

“Eris Lifesciences Q3 FY '18 Results Conference Call  
Hosted by Axis Capital”

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**Moderator:** Ladies and gentlemen, good day and welcome to Eris Lifesciences Q3 FY '18 Results Conference Call hosted by Axis Capital. As a reminder for the duration of this conference call, all participant lines will be in the 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 \* followed by 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Prakash Agarwal from Axis Capital. Thank you, and over to you, sir.

**Prakash Agarwal:** Thanks. Good afternoon, everybody. I welcome you all on behalf of Axis Capital to the Q3 FY '18 Eris Lifesciences represented by senior management team Mr. Amit Bakshi, Chairman & Managing Director; Mr. Himanshu Shah, Executive Director and Mr. Sachin Shah, Chief Financial Officer. Over to you, sir.

**Amit Bakshi:** Thanks, Prakash. I am sorry it is a holiday for the markets today, I am keeping all of you held up here.

Just quickly want to run the numbers. The numbers are on a standalone basis, the revenues have grown by 8.5%. On a consolidated form, the revenues have grown by 13.3%. The EBITDA growth is 12% and the PAT growth is 10% compared to the last quarter of last year. The major highlights of this quarter was that we were quite busy doing the integration of Strides and so there was lot of work to be done from a manpower, from a distribution point of view. All of that is now under control. We are looking forward for the next quarter where things would come up. Prakash, we will open for questions.

**Moderator:** Sure sir. Thank you very much. Ladies and gentlemen, we will now begin with the question-and-answer session. We will take the first question from the line of Mithilesh Sahani, Individual Investor. Please go ahead.

**Mithilesh Sahani:** My question was with respect to our company's overall CAGR for FY13 to FY17 whilst it is higher than the industry for most of the therapies, can you please throw some light on the reasons why the growth is lagging behind the industry for vitamins and gastroenterology therapy?

**Amit Bakshi:** For vitamins and gastroenterology therapy, okay. So it is a little wide question. But I will just try to answer this because the way the vitamins are therapeutically put in IMS are little different from how do we put them within the divisions. So the primary reason of this not so good growth has been the price revision which has happened in a product called Tayo. So there was almost a 30% price revision which happened I think last year and it actually happened through IMS in 2 quarters. So that is the hit which we had taken on Tayo which is one of our leading brands in this space which you were saying and that is primarily responsible for that subdued growth which you are seeing. As far as gastro is concerned, we have spoken about

that in the earlier calls also that the acute therapy in the last 3 years have not shown the CAGR which is well represented in the market in terms of growth rate ahead of the market and there was some work to be done which is in progress.

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

**Prakash Agarwal:** You had a very brief commentary on the opening remarks, if you could just speak more about, you did mention that you were busy doing integrating the Strides acquisition, but if you could throw some light on which are the new segments that you launched apart from this over the last 9 months and what is the outlook for the Q4 and the year forward?

**Amit Bakshi:** Okay Prakash, so let me expand on what I started saying. For this, there has been two things. One has been for the industry widely which has been the effect of GST and the disruption which GST caused both in terms of inventory and also in terms of realization cost. As all of you are aware that the realization costs are now 7% less than with comparable quarter. So for that purpose anything which you read simply adding 7% will bring it like-to-like, so that is one which is more often industry issue. The second thing which is very important to us was the Strides brand which we bought and how did we start integrating them. So as you are aware, I have told you in the last meeting also that we did not take everything which we got from Strides in terms of people and distribution. Strides had a very wide distribution and we thought that adding such a wide distribution to our channel might dilute overall the process of sales which we have been doing from a long time. So we cherry picked distributors across with consultation of outside important people and that was the process which we started in the month of December. So there was a lot of work which had gone down in the distribution channel. To give you a flavor of this, before the Strides acquisition, we were roughly around 1300 distributors across the country and roughly 1000 to 1,100 were actually active distributors wherein there was certain amount of sales which was registered during the year's time. As of now, we stand to be at around 1500-1600 number and these are all active distributors I am saying. So the non-active still remains 100-150. So from a 1300 core distributors, we have now moved to close to 1700-1750 distributors. So that was a big job which we had done. The good thing is that there is a clear cut bifurcation in terms of A, B, C in the overall value which stockist brings in terms of the market which he services. So clear cut, there has been enough data in the industry which says more A type stockist you have, the better is the coverage, not only in the major towns, but also in the associating towns. So we have been able to add a lot of A category distributors which we believe will help us open up the channel in the coming time. The second biggest issue was the people issue. So you remember I told you that we had this portfolio was being promoted roughly by 1400 to 1600 people in Strides. You pardon me for 5%-10% here and there and we actually took somewhere between 250-300 people. So we went through the entire process of talking to people and getting through, so that was the deal which we had with Strides. So these were two important things which we went now. What has happened after Strides, so you remember we told you that we have opened up one Neuropsychiatry, neuro division with 65 people. We have got a good portfolio from Strides. Some of them were not very big in size, but were very important therapy areas, good therapies to remain and consolidate. It actually gave us an idea first of all

to move that 65 people to around 100 people and then also add one more field force because we got the human capital in Neuropsychiatry with Strides. Lot of people, there were experienced people who had experience working with the same portfolio with the previous companies. So we not only expanded our one division, but also added one more division of around 130 people. So that is one change which happened. Now, Neuropsychiatry, the volumes as of now remains where it was, but the kind of promise which we have added in terms of market size, addressable market size is quite significant now. So these are all the things which we need to work out in the next couple of quarters in pan out so that is one. We have got one very good brand in terms of Raricap which was in the Women Health section and that also prompted us to add up certain people in the Gynecology or Women Health's team. So the Women Health's team which was around 160 people, actually now got expanded to 120 people and that is the reason Prakash, if you look at quarter-to-quarter, there has been 10-11 crores increment or maybe 30% increment in the HR cost. That is all happened because of the new people who have come in. So as typically what happens in these kind of acquisition typically is you get the people first and then you get the brand and then you get the sales of the brand. So because the people came in first, you see that impact on the P&L around Rs. 10 crore impact additional on the P&L and it is all representative of one month, largely one month and something beyond that. So that is how generally Strides thing is being working out. It has given us a lot of scope to look forward to multiply, as you remember I told the biggest advantage with the Strides portfolio is the skew which it has or in other words, there are lot of uncovered market. Those markets were our strength area. So going forward, this is what we are trying to exploit. These are early days, I would need between one to two quarters to really transform all these into numbers.

**Moderator:** Thank you. We will take the next question from the line of Aditya Khemka from DSP BlackRock. Please go ahead.

**Aditya Khemka:** Amit sir, just couple of questions for you. So firstly, if you look through FY19 now, FY18 was obviously a disrupted year because of GST. But on that low base in FY19 excluding the Psych business, what should be model as your organic growth in the India business?

**Amit Bakshi:** So, Aditya, till this point of time we have refrained from giving numbers for the future. But one thing which we had maintained that as soon as the disruption gets over and just on the industry side, there are two catches in third quarter. Number one, people like us who has a lot of chronic share, actually had a very robust third quarter last year because during the demonetization time, the chemist and the pharmacies that are all open for the older currency and that prompted people to stock in especially the chronic therapies for a longer period of time. So unlike acute people, so you will find two kinds of result in this quarter. One, people who have largely acute, there the base effect will be showing up in this quarter. People who are largely chronic actually got certain amount of advantage in the first 2 months of the last quarter. So that is one thing which is to be considered. The second thing is that December-January, Aditya, is now looking up. It seems that all those issues which we thought will be solved in the third quarter that is post July, did not went the way we were actually thinking from an industry perspective and also from a company perspective, but whatever December-

January is representative of seems that it is opening up. So that is the second important point. Now as you keep the disruptions out and as soon as we hit the second quarter of the next year where 7% base effect also starts kicking in, the industry in my view should grow at a high double digit number, so high teen number and as I have maintained from the meetings which we had by the time going to IPO, we will always try to meet the industry growth by 30%-50%.

**Aditya Khemka:**

Got it .That is a fair response, Amit sir. Just to sort of delve on that little bit more, so if the industry growth, let us say at 15%, the chronic therapy probably qill grow at 18%-20% and let us say the acute probably grow at 10%-12%, right? And two being largely chronic, you should actually see benchmark for the chronic therapy and not really broader industry growth, right? So I get 30%-50% more than the industry average probably band you in line with the chronic therapy growth or would it be faster than the chronic therapy growth per se. So will you be gaining market share within chronic therapy?

**Amit Bakshi:**

Aditya, look my advice to you is, my humble advice to you is, let us not get into presumptions because this is a new normal which will set up. So because you know till the time July, we reach July, there would be certain things which have changed on quarter-to-quarter basis. So on a time which would have been regular, unabated about whatever has happened, I would have been happy to really give some color on this. But if you ask me even I cannot stick my neck out and say what is going to happen in chronic-acute, because again you are hitting a Jan-Feb-March which was not as good in the last year. So there are lot of moving parts. So my advice is, just stay oars for some time. Let the thing settle down and then maybe April is the good time to speak about what would happen in the next year.

**Aditya Khemka:**

Understood, Amit sir. The second question I had was on this Strides bit. So obviously we have integrated company, sounds like you have also chosen the therapy areas where you wanted to expand fieldforce as well as chosen the MR that you probably did not want. So that entire rationalization cum harmonization of the Strides bit is complete in this quarter?

**Amit Bakshi:**

Aditya, there are two components of completion. One component of the completion is what happens in a piece of paper. So are the dealers appointed, yes. Are the people appointed, yes, Had they been trained, yes. The second component which is the execution component and happens when people go into the field and start doing their daily job and that is where the culture integration actually happens. So the first piece is all done. The second piece is work in progress.

**Aditya Khemka:**

And how long does the second piece take generally?

**Amit Bakshi:**

Look if we are aggressive enough and you know having the advantage of not having too many people and the size of the company, if they are aggressive enough, two quarters are a good number, I think good time to actually turn this around.

**Aditya Khemka:** Got it. So if I were to look at basically Strides plus Eris in full force, in terms of margins, in terms of growth, you would suggest that towards FY19 is where I should focus more on and sort of give you 1H FY19 to feel the things out and get your house in order basically?

**Amit Bakshi:** No, I would not say this. Aditya, so what I would say is, the first quarter minus the 7% is a fair assumption, is a fair way of looking at things, only thing for the entire industry. April-June will still carry that 7% defect which will then wean of post July. So adjusting for 7%, things should start looking up from the first quarter itself. And the second quarter, the adjustment goes out and then everything becomes clean as it was at some point of time.

**Aditya Khemka:** Yes. It becomes like-to-like after that. And I know again Amit sir, I don't want to really push you too hard, but I know we refrain from giving margin guidance and everything and there was a lot of talk around margins when we acquired Strides, what sort of margins we can get out of that acquisition? But you know just to sort of get a more qualitative feed around it, I don't want a number, but a more qualitative feed, so what we saw let us say if one of your peers acquired bunch of brands from another peer, say if your peer was doing 40%-50% EBITDA on his own business, he was able to sort of reap out 65%-70% EBITDA from the acquired business. The more point here being that he could increase this EBITDA margins on the India business with the help of the brand that is really acquired. Would it be fair to make a similar assumption not in terms of number, but in terms of direction that let us say, pure business does 35%-40% EBITDA, then the acquired entity upon full integration can give you more than 35%-40% EBITDA?

**Amit Bakshi:** So clearly Aditya, that is what we have articulated. So you know the kind of work which we are doing, historically if you look at the deals, I mean we will find hard to have a deal wherein, the brands are shifted from such a large field force to a comparatively a very small field force. And this is all where the productivity actually kicks in. So if you look at the number of people on both the side of the quarter and then compare the productivity, the answer is in the numbers itself. While you see the numbers growing up significantly but the productivity is still where it was more or less. So that means that any extra field which is going to come in, is all going to sit in the productivity and when that happens, what you are saying is the ideology where we went through.

**Aditya Khemka:** Fair point. And last question from my side is on the capital allocation Amit sir, so far we have been very disciplined as I see it, we have been reinvesting whatever money we get from the Indian business into the Indian business, Strides was again an example of that itself, maybe a year, maybe one and a half years, the debt whatever you had taken up will get wiped out. I am sure even today your net cash is very close to zero cash, zero debt, but in a years' time you will generate more cash to wipe out whatever gross debt also you had. So what is the next move then? I mean where is our next bunch of capital going, one see Strides gets wiped out.

**Amit Bakshi:** Aditya, you are drawing me again to the future, but yes on an indicative level, look, our clear cut, our limitation is not capital. Our limitation at this point of time is how much time do we have, what is the kind of our bandwidth, how much time we could invest in these kind of deals.

So clearly as you said from a debt level we are zero, I mean it is one-time EBITDA in the future or whatever happens, it is completely okay. But that is not the problem area. The problem area is because we have chosen things which needs a lot of work and we are trying to turn it around so that the productivity gain happens and that is going to be the philosophy. So it is more about the time management. So once we have the time in our Stride, the day we get confidence okay, we can move up from this particular thing and this will have a certain amount of trajectory, then we will see, but there is no change from the thought that we remain committed to be invested in India and once we are fully integrated, once we see the results coming up not only in indication, but also in number, then we will once again see that where we can do the same thing again at an industry level.

**Aditya Khemka:** Understood and again sorry to squeeze in one more, but given that you are well understood by the industry to be somebody who is keen on acquiring products in India or brands in India or companies which are India focused and given the current difficulties that many of the smaller players are seen in the domestic market, are you experiencing a lot of deal flow or are you experiencing bankers walking up to you with a lot of propositions. If so, are the valuations from those sides more reasonable than what you have seen in Strides or are they on similar line?

**Aditya Bakshi:** So right now in the zone which I am, I am not looking at anything else because even if you look, you do nothing, that becomes more of a hobby. So I am refraining myself from that. Once the right time will come, then once again will start looking, but the scenario what you are seeing is I presume that nothing must have changed between September-October when we were looking in this deal to today January. So more or less it remains there, but I have no experience after Strides. So really cannot comment.

**Aditya Khemka:** But valuations you could see would remain at 2.5-3 times sales for upscale businesses like it was with Strides?

**Aditya Bakshi:** Again, it has to be very individualistic. If it is 3 times sale, then you also consider it is actually EBITDA negative. If it has good EBITDA, then it moves to an EV/EBITDA level. So that all depends upon an individual company. Generalization from a 3x, 4x to sale, I actually do not believe in that much.

**Moderator:** Thank you. We will take the next question from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

**Dheeresh Pathak:** I missed the opening remarks, I am not sure if you already called out that in the published numbers, how much is contributed by Strides if at all, so if you can just highlight?

**Amit Bakshi:** Yes, Dheeresh, so in the published number, there is a nonsignificant extra contribution from Strides. Whatever billing in Strides which we have done is only to see that the channel is well filled up. As you know when you do such a big churn from a distributor point of view, while the distributor themselves always had maintained 35-40 days of inventory. In such cases, the

inventories have historically gone up and then there is also lot of inventory sitting at the chemist level, at the tertiary level. So you can consider fairly that on a quarterly basis the impact of Strides is far too insignificant to really talk about that. Next quarter onwards, we will see the Strides number coming in.

**Dheeresh Pathak:** So next quarter will be first full quarter and you will consolidate for the full 90 days?

**Amit Bakshi:** Yes, absolutely.

**Dheeresh Pathak:** Okay. And there is one off other expense as mentioned in the release, right, 3.5 crores of one-off cost in other expense in this quarter, correct?

**Sachin Shah:** That expense is pertaining to the acquisition of Strides. So those expenses are like one-off expenses, not operating types.

**Dheeresh Pathak:** Okay. And can you also like adjusted for the, because the base is not properly adjusted, can you just give me like-to-like net of exercise, 9 months numbers for standalone and consol for this year and last year, just the absolute numbers, so that we can do our internal math?

**Amit Bakshi:** Dheeresh if we send you offline, will you be okay?

**Dheeresh Pathak:** Yes, that will be okay.

**Amit Bakshi:** Some calculation I think we have to do. We will send you offline.

**Moderator:** Thank you. We will take the next question from the line of Natarajan, Individual Investor. Please go ahead.

**Natarajan:** My question is about the third, for the recent quarter. The numbers when you sort of alluded to what had happened, I mean you were caught up in the integration of Strides with Eris. Now can you just provide in brief, how you expect the coming quarters to be and do you expect the numbers to be in the consolidated numbers?

**Amit Bakshi:** So, I will say the same thing again. Sorry for that. We have never been talking about the future numbers, but to briefly indicate your question that whatever Strides sales which we had captured which we had bought rather would be captured in the first quarter. Now, Strides sale to our base sale has been in the excess of 20%-25%. So naturally that is something which is going to come in the first quarter and plus the base sale growth. So these two would be the component which we will be reporting full time in the fourth quarter. Also remember that historically fourth quarter is the weakest quarter for us because March is a month where a lot of destocking happens at the stockist at the chemist level. So but it is absolutely captured in the last year also, so there is nothing new there.



- Natarajan:** Okay. The second question I have is, so the growth that we saw for Q2 of this year vis-à-vis last year and obviously there is some decline compared to this one, now would you attribute that to the disruption caused by the demon?
- Amit Bakshi:** No, my sincere advice is that for this year when there had been so many things happening altogether, it would be advisable to look at the 9 months number rather looking it from a quarter perspective. You rightly pointed out second quarter was a post GST quarter where the pipeline got filled. So that was the reason why the second quarter had such a peak and it has fallen from the peak just because that got normalized. So this is how the whole year had been.
- Natarajan:** Okay. Finally I mean I am going to push my luck. I know you said you are not going to be able to give guidance, but would it be reasonable to assume about a 20% CAGR over the next, let us say 3-4 quarters from now?
- Amit Bakshi:** So when you say that 20% for 3-4 quarters, then you are discounting two things. One is the base sale growth and the other is the growth of the acquired portfolio. And we are all working very hard on both of these aspects.
- Moderator:** Thank you. The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.
- Anubhav Aggarwal:** Amit sir, can you just quantify the Strides contribution this quarter. I know as you said is nonsignificant, but just to compute the base business growth we need that number.
- Amit Bakshi:** Anubhav, I would rather advice you to start this exercise from the next quarter because...
- Anubhav Aggarwal:** And you alternatively tell us that like-to-like how did your base business, standalone business grew, just the standalone number?
- Amit Bakshi:** You are asking the same thing. Anubhav, I know I am not as good at Maths, but I have been learning with you guys.
- Anubhav Aggarwal:** Sir, this is a very fair question. I am just asking nothing great, but how did you....
- Amit Bakshi:** Anubhav, I will explain it to you. I told in that long prelude that it is not about the numbers, please try and understand that we have added almost 500 distributors. So what do you do when you add 500 distributors, if you give them what they want, it just goes crazy. So it has to be very well-crafted, well curated sales which you need to get out because there is a law. The law says that if I want to incorporate Strides distributors, I will have to give them Eris stock also. So if I open 50% of numbers which what we have done over the last 10 years, it just causes a mayhem. Therefore one has to be very pragmatic about that to make sure that there is not too much of pulling in the market, it disturbs the apple cart. That is the reason because the driving factor has not been Strides sales or Eris sales. The driving factor had been how do we basically integrate these large number of distribution. So that is the reason I am telling you. You just

understand what I am saying. If there was no Strides, have the number been very different, the answer is no. Whatever is the contribution is all being made in a way so that our channel remains robust.

**Anubhav Aggarwal:** Let us put a zero number for Strides this quarter, then adjusting for 7% impact, our base business grew by 13%, would that be right statement? Or is it a double digit growth for your base business this quarter?

**Amit Bakshi:** Anubhav, I think I have said enough on this and it is the reason why...

**Anubhav Aggarwal:** Amit, I am trying to understand this. So let us say you add more distributors, you do not want to sell lot of stuff to them, what about 1100 distributors which are active. So I am just trying to understand, nothing great, I am just trying to understand how business did?

**Amit Bakshi:** No, this I can answer Anubhav because this is absolutely logical. So what you have to do even in the existing stockist, you will have to control, otherwise if you do not control this side and add new one, it can create a big mammoth so that is what the exercise had been. So the question in our mind was not about how much do we sell this or that. The question in our mind is that how do we integrate these large number of stockists and still keep the inventory in control. So that is how we have worked. So if you ask me, I can tell you the number. If you ask me what happened to that 1100 distributors who are our original, we did not supply them what they wanted.

**Anubhav Aggarwal:** Why would not you supply them what they because inventory was already normalized for them, you did not supply the Strides stuff to them?

**Amit Bakshi:** Yes. So we did not supply because otherwise what happens, Anubhav, 9 divisions even if you start 2-2 boxes, 3-3 boxes of each SKU, it piles up to 3 lakhs – 4 lakhs. So you have to be very careful on that part and that is very important for the business to run smoothly. So we have done all that adjustments. So there is no problem and we have passed through. This is a December story. We have done the January closing. So we can comfortably say that fairly well we have integrated this and January is already closed.

**Anubhav Aggarwal:** Okay. So just moving on to next question, what is the field force size now, as of now?

**Amit Bakshi:** As of now, let me tell you. So at the consol level Anubhav, we have moved to 2,070.

**Anubhav Aggarwal:** So this is versus 1,500 last time, right?

**Amit Bakshi:** Yes.

**Anubhav Aggarwal:** And just a clarity on, when you mentioned you have added 130 new reps on your own for the new division of CNS, what product are they promoting 130 reps?

**Amit Bakshi:** I will tell you this. Anubhav, what happened we got a lot of brands from Strides. The top brands we actually mentioned. The Serlift was one top brand which was featuring in psychiatry. But they also had a lot of 2 crores -2.5 crores brand. So there was a Levroxa which was there 2.5 crores-3 crores, but a prime therapy in Neurology. They also had two more antiepileptic, again prime therapy but the size was 2 crores-2.5 crores. It gave us an advantage of launching an entire division and bring all these brands together. So if you ask me from a neurotherapy coverage, our neurotherapy coverage has gone quite a bit, very big in fact. These are all 2 crores-2.5 crores brand which was not doing in well in Strides from the growth perspective. They were the second or the third lead brands. We took opportunity to put this brand into a new field force, so that once, if we presume that we grow our Neuropsychiatry business well, so the growth will not come from the two top brands which earlier people would have thought of Ginkocer and Serlift alone. It will come throughout from all the brands. So that was the opportunity in front of us and I personally think that we actually seize the opportunity by putting 130 people extra and expanding our first division from 65 to somewhere 110.

**Anubhav Aggarwal:** Okay. So it is 65 we already had in CNS, that is what you expand it to 110?

**Amit Bakshi:** And one more division we got of 130.

**Anubhav Aggarwal:** So just asking sir, how is it different front saying, from Strides you took about 250-300 people, so this is like another way of saying that we are adding another 200 on top of that, right?

**Amit Bakshi:** It is a long story. So if you want to know that how this 500 are coming, I will just explain it to you. 60 people, we hired in one division. 130 plus 40, so 170 we hired in one division, 45 we added in one division, 62 we added in one division, so because this portfolio is now sitting across. So that is how one by one we have added this.

**Anubhav Aggarwal:** Yes. So this match is clear sir. There is no doubt there. I was just trying to understand that if Strides was promoting this portfolio with 600 plus people, that is what we mentioned last time and now we took...

**Amit Bakshi:** Strides are promoting this by 1,200-1,300 people.

**Anubhav Aggarwal:** Okay. Last time probably I remember wrong number 600, so I am trying to, effectively with the strategy that we have that with this portfolio we want, so 180 crores sales, we may think that it may grow at very high pace, but we want to promote with roughly about 500 people. That is the game plan that we have right now, right?

**Amit Bakshi:** No, it is little dynamic. Just hear me out for a moment. What happens, suppose we were in gynecology team of 160 people which was promoting women health **Montelar 38.49**, we took Raricap because Raricap came and we thought that this can further add up, we added around 50 people in that division. The division was already there. 50 people we added so that we are able to give enough reach and penetration to Raricap in particular. So that is how it happened

in different division because the portfolio which we took from Strides is not sitting here as a Strides portfolio. It has been distributed in the front facing division for each therapy and that is how the growth in number of people has come.

**Anubhav Aggarwal:** That is clear sir now. Just one question on the expense item. Other expenses this quarter was very low actually, even adjusted for the one-off of 3.8 crore expense, other expense now is just 38 crores in this quarter, I think lowest we have done so far. What is the reason? Why the expenses are down so much?

**Amit Bakshi:** So look, it is logical Anubhav. What happens when you integrate these people in your team, the basic work which is in front of you starts from training and reviews. So you spend most of your time in integration rather than promotion. You get my point? So what happens suppose there is a gynecology division. Now, there is a new brand which has added and there is a new number of people we have added. So you go back and have the responsibility of training 200 people once again for the new brand, the strategy for the new brand, the listing for the new brand. These are all the work which happened. So therefore, promotion takes a backstreet and integration takes a front street. Other caveat is if you look at the last quarter, last quarter our expense was around 75-80 crores. So expense is something wherein you look in from a little 2-3 quarters point of view, it gives the better picture. A 9-month picture will give you a better idea. On 9-month basis, we might be 5-10 crores more than what we did last year.

**Anubhav Aggarwal:** Actually, my question was that I am looking only your standalone numbers. So the new guys, I can understand they were not doing promotion, but integration. What about the old guys?

**Amit Bakshi:** All these guys went into the same team. We do not have a different team. So these 50 people who went to gynecology team, the entire team had to be then reskilled for the new brand, the training happens, the strategy meeting happens. It does not happen for those 50 people. Those 50 people get integrated to 160 people. Now, there are 210 people who will sell Raricap and Otogesic. So they need to be trained on Raricap and Otogesic. So this is the work which you do more aggressively and that is how it always pans out.

**Anubhav Aggarwal:** So last question I have on our facility. Now this is related to Kinedex and Amay\* also, but generally in this quarter, I have seen external purchases were very high in this quarter and I was seeing that for Kinedex and Amay\* also the margin let us say for them and they will largely be unaffected by what is happening at Strides or integration. There is no progress on the topline or on the bottom-line for last 2 quarters there also. I do not see any sourcing being done for them, any change over there. Just wanted to understand very high external purchase in **this quarter and what is happening on Kinedex and Amay\*?**

*\*The reference is made to Aprica Healthcare Private Limited and the answer has been given accordingly.*

**Amit Bakshi:** So I can tell you about the one part of the question. The second part of the question, Sachin will answer. As far as you said that there has not been a topline growth in both of these

entities, which is clearly visible on the paper. So what happens Anubhav that whenever we buy anything, almost 30%-35% of that is something which is not very healthy to promote and take it forward. So you see that number coming down and then the core portfolio growing up. So 30% of the sales which we got from Kinedex was not the sale which we would have liked to grow and continue. So that is something which you always take a call upon. What grows, so remember that there is a weight loss and there is an inch loss, maybe inch loss comes first and the weight loss comes second. Same way when you do these kind of buyouts, it is the portfolio prioritization which happens first and then the numbers come second. So the core brands in Kinedex have been growing recently, right, not the way we would have thought because lot of disruption in the entire year, we could not achieve what we thought, we could achieve of Kinedex from a topline growth point of view. Having said that, whatever we can achieve within Kinedex is about the major brand. So if you look at the major brand contribution which when we took was around in 60s, now it is in 80s. So that is a good job which has happened. The point where sales has not grown to the level which we would have thought, I completely agree. We at least want it to see 5%-6% more. Also remember Kinedex sells a lot of nutritional product. So under GST, some of their products went into the highest slab of 27%-28% whatever that percentage was because it was nutrition supplement. So there has been a lot of backend for there. So we had to reapply for the licenses. All those things happened post GST. So these were two-three things where the Kinedex sale is not satisfactory from a topline perspective, but within the sale, this is all good things which have happened which I have told you.

**Anubhav Aggarwal:** Just on the facility front?

**Sachin Shah:** Facility wise, if you see we are operating at 65% of the capacity utilization on a single shift basis in Guwahati.

**Anubhav Aggarwal:** So my question Sachin was that in this quarter if you look at standalone numbers, there was very high external purchases like we were doing roughly about 8 crore-9 crores kind of purchases per quarter. Now this quarter, there were 32 crores of external purchases. What will be the reason for such a high purchase immediately?

**Sachin Shah:** This quarter is also the stock that has come up in the time of acquisition of Strides.

**Anubhav Aggarwal:** So this is just the acquired stocks from Strides, that is what the number is?

**Sachin Shah:** That was entirely third party. There is no contribution of Guwahati into that. It was out-and-out acquired stock.

**Anubhav Aggarwal:** I heard the comment that the Strides sales will be very lower, or it is just sitting in inventory?

**Sachin Shah:** Yes, it is sitting in inventory and it was the part of the deal only.

**Amit Bakshi:** Yes, so Anubhav, the part of the deal was that we will take all the stock which they have and also all the orders which they had placed till that point of time. The second part of the deal was all that we will take from them, even the last batch, if it gets expired, it will be reimbursed by Strides. So this is how the deal was made. So we had to take all the stocks even knowing that some of them will not be sold because of different reason but the comfort is that our deal clearly mentions that all expiries which would happen till the last batch which we took from Strides will be a responsibility of Strides.

**Moderator:** Thank you. We will take the next question from the line of Prakash Agarwal from Axis Capital. Please go ahead.

**Prakash Agarwal:** Sir just wanted to understand how is the inventory days move from what we saw low in September to now in December?

**Amit Bakshi:** You are talking from the market data point of view?

**Prakash Agarwal:** For Eris as a whole?

**Amit Bakshi:** No, you are talking both from the marketing data or our internal?

**Prakash Agarwal:** Internal or whatever you can share?

**Amit Bakshi:** Market data Prakash, we haven't looked through. Internal, Sachin tells me that we are at 26 days are inventory.

**Prakash Agarwal:** What is September sir?

**Amit Bakshi:** September 28.

**Prakash Agarwal:** It should improve, inventory days. All companies are saying that there is marginal improvement from September to December as GST....

**Amit Bakshi:** It has moved from 26 to 28 actually.

**Prakash Agarwal:** Okay. And sir the cash and the debt position, please?

**Sachin Shah:** So the treasury that we have is around 302 crores approximately and debt is 400 crores.

**Prakash Agarwal:** Okay. And also if you could help us, is there more cash, I mean?

**Sachin Shah:** No, 302 crores is what we have as of...

**Prakash Agarwal:** Is it including the liquid investments and fixed income securities and the liquid cash?

**Sachin Shah:** Everything. In that, treasury is 302 crores as on 31<sup>st</sup> December and the debt is 400 crores and the first installment that has to be paid is coming in Feb end.

**Prakash Agarwal:** And also sir, if you could explain the deferred tax, that 8.2 crores?

**Sachin Shah:** See, deferred tax is because, you know, if you say Strides portfolio, as per income tax you get 6 months where it is post September, right? So you get 6 months for depreciation for income tax purposes and technically if you half it up, we have 3 months of depreciation as the income tax in quarter 3 and if you say as per book is only 30 days period vis-à-vis 90 days approximately. The second is that as per income tax, we depreciated by 75%. As per Company's Act, we depreciated in 50%. So there is a huge gap between the depreciation as per income tax and depreciation as per Company's Act. For that, you have to create DTL. So that DTL is approximately 8 crores for the quarter 3.

**Moderator:** Thank you. We will take the next question from the line of Mithilesh Sahani, Individual Investor. Please go ahead.

**Mithilesh Sahani:** My question was with respect to basically the subsidiaries we have, whilst we have answered already on Aprica and Kinedex integration and your view going forward, can you throw some light on the UTH Healthcare acquisition and integration and going forward, the scenario you see on the same and do we have any brands which has presence outside the Indian market, also in African markets for UTH Healthcare?

**Amit Bakshi:** Yes. So the second question, the answer technically is yes, but it really does not move the needle at all. So it is very nonsignificant, absolute insignificant rather. The first question which you said what did we acquire, so we told at that point of time, UTH is one company which was first of the block trying to create a niche for themselves in nutrition, we are chronic people, we think we understand nutrition quite better and we would like to scale up, so that was the point with which we have taken. We took this, so we have integrated some part of the UTH, some part of the integration has started right now. So in quarter 4, in the running quarter, we are launching one division which is only a nutrition division with around 35 people across the country. Any color would actually come in the first quarter of the next year, at the end of the first quarter in the next year.

**Mithilesh Sahani:** And has the portfolio of UTH like in case of Kinedex has also been impacted due to the high GST tax rate?

**Amit Bakshi:** Yes. Some of it, yes.

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

- Anubhav Aggarwal:** Just one question, clarity of what you mentioned in the press release. There is a remark that in transition to GST, Eris has changed the incentive structure which will have an impact of sales return, can you just explain this?
- Sachin Shah:** So what we have done Anubhav is the current financial year what we have done is we have an incentive structure to the employees. So there is a higher weightage of expiry returns. So if any expiry that comes back, it has 200% more negative weightage in their incentives.
- Anubhav Aggarwal:** So this is now you double the weightage that is what you trying to say?
- Sachin Shah:** Yes.
- Anubhav Aggarwal:** But what has to do with GST or has it something to do with GST which brought about this change or this you wanted to do and this was just an opportune time?
- Sachin Shah:** This is an opportune time to set things right. For an employee, that much is a very huge amount.
- Moderator:** Thank you. We have the next question from Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Sir just earlier participant, Ashish asking about the tax rates. So since we had this deferred tax impact, this quarter tax rate is really low. What is the outlook for this year and for the next 2 years?
- Sachin Shah:** Tax should be in the range of 8%-9% on a consol basis for the next year.
- Prakash Agarwal:** And this year obviously it is going to be lower because of the Strides?
- Sachin Shah:** The Strides because of the depreciation and because of the interest.
- Prakash Agarwal:** And one question for Amit sir is on the base portfolio that is the diabetes and the cardio which has been the key growth area and the key focus area and obviously, the turnaround is the separate segment. So these are obviously as you said aberrations which has happened and the large base in Q3, just wanted some color on what are the new products, brands that are at fledgling state and our novel point being bringing first products in the market or something novelty so that we get lot of scale and traction with the doctors, super specialty doctors. So anything in the last 3, 6, 9 months, any initiatives that we have taken on that count?
- Amit Bakshi:** Yes, Prakash, there has been a couple of things on that account and there are couple of discussions also happening. I think by the time we sit again for the call next quarter, there would be something substantial to share. As of now, we have done something, but they have not very significant in terms of either their size as of now or their market opportunities. So we can leave it there, but there is something which in this quarter might come up with you significant which I will inform you when we sit for the next time.



- Prakash Agarwal:** Perfect and lastly on the MR addition. Correct me if I am wrong. So around the IPO time, fiscal 17, we had about 1500 people, middle year September 17, we added about 100 to 1600 people and now with Strides and some additions in few of the divisions, we are at about 1900 people.
- Amit Bakshi:** Little more than that, 2000 plus.
- Prakash Agarwal:** We are around 2000 people.
- Amit Bakshi:** Yes.
- Prakash Agarwal:** And the impact of the productivity obviously next year, currently they are higher and the sales are low, so the MR productivity for the next 2 years will significantly improve from where we are?
- Amit Bakshi:** Yes, definitely, but also keep in mind that we also have a sale which we have brought that is the Strides sale. So that will not allow the productivity to drop down because that sale, more specific people have been hired for that. They are all doing joint work, joint brand promotions. So it will sit across the company. So what typically I would have added 600 people, Prakash without having Strides, the productivity would have gone down to a very different level. But because this sale is coming up and if it grows, we might see a time where the productivity has a chance of actually inching up, even at a larger base.
- Prakash Agarwal:** Understood. Sir, the two big levers that I understand which will play out, a) is your own portfolio playing out with a much larger field force and Strides portfolio which was underpenetrated going to pan India level and adding up to the leverage. These are the two bigger ones and the additional distributor that you spoke about the 500 distributors which are A category mostly will add up to the large quality of growth.
- Amit Bakshi:** Absolutely. This is just to give you an example, say in a place like Bombay, suppose we inherited x sales from Strides, just one-month January down the line I can tell you we are x+10%.
- Prakash Agarwal:** Okay. So basically 180 crores is what we got and divide by 4 if we do, so we are already seeing...
- Amit Bakshi:** No, these were weaker areas actually Prakash, where we got a lot less sales actually. These are the weaker areas. As you remember, South was a very dominant area. So if this cycle continues, then we see that pan India playing out which we had thought about.
- Prakash Agarwal:** Okay. And last question from my side is Q4 you mentioned obviously for most companies and yourself is softer because of the destocking of the March ending quarter, I see adjusting for the last year number 9 months and Q4 of last year, the gross margin and EBITDA margin has also fallen. I mean why would that impact, I am not able to understand?

- Amit Bakshi:** Sales comes down. Then 80%-85% gross margins, it will have an impact on EBITDA.
- Prakash Agarwal:** No, EBITDA I understand. Gross margin, I mean if we see last 9 months is 85% plus and in Q4 of last year it dropped to 82.
- Amit Bakshi:** Kinedex. Last Q4, we took Kinedex, right? Kinedex, it was 60%-62% gross margins.
- Prakash Agarwal:** So I mean assuming all things similar, obviously we will see improved gross margins?
- Amit Bakshi:** Look, we will see an improved gross margin because this number which you had seen is the stock which have been brought from Strides, right, at a price which we couldn't negotiate because of this is the price which we quoted out, that was the price which they have made it. So in portfolio when we shift to Guwahati and third party from our own loan licensing agreement, Kaushal has given me a lot of comfort that there is huge room for a cut there. So this price which you are seeing, the gross margins on these products which you are seeing is clearly a one-off. It will settle down in the coming quarter.
- Moderator:** Thank you. As there are no further questions in queue, so I would request the management for the closing comments.
- Amit Bakshi:** Yes. Thanks for taking out time on a holiday especially and this is what we all have to say. Thanks for your patient hearing and look forward to catching up again in the next quarter meeting. Thanks for taking out time on this.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Axis Capital that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.