



**“Eris Lifesciences Limited
Q1 FY22 Earnings Conference Call”**

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Moderator:

Ladies and gentlemen, good day and welcome to the Q1 FY22 Earnings Conference Call of Eris Lifesciences. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. V. Krishnakumar - Chief Operating Officer and Executive Director of the company. Thank you and over to you, sir.

V. Krishnakumar:

Thank you. Good afternoon and welcome to our first quarter conference call. I am Krishnakumar and I am happy to share the highlights of the quarter with you. As per AIOCD, the Indian Pharma Market growth for the quarter was 34% excluding COVID molecules. This growth was led by acute therapy which has grown at 54% overall and 47% excluding COVID molecules, largely on account of the low base of acute in quarter one of last year. I am happy to share that Eris continues to rank among the top 10 fastest growing companies based on June MAT data.

In fact, Eris is the only company on this list to have a single digit contribution from acute therapy. All other companies on the fastest growing list have acute therapy contribution ranging from 35% to 70%. The chronic and sub-chronic segments of the IPM have grown by 20% and 33% respectively in quarter one. Eris' year-on-year growth for quarter one was 30%. We have outperformed the market in chronic and sub-chronic segments which accounted for 92% of our revenue in the quarter.

Likewise, we have outperformed the market in our top 3 therapies which accounted for 88% of our revenue in the quarter. In the cardio metabolic segment which is 58% of our revenue, we have grown by 21.6%, while the IPM has grown by 17.6%. In our VMN segment, which constitutes 23% of our revenue, we have grown by 63% vis-a-vis the market growth of 49%.

Our consolidated operating revenue for the quarter was at Rs. 349 crores which represents a growth of 19.1% over quarter one of last year. Consolidated EBITDA for the quarter stood at Rs. 126.5 crores and this represents the growth of 21.6% over the quarter one of last year.

Consolidated net profit for the quarter stands at Rs. 106.7 crores which represents a growth of 19.8% over quarter one of last year. Consolidated gross margin at 80.3% has remained at similar levels as quarter one of last year. The standalone gross margin has increased to 84.8% in quarter one of FY22, up from 83.1% in quarter one of last year and 80.5% in quarter 4 of last year. This increase is along the lines of what we had projected last quarter and it is largely an outcome of Guwahati manufacturing accounting for 81% of products sold in quarter one of FY22. The corresponding number was 60% in quarter 4 of last year.

Consolidated Other Expenses for the quarter at 25.3% of revenue have remained at similar levels as Q1 of last year. Standalone Other Expenses for the quarter at 25.8% of revenue have increased by 97 basis points compared to Q1 of last year. This is led by partial normalization of promotion activities in this quarter. Consolidated operating EBITDA for the quarter was Rs. 126.5 crores representing a margin of 36.2% of

revenue. This is an expansion of 74 basis points over quarter one of last year. Standalone EBITDA margin stood at 40%, up 176 basis points from 38.3% in quarter 1 of last year.

Consolidated taxes for the quarter stood at 8.9% of PBT compared to around 6% in Q1 of last year, largely on account of reversal of deferred tax liability. Consolidated net profit for the quarter was Rs. 106.7 crores representing a growth of 19.8% from Q1 of last year. The Q1 net profit margin is 30.5% which is maintained at the same level at Q1 of last year. Our standalone debtor days at the end of the quarter stood at 36 days. We remain highly cash generating and our operating cash flows for the quarter were at 88% of EBITDA and free cash flows for the quarter were at 81% of EBITDA. Our treasury balance as on 30th June amounted to Rs. 520 crores. The board has approved an interim dividend of Rs. 6.01 per share.

We continue to enjoy significant tailwinds in our power brand portfolio. As on the end of quarter one, 10 out of our top 15 mother brands were ranked in the top 5 in their respective segments. In line with our plan to launch 10 odd new products in FY22, we have launched 3 products in the first quarter. Zomelis SG is the combination of Vildagliptin and Remogliflozin which we have in-licensed from Glenmark. Remylin DX is our new offering in the Vitamin D plus Methylcobalamin combination and ZAC Day is a lower dose - once-a-day version of our previous offering, Zac D. Our latest generation diabetes products Zomelis and Gluxit continue to maintain their number one market positions among other generic brands in their respective segments. They rank number 3 including innovator brands. Gluxit which was among the first generic brands of Dapagliflozin to be launched in October 2020 is run rating at Rs. 2.7 crores of sales as of June 2021. Zomelis, our offering in the Vildagliptin space is run rating at Rs. 4.8 crores of sales in June 2021 after having clocked Rs. 44 crores of sales in FY21.

During the quarter, the management has reassessed the useful life of brands after taking into consideration prevalent industry practices. Based on the said reassessment, the useful life of brands and trademarks in intangible assets has been revised to 20 years from the previous 50 years. During the quarter, the management has also reassessed the method of providing depreciation on tangible assets after taking into consideration past experience and expected usage. Based on the said reassessment the method of depreciation has been changed to straight line method from written down value method in case of property, plant and equipment and right of use assets. The company has accounted for these changes in estimate of useful life and depreciation method prospectively and consequently the depreciation and amortization for quarter one of FY22 is higher by Rs. 18.50 million at the standalone level. At the consolidated level, the depreciation and amortization expense for quarter one of FY22 is higher by Rs. 38.83 million.

We had shared during our FY21 year-end update that the prescription tablets block at our Guwahati facility is operating at a capacity utilization of nearly 60% and that the Guwahati facility will hold us in good stead for the next 3 years by which time, the capacity utilization will hit 80%. We believe that this is the right time to start planning our longer-term manufacturing strategy. Maximizing of in-house manufacturing continues to remain our core strategy as it gives us best control over quality, supply security and manufacturing cost. Accordingly, we propose to commission a new formulation manufacturing facility in Gujarat before the end of FY23. This will be a Greenfield project with a land area of 10 to 12 times of the Guwahati facility and will

be operated parallel to the existing Guwahati facility. This will enable us to build redundancy in our manufacturing footprint and help mitigate the risk associated with a single location operation.

In addition to oral solid dosages, the new facility will have the ability to manufacture dosage forms like sterile injectables and oral liquids. We also plan to expand our capability in pharmaceutical research and development. Accordingly, the new manufacturing facility will house a pharma R&D unit with laboratories for formulation, analytical and microbiology. The new manufacturing facility will be built and operated to WHO GMP standards. We expect the capital outlay in the first phase to be Rs. 120 to 130 crores of which we expect to deploy 70% to 75%, that is Rs. 90 to 100 crores, in the remainder of FY22. All capital requirements for the new project will be funded through internal accruals. This new footprint will give us the ability to build out our manufacturing capacity for the longer term in tandem with our growth requirements as they evolve. These were the highlights of the quarter.

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

Prakash Agarwal: First question is on the facility itself, you mentioned it is a Gujarat based facility with sterile injectables facility and is, WHO approved. So what is the thought process here and would it have tax breaks like Guwahati and the initial spend you are talking about 100 crores, does that include the fully done up plant or what is the total outlay plan over the next 2-3 years?

V. Krishnakumar: Prakash, the underlying thought process is already explained to you regarding, why second facility and why now. I have already articulated that. When we chose to put up a new facility, we had two choices. We can put it up in the same company or we can put it up in a different company, that is a subsidiary and we know that the government of India has put up this incentive for setting up of new facilities as part of the Make-in-India initiative. So under section 115BAB, we plan to do this in a fully owned subsidiary and that will make the facility eligible for a 15% tax rate.

Prakash Agarwal: And this is largely for domestic market, you put an angle of WHO approval, so do you plan to export stuff?

V. Krishnakumar: Our Guwahati facility also operates to WHO GMP standards, so that is the standard that we follow for our domestic market business. As far as the business strategy is concerned, we have discussed this on multiple occasions, we plan to remain focused on the domestic market, so this facility is meant to power our domestic business as we go forward.

Prakash Agarwal: And one more question on the facility itself, having sterile injectables and oral liquids, which therapy area we are looking at apart from our chronic portfolio?

V. Krishnakumar: We already have some products in these dosage forms, like Rernerve injection is an important product for us which is presently outsourced, because we do not have the capability in Guwahati. We have some pediatric products in oral liquids which we again outsource. Since we believe in in-house manufacturing as a strategy, obviously we want to do more. We have articulated that our therapy focus on cardio metabolic and VMN will continue to be our mainstay. Additional therapies that we look at are derma, women's health

and neuro. So there is no great change envisaged in the overall therapy focus, but these are missing gaps that we have identified in our manufacturing capability and we are closing those gaps.

Prakash Agarwal: And last one, on the pipeline side, you spoke about 10 plus launches, 3 already done, in the remaining 7, what kind of products, which kind of therapies we should expect?

V. Krishnakumar: They will be from our existing therapies and you can expect them to be evenly distributed through the year.

Prakash Agarwal: So, this 15-20% growth is now the new normal for us?

V. Krishnakumar: We have guided to 15% growth for the year and that is what we are targeting to get to. I am unable to comment on anything further at this point.

Moderator: Thank you. The next question is from the line of Surajit Pal from PL India. Please go ahead.

Surajit Pal: Could you please tell me your capital outlay?

V. Krishnakumar: The new facility that we have planned, in terms of land area, it will be 10 to 12 times of our existing plant at Guwahati, so it is something that will hold us in good stead for a very long time in terms of manufacturing capacity, but the phase 1 capital outlay that we have decided is going to be Rs. 120 to Rs. 130 crores of CAPEX. All of that will be funded through internal accruals and about 75% of that, which is about Rs. 90 to Rs. 100 crores, will be deployed in the remainder of this financial year. The remaining 25% to 30% will be deployed in FY23 and we expect to commence commercial production from this new facility before the end of FY23.

Surajit Pal: So altogether, it will be FY24 by the time production will come into picture

V. Krishnakumar: No, FY23. We will commence production before the end of FY23.

Surajit Pal: Initially, it will be 10-20%, so that means that by the time you will lose the tax benefit opportunity in Guwahati or come to an end, your new tax benefit will start from here, right?

V. Krishnakumar: Yes, Guwahati tax exemption is available till the end of FY24 and we expect to commence this facility before FY23.

Surajit Pal: And WHO GMP as you say, does it also precursor for going into selective export market, going forward?

V. Krishnakumar: That is not on the horizon, but our Guwahati facility is also operated as per WHO GMP standards, so that is the standard that we have been following for so many years for the domestic market also. So that it is like a foregone conclusion for us that the new facility will also operate to those standards, but there is no plan to get into exports. There is so much to be done in India and we will have our hands full with that.

- Surajit Pal:** For Q1 dividend, is it the first time or it is going to be trend or does it precursor that you might not be able to get some suitable target for your inorganic growth, so that is why you decided some part of it to be shared with the shareholders?
- V. Krishnakumar:** Yes, we have declared an interim dividend in the first quarter of last year as well, so this is not the first-time. I am surprised why you are asking that question.
- Surajit Pal:** I just thought it could be a trend or you might be sharing the cash with the shareholders.
- V. Krishnakumar:** We have formalized the dividend policy that we will endeavor to maintain a minimum DPR of 20% going forward and we declared a dividend of 21% last year, so this quarter, first quarter we have reasonable clarity that we can declare this amount of interim dividend, so that is the reason why we have done it.
- Surajit Pal:** Lastly, if you can give some details about the rest of the 7 plus probable launches this year?
- V. Krishnakumar:** I am unable to talk about specifics, but suffice to say that we have chosen some very strong therapies to be in, right at inception, because cardio metabolic and vitamins, nutritional supplements, these three seem to be the choices of our markets for everybody now and having been in this market for a considerable period of time and having an established position, these three will continue to be the biggest recipients of investment from our side and we have also clarified that we are investing in another three therapies- women's health, dermatology and neuropsychiatry. So, this will be the footprint, really. There can always be exceptions, but largely you will see that bulk of our actions will be focused on these 6 therapies.
- Moderator:** Thank you. The next question is from the Abdul Puranwala from Anand Rathi. Please go ahead.
- Abdul Puranwala:** Sir, just wanted to understand how the market share in Zomelis would be in Q1 if we compare it sequentially?
- V. Krishnakumar:** We had reported an exit market share of around 4.8% in the molecule in the month of March, and we had reported a sales exit run rate of 4.4 to 4.5 crores, so that is trending towards 5 crores now because our run rate in June was 4.8. As far as market share is concerned, I don't think there has been any major change. If anything, it has only improved slightly. From 4.8%, it has gone to 5.1%, but we do not measure these impacts on quarter by quarter basis. It is important to have a longer length of time before we start benchmarking these parameters.
- Abdul Puranwala:** I wanted to understand the outlook for EHPL segment, I understand there would be some benefit on the topline for this segment because of COVID, but except COVID, how should we see the segment panning out in the next 9 months over such thing?
- V. Krishnakumar:** Which segment are you talking about?
- Abdul Puranwala:** EHPL.

- Amit Bakshi:** Yes, you are right. Throughout this year the focus would be on topline. We do not envisage a considerable or a significant amount of bottom-line in this year too. That should start coming in the next year. So, this year, our focus will be on the topline and, COVID or no COVID the portfolio actually has shut all the COVID products earlier itself, so there has been no positive or negative impact of COVID on the EHPL portfolio.
- Moderator:** Thank you. The next question is from the line of Sanjay Deshmukh from ABR Advisors. Please go ahead.
- Sanjay Deshmukh:** Sir, my question is towards the Other income, looking at this quarter, there is quite an increase in that, so can you please highlight on why there is an increase in the Other Income?
- Sachin Shah:** The increase in Other Income is basically because of two reasons, one is that treasury last quarter was around 180 crores which is around 520 crores this time as of the end of June and also the return-on-investment last year was 3% which is 5.2% this time. So, it is a double impact, increase in the treasury amount and also the increase in ROI. That is why you see the increase in Other Income.
- Sanjay Deshmukh:** And my other question is on the sales, so what has been the impact of COVID on sales basically?
- V. Krishnakumar:** It is very difficult to put a precise number. I will try to answer that qualitatively because definitely there have been disturbances in quarter 1. The only change in flavor was that unlike a national lockdown last time, this time there were regional lockdowns. So we have had several weeks of disruption at the ground level and our people were not able to meet with the doctors, the physical calls that were coming back, they went back to virtual calls. Lot of time our people were working from home, even the field staff, so there have been disturbances. There is no doubt about it. The challenge is ascribing a typical number to it, so if you ask me if there had not been these disturbances, what would your growth have been. I do not think I will be able to answer that, but definitely there have been disturbances. The part where there has been a lot of learning curve is, the supply chain. So unlike quarter 1 of last year, this time not just us, but pretty much that holds for the industry, we learned from the past and we took enough measures in advance to make sure that there were no supply disruptions and products were being supplied to every corner of the country. There were no stock outs. So, that part was taken care of at this time, but at the front end there were disruptions.
- Amit Bakshi:** And if I could add, what happened in the first quarter was quite unprecedented, we have generally been seeing that it is the acute which has been lagging behind the chronic growth. Because of COVID and related problems, when the patient gets hospitalized, it is bacterial drugs which are used, therefore you see the acute growing at 50%, partly because of a low base, but also significantly because of lot of infections which were during the COVID. So, we have seen the chronic market was little subdued in the first quarter and we feel that in the coming quarters, the trend is again going to be normalized. A normal trend typically for our market for the last decade or more has been a high growth in the chronic and a lower growth in acute. I think we will get there in coming quarters.
- Sanjay Deshmukh:** And my another question was around the Aprica brand, so the Aprica brand sales has been quite strong, is there any particular reason for the same and what is the outlook going forward with it?

V. Krishnakumar: At this point of time, it is good to look at what has happened last year, so because Aprica has had it much worse than the main business, that is the reason the comeback has been strong, so that is one reason, but Aprica in the last year got two good products, one is, SGLT2 and one is DAPA and both of them are actually shaping up. Therefore, we expect this trend to continue in this entire year and we see Aprica at the same level what they are in the first quarter, so it will be a significant growth in this year for Aprica.

Sanjay Deshmukh: And my last question if I can squeeze in, can you please elaborate some bits on the strategy of product launches and how is that going to impact our revenue growth going forward?

V. Krishnakumar: We expect the fourth quarter to be little robust on the new launches, otherwise as we have mentioned in the presentation, we have already had a couple of them being launched, the most significant would be coming in the fourth quarter and then very significant would be coming first quarter onwards for the next year. That is the time when lot of expiration on the LOE would happen, so that is the time when many significant diabetes and cardiovascular brands would be coming off patent, but going in this year, we expect fourth quarter to be quite robust from a new product point of view.

Moderator: Thank you. The next question is from the line of Rajashekar, an Individual Investor. Please go ahead.

Rajashekar: Sir, my first question is, have we taken full advantage of the Strides portfolio what we had taken over?

V. Krishnakumar: Yes, definitely, we have realized significant value from the portfolio in multiple ways. We took a portfolio with a topline of 180 crores and we focused our attention on the top 5 brands which at that point had a topline of 140 crores, so 40 crores of brands we just stopped promoting because that was tail end. This 140 crores top 5 brands, it has grown at a CAGR of 11% since acquisition. The largest brand Reneve has grown at a CAGR of 18% since acquisition and these growth rates are after absorbing a 7% hit because of the GST roll out, so that is as far as the topline is concerned. As far as field force is concerned, these products were being promoted by a field force of almost 1100 people at the time of acquisition. So, we took about 600-650 people on roll and we have expanded the field force productivity by more than 2.5 times since we have acquired and last but not the least on the manufacturing front, all these products were manufactured by third parties at the time of acquisition, so the Cost of Good Sold of the portfolio was 35%. Barring Reneve injection which as I already said, since we do not make injectables at this point, barring that we have taken most of the production in-house, so the cost has fallen to 22% which is much closer to our corporate average. So, it has been a very value creating acquisition for us on multiple fronts and not to mention that it gave us an entry into neuropsychiatry. We got two divisions which reached to neurologists, so it has worked well on multiple fronts.

Rajashekar: What is your plan on the inorganic growth, you have about Rs 500 crores worth of cash with you, so what are your plans to utilize that?

V. Krishnakumar: I wish I could plan inorganic growth. That would be the dream come true for anybody, but the best you can do on the inorganic front is to have the cash ready, make sure that you have your thoughts clear from what is it that we want to do and what we do not want to do and then only time will tell on what hits the sweet spot. So, suffice to say that we have our therapies defined very clearly on where we want to do inorganic

deals, we are very clear about the kind of products we want, what kind of prescription profile it has to have. So, anything that comes with less than 65-70% gross margin will struggle to find a place in our system and then obviously we are Metro Tier 1 operation, so the kind of acquisitions we make, the businesses will have to have those kinds of profiles. So, these things are fairly clear, but you cannot plan for it. We are confident that we are making all the right efforts and we are seeing the right deals, but only time will tell in terms of what hits the sweet spot.

Rajashekar: But are we looking at opportunities, that is what I am just asking?

V. Krishnakumar: Yes, we are.

Rajashekar: Then the other question is, Eris is basically in Tier 1 Metros only, are we planning to go into Tier 2, Tier 3 cities, any plans on that?

V. Krishnakumar: The choice of Tier 1 metro is very closely linked to our choice of doctor specialty and we have said on previous occasions also that since inception, we have been focused on specialists and consulting physicians. We don't focus on general physicians. So the moment you have decided that you are going to have a super-specialty focus, Metro tier 1 accounts for 75% to 80% of the super specialty business, so that is basically where we are playing and for the foreseeable future, we have also outlined in our strategy that one of the legs of expansion will be to expand physician coverage, but still remaining with specialist and consulting physicians, so we don't foresee the need to go beyond metro tier 1 for a considerable period of time.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: With the revenue growth now improving and the OPEX is also more or less normalized and as of now we are thinking about adding MRs may be by end of the year, so then that should logically help in better margins in the coming quarter, is that the right understanding or am I missing something?

V. Krishnakumar: When you look at our business from a 5-year perspective we have a standalone EBITDA margin it was 40% this year, for the whole of last year we were at 38-39%, there will be quarterly fluctuations, but 38 to 40% is the EBITDA margin profile of our base business and what we believe is that we have the liberty to let go of 200 to 300 basis points at the EBITDA margin level as we look to scale up in terms of the growth perspective, so 38 to 40% EBITDA margin business can become 35% to 36% EBITDA margin business at a significantly higher scale and this is a fairly sensible strategy going forward based on our perspective. Adding people is a considered call which we will do year-on-year and the trigger for that will be typically introduction of new products where we need to create a new division to give the products adequate focus - that will be the trigger for adding people and adding people will depress the profit in the short term because the first year of induction you will not see a division giving huge profit margins, but it is an investment that we make at an overall level and which will generate returns going forward. It has already been seen in the case of Zomelis. We added a division for Zomelis in the financial year 2020 and the results of that were

evident in financial year 2021, so basically what happens is the yield per man per month that scales up year-on-year in a new division and that is what drives the profitability of the new division.

Tushar Manudhane: And secondly, on the inorganic side, what kind of multiples or other valuations are we comfortable with or what kind of valuations assets are available may be at the plant level or may be at the portfolio level?

V. Krishnakumar: Did you ask what kind of valuations we are comfortable with?

Tushar Manudhane: Yes, I mean both the sides, what kind of valuations we are comfortable and what kind of valuation the assets are available?

V. Krishnakumar: If you see the last 5 or 6 significant deals that have happened on the domestic branded space, all the deals have happened at an EBITDA multiple range of 12 times to 14 times which we believe are reasonable multiples if the assets have big brands, strong gross margin and good growth profile, the market is quite disciplined now because the biggest buyers for branded formulation assets are either private equity or large Indian pharmaceutical companies and we have seen that over the last 3 to 4 years, there is a great deal of discipline that has come into the market in terms of the multiples that people are actually paying.

Tushar Manudhane: But at least on listed side itself, there are good number of companies having healthy cash and willing to pay for the inorganic growth and categorically for the domestic formulation business per se?

V. Krishnakumar: And yet we do not find people destroying the market by paying crazy multiples, so that is actually a good situation for a buyer to be in.

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

Kunal Dhamesha: Sir, what I wanted to know is, how our doctor coverage would have moved over the last 3-4 years and where do we see it over the next 4-5 years?

V. Krishnakumar: Our coverages would have grown by about 70 to 80% in the last 4 odd years and the effort going forward will be that in the next 4 to 5 years, we would look forward to at least grow by a similar rate, it is on a much higher base, but that is the kind of growth or expansion for reach or whatever you call it. That is what we would aim for.

Kunal Dhamesh: And then typically how much conversion do you see, let us say, 70-80% is almost doubled, so your doctor reach has now doubled over the last 5 years, but then from new doctors, how many of them on an average write the product, any indication on those incomes of how much penetration you make?

V. Krishnakumar: The answer is very clear when you look at our choice of strategy. The total number of active physicians in India is more than 10 lakhs, this is MBBS and above and the specialist CP population is about 2-2.5 lakhs and the rest of them are GPs, so we have chosen the smallest universe out here and we only have 2000 MRs as you know. So, we do not have the luxury of spreading ourselves very thin which means that our strategy in terms of physician coverage is the depth strategy, our call averages typically tend to be 8 a day.

That is a very solid number for us, so we spend more time with a fewer number of doctors and that is the way our business has been working, so we do not have the luxury of targeting too many doctors and playing a hit and run strategy. That does not work for the specialty business.

Kunal Dhamesha: And secondly, now if I look at diabetic franchise, we have molecules across different classes and typically a diabetic patient in India at least is given 2 or 3 medications, so do we see lot of significant synergy benefits also coming, the doctor who may be writing the Sulfonylurea is also now writing our DPP-4 and has that materialized or do you see that to materialize in coming years?

Amit Bakshi: Yes, that is an interesting one. So, I will tell you how is the disease profile and what is the control profile. So historically, what we have seen is, even today there are so many drugs coming, maybe it is true for US and the other Western countries also. Our HbA1c which is the measure of how controlled diabetes is, it is around 9% and we need to bring it down to 7%. That is the reason in diabetes, because it is the progressive disorder, we see one product not replacing the other product, of course the growth slows down over a period of time and you are absolutely right. In each prescription, - at a specialist level, we see around 3 products for diabetes in one prescription and this has steadily been going up because the nature of the disease has been progressive and that is the reason that a company like ours has been able to sell Sulfonylurea and the combination, DPP-4 and combination, SGLT2 and combination and even other drugs which are out of these class like Glitazone so on and so forth. Going forward, as and when more of these drugs are available, when they are hitting their LOE, these markets expand tremendously, so Vildagliptin market after 10 years, it grew by 100% on unit levels when it was genericized. So that is the place which is available for anti-diabetes drugs in our country and with so much of talks, we still have only 18% people who are somewhere in good control. So that is the irony of the entire industry.

Moderator: Thank you. The next question is from the line of Kenil Mehta from Omkara Capital. Please go ahead.

Kenil Mehta: What will be the total overall CAPEX after the phase one gets over?

V. Krishnakumar: That remains to be seen because we want to expand in a modular fashion as the business requires it, so phase one has been clearly chalked out. We will create a footprint that is slightly larger than Guwahati in phase one. So, tablets, capsules, sterile injectables, oral liquids and pharmaceutical R&D capability, that is part of phase one. Beyond that we have not really detailed the numbers but suffice to say that over a 5 year - 6 year period, if you have to build this out to the full potential, then you can look at a potential deployment of let us say, up to 250 crores.

Kenil Mehta: And what are those asset turn at peak capacity, 2x?

V. Krishnakumar: At present, the asset turn on Guwahati is nearly 10x and by the time, Guwahati maxes out, we will be achieving a fixed asset turnover of almost 15x. So, there is no reason to believe that for the new facility, it will be any different.

Kenil Mehta: And I wanted your view for next 3 to 4 years? Are we going to expand into export market or are we going to enter into API or something?

- V. Krishnakumar:** We will be completely focused on domestic branded formulation. That is our core strategy. We do not have any export plans on the horizon. Whatever evidence we see, everything continues to point in the direction of the Indian domestic formulation market being the best market to be and we continue to be there.
- Kenil Mehta:** Any plans for backward integration in the API?
- V. Krishnakumar:** Not on the horizon, the logic for backward integration comes in two ways, one is that you are dealing in some product where the API is so rare that it becomes strategically important to secure the supply. That is one reason to back integrate or you find that, you get a massive cost advantage by making the API yourself. Now, whatever products that we are in so far, I do not find either of these problems to be there, so we are fairly comfortable with the position we are in as far as APIs are concerned.
- Moderator:** Thank you. The next question is from the line of Prakash from Axis Capital. Please go ahead.
- Prakash Agarwal:** Just a quick bookkeeping one, what is the cash balance now and the dividend amount would be substantial right, so what would be the cash balance now and after dividend?
- V. Krishnakumar:** So, the treasury balance as on June 30th was Rs. 520 crores and the interim dividend amount is Rs. 82 crores.
- Prakash Agarwal:** And we are at least doing 80 crores free cash flow, so we will have a sufficient cash pile despite doing this 100 crores CAPEX?
- V. Krishnakumar:** Yes.
- Moderator:** Thank you. The next question is from the line of Hardick Bora from Union Mutual Fund. Please go ahead.
- Hardick Bora:** In terms of the marketing activities and traveling cost that typically our business would incur, what level of normalization have they reached during the quarter?
- V. Krishnakumar:** Definitely not full normalization, but definitely better than Q1 of last year, so there were pockets of the country that were closed at some point, but they were also open at other points. The whole conferences and CMEs, they have not migrated to the physical format in Q1. They continue to be webinars and digital format, but at the same time, as far as on-the-ground field activities was concerned, there was partial normalization which is why at a standalone level you see that Other Expenses have expanded by nearly 100 basis points for us.
- Hardick Bora:** And in general, I know that there has been the first quarter actually coincided with the second wave and some restrictions in specific regions, but can you just give some forward-looking view as the next quarter has started broadly, how is the activity, is it increased again? Is it further in-line with expectation or what is happening on that, sir?

- Amit Bakshi:** We are still coming up there, so what we understand from the market is that especially in the chronic diseases where patients take time to come back and do come back when they feel it is safer for them, the footfall hasn't really come back to what it used to be pre-COVID levels. With the July exit, we are at around 80-85% of that, but we have increased significantly in the last month. So going forward, we believe that it will come close to 100%, but it is still not there as it used to be in the pre-COVID era.
- Moderator:** Thank you. The next question is from the line of Surajit Pal from PL India. Please go ahead.
- Surajit Pal:** How many people you are planning to add in your MR stream because currently you said you have 2000 people?
- V. Krishnakumar:** We have to see how the rest of the year plays out. If there is no more disturbance at the field level because of external factors, then we have the ability to add one division in the later part of the year and one division for us is typically 200 reps.
- Surajit Pal:** One division equal to 100 people.
- V. Krishnakumar:** One division is typically 200 reps.
- Surajit Pal:** And that is in FY22-23 put together, these two divisions?
- V. Krishnakumar:** One division in FY22, we have a clarity on, FY23, we haven't thought that far ahead, but Amit made a point about the kind of patent expiry opportunities that are available in FY23, so it would be reasonable to expect that, we can add a division in FY23 as well.
- Surajit Pal:** Yes, let us say Q4 and Q1 of FY23, right and what is the current productivity and how it will face assuming what Amit is expecting is coming through and what it should be?
- V. Krishnakumar:** We reported a growth in productivity in FY21 year end of about 4.25 lakhs and we definitely expect an improvement on that this year. It is a little too early to predict where we will end. Obviously, once we add a division, the denominator increases to 2200 reps, so on that overall basis, you might see a decline, but as far as the existing phase of reps is concerned, we definitely expect a good growth this year.
- Amit Bakshi:** I think our first quarter YTM has been 5 lakhs, am I right?
- V. Krishnakumar:** Yes.
- Surajit Pal:** And what kind of choice of investment instruments you were looking for Sachin, as you said you have got higher ROI for other income purpose?
- Sachin Shah:** Predominately, we invest in AAA rated debt funds only.
- Moderator:** Thank you. The next question is from the line of Shivani N from Bosch Capital. Please go ahead.

- Shivani N:** On the question of the disruptions that were caused, just following upon that, given COVID and the second wave, do we see any disruption continuing in the second half and what would be the outlook on the margin, sir?
- Amit Bakshi:** So, from a COVID point of view, things look far better. The vaccination in the Metro and Tier 1 towns have been good and it will continue to be good, so we feel sitting where we are that we might not see much disruption going ahead, but that is the best-case scenario. We never know how the beast has behaved in the past.
- V. Krishnakumar:** As far as margin is concerned, whenever there are new product launches, whenever there are new people being added, obviously margins do get suppressed in the short term and then as the new products scale up, as the new divisions scale up, margins come back to the overall level. So, there is a short term, medium term kind of trade off and these are investments that need to be made for the growth of the business. Our long-term view on margins is something that I have already articulated that we are at such a good starting point that we do have the ability to let go of a bit of margin as we accelerate our growth trajectory.
- Shivani N:** My last question, coming back to the COVID and seeing that this was a more severe wave, are we seeing, what is the outlook on the Vitamin section and the segment that we have, I mean did you see like a long-term growth opportunity for us?
- Amit Bakshi:** Yes, so VNM as you have seen in the presentation is our third biggest category and we believe that COVID has led to a structural change in the way people thought about VNM. It is both from a doctor's perspective and also from the patient's perspective. Certainly, not all is going to stick, you have seen the way it has fallen from May onwards, but it will be 12% to 15% growth range which will be maintained for couple of years. So that is an indirect fall out of the COVID.
- Moderator:** Thank you. The next question is from the line of Agraj Shah from Tata AIA Life Insurance Company. Please go ahead.
- Agraj Shah:** Sir, on the R&D front, you mentioned that the new capacity that you will be putting up in Gujarat, it will be having an R&D unit, so can you just give more details around that, as in based on whatever is the existing R&D set up is, what will, how will that augment to the existing one and what are the plans for the future and in that light as you say that in the next financial year you will be having a lot of products going off patent and in the past you are saying that with Zomelis we preferred the acquisition route. So, for the new opportunities, would we be also looking at inorganic route or we will be developing them inside, what would be the strategy around that?
- V. Krishnakumar:** There are two questions there, I will take them one by one. As far as R&D is concerned, pharmaceutical research and development is really about developing new formulations, so these formulations could be plain vanilla oral solid dose formulation of products that have gone off patent or they could be combination products or they could be incorporating some new drug delivery system like an extended release once-a-day products. So, our R&D efforts have been and will be focused around formulation development. When we say R&D, we don't mean drug discovery or basic research or API synthesis. We are not talking about

any of those. As of today, we work with a lot of third-party partners who have been long-term working with us and who partner us in terms of developing and launching new products. Over the next 2-3 years, just as we believe in manufacturing majority of products in-house, we have decided to take the formulation development activity in-house as well, so that is what you will see over the next 2 to 3 years.

Agraj Shah: In terms of R&D team, in terms of hiring, do we have an existing team, will be adding more people around that and since you have also getting into injectables and other oral liquids etc., so?

V. Krishnakumar: We will be building up a team, so that is the plan.

Agraj Shah: And then the second part of the question is around LOE product mix, the strategy around that?

V. Krishnakumar: Zomelis is something which was available, we acquired it and it has turned out fantastically well. 12 crores in the first year followed by 44 crores in the second year and we are going at a healthy trajectory and on the back of that, we launched Gluxit which was an organic internally homegrown product. Both are number one in their molecules. So, both strategies have worked for us. Going forward, the most important thing is that Zomelis and Gluxit have given us the confidence that in all the future LOEs that come up, we have the ability to play for a number one, number two market rank in whatever products come up because the Eris franchise in diabetes has been built up to such an extent that when we launch a new product in this franchise, we do not have to again bend backwards and start from scratch. The reputation and the credentials are already there and this basically means that Eris is one of the 5-6 companies which the specialist has in his mind space and the prescriptions will come. So that kind of confidence we have derived from Zomelis and Gluxit experience. We are totally good to organically play in the future opportunity. Having said that if some good inorganic opportunity comes at the right price, we are open to it.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I will now like to hand the conference over to Mr. V. Krishnakumar for closing comments.

V. Krishnakumar: Thank you. Thank you everyone for taking the time out to participate in the call. By way of summary, Eris delivered a consolidated revenue growth of 19.1%, EBITDA growth of 21.6% and PAT growth of 19.8% this quarter. We continue to feature among the top 10 fastest growing companies in the IPM and we have outperformed the market in chronic and sub-chronic therapies which account for 92% of our revenue. We have a robust power band's portfolio with 10 out of our top 15 brands being ranked among the top 5 in their respective segments. We have launched 3 new products in quarter 1. We expect our organic growth to be driven by our power brands' portfolio, new products pipeline, expansion of specialist and CP coverage and our foray into other specialties. We expect to execute along the strategy with a continued focus on high returns and robust cash flow generation. Thank you. Have a good day and stay safe.

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

(This document has been edited to improve readability)