

“Eris Lifesciences Limited’s Q2 & H1 FY’2021 Results Conference  
Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to Eris Lifesciences Q2 & H1 FY'2021 Results Conference Call. As a reminder, all participant lines will be in listen-only mode. 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. Amit Bakshi -- Chairman, and Managing Director of the company. Thank you and over to you, sir.

**Amit Bakshi:** Thank you everybody for attending the call. Very Good Evening. Let me start by saying how things have moved from Q1 to Q2. At the macro level, we are almost back at around 90% of work, the footfall and the doctor's clinic have also more or less come to the normal level, so, I would presume they are at around 90%. The initial thought which we had when we opened the Q1 call, I remember saying that there could be a structural change in the market in terms of therapy areas going forward. Though we did not have the numbers at that point of time to really speak for it, but we were quite hopeful that going forward, there might be a structural shift in the way IPM has operated. As we are moving forward, we are seeing that becoming clearer, the biggest emerging trend which we expected was the growth in VMN. If you remember the Q1 growth for the VMN market was (-6%), but we were quite hopeful that the way things are shaping up, VMN will see a big jump. We can further tell you that we feel that immunity would be a therapy group in itself, maybe in the coming year. So we see a continued growth on that side month-over-month, even the Sep'20 growth was in good healthy teens. So that is one change.

Cardiovascular and Diabetes continues to be very robust. In Cardiology we are seeing strong double-digit growth. Even in Diabetes, we are seeing a strong double-digit growth, but because of some value erosion, it is not there to be seen on the value side.

Other than this, we also feel that regarding COVID, while the patient numbers in the doctors' chamber are almost coming back to where they were, surprisingly, we see more new patients coming in. In India, we have always seen that 50% of patients do not get detected. There could be a change in that now, may be as everybody went ahead and tried to get themselves diagnosed. So, we are seeing a significant jump in the new type 2 diabetes patients who are seeing doctors. The same is true for hypertension also. So there is an increased awareness what we were talking in the Q1, and additionally things are getting normalized because it has been quite long.

We also talked about the "Digital Trend." So digital trend did pick up, but we are back to a very large level of physical meetings. So we consider that digital is now a permanent part of the overall patients consultation, but it is not as overwhelming as we had thought over the last quarter.

As far as performance, the PowerPoint presentation is there for everybody to see. I would just like to highlight that the performance has been quite robust, and it has not only come from one direction, almost all the engines have started firing. So that is it from my side. I am happy to take up questions now.

**Moderator:** Thank you. We will now begin the question-and-answer session. The first question is from the line of Samarjit Batai from SMC Global. Please go ahead.

**Samarjit Batai:** Sir, I want to ask two, three questions. First of all, in FY'20 annual, your traveling and conveyance allowance is close to Rs.80 crores which constitutes 7.44% of the revenue. Can you explain this from where this high number is coming and are we doing something different on it, means, when I see your peers, they are having close to 1% or 2% or might be 3% of the traveling expenses. So, this looks quite a big number. And sir, second is your sundry receivables in FY'20 was close to Rs.156 crores, which was a jump of close to Rs.48 crores from the past four years to Rs.156 crores, and right now, in the six months in the FY'21 it is close to Rs.195 crores. Can kindly, elaborate on this part also? And sir, third, like in the Q1 of FY'21, you stated that that your Zomelis will start contributing close to 40 crores for the full year of FY'21. Can you give some guidance on that part also?

**Amit Bakshi:** I do not know about the other companies how do they present their numbers, but the large piece of this cost is basically the traveling allowance which our people claim. And we are roughly all put together around 3,200, 3,400 people in the field, around 2,400 representatives. So that is where it comes from. It is a completely normal expenditure which is a part of everyday traveling allowance. As far as the debtors, yes, you are right, our debtors have gone up. So one explanation is that with growing sales debtors do go up over a period of time, the major change, which you are asking is, one, we have already explained that we were at 14, 21-days cycle, which we move to 21, 21-day cycle. So when I say 21-day cycle, it is not from the date of billing, it is basically when the goods is received. So there was always a lag of around 8, 10 days in the old era, and now in the current environment that lag actually got a little more. But having said that, if you look at the OCF now you see in the second quarter, we are closing at around 80%, 85%. And by the end of the year, we should be at the same level of around 85%. That is what it looks to us. I think the debtors are going to decrease from here. I will not give you a number but our target for the next year first quarter is that we come down to around 40-days kind of numbers. So depending upon the sales, we will be able to calculate. The last question was about Zomelis. Yes, we are right there, we will be very near to 40 or exceeding 40, we remain confident and the numbers are also on the same line.

**Moderator:** Thank you. The next question is from the line of Abdul Puranwala from Anand Rathi. Please go ahead.

**Abdul Puranwala:** Sir, my first question is related to gross margins. So gross margins for the second consecutive quarter was quite low. If we have to compare with the first half, so this be a function of the vitamins and the OTS contribution being a little higher in the quarter, and that is why we see some impact in gross margins?

**Amit Bakshi:** The healthcare business is very different from our core business. So let us talk about standalone; standalone number, we have always been in the same range, if you look, our range has been 17.5 to 18.5 (COGS) more or less here and there, so we continue in the same range.

**Abdul Puranwala:** In your opening remarks, you mentioned that nearly 90% of the promotional activity is back to pre-COVID level. But if we again see the other expenses portion where a large part of your promotional expenditure would be sitting, I think in terms of the absolute spending, Q2 may not be at the par level as compared to last year. So, do we see this cost increasing going here?

**Amit Bakshi:** Look, cost could be looked in two manner; one is if you look at look at compare it from the last year, one is you compare it from the percentage of sales per person, because when sales grow, the cost also grows together. So, when we look at from a percentage point, we had two percentage less this quarter,

but no way we can tell you that there is going to be any cost reduction, the costs are going to remain normal. This is what I spoke in the first quarter also.

**Abdul Puranwala:** And any new launches, are we targeting for the second half or how should we see FY'22 if we have to see the growth, I mean, basically, if we divide between price, volume and new product launches, how should our growth look like maybe for FY'22 or for the second half if you can provide some light, that would be helpful?

**Amit Bakshi:** Look, we are having some very interesting launches starting from December this year extending to June of the next year. The pipeline is very rich, we have not seen this kind of pipeline in the last 10-years, and this is something which we have been talking about in the last couple of years that is between '21 to '23, we will see large opportunities in terms of products coming in. So, we remain positive. And that is the reason we mentioned in the presentation, that we have visibility of launching seven products, which are a mix of in-license as well as out of patent and some formulation R&D which we think will do good. So that is the outlook for the new launches. Now, from a sales point of view this structure is very beneficial to our portfolio. And we feel that this structure is here to remain. By structure I mean the therapy mix. Our top 3 therapies are all large therapies and contribute 80% to our portfolio. And these are all fast growing large therapies of the IPM. So remain positive for the coming years also. On the growth breakup, I will just get that number and I will get back to you.

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

**Prakash Agarwal:** So you had a good Q2, but how are you seeing the remaining second half, and what are the initial feelers in October, are you seeing continued demand for chronic, you we also mentioning about some rebound in acute, if you could give some color how October has been so far?

**Amit Bakshi:** Prakash, AIOCD report came in the morning. They have now started giving weekly report. The report indicates a 7% growth for the IPM for the entire month and for Eris 20% growth for October. So, as I said to the last caller, there is a structural change in IPM which is of great benefit to the portfolio that we have. So with this, the portfolio should keep on performing better and better in the future. Now regarding the acute, yes, we have written in the presentation that we have arrested the degrowth. So, our degrowth is lesser than the markets. It has happened after a long period of time. It is not that we have done some great job, it has bottomed down actually. And we have seen some green shoots. So, we are positive of beating the market even in that segment in the coming quarters.

**Prakash Agarwal:** Secondly, if we see the generics business, I mean, the console minus standalone, so is this run rate about Rs.100 crores annualized, so, is that what you are looking at for the year, and what is the outlook for next year?

**Amit Bakshi:** Next year, Prakash, we have not done the exercise till now. So, next year number, I will not be able to comment. But yes, this business is now catching up. We had certain issues with one of the category of the products and we have been able to do away with it. The portfolio is now more of VMN even in the generic OTC business. So I am not sure about Rs.100 crores, 80-100 crores is the number which I will

put. Also, when you minus standalone from consol, there is Aprica also sitting there. And I think on the 10th slide, we have a breakup also.

**Prakash Agarwal:** And lastly on the cash. So since you said that you will maintain 85%-plus kind of cash conversion, so is there any plan to use the cash for the remaining year, you did first quarter for dividends, , you are scouting out for more assets, brands, what is the thought there?

**Amit Bakshi:** So, Prakash, there are two things which are running parallel. One is that our pipeline is quite robust. And out of the seven products that we have planned for launch in the next 6 to 9 months, at least four of them have a real big scope. So, I personally feel that we would be rather busy in the next year at least for the first two quarters in trying to settle down these new products. So from where I am sitting today, I really do not see something great happening at least in the first half of the next year. Beyond that, we will have to wait and watch. And we have already announced that we will do at least a 20% kind of a dividend. In case we do not see opportunity to invest cash, then we will have a rethink on that.

**Moderator:** Thank you. The next question is from the line of Hiren Gajjar, individual investor. Please go ahead.

**Hiren Gajjar:** I would just like to know the management view on the two aspects; the first is incorporation in 2007, the company has been serving the Indian domestic market quite effectively, efficiently. And of course, there are still opportunities which is available in Indian domestic market be it future patent expiry, consolidation in-licensing opportunities, strategic acquisition, but for extra need to grow for sort of value creation, are you looking at expanding to the new geographies outside India in mid to long term? Number two is, is there any guidance on the CAGR growth in the top line and the bottom line over the next three to five years?

**Amit Bakshi:** Thank you for all the good words about the growth of the company. But having said that, we are still 1%, 1.2% of the market share. So that gives us a huge opportunity in the Indian market. We are very positive about the Indian story because we still feel in the chronic therapy, the coverage is still 50% of what it deserves to be, and that is the secular story which has been unfolding from the last two decades now. So we remain completely focused on the India business. We have no plan of moving outside. As far as the guidance is concerned, we do not give guidance as a policy. But at a broad level, we had maintained that we would like to grow 20% to 30% ahead of the market. We have continually missed that for a couple of years. We are trying to make make-up for it and in the four to five years, you will see us growing at that level.

**Moderator:** Thank you. The next question is from the line of Gagan Thareja from Kotak. Please go ahead.

**Gagan Thareja:** A few questions from my side; the first one is around your brand amortization policy, I think you have amortization period of 50-years for your intangibles. So what is the rationale behind choosing such a long timeframe for amortization? The second one is if I look at the AIOCD data for your brands over the last five years, if I take out the top-20 brands that you report, the balance brands have not grown at all in the last five years, they stagnated over the last five years, and they even as of today comprise 45% of your sales or more which essentially means that unless you pick up on that tail, it is going to drag your sales growth down in the next four or five years, because it is still a very heavy chunk of the total sales. So,

what are you planning to do about that? And the third one is around your tax rate and your CAPEX? Because you are at almost full utilization at your Guwahati plant and your tax rates are fairly low. If you could give us some idea over a three to five-year timeframe, how should we build around these two numbers? And lastly, you have fairly numerous private entities within the group. What could be the reason for that?

**Amit Bakshi:**

So, first of all, I will answer the tail brand. I think there is a little bit of a data issue there. You have seen that our top-15 mother brands contribute 80% of our business. So the remaining is not 45%, it is 20%, and amalgamation of all the brands is an amalgamation of the top line growth. So our top 15-brands and even 20-brands which go up to 85%, have held the market share. That is the reason we have grown. So, I think we have that more clear in the presentations and we will be happy to provide you with the same. The tax rates are very clear to you. Guwahati is still working on less than 50%. We have more than 50% availability or headroom in Guwahati itself. We have folded down a little bit in the last quarter or two to take care of the corona situation. So we have had more number of people, staying for lesser time in the Guwahati to manage that and we have been fairly successful there. The amortization is something that Sachin will answer.

**Sachin Shah:**

for amortization the accounting policy that we took before we went for IPO was 50 years because we believed for IND AS also, that there is unlimited useful life of the brands. There have been brands which have been there for 70-years, 60-years or 50-years and still running in pharma. So we took 50-years as a period and then amortize it.

**Gagan Thareja:**

I have a few questions around the answers that you put forth. One is, even as far as the tail brands go, I am simply picking up data from the AIOCD, which gives among the top brands, whatever it is, Glimisave, Renerve, Remylin, Tendia and so on and so forth, and they mentioned very clearly what the top 20-brands are and what they constitute and the rest. So, irrespective of how you report your sales in terms of top 15, or top 20, all I am trying to tell you is that basis all the brand data from AIOCD, 40-45% sales comes from brands which are just not growing. So that is AIOCD data. My question is simply that what do you propose to do about these brands? There cannot be an arithmetic argument around the fact that these are reported brands which are not growing irrespective of how you classify them.

**Amit Bakshi:**

So, we need to, I think offline compute this and get back to you all, but let me give you an overarching view. So if you see our slide #1, which says that this is the ninth consecutive quarter where we have done better than the market in VMN, cardio and in diabetes, which contributes 80% of our business. And this is an AIOCD data. Nine consecutive quarter, that means that 80% of our business has been growing better than the market. Now, within that 80%, there could be brands that have done much better, there could be brands which have not done well. So we do not know the math. Within that 80%, I am sure you must have taken a very careful view, we also maintain that the top 15-brands which contribute around 80%, also fall in the same trajectory. So why do you not get offline with Kruti and then crush it with respect to the AIOCD details that you refer?

**Gagan Thareja:**

And as far as the brand amortization goes, I am wondering how many brands in pharma would have had a 50 to 70-year life, especially given that we are not talking about brands per se, but branded generic drugs per se, and it is a fairly cluttered market where in the therapeutic areas that you are present,

practically each of these cardio or diabetic, sub-therapy groups that you would be here, would have more than a double-digit number of competitive products. So, I fail to see the argument for a 50-year amortization period of brands. I mean, these are not brands, in the sense of being innovative of consumer products, they have brands maybe as we call them colloquially, but they are actually branded generic drugs.

**Amit Bakshi:** You are right, but the fact is that there we are full of examples of brands that have lived more than 50-years, right? I do not have the exact data, how many of them have had done. But if you are interested in that, we can send you, it is very simply available. My last understanding was that almost 50% of the brand in top-300 are more than 30-years old.

**Gagan Thareja:** Finally, why have you followed an acquisitive growth policy rather than an organic growth policy, all your growth in the last three, four years, whatever you reported is essentially coming from you acquiring brands rather than, growth coming organically from your brands? I do understand that acquisitive growth could be a bolt-on strategy for a company which is run through the life of its best brands, and obviously, therefore they need to go in for acquisition, but you are a fairly small company. And if you consider that your brands are going to have 50-years of life, I am sure you believe there is growth potential and then why not go for organic growth rather than simply going in for an acquisitive model?

**Amit Bakshi:** So actually, in our top-15 brands, there is only one brand which has come from acquisition, the 14 has been organic.

**Gagan Thareja:** In terms of a ballpark proportion, what portion of your sales today comes from the acquisitions that you would have done over the last five, six years?

**Amit Bakshi:** We have not done that math but it will be AIOCD data, you can pick that up, they bifurcate the brand from the original company also, so they still report slides and slides, so there is no problem there. If you want that break up from the AIOCD, we will be happy to break it up and give it to you.

**Gagan Thareja:** I ask that question because I feel that a significant proportion has come from simply acquisitions rather than organic growth. So I am wondering, how reconcile these two?

**Amit Bakshi:** We will be happy to give you the AIOCD breakup.

**Moderator:** Thank you. The next question is from the line of Aditya Khemka from Ingrid AMC. Please go ahead.

**Aditya Khemka:** Just a couple of questions for Amit sir. On the ground level in terms of activity, promotions, MRs go out to meet doctors, etc., where are we compared to pre-COVID times now?

**Amit Bakshi:** I said around 90%.

**Aditya Khemka:** And would you say that your conveyance and traveling expenditures, promotion etc., basically the part of other expenses, that has also come back to 90% of the pre-COVID level, is that a fair assumption to make?

- Amit Bakshi:** Absolutely, fair enough.
- Aditya Khemka:** Secondly, on the specialist sales or your chronic sales, now with most of them being hesitant in terms of entertaining patients, having queues in front of their cabins, doing online consultation or scheduling patients as per more distancing, etc., you feel that the volume of prescriptions being generated now has more or less normalized in the chronic segment, or do you feel it is still suppressed because of the doctor behavior or the social distancing or the lack of online penetration into the medical practice? The last question I had was, in terms of the Strides acquisition, I know we do not break out the Strides numbers, but if you were to look at the acquisition of Strides today, when you look back at it, is there something you would have done differently or has it played out to the best of its ability that it could have obviously keeping COVID aside?
- Amit Bakshi:** So specialist at the super specialty level, the patients have started coming back, at a very super specialist level, the patients are back almost 80% now, and there is a mix. Now the new normal is too much adherence to appointment so that people do not get together. So everybody is practicing that very well. There is a distancing which people do in their own way, especially meeting the doctor, make sure that he distances himself, and wear all the protective gears. But patients have started coming back, at least 80% in the superspecialty are back. The volume of prescription, as I told you, 80%, then the same stands true for the volume of prescription also. From the Strides acquisition, what I would like to tell you is, look, Strides and Eris today is baked in into our standalone. If you look at our standalone, it is 40% EBITDA which is where original Eris was. So that is how we have amalgamated and that has how profitable it has become.
- Aditya Khemka:** In terms of pricing levers of some of your leading brands, Glimisave, etc., where do we stand compared to our competitors and product prices? And are there enough levers for you to take price increment in your leading brands?
- Amit Bakshi:** So the lever for us to take a price increment basically depends upon when the market is growing. So we basically look at the market and then take a call which is subjective in nature. As far as the pricing strategy is concerned, I have alluded to the fact that we are more or less in the first quadrant, but below in the first quadrant.
- Aditya Khemka:** Just to sort of dig more into that, so, if competition ends up taking price increase of 5%, would you generally go the 5% or would you do lesser than 5% in your growth plan?
- Amit Bakshi:** We will be at the same point more or less.
- Moderator:** Thank you. We have a question from the line of Aniket Khanvalkar from Sri Vikram Consultant. Please go ahead.
- Aniket Khanvalkar:** Sir, could you share the revenue numbers for Zomales in the quarter?
- Amit Bakshi:** Yes, it is 10.7.



**Aniket Khanvalkar:** Could you help me understand what was the revenue for Aprica in last quarter?

**Amit Bakshi:** I think it is 14.7 crores in this quarter. In Q1 21 it was around 12.5 cr.

**Moderator:** As there no further questions, I would now like to hand the conference over to Mr. Amit Bakshi for closing comments.

**Amit Bakshi:** Thank you so much for being patient in the call. And see you in the next call then. Thank you. Bye. All the best.

**Moderator:** Thank you very much. On behalf of Eris Lifesciences that concludes this conference. Thank you for joining us and you may now disconnect your lines.