



“Eris Lifesciences Limited Q4 & FY23 Earnings Conference Call”

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 and FY23 Earnings Conference Call of Eris Lifesciences Limited. We have with us on the 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 fourth quarter conference call. I am Krishnakumar and I will be sharing the highlights of the quarter and full year with you.

We have reported standalone revenues of Rs. 315 crores in Q4, which represents a growth of 11.5%. Our standalone revenues for FY23 stand at Rs. 1,331 crores, which represents a growth of 9.5%. This has been lower than our guidance due to a couple of factors. First, we had launched an immunity boosting supplement called Z A C - D during the wave-2 of Covid which did exceedingly well during the pandemic. However, given its strong association with Covid, the sales fell off a cliff post the pandemic wherein we discontinued the product; in addition, we had to take returns and write-offs in FY23. While we did not discuss this as a major point in our commentary during the year, the fact remains that this has impacted some part of our standalone growth for the year. Secondly, there were a couple of significant brands in FY23, Zayo being one of them - we cannot

talk much about them since the matter is still sub-judice, but where we took extended periods of primary sale disruptions that were unforeseen. Adjusted for these two one-time factors, our standalone revenue growth for the year from our continuing business stood at 15.6%.

In fact, our base business continues to perform stronger than ever. Our Diabetes franchise has grown by 25% and we have gained a rank in the therapy with Glimisave having become a Rs. 300-plus crore revenue mother brand. Our Cardiac franchise has grown by 16% excluding the impact of Zayo and our VMN franchise has grown by 16% excluding the impact of Z A C - D .

We invested Rs. 1,265 crores in consummating 3 Dermatology acquisitions in FY23. This has been our largest single-year investment, and that too in a single therapy. Notwithstanding that Dermatology is a large and attractive therapy, we need to acknowledge that this investment was not an easy decision, and it took a lot of heart and conviction on our part. This conviction came from three aspects of our business understanding: (1) Our long-standing experience in Chronic therapies (2) Our ability to forge lasting relationships with Super-specialists (3) The stickiness of “old gold” brands and our ability to build them further.

Post the acquisition of Oaknet, we approached the business with an “owner-manager” mindset and with a complete willingness to roll up our sleeves and do the hard work to create value. We took a slew of value creation initiatives focused on product range expansion, driving sales and marketing excellence and expansion of specialist coverage.

Within six months of the acquisition, we could start seeing early impact in terms of an acceleration in organic growth and margin expansion and we started getting the conviction that we have a strong base there which we

can build on. Hence, when we got the opportunity to bring in complementary products through the Glenmark and the Dr.Reddy's bolt-on deals in Q4, we had the confidence to go ahead. I am happy to note that our thesis has delivered tangible results in Oaknet's very first year with us, with the business clocking a 22% organic growth in FY23 after a spell of three flat years during FY20 to FY22. The EBITDA margin has expanded from 10% in FY22 to 24% in FY23, and we are confident of a further expansion in FY24.

On a standalone basis, our EBITDA margin for FY23 was 38%, down by 185 bps from FY22, largely driven by a 134 bps increase in standalone COGS. The lost sales on account of Covid products and "at risk" launches that I just spoke about have also played their part. However, we continued to maintain a consolidated gross margin of close to 80% despite the dilution in margins caused by the amalgamation of the new businesses, specifically Oaknet and our greenfield Insulin piece. With Oaknet performance becoming stronger and our insulin volumes scaling up, we expect a significant uptick in consolidated Gross Margin as well as EBITDA margin in FY24. Preservation of a consolidated gross margin of 80% has been an integral component of our growth strategy all these years and will continue to remain so in future as well.

Eris M.J., which houses our greenfield Insulin Business, has organically clocked a revenue of Rs. 17 crores in its first full year of commercial operations. We have two commercial products at present - Human Insulin and Glargine. We are expecting this business to scale up significantly in the coming year with a narrowing of operating losses.

In order to simplify our corporate structure and unlock synergies among our business units, effective 1st April 2024, we propose to demerge the

Domestic Formulations business of Oaknet and amalgamate it with the parent company, Eris Lifesciences. Through this merger, we will strengthen our overall “go-to-market” alongside realising better operating efficiency, scale benefits and business synergies. We have already commenced the operational integration of the businesses from 1st of April and this is expected to be completed by the end of June 2023.

Our detailed standalone and consolidated financial information is available in our investor presentation uploaded earlier today.

These were the highlights for the quarter and the year. We are now happy to open up for questions.

Moderator: Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: The first one is on the amalgamation of Oaknet’s domestic business. What kind of synergies are we looking at on that front? Would we be able to generate some cost savings from there? What’s the thought process there?

Second, on the Insulin side. I think last quarter we said that this quarter we were expected to do around Rs. 7 crores to Rs. 8 crores revenue. But again, we are coming at around Rs. 6 crores and that’s been flat for two quarters. The burn has also increased a little bit. What are our expectations? What different things we are trying to do to see the uptick there?

Amit Bakshi: Insulin first. We had some supply issues in the last quarter. Therefore, the sales were a little slow. Otherwise, Glargine has done well when we look

at April. Our plan for the next year remains intact and we do not see any significant movement from what we have spoken. We are aiming for no loss in this year from (Eris) M.J. So we maintain that number, both on the top line and bottom line.

Synergies from the two things; we are looking to cross-sell between Women's Health, Dermatology, and some Endocrinology. We have been a strong player in Endocrinology and there are two indications which are very good when it comes to Dermatology also. One is the PCOS in girls; which is our mainstay narrative in the Women's Health business within Eris; and PCOS has a manifestation of skin problems. We see that we can cross-sell at that level, and we are also looking at a postmenopausal kind of a scenario, which basically again is an interface between Hormone and Dermatology. So, Women's Health, Endocrinology and Dermatology, we are trying to put this together and cross-sell.

Kunal Dhamesha: What will it do? Will it increase our doctor coverage or the product that we take to doctors? In terms of benefits, how should we think about the benefits going through for us?

Amit Bakshi: Yes. Higher penetration. Oaknet has been selling Dermatology only to Dermatologists at this point of time. We will extend that Dermatology bouquet to Endocrinologists and Gynaecologists. So you will see a greater reach in the coming time.

Kunal Dhamesha: Second one, on the Oaknet. I think we have seen a very good growth. That's great for this year and we kind of remain confident. But I think we have operated multiple levers like increasing the penetration to around 90% of Dermatologists and then, also launching products. But do you see enough runway going into FY24-25 where we can continue to see similar growth that we have seen in FY23 for Oaknet? Or would you say the low-

hanging fruits are already there and it's more about building the existing brands?

Amit Bakshi:

Kunal, there is room. There's too much in hand as of now. I don't know how far it goes, but we have 24 products lined up for new launches which we are holding up at least for the first two quarters. We have been working on some Formulation Development throughout the last year. Some of them are now coming through. There are one or two things which we are talking for International licensing, which is also in progress. The new brands which we have taken from Glenmark and Dr. Reddy's are showing us a completely new phase of growth. The opportunities are quite high, but we are not taking everything together. We are just walking one step at a time. First six months would be consolidation and getting the sales together with increasing the reach in the specialty which I was talking about and in the second half we will look at expansion. We have got three divisions. I can comfortably tell you that post the second half, we will be having a fourth division also.

I have been talking to you that the sales look good. If you look at the presentation, it says we are #3 in our covered market but there is a large market which we are not present in and that is typically the Acne market, which is very large, and the Hair-care market and we have got everything aligned there from a product narrative. So, there is too much in hand, but we will take it, one by one. That is how the plan is. Oaknet and Dermatology is going to keep us very busy for the next two years.

Moderator:

The next question is from the line of Punit Pujara from Helios Capital. Please go ahead.

Punit Pujara:

I had a question on Insulin Glargine. You referred to the supply issue. Was that from Biocon?

- Amit Bakshi:** Not Glargine issue. It was Human Insulin issue, the M.J. piece.
- Punit Pujara:** Can you give us an update about the Insulin Glargine product that was in clinical trials, which is targeted to be launched in the current calendar year?
- Amit Bakshi:** Yes, it's going on time Mr. Pujara. We see the studies are closed. We have to get them to the DCGI. We are running on-time as far as Glargine and also the GLP is concerned. We are very hopeful that we will see the launch in this year. Nothing changes on that standard; it is going as per the plan.
- Punit Pujara:** Once we submit the clinical trial data, it will take around six months of time. Is that understanding right?
- Amit Bakshi:** Yes, you are right. Generally, in the last couple of months, there is a little bit of slowness in the movement in the department. We expect that to get all right. We are expecting a June or a July hearing. Let's see how it pans out. But the study has been completed.
- Moderator:** The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.
- Tushar Manudhane:** Just a clarity, adjusting for Zayo and Z A C - D for 4Q FY23, what would be the standalone year-on-year growth?
- Amit Bakshi:** Not done that math.
- Amit Bakshi:** There will be no Z A C - D effect in the fourth quarter, but it will be the at-risk product.
- V. Krishnakumar:** We will look into it and get back to you.

Amit Bakshi: It should be around 300 basis points. Largely saying, I have not done the math, but from the gut. So, Z A C - D doesn't have an effect because we had finished by that time; Z A C - D was almost up. So, it's only about the at-risk which would be in the question.

Tushar Manudhane: Same quarter last year, did we have Z A C - D and Zayo sale?

Amit Bakshi: Zayo, yes, but not Z A C - D. I have to check Tushar but Z A C - D would be very minimal. But anecdotally I can tell you we are talking about around 300 basis and we are talking of 11.5%. Take it, 14.5%-15%. That's what it looks like.

Tushar Manudhane: Secondly, just to understand how much would be the operational costs related to the Gujarat facility which will come up in FY24?

V. Krishnakumar: That will come in the books in FY24, from a full year standpoint and it should be similar to the Guwahati plant level.

Tushar Manudhane: Considering the significant launches and the operational cost for this facility, the profitability/ margin can still look north for FY23. Is that understanding right?

V. Krishnakumar: Yes, Tushar. Factoring in everything, we are still expecting a meaningful jump in EBITDA margin in this financial year.

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

Prakash Agarwal: Trying to understand the slide four better. Aprica and this trade generics-EHPL, both have made some losses. What are we thinking about these two small ones? Your statement on organic standalone growth was taken well. But I am trying to understand how should we see the margins going?

Because I understand Insulin business can turn EBITDA neutral and Eris Therapeutics also. If you could give some colour on these segments that you have described, how does that look for FY24 and FY25?

Amit Bakshi:

EHPL was always a drag on the EBITDA, right? I remember telling in one of the calls that we are not very gung-ho about the trade generics so the sentiment continues. We will try and not lose this Rs. 4 crores in this year, which we lost in the last year. I see no upside on the top line. The plan is simply to have no loss at an EBITDA level.

Regarding Aprica, it was a bad year for Aprica. Aprica is not a bad business. We have been doing well over a period of time, but we had some one-of-its-kind situations in Aprica. So Aprica, I remain positive. I see Aprica doing well in this year and getting back both into EBITDA as well as the top line growth.

Prakash Agarwal:

Some colour on the Eris M.J. and Therapeutics?

Amit Bakshi:

Eris M.J. you know. We expected Rs. 20 crores down by the end of the year when we started, and we are almost there. We wanted it to do Rs. 20 crores - Rs. 21 crores but we ended up Rs. 17 crores, some plans did not work out and there were some deficiencies in supplies from M.J., especially in the last quarter. We are aiming for a 0 EBITDA there, which you said, and Eris Therapeutics is basically where the Gujarat facility is. The expense which you see is on the facility piece.

V. Krishnakumar:

The plant has commercialized in March, Prakash. This will be the first full year where Eris Therapeutics will start booking revenue. Once that starts happening, which has already started happening from April, then you will see the numbers falling in place. For all practical purposes, you should see Eris Therapeutics as part of standalone. It's just a different operating

plant because of which it is in a separate company, but it is part of standalone.

Prakash Agarwal: Moving forward, the drag we had of these one-off products you mentioned and the new initiatives, how do you see the base business growth and margins for you? Just a very broad colour guidance. I am not sure if you have already said, I joined a little late.

Amit Bakshi: Yes, Prakash. We thought that we will give you guidance after the end of the first quarter because Oaknet has now become a prominent part of the entire piece, both from the top line and also expected at the bottom line and this was the first month when everything was getting together, not the first one technically, but we booked only Rs. 12 crores sales of Glenmark & Dr. Reddy's in the first quarter. That was expected because of the pipeline filling and all those things. But April has come out well. Because Oaknet was a considerable and significant piece, we would wait for a quarter to give you the guidance for the next year. That's our bad. It takes a little more time than that.

Regarding the standalone, we just told you, we grew 9.5% on the books and we wanted to grow 15% at the start of the year and we told you why it got a little jarred. The margins have never troubled us in the standalone. We continue to be at 38% - 40% margin.

The growth in our terms internally has been quite good. Last year has been one of the best years for us internally, but because of all these issues, on the financials you have a stress. We believe that we can continue this kind of trajectory, especially because of the new launches, which are shaping up well. If you look at our new Diabetes launches, they have shaped well. Glimisave, which has seen a concern about the growth, and we have been telling that it's a big product, has now hit more than Rs.

300 crores at the reflection level. I have no problems in the standalone business other than these moving parts and I believe the journey would be like that.

Prakash Agarwal: Lastly on the strategy. For fiscal'24, you have 2 to 3 assets to turnaround, and you have some debt. Is it fair to assume that the focus will be largely to pay off the debt or you would be open to any opportunistic asset as well?

Amit Bakshi: First two quarters, we want to pay it back. That's the idea which we are working on. Nothing in six months' time, hopefully, that is how we are preparing ourselves. So, six months is consolidation and putting everything together. Post six months is the time when we will look at it. Having said that, if there is something which is very mouth-watering and one of a kind, kind of a thing, then we might change the view.

Prakash Agarwal: I have one more if you allow me on the working capital side. It is largely due to the acquisition last month and having full balance sheet impact? Or is it that going forward also we will see this? Or it will come down?

V. Krishnakumar: It will come down, Prakash. By the end of the financial year, you will see that a lot of it will get normalized. I think standalone debtor days of 35 to 40 or around 35, I think that is still something that is the normal for the business. There have been too many onetime events that have happened in the financial year because of which you see this number being slightly different, but it will fall in line.

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

Bino Pathiparampil: Most of my questions were answered. Just one clarification. If I remember correctly, earlier you had given a guidance of your tax rate being about 25% in FY25. Now with substantial acquisitions, would there be any change in that at a blended level, overall level?

V. Krishnakumar: No, there is no significant change because of the acquisitions. The trigger for the tax rate was related to our Guwahati facility. That still remains to be the case.

Amit Bakshi: Having said that, we are able to get some or a lot of the Dermatology products in our own plant, which is a little ambitious for this year, but if we are able to get it, then we will see some benefits rolling out from there.

Bino Pathiparampil: But how would that be because the plant is coming out of the tax holiday, then how would that benefit?

V. Krishnakumar: Currently the Dermatology Formulations are all manufactured by third parties. When we get it in and we are working on getting it into our Gujarat facility, which is at a 15% tax rate.

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

Prashant Nair: Can you share the share of Sulfonylurea products in the Diabetes portfolio for this fiscal? That's number one. Secondly, how have you seen the Diabetes market overall evolve after the Sitagliptin launch? Has there been any acceleration shift of the market to Sitagliptin away from either Sulfonylureas or also you have Vildagliptin. How have these products kind of played out with generic version of Sitagliptin coming?

Amit Bakshi: Kruti will just fetch out the data for Sulfonylureas. 60% is what KK tells me. There has been a lot of changes. Let me tell you we have grown by

25% in the Diabetes therapy in this fiscal year. A lot of that growth has been driven by the newer products. We already articulated that from a SGLT and DPP4 point of view, the contribution has gone up to 41%. This was as per the last time it had been discussed.

The changes are happening quite rapidly actually. We see that Teneligliptin which became very big in the first four years, then got shifted to Vildagliptin and slowed down. We are seeing a similar trend in plain Vildagliptin. But Vildagliptin is now driven by the combination of Vildagliptin with Dapagliflozin. The change is actually swift because we have not had a time in four years when so many products had come out of patents.

As far as our position, you know our position. We still feel that the market is shaping up when it comes to Sitagliptin and combinations. We hold a #3 or #4 rank when we put both products together. But we still feel that the report is not out yet, the market is still evolving. That's the overview of how the newer markets are behaving.

Prashant Nair: On an overall basis, putting all these things together, how do you see this therapy growing for you over the next year or couple of years?

Amit Bakshi: We did an internal analysis, which we do for our reviews and we are happy to share it with you at some point of time that last year in Gliptins we were #1 company in terms of gains in Gliptins and combinations. We continue to have a good share between the new therapies. If you look at Diabetes growth, Diabetes has been our strength. At no point of time, I remember Diabetes is not growing far, far ahead of the market and because this is sticky, we believe that we have some kind of a grip in that market. So the growth rates will continue in the same trajectory.

- Moderator:** The next question is from the line of Tarang from Old Bridge Capital. Please go ahead.
- Tarang:** KK, I just wanted to double check, in FY23, there are no revenues flowing from Z A C - D or Zayo? Would that be a right assertion?
- V. Krishnakumar:** Yes not from Z A C - D . There were returns that we took, as I mentioned.
- Tarang Agrawal:** The growth numbers that you enumerated in your opening address, these are all on the business, right? These are not AIOCD numbers. These are on your P&L, correct?
- V. Krishnakumar:** All these are from our P&L.
- Amit Bakshi:** No. But AIOCD also reports a 15% growth for us, 14.5% growth.
- V. Krishnakumar:** It does, but in the first para that we spoke about, we only spoke about primary numbers. We did not refer to AIOCD numbers.
- Moderator:** The next question is from the line of Ankur Shah from Quasar Capital. Please go ahead.
- Ankur Shah:** I was referring to slide #15. Considering that Top-20 brands now account for almost 70% of the revenues and considering the acquisitions which we have done in the last 1-1.5 years, can you provide us sort of a consolidated view on how the company will look six months down the line with that kind of revenues? And once we have set that base, how do we plan to grow this organically, what will be a sustainable growth rate? Can you throw some light on that?
- Amit Bakshi:** One of the most frequented words in the entire presentation is organic. It's all over the place. We will take one more quarter. We understand

where you are coming from. Just give us one quarter. As I already said that Oaknet has become a big piece for us and it's just kind of forming up in the new year. Maybe when we talk about the first quarter numbers, we will have a much better grip on where the numbers are looking like to go.

Ankur Shah: The second follow-up question. Some of the brands are reaching very good scale. Do we plan to increase our coverage, our distribution, how do we tend to take these brands at a mega scale, if you have some thoughts on that?

Amit Bakshi: Last year there has been a significant improvement in the standalone HR also, which means that we have added people by the end of the year. As per the brand and as per the reach, we keep on adding people wherever required. In the Diabetes where the brands are getting bigger, we added some people by the end of the last year. That's a continuous process, which we keep on undertaking depending upon what is the reach which is reported in prescription markets and other surveys. We are behind the big brands. At most of the given point, the bigger brands have grown more than the market. We continue to have a very sharp view on expansion, whether it is people expansion, coverage expansion or the portfolio expansion.

Ankur Shah: The last question on the manufacturing side. You mentioned that you are trying to transfer a lot of the Derma products into the Ahmedabad facility. I was just thinking that the acquisitions have been done in the last year and whereas our facility was planned since quite some time. Is there any additional capex which you will be undertaking to make this facility viable to manufacture Derma products?

Amit Bakshi: There will be some incremental capex. Right now, we are just talking to you on the possibility side. We really don't have the plan as of now, but

there is an intent to make it possible and what happens because we have the basic infrastructure done, it's only the bolt-on planned machinery which is required. The chances are that we should be able to turn around. Once we get there, we will let you know what is the kind of capex which we are looking for to get these things inside.

Ankur Shah: The major cost benefit analysis for this particular Derma manufacturing is the tax which we will be saving on this, right? Otherwise, it doesn't make sense, right?

V. Krishnakumar: There is a gross margin benefit also which we get whenever we bring products from third-party to internal manufacturing. These insourcing initiatives usually pay for themselves on a Gross Margin improvement basis. The tax thing is a top up kind of a benefit.

Ankur Shah: For Gross Margin, we will be paying for capex and working capital, right?

V. Krishnakumar: Yes. But they usually help you and you typically don't recover this in one year, right? That's not the intent. But over an acceptable period of time, 3 to 5 years, the project usually pays for itself. That's how we think about it.

Moderator: The next question is from the line of Gagan Thareja from ASK. Please go ahead.

Gagan Thareja: First question is simply around your accounts. What should we pencil-in for your effective P&L tax rate in FY24? And second, what sort of debt repayment are you budgeting for FY24?

Sachin Shah: The tax rate for this year should be in the range of 14% to 15% and we intend to pay off around Rs. 400 crores to Rs. 500 crores of debt this year.

Gagan Thareja: On the Oaknet piece, while it has worked out splendidly for you in FY23, is it possible for you to give us some broad-based idea of how should we think of the Oaknet piece in terms of its scale and in terms of its margin profile for the next couple of years? What are your plans in terms of operating adjacencies, if possible in the Oaknet piece? Also, you have acquired brands from Glenmark and Dr. Reddy's. How should we think about the scale of these two? In terms of margins, what's the profile currently and how you will stack up in the next 2-3 years?

Amit Bakshi: I am sorry, but I will have to repeat that we will be able to give you broad colours once the quarter is over. But if you insist, I will touch upon a couple of things. #1 is very important. You see the Gross Margins of the Oaknet business, entire Derma business will be closer to 80%. It will be in the range of 78% to 80%, which gives us a headroom for margin expansion. Even if you see, we have Rs. 12 crores of sales from these two products (Glenmark and DRL) coming in the last quarter and the margins where they are intact. There has been a good recovery. When I say recovery, I mean the sales which was there outside when we bought and how much of that we are able to get inside. There has been a very good recovery in the Glenmark brands. Dr. Reddy's because it came in March, we still need one more month to get in. Fairly positive on Dermatology. Also, remember that if we wouldn't have got these two bolt-on acquisitions, we were ready with a large number of new introductions, which now we are postponing to the second half. There is quite a lot which is happening in the Dermatology business and as a company, we are very keen because it's a very large therapy. We are #3 in our covered market. Overall, we are #10 or 11 between that. We have a lot of spaces which are completely empty. There is a lot of excitement in the organization, but to give you more colour, give me one quarter.

Gagan Thareja: I am just sort of trying to understand that at the optimal level, would Oaknet margins be comparable or similar to what you have on your standalone piece? Or is that going to be a different sort of a sustainable number? And if you could sort of enumerate what that possibly could be once you've stabilized and optimized it? Secondly, obviously, there will be operating leverage and you are talking of improvement in overall margins as well. Is it possible to give us some sort of a broad band to work with? I mean, conservatively, if there is a number or a range that you think can safely be given by you at this point in time?

Amit Bakshi: If you want to really scratch that. Eris is 82% Gross Margin roughly and is 5 lakh YPM and is 38% of EBITDA. This is the metric for the standalone Eris. Now, Oaknet is around 80% of gross margin, between 78% to 80% of margin, again 5 lakh of YPM. When these 2 metrics are there, there is a strong chance that the bottom line could be close to the standalone margin. I am just giving you these three metrics. It's just a matter of time when everything comes together. Give us a quarter, we will get back to you. We are excited about this.

Moderator: We move on to the next question from the line of Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: Just one bookkeeping question on the write-off that we have taken for Z A C - D and Zayo in this year, what would be the cumulative amount for FY23?

Amit Bakshi: Zayo, there is no stocks which we have taken back. Zayo is something which fell short. There was no supplies with us. We couldn't supply it.

Kunal Dhamesha: But was there any inventory on our books?

Amit Bakshi: No, we finished off the inventories. We ran out of stock. There were no stocks. That's where the sale got disrupted. If you look at AIOCD, at the peak, it shot up to Rs. 50 crore, last to last year and then fell to Rs. 17 crores. If you look at the data, within this data, you will find that AIOCD reports from Rs. 50 crores of peak last to last year, it went to Rs. 17 crores this year. So clearly, we ran short of the inventory, and we couldn't service that demand. So that's where that loss comes in.

V. Krishnakumar: Z A C - D is to the tune of Rs. 20 crores, Rs. 22 crores.

Amit Bakshi: What?

V. Krishnakumar: Combination of everything put together.

Amit Bakshi: Z A C - D is not Rs. 20 crores. Some of the Z A C - D we destroyed even without putting them in the market. That piece will only be taken at the COGS level. You consider Rs. 7 crores to Rs. 8 crores from that point of view, not from sale point of view.

Kunal Dhamesha: Secondly, while you are not guiding for an EBITDA margin as of now, would you say the improvement in FY24, would start seeing from quarter one itself or it would be more towards the end or in the second half of FY24?

Amit Bakshi: The big movement will come from Oaknet. We believe that around 75% of the movement will be caught in quarter one itself. If we reach 75% of what we are thinking, we are up and running.

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

Harshal Patil: One of my questions has already been answered on the margins. Yes, we will wait for the input from you next quarter. Sir, just one clarification I wanted from you. You definitely said that there is some postponement of new launches that was new product launches that was planned in FY23 on to FY24. Can you just let us know what could be the number of launches that are then lined up for FY24?

Amit Bakshi: I was talking about the Dermatology piece. I was not talking about the entire piece. What we are saying is when the acquisitions were not planned, we were already developing formulations and talking to some of the international guys to introduce newer products in the current financial year, which we are now postponing to the second half of the year. The first half focus is to put whatever we have acquired together and consolidate on that. The total number of products which we had discussed and had reached some kind of a conclusion for almost 20 to 24. But don't confuse it with Diabetes kind of launches. Diabetes kind of launches are very bulky. They are far and few, but they are very bulky. In Dermatology, it is far more fragmented and the brand sizes are not as big as Diabetes. So 24 might look like a very big number. But here, you don't plan to make a brand Rs. 50 crores, Rs. 100 crores all the time.

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

Prakash Agarwal: Just wanted to know the MR number for fiscal '23 and likely addition for fiscal '24?

Amit Bakshi: What we can see as of now Prakash is we might need one more division in Dermatology, but that will happen in the second half. A division in Dermatology means roughly around 100 people, take some and leave some. That is the visibility as of now.

- Prakash Agarwal:** What is the current status as of now?
- Amit Bakshi:** Some 700 in Oaknet close to.
- V. Krishnakumar:** That's including Dermatology and one Gynaecology, total.
- Amit Bakshi:** Yes. 700 in Oaknet as of now, might go to 800 by the end of this year.
- Prakash Agarwal:** And in total?
- V. Krishnakumar:** Standalone is 2,200 and Oaknet is 700. That is largely the total number.
- Prakash Agarwal:** The max you will add about 100 more.
- Amit Bakshi:** Yes, it looks like Prakash.
- Moderator:** The next question is from the line of Punit Pujara from Helios Capital. Please go ahead.
- Punit Pujara:** Just one clarification. On slide 4 and slide 6, numbers for Oaknet revenue and EBITDA are slightly different. Could you clarify, please?
- V. Krishnakumar:** The slide 4 shows the numbers that are on our books because the acquisition happened in mid-May. So, Oaknet full year revenues are Rs. 250 crores but because Oaknet was with us for 10.5 months of the year, so what is in our books is Rs. 226 crores.
- Punit Pujara:** Okay. So slide six is pro-forma numbers?
- V. Krishnakumar:** Yes. Full year. What Oaknet actually did for the full year.
- Moderator:** There are no further questions. I now hand the conference over to Mr. V. Krishnakumar for his closing comments.

V. Krishnakumar: Thank you. FY23 has been a year of massive investment for us starting with the Oaknet deal in May '22, right through to the DRL brands deal in March '23. However, we are happy to note that things have started coming together well as early as starting this April.

We are in the midst of operationally integrating Eris and Oaknet, and we are confident that the combined entity will deliver industry-leading growth, along with significant margin expansion.

We will continue to focus on good quality growth, which for us means growth achieved without the dilution of Gross Margin and Cash Conversion Ratio. We will continue to be guided by this thesis as we execute on our multiple growth levers such as Power Brands Expansion, New Product Pipeline and Acquisitions. Thank you and have a good day.

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

This document has been revised to improve readability.