthalmology is Rs. 4,000 crore, so the difference, the gap that is there right now of Rs. 3,000 crore, is it the same therapies, but different molecules or are these different therapies altogether where you plan to probably expand your portfolio once you start getting some traction with ophthalmology because Novartis plants should be well recognized with Ophthalmology, so do you think there is a scope to expand into some other sub-therapies within Ophthalmology?

Kunal Khanna Absolutely, there is potential to expand into different sub-therapies. Having said that, when one looks at covered market, it should not be looked at molecule specific covered market, one should really look at indication specific covered market. So, from an indication standpoint, we are still covering almost Rs. 2,500 to 2,800 crore of the ophthal market, which is being stated. Now, there will be opportunities for us to do lifecycle management to launch combinations of existing molecules which currently Novartis is not servicing. So, that is the way one really has to look at it.

Sayantan Maji And what would be the remaining say, Rs. 1,200 crore market which probably you are not addressing right now with this portfolio?

Kunal Khanna So, these are different combinations of the similar drugs in acute and antiglaucoma, right, so there would be prostaglandin combinations and things like that, antihistamine combinations which will be natural progressions for us over the next 12 to 18 months.

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

Bino Pathiparampil If I understand correctly, this Rs. 964 crore will be paid in December 26 and Rs. 125 crore will be paid right now, is that correct?

Kunal Khanna Yes, that is correct.

Bino Pathiparampil And if I heard correctly, you said the cumulative EBITDA over next 3 years till the perpetual agreement comes in will be Rs. 75 to Rs. 100 crore?

Kunal Khanna That is correct. That is cumulative over the next 3 years.

Bino Pathiparampil So, are we paying like Rs. 125 crore for this Rs. 75 to Rs. 100 crore of EBITDA? Am I missing something here?

Kunal Khanna Not at all. This is marketing, distribution and licensing fee what we are really paying for. EBITDA is completely different based on our operations, what we sell in the mark. Rs. 125 crore is the licensing fee for the next 3 years and post 3 years, there is some tech support, quality reference standards which will be established for us to kind of acquire the Perpetual License which will be very critical in the transitioning phase.

Bino Pathiparampil But effectively, we are paying Rs. 125 crore for a cumulative EBITDA of maybe Rs. 100 crore, right?

Kunal Khanna So, basically, what you are coming to is Rs. 125 crore being paid for the next 3 years, right? That is correct.

Bino Pathiparampil And in return, we are making EBITDA of only Rs. 100 crore?

Kunal Khanna Yes, cumulative EBITDA of Rs. 75 to Rs. 100, that is correct.

Bino Pathiparampil And this 125 would be amortized over next 3 years?

Kunal Khanna 125 will be amortized over the next 6 years.

Moderator Thank you. We will take the next question from the line of Punit Pujara from Helios Capital. Please go ahead.

Punit Pujara Sir, could you elaborate on the lifecycle management which you touched upon? And could you do it in the current in-licensing space or you have to do it post Jan 27? That is my first question.

Kunal Khanna As far as lifecycle management is concerned we can do it right away. We don't have any limitations on new product launches, entering new indications. There are no restrictions for us.

Punit Pujara Second question is, sir, how many numbers of specialists are currently covered by the portfolio that you have in-licensed and is there any target that you are calling out on the same?

Kunal Khanna So, the total universe is close to 22,000 ophthalmologists. The standard coverage based on the current field force size is closer to 15,000 to 16,000.

Punit Pujara And although from the language, it is very clear, but I will still ask for the clarification, is there any royalty to be paid post Jan 27 because it is still a perpetual in-licensing?

Kunal Khanna No, there is no royalty. There is an upfront consideration of $116 million. That is all.

Moderator Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments. Over to you.

Nikhil Chopra So, let me once again thank all of you in terms of coming and attending the call today. What I would like to conclude is in terms of now with this entire opportunity at JB, we enter into a very progressive segment that is Ophthalmology which is the third largest fastest growing segment today in Indian pharma market and what I shared in my comment is that this comes with leadership position 5 of the brands out of total 10 brands that we have acquired are number one in their category. And also, it does not disturb our capital structure as of date because we are cash positive and the value which we have to pay is at the end of 3 years that is $116 million and overall, the business 3 years from here, at the time of Perpetual License Grant is significantly highly margin accretive as compared to our dom form (domestic formulation). This is where we stand. Once again looking at how do we make this opportunity bigger and create value for our stakeholder and some more and more number of patients across now in the field of Ophthalmology, from the quality eye drops, which comes from the house of Novartis and eventually from JB. Thank you. Thank you all.

Moderator Thank you. On behalf of JB Pharma, that concludes this conference. Thank you for joining us and you may now disconnect your lines.