

“Eris Lifesciences Limited Q4 FY'21 Results Conference Call”

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**MANAGEMENT:**

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**Moderator:**

Ladies and gentlemen, good day and welcome to Eris Lifesciences Q4 FY'21 Results Conference Call. As 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. V. Krishnakumar – Chief Operating Officer and Executive Director of the Company. Thank you and over to you sir.

**V. Krishnakumar:**

Good afternoon and welcome to our Q4 Conference Call. I am Krishnakumar and I am happy to share the highlights of the quarter as well as the entire year.

In terms of financial highlights, I am happy to report that our Q4 standalone revenue grew by 11.3% yoy to Rs.257 crores and our Q4 consolidated revenue grew by 11.9% to Rs.278 crores. As per AIOCD, in Q4, the Indian pharma market registered a 5.3% growth, bringing up FY'21 growth to 2.1%. As expected most of the growth came from chronic and sub-chronic therapies which grew by 7.7% in Q4 and 5.7% when you take overall FY'21. However, the AIOCD data in Q4 showed a growth of 2% for Eris which was on account of a high base in the cardio metabolic and VMN segments in Q4 of the previous year.

We had two new launches in the quarter, mainly Zayo, our brand for Sacubitril and Valsartan, an important product for managing heart failure and Bricet our launch in the CNS segment for the treatment of epilepsy. This is in addition to several other important launches we did during the year. After a gap of several years, we launched more than 10 new products including combinations in FY'21. As maybe expected, new products, until they ramp up to a reasonable scale, bring with them an increased cost of goods sold. As a result, standalone gross margins in Q4 were at 80.5% versus 85.7% for the same period previous year. We expect the gross margins to start ramping up in the current quarter as the new products ramp up in scale and we are able to start realizing volume benefits in procurement and manufacturing.

The consolidated gross margin for Q4 stood at 78.3% versus 85.1% in Q4 of the last year. Our Q4 standalone EBITDA margin expanded by 486 basis points to 36.6% versus 31.7% last year. Our Q4 consolidated EBITDA margin expanded by 290 basis points to 34% compared to 31.1% last year. This expansion was driven by two factors: 15% increase in MR productivity during the year and pandemic driven cost savings. Our consolidated effective tax rate for Q4 was 19.5% of PBT, higher than 8.5% in Q4 of last year. As the contribution to Guwahati to our Q4 sales was relatively lower compared to the full year contribution which is at 74%, and we had a significantly higher proportion of third-party production in Q4. Standalone net profit for Q4 was Rs.69.35 crores which is a growth of 25.8%. Consolidated net profit for the quarter was at Rs.68.2 crores, up by 21.3% year-on-year.

Now, I will recap the highlights for the full year FY 21. FY21 was a game changer for the company wherein we registered robust improvement across all operating and financial parameters. We were able to harness the power of our fundamental business pillars, that is leadership brands in the chronic specialty, strong cash flow generating business model, debt-free balance sheet and our consistent focus on operational excellence, successfully navigating what has been one of the most challenging environments ever.

Our business model of building strong and sustainable brands paid us rich dividends during the pandemic period when MR-doctor interactions have been severely constrained. The prescriber preference shifted to established incumbent brands during this period which has augured well for us, with 7 out of our Top-15

mother brands being among the top-five in their respective categories. We made a seamless transition to the digital era in FY21 with the conduction of more than 2,500 digital interactions covering more than 36,000 medical practitioners.

We continue to maintain leadership in prescription ranks with super specialists. As per the SMSRC audit, we ranked #3 among diabetologists, #4 among cardiologists, #3 among neurologists and #3 among gastroenterologists in our covered market.

As per the AIOCD data, I am happy to share that Eris grew at 6.2% in FY21, outperforming the covered market by more than 2x. This is the third consecutive year of Eris outperforming the covered markets and the Indian pharma market.

We had five significant new product launches this year. The first of them is Gluxit, our offering in the strategically important Dapagliflozin molecule which is an SGLT2 inhibitor in oral diabetes care. This was among the first generic versions of Dapagliflozin to be launched. I am happy to share that Gluxit ranks #1 by volume and value among all 30-plus generic versions of Dapagliflozin in the market. The brand ranks #1 by volume and #3 by value including the innovator brands. Gluxit showed an exit run rate of Rs.2.5 crores per month sales in March '21.

Our other new launch which is called ZAC D is a unique combination of zinc and vitamins A, C and D in a convenient once-a-day chewable tablet.

Rivalto was launched in the recently off-patent Rivaroxaban molecule in the anti-thrombotic segment. I spoke about Gluxit and Zayo earlier.

I am also happy to share that Zomelis, the Vildagliptin brand we had acquired in December 2019 has grown by nearly 4.5x in sales run rate post acquisition. By value, Zomelis has consistently ranked #1 among the 80-plus generic versions of Vildagliptin and it ranks #3 including innovator brands. Zomelis market share in value terms has increased from 7.3% in December '19 to 10.9% in March '21 among the generics. Zomelis had an exit sales run rate of Rs.4.4 crores in March 21. We have also reduced the COGS for Zomelis by more than 500 basis points on account of manufacturing efficiencies at our Guwahati facility.

In terms of financial highlights, our FY21 standalone revenue grew by 8.7% to Rs.1,109 crores for the year and our consolidated revenue grew by 12.8% to Rs.1,212 crores. Standalone EBITDA margin for the year increased by 278 basis points to 37.6% and consolidated EBITDA margin for the year expanded by 123 basis points to 35.5%. As I mentioned, this was driven by an increase in MR productivity and pandemic-driven cost savings. The yield per man per month for our standalone operations increased to Rs.4.5 lakhs per month, up from Rs.3.9 lakhs per month in the last year - this is an increase of more than 15%. For the full year, taxes remained in line with 10% of PBT. Our Guwahati facility contributed to 74% of total standalone revenue in the year that went by. At the net profit level, standalone net profit grew by 20.4% to Rs.351 crores and consolidated net profit grew by 19.8% to Rs.355.1 crores. Our consolidated earnings per share for the year has grown by 21% to Rs.26.16.

On the balance sheet side, our strict management of working capital meant that standalone debtor days were reduced to 37 days in FY21 from 50 days in FY20, thereby beating our guidance.

I would also like to inform you that starting April 2021, we have moved back to the 7/21-days credit cycle with our stockists.

We continue to have a cash generating business model. Our standalone operating cash flow for the year was at 95% of EBITDA and our standalone free cash flow for the year was at 81% of EBITDA. In terms of consolidated numbers, consolidated operating cash flow was at 87% of EBITDA and consolidated free cash flow was at 81% of EBITDA. These ratios remain among the best in the industry. Our total treasury investments as of 31<sup>st</sup> March stood at Rs.417 crores including the fixed deposits that are accounted as part of other financial assets.

This year we have paid and declared a dividend of Rs.5.5 per share implying a payout ratio of 21% of consolidated net profits. Going forward, we intend to share a minimum 20% of our net profit with the shareholders as dividends on a yearly basis.

FY21 has kick started the next leg of organic growth momentum in Eris which is expected to be maintained well into the future in the next 3-4 years. There are several factors contributing to this outlook. Firstly, we have a rich pipeline of new product launches, driven by upcoming patent expirations in the cardio metabolic and allied segments.

Secondly, our market standing in diabetes enables us to take the lead in the management of post-COVID early onset diabetes, also referred to as unmasking of diabetes. Gluxit and Zomelis are highly strategic products for us in this regard.

Thirdly, we are expanding our coverage of cardiologists and consulting physicians by up to 50% in the next two years.

In addition, we are making investments in technology in order to further improve our sales productivity.

We are launching a product called Zomelis SG which is basically a combination of Vildagliptin and Remogliflozin, in the diabetes space. The product Remogliflozin is in-licensed from Glenmark.

In order to complement some of these organic growth initiatives, we will continue to look for high return opportunities in in-licensing and by way of acquisitions.

So that was the summary of the quarter and the year's performance from our side. Now we are open to take questions.

**Moderator:**

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

**Prakash Agarwal:** A couple of questions actually. The gross margin, both on standalone and consolidated level, has gone down and we also see the staff cost going down. So while you have maintained your EBITDA margin or improved it, but it is coming at the cost of gross margin. Is there any one-off, how do we see that going forward and same is the case with staff cost please?

**V. Krishnakumar:** Let me take the question on gross margin first, Prakash. So, the base business is basically the regular products of our top-15 brands. If I take that as a continuing portfolio, that portfolio has a gross margin in excess of 85%. So on a quarter-on-quarter basis, the impact that you see is basically a function of how third-party production has accounted for in the quarter because third-party production comes with a lower gross margin which is why we still continue to do as much production in-house as possible. So in Q4, a couple of things happened; one is that whenever we launch new products the typical trend is that we get the new products typically through third-party and we launch those products. And then as those products scale up over time, we pull the production in-house. There are several such examples of that in the past. So, a third-party product which is a new product, goes through a cycle where it may start at a very low COGS and then eventually it comes into the system and the COGS comes up to near corporate average levels. And we have several examples of products where let us say over the last one year the COGS have improved, in some cases 1,000 basis points, in some cases 2,000 basis points. In fact, we have one product where the COGS has improved from 65% to 30%. So, this is the natural progression of new products in our system and in Q4, the salience of new products was higher. So that is one part of the reason. And the second part is by mid-February, it was becoming very clear to us that the COVID second wave is turning out to be a big monster and having gone through the experience of last year, we just wanted to be extra cautious and not leave the complete production load on our Guwahati facility. So we decided to take that extra step because we have the luxury of doing so. So we decided to take a bit of hit in COGS and we activated some of our third-party suppliers to build up on our stocks so that a) we are able to build up inventory and b) reduce the dependence on Guwahati. For your information, while Guwahati accounted for 74% of our revenue this year, in Q4 Guwahati incidence was only 60%. So 40% of our production in Q4 was based on third-party which is something that has contributed to the higher cost. But that was a conscious call that we have taken in Q4. And it is something that is offset right in Q1 22 because for the month of April, Guwahati was back to 80% of sales. That was as far as the gross margin is concerned.

**Amit Bakshi:** We closed down one division last year which was the IVF division. So that is the effect on a quarter-on-quarter basis on employee cost having gone down.

**Prakash Agarwal:** What is the MR strength now, is there any change versus the last one that you disclosed which was 2,345?

**V. Krishnakumar:** So, there has been a change. As Amit mentioned, we closed down one division and in our acute cluster, we combined two divisions into a single division. So, our MR strength - we have published it too - is 2,036 on a standalone level.

**Prakash Agarwal:** In your OTC generic space, how many MRs sir?

**V. Krishnakumar:** It is approximately 250.

**Prakash Agarwal:** In the balance sheet you talked about investments which is a large number. What is the kind of that investment if you could highlight?

**Sachin Shah:** We have parked around Rs.85 crores in FDs as we are trying to take lesser riskier allocations, FD and AAA-rated Debt Funds. Basically it's all that. We don't invest in equity as per the policy.

**Prakash Agarwal:** Rs.243 crores is largely FD and AAA bonds, right?

**V. Krishnakumar:** It's entirely that, there are no equity investments.

**Sachin Shah:** Idea is to have capital protection first.

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

**Abdul Puranwala:** It is mentioned in the presentation that the debtor days have significantly come down in FY'21. So for next year FY'22, how do we look at the overall working capital and the cash conversion cycle, would it largely remain at where it is in FY'21?

**V. Krishnakumar:** Abdul, the correction that has happened during the course of FY'21, was clearly in the extended timelines we gave to our stockists, which we have pulled back now. That is why we consciously come back to 37 days. From April, as I mentioned, we have gone back to the 7/21 norm as well, so that leeway has been closed now. So while I am unable to give you a specific number, I would only imagine that the situation would improve from hereon. That is a very clear expectation that we have.

**Abdul Puranwala:** Second question is with regards to the generic share in Zomelis. As mentioned in the presentation, generics still account for 67% on the volume front. Any reason why this ramp up has been quite slower as contrary to expectation how the innovators are trying to retain the market share because my sense is that for the year generic should ideally have close to 90%, 95% at least on the volume side, considering they are much cheaper. But the volume somehow does not look to ramp up that swiftly for generic.

**Amit Bakshi:** Abdul, this is typically a chronic business where prescriptions do not change that easily. That is what anybody knows about the chronic business. Once the patient is put on a brand, he remains on that brand for a long period of time. And unless and until there is change in condition, change in prescription does not happen. One better way of looking at how the generics are ramping up is how much is the percentage of growth they have taken. So if you look at that delta, then almost all the growth which has come has gone to the generic players.

**Abdul Puranwala:** On the gross margin side, I understand the new product would have low gross margins because of the sourcing which has been done from third-party. So would like to understand whether this is specific to a products which were launched in Q4 itself or we see some bit of impact in the earlier nine months as well because of the launches which were there earlier this year?

**V. Krishnakumar:** Abdul, new products do come with a lower gross margin initially, that is the fact. But new products alone do not explain the Q4 gross margins. We had new product launches in Q3 also, but the gross margins

were better. In Q4, as I explained, we had a dual impact; one was the new products and the second aspect was that we consciously sourced more from third-party even in our regular products because of the upcoming lockdowns and so on. It was clear that there are going to be hindrances. So we thought it is wise to take a bit of a haircut and not place the complete load on Guwahati. So even in our regular products, there was third-party sourcing which is why our third-party component in Q4 was 40%. So it is a dual impact and it was a conscious call.

**Moderator:** Thank you. The next question is from the line of Sangam Iyer from Consilium Investment. Please go ahead.

**Sangam Iyer:** I want to understand the outlook for FY'22. Given the uncertainty of the second wave and now possible 3rd and 4<sup>th</sup> wave that people are talking about; how should one look at the strategy of growth from Eris perspective in terms of your margin profile given that you have been proactive before and you move a lot of production to third-party so as to make sure that the production does not get affected?

**V. Krishnakumar:** Sangam, we have given a 15% growth guidance for the year both on top line and bottom line and we stick by that guidance. Given the business that we are in, where 91% of our portfolio is lined up in chronic and sub-chronic, we have been resilient to the pandemic in FY'21 and I expect that to continue in FY'22 as well. There are certain products we have in our portfolio which will actually lead the growth going forward. So I mentioned one product which is ZAC D, the combination of Zinc, Vitamin A, Vitamin C, Vitamin D, that product is going through the roof as we speak. There is another interesting product in our portfolio by the name of Gluxit which I mentioned. This thing I touched upon earlier is the COVID-related treatment, where people have been prescribed steroids left, right and center. As part of one of the studies we did - India Diabetes Study - what we figured out is that the average onset age of diabetes in India is 42.5 years. And there is enough evidence to show now that the use of steroids because of COVID can prepone the onset of diabetes by as much as five years. So, we are on the verge of a massive surge in diabetes cases and we are strategically placed to deal with that because of Gluxit and Zomelis and I can go on, but in the interest of time, there are interesting products in our portfolio which will help us not only tide this time but also take the growth engine forward. In fact, April performance was extremely good even though the entire country was in some kind of regional lockdowns and our people have not been able to meet physicians - this time we have delegated the responsibility to the field, so all our sales managers are empowered to take a call at the local level in terms of whether people should work from home or they should work part-time and so on. So even in such difficult times, given the kind of growth that we have seen in April over March, we find it quite encouraging. I think gross margin in Q4 was a one-off as I mentioned. Even in FY'22, we will have new products being launched and in Q1 this year again we don't have any third-party component which is significant apart from the new products. So, I think just to sum it up, on top line as well as bottom line we are quite confident to stick with the 15% guidance that we have given now.

**Sangam Iyer:** Just a follow-up on that. So if I were to just look at Q4 margins and this year impact because of the 3<sup>rd</sup> party production component being higher which is 40%, the 15% top line and bottom line improvement that we are guiding for FY'22, is there a larger contribution from the new products which was there last year, do you see the expansion in margins that we were explaining earlier, that would actually be the growth in revenue and profitability being the same, because the third-party component saving is higher if at all this year?

**V. Krishnakumar:** I think our standalone gross margins for the full year was at around 82%, down from 84% last year. So we are confident of maintaining it definitely at 82% and if possibly make an improvement over that. So when I say 15% top line and 15% bottom line growth, we have assumed that gross margin will be at least in line with FY'21 levels which is a reasonable assumption to make. Within that what is the interplay of third-party or new products, it's a little difficult to break that up right now.

**Moderator:** Thank you. The next question is from the line of Minu Bindra from ET Advisors. Please go ahead.

**Minu Bindra:** Sir if you could just talk about your future CAPEX plans?

**V. Krishnakumar:** There is nothing that is worth sharing at this point. As we have shared, Guwahati utilization is still at reasonable levels and at least for the next three to four years we are sorted. So, if there is any update that comes up we will share it with you, but at this point there is no update.

**Minu Bindra:** Maybe if you can provide some more color on the cardiac segment and the outlook on the same?

**V. Krishnakumar:** So, if you look at the cardiac segment, there are two or three big sub-segments; one is anti-hypertensive. We are reasonably placed there even though we don't have some of the molecules, but I think in terms of the sartans and some of the other brands that we have, we are fairly well placed. Second important sub-segment is Statins which is again where we have a very good play through our brands Crevast and Atorsave. The one sub-segment which has really gone through the roof in COVID times is the anti-thrombotic segment because the D-dimer tests and administering of anti-thrombotics has become the order of the day. If my memory serves me right, I think that sub-segment has recorded a growth of more than 25% this year, thanks to COVID. And we really didn't have an offering in the anti-thrombotic space. And that is the gap that we closed very recently with the launch of Rivalto which is Rivaroxaban. So, hopefully we will make up for some lost ground there. In addition, the other action that we are taking, as I mentioned to you is in the whole cardiology space. We have set the target to improve our coverage by more than 50% in the next two years and the work on that has already started. These are some of the initiatives that we have taken up in cardiology.

**Minu Bindra:** If you can talk about the VMN, possibly your outlook on the same?

**V. Krishnakumar:** This is shaping up to be a very interesting segment because I think the whole genesis of our VMN segment has been wherever there has been a healthy co-prescription profile, either with our cardiac drugs or a diabetic medication. That has been the driving force for our VMN segment. So, it is a very interesting time which has been brought in by COVID. Suddenly, everybody is talking about good eating, healthy habits, wellness, immunity etc. And we don't believe these are all just buzz words. We believe that these words are here to stay. There will be a definite upliftment in the level of awareness about immunity and general wellness. So, it is strategically a very important segment for us and there will be continued investments in the same going forward. I think ZAC D was our first brush where we launched it as a pure immunity booster and not necessarily with any tie-in to cardiology or diabetology and that has augured very well for us. So we are excited about this space and you will continue to see some action from us.

**Minu Bindra:** Also, I am just trying to understand how has COVID impacted your sales, which of your products have had a positive impact on your sales?

**V. Krishnakumar:** I think it's really a question of the portfolio. If you look at Q1 of FY'21 in particular, you will see how the market has behaved; IPM growth was 1.3% without the COVID molecules. Chronic, Cardio Metabolic and VMN continued with 8-10% growth. It's the acute/primary care therapy that took a clear beating and went into a very low base. So, our portfolio being 91% and chronic and sub-chronic was fairly resilient during this period. But then if you look at the April '21 data, you will see that the reverse is playing out. So chronic will actually grow at 8%, 9%, maybe 12% in this year. Acute therapies now that their base has been completely destroyed - if you look at the April data, you will see 51% growth for the IPM which is completely driven by acute so which means that we are not going to see that short-term inflection of growth either. So pharma is known as a defensible play. Within pharma, chronic is an even more defensible play. So you would not see our numbers swinging wildly because of these seasonal impacts.

**Moderator:** Thank you. The next question is from the line of Utsav Mehta from Edelweiss. Please go ahead.

**Utsav Mehta:** What is the net cash position that we have on our books at the end of the year?

**Sachin Shah:** We have a treasury of Rs.417 crores as of 31<sup>st</sup> March at consol level.

**Utsav Mehta:** That is a pretty significant amount, it's almost like a year worth of EBITDA now. Since we have no major plans for CAPEX, any sense on what we intend to do with so much cash?

**V. Krishnakumar:** There is a clarification that we provided on the dividend policy. It will be formalized soon. We have approval from the Board also to maintain a dividend payout ratio of 20%; that is one clarification. Apart from that, I think even though there is no budgeted news on the table, but in the overall scheme of things, having 300-350 crores of cash, we do not think of it as having a huge cash balance because we are acquisitive. Zomelis has worked extremely well for us, Strides deal has also gone very well for us, Rernerve which is its flagship brand, has grown at 17% CAGR since acquisition after absorbing a 7% hit on account of GST. Rernerve is close to Rs.135-140 crores per annum now. So, given the background of all these successes, our confidence is extremely high in terms of being able to take on further deals and derive value from them. So, if you look at one good size acquisition, suddenly that Rs.300- 350 crores of cash starts looking like a modest number. So I think given how we are looking to create value, I think this is something that we are comfortable carrying for the near-term.

**Utsav Mehta:** Second question on APIs availability and prices. Broadly, I understand that you are not in the acute segment, but any sense on whether API availability or pricing is a challenge right now?

**V. Krishnakumar:** It has not been a challenge and I must say that our procurement team has done a really commendable job last year. I think wave-2 of COVID is far less challenging than wave-1 in many respects because now we have learned how to deal with it. But even during the wave 1, there are enough approved suppliers that we have and as a matter of policy we don't place all our orders with one supplier, we want to have a mix of three to four suppliers in order to ensure supplier security. So, we have not had a challenge in

procurement as far as our APIs are concerned and we don't see any major challenge going forward as well.

**Utsav Mehta:** Both in terms of availability or in terms of margin?

**V. Krishnakumar:** Yes. On the margin question, the exceptions will be the new product API obviously.

**Utsav Mehta:** Fair enough. Scale, I can understand. My last question was on Zomelis. So with a Rs.4.4 crores of revenue run rate on this particular product now, where do you see this number stabilizing?

**V. Krishnakumar:** It is little difficult to say where it will stabilize or end up at the end of the year because this product is still in a growth phase. We call Zomelis as a strategic product, and we call Gluxit also as a strategic product. And the definition of the strategic product is something that we can get to Rs.100 crores revenue in a three-to-four-year timeframe. So, that is the target that we are running for. We are definitely confident that Zomelis will get into the Rs.50 crores club this year, that's a foregone conclusion. But what will it end the year at and what will be the exit run rate this year? That is still early days. But the trend is very good in terms of the secondary. So, I think we are moving in the right direction.

**Utsav Mehta:** So, maybe it is not fair to look at the acquisition cost in context of this particular revenue run rate from what you are saying?

**V. Krishnakumar:** Fair or unfair, I cannot comment, that's for you to conclude. I think on a simple payback basis, we are tracking to something like a 3-3.5 year simple pay-back on our acquisition cost. So, from our benchmark, we consider that as a very good deal for us.

**Moderator:** Thank you. The next question is from the line of Seema Singh from KN Advisors. Please go ahead.

**Seema Singh:** If you can talk about your margins across segment like cardiac, VMN, CNS?

**V. Krishnakumar:** We don't look at segment wise margins nor we discuss about that. So, we have always spoken about gross margin at an overall level, we will continue with that.

**Seema Singh:** If you could guide us on like your five-year growth strategy or five-year vision/outlook long-term broadly?

**V. Krishnakumar:** Three or four growth levers will be consistent. As I mentioned, we are very excited about the existing portfolio; I am counting Zomelis and Gluxit as part of our existing portfolio now. The whole trend of organic growth in the current portfolio, that is not just about the traditional better detection, there is a whole discontinuity and disruption that has been brought about in the market by COVID, because of which we see a veritable tsunami of diabetes coming up in post-COVID patients. And our existing portfolio is very well geared to cater to that. It's not just the portfolio, but our dominant market position in diabetes also makes sure that we are placed at the forefront of this battle. So I see a very strong play for organic growth in our current portfolio. Second enabler for growth is that, in diabetes to a great extent and in cardiovascular to some extent, we have a very exciting pipeline of patent expirations coming up in the next three or four years. And needless to say these are all going to be very strategic products for us. So we launched 10-

odd products last year. This year again we have given a guidance of 10-plus products including combinations which also includes 3 key products. So that is the kind of momentum that you can expect from us every year over the next three or four years. So the new products is an important second lever. The third lever will be as I mentioned to you, we will continue to be focused on super specialists and consulting physicians. But even within that space, we see that there is room for expanding our coverage. So, we are increasing our coverage of cardiologists and consulting physicians by as much as 50% over the next two years without adding too many people. So that is a third and important lever. These three really underpin our organic growth strategy. If you are looking for a number, I don't have that for you at this point in time. But I think 15% growth for FY'22 is something we are comfortable with and hopefully, we will be able to maintain that momentum.

**Seema Singh:**

Can you also give us some color on overall margins and return on capital going forward sir?

**V. Krishnakumar:**

On ROIC, I think it's one of the biggest discussions that we have at all points because since inception we are used to 82%, 85% gross margins, I think our ROIC and ROE were in three digits before we started getting acquisitive, but even through our acquisitions, over the last 12 years we have maintained a minimum ROIC of close to 30%, so this continues to be the benchmark for going forward as well.

**Moderator:**

Thank you. The next question is from the line of Kunal Ganesh from Emkay Global. Please go ahead.

**Kunal Ganesh:**

So you alluded that you will be increasing the doctor coverage by around 50% in the cardiology division. So would that entail a lot of hiring on sales force and if yes what would that number be?

**V. Krishnakumar:**

Out of the 50% expansional coverage, about 25% is planned for this year. And in order to achieve that 25% coverage, we have not planned for any increase in field forces, we can accommodate that within the existing MR strength. So if at all we expect field force addition, for us, it is either driven by a new product acquisition, like last year we acquired Zomelis, so we created a division in order to house Zomelis and that is something that you can't plan for. And the second trigger for us to create a new division is if we realize that some of our brands are not getting enough focus, so we have to take out one or two brands and put it in a new division, that is the other trigger. So, our trigger for new division is usually a product trigger, it's never a doctor coverage kind of a trigger. So, we have not planned any increase in the field force this year because of that enhanced coverage.

**Moderator:**

Thank you. The next question is from the line of Mudit Minocha from M3 Investment. Please go ahead.

**Mudit Minocha:**

Congratulations on a great set of numbers. Do you see the threat of brand substitution on pharmacy level with increased adoption in place, pharmacy channel as auto-suggest the cheaper brand by many websites like 1MG, etc. because in the US this was a rampant case.

**V. Krishnakumar:**

I think the substitution of brands by trade generics whether it will happen in India, at what rate it will happen in India, that's an interesting question, but I think the comparison with US is kind of apples and oranges because there are two pre-requisites in the US which are in place, because of which the substitution happens very comfortably. One is that there is a central payer model. So the decision on which product to buy is not made by the patient or even the doctor. Whatever comes with the prescription, the pharmacy

which is CVS or Walgreens, they are free to make a substitution from the available list. What I am given to understand is if I refuse what the pharmacist is giving me and if I ask for a different brand, and if it is more expensive, then the patient has to pay the top-up. So it is a centralized payer system. It is a system where the channel is so consolidated that the top five retailers account for 80% market share. Whereas India is completely the opposite. We are an out-of-pocket payer market. So even though you have healthcare insurance, it covers only the hospitalization kind of expenses, and what we call as domiciliary medical such as your path lab testing or your day-to-day medication for cardio metabolic or whatever, they are all out of pocket. So the sweeping substitution to trade generics will never happen in India, the way it has happened in the US. So all we are talking of is degree. What is that market share going to be accounted for by trade generics. We believe that it will play out like how it has in other emerging markets. Brazil is a good example where out of pocket ratio is less than what is seen in India, but it is also a dominantly out of pocket market. So trade generics have made an in-road of maybe up to 15% of the market but not more than that. So, we also see similar kind of numbers in India. Trade generics is definitely a factor. But at the end of the day the doctor prescription is paramount. And this is not a cost game. When you have a severe infection, when you have hypertension, when you have diabetes, it is not about getting the cheapest pill in the market. I think what patients are concerned about and what doctors are concerned about for the patient, is to get them a quality medication. And so the prescriptions are going to be based on the companies whose reputation the doctors are able to trust. So if the prescription comes out with a form of branded generic, the chances of them getting substituted, yes, it may happen few and far between, but by and large we don't see that as a threat to our business.

**Mudit Minocha:** What is your view on taking your company on OTC portfolio because that clearly will also stabilize next year, long-term kind of business, how do you want to shape that up?

**V. Krishnakumar:** I think for the foreseeable future, you can continue to think of us as a prescription-based company. As I mentioned, there is so much action that is coming up in our core prescription business that we will not make aggressive moves elsewhere. I think this is the time where we will stick to our core and execute it very well. So that is the broad outlook that we have in mind.

**Mudit Minocha:** You being the best-in-class free cash flow business, managing cash is equally important if not more important as operations and given very expensive private company valuations, do you see more accelerated buybacks or more bolt-on acquisitions in near future given the cash position and cash generation abilities?

**V. Krishnakumar:** Bolt-on acquisition is definitely something we are looking for, we discuss it at least twice a week. But that does not mean that we will become indiscipline and go out and make acquisition for the sake of it, because as I mentioned, we have been a privileged lot in that sense because we are used to these superior margins and return ratios. So, I think the hurdle rates for something to pass through in the system are very-very high. Take an example of Strides - it came with a COGS of 35% which itself was very high for us at that point. But we brought it down from 35% to less than 18% now. That is a different story, that is how we derive the synergies. But that is a very-very high COGS for us if we look at from an acquisition candidate perspective. So we will continue to be disciplined in terms of high margin, high return businesses and

something that can close the portfolio gap. That would be my number one preference when I am looking at acquisition, not by turnover for the sake of it.

**Moderator:** Thank you. The next question is a follow up from the line of Sangam Iyer from Consilium Investment. Please go ahead.

**Mudit Minocha:** Wanted to clarify the guidance of 15% revenue growth. It does not factor in any new inorganic acquisition of products during the course of the year, right?

**Management:** Yes, yes, this is pure organic growth. We would not be in a position to speculate on inorganic growth.

**Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. V. Krishnakumar for closing comments. Over to you, sir.

**V. Krishnakumar:** Thank you all for your participation. I would like to summarize now. So we closed FY'21 with the standalone revenue of Rs.1,109 crores which represents a growth of 8.7% and a consolidated revenue of Rs.1,212 crores which represents a growth of nearly 13%. At the net profit level, we grew by 20% at a consolidated level to Rs.355 crores. Our consolidated earning per share grew by 21% to Rs.26.16. The extended prevalence of the COVID pandemic has heightened awareness around health and wellness. Hence, we can expect an uptick in healthcare spending from hereon, both as a result of better awareness as well as due to early onset of lifestyle diseases in COVID patients. We at Eris are well positioned to ride this next wave of growth in healthcare on account of our strategic presence in lifestyle as well as wellness segments. FY'21 has been a game changer for us in terms of getting us on to the next leg of growth and we expect to maintain this momentum going forward. We look forward to executing along our five-pronged growth strategy of organic consolidation, new product launches, broader doctor reach, improved sales productivity, and pursuit of inorganic opportunities. The execution of this strategy will be complemented by global standards of operational excellence. We expect these factors to result in a strong growth trajectory with high return and continued robust cash flows. Thank you, all. Have a good day. Stay safe.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Eris Lifesciences, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.

(This document had been edited to improve readability)