



J. B. CHEMICALS & PHARMACEUTICALS LIMITED

January 31, 2022

BSE Ltd.
Phiroze Jeejebhoy Towers
Dalal Street
Mumbai 400 001

BSE Scrip Code: 506943

Stock Symbol: JBCHEPHARM

Dear Sir,

Subject: Investors/analysts call Transcript and Audio recording

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 scheduled for investors and analysts on January 27, 2022 at 3.30 p.m. IST to discuss the Acquisition of Brands and Related Assets from Sanzyme Private Limited. It is also available on the website of the Company.

Audio recording of the call is also available on the website of the Company.

The link to access the same is: <https://jbcpl.com/investor-information/>

We request you to take this on record.

Thanking you,

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

Sandeep Phadnis
Vice President – Secretarial
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J.B. Chemicals and Pharmaceuticals Ltd.
Investor Call On The Acquisition Of Brands And Related Assets
From Sanzyme Private Limited
January 27, 2022

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

Moderator: Ladies and gentlemen, good day and welcome to J.B. Chemicals and Pharmaceuticals Limited Investor Conference Call as on 27, Jan 2022.

As a reminder, all participant lines will be in 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 star '*' 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 from J.B. Chemicals. Thank you and over to you, sir.

Jason D'Souza: Thank you Steven. Good afternoon everyone and thank you for joining us on this call, organized by J.B. Chemicals and Pharmaceuticals Limited, to discuss the acquisition of the brands and related assets from Sanzyme Private Limited. We have with us on the call today, Mr. Nikhil Chopra -- Chief Executive Officer and Whole Time Director; Mr. Kunal Khanna -- President Operation; and Mr. Lakshay Kataria -- Chief Financial Officer.

Before we begin, I would like to state that some of the statements in today's discussion may be forward looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is in the transaction related documents uploaded to the stock exchange websites earlier. I would also like to highlight that as this call is organized for the specific purpose of discussing the Sanzyme transaction, you are all requested to limit all discussions to the current announcement.

With that, I would like to invite Mr. Nikhil Chopra to begin the proceedings of the call. Over to you, sir.



Nikhil Chopra:

Thank you. Thank you, Jason, and good afternoon to everyone. A warm welcome and thank you for taking time to join us for this discussion on the acquisition of the brands and the related assets of Sanzyme Private Limited. I trust you would have had a chance to look at the related document that has been uploaded on the stock exchange websites.

Now I will briefly summarize the main highlights of the transaction. We have acquired Sanzyme's key brands, portfolio, and related assets across probiotics, therapeutic nutraceuticals and reproductive health markets for a consideration of about INR 628 crores. This excludes related taxes, stamp duty. In addition, we expect to invest around INR 15 crores separately as a working capital for the acquired business. This transaction is funded through a mix of internal accruals and a short-term debt, is expected to be completed over the next two weeks, subject to customary closing formalities. The brand's acquired are for Indian markets only. As some of you may be aware that Sanzyme is a leading player in the probiotic and hormone segments. Its flagship brands Sporlac launched in 1973, is one of the leading probiotic brands in the country. Lobun is another multi strain probiotic blend used to delay progression of chronic kidney disease and is one of the trusted formulations for leading nephrologists across the country.

Sanzyme has also develop prominent brands in the reproductive health segment. Overall, these brands have combined revenue of around INR 160 crores as per IQVIA MAT December 2021 data. The acquisition expands the addressable opportunity of JBCPL by almost INR 6,000 crores across the segments. Further, we will now be among the top five players in the probiotic category, which is growing at around 12% to 14% annually. Within the country, gastrointestinal therapy market, probiotic has been one of the fastest growing segment and has delivered growth of almost 35% as per IQVIA MAT 2021 data. The top 10 players, including Sanzyme, accounts for 65% of the market. Sanzyme itself has a market share of 7.4%.

Key drivers of the growth in probiotics have been well-recognized health benefits, possibility of expanding usage indications and superior safety profile of the products when used with other medications. Sanzyme's range covers both the mass probiotic market through Sporlac as well as specialty products like Lobun and Oxalo that addresses the unmet demand in the niche kidney care segment. This is in line with our status strategy for playing to ourselves in the nephrology segment.

Coming to the reproductive health segment. The other significant area targeted by Sanzyme's range of products, is also stated for a rapid growth over few years basis the rising incidence of infertility cases in India. Products acquired by us address both gynaecological and sexological segment. Sanzyme's existing distribution network, over 100,000 healthcare professionals, number of hospitals and more than 300,000 pharmacy cover general physicians, consulting physicians, paediatricians,



nephrologists, urologists, gynaecologists, and IVF Centers. Currently Sanzyme's brands have major revenue contribution from southern and north part of the country.

Now, we will have multiple levers available to accelerate the next phase of growth with a combined entity of Sanzyme and JBCPL. There will be an opportunity for Lifecycle Management of current portfolio, leveraging the existing brand equity, as well as the similar profile of prescriber base synergy in therapeutic areas such as gastroenterology, nephrology and potential to develop OTS visibility across prescription and probably in the coming time OTC markets.

The acquired brands derive a large part of their business from certain parts of the country, there will remain a potential for aggressive expansion, particularly in eastern part of the country, metro markets and part of South India. We will also be expanding coverage at generalist and paediatrician, introduce progressive SKUs, develop evidence generation and therapy shaping initiatives, as we have been doing in JBCPL for last now 15 months; particularly in the nephrotherapies and expand our portfolio and reach in mother and child segment.

Going forward, our India business contribution is expected to exceed 50% of overall revenues. Driven by the plant initiative, we expect to accelerate top-end performance and ensure business profitability. Post this acquisition JBCPL's IPM ranking will further move up by 2 points. Today we are 26th/27th ranked company, a 27th/28th rank company, we will be 25th/26th rank company. We are now even more excited about the future possibilities as we supplement our growth ambition in India and announce value for all our stakeholders.

On that note, I conclude my opening comments. We would now like to open this forum for an interactive session with all of you and we'll be happy to respond to your questions on the announced transaction. Thank you all for patience hearing.

Question and Answers

Moderator:

Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star '*' and '1' on their touchstone telephone. If you wish to remove yourself from the question queue, you may press star '*' and '2'. Participants are requested to use handsets while asking a question.

Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Rahul Jeewani from IIFL. Please go ahead.

Rahul Jeewani:

Yes. Thanks for taking my question, and congratulations on the deal. If you can please talk about how the deal process was run, whether it was a



bilateral process between you and the seller, and what was your reason for zeroing in on the probiotics and the reproductive health products given that the market for these products in India is still relatively small and niche.

Lakshay Kataria: So, good afternoon, I'll take on the first part, and then I'll request my colleague Kunal to talk about the overall probiotic space and why we are sort of excited and about the overall probiotic space. So, as far as the deal process is concerned, you're right, this was a bilateral process. Over the last couple of weeks, we've gone through extensive due diligence exercise. And post that we have sort of made an offer to the sellers and concluded the deal. I hope that answers your question.

Rahul Jeewani: Yes. So, it was a bilateral deal. So, any metric which you can provide in terms of how you evaluated the purchase price for the deal?

Lakshay Kataria: So, we've looked at a couple of considerations, one, there is always a market construct to such deals. So, we've looked at relative valuation metrics which are prevalent in the current market scenario. Also, I think the whole financial evaluation in terms of what the assets bring to our P&L, both from a top line and a bottom-line perspective, is what we've taken into consideration. And we've also gone through professional evaluation process to value these assets.

Rahul Jeewani: Sure, sir. Yes.

Nikhil Chopra: And Rahul your question on why probiotic and infertility asset that we have taken over. See probiotic is a market, it's a very attractive market in India, and particularly at JBCPL, when we talk about our brands like Metrogyl, there is a lot of synergy in terms of co-prescription which we can built on. And overall, the market has been also growing at a pace of around 12% to 14%. And when we see the range of products that we have acquired, we see a lot of opportunity in terms of geographies where we can penetrate better, as compared to the way Sanzyme was operating and equally a lot of lifecycle management that we can do with the existing portfolio, which will overall help us to build on this portfolio.

Rahul Jeewani: Sure, sir. And now in terms of how this portfolio has grown over the past three-year period, so if you can talk about that, and how many reps would we need to add to market this portfolio, in India, going ahead?

Nikhil Chopra: Kunal, you would like to take this question?

Kunal Khanna: Sure. Yes. So I think when we primarily look at the Sporlac portfolio, and the historic growth rates over the past four years, the brand has almost grown at 11%. In addition to that, there are specialized probiotic brands in this business, which Nikhil alluded too, the likes of Lobun, where the historic growth rate has been 50% and plus, and these are extremely, extremely progressive categories. The unique advantage of this probiotic



portfolio which we are talking about is that it straddles across the mass segment, which is very core to the business model and core to market model of J.B. essentially the CPGP prescriber category, through this Sporlac franchise, where the cost of therapy, per day cost of therapy can range anywhere between INR 18 to INR 24. And it also allowed us to capitalize on the speciality segment. Again, the nephrology therapy based, which again is very core to J.B.'s overall business model, and allowed us to look at specialized products in chronic kidney dysfunctions. There the cost of therapy can be as high as INR 160 to INR 240 per day therapy. So, we are getting access to a wide range of probiotic segments through this portfolio. More importantly, in line with our core strengths, our prescriber focused CPGP paediatrics, as well as nephrologists. That is very core to as we look at this play.

From a feet on street, what kind of sales and marketing engine we require, essentially we'll be close to 350 people, sales and marketing people, who will be transitioned into JBCPL. And as a result, it will be a fully integrated business just like any other division in J.B. and these 350 will spread across three business units.

Rahul Jeewani:

Sure, sir. And sir last question from my hand before I join back the queue, in terms of EBITDA margins your presentation states that this portfolio is generating north of 35% EBITDA margins, but given the synergies which you can derive in the portfolio, because you are already participating in the gastro and the nephro segment, do you think that you have an opportunity to improve EBITDA margins for the acquired portfolio further over the next three-year period?

Lakshay Kataria:

Let me take that on. I think our first task really would be to look at accelerating the growth, like Nikhil alluded to, and basically really building synergies from a go-to market perspective. So, our first focus really will be actually to put more investment behind the brands, scale up in new geographies. Over a period of time like any other business, obviously, our endeavour would be to expand margins, but not in the near short term.

Rahul Jeewani:

Okay. Sure, sir. Thank you. I will join back the queue.

Moderator:

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

Neelam Punjabi:

Thanks for taking my question. My first question is, as a part of the transaction, are we going to add any manufacturing facilities? And my second question is, will this acquisition create any goodwill on our books?

Lakshay Kataria:

So, let me take those two questions. We are not intending to add any manufacturing assets as a part of this acquisition. And to your second question, no, there is no goodwill getting created in the books, the consideration is primarily towards the brands.

Neelam Punjabi: Okay. That's helpful. And would we incur any additional costs in terms of increasing brand promotion for the acquired portfolio?

Lakshay Kataria: Yes, like I just responded a minute ago, we we'll look at scaling up the investment in these brands in the next one or two years to accelerate the top line growth. But over a period of time, I think our endeavour as a management team is to accelerate the overall EBITDA margins.

Neelam Punjabi: Got it. That's it for my end, thank you.

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

Abdulkader Puranwala: Yes, hi sir. Thank you for the opportunity. Sir, I just wanted to understand, are any of these brands what you've acquired under price control?

Nikhil Chopra: No, negligible part is under price control.

Abdulkader Puranwala: Okay, none of them. And sir, second part of my query was, if I look at the sales break up, that is of the INR 160 crores, the large part is again just concentrated towards just the two brands. So, any specific reason why we have acquired, apart from the probiotic, we have ventured into the reproductive health -- and what could be the market size in these four to five brands on the reproductive health sides, and accordingly, what is the opportunity we'll try to hire over here?

Nikhil Chopra: So Abdul let me start and then Kunal can come in. First of all, with Sporlac being added to the family of J.B. Today at J.B. we have five brands in top 300. And for a brand to be in top 300 as reported by IPM, the threshold has to be USD 10 million. So it gives us an opportunity in terms of what we spoke earlier, by doing the right lifecycle management of the portfolio, looking at how we can exploit the entire geographical footprint and lot of synergies that we can draw, we are looking at that this will be the sixth brand in the coming time in top 300 which will be a part of J.B. family. So that is what Sporlac brings on the table. On the infertility part Kunal would you like to come in?

Kunal Khanna: Yes. When we look at this overall opportunity across probiotics, reproductive health and therapeutic nutraceuticals we are almost talking about increasing our addressable opportunity by INR 5,000 crore to INR 6,000 crore. Probiotic forms a significant portion of that and so does reproductive health. The top five brands which are coming as part of this consideration are of course Sporlac and Lobun, progressive categories on the probiotic space, but even the other brands on the IVF side, which again is a huge addressable opportunity, like Gynogen and Pubergen are all plus 15 crore brands and among the top five brands in their respected categories. We already have some level of equity with the gynecologist segment and we would want to build on that with the portfolio, which we



are getting in. Yes, but the focus continues to be further invest and build on the probiotics space.

Abdulkader Puranwala: Sure, sir. Understood. And just a minute question if I may, sir in your opening remarks, Nikhil sir mentioned that these brands are only for India specific. So is there any contractual agreement, which would bind us from not launching these brands in the international market as well?

Kunal Khanna: Let me take this question. The use of trademarks is restricted to India only. So all the brand names will be used for India market.

Abdulkader Puranwala: Sure, sir. I understood. Thank you so much for answering my questions.

Moderator: Thank you. The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: Yes. Hi, good afternoon. Congrats on this acquisition. One question on Sporlac in particular. So when I look at the usage of this drug by the patients, am I right in assuming that this will be used largely for a short-term purpose, let's say mainly used for -- let's say four or five days by a patient and then discontinued, so -- Lobun may be different, but just want to check this assumption.

Nikhil Chopra: Yes, it is a week to 10 days along with the course of antibiotic.

Anubhav Aggarwal: So, today it is a INR 60 crore brand, how big you think -- let's say all goes when you grow it, etc. because it's not a chronic drug, how big you think this brand can become?

Nikhil Chopra: See, we will not like to get into any specific figures that how big we want to -- but currently as we stated earlier, this brand is growing at around 10% to 11% and the market is growing at around 12% to 14%. So with the right strategies in place and the synergies that we want to build in, with this brand coming to J.B. house, we are looking at how do we, in short to mid-term, start delivering market beating performance and as I stated earlier, we would like this brand to be in top 300, that is what we can say at this moment of time.

Anubhav Aggarwal: In terms of indication, is diarrhoea the most important indication which Sporlac is used for, or what are the other indications, which are large parts in terms of -- contribution?

Nikhil Chopra: So, this is the --

Kunal Khanna: So --

Nikhil Chopra: Yes, yes Kunal, yes.



Kunal Khanna: So, diarrhoea continues to be an important part of the prescribed indication. It's also to an extent used in IVF. But yes, diarrhoea and antibiotic associated diarrhoea is one of the major indications in which this brand is prescribed. The larger point remains that we are talking about a category which is still at a very, very nascent stage, and hearing we have a category leader, our endeavour will be as Nikhil mentioned earlier, to drive efforts in terms of therapy shaping and if we are able to expand the category with the brand, which is the leader in its segment, we are fairly confident of building on this platform.

Anubhav Aggarwal: How big is the product market today, which -- let's say Sporlac is INR 60 crore, if you look at the other products put together, for diarrhoea and --

Kunal Khanna: It will be -- The overall addressable opportunity is in the range of INR 1,800 crores to INR 2,000 crores.

Anubhav Aggarwal: That's as of today? That's the market, which is --

Kunal Khanna: Yes. That's the market today overall for probiotic.

Anubhav Aggarwal: And so, out of the INR 1,800 crore market, those drugs are largely used for diarrhoea and IVF, is it?

Kunal Khanna: I did not really say that all of that is used for diarrhoea and IVF. I think the core part out here is, it helps in improving the gut. There are many gastro disorders which lead to some kind of degeneration of the flora in the gut. During diarrhoea, it's something which is quite evident, and patients want to use it. But we don't really want to get into the science of it right now. I think what we can surely say is the category leaders play a very, very important role in regeneration of the gut, during different indications and diarrhoea tends to be a major part of that. Having said that a combination of those strains are used in -- are being used in many other disorders like kidney disorders for example. Lobun is a formulation, which is made of three to four different strains. Part of it is also the Sporlac strain, but it's used for a very different indication wherein the major function is absorption of toxins. So, wide variety of indications are there for probiotics to grow up.

Anubhav Aggarwal: Sure. And just one question. So, in terms of synergies, Metrogyl will be the closest product in your portfolio. Is it today, our probiotics largely co-prescribed when let's say a gynaecologist is writing Metrogyl for, let's say some indication, have you seen that?

Kunal Khanna: So, the way you have to see this is, there are many issues on the gastro side. You know, they could be standalone IVF related issues or diarrhoea issues, and then there are antibiotic induced diarrhoea. So that's what Nikhil was alluding to. Given that with antibiotics prescription there tends to be a tendency of diarrhoea being induced, there tends to be a prescription, co-prescription behaviour, which is adopted by doctors. But



that does not mean that is the only indication, but there's a lot of synergy and benefit which can be derived from that. The important thing is Sporlac strain is better absorbed with metronidazole. And we certainly see a great opportunity there because of the co-prescription pattern. And what it really helps us achieve is that with this co-prescription behaviour, it allows us to play to our strengths of go-to market business model.

Anubhav Aggarwal: And I have one last question on Lobun. This seems to be more of a -- could be like a chronic usage. But given the size and the time it has been in the market; it doesn't seem to have taken off somehow. So, I don't know, whether that it is due to the product or that's due to the lack of distribution strength. But you have mentioned the brand has a good distribution center, so I couldn't understand why Lobun has not taken up, why it's only INR 20 crore kind of drug even now.

Kunal Khanna: The important part is you look at the progression over the last four years. Any specialized, first in its class category takes some time for it being adopted and prescribed by the prescriber community. What tends to happen is when a product or a molecule is new and unique in its category, prescribers take their own time in assessing the real world evidence patterns and how the efficacy of the drug is. And clearly if you see the progression over the last four years, all the nephrologists have given this a thumbs up. We still believe there is a lot of opportunity because as we look at the prescribing pattern, and the converted prescriber base for Lobun, only 35% to 40% of the nephrologists are still prescribing this. Like Nikhil mentioned, our endeavour will be to build on the scientific evidence, further supported with more clinical data and expanded its usage in the CKD side, on the CKD side.

Anubhav Aggarwal: Just one clarity, for CKD how long is, typically this drug prescribed to a patient?

Kunal Khanna: The point out here is that it can be given in stage two, stage three, given it helps in better absorption of toxins. It really depends on the patient profile and how -- what kind of clinical symptoms does the doctor see. It's not so easy to say that as is the case in mass Sporlac, that you prescribe it for four to six days, it's difficult to put a number there. For stage three, where the toxicity could be high, the actual therapy duration could be much higher. So it just depends on the clinical profile. But yes, it is meant for chronic usage.

Anubhav Aggarwal: Thank you very much.

Moderator: Thank you. The next question is from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead.

Nikhil Mathur: Yes. Hi, thanks for this opportunity. In fact, I think Anubhav has asked most of the questions that I was intending to. But I'll slip in two more incremental trying to build on his questions. I mean, you mentioned that

Sporlac is prescribed for four or five days. It's an antibiotic led issues in the gut that -- because of it, it is prescribed. Can it possibly cannibalize some of your key products? Because I believe that some of your products are also part of that indication or curative therapy of that indication. So is there a chance of a bit of cannibalization here?

Nikhil Chopra:

Let me take this. We have negligible presence in the world of probiotic. And by the way, when you talk about Sporlac, basically the way I see this product is its response -- we are -- we will be positioning it in terms of healthyfication of the gut. So basically antibiotic induced diarrhoea, week to 10 days, what Kunal has been speaking about, irritable bowel syndrome, it can be prescribed for long term, and equally we are looking at better lifecycle management of this brand, where 30%-40% of the revenue for the probiotic market comes from liquid formulations, which at some given time you will see us introducing. So it has got a variety of usage from different specialties. And it is not only antibiotic induced diarrhoea, but basically positioning it as a probiotic, which will be responsible for healthyfication of the gut.

Nikhil Mathur:

Okay, okay. Sorry, I haven't got a chance to check, what are the price points at which Sporlac or other probiotic brands of this company are selling at?

Kunal Khanna:

I'll take this.

Nikhil Mathur:

Yes, Kunal.

Kunal Khanna:

So Sporlac has always been a trusted brand, which shows very high level of efficacy at a very, very affordable price. The cost per tablet is in the range of INR 6. Even if it's TID or BID the overall cost of therapy comes to around almost INR 18 to INR 24 per day. As opposed to some of the other strains which are there in the market, where a BID dose can go up to almost INR 84, and that's where Sporlac has a very, very unique advantage, to be able to drive the same level of efficacy at a very reasonable price.

The other thing, which one has to be very -- because when you really look at the probiotics business, what we're really talking about is the strain and we have a lot of confidence in the strain now, which is lactobacillus. Our point number one, it's the most used and trusted one with a lot of real-world evidence data, had most of the researches happened in probiotics with the respect to this strain. In fact, doctors see this that as far as efficacy goes, possibly this has the maximum real world evidence data on Indian population. And the other important part with respect to this strain is, and why it helps to kind of manage the price also is that the stability of this strain is better controlled across varying temperature. So that helps in seamless distribution, you don't necessarily need an active cold chain infrastructure and because of this stability it had mass adoption even amongst the GPCP prescriber base.



Nikhil Mathur: Okay, okay. And the way we are seeing that there is an intent by companies to consumerize some of the brands, focus on wellness. So, is there a possibility that -- I mean a product like Sporlac be consumerized or some tweaks be made so that it is out of the scheduled drug category and be part of the OTC franchise? Can that be done, and/or can other companies launch such kind of products with incremental innovation? Not like a Sporlac, but a bit more targeting the same area in a more wellness kind of a construct.

Kunal Khanna: We want to play on the prescription side, it's essentially a drug and we want to play on the prescription side. Over the near and mid-term, as we look at lifecycle management opportunities and see what the OTA's potential is, we will try to define different pathways for possibly different variants. But the prescription, the efficacy, the fact that it's adopted by a large set of prescribers is its strength, and are the strength of the brands across the probiotic range, which we have taken. And we want to continue to build on that. For us the important point as Nikhil said is, therapy shaping. Over a period of time as we look at the lifecycle management opportunity. There could be some brands which will take more shape in the form of OTC play, but it's too early to comment on that.

Nikhil Mathur: Okay. Sure. Thank you so much and congratulations on this deal.

Moderator: Thank you. Before we take the next question, a reminder to the participants. Anyone who wishes to ask a question may press star '*' and '1' at this time. The next question is from the line of Karan Surana from Monarch AiF. Please go ahead.

Karan Surana: Hi, thank you for the opportunity and congratulations on the acquisition. So sir I just had one question since my other questions have been answered, what is the likely next 12 month's projection given the MAT value for us was INR 160 crores but FY '22 revenue is just like around INR 135 crores? So any colour on that would be really helpful.

Nikhil Chopra: So Karan, the way we are looking at -- as we have got the asset and it will need some short to mid-term transition, but with the entire agenda of agile execution that we bring on the table from the house of JBCPL, we are looking at that by the end of the year, we should look at delivering market beating performance and what I stated earlier that the biggest franchisee that we have got in the form of Sporlac, which is mass probiotic and equally specialized probiotic, which is Oxalo and Lobun. These are the products which should see better distribution and availability and equally the focus that we will bring on the table when we start looking at the synergies that we want to build from the house of J.B. So what we have kept as aspiration is that with smooth transition in place, as we are working on, we are looking at how do we, by the end of the year, start delivering market beating performance in this category of products.



- Karan Surana:** Okay, sir. So like there's no specific numbers that you're targeting just maybe meeting the market as of right now, that would be your guidance right?
- Nikhil Chopra:** Yes.
- Karan Surana:** Okay, thank you. Thank you for this. Thanks. That's all from my side.
- Moderator:** Thank you. A reminder to the participants, anyone who wishes to ask a question may press star '*' and '1' and this time, the next question is a follow up from the line of Rahul Jeewani from IIFL. Please go ahead.
- Rahul Jeewani:** Yes. Hi sir. So, in terms of funding the deal, you have stated that it will be equally funded through internal cash accruals and short-term debt. Any reason for funding through short term debt as well given that your cash balance on books is more than the purchase price which we need to pay for the deal?
- Lakshay Kataria:** Yes, Rahul let me take that. So, I think what we intend to say is, one, it is not equal funding between debt and internal accruals. The deal will be largely funded through internal accruals. We may need to rely on some short-term debt, because apart from the purchase consideration we also need to pay a certain GST and stamp duty. So that will take away most of the cash that we have on the books. And hence, for some of our working capital requirements, we may need to sort of dip into some short-term borrowings, which are going to be for a very short tenure. I hope that clarifies.
- Rahul Jeewani:** Okay. And the debt rate for the short-term borrowings will be in the range of 7% to 8%?
- Lakshay Kataria:** I wouldn't want to give a specific debt rates of the interest, it's a bit of an evolving scenario, but given the size of the debt you're talking about, it's a matter of few months, right? So don't get too worried about what's the rate of what.
- Rahul Jeewani:** Sure sir. And in terms of the purchase price if you can allocate in between intangibles and -- because you said you would not be having any goodwill related to this. So how would the purchase price be allocated and what kind of an amortization impact you are looking at from the amortization of intangibles?
- Lakshay Kataria:** So overall, like I mentioned earlier, a bulk of the consideration is going towards the branch, right? Which is the intangible we have brought. And this from an overall amortization perspective, will mean an amortization rate of about INR 25 crores to INR 26 crores a year, right? This will be a long-term amortization given we are buying brands.



Rahul Jeewani: Okay. So does that mean you are factoring in a 20-year amortization period?

Nikhil Chopra: Yes, almost of that sort.

Rahul Jeewani: Okay. Yes. Thank you, sir.

Moderator: Thank you. The next question is a follow up from the line of on Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: Yes. In fact two-three follow ups. One, you mentioned that for Sporlac last four year -- was about 11%. I just want to get -- for instance, in that how much is the volume growth of this product of roughly?

Nikhil Chopra: Kunal, you'd like to take this?

Kunal Khanna: Yes. So when we look at the volume growth versus price, pre-COVID, because that's the right way to look at things, the volume was close to 5% and the other part was attributed to price growth.

Anubhav Aggarwal: The reason I asked that question is because this category makes so much sense, given the benefits of taking the Sporlac or any other probiotic or lactobacillus for diarrhoea. I'm just surprised why this pigment hasn't taken off so far. I mean to say, this pigment should have been much larger. I'm just trying to understand that, for example, for Sporlac, I don't know, whether it was company specific problem in promoting the brand or was it a tactical problem that volume growth is lower?

Kunal Khanna: So we do believe that the brand was under-invested and under-leveraged when we look at the actual growth of Sporlac, close to 11% versus market growth of 30%. And some category leader's -- others are big in that range. There is certainly a big, big potential and opportunity for us to invest more, there are some brands, potentially some divisions where the marketing muscle and power, and possibility, ability of other organizations to drive the synergies across other segments, like what we are talking today, what we will be able to do if Sporlac did exist. So certainly we believe we have a huge, huge opportunity to further drive a volume growth, given that traditionally it was potentially under leveraged and under invested. And there are different levers which really drive the confidence for us. Clearly, what we have mentioned is lifecycle management. Nikhil alluded to the fact, if you really look at the probiotics business, the largest growing category is liquids and Sporlac currently has no real liquid form. That to an extent explains the difference.

We have a huge opportunity with some combination of strains also. From a long-term perspective, it could be an -- with combination of uncertain existing product categories. We have already spoken about synergies with our prescriber base where we want to play to our strength, PDR, GPCP, nephrologists clearly are our top four prescribers and so is the case with



Sporlac. And there is distribution reach and the penetration, and what gives us clear visibility around that is if you really look at Sporlac as a brand, it has negligible presence in three to four of J.B.'s highest revenue realizing states, which are essentially West Bengal, Kerala, Bihar, and U.P. These are pockets of strength for us where Sporlac has little to negligible presence. So, a combination of all these levers give us good confidence that we'll be able to further build on to the rich legacy, which has been created.

Anubhav Aggarwal: That is helpful. If you can also comment that, why is this total market not going like 20% to 30%? What I'm asking is why is not gaining a lot of market share from the other options out there?

Kunal Khanna: The probiotic category is still growing at a very healthy rate 14%. It's unfair to compare them to what's happened in the Indian pharma market in the last 12 to 18 months because therein you see adoration, certain categories really exploding, and certain being absolutely muted because of the overall scenario. Probiotic was a segment, which in the first wave, pretty much found, as was the case with a lot of gastroenterology product category. The demand during the first phase of -- when it started, significantly suffered, but if you really look at it from a steady state scenario, this category is outpacing the IPM by almost 300 to 400 basis points.

Anubhav Aggarwal: Okay, sure. Just couple of more questions. One is, 350 reps, roughly how many promoting Sporlac out of that?

Kunal Khanna: So, the way to really look at it across three divisions is the first time, the anchor division is called the Sporlac franchise, where we have a team of almost close to 120. And the remaining numbers are broadly equally split between the second and third business. The second business largely comprises of the speciality probiotic. Again, we see a great, great potential there. And the third business is largely the reproductive health, which combined the hormones therapy and the IVF range.

Anubhav Aggarwal: So safe to assume roughly about let's say close to two thirds of the reps will be largely -- at least we'll be promoting that. So two divisions will be what?

Kunal Khanna: Sorry. So the first division is Sporlac focus probiotics, the second is probiotics across other categories, and the third is largely reproductive health, yes, that's correct.

Anubhav Aggarwal: And last question is on the margins of the company. So, if I look at the sales wise productivity it's quite low at about -- roughly close to about INR 30 lakhs per month. Gross margins are about 70% and, but EBITDA margin is still higher 33% to 35%. So, the question here is that this looks to be largely, as of now more J.B. dominated product. Maybe I'm wrong, but given that low sales wise productivity and gross margins are not too



different from, let's say, JB makes or what an average company makes. The margin seems to be higher at somewhere between 30% to 35%. So, what is the component which is favouring this portfolio, their margins are higher, their sales wise productivity and gross margin, typically I would have thought their EBITDA margin should have been more closer to 25%, here? So what's so different if in this portfolio, the margins are higher?

Kunal Khanna:

The way to really look at this business is that there are selected brands driving high productivity amongst a limited peak force, right? Usually, when you really look at probiotic business, where the brand is across a team of 250-300 reps in one single division and then spread across, the productivity that's not beyond the INR 60,000 to INR 80,000 range, it's actually the strength of the brand, the brand equity, which helps drive such a great productivity that so far the organization has been able to reach these kind of INR 60 crore numbers even with a force of 120 odd, so that's the way to really look at this product.

Anubhav Aggarwal:

But you know a clarity there that, total principle productivity of the company as a whole, the portfolio that required is still low at INR 3 lakh to INR 3.5 lakh, right? Then that productivity is -- my question is, productivity is less than the Indian pharma market average. So the gross margins are close to the IPM average, but productivity is lower but EBITDA margin is much higher than the average.

Kunal Khanna:

That's to an extent, right? And also, the organization historically has been slightly conservative on the sales promotion and AMP spend, and we go back to the point which Lakshay was making, we certainly want to invest more in this category and more on the brand side.

Anubhav Aggarwal:

Okay, sure. Thank you, very helpful. Thank you very much.

Moderator:

Thank you. The next question is from the line number a Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth:

Thank you very much sir for the opportunity. Sir, I joined a little late, can you just throw that -- there are two categories, one is specialized probiotic and another is general category. So, what will be our business approach will be through prescription route or OTC route?

Nikhil Chopra:

It will be, I think -- you joined late Bharat. Kunal already had answered, this will be basically through prescription route. When we talk about Sporlac it will be more a mass probiotic approach and when we look at Lobun and Oxalo, which are specialized probiotic, basically in the field of chronic kidney disease, it will be a specialized approach in the clinics of nephrologist and MD medicine that is what we want to do.

Bharat Sheth:

Okay, thank you very much, sir. Thank you so much, yes.



- Moderator:** Thank you. The next question is from the line of Vineet Mehta from Sameeksha Capital. Please go ahead.
- Vineet Mehta:** Sir my question was regarding that we are going to manufacture these in house. So what would be our utilization level after acquisition or after we produce these brands from our factory?
- Kunal Khanna:** Just a clarification here. We are not manufacturing these products in house. We have a very strong supply arrangement to ensure business continuity. These products will continue to be sourced from the existing vendor base.
- Vineet Mehta:** Okay, and my second question was regarding the ROC. If I look you have acquired for around INR 630 odd crores and at the current EBITDA margins, the ROC would be around by 9% to 10%. So how are we planning to increase the ROC?
- Lakshay Kataria:** Let me take that. I think you're right. Right now, we begin with sort of a high single digit ROC on the date of acquisition. But as we sort of accelerate the growth for some of these categories, we do believe the whole sort of benefit of increased top line will also flow into the bottom line. So over the next sort of three to four years, or endeavour would be to clearly exceed double digit ROC, even on this acquired portfolio, that's our approach sir right now.
- Vineet Mehta:** So, after three to four years, it would be at the same level as our current.
- Lakshay Kataria:** I think that is a bit of a tough ask. I mean we have to go upwards of 40% as we talk today. I don't think 8% to 9% is becoming 40%, but getting to about sort of 18% to 20%, sort of range ROC in the next four to five years or something, we will surely aim with that.
- Vineet Mehta:** Yes, thank you. That's it for my end, yes.
- Moderator:** Thank you. A reminder to the participants, anyone who wishes to ask a question may press star '*' and '1' at this time. The next question is from the line of Charulata Gaidhani, an individual investor. Please go ahead.
- Charulata Gaidhani:** Yes. Hi, congrats on the -- My question pertains to the cash burn or investments that you expect over the next two to three years, if you could quantify.
- Lakshay Kataria:** So ma'am, at this stage what we really looked at is utilization of the existing cash, like I answered earlier also, we may need some very short-term debt for a few months to manage our working capital, but other than that, there is no sort of leverage. All the payments etc. we make on GST, etc. will come back to us as credit. So from a funding perspective, we right now, are fairly comfortable. From a capital allocation perspective going forward, our endeavour really is to, I think, focus only on very strategic



opportunities, like whether it's on the CapEx, the organic CapEx side and any potential sort of inorganic opportunities that come our way. But endeavour will basically be to keep that as low as possible. Our focus right now was completely to make sure that we basically use the cash that's available on the balance sheet in the most judicious way.

Charulata Gaidhani: Okay. And my second question pertains to the difference in the networks for the -- and for the existing products. The existing base would be mostly OTC, right?

Nikhil Chopra: No, no, Charulata, this all is prescription, which we shared earlier. This is pure prescription business of INR 160 crore as reported by IQVIA, total prescription.

Charulata Gaidhani: Okay, okay. And how much has been the peak sales pre-COVID on this product?

Nikhil Chopra: It was close to INR 150 crores to INR 160 crores.

Charulata Gaidhani: Okay, okay. So, it has been flattish.

Nikhil Chopra: Yes.

Charulata Gaidhani: Okay, okay, fine. Yes. Thank you.

Moderator: Thank you. Next question is from the line of Rahul Jeewani from IIFL. Please go ahead.

Rahul Jeewani: Yes, hi sir. Just a follow up question. You indicated that 350 would be the entire sales and marketing team, so how many of those are actually reps or the fleet on the street?

Nikhil Chopra: Around 300, Rahul.

Rahul Jeewani: Okay. Around 300, so that implies that the productivity of this portfolio is somewhere around INR 5 laksh.

Nikhil Chopra: No it is around INR 3 lakhs to INR 3.5 lakhs.

Rahul Jeewani: So INR 3 lakhs, because the portfolio which you're acquiring has sales of INR 150 crore and then you are talking about reps being 300.

Nikhil Chopra: Yes.

Kunal Khanna: Rahul, it's the way, Rahul --

Rahul Jeewani: Hello?



- Kunal Khanna:** Rahul, it's the way you calculate the productivity, with managers or without, so -- but the numbers are broadly indicative of how you're thinking about it.
- Rahul Jeewani:** Sure sir. Thanks. And that's it from my side.
- Moderator:** Thank you. Ladies and gentlemen, we take that as the last question. I now hand the conference over to Mr. Jason D'Souza for closing comments. Over to you sir.
- Jason D'Souza:** Thanks. Thanks very much Steven. I would like to just hand it over to Nikhil for closing remarks and we'll end the call after that.
- Nikhil Chopra:** Yes, I would like to thank all the participants. And we hope that we were able to answer all the questions. And once again stating the presentation deck is available on the website for more details to be known, and we see going ahead this as a strategic investment that JBCPL has done in first 15 months of me being there at the helm. And we are looking forward with a smooth transition. This investment overall helps us in terms of delivering market beating growth, which we continue to do at JBCPL. And with this portfolio coming in what I stated earlier, this helps us to be in top 25 companies in Indian pharma market. And overall look at that, how do we look at building overall value for our stakeholders and shareholders. And that is the intention overall at the company stage. So, thank you once again, and wishing you all good health and we will continue to engage with you. Thank you.
- Moderator:** Thank you. Ladies and gentlemen on behalf of J.B. Chemicals and Pharmaceuticals Limited. This concludes this conference. We thank you all for joining us and you may now disconnect your lines.