"Eris Lifesciences Limited
Q1 FY24 Earnings Conference Call"

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY24 Earnings Conference Call of Eris Lifesciences Limited.

We have with us on call today, Mr. Amit Bakshi – Chairman and Managing Director; and Mr. V. Krishnakumar – Chief Operating Officer and Executive Director.

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 conference call for the first quarter of FY24.

Our Branded Formulations business accounts for 97% of our consolidated revenue and this includes the standalone entity Eris Lifesciences, Oaknet Healthcare, our Insulin business Eris M.J, Eris Therapeutics which houses our Gujarat facility commercialized in March, and Aprica. This segment excludes EHPL.

The operating revenue for our Branded Formulations segment grew by 21% year-on-year to INR 455 crores in quarter one. The segment EBITDA was Rs. 168 crore which represents a 37% margin and a 30% year-on-year growth. Our consolidated operating revenue grew by 17% to Rs. 467 crores, this includes our Trade Generics business, EHPL as well.

The consolidated EBITDA margin has bounced back to 36% plus in the first quarter, up from 32% last year. During the quarter, we have reduced our net debt by Rs. 102 crores resulting in a net debt position of Rs. 672 crores as on 30th June, down from Rs. 774 crores as on 31st March. Our business model continues to be highly cash accretive with an Operating Cash Flow to EBITDA ratio of around 70% for the quarter.

I wish to recap how the strategic investments we made in FY23 and prior have started demonstrating impact this year. Last year we had invested Rs. 1,265 crores in the acquisitions of Oaknet, Glenmark brands and Dr Reddy's brands all of which were margin dilutive last year. Happy to report that we have turned this around in less than a year, with the Q1 EBITDA margin of the acquired business getting close to our overall Branded Formulations segment margin. We expect a 35% EBITDA margin for this piece in FY24 up from 24% last year and 10% at the time of acquisition.

Our second major investment in the last financial year was our Injectable Diabetes franchise which clocked a first-year revenue of Rs. 17 crores along with an EBITDA burn of Rs. 20 crores. This business is on track for a revenue of Rs. 50 crores this year and we expect EBITDA breakeven by quarter four of this FY. Phase-III clinical trials of Glargine and Liraglutide from MJ's pipeline are complete, and we expect a commercial launch in Q4 of this year.

Last year we also launched our own R&D programme, focused on developing first-in-market combinations with an initial identified investment of Rs. 30 crores. We now have an active pipeline of 10 combinations in Diabetes, Cardiology and Neurology. Four of these are in clinical trials and will be launched later this year. The remaining six will be launched in FY25.

We also took calculated decisions to participate in “at risk” opportunities like Sacubitril-Valsartan, FCM injection and Linagliptin. Of these, Zayo our brand of Sacubitril-Valsartan has already been relaunched in January and FCM and Linagliptin are opening up for relaunch in Q2.

Our investment of Rs. 230 plus crores in the Gujarat* facility and the commercialization of our Derma block in Q4 will start delivering significant margin benefits later this year.

We have successfully completed the operational integration of Oaknet into our mainstream. This has started demonstrating tangible benefits from Q1 itself. You might recall that we had acquired the Glenmark and Reddy's brands without any field force. Q1 marks the first quarter of these brands being handled by Eris' field force and Eris' stockist network and we have retained 75% of the sales through this transition. We expect to capture 100% of the sales from these brands starting Q2. We remain excited about the growth prospects from the Dermatology business in this financial year and beyond.

Our strategic priority for this financial year is to accelerate our organic growth trajectory and expand our covered market. The detailed initiatives in this regard are available in our investor presentation.

We are now happy to open up for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Mitesh Shah from Nirmal Bang Securities. Please go ahead.

** Please note that "Gujarat" was incorrectly mentioned as "Guwahati" on the call; the same has been corrected in this document.*

Mitesh Shah: Thank you for taking my question and congratulations for the strong numbers. My question is mainly on your operations. I think one of the best Gross Margin you have reported which will be 83%. The staff cost was substantially high, and the other expenditure has reduced. Can you guide us how we would see over a period of time and strategically for FY24. Also, the interest rate has substantially increased, what would be your target net debt for the end of FY24? I think this depreciation would be right numbers to look at for the entire year?

V. Krishnakumar: Depreciation will be to the tune of Rs. 40 - 41 crores per quarter, as you have seen this quarter. That will be consistent so you can look at the depreciation plus amortization of around Rs. 160 crores for the year. As regards our position on debt repayment, it remains the same as what we said last quarter. We are targeting to get to below Rs. 400 crores net debt by the end of the year. As far as margins are concerned, we are looking at an EBITDA margin of 35% or thereabouts this year.

Mitesh Shah: I just want to understand about the strong Gross Margin. Can we expect a similar Gross Margin going forward? And what is the reason for the strong growth?

V. Krishnakumar: The gross margin is an outcome of product mix.

Amit Bakshi: And some softening of cost.

V. Krishnakumar: There is some softening of cost. Some of the new products that were launched at lower gross margins, they scale up, so the gross margin improves. There are a lot of those factors playing out.

Amit Bakshi: Mitesh we don't expect it to be at 84% by the end of the year. We are more comfortable at around 82%.

Mitesh Shah: This 36% already we achieved this margin that we are still believing that the contribution of acquired portfolio will be coming fully from 2H. Can we expect more than 35% margin by the end of FY24?

Amit Bakshi: Mitesh, this year will be an unprecedented year for us in terms of new launches. If you go through the slides, we have just mentioned how many new launches have been planned. Our R&D is kicking up the products now. We are having two mother brands coming in. Plus, there is a lot of investment which will happen in the Dermatology business. We just launched two very exciting products, actually first in time. I am keeping that margin with us, because there will be new products and new investments going in. That's the thinking as of now but it will evolve as we go forward in the year.

Moderator: Thank you. The next question is from the line of Rahul Jeewani from IIFL Securities Limited. Please go ahead.

Rahul Jeewani: Can you comment on how our organic portfolio would have done in terms of growth during the quarter excluding the Derma acquisitions which we did?

Amit Bakshi: Rahul we had market beating growth again. The CVM was quite depressed in the first quarter. What is happening, when most of the growth is coming from the price hike as well as NI**, we will progressively see the first quarter as being depressed across. Last year also if you remember the first quarter was in the vicinity of 2% to 3%, am I right KK.

V. Krishnakumar: Yes, as per AWACS.

Amit Bakshi: Of course, as per AWACS. The first quarter remained depressed, but we were quite high on our growth. We are like a high single digit growth, very close to the double digit on an organic piece. We will continue to maintain that we should be 400 basis points above the market.

*** NI – New Introductions*

Rahul Jeewani: High single digit to low double-digit growth you are saying we achieved during the quarter.

Amit Bakshi: Yes, I am saying the low single digit was the market and we did a high single digit so there was a good gap in the first quarter, and we expect this to keep up. Also, remember post Q2 when the "at-risk" launches get regularized, there is a lot of primary sales which will start coming which we had not been booking in the last couple of quarters.

Rahul Jeewani: Maybe guidance for the full year in terms of how you are looking at the growth on the organic business. Should we start inching up towards a low double-digit kind of a number by the end of the year, with the launches you have in terms of Glargine, Liraglutide and own R&D products also which you are targeting.

Amit Bakshi: Yes, Rahul that will be fair to assume. The only caveat is we have to see as always is how the market behaves. But this year we should be at least 400 basis points ahead of the market. The market in our view would end up at around 8% at least, 8% to 9%. So what you are saying is actually true.

Rahul Jeewani: We are having a very strong pipeline of launches going into second half of this year and typically we are seeing that in the past whenever we do these new launches our gross margins tend to be on the lower side. So, in second half our EBITDA margin profile could be slightly lower than what we do in the first half of this year.

Amit Bakshi: That is what we expect as of now, that is the reason the guidance is more at 35% by the end of the year and the gross margin maybe at 200 basis points lower than the first quarter. That is what we expect.

Moderator: Thank you. We will take the next question from the line of Mehul Sheth from Axis Capital. Please go ahead.

Mehul Sheth: First question is on the 10 molecules that you have highlighted that will be getting launched over next two years and your investment of around Rs. 30 crores on an aggregate basis. Can you talk something more on which all molecules you are targeting across like Diabetes and all?

Amit Bakshi: Yes. There is a slide where we are talking in a little bit of detail. Though it is in public domain, but we still can't talk about it. There are a couple in Diabetes, there are a couple in Diabetes complication, there are a couple in Cardio-vascular and there are some in Dermatology. But the products are quite exciting, and we feel that we will have some kind of exclusivity for some time because we have been filing from our side. The good thing is that for two of our products, Phase-III is now completed and we are going towards submission.

Mehul Sheth: On this Rs. 30 crores of investments what would be your expectation over mid-to-long term basis? What kind of revenue you can generate from this?

Amit Bakshi: We haven't thought that way. Because typically this is a long cycle. The brands keep on growing over a period of time. We have really not thought about that. But if I have to tell you something, I think all these brands that you are talking about have a runway of at least Rs. 8 crores to Rs. 10 crores in the first 12 to 18 months.

Mehul Sheth: One more question more of a book-keeping kind. What would be your tax rate guidance? Right now, you are at 17% but what would be for next say at least two years, FY25 and FY26, your tax rate?

Sachin Shah: For this year it will be around 14% to 16%, for the current year. For next year we will update you later.

Moderator: Thank you. We will take the next question from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead.

Nikhil Mathur: This Rs. 30 crores spend that you are talking about, just wanted to check in a normal year what is the spend like, comparable spend?

Amit Bakshi: We don't have a comparable as of now. But it is little difficult to kind of put a number to it because we had been putting money on outside manufacturers also. It is not that we were not doing it, but we were not doing it on our own. Right now, you don't expect that this Rs. 30 crores will be out of what we have been doing. This is very much a part of what we do organically.

Nikhil Mathur: Looking ahead, this sort of spend should continue, right? As you will keep doing R&D on multiple products and segments?

Amit Bakshi: Yes. We always had the strength. When we went to IPO, we were talking about applied research and we have to our credit a lot of products which we brought first time. They are not novel, but they are good, reasonably good, clinically effective FDCs and we are kind of putting an accelerator on that. Right now, we have 10 candidates, out of which five have already been submitted and five will be submitted over a period of time. Yes, we are hiring more people. We want to strengthen this piece because in the era where the unit growth is a little sober if I could use that word, we would need more and more NIs in the future, so recognizing that last year we actually had a good, committed team on this.

Nikhil Mathur: Can you give some sense on the combined market size of these 10 opportunities and in how many years or months do you tend to achieve the optimum market share?

Amit Bakshi: Typically, if you look at the cycle of the brand, it is the third year where it basically gets to a good reasonable size and from there the growth is more or less linked to the market. So, the first three years will be a little unconventional.

What we are launching in the next two months, say September and October is a combination of Anti-Diabetic; it's a Dapa combination with a Sulfonylurea which we have put in and we have got the approval also. Typically speaking, Dapa is a Rs. 1,000 crores market, the SU has another Rs. 500 crores to Rs. 600 crores market. Now we think there is a lot of sense in putting it together. As I said in the last call, it will be fair to expect Rs. 8 crores to Rs. 10 crores per brand, because we don't take the brand unless and until at least we are sure that it will give us Rs. 8 crores to Rs. 10 crores during the 12 to 18 months period.

All these products have been planned for that number at least. Of course, we will go to the market and see what happens but as per our plan it will all be Rs. 8 crores to Rs. 10 crores. We will possibly be having them in a better gross margin situation, because they are developed inside. Therefore, that premium which you pay for the first six-month, nine-month would be reduced. All put together, from a commercial point of view we find this very interesting when we compare it to in-licensing, or we compare it to acquisition or anything where you have to pay an upfront fee.

Nikhil Mathur: On the margin front, Oaknet is still in a situation where the margins will continue to improve. Last year you did 25%, this year guidance is I think 35% - 36%. I believe that in 1Q it would not, the Derma business would not have still reached the optimum margins because the acquired brands have to be fully integrated yet. Also, you are pointing towards standalone organic growth being better in the coming quarter. I am just wondering; both these tailwinds will get fully offset by the Rs. 30 crores spend and some bit of gross margin dilution which you are saying will happen in the coming quarters. So, it will get fully offset? I am trying to understand.

Amit Bakshi: Are you asking me that this Rs. 30 crores, will it poke a hole in the overall EBITDA, is that your question?

Nikhil Mathur: Yes. Rs. 30 crores plus some bit of gross margin dilution by a few percentage points, both these factors will fully offset the margin gains that we will be getting from the Derma business ramp up and all those standalone grouping?

Amit Bakshi: We haven't thought it as deep, but what will happen is actually our Derma piece will start… Let me give you a number. In July, the Oaknet piece actually grew by 6%. It was degrowing in the first quarter and in July it has grown by 6%. Without being passionate, let me tell you when we take brands without people and without distribution, this is a good performance in my view getting business back in three months' time because both of these acquisitions were last year, last quarter.

Why am I not committing to a higher number is because I am very clear on growth. We feel that we can gobble up a lot of growth. Therefore, we don't want to commit too much on the margins. We would stick to a 35% kind of margin and look for more growth avenues. Because by now all of us understand that once the growth is in place, the margins do follow. Last year you saw we were 32% and then many of us were a little kind of hesitant in believing that it could be turned around in a small period of time. We are following growth with a very good margin. There is an upside, but we would like to use that for growth rather than getting a higher margin.

Nikhil Mathur: One final question. Slightly book-keeping in nature. For the past acquisitions, amortization would still be sitting in the P&L right, I mean are we close to a bit of amortization going off the books and some assets getting fully amortized?

Sachin Shah: The amortization is entirely in the books of Eris for brands.

Kruti Raval: The amortization and depreciation we are not expecting to go down in the next couple of years. So, the run rate for Q1 and FY24 that we just told you is expected to continue for FY25 and FY26 also.

Nikhil Mathur: What are the capex needs for this year?

V. Krishnakumar: There are no capex needs for this year. It will be just routine maintenance capex which is 2% to 3% of gross block otherwise all capex has gone in.

Moderator: Thank you. The next question is from the line of Bino Pathiparampil from Elara Capital. Please go ahead.

Bino Pathiparampil: Just on this depreciation and amortization. It's a pretty large YoY and QoQ jump, is it all because of the amortization of acquisitions?

V. Krishnakumar: Yes, that is right. There are two components just to be completely complete. One, there is a new manufacturing facility that got commissioned in March, but that's the minor component of the jump. The major component of the jump is from the acquisitions.

Moderator: Thank you. The next question is from the line of Neelam Punjabi from Perpetuity Ventures. Please go ahead.

Neelam Punjabi: Thanks for the opportunity and congratulations on a good set of numbers. My first question is on the YPM. On a per month basis, it's at about 5 lakh for Q1, and if I look at your chronic focused peers, the YPM goes as high as 7 lakhs to 8 lakhs. Over the next three to four years are we looking to bridge this gap or is this number the sustainable number?

Amit Bakshi: The YPM depends upon the addition of number of people. If we add more number of people it dilutes and while you are absolutely right, there are a lot of chronic peers whose YPM is much higher; they are even at around Rs. 8 lakhs, Rs. 9 lakhs, Rs. 10 lakhs also, but that is also a factor of time. We are still a relatively younger company; we have more divisions and because there are a lot of products which we are planning to launch so that basically will build up YPM. We are planning to get to the same level of YPM at some point in time and these new products will only help to aid that.

Neelam Punjabi: Secondly, my question is on your PAT. If I look at the last 8 quarters on a trailing 12-month basis, our PAT has been largely flat. Of course, this is due to the acquisitions and the costs that have been associated with it. But going forward over the next two to three years, can we start seeing some PAT growth with the top-line growth and margin expansion playing out?

V. Krishnakumar: Yes. In fact as you pointed out the acquisitions were dilutive last year. But they are not supposed to be dilutive this year. We can look forward to a PAT growth by the end of the year and which will only continue and accelerate in the coming years.

Neelam Punjabi: Last question is on trade generics. If you could highlight what was the trade generics revenue during the quarter?

Amit Bakshi: You see a better growth in the branded business than the consol, which basically excludes EHPL. So, the trade generic growth had been compromised in the first quarter and that is what we have kind of given a heads up to everybody also.

Moderator: Thank you. The next question is from the line of Harshal Patil from Mirae Asset. Please go ahead.

Harshil Patil: Just need one clarification with respect to the interest cost. We did say that the net debt has come down but our overall finance cost for the quarter has gone up. If there is anything that I have missed in the commentary?

Sachin Shah: The net debt has gone down because the payments would have happened at the end of the quarter. Whatever the collection is, the interest cost by and large compared to last year is high. But if you compare it to the last quarter, it's the same.

Harshil Patil: The rate of interest you say is the same because I guess last quarter, we had about Rs. 88 million and I think this quarter we are almost like Rs. 173 odd million.

Sachin Shah: Yes, because this happens at the end of March and that would not have the component of that acquisition.

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

Ankur: Just one question. How would you think about the rest of the portfolio, some of the elements of the portfolio related to Diabetes and Cardio are obviously doing very well. Can you just take out some time to explain therapeutic area wise that how are we doing, are there areas where we need to consolidate, are there areas we need to focus more, if that could be explained, it could be great.

Amit Bakshi: Yes. That's a little broad-based question, but I will try and answer as briefly I can. We basically have our therapy areas divided into the conventional one and the newer therapy areas which we call the emerging therapy areas. As of now, Dermatology has become a very important area for us, just standing next to Diabetes, Cardio and VMN and that's one area which we are positive about specially we have some good launches, and we are seeing a good traction in a couple of brands which we had bought.

So, Derma becomes the new segment for us. Having said that, this year we expect VMN to do better than it has been doing because there are a couple of launches which are exciting in that area also. Put together, we would rather like to see all segments growing up, but the speed depending upon the base - Dermatology, VMN and Women's Health will right be at the top.

Ankur: Just one follow up. On a strategy basis, is the focus to develop mother brands for each therapeutic area and focus on them or it is to take each and every therapeutic area and go with a widespread portfolio?

Amit Bakshi: We have been focused on mother brands generally because we have been lot chronic. Chronic is a progressive disease situation. You need one combination then you need a double drug combination. It has always been good to focus on the mother brand and we continue to do that because we feel the spillover of the mother brand into the new SKUs also. So, that continues.

Ankur: This wouldn't be the same in Derma, because like you mentioned in the last call that the products will have big market size, there will be small market size products, so you will have to have a big variety of portfolio, right?

Amit Bakshi: What you are saying is right, the size of the brands are very different from in Diabetes and in Dermatology, but the mother brand theory still remains.

Ankur: It's like an extension. The brand will continue and then it will be serving related things. I am just asking it from the point of view that whether this can help us in increasing the yield per employee?

Amit Bakshi: I will give you an example. You will be able to better understand that. We had taken a brand called Demelan from Glenmark. Demelan came with one SKU. It is a Demelanizing agent. Then we launched one more SKU last month, calling it LSA; basically, for Truncal Melasma, the Large Surface Area. We will be launching a Demelan Face Wash in the next quarter. We keep on harping on the mother brand and then spreading it to different disease areas or problem areas. That's how generally the industry is.

Moderator: Thank you. The next question is from the line of Prashant Nair from Ambit Capital. Please go ahead.

Prashant Nair: Just had a question on your M&A strategy or your thoughts going forward. Last year was quite busy on this front. Do you feel now you are where you want to be in terms of portfolio spread or key segments that you want to be in, or are there still gaps that you would like to look at?

Amit Bakshi: We are a little easy now on the M&A because the sum total of all the launches which we think we will be doing is quite a bit. It will also be sitting on the already acquired businesses. In a way the plate is full from a brand perspective and beyond a point we would not like to dilute the bandwidth also. This year we would be easy on the acquisition, and this might extend to early next year also. The caveat is always there that if there is something which is path breaking, which doesn't happen usually. With that caveat, but yes, we are more or less done in the acquisition in the near future time.

Prashant Nair: How do you see, with that in mind balance sheet or debt levels change or do you have any targets in mind, by when you would expect to pay down?

Amit Bakshi: We are simply working. The first priority is to pay the debt and we have always maintained that every time we have declared a dividend, we have always maintained that if there is a debt that becomes the first priority from the organization point of view. Most of the free cash would be going there. As KK just alluded to you, we don't have a lot of capex coming in this year.

Last year was an investment year for us. With little capex, the routine capex and no acquisition in sight and not very willing also. Most of the money will go into serving the debt. We believe we should be in the vicinity of Rs. 700 to Rs. 720 crore EBITDA this year. So whatever free cash comes in will go in servicing the debt.

Moderator: Thank you. The next question is from the line of Neelam Punjabi from Perpetuity Ventures. Please go ahead.

Neelam Punjabi: For our Oaknet business last year our full year number in terms of top line was Rs. 250 crores, and we had alluded to in our previous calls that this financial year we want to cross Rs. 400 crores for our Derma franchise. Are we on track to achieve the same?

Amit Bakshi: We are not giving individual numbers as of now, we are only giving consolidated numbers because all this has now become one. A lot of launches and everything is happening. We haven't really kind of taken it that way. The overall revenue number with the guidance is around Rs. 2,000 crores to Rs. 2,100 crore and that would include everything actually.

Neelam Punjabi: But over the medium term if you could give some outlook on how fast can the Derma business as a whole grow, is it a mid-teens kind of growth for us?

Amit Bakshi: Please give us some time. We are putting everything together. As I told you, July was a good place. We had a 6% growth as per the AWACS. Moving from here, double-digit growth is given. We are trying to see if we can improve on that.

Neelam Punjabi: One last question on the EBITDA margin. You mentioned that this year we are targeting about 35% EBITDA margins. Is this like a sustainable number or over the medium term with top-line growth can we expect some operating leverage to play out?

Amit Bakshi: You look at the past numbers. We have always been on that kind of number. It was only a blip last year because of acquisition and investment cycles. It's nothing new to the company. We have always been on those margins. Once productivity goes in, the margins do inch up. More than margins, we are interested in expansion of EBITDA, I think that's way we are focused now.

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

Tushar Manudhane: Just to know therapy wise number of MRs now, with Derma, Cardiac separately and Diabetes?

V. Krishnakumar: Tushar, the Derma number remains at similar levels. Actually, we haven't added any MRs in Q1. Whatever numbers that you are running with they pretty much remain at similar levels.

Tushar Manudhane: If you could break the growth into price, volume, new launches.

V. Krishnakumar: We can have Kruti discuss that with you offline, we don't have the numbers handy.

Tushar Manudhane: Okay alright, that's it from my side.

Amit Bakshi: But Tushar, largely the growth will be on new product and price. The first five months are not very kind of encouraging from a volume growth perspective. But also remember there is a trend in the last two years where in the second quarter onwards the growth is picking up, largely because the price growth is generally coming up more in the second quarter onwards. Volume wise if you look at the first five months, it is not an encouraging sign in the IPM. If you ask us, we have been doing better than the IPM, but the details I think Kruti will give you offline.

Tushar Manudhane: In fact, on the base portfolio, I would like to have your thoughts in terms of both, at the industry as well as the company level; the volume growth is relatively muted or subdued. Any specific reasons to highlight that?

Amit Bakshi: We can't say really. It's strange that even we don't have a complete answer. We can kind of peripherally tell you something, but we don't have a concrete answer. We know why the first quarter has not been doing well. We have seen that; we have kind of charted that data right from pre-covid level. So, we understand that Q1 is going to be a problem, it might be a problem even next year and then it kind of eases out.

There is a little bit of a skew in terms of growth, quarter-on-quarter, but volume growth not coming in is a sign which we are all trying to sort out. But in the short and the medium term we want the other, the NIs and the other things to do well. But having said that, chronic has still been faring better than everything else. That's a good place to be in. Chronic Derma which is also largely chronic, has been doing better than the rest of the industry.

Moderator: Thank you. The next question is from the line of Miten Lathia from Fractal Capital Investments. Please go ahead.

Miten Lathia: Just wanted to understand if there was a fair bit of seasonality to the Derma portfolio or all four quarters broadly are same?

Amit Bakshi: Yes. There is a substance of seasonality. Generally, the rainy season and post the rainy season, the fungal infections are on a rise. But then what happens when you get into the winter season, it is the moisturizer and the dry skin which kind of balances this out. But technically speaking the second quarter, that is July, August, September, has typically been the biggest quarter for Dermatology, overall industry.

Miten Lathia: That would hold true for our portfolio as it stands right now?

Amit Bakshi: Yes, it would because we have a large contribution from Anti-fungal as of now. So, it should hold true.

Moderator: Thank you. The next question is from the line of Harshal Patil from Mirae Asset. Please go ahead.

Harshil Patil: Since we are kind of focusing more on the three new emerging areas, the Derma, the CNS, and Women's Health. We have seen an increase in revenue contribution of these three new therapy areas so is there any aspirational level like maybe 35%, 30% something that we have in our mind over the next two years from these new emerging areas?

Amit Bakshi: From a growth perspective?

Harshil Patil: Probably from the revenue contribution?

Amit Bakshi: Revenue contribution? So, the lower base will do better, that is for given. We haven't actually jotted down that over the years what will be the contribution. Currently we are at 26%. So, the contribution will inch up, but we haven't really put that number into the block, to give you an accurate answer.

Harshil Patil: Amongst the three, Derma I guess would be the fastest growing segment?

Amit Bakshi: Yes, we wish, and we want; both. The first quarter had this acquisition kind of an overhang. Once it is done, we expect Derma to… In fact, we are quite excited for Derma to be very frank with you and we have had a couple of very good launches. We just launched something for the first time in India, three of us and that is a Minoxidil Booster. Minoxidil is a very large market for alopecia, ie hair loss. 60% of the people were not getting gains from Minoxidil because of enzyme lacking so we just launched an innovative product, coming from U.S. We just hit the market. We are quite excited, and we are hitting with a very good moisturizer by the month end again. So, our plate is quite full on that side and we are enjoying Dermatology as of now.

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

Mehul Sheth: My question was on other expenses side, which is lower on a sequential basis. Any specific reason for this? What would be the quarterly run-rate?

Amit Bakshi: First quarter, lower number of launches, little sluggish market. So you would like to put it together. The expenditure has been very linear with the number of new introductions. In the first quarter there were not so many, they started in July so that's a clear-cut reason.

Mehul Sheth: One last question on your Linagliptin launch post the patent expiry. What are the expectations on that? Any other such pipeline or opportunity, you have any visibility on that in such products.

Amit Bakshi: We can't talk about this. There is nothing as of now, but even if there is something, we can't talk about it. But what I would request is please understand the model, how do we approach it. Even I will not be able to say anything on Lina because as of now it remains the way it is. But I can just tell you that FCM, we got a favorable order yesterday or the day before yesterday. Out of four what we have attempted, in two such things we have got a favorable judgment. One is the Dapagliflozin and now the Dapagliflozin franchise is like Rs. 50 crores, Rs. 60 crores for us on a run-rate basis, bigger than that. Second is FCM, which we launched with that risk, but we have got the judgment in our favor. This market will now open up. That's the nature of this piece.

Moderator: Thank you. We will take the next question from the line of Ankur from Quasar Capital. Please go ahead.

Ankur: I was just going through this first-in-market combination, R&D pipeline. Can you explain whether this is going to be like we will enjoy any three-year patent period or because of the combination that won't be possible. It is just that the first mover advantage will be that to us.

Amit Bakshi: Yes, the first mover advantage is a little elongated now. It takes a couple of months for the other people to join the queue. The first mover gets a little bit elongated advantage. But it is not that three-year period where we have done a study to patent so that's not the case here. They are all replicable. It will take some time, the advantage could be as less as three months and sometimes as big as six months, depending upon what the other people have to do.

Ankur: This Rs. 30 crores investment goes into the team, the filings or is it a yearly setup that this is now year marked every year for the R&D pipeline?

Amit Bakshi: No, it's like Rs. 3 crores a product, generally speaking. Rs. 3 crores a product. Most of the money goes into a Phase-III clinical trial. Generally, in the FDCs we do get around 250 to 300 patients to be on the trial. The major cost is in Phase-III.

Moderator: Thank you. We will take the next question from the line of Jainil Shah from JM Financials. Please go ahead.

Jainil Shah: I just need a clarification on the Insulin guidance that we have given for FY24. The Rs. 50 crores number, will it include Liraglutide combination launch in 4Q?

Amit Bakshi: Yes. As of now we have considered that and as of now what we can see today, it should happen. But always there could be, these are new products, there are certain things which happen at the last moment. We do estimate a slip here and there. But as of now the visibility is yes.

Jainil Shah: What's the outlook for FY25? What is the strategy around Insulin Glargine given that we also have a licensing deal with Biocon?

Amit Bakshi: Give us some time for FY25. We haven't really put our head together there, because the Glargine when it comes from M.J is going to be very different for us, and that is the time we need to just go back to the drawing board and plan ourselves. But you know Glargine is a very big opportunity. Till this point in time, we have been doing a very reasonable kind of number and our margins are quiet stiff actually. Once the M.J happens, then we would rather kind of put the foot on the accelerator. It will take some time. FY25 is little far in our head, we need to sit and do.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Mr. V. Krishnakumar for closing comments. Over to you, sir.

V. Krishnakumar: Thank you. By way of summary, our Branded Formulations revenue grew at 21% this quarter with a 30% growth in EBITDA. Our consolidated revenue grew at 17% this quarter with a 31% growth in EBITDA. All strategic investments made in the last financial year have started delivering tangible and measurable results starting with Q1 of this year. Our strategic priority for this year is to accelerate our organic growth and expand our covered market. Thank you for your participation in the call and have a good evening.

Moderator: Thank you very much sir. Thank you, members of the management. Ladies and gentlemen, on behalf of Eris Lifesciences Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.

This document has been revised to improve readability.