

“Eris Lifesciences Q4FY18 Results Conference Call”

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**MODERATOR:** **MR. PRAKASH AGARWAL – AXIS CAPITAL**

**Moderator:** Ladies and gentlemen, good day and welcome to the Eris Lifesciences Q4 FY'18 Results Conference Call hosted by Axis Capital Limited. 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 'o' 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. I welcome you all on behalf of Axis Capital for the Q4 Fiscal '18 of Eris Life Sciences. Represented by senior management team, Mr. Amit Bakshi – Chairman and Managing Director; Mr. Himanshu Shah – Executive Director and Mr. Sachin Shah – Chief Financial Officer. Over to you, sir.

**Amit Bakshi:** Thank you, Prakash. I welcome all of you on the last quarter of the last financial year.

Since this year is closing, we would just like to give the numbers which I am sure you guys have already. On a consol basis, the sales grew to around Rs.856 crores from Rs.750 crores last year; the EBITDA which is around 14.5%, the EBITDA grew at around 20% to Rs.322 crores and the PAT is at Rs.294 crores, the growth of around 19%. Significant part of this growth has come from the acquired sales. The standalone growth for the company has been around 6.5%, 7% in the year.

On Q4 basis, we are at around Rs.212 crores compared to Rs.184 crores of the last year quarter with the growth of around 15, 16% with an EBITDA of around Rs.72 crores compared to Rs.50 crores of last year and we have some interest cost this quarter and that brings the PAT to around Rs.52 crores.

So this year has been overall soft as far as the growth is concerned. On the cost of being repetitive, the industry was hit by double whammy – one was the GST which eroded around 7% at the top line and then we saw consistent push at the inventory level. That is how this year had gone till this point of time.

I am open to question, Prakash.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Ravi Naredi from Naredi Investment. Please go ahead.

**Ravi Naredi:** This year too we have earned a very healthy profit, but not a single penny declared as a dividend. So what is our planning for our investors?

**Amit Bakshi:** So as you could see from the numbers, we have ploughed back all the money in getting an acquisition done which the management feels is the best way to reward investors if we can plough back money into our own business, acquire and grow from here, that profitability

possibly is one of the best usage of cash which can be done and that is what the strategy as of now.

**Ravi Naredi:**

What is the cash flow planning for this current year, can you tell us?

**Amit Bakshi:**

We have not given guidance as of now but we are now four quarters out from the time we had listed. So the numbers in terms of structure will not change, they would remain where it is. So, that is how it will pan out.

**Moderator:**

Thank you. We will take the next question from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

**Aditya Khemka:**

Firstly, if I back out your subsidiary financials, which I do basically by deducting your standalone number from the consolidated numbers, what I see is that for Kinedex and Aprica, the EBITDA margins seem to have turned negative in this quarter, I do not know if my math is correct there, can you help me with that?

**Amit Bakshi:**

You are right, at a standalone basis, the EBITDA is higher than the consol basis, But there is a little twist that majority of the loss which have happened in the UTH subsidiary. So, Kinedex and Aprica on quarterly basis are positive.

**Aditya Khemka:**

So, the UTH subsidiary where you are making these losses, what is the purpose of the subsidiary?

**Amit Bakshi:**

There are three businesses which we are shooting up from what we acquired from UTH -- one of the business is IVF business which we are erecting as of now, we have just gone to the market, but we will be ramping up that business. The other business which we are trying to settle down is on the Healthcare Nutrition, so that is also ramping up. So there are no numbers to show for UTH as of now, it is all work-in progress.

**Aditya Khemka:**

I am not asking about next quarter or next half year, I am asking about more like if it will be FY'19, FY'20, FY'21, when will we see the fruits of that acquisition?

**Amit Bakshi:**

Let us not get into the fruit of the acquisition, because it was not very material from the money point of view but it is material from the point of view of gaining entry. So what this does to us is it makes entry to the IVF to the onco market and also to the nutrition which these guys were doing earlier. We are planning all these three businesses with the more ramped up manner. These three businesses are strategic business for us. IVF and Nutrition should start doing well from second quarter, third quarter but frankly it is not a quarterly game which we are trying to play with you, it is basically an entry into two or three segments which otherwise we were absent on.

**Aditya Khemka:**

Another question on the Indian market per se. Obviously FY'18 the Indian pharma market growth was subdued for the reasons you already mentioned on the call. What is the outlook for

FY'19 for both the Indian market and your guidance for organic growth, where would you think you would stand?

**Amit Bakshi:** Ashish, we have typically not been giving guidance but just to get you the point across, the first quarter any which ways will be turning out well because the base in the last quarter was a problem, so everybody understands that. We are done with April and May the closing is on, so the fillers feelers which we are getting in April and May it seems as if the industry last year but this year put together will average out into a close double digit growth. So whatever losses we would have made in the last year in terms of not been able to pick up sales would to a large extent get mitigated in this financial year. That is the sense which we are looking at the broader picture.

**Aditya Khemka:** If I interpret what you said, let us say the industry grow only 5% in FY'18 over FY'17, then FY'19 should be more like 18% growth industry, so that both years put together we can come to about 11%-odd?

**Amit Bakshi:** I think both year put together we should be in a double digit for sure. So the math is like if it is 5, then 15 or 6 to 13 that one can handle, that is my sense looking at the broader market.

**Aditya Khemka:** Amit sir, so the older trajectory was that chronic is to grow faster than acute, for some reason in the second half of FY'18, I got a sense that acute grow faster than chronic did. Are we seeing like reversal of that trend or are we going back to the normal of chronic going faster than acute?

**Amit Bakshi:** So, Aditya, there are three, four things which has happened in the last couple of years. So what happens is the major bolt to acute happened post demonetization while chronic actually prospered. So what happened after that one year's time when the base line for acute was very bad, acute started looking very good. The second thing which has happened is this 7% hit which we have taken on the pricing on the falling side. It is a matter of time it will play out. But from a broader market perspective, Aditya, anybody would say that chronic is bound to grow much higher than acute for years together.

**Aditya Khemka:** Just a clarification here Amit, sir. That 7% hit that you said on the pricing, that is the GST adjustment, right?

**Amit Bakshi:** Yes.

**Aditya Khemka:** Sir, earlier during the IPO you used to give statistic as to what is all your top ten brands were to come under price control, how much sales loss could be there because of that pricing, can I have an updated number on that maybe if you do not have it now, but maybe later, I would just like to have that number because I think we are expecting a new NLEM sometime in late '18 or early '19?

**Amit Bakshi:** Aditya, maybe it was the last call we had done this exercise completely because the formula is available to all of us and this is ex Strides, in a case of 100% of our portfolio gets into the NLEM, we were looking at Rs.50, 60 crores of knock off.

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

**Mithilesh Sahani:** My question is with respect to the integration with the Strides portfolio. Would be grateful if you can throw some light in terms of where we are with respect to having a wider presence for the Strides portfolio in the north, west and the eastern region as well as using the Strides acquired resources and field staff to push more of our core portfolio into the southern market where they are very strong already?

**Amit Bakshi:** Strides integration from a sales perspective is now over. We spread the last quarter in getting the things right in terms of distribution, in terms of placement of people and April has been quite encouraging on that front. We feel that this year should turn out to be an excellent year also from the Strides acquired portfolio. As I had maintained during my conversation that these were brands with lag and we find that now they are finding their own place, particularly Raricap and Rernerve, which are larger brands are doing quite reasonably well and the neuro team has now started expanding, it is chronic in nature, so we expect to give them some more time for them to really throw up good numbers, but that is in the right section. If I look at how the sales are showing up, one thing which is coming out is that we actually are growing better in the geographies where the Strides were selling earlier, and we are still taking up in the newer geographies to take it up to a significant level, will take another two quarters maybe but wherever Strides were already strong, I think by increasing the focus on those products and on those markets they are still quite a bit of up rise in those markets. So Strides is on track. All the purposes which we articulated -- one is entry into the new therapy, second is expansion of the brand -- all these things are happening. Anyway, Rernerve now becomes our #2 brand in ORG and we are quite hopeful that Rernerve will get to Rs.100 crores market in this financial year.

**Nitilesh Sahani:** It is a very general one. So would be grateful to understand your thoughts, Amit, on this, how do you measure success at our companies like from a long-term perspective, what metrics would you consider appropriate to say, five, seven, ten years down the line, that yes, these are the metrics I considered appropriate to measure success for our company.

**Amit Bakshi:** Five to ten years is a long piece of time, but since you have asked this, I will answer you in more specific. During the years' time, this is our fourth quarter number which I reiterated. As Aditya had put up, if you look at the fundamental level, the presentation which we will be putting on the website also, so the fundamental that the brand and size, large contribution for mother brand, the overall contribution of the top-25 brands, the position of those brands, the financial metrics, whether it is the gross margins or the EBITDA margins, everything has gone better from where we started last year. So fundamentals are only getting better and these are the things which we continue to chase. So nothing changes on the fundamental metric point of view.

**Nitilesh Sahani:** Thanks a lot. So if I try and understand, take things in a nutshell, focus continues to be our core priority on the existing operations which we are doing and looking at value-accretive in organic acquisitions as and when they come.

**Amit Bakshi:** Absolutely.

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

**Prakash Agarwal:** Just trying to understand with the Strides acquisition and expansion of field force which happened you announced last quarter from 1500 to about 2000. Just trying to understand while we have seen flattish employee cost other expenses have moved up. So what are the initiatives we are taking in terms of promotions in terms of reaching out to doctors and the number of touch points with doctors have increased, with new therapies coming in, if you could help us explain what are the work being done on the Strides level and Eris on a whole?

**Amit Bakshi:** I think you are making a comparison between the Q3 and Q4 where we expenses from Rs.52 crores have jumped to Rs.66 crores, that is what you are saying. So, what has happened is that I have told you in the last call that we are putting the people in different division and looking for a bigger pie of the market, I have already told that we have more than 200 people now which are trying to grow whatever we have got from Strides and whatever little we had earlier and that is going on. So if you look at from where we started, Prakash and where we are today, there are two, three things which we have developed well. While the numbers are not there you see that, but we can see that the thing forming up in the market. One is the neuro platform which has gone bigger, the second is our focus on the women health has also become more sharper. As far as the number of people is concerned, we were not getting adequate productivity between Kinedex and our own orthopedic team. So we had an ortho field force and we also have Kinedex which is completely ortho-driven. So both put together we were not getting the required productivity. So that is the reason we kind of club them together and made one team in the bone health which is around 195-200 people. So that is where you see another reduction of 50, 80, 100 people happening QoQ. So that is the answer to number of people. As far as reaching out is concerned, there are a lot of initiatives which have been taken, in fact, this April-May-June quarter we really piled up all the efforts and the first quarter always is we start with a bang. So you will see the expenditures and the promotions only going up by the next quarter.

**Prakash Agarwal:** Would it be fair to say the increase in tax rate is largely because of the Strides acquisition where probably does not have the benefits and the tax rates how would you look at in fiscal '19?

**Sachin Shah:** The increasing tax rate is because of difference in depreciation. You have to create DTL after the Strides acquisition. That is the reason of increase in tax rate in Q4 and next year I think approximately 8-9% is what should be the tax rate for the entire year. So tax rate I personally feel should not be seen QoQ, then there are yearly adjustments.

- Prakash Agarwal:** When we acquired Strides it was EBITDA-neutral, so it would be into that similar range as of now, maybe single digit, can you comment there? Tax rate I was under the view most of the profits which come from the domestic business is coming out of Guwahati, so it is tax-free. Probably tax rate has gone up because of the Strides adding up to the PBT. So I think it is because of the change in depreciation as clarified by Sachin. So I think at the EBITDA level it would still be on the improvement stage, it is yet to contribute enough to result in profit is what ...?
- Amit Bakshi:** Q4 you are right.
- Prakash Agarwal:** We have said that fiscal '19 we expect EBITDA level of about 20% is what is the first target, right, from the Strides portfolio?
- Amit Bakshi:** 20% was never the objective from Strides. The objective was far-far above than what you are saying because this business is not sitting on as many people as they were sitting earlier and the improvement of product mix where we have discarded almost Rs.2, 2.5 crores product mix which was not aligned. Actually, the healthcare business we completely kind of knocked it off where the run rate was around Rs.4, 4.5 crores for the year, it was not in the philosophy we do business. So this business is not 20% EBITDA candidate, it is a much higher EBITDA candidate. We will be happy to share with you by the end of the first quarter that how is it looking.
- Moderator:** Thank you. We will take the next question from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.
- Aditya Khemka:** Excluding Strides, next year we should be able to beat the market growth in terms of organic growth?
- Amit Bakshi:** Yes, we must do it.
- Aditya Khemka:** Strides in FY'18 was only there for 1.5-quarters, is that correct?
- Amit Bakshi:** No, December 1<sup>st</sup> was the date, so four months.
- Aditya Khemka:** The next year the growth will come from one full year say 13% if the market growth, you will grow more than 13% organically and then the Strides portfolio will get consolidated instead of four months for 12-months, these will be two sort of revenue growth drivers for next year for sure?
- Amit Bakshi:** Yes, for sure.
- Aditya Khemka:** And then anything incremental we do inorganic, that would be over and above?
- Amit Bakshi:** Yes.

**Aditya Khemka:** Next in terms of EBITDA margins, I understand, again only four months of Strides consolidation this year. Would that imply that next year on a full year EBITDA margin basis including Strides where we will be more or less on the same level as FY'18?

**Amit Bakshi:** The answer is within the paper itself, as I was telling the gentleman, that look, the good thing which has happened is after integrating everything together on a much lower base of Strides which we expect to happen in the current financial year, the gross margins are still at 83%, 84%. So that is the biggest challenge in the sense that is the number which will really lead to..... So if that number is in place, and the productivity is in place, then margins are very much in....

**Aditya Khemka:** Are you still seeing lucrative in a bolt-on acquisitions in India being offered to you at reasonable valuations where it just makes sense to do the smaller acquisitions that you have been doing Kinedex, Aprica, Strides, UTH, so are you still getting enough such assets at a reasonable price in the domestic market?

**Amit Bakshi:** Ashish, my answer to this is a little different. What I would say is that we understood that the amount of effort which is required to turn around these business, whether it is Rs.70 crores or Rs.200 business, the efforts are more or less in the same zone. So as a policy unless and until something is very-very exciting, we will not be looking at Rs.60, 70 crores new asset from a sales point of view. If we get something we will look at a higher revenue point.

**Moderator:** Thank you. We will take the next question from the line of Nitilesh Sahani, an individual investor.

**Nitilesh Sahani:** Amit, with respect to funding for the Strides acquisition, if I recollect right, I think you have taken a debt of Rs.400 crores. If you can throw some light in terms of what would be the debt repayment plan out of the free cash flow we plan to generate over the next two, three years, we plan to pay this off asap or what would be the apportionment of the interest cost for the next FY'19 and FY'20?

**Amit Bakshi:** Though we have enough cash sitting on the books, but there is no arbitrating paying it upfront, because the cost of interest which we are paying and the kind of money which treasury is earning is very much similar to each other. It would be Rs.350 crores by the end of June, so we do not really feel that there is any benefit to the shareholders if we pay it upfront and we just want to sit on some cash, it is not driving anything away from us.

**Moderator:** Thank you. We will take the next question from the line of Ashish Thavkar from Motilal Oswal Securities. Please go ahead.

**Ashish Thavkar:** Wanted to know your views on M&A if you were to acquire something would it be in the IVF and Nutrition space, a fair assumption?



**Amit Bakshi:** Nutrition space is not well carved out as of now. So I do not think there is something which will be available there. It has to be really worked out. IVF If we get some brand, maybe yes, but not the whole business as such.

**Ashish Thavkar:** So Nutrition is typically an OTC business, right for you?

**Amit Bakshi:** For us it is a prescription support business which over a period of time has the potential to turn OTC.

**Ashish Thavkar:** So the amount of field force that you would require to promote these two business segments, you are already there on the headcount or we feel we need to add more?

**Amit Bakshi:** So on the headcount, we are already in for IVF...these all businesses are going to be specialty business, so it is not going to be 250 field force. So, IVF typically end up in 25-30 and Onco will again end up by 25-30, maybe five, ten here and there and Nutrition will start 50-55. These are not numbers which will require drastic inflow of people and we almost have 70% within us. So on a phased manner, maybe 30% more would be required to recruit.

**Ashish Thavkar:** You believe the expenses for promoting the RX would be high or you would like to take a gradual approach?

**Amit Bakshi:** Ashish, so prescription becoming OTC to our mind is the process which is self-evolving. So there is no push in that. If the products are differentiated and they find an audience with the patient, then they grow on their own self. So it is not about a lot of money which you need to spend behind advertisement and all those things.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Prakash Agarwal for his closing comments.

**Prakash Agarwal:** Thanks to the management for the call. We wish them all the best. Bye-bye.

**Moderator:** Thank you. Ladies and gentlemen on behalf of Axis Capital, that concludes today's conference. Thank you for joining us and you may now disconnect your lines.