

“Eris Lifesciences Q1 FY '21 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Eris Lifesciences Q1 FY '21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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. Thank you, and over to you, sir.

Amit Bakshi: Hi, everybody. Thanks for joining me in the first quarter earnings report of the company. Let me start with the COVID situation. As all of us are aware that COVID created a lot of havoc in the market. So we started the quarter with the month of April, which was quite disrupted. And we had some preponement of chronic medicines in the month of March. And we started April actually on a very sober note. But as we were building up, we were realizing that 2 things will work for anybody; one is the chronicity of the portfolio and second is the number of lead brands within the portfolio.

So it's a very big change in the industry actually. For the first time, I think in the history of the pharmaceutical world, the anti-infectives have become a #3 therapy. This would have never happened actually. And cardiovasculars have become the #1 therapy. So I remember telling my colleagues that COVID, the changes will not only be limited till the COVID time, it will extend much below, much beyond rather. And we are expecting some structural changes. And the structural changes, which we were expecting are in the same lines as the market is showing up. #1 is the kind of hygiene which the country is practicing today, will surely result in a restructuring of disease pattern. We see the infections, largely URTI infections, because mouth and nose is the first point of contact. And if that is safeguarded with better hygiene, there will be a lot of infection which will be reduced. And if this practice is here to stay, even 20%, 30% of what it is, then we expect some structural changes in the market going forward.

The other point which I touched was the power of brands. We have always been telling you that 15 top brands of ours contributed to around 80% of sales. But this is something which actually came to our advantage, following which we also saw in a reduced prescription scenarios where the prescriptions were reduced at least by 30% to 40%, we don't have the data coming in yet, but this is a fair guess which I'm making. In the reduced prescription scenario, the compliance in the chronic therapy went up because

there was a lot of murmur regarding the comorbidities surrounding COVID. So these 2 things actually came to the fore. And gradually after April, we started recovering. And by the end of the first quarter, on an overall basis, we actually ended up being in positive with no direct COVID medicine. So we had no direct impact of the COVID. So these are all the portfolio which has been there for a long period of time.

The second most important part in the entire puzzle was the VMN actually slowed down drastically in the first month, April, and it continued the drag even in May. That is the reason at the end of the quarter, you still see VMN de growing by around 7%, at least our covered market. But we are seeing that jump. It was common sense that almost every country which has gone through, and I remember telling this in my last call, had seen at least 20% jump in nutraceuticals, even when the penetration was much higher. So at a lower penetration, we were expecting growth. And I'm happy to tell you that since June, since July is also done, June and July are both showing signs of VMN getting back to growth, which is a very welcoming sign. So the new way the industry is restructuring is cardiovascular at the top, diabetes getting on to #3 and VMN, if they continue to show what they are showing in the month of June and July, there is a big probability of that becoming even bigger than it has been. So imagine after the impact of a low infective season where we would all believe that a lot of VMN sells with infective as a co-prescription, so a reduce in the numbers of infection has not actually deterred the growth of VMN, and we are seeing some good solid growth there.

Now coming back to our numbers. For the first quarter, the Cardio Metabolic segment, now I am talking about covered market. I'm not talking about the overall market, all of you know that. Covered market actually makes more sense. So the covered market, Cardio Metabolic market grew at around 7%, I'm adding both diabetes and cardiac here, which contributes to around 62% of our revenue, and we saw a robust 13% growth, which is almost 2x of the market.

VMN, which de grew by minus 7%, we did minus 6%, so a little better from the market. But when you look it from an April-May-June perspective, progressively, it is getting better by every month. And the evidence of that is from the number in June, following up the growth numbers in June. But the market of the VMN came positive and we grew by 5% in the month of June. And let me tell you July was a very shade, small shade better than what we did in June. So that is a good news. So as we've already said, always said, continued super specialty focus and relentless execution have enabled

Eris to grow 2x the market rate in its core Cardio Metabolic segment. So if you add the first one and the second one, which is around 80% of our total revenue, we grew by 8% comparing to 4% of the market. So just simply 2x of the market.

We have also shared in the slide how we are gaining market share. Again, it's very simple to understand that once you are growing ahead of the market, you're only adding up market share. And that's the table which we have given in the presentation just to get an idea of how market share gain is happening. So we took a 7% share in the growth in the Cardio Metabolic in quarter 1, which was 8.2% in the month of June.

Now what did we do different? Number one, we understood the challenges which were coming in and the model was always resilient, and it was adaptable also. For example, our digital reach. So we reached out to close to around 100,000 doctors in the last quarter; 40,000 have been unique, but it will go up again and again, the number just paddles up.

We also use a lot of unique digital campaigns. We started storytelling for the brand so that the voice level of the brand doesn't go down with decreased level of visits. On the other side, we make sure that internally, all our colleagues are absolutely safe, secure until they feel motivated. So I told you in the last call itself, we were the first to get the insurance done for all our people.

Secondly, on the request of certain bodies, we had a lot of PPE kits and personal care equipment, which were distributed to health care workers, STPs and also to our people to make sure that everything is right.

And in the initial time when the sentiments were bad, we upheld all the regular stuff. So there was no disruption in disbursement of salary, incentive, increments and vendor payments. The other thing is that, as I promised last time that we will talk about Zomelis this quarter, so Zomelis for this quarter has done INR 8.7 crores. And this is, again, growing from April to May to June. And at June, it was close to INR 4 crores. So we expect Zomelis to be in the range of INR 40 crores plus in this financial year.

The other thing which was awaiting was the Guwahati plant. So the Guwahati plant was in full action in the first quarter. And we were able to garner around 80% of our revenue through Guwahati. And if everything remains good, then this will be the order for the year. And when you get to an 80% from Guwahati is very evident that there is a slight

increment in the gross profit margin. Understanding that the API prices were a little spiraled up in the first quarter. So going forward, it should give some more advantage. And again, on the income tax level, we see the tax rate dropping to 5.5% from 11% last comparable quarter.

About EHPL, this is the consumer business we launched in March, and it has done around INR 25 crore in this quarter. Around INR 1.5 crore monthly sales were shifted from to Eris to EHPL. So that is the reason Eris has reported around INR 4.5 crores – INR 5 crores lesser this quarter on a comparable period. And it's a decent start to this business. The good thing is that in an environment where the production difficulties were very high, we were able to make a 4% EBITDA margin. So now it's getting eased up. So there is some room in the gross margins there. And going forward, I'm quite confident that the margins will improve.

Coming to the income statement, you have seen the entire statement. The thing to note here is that the employee cost at a standalone basis has gone up as high as 17%, which has happened because of addition of people, which everybody is aware. And the other expenditure, the marketing cost, had actually gone down by 10%. And that is the reason we were able to have a 38.3% margin on the EBITDA level. Because of Guwahati, the PAT actually rose, and we had a 6% growth on PAT while EBITDA and revenues were more or less flat.

At the consolidated level, nothing changes much other than the top line which grew by 6%. So the core business margins are completely intact at around 38%. And the new business, which added INR 25 crores in this quarter, has given us some EBITDA which is 4% positive. Another small thing is that Aprica also did reasonably well. We didn't lose out much. They did around INR 12 crores in the first quarter and maintained a healthy EBITDA of around 23%.

So that is it on the numbers side. And you can please go ahead and ask your questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sanket Biyani as an individual investor. Please go ahead.

Sanket Biyani: Actually, I wanted to ask you what is the company's vision going forward for the next 4-5 quarters? And can you provide some guidance with respect to the numbers?

Amit Bakshi: So typically, we haven't given guidance as yet, and these times are even more difficult. But what I can tell you is that because of the portfolio and because of the strong focus which we have always kept on brand, which means a small sale and large brand, we are quite hopeful that we will beat the market growth hands down this time. We are not talking about a couple of hundred or a couple of basis points above the market growth, it will be significantly more than the market growth throughout the year.

Sanket Biyani: Okay. And sir, with respect to API formulations, are we getting newer market share? And are we planning to expand our business going forward?

Amit Bakshi: Yes. So business expansion, it happens every year. So we are hopeful of launching 1 or 2 large products in this year. But still, we need certain regulatory approvals for that. Other than that, in business, as routine, we are strengthening our VMN portfolio because this is a good time to be in the market as we think we understand this and we have been working on this from the last 5-7 years.

Moderator: Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: Sir, if I may ask, our employee cost of 17% year-over-year. And even our other expenses, if I see, in terms of 3% down year-over-year. When I compare these numbers to some of the other pharma companies which have already reported, all of them have shown almost flat to very minor growth in employee costs and actually a very meaningful decline in other expenses to the extent of 25%-35% year-over-year. So I just want to understand as to what we have done differently versus other pharma companies because other pharma companies tell us that their reps were not able to travel, there was no promotion cost, so therefore the other expenses came down. So just want to understand your perspective.

Amit Bakshi: Of course. So look, at a standalone level, don't look at 3% that is at the consolidated level. At the stand-alone level, which is a better picture, our employee cost, it has been like this. Don't look it from this point of view. Look at it from a Q-on-Q point of view. So last quarter, fourth quarter to this quarter, we are almost there other than the increment. So this has happened because during the course of the year, we have added people. So there's nothing much you can do about that. The other thing which you asked, why the costs were not less? So look, we had a 10% downside on the cost at a standalone basis. We could have done another 15%-18%, but yes, I told you that we were quite

active at the digital space and there were some ongoing projects. And initially, we also had spent regarding COVID-related kits and everything else. We were not in the camp where we say, okay, we'll go for a huge reduction. We actually thought that the market would come back. And because our large play is in Cardio Metabolic, diabetes and VMN where we are expecting usual growth or maybe a better ranking, so it makes more sense for us to remain there competitive.

Aditya Khemka: Got you. And when it comes to digital marketing, can you talk a bit about the initiatives that you have taken? How are you connecting to the doctors? How are you connecting to the key opinion leaders? And how is that different from what most of your competition is doing?

Amit Bakshi: So I have no idea what competition is doing. And so therefore, I'll not be able to tell how different it is. But I can tell you what we have been doing in a small, I can't reveal everything, of course. So it was a good time for all of us because everybody had time in hand. So the biggest opportunity which we found is, otherwise, where the desirable level really needs to be very high, because of time restraint, this was the time when everybody was relatively free. So that gives us an opportunity to increase our share of voice. So that is what majorly we did. And so our brand doesn't lose its focus. So we had some celebrity, and we're talking about stories around the brand and around the disease. One, to create awareness during this time; and second, to keep the brand voice up. So these are some of the things.

Aditya Khemka: I could understand. What is the market share of your top 5 brands? And how has that evolved over the past 3 months?

Amit Bakshi: I don't have top 5 brands or I have not bifurcated it like that, but you can get it from Kruti. But you understand if we have grown 2x the market that means we have only gained market share.

Aditya Khemka: Right. Just one last question from my side, Amit, sir. On the capital allocation going forward, so now we have capacity, we have higher field force also, and we have added people. So going forward, how would you utilize the cash that you generate?

Amit Bakshi: So look, nothing changes in my answer. Only thing is this time is not probably the best time to go out and try and acquire things. So I presume that this year might be quiet on the acquisition side. So that is one of the reasons we have declared a dividend also

today of around INR 75 crores – INR 76 crores, equivalent to INR. 5.50 per share. So this time, it's only going to be dividend, and then the cash is going to sit in the company, unless and until we find something very compelling.

Aditya Khemka: But Amit sir, given that you are facing challenges on the raw material cost side, how do you think about backward integrating your own production and maybe trying to get the API in-house? Or do you think this is a passing phase and the cost of the raw material will again come down over a period of time?

Amit Bakshi: Actually, you're right. We believe that it's a passing phase, it will come down. The difference which will happen is that we will be going for a little higher inventory, so because it's a little unpredictable out there, we would like to now work with considerably high amount of inventory. So that is one change. So we are pulling all our stops at the Guwahati plant to produce more and more possible. So we don't get affected by any circumstance beyond our control. Second, APIs, look, now with this scale, it makes some sense to look at API backward integration. And with some incentives being given and some directive being built, we are already thinking about this, but it has not gone to a level where I can say it for sure that we are doing it.

Aditya Khemka: I mean just as a counter question, I'm sorry, I have too many questions, but just as a counter question, when we speak to the companies that produce API locally in India, they have all seen strengthening of their end product prices, which is obviously your input cost and they are sort of hinting to us that they don't feel the prices are going to correct anytime in the near term. Maybe over 5, 10-year period, yes, but not in the next 1 or 2 years. That is their perspective. So I just wanted to sort of get your understanding on that. Is it the passing phase? Do you also feel that 2 years-3 years is what these elevated prices could remain? Or when you say it's a passing phase, you feel it's a 3 or 6 months for that?

Amit Bakshi: Yes. So what clarity my colleague gives me because, look, we are a very different business, a much focused business. As I have been telling you always, 15 brands make almost 75%. So I haven't had an input where we see some escalation which is beyond normal. And this was happening last year also. Last year, you remember, there were some issues with China and Mecobalamin and all those things. So it is business as usual. My people haven't given me a heads up of some significant increase. So it is not because of an increase I am worried.

- Aditya Khemka:** Got it. Any comments on the exit trends in the month of July? How was that when you compare it to your entire first quarter or the month of June? Has the operating environment in terms of demand and doctors coming back to clinic, has that normalized better than June? Or how would you sort of read it?
- Amit Bakshi:** So Aditya it's very dynamic actually. It changes month-on-month. Actually, July was a little poorer from June as far as access is concerned. So we had little more lockdowns in some other areas. And we also had to make certain restraint for our people, where the prevalence has been high. So our call average in June was quite okay, but it actually suffered a tad bit in July. But our reach from a digital platform is getting stronger by the month just because it's more you do, better you get at that game. So our numbers for July, I think, we receive the data as of 31st. It might change when the final data comes in. But the interim data tells that we are a shade better than what we were in June.
- Aditya Khemka:** Sir, how many reps do we have today?
- Amit Bakshi:** 2,500.
- Aditya Khemka:** This is including managers or excluding?
- Amit Bakshi:** No, they are representatives.
- Moderator:** Thank you. The next question is from the line of Anant Singh from Unifi Capital. Please go ahead.
- Anant Singh:** I have 2 questions. Sir, first question is, in this quarter because there was a lot of lockdowns, how much did you save on traveling and conveyance in the quarter?
- Amit Bakshi:** We haven't done that number, but we captured that cost in the other expense itself. So there would be a part of the same thing, but we haven't actually captured that number separately.
- Anant Singh:** Okay. So as per the annual report of last year, it was INR 70 crore last year. And generally, is it safe to assume that our traveling and expenses will be broadly similar in all 4 quarters?
- Amit Bakshi:** I have no idea.

- Anant Singh:** Sir, you are running the business. How can you say you have no idea?
- Amit Bakshi:** No. I'm saying I have no idea about the component of travel cost in the overall cost.
- Anant Singh:** No. Is it same across all the 4 quarters is my question?
- Amit Bakshi:** Same across all the 4 quarters, what do you mean by that?
- Anant Singh:** If the annual cost is INR 70 crore is the number, can I divide it by 4 to assume for individual separate quarter?
- Amit Bakshi:** I will have to get back to you. I don't get the INR 70 crore number where you're getting from.
- Anant Singh:** No sir, in the other expenses of your annual report of last year, it says INR 69.4 crore is the travel and conveyance cost.
- Amit Bakshi:** Okay. Understood. Now I have understood. Yes. So you consider that at the end of the year, we will be somewhere there only. The visibility is quite low at this point of time. So it is safe to assume that we will actually save some money there by the end of the year. But how much, the quantum is, it's difficult to quantify now.
- Anant Singh:** But in Q1, you had closed the books, so you'd have already saved some?
- Amit Bakshi:** Yes. So 10% is the reduction in the other cost.
- Anant Singh:** Okay. But traveling expenses separately, you don't have any idea?
- Amit Bakshi:** Separately, we don't have.
- Anant Singh:** Okay. And similarly, on advertising and publicity and awareness, how much would have we cut down in percentage terms? Did we do 20% lower advertising, 30%, 40%, can you give me some ballpark estimate?
- Amit Bakshi:** No, we don't have those ballpark numbers. Every quarter, we give only one column which is of the other expense.
- Moderator:** Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Sir, just wanted to know the remaining 20% of the revenue. So you have given details of Cardio Metabolic and Vitamins. So how has the remaining 20% done for the quarter and for the June month? And what do you see going forward? As you clearly mentioned that for the market outperformance, you are able to see not 100-200 basis points but much more. So this is in view of the remaining 20% also?

Amit Bakshi: Yes, all put together.

Prakash Agarwal: Okay. And how has been the remaining 20%?

Amit Bakshi: So very bad for the month of April and May, but recovered well in June and was a tad better in July.

Prakash Agarwal: Okay. So I'm sure if this 80% is 8% growth, which means that would be high double-digit decline, right? That remaining 20%?

Amit Bakshi: Yes, absolutely. In the first 2 months, it was quite bad, but in the month of June and July, it came down considerably. I think, Prakash, we have bottomed out at that 20%. And so what happens, this is 80% which I've told you, another 6% is CNS. And CNS is also doing well for us, though we will miss the target which we have taken for ourselves, but still, it will end up in a growth trajectory. And so rest is 14% if I take out CNS. So 14% we have completely bottomed out now. And with the renewed focus, which we have got through the cluster, this 14% should also pick up from this quarter itself.

Prakash Agarwal: Fair enough. And how would the CNS fare in? Would that be a single-digit growth as of now in June? Or it would also be minus?

Amit Bakshi: There is a little bit of distortion between the market data and our internal data. So because I'm quoting all the data from a market point of view, I will quote this also from a market point of view. The market data reported around a 12% decline in the first quarter. And in June, it reported a minus 0.7%, so almost 0, but there is a little distort here because there are old stockists from Strides, so there's a little distortion here.

Prakash Agarwal: Okay. And that would be clearly your fourth key segment that you will be looking for forward for 1Q, I mean the net growth driver for you apart from the 3 key pillars?

Amit Bakshi: Yes. So Cardio Metabolic followed by VMN and followed by CNS. That's our clear cut focus.

- Prakash Agarwal:** And gynae takes a back foot?
- Amit Bakshi:** So lot of gynae is covered in the VMN. Gynae is more about calciums and iron and vitamins. So a lot of it gets covered under the nutraceutical part.
- Prakash Agarwal:** Fair enough. Okay. And so looking at the cash, can you help us understanding the cash position currently? And also, you've announced dividend. So the dividend outgo is yet to happen. So what is the cash flow for the quarter? And what is the cash at the end of the quarter?
- Sachin Shah:** So cash at the end of the quarter was around INR 145 crores. Today, it is at INR 178 crores, as of today. And we have declared a dividend gross of INR 75 crores approximately. So we will be left with around INR 100 crores after we distribute dividend and the tax.
- Prakash Agarwal:** Okay. And cash flow for the quarter, sir? How much cash you generated during the quarter?
- Sachin Shah:** That is something we don't cut out for the quarter, Prakash.
- Prakash Agarwal:** Okay. And also the CAPEX for the year, you in the past have highlighted around INR 20 odd crores, would that be correct number?
- Sachin Shah:** That is maintenance CAPEX.
- Prakash Agarwal:** Yes. So that remains?
- Sachin Shah:** Yes.
- Prakash Agarwal:** Okay. And for the tax for the year, sir, how should we look at it? Clearly with Guwahati playing out 80% plus, would you guide for 8% tax rate or higher?
- Sachin Shah:** Prakash, what we see today is we were 82% in quarter one. So fairly, we can assume to have around 80% for the whole year. So tax rate should be around 6% to 7% maximum.
- Prakash Agarwal:** 6% to 7%?
- Management:** Yes.

- Prakash Agarwal:** Okay. And one more question, if I may, on the Strides portfolio. So when we acquired, the portfolio was INR 180-odd crores and we pruned the low margin, secured business to reduce it to INR 140 crores. So currently, the exit rate or the run rate would be INR 180 crores – INR 200 crores. So we are back to growth on that portfolio after letting go some business, would that be correct understanding?
- Amit Bakshi:** Prakash, I don't have, we have stopped looking at the numbers. If you want to bifurcate on AIOCD, we'll do this bifurcation at the AIOCD level. Internally, we haven't done. But since you've asked, we'll try and get this in the next quarter.
- Prakash Agarwal:** Okay, but broad level color, sir? I mean I'm just trying to understand, would we have surpassed the decline phase of Strides also?
- Amit Bakshi:** Yes. No doubt about that.
- Moderator:** Thank you. The next question is from the line of Aditya Khemka from DSP Investment. Please go ahead.
- Aditya Khemka:** Amit sir, on the EHPL performance, could you share your thoughts about what the trajectory could be, what the aspiration there is? Margins are obviously on the lower single digit right now, but where could you be on that segment in 2 to 3 years' time?
- Amit Bakshi:** So Aditya, I will need more time because the first 3- 4 months had a lot of moving parts. It's a good business to be in. The margins, as I had told in the introductory talk that the margins will go up from where it is today. Regarding numbers, I will need some more time too because we are just getting the hang of this business. I need some more time to give you some color. So maybe by the end of the next quarter, I will be more qualified to tell you which way it is going.
- Aditya Khemka:** Okay, sir. Can you talk about the top 1-2-3 products that we are setting in this segment? What products are there? What is the type of market we are addressing?
- Amit Bakshi:** Yes. I can tell you that. So there are 2-3 ranges which are selling well and have a larger market share in this. One is the VMN range. Because, as I told that we are trying to be as OTC-able as possible in this business. So 1 big range is the VMN range. And the other big range is the safety sanitizing range.

Aditya Khemka: And sir, how do you think COVID will change customer-doctor behavior over a longer term? I will tell you what I mean by that. So some of the discussions with pharma industry, people tell us that because people have been sitting in home for 3-4 months, once they step out, maybe there will be lower immunity and they will be more prone to infections, that a school of thought is that because people have been sitting at home, better eating habits or better traveling habits or better hygiene habits would be instilled in them for a longer term perspective. And therefore, overall, the pharma market will see lower growth. I just want to get your perspective on what you think will happen to the pharma market? How will COVID change the world when you speak of, let's say, 2-years' time frame?

Amit Bakshi: Aditya, this is exactly what I alluded to when I started the conversation. So the transcript would be there. But I'll just give you a very small snapshot that this we feel is a structural change. If the hygiene habits are maintained even at 30% of what it is today, we will see a lower infection rate. And that is the reason for the first time in the history of pharmaceutical, anti-infective has emerged out to be #3 or #4 category and cardiovasculars have become #1 category. So that's what hygiene can do to the disease pattern.

Aditya Khemka: And in terms of your own patient population, the target that you address, so during the lockdown or during even till June or maybe even July, what was the sense? Was the product that you sold, were they repeat prescriptions? Or were there newer prescriptions being generated even during the last 4 months, as in newer patients being diagnosed with diabetes or cardio problems and hence buying your drugs?

Amit Bakshi: Yes. So interestingly, while the patient load was significantly less from a pre-COVID era, but the share of patients who have come for the first time, diagnosed for the first time was higher. But beyond this, the second point, which I think is the compliance. The compliance, it seems is really going up because of the fear of the comorbidity with the disease.

Aditya Khemka: Right. And that can be a structural shift no, Amit sir?

Amit Bakshi: I think so. We have to wait for some more time, but I think so, that could be a structural change.

Aditya Khemka: Understood. And another sort of question on the direction in which we are going. So we have cardiac, we have diabato, we have VMN and then we have the other basket. Do you see space and I know you have started this OTC venture just now, but do you see any interest or any reason why a business should enter the trade generic business today? Because it appears that the trade generic business has done well during the lockdown given that patients were not going to the doctors, but rather to the pharmacy directly to buy product. And one cannot ignore that, that trade generic segment is actually a large part of the market today. What are your thoughts on the trade generic business, Amit sir?

Amit Bakshi: Look, this is not a typical trade generic. What is trade generic is possibly the distribution. But if you look, when we discussed about the products at some point of time, our idea is to get it more OTC able so that we can create brand at the start, let them grow base in the first couple of years and then get some amount of pricing power in that. So that is the idea. People going in the lockdown to chemists and buying nonbranded and that has spurt in the growth, I don't think is the case.

Aditya Khemka: And, sir, on the distribution side, again, just murmur that I keep hearing something that if given the difficulties in supply chain, given the difficulty with the smaller stock sales and some of the pharma companies unable to fulfill orders, you think the 4-5-6-month lockdown that we have had and will continue to have for at least for another 1 or 2 months, you feel this would lead to some of the smaller players, both on the distribution side which is the stockist retailer and on the manufacturer side or the market side, which is smaller, mushroom pharma companies or propaganda pharma companies. Do you think it will lead to a natural death of some of these smaller unorganized entities?

Amit Bakshi: Look, what I can tell you, Aditya, is that it is the lower brand which will have a casualty. So whether that small brands are sitting in good companies or in bad companies, the small brand where the recall is less, this has also been a time to see how much push and how much pull the businesses have. The businesses which had a strong pull on the brand, on the organization, on the engagement, those are the businesses and the brands, which have actually done better. So that's the reason I say the resilience quotient was in check for the first quarter.

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

Anubhav Aggarwal: Amit bhai, just taking Aditya's question forward on EHPL, just wanted to get a couple of things here. Most of the products which are in the market are very topical products here. And I'm assuming like sanitizer, VMN range etc. So 2 questions here. One, how are you thinking about product portfolio here as a broader sense over the next 1 or 2 years? Second, in terms of availability of these products because it was a quick launch from you and then opportunity came in. How readily are these products available? So let's say, if I want to buy products, they are available in Tier 1 cities, mostly Tier 2 cities? Do I have to go to website, buy them? Just if you can comment on the distribution availability for them?

Amit Bakshi: So distribution availability is far from satisfactory at this point of time because it takes time for anybody to build a channel. So if you'll ask me, I will give 2 out of 10 marks on our current distribution reach on these brands. So that's a negative, and that can also work out as a positive in the coming time. So distribution at this point of time is a challenge. Second question, which you say, these are very topical products. Look, most of them will remain for a long period of time. Some of them will emerge out as brands, some of them will not be able to carry on with the same state. So that's the nature of the market as far as the products which are targeted especially at the COVID. But please remember, we only talk about one kind of virus when we talk about COVID. These practices will save us from a variety of viruses because most of the viruses have the tendency of being infected through the aerosol route. So today, we are talking about COVID, but even influenza globally has reported a 0.4-0.5 kind of mortality. So look at the season today. This is when it is raining. And July, August were always the peak season. But I'm telling you, Anubhav, URIs are down by some 30%, 40% this time. Influenza is down by some big numbers. You don't see many people sneezing and coughing on the roads. So this has all happened because of all these hygiene practices. So some of these brands, I don't know where we will have one of them in that list, but I'm sure that some of this brand will remain here and become good full brands.

Anubhav Aggarwal: So just to take it forward, now these are the brands that you've launched, but if you think about expanding this category, would the next set of products that you will look will be for immunity boosting product? These are for like prevention, right? No virus or plus sanitizer, these are preventions. Next category, will you look for immunity boosting product or will you go for, let's say, impact, right, like someone has influenza, so flu products, anti-cough syrup, et cetera? So how are you thinking about building a product portfolio here?

Amit Bakshi: Yes, we are thinking on building a product portfolio. Right now, my focus is not to bring out new products. Right now, that 2 out of 10 should go to 4 out of 10, 5 out of 10 in the next quarter, in the next 2 quarters, at least. Once we reach that 4, 5 out of 10, that's the time we would be thinking about new brand. We have some ideas. But in a new business where the distribution is compromised, it doesn't really make that much of sense. So right now, the focus in that business is to get the distribution right.

Anubhav Aggarwal: And just one last clarity on this point is that like when you sell product to the trade, if the product is not sold, do they have the right to give it back to you after the expiry? Or how is it, like in trade generic typically that right is not there with the trade?

Amit Bakshi: Yes. So it's the same. We will not take the expiries back.

Anubhav Aggarwal: Okay. And just I had 1 question on Zomelis also. So Zomelis is doing well right now, INR 4 crores a month, then why are you guiding for INR 40 crores for this year? So how is the market doing? So because at this rate, if it is INR 40 crore plus for this year, we're still doing productivity of less than 2 lakhs for 186 reps that we have deployed here, right? So how are we thinking about the, first, the market growth? And within that, how we think about your market share gain in Vildagliptin as a category?

Amit Bakshi: Yes. So look, Anubhav, I mean we will try for a higher number, of course. But at this point of time, with the visibility which we have, it's a very safe number to give out. I had always maintained the reason we went and spent money around Zomelis is that we wanted this to be INR 100 crores- INR 120 crores brand in 3- to 4-year time. So that target is very much there during the lockdown period in the prescription data. Now these prescription data are not as robust as the other prescription data were. But if we take a queue out of them, then Zomelis has become #3 brand in the prescription share and has done very well in prescription share actually.

Anubhav Aggarwal: Is Galvus still having very large share? Is that impacting why Zomelis could have been much bigger? Or you think that just because right marketing could not happen because of the lockdown that it's not a right, let's say, time to look at the market shares right now?

Amit Bakshi: So look, Anubhav, it has been a good time for all these brands across the market in the first quarter because of lower penetration presence of our people on the entire industry. So all the big brands actually otherwise, we would have imagined that the rate of

degrowth would be higher, but that was quite arrested because of the fact that there was a limited approach. This will not remain for a long period of time. But within this time, Zomelis also garnered a good market share. So yes, Galvus is a large brand. We don't see, in chronic therapies, the brand do not reciprocate in overnight. But at a market share level, we see that the newer brand in Zomelis could be at the top of the heap to gain additional market share.

Anubhav Aggarwal: And just last data check. What percentage of field force when you see July you've deployed right now for you? Is it like on the ground, not the digital marketing but deployed right now, working on the ground?

Amit Bakshi: Working on the ground? So it's very dynamic. What happens, for example, June was good. Only Bombay team was not working, they were working intermittently. Now we have at least 9 cities not working. So it's very dynamic at this point of time.

Moderator: Thank you. The next question is from the line of Prashant Nair from Citi. Please go ahead.

Prashant Nair: Most of my questions have been answered. Just a couple of additional ones on my side. So firstly, if you have to take a call now or by when do you see your activity on promotions and getting back to how they were before the lockdown started? This could be everyone on the field, lot more aggressive reach out to doctors, attempted launching new products, et cetera. When do you think this would normalize?

Amit Bakshi: Prashant, again, little difficult question at this point of time because the way we are seeing the spiraling happening, one town after the other town coming into the whole thing. What I can broadly tell you that companies like us, which are more metro focused, actually suffered more in the first quarter because the disease was more in metros. Now there is a good hint that the metros are getting cleared off better than the rural areas or the semi-rural areas. So this practically implies that in the second quarter, we will have more feet on the ground and possibly more calls for the doctors.

Prashant Nair: Okay. And just one last question from my side. You mentioned this year you will have a tax rate in the range of 6% to 7%. So how long will this continue at this level? Or will it step up once again next fiscal or a year after that?

Amit Bakshi: The large part of our business is coming from 15-16 brands, therefore nothing changes there. Unless and until there is a discontinuation in Guwahati for any reason, I don't see this changing. And because of this reason, I told you in the opening remark that we are stacking up our inventories so that we don't get into this situation.

Moderator: Thank you. The next question is from the line of Vishnu Gopalkrishnan from Sam India. Please go ahead.

Vishnu Gopalkrishnan: I have a follow-up question on Zomelis. If you could just talk about, let's say, over a 3, 5-year time frame, what kind of market share would you be happy with in the molecule and its variant? And secondly, with Vildagliptin going off patent and prices kind of correcting in that molecule, do you expect any negative impact on Tendia and its variants?

Amit Bakshi: Yes. So that's interesting. So we are already seeing that Teneligliptin market slowed down. So Teneligliptin market will not be as robust as it used to be. So we are expecting a 9% to 10% growth in the Teneligliptin market, which is far less than a very healthy 2-digit numbers which we used to see previously. So that's what should happen in the market. Now as far as Zomelis is concerned, Zomelis seems to be a very strong contender for top 3 brands. So our idea is to make it INR120 crore brand. And the way we see the market at INR 120 crores, it is, we are talking about a 6% to 8% market share at any given point of time.

Moderator: Thank you. The next question is a followup question from the line of Sanket Biyani as an individual investor. Please go ahead.

Sanket Biyani: Sir, as per my discussions with some people in the pharma industry, in respect to the COVID treatment, mostly patients are advised to take more of vitamins and B12s and C and D. So in this comparison, how much of our product caters to this demand?

Amit Bakshi: So right now, we have a good brand, which is called Tayo 60K, which is directly in the protocol of COVID management. This is vitamin D 60,000 IU. Having said that, as I alluded to that we will be increasing our VMN market. So that is going to happen in some time now.

Sanket Biyani: Okay. Sure, sir. And sir, how much of our inputs are dependent on China?

Amit Bakshi: You're talking about from an API point of view?

- Sanket Biyani:** Yes, from the API point of view.
- Amit Bakshi:** So I think I answered this last time because there were some questions there on that side. So we are very marginally dependent on China. And we are capable of shifting those sources also. So the China thing doesn't really pose a problem to our formulation and APIs.
- Moderator:** Thank you. There is a follow-up question from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.
- Aditya Khemka:** Sir, just one last question on the cost side. So I understand other expenses were slightly bloated because of higher digital marketing and there would have been some savings from the traveling expenses, but in your annual budget, would your other expenses remain flat for the year, year-over-year or would you think there will be a 5% to 10% inflation in your other expenses?
- Amit Bakshi:** Aditya, we will need time to answer it because the first quarter is not the right benchmark any which way, whether from a reduction point of view or from an escalation point of view. So we need to see how it settles down market and how the market forces behave. So it will depend on these factors.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Amit Bakshi for closing comments. Thank you, and over to you, sir.
- Amit Bakshi:** Thank you so much. Thanks for all of you for participating. Finally, like everybody says these days, keep safe. And there is nothing like sanitizing yourself, maintaining distance. And one more data point, which we are getting very strongly, is Povidone-iodine gargle, so that's one area which I think is now picking up. It has already been taken up as a protocol for a lot of COVID patients. But it is always good to gargle yourself with Povidone-iodine so that the virus is not able to colonize. Thank you so much. Take care. Bye.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Eris Lifesciences, that concludes today's call. Thank you all for joining us, and you may now disconnect your lines.