



**“Eris Lifesciences Limited
Q2 & H1 FY22 Earnings Conference Call”**

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MANAGEMENT:

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Moderator:

Ladies and gentlemen, good day and welcome to the Q2, and H1 FY22 Earnings Conference Call of Eris Lifesciences Limited. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" 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, everyone. And welcome to our second quarter conference call. I am V. Krishnakumar and I'm happy to share the highlights of the quarter with you. As per the AIOCD retail audit, the Indian Pharma Market grew at 15% in Q2 of this year, but this was on a low base of 1% growth in Q2 of last year. This 15% growth in Q2 was once again led by acute therapies, which enjoyed the benefit of a low base effect from last year, along with a surge of infections like H1N1, Dengue and Chikungunya after the wave two of COVID subsided. I am happy to share that Eris grew at 11.4% in Q2 of this year, on top of a 7.4% growth in Q2 of last year. We have also been looking at how our business has performed from pre COVID levels. The Indian Pharma Market, from its pre COVID level, has grown at a CAGR of 8.3%. This is excluding the COVID molecules Favipiravir and Remdesivir which were transitional. Compared to this, Eris has grown at a CAGR of 12.2% from pre-COVID levels, which is nearly 400 basis points ahead of the market growth. The therapy wise breakup of this growth is available in our investor presentation. And on this basis, Eris continues to feature among the top 10 fastest growing companies in the market.

In quarter two, the chronic segments of IPM grew by 8%, which is a significant decline from the 20% growth witnessed in Q1. Eris chronic portfolio grew 15% in Q2, which is nearly 700 basis points ahead of the market. The cardiometabolic market grew by 4.7% in Q2 whereas our cardiometabolic portfolio grew at 12.7% which is nearly 800 basis points ahead of the market. In CNS, our Q2 growth was nearly 40% which is nearly four times of the market growth of 11% during this period. Our VMN segment grew at 6.3% in Q2 versus a market growth of 7.6%.

In terms of financial highlights, our consolidated operating revenue for the quarter was Rs.360 crores which represents a growth of 9% over Q2 of last year. The consolidated operating revenue for the first half grew by nearly 14% to Rs.709 crores. Our branded formulations sales grew by 7.3% in the quarter and 13% in the first half of this year. I'm happy to inform you that our standalone YPM has increased to Rs.5.13 lakhs in the first half of this year, which represents 11% growth, up from Rs.4.6 lakhs in the first half of last year. Our Q2 consolidated gross margin stood at 81.5% and it has improved by 88 basis points from Q2 of last year. Our standalone gross margins in Q2 has increased by 192 basis points to 84.2% compared to last year; this has been on the back of a favorable product mix. At an H1 level, standalone gross margin stands at 84.5% and consolidated gross margin stands at 80.9%.

During the first half of the year, standalone other expenses grew by 12.3% and consolidated other expenses grew by 14.7% led by a gradual normalization of field activities. Our doctors tell us that more than 80% of the patients are physically back in the clinics. The interaction between our people and medical practitioners has also been restored to the physical format. Even the CMEs have started to slowly return to their original formats.

Consolidated EBITDA for Q2 stands at Rs.140 crores, representing a growth of 12.1% over the corresponding period of last year. Standalone EBITDA margin stands at 42.5% in Q2 representing an increase of 294 basis points compared to Q2 of last year. This is largely owing to the expansion of gross margin, as I mentioned above. Consolidated taxes for the quarter stood at 9.5% compared to 7% in Q2 of last year, on account of the reversal of deferred tax liabilities. Consolidated net profit for quarter two stands at Rs.118 crores, which represents a growth of 10% over Q2 of last year. Consolidated net profit for the half year ended September 21 stood at Rs.225 crores, which represents a growth for 14.4% over the first half of last year. Our standalone debtor days stood at 39 days at the end of quarter two, and our treasury balance as on 30th September was Rs.519 crores.

We continue to enjoy significant tailwind from our power brand portfolio. At the end of quarter two, nine out of our top 15 mother brands were ranked among the top five in their respective segments. Our latest generation diabetes products Zomelis and Gluxit continue to deliver resilient performance. They continue to maintain their number one market positions among other generic brands in their respective segments and rank number three including innovator brands. Zomelis, our brand of Vildagliptin has crossed annual sales of Rs.54 crores as of September 2021, and its monthly sales run rate has grown to Rs.6 crores a month. This represents a scale up of six times in less than two years since acquisition. Gluxit, which was among the first generic brands of Dapagliflozin to be launched in October 2020, has crossed Rs.25 crore of revenue in the first year of its launch. It is run-rating at approximately Rs.3 crores of sales per month. Zomelis has now been a part of our portfolio for nearly eight quarters and Gluxit for four quarters. Hence this will be the last quarter when we will talk about brand specific details for Gluxit and Zomelis; going forward we will continue to showcase both these brands as part of our larger cardiometabolic portfolio.

Pioneering and supporting medical innovation has always been part of our DNA. After having lived through hundreds of thousands of webinars since the start of the pandemic, there was a dire need to rejuvenate the CME format in order to keep the medical fraternity engaged and excited. I'm happy to share that Eris has supported a first-of-its-kind initiative in this regard, with the introduction of a format called the Roadinar. Our first initiative called the Metabolic Roadinar will feature 18 well known endocrinologists and diabetologists across the country in nine episodes, discussing topics related to cardio-metabolic health. The first episode in the series is already up and available on YouTube. We are also happy to share that we have bagged a prestigious award in the Innovator category for Digital Transformation in an event conducted by Moneycontrol and Network 18. More than anything else, we take this as an endorsement of the business resilience we have demonstrated during COVID times, with market leading growth and robust financial performance. These were the highlights of the quarter. We can now open up for questions.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rahul Tanwar from EB Advisors. Please go ahead.

Rahul Tanwar:

Sir, can you please elaborate on the product launch strategy? Also in the last quarter earnings call it was mentioned that Q4 will be a little robust regarding the launches, is it still a scenario going forward?

V Krishnakumar:

As far as the outlook for new products this year is concerned, we had planned for 10 products out of which we have launched four products in the first half of the year. And we have some more launches lined up in the second half of this year in the areas of cardiometabolic, women's health and wellness.

- Rahul Tanwar:** Okay. Sir, which are the new patent expiries that are coming up in next one or two years?
- V Krishnakumar:** The major activity in this space will be witnessed in the field of oral anti diabetes, where the newer generation molecules like DPP4s and SGLT2s will constitute the major pipeline.
- Rahul Tanwar:** Okay. Sir, my next question revolves around the Gujarat facility. What is your thought process on the Gujarat facility in the sterile injectables and to my knowledge, it has also been approved by WHO. So, what is the outlook there and looking at the lower tax rate which Guwahati has, will the Gujarat plant have the same?
- V Krishnakumar:** The thought process behind the Gujarat facility was that Guwahati is about 60% full now if I look at our main tablets block, and we estimate that in the next three years, Guwahati will reach an 80% kind of utilization, at which point we will definitely need a second site. So we said that, we will plan well in advance and that is the reason why we have decided that we will set up a second site. As a pharmaceutical company, it also makes a lot of sense to have two manufacturing facilities so that we don't over-depend on one facility. Sterile injectables is something in terms of manufacturing capability we don't have at Guwahati. So we are adding that in Gujarat. One of the prominent products in our portfolio, Renerve, also has a sterile injectable formulation which is presently being done by a third party. Once Gujarat is up and running we can do that in-house. In terms of tax rate, the Gujarat facility will be eligible for a tax rate of 15%. So, going forward, for the Guwahati facility FY24 will be the last year for the tax holiday. Beyond that, one will see a blended tax rate come into play based on the combination of the business from Guwahati and Gujarat.
- Rahul Tanwar:** Okay, sir thank you. I just have one last question. Could you please throw some light on the capital outlays and also in the last quarter call it was mentioned that INR of 120 to 130 crores will be the capex; is it still the same?
- V Krishnakumar:** Yes, that still remains the case. So, in the first phase of the project, we will create a footprint which is more or less equivalent to what we have in Guwahati and the outlay for that remains to be Rs.120 to Rs.130 crores.
- Moderator:** Thank you. The next question is from the line of Preeti Nair from KC Investments. Please go ahead.
- Preeti Nair:** Sir, I have a couple of questions. First is during very expensive private company valuation do you see more accelerated buybacks or more bolt on acquisitions in the near future given your tax position with Guwahati plant and cash generation ability?
- V Krishnakumar:** Acquisitions and licensing opportunities are being evaluated all the time. And, if the right deal is available at the right price, then the most important parameter here is strategic fit. We have very clearly articulated that we are not pursuing acquisitions or licensing opportunities outside of six therapy areas, which are diabetes, cardiac care, VMN, women's health, neuro and derma. So, these are the pivots there and then within there, we have several other hurdles, which an opportunity has to pass through including gross margin profile, size of brands, where the prescriptions for the brands are coming from today, do they have a super specialty flavor or are they GP brands, etc. So, an opportunity which fits all of these aspects will

definitely be a worthwhile opportunity to pursue. As far as deal pricing is concerned, we've gone over this in the past as well, that the deals that are happening in the market today especially in the domestic formulations space, they are being priced in the range of 12 to 15 times EBITDA. As long as the deal meets our criteria, this is not an unreasonable band in which acquisitions can be made. So yes, we are evaluating opportunities all the time, only time will tell in terms of what hits the bull's-eye.

Preeti Nair: Okay. Sir, I would also like to ask, how has the increase in raw material prices affected Eris and its consumers by approximately what percentage has the product prices increased?

V Krishnakumar: We took a close look at this, we looked at our top 25 raw materials by purchase value. And out of this list of 25, there are only five raw materials which have seen a price escalation of more than 10% from last year's levels. So there has been no appreciable impact on our gross margins so far. In fact, it's been the other way around. Gross margins have significantly improved because of better product mix. But still, as a safeguard in these five raw materials we are building a stock for the next five to six months, so that we are able to mitigate the impact of any potential price increases.

Moderator: Thank you. The next question is from the line of Prakash from Axis Capital. Please go ahead.

Prakash Agarwal: My question is on the growth. Clearly, gross margin and EBITDA margins are much better. Is it due to a higher chronic mix and then why still single or high single digit growth, when do we go to double digit growth? Are we looking at double digit growth for the second half of the year or what is the outlook?

V Krishnakumar: Yes, interesting question, Prakash. So, there are a couple of things that are in play. One is that as we pointed out the growth of the chronic segment crashed from 20% in Q1 22 to 8% in Q2 22. So that is one part of it. But the other part, which has also played out is that post COVID wave two, there has been a spate of other infections like H1N1, Dengue, Chikungunya that have played out and because of these infections, the non-COVID acute market has grown at 24% in Q2, which is a little unprecedented. So when you look at this from the stockist perspective, it has a major implication because the stockist does not want to hold an inventory of more than 28 to 30 days, everything put together. So when stockists are seeing a growth in acute they are naturally stocking up more on acute products and less of chronic products. So, regardless of whatever secondary growth rate that you see on the AIOCD, the stockist strategy automatically leads to a lower primary sales growth in chronic. And that is unavoidable. So that is one part of it.

The second part is that, for the last five or six quarters, it has been a little challenging to get one's arms around the quarter-on-quarter growth trend, which is the reason why, to get a perspective we took a strong look at how we've been doing since pre-COVID times. And if you look at that trajectory, the cardiovascular market has grown by 10% per annum in value terms since pre pandemic times, which is completely in line with expectation. If you look at oral anti-diabetes, that market has grown at 7% in value terms, which might appear slightly underwhelming. But it's important to understand why this is happening. And in the last two years, the OAD field has significantly expanded due to the generic versions of molecules like Vilda and Dapa. Now the flip side of this has been muted growth in terms of value, because both Vilda and Dapa witnessed 65% to 70% price erosion when they went off patent. So this is a trend that is going to continue

in diabetes for some time with more patent expirations expected to happen in the next 18 to 24 months, you will see very, very good volume growth in diabetes but muted value growth.

So, if we consider all these factors, the takeaway for us is that both cardiology and diabetes are projected to witness significant expansion and robust growth over the long term. So, notwithstanding the quarter-on-quarter variations, we are reasonably optimistic about the overall outlook going forward. Now, the second part of your question was, how are we looking at second half. We definitely need the market to recover in Q3, because Q2 has been impacted, as we discussed. So, subject to market recovery in Q3, we are still on track to deliver a 15% earnings growth this year. I hope that answers your question.

Prakash Agarwal:

Okay. And outlook on margins?

V Krishnakumar:

It is a little difficult to say now, because as you can see the margins in the first half of the year have been favorable because of a much better product mix. So even after part normalization of marketing activities, the margins have overall improved. The interplay between top line and margins is something that we will get better clarity on once we have Q3 in the bag, then I can give you a much better answer. Right now, a lot hinges on what the Q3 market growth rate and hence our growth rate comes out to be.

Prakash:

Working capital days, last time we spoke about that being in sync, or reducing. It is still marginally up. What will really happen on the ground and how do we plan to crush it?

V Krishnakumar:

Quarter two is usually our heaviest quarter, so quarter one to quarter two, we always see an increase in working capital days, and we've had a 36 to 39 kind of an increase. This is something that we expect will get normalized at the end of quarter four.

Moderator:

Thank you. Next question is from the line of the Dela D'Souza from JK Investments. Please go ahead.

Dela D'souza:

I wanted to know Eris right now is in Tier I cities. In the near in the near future do you plan on expanding the same?

V Krishnakumar:

We are present right now in metros and Tier I, you're right. And the reason this is the case is a function of our choice of doctor specialty, because we have taken a strategic call to cover specialists and consulting physicians. And you find 80% to 85% of this population based in Tier I and metro. So going forward, at least for the next four to five years, we are expanding our penetration and reach within the specialist and CP segment and we will continue to stay focused on metro and Tier I. There is no plan on the horizon in the medium term to get into Tier II and beyond.

Dela D'souza:

Thank you. My next question is, can you please throw some light on how the cardio, diabetic and VMN segments are growing and if you could provide guidance for the next quarter on these therapies?

V Krishnakumar:

Yes, I'm happy to do that. The only caveat is we will not be able to comment on quarter-on-quarter fluctuations because as I mentioned earlier on the call, the variations have been quite huge, especially after the pandemic broke out. So, the long term trend in all these therapies looks pretty good. As I mentioned earlier from pre-COVID levels, oral anti diabetes has grown at 7% per annum in value. And we

do expect this kind of 7% to 8% growth rates to continue for the next couple of years, because we are slightly muted in value terms, but it will be explosive in volume terms, because of the new product launches and the patent expirations and so on. In OAD, our growth rate has been 19% vis-à-vis the market growth rate of 7% from pre-COVID levels. Cardiology has grown at 10% per annum from pre-COVID levels, which is in line with what we expect of this therapy. We have grown at 12% from pre-COVID levels. The VMN growth from pre-COVID levels has been 9% and our growth has been 12.5%. We believe that there is some room for expansion in the VMN growth rate as far as the market is concerned because definitely post COVID there has been a heightened level of awareness around wellness and supplements and so on. So, the VMN market in the long term could graduate to a 10% to 11% per annum kind of growth rate. And the fourth therapy for us is CNS, which has grown at an 8% per annum rate since pre-COVID times and our portfolio has grown at 15.5%. So, CNS is again one more therapy where we expect to see an 8% to 10% per annum kind of a growth rate. So, these are the four therapies that we actively track which make up 86% of our total revenue.

Moderator: Thank you. The next question is from line of Amit Naik from Naik Consultants. Please go ahead.

Amit Naik: I have three questions. My first question is in the quarter, how far has the digital penetration been for Eris?

V Krishnakumar: Digital penetration was excellent for us since the start of the pandemic, because when the whole CMEs, and group interactions especially, shifted to the webinar format, we were very quick to adapt. In fact, since the start of the pandemic, we have conducted more than 3,200 webinars covering more than 46,000 medical practitioners. And starting June and July, when the wave two started subsiding, we have seen that the situation has been gradually reversing. Our doctors tell us that more than 80% of the patients are physically back in the clinics. As far as the interaction between our people and doctors is concerned, that is 100% back to the physical format now. The next step will be in fact a normalization of the CMEs. We conducted a physical event involving 150 to 200 doctors a few days ago in Bombay. So, going forward it is reasonable to expect that the CMEs and conferences will slowly start coming back to their original formats. There is a very, very high degree of fatigue in the medical fraternity with online and digital events.

Amit Naik: That's very good to know. So my second question is that, is there a brand substitution being observed at pharmacy level, whether we see that the e-pharmacy channels are being opened up?

V Krishnakumar: We have been spending a lot of time studying the e-pharmacies market and seeing how it is evolving and how is the conduct. Suffice to say that we have concluded that e-pharmacies could be a force multiplier for us and not necessarily a challenge as far as substitutions are concerned since e-pharmacies need to work with all pharma companies; they can't pick and choose between the top 25 companies saying I work with five of them. Because of this, e-pharmacies do not actively substitute prescriptions. If there is a prescription for Glimisave, and Glimisave stock is available with them, they will most certainly fill that prescription with Glimisave. The only case in which substitution is observed in an e-pharmacy is when Glimisave is out of stock in their system. And at that point, they will actively propose something else. So, they are not seeking to spoil the market, they are seeking to work with all companies.

- Amit Naik:** Okay, noted. So my last question is regarding in the second quarter as the COVID cases declined significantly after wave two, how are the sales impacted when we look at the products which were helpful in treating or supporting the treatment?
- V Krishnakumar:** We did not have any COVID products in our portfolio. That is the reason why when we look at the market growth versus Eris growth, we always look at it excluding Remdesivir and Favipiravir because we were not present in these molecules. The real impact that COVID has had on our growth can be expressed in terms of how the chronic therapies have grown slower than acute therapies. That has been a direct hit for us, but at an overall market level, you can see that Favipiravir and Remdesivir have come off their highs. Antithrombotic segment was roaring during COVID times that has also fallen back to normal levels. The VMN segment, which was enjoying a hyper growth during COVID times that has also fallen back to normal.
- Moderator:** Thank you. The next question is from the line of Kartik from Union Mutual Fund. Please go ahead.
- Kartik:** So, I have two questions. First is on the field activities. In the presentation you mentioned that operating expenses have gone up to the extent of some gradual normalization in field activity. So just wanted to check going forward are we expecting that this will continue to go up or is this level basically the new norm now, as far as field activities are concerned?
- V Krishnakumar:** We can expect some more increase, because complete normalization has not happened. Part normalization has started happening. There was a bit of a myth when the pandemic started, that everybody is happy to sit at home and conduct their business over the internet. But clearly, practical experience has told us that this is not the case, our doctors are dying to get back to physical interactions. That normalization just about started in Q2, and as it picks up pace in quarter three and quarter four, it is likely that expenses will grow up a bit more.
- Kartik:** Got it. So it should ideally go back to the pre-COVID level in terms of both activity and costs?
- V Krishnakumar:** That would be the expectation, over what timeframe it happens, that really depends on if there is going to be a wave three and if so then when.
- Kartik:** Understood, fair enough. Second question is you do have a nice section where you have spoken about the growth drivers going ahead. Very well spoken about significantly increasing the coverage of specialists and consulting physicians. Is there a target in terms of additional field force that you have in mind that you can share some indication on that?
- V Krishnakumar:** So we have 2,000 reps on our rolls at this time. And it is likely that in the fourth quarter of this year or in the first quarter of next year, we will add one more division, which will be another 200 reps. And then later on in the next year, which could be again in the third or fourth quarter of next year, there could be yet another division added. So this is basically what we have on the horizon as of now.
- Kartik:** Okay, and this next division that will be added in 4Q FY23 would be similar 200 to 300 MRs?
- V Krishnakumar:** Yes, 200 is kind of what we have in mind right now and it will be a cardiometabolic division.

Kartik: With these two additions that we will do, just to understand this would take care of the growth for how many years, three years and then we will have to revisit?

V Krishnakumar: That is not how it works, because when we talk about expanding doctor penetration, you don't always do it by adding new divisions. In fact, expanding doctor reach is never the rationale to add a new division, the rationale to add a new division is driven by new products. So our plan to add new divisions and the timing of those will depend on when significant important new products are becoming available. The expansion of reach is something that can be achieved within the existing division structure as well, by simply reorienting the efforts from part A to part B, which is what we have been actively doing over the last three to four months. And we can also add people to existing divisions, which is not a big thing. So if I take one of my divisions which has 250 people, I can significantly expand my reach by adding let's say another 20, 30 people to that division, which is not a huge thing when it all adds up, it is still a very modest effort. So that is the combination. We haven't set ourselves a number target that we want to achieve this penetration by this time. If I look at the total specialists and CP population, our penetration is about 11% to 12% at this time, and suffice to say that we want to increase it significantly. And the only place where we have really defined a number for ourselves is in the case of cardiologists where we said that we will achieve a 50% expansion in the next 18 to 24 months.

Moderator: Thank you. The next question is from the line of Priya Gupta from HEM Securities. Please go ahead. Due to no response we move on to the next participant. The next question is from the line of Dela D'souza from JK Investments. Please go ahead.

Dela D'souza: I have two questions, how are you planning to utilize these free cash flows, and what is the current field force and are we planning to increase it?

V Krishnakumar: So, I just spoke about the outlook on the field force expansion, but I'm happy to quickly recap. We have around 2000 field force at this point and over the next 15 to 18 months, we might add another 400 people that is the broad outlook that we have, the exact timing is something that will fall in place as we go forward. The first leg of expansion would be in quarter four of this year or quarter one of next year. And sorry, your other question was about?

Dela D'souza: How do you plan to utilize the free cash flows?

V Krishnakumar: Sure. So, as of September we had 519 crores of cash balance. The capital project that is coming up, has an outlay of around 130 crores. We have also been actively evaluating acquisitions and in-licensing opportunities, there are some opportunities in the pipeline at all times. So, it is good to have some cash in the bank, so that we can move quickly on these opportunities whenever they appear. And last but not the least, we have clarified our dividend policy that we will endeavor to maintain a minimum DPR of 20% going forward. Towards this we have declared an interim dividend in quarter one. And at the end of every year we will take a call and if there is a case to dividend out some more cash, then we will be very open to that.

Moderator: Thank you. The next question is from the line of Rahul Tanwar from EB Advisors. Please go ahead.

Rahul Tanwar: My first question was on NLEM exposure. I just wanted to know from your end as to what update you could give on NLEM exposure as well as there has also been an update from the government end on this, so just a thought process from your end.

V Krishnakumar: Yes, there have been two updates in the last two months. Our NLEM exposure, by the way is around 7% which is by far the lowest among the top 25 companies on the IPM, the IPM average is 16% to 17%. The first development happened a couple of months ago when Teneligliptin went into NLEM. And I don't think the prices have been notified yet, as and when they are done we'll have a much better assessment. But if you go by the usual NLEM formula, then the impact is minimal. The second development that is more recent is Glimepiride being covered in NLEM. And there we quickly ran the math. But because Metformin is already under price control, all our Glimepiride-Metformin combinations have already been priced keeping that into account. So the recent announcement on Glimepiride has practically no impact on our numbers.

Rahul Tanwar: Sir, my next question was on the revenue growth, the revenue growth has been a bit less when we compare it to previous two to three quarters. So, if you don't mind, could you please provide some light on it and also it would be really helpful if you could provide some outlook for the future.

V Krishnakumar: The revenue growth on the primary side does get driven by the market; that is not a reality that we can escape. If you look at the chronic therapy growth in Q1 22, it was 20% and this crashed to 8% in Q2 22 and we don't believe either of these numbers. In the long term, reality is somewhere in between. But the other interesting thing that's happened in Q2 of this year is that, even the non-COVID portfolio, I'm talking from a market perspective, the non-COVID acute market has grown by 24%. This was unexpected and the reason this happened was post COVID, you had this whole plethora of infections exploding, including H1NI, Dengue and Chikungunya. So, what happens is, when you look at it from a primary sales growth, you have to take the perspective of a stockist, because we bill to the stockist and the stockist will not hold more than 28 or 30 days of inventory. So, when he sees that the acute growth is coming more and the demand for acute products is more they automatically shift their stocking mix to more of acute products and lesser chronic products. And this leads to less absorption for us by them, which has a direct impact on our primary sales. So, for our growth to be say 14% to 15%, i.e. the kind of growth rate that we are looking at, it is benchmarked based on the assumption that the market growth rate will be at 10% to 11%. So, whenever this equation swings, it is going to have an impact on primary growth rate. So that is how it works> I don't know if you were there on the earlier part of the call, but I spoke about the growth trajectory of the therapies as well as our performance from pre pandemic levels, because that is a better benchmark to evaluate the health of a therapy not only for the market, but also for Eris. So if you look at the growth trajectory from pre-pandemic times, you can see that cardiac has grown at 10%, VMN has grown at 9%, these are all market growths. And CNS has grown at 8%, oral anti diabetes has grown at 7%. And we have outperformed all these segments by a huge margin. So, that is the yardstick that we have been using - not only us, but the entire industry is now talking about how are everyone performing from pre pandemic levels. So the medium to long term growth story in all these therapies is still intact. The one thing where I would not be willing to hazard a guess is the Q3 market growth because, again for us to start looking at those kinds of growth levels, it is important for the market growth also to bounce back in chronic. And whether it

is going to happen in Q3 or Q4, that only time will tell, but it's reasonably clear that by the first quarter of next year, the market should achieve some kind of normalcy.

Moderator: Thank you. Next question is from line of Gaurang from Motilal Oswal. Please go ahead.

Gaurang: Sorry, if I missed your comment on cardio metabolic segment, because I joined late, but how do you see this segment growing going forward?

V Krishnakumar: The cardio segment has maintained a 10% per annum growth rate from pre-COVID levels and this is a reasonable expectation to have going forward. Also the cardio market will keep to that 10% kind of growth rate. If you look at the oral anti diabetes market, from pre-COVID levels, it has grown by 7% per annum, which might look a little underwhelming on the face of it, but it's easy to understand why this is happening, because if you see the last two years, there have been two blockbuster molecules that have been available to the generic players, one is Vildagliptin and the other is Dapagliflozin. So, there has been a very good expansion in the market because of these two molecules, but the flipside is, you will have muted growth in terms of value, because typically whenever patent expiration happens, the generic versions are launched at 65% to 70% discount and that is very normal. So because of that, you can see the value growth in oral anti diabetes is at 7%. Now, how will this pan out going forward, we think this could remain at current levels for the next two years, because there are more patent expirations yet to happen in the diabetes market. So, in the next two year kind of timeframe, we expect to see robust volume growth, because as more and more molecules go off patent, the generic versions come in, the market gets expanded. And then once the price reduction effect wears out, and the prices stabilize, the stage is set for healthy volume as well as value growth.

Amit Bakshi: KK, if I can just get in here, what is going to happen is, this has been explained earlier also in the call, it has been 5 to 10 years, we waited for the expirations to happen. The companies who didn't have the patented products, those people will sell these products at a lower price like us. And because we didn't have an access, companies like us will grow significantly more than the market. That's the reason you see that on a 4%, on a 6% market growth, we grow at around 15% -16%. And this will continue to happen over the next couple of years, because number one, after genericisation, the market is expanding and number two, there are more products which are coming out, which will continuously happen in the next two to three years.

V Krishnakumar: Yes, and just to add to that, if you see over the last two years, the market grew at 7% in diabetes, and we grew at 19%. So that is the point that Amit was illustrating that going forward also, it is reasonable to expect that this kind of out-performance can continue from our side.

Gaurang: Okay, thanks a lot. And another one was since the e-pharmacy space is targeting mostly chronic therapies. Do you think that maybe the IPM numbers may not have that included in the estimate, so could that be the reason why the cardio metabolic therapy growth looks muted?

V Krishnakumar: No, that can't explain it, because the e-pharmacy products also go through the regular stockist channel.

Gaurang: Okay. And one more thing again, I have joined late, so I'm not sure whether you have answered this already. But what is your outlook on new launches over the next 12 to 15 months?

V Krishnakumar: The next 12 to 24 months represents a very, very exciting period for companies which are big in diabetes. And as Amit just mentioned, we have been waiting for, as much as last 5 to 10 years for this kind of a pipeline to emerge. So, between the SGLT2 and the DPP4 inhibitors, you have a very, very interesting pipeline ahead. It is a little early to quantify exactly how many new products do we plan to launch in the next 12 to 18 months, if that is your question, we are in the process of developing clarity on that and we will obviously come back to you with an update, but right now suffice to say that we are evaluating a very large number of options.

Moderator: Thank you. The next question is from the Kartik from Union Mutual Fund. Please go ahead.

Kartik: Just one question on the MR productivity. At current level our MR productivity is already above the industry average from what I can see. But some of the peers in the industry who are also chronic focused aspire to improve upon this metric to reach close to 80 lakhs per MR sales per year. Based on the indication you gave on MR addition, you anyways will improve upon your productivity if you achieve your target, but just trying to get a long term sort of guidance that are you also looking to reach something like this 80 - 85 lakhs per year number. Is that something which is a part of our strategy?

V Krishnakumar: There is a very strong interplay between growth and MR productivity. One of our best performing divisions does close to Rs.1 crore per annum. So, we do have that kind of mix in our divisions also. But, we are at a stage where there is such a tremendous growth runway ahead of us, so MR productivity is not the only parameter on which we are going to optimize our performance around. The primary objective will be to drive growth while maintaining a healthy MR productivity at a corporate level of +5 lakhs per month. So, that kind of approach works very well for us when we are still in an aggressive growth phase.

Moderator: Thank you. The next question is from the line of Rahul Tanwar from EB Advisors. Please go ahead.

Rahul Tanwar: Sorry, I got dropped off previous time. My question was, if you could provide some highlights on Jan Aushadhi Kendra impact.

V Krishnakumar: Okay, the trade generics you mean?

Rahul Tanwar: Yes.

V Krishnakumar: We have seen is, trade generics it's not just Jan Aushadhi, but I will also add the private sector trade generics businesses, and we all know which one of them they are. Obviously, this business segment has had a massive impact when it comes to Tier II, Tier III, Tier IV and rural. If you look at the business mix in trade generics, the estimates are that trade generics as a business is about 7,000 to 8,000 crores today. And it is dominated by acute medications. But when it comes to chronic, when it comes to the affording population, when it comes to the prescriptions from specialists, which is what we are targeting, and when it comes to metro Tier I, the penetration of trade generics has still been limited, because chronic therapies

like hypertension and diabetes are high involvement therapies and the whole thought of trade generics making inroads into a specialist's chamber is at this point very, very far-fetched.

Moderator: Thank you very much. Ladies and gentlemen, I now hand the conference over to the management for closing comments.

V Krishnakumar: Thank you all for your participation in the quarter two call. By way of summary, Eris delivered a consolidated revenue growth of 9%, EBITDA growth of 12% and PAT growth of 10% this quarter. And for the half year ended September 21, we delivered a revenue growth of 14%, EBITDA growth of 16.4% and a profit after tax growth of 14.4%. We have a robust power brands portfolio with nine out of our top 15 brands being ranked among the top five in their respective therapies. We have launched four new products in the first half of this year, and we expect to launch more products in the second half in the areas of cardiometabolic, wellness and women's health. We expect our organic growth to be driven by expansion of our power brands portfolio, new products pipeline, expansion of specialist and CP coverage, and our expansion into newer specialties. Thank you all, I wish all of you and your loved ones a safe and Happy Diwali.

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

This document has been revised to improve readability.