"Eris Lifesciences Limited
Q2 & H1 FY24 Earnings Conference Call"

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day, and welcome to Q2 and H1 FY24 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 this 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 second quarter of FY24.

Earlier today, we have announced the execution of definitive agreements for the acquisition of Biocon's Nephrology and Dermatology businesses for a consideration of Rs. 366 crores inclusive of working capital that will be conveyed to us as part of the business. This business is currently operating at a revenue run rate of Rs. 100 crores per annum.

The key leadership and entire field force of this business consisting of over 120 personnel are expected to move to Eris post deal. We expect the transaction to achieve financial closure by the end of 2023. This acquisition is in line with our strategy of continued expansion in chronic and sub-chronic therapies through a mix of organic and inorganic routes and delivering market-leading growth.

We have historically leveraged acquisitions to enter and quickly scale up our presence in new therapies. In addition, we have established our credentials in quick turnaround of under-optimized businesses, including the Dermatology businesses acquired last year which have recorded a significant uptick in margins since acquisition.

The acquisition of the Biocon business marks our entry into the Nephrology segment. This is a logical extension of our market leading position in the Cardiometabolic segment given that diabetes and hypertension are among the key drivers of Chronic Kidney Disease or CKD. Post deal, we will be able to offer end-to-end care to patients starting with diabetes, hypertension, and all the way to CKD.

The market for Nephrology drugs is presently worth around Rs. 3,000 crores per annum and is growing at 11% per annum. Given the rapid progression being seen in the onset of diabetes and hypertension cases, we foresee a rapid increase in the number of patients who will require treatment for CKD and kidney transplants in the year to come.

Biocon's Nephrology business brings to us power brands like Tacrograf and Renodapt, which will give us a strong entry into the Organ Transplants category. The portfolio also includes Cytosorb, a USFDA-approved device, which has a wide range of potential applications including Cardiac Surgery, Septic Shock, and Acute Respiratory Distress Syndrome. The portfolio has emerging brands like Bionesp and Erypro for treating CKD-induced anemia. This business gives us an established base to deepen our presence in the therapy through the launch of other anti-anemia products and VMN products with the sub-play of hypertension.

The Biocon acquisition also enables us to consolidate our position in Dermatology. The business brings us leading brands like Psorid, Tbis, and Picon, which significantly augment our position in Medical Dermatology, especially in Psoriasis. Post deal, Eris would become the second largest player in Psoriasis with an 11% market share.

Dermatology is well on its way to become our third largest therapy soon, after Diabetes and Cardiovascular. With dominant market positions in three out of the top five chronic therapies, we are well-positioned to deliver market leading growth in the years to come.

We will have over 120 professionals joining us from Biocon post deal; this includes 90 Medical Reps. We are happy to welcome these domain experts in Nephrology and Dermatology. We look forward to us working together to build a large franchise that will deliver immense value to patients.

Now I would like to update you on the progress we have made on our strategic priorities for FY24.

The first strategic objective we had outlined was the successful commercialization of our new product pipeline. Towards this, I am happy to inform you that 2 out of our own R&D products have received DCGI approvals for launch in the current quarter - these are Gliclazide-Dapagliflozin and Gliclazide-Sitagliptin first-in-market combinations. In addition, we have relaunched two of our “at-risk” products; Linares & FCM injection in the end of Q2. We have also expanded our own R&D pipeline from 10 candidates to 14.

Our second strategic objective is to deepen our presence in the Medical and Cosmetic Dermatology segment through new launches. We launched 4 new Cosmetic Derma products in Q2 including Hydroheal Nova, Efatop Hydra and Crisanew. We had also outlined an objective of in-sourcing Derma manufacturing starting Q4 of this year. Towards this, we have equipment installation underway in our Derma block at the Ahmedabad facility, and we are on track for commercial production starting Q4 of this year.

The third objective, which is the scaling up of our injectable Anti-Diabetes franchise is also well on track to achieve Rs. 50 crores of revenue in this financial year. We clocked Rs. 19 crores of revenue for the first half with the EBITDA burnt down to Rs. 4.3 crores.

Overall, we reaffirm our FY24 guidance of Revenue Rs. 2,000 to 2,100 crores, EBITDA of Rs. 700 to 710 crores, and profit after tax of Rs. 410 to 415 crores.

Coming to the Q2 financials. We clocked a Branded Formulations revenue of Rs. 492 crores in Q2 and Rs. 947 crores in H1 representing a growth of 13% in Q2 and 17% in H1 respectively. This business accounts for 97% of our consolidated revenue and excludes EHPL.

The YPM of this segment was Rs. 5 lakhs in H1 which represents a growth of 17%. The Gross Margin increased to 83% in H1 and represents a 21% growth. The EBITDA margin increased to 37% in H1 and represents a 24% growth.

Our consolidated operating revenue was Rs. 505 crores in Q2 and Rs. 972 crores in H1 representing a growth of 10% in Q2 and 13% in H1 respectively. The Gross Margin increased by 440 basis points to 82% in H1 and represents a 20% growth. The EBITDA margin for H1 has expanded by 340 basis points. The EBITDA for H1 was Rs. 351 crores, which represents a 36% margin and 25% growth.

Operating cash flow stood at 82% of EBITDA in Q2 and 75% of EBITDA in H1. Profit after tax was Rs. 122 crores in Q2 and Rs. 216 crores in H1 and reflects the impact of last year's acquisitions.

We delivered a Cash Earnings Per Share of Rs. 20.2 in H1 which represents a growth of 9.5%. Net Debt stood at Rs. 618 crores as on 30th September 2023. These were the highlights for the quarter and the half year.

We are now happy to 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 Kunal from Macquarie. Please go ahead.

Kunal: The first one on the acquisition that we have proposed. I am not sure if you have provided any profitability aspect of this business. If you could provide that, that would be great. Secondly, we have said that it's going to be partly financed through debt, but if you can give the exact proportion of what would be the financing from internal accruals and what would be from debt, that would be great.

V. Krishnakumar: Kunal, I will start with the second answer first. The debt component is Rs. 280 crores and the remaining is being funded through internal accruals. I will request Amit to step-in to answer the bigger question.

Amit Bakshi: Kunal, the good thing about this if you just heard the brief, the YPM in this business is very high. We are talking about Rs. 9 lakhs YPM. There are a couple of levers which we have. We haven't still been able to talk to the larger team. There are some deficiencies on that side, but typically I see this business at around 30% EBITDA margin in the next year. That's the general guidance.

Kunal: Does it mean that it's at a meaningfully lower margin right now?

Amit Bakshi: Right now, it is 20%-22%.

V. Krishnakumar: Right now, it is at about 20% and we believe that we can make a difference to various things across the board and that is the reason why we have a target of 30% for next year.

Kunal: Next fiscal year or year-one post closure?

V. Krishnakumar: Over the next fiscal year. But typically, you know that we have to spend some time with these businesses because at this point, they are a bit under-optimized. So, it will take some time.

Kunal: From synergies perspective, you also highlighted that there is an opportunity to cross sell VMN. Would that kind of upside be baked into this 30% margin expectation or that would be over and above?

Amit Bakshi: Kunal, typically in this acquisition thing, when we acquire brands and not the people, it takes a couple of quarters to get the whole thing transitioned. When the people are coming and joining us, it becomes a real growth game.

From my understanding, it is a little premature, because as I said, I haven't really sat with the team. But I think this is a big growth delta, which we are talking of at this point in time. I am a little conservative when I said 30%, and why I am saying this? Because if you look at the Nephrology portfolio, it is basically transplant at this point of time. Largely, it is going in the transplant.

The entire Anemia piece, whether it is from Biologics or Non-Biologics, is more or less vacant. Then there is a good scope of Prebiotics, Probiotics and other VMN which could be added, sodium bicarbonate. There is a lot of stuff there.

The good thing is that transplant is at the core of Nephrology. Generally, when you have brands at the core of any business, it is easier to build peripheral brands. That's the plan on the Nephro side.

On the Derma side, Psoriasis is one of the largest therapy areas within Dermatology and we have been telling everybody that we are quite excited about the Clinical Dermatology. This actually strengthens our Clinical Dermatology and there is no meaningful overlap.

On the Dermatology side, I was speaking about Psoriasis which is one of the largest therapy areas in the Clinical Derma and the first brand is almost Rs. 20-25 crores. Psorid is Rs. 25 crores and it's a very good market to be in. So, both side the synergies are quite good. The Derma piece in Biocon is clearly focused into Psoriasis only.

We were having a little bit of limitation in our Oaknet piece. There were too many brands which we had acquired. We were looking for one more team where we can do some cross-selling.

From that point of view, I see a good synergy from a productivity point of view. That is how I am seeing the business as of now. But you need to give me some time to really get into the depth and be more strategic about this.

Kunal: One more on the guidance part. We have guided for Rs. 2,000 to 2,100 crore revenue, which means you would be doing slightly better per quarter in the second half, probably also due to the acquisition as well. But then our EBITDA is around Rs. 710, which is basically at midpoint at least there would be some form of margin compression in second half. Is that correct way of looking at it or is it more conservative? Generally, I am sure that in Q4 there is a margin compression, but over and above that, anything that we should factor in?

Amit Bakshi: Kunal, if you see the trend of the industry in the last two to three years post-Covid, generally, H1 is suppressed compared to H2. Typically, what you said was right for decades together, but if you see the trend last year also, H1 was quite depressed, and then H2 kind of made it up for that. I think we are moving towards a time where the last H2 is going to be at least like H1, if not better.

When we say this guidance, we haven't really included the Biocon product at this point of time. Whatever happens in Biocon will be a plus over and above what we are talking about. Whether 710 could become 720 or 730 something it's too kind of difficult to say at this point of time, but we continue to put our best efforts. So, let's see how it comes up.

Kunal: Not in revenue and not in EBITDA guidance, the Biocon is not into it.

Amit Bakshi: No, it's not there.

Kunal: When is this acquisition expected to close?

Amit Bakshi: We are trying to close it sooner, but you know how it is. But we are trying to close it sooner. We will let you know whenever it is closed.

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

Tushar Manudhane: Sir, on the Nephrology part again. At what rate this business has grown over past two years?

V. Krishnakumar: It has registered a CAGR of more than 10% in the last 2 years. In fact, from FY23 to FY24 also, its run rating at around 10%.

Tushar Manudhane: Secondly, for this acquisition how much is to be taken as the amortization rate?

V. Krishnakumar: It will be around Rs. 17 to 18 crores per annum. We will have a 20-year window.

Tushar Manudhane: Effectively, even if I take Rs. 30 crore EBITDA one year down the line, Rs. 17 to 18 crores as an amortization, and then assuming 25% tax rate, so from that point of view, the incremental earnings given the size is not so meaningful, correct?

V. Krishnakumar: If you are looking at EPS dilution or accretion, this is definitely going to be EPS accretive in FY26. As far as FY25 is concerned, as Amit said, we have to put our numbers together and come back to you.

Tushar Manudhane: Lastly, considering the cash flows from the existing business and considering the Net Debt of Rs. 618 crores, overall by end of FY24, what kind of Net Debt figure one should look at?

V. Krishnakumar: Tushar, you can do the math. Rs. 620 crores plus we are adding 280 and then we will pay down at least a couple of hundred. We believe that by the end of the year, we will be in the 700-720 kind of zone. So, you are looking at 1x EBITDA or thereabouts.

Moderator: Thank you. Next question is from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead.

Nikhil Mathur: Just a quick couple of follow-ups on this acquisition. Can you talk about the return on capital expectations three years out from this particular transaction?

V. Krishnakumar: Nikhil, we are targeting 25% to 30%. That's the kind of hurdle that we put on any transaction that comes to our table. Yes, I think we can see a good line of sight to get there.

Nikhil Mathur: With 30% EBITDA margins in year one, what are you most bullish on in this particular acquisition? Is it going to be elevated growth? Past two-years CAGR has been 10%. Can the growth be much better in three, four years or do you believe that the margins can go up to, let's say, 40-45%? Because unless one of these levers picks up, don't you think it's pretty hard to achieve this particular hurdle rate that you are talking about?

Amit Bakshi: Nikhil both the things will work out. At this point in time, we see a 600 to 800 basis points improvement in the Gross Margins. At this point in time our homework tells us there will be 600 to 800 points improvement there plus there will be good number of launches which would happen plus the team size of Derma is only 50. Nephro 40 is not a bad number, but Derma 50 is a little sub-optimal. We will have some opportunity of cross-selling through other division where we don't operate through the new brand.

So, there are multiple levers as I told. Nephrology is quite a big business. This is a little bulky business. Considering all these things, I think both will work, but if you ask me to choose one, Gross Margins will come automatically. That's been the play. But the real game here is growth and that is where we are quite bullish about.

Nikhil Mathur: On some of the softer aspects of this acquisition. The team that will be coming on board, where is this team largely based out of in the country? Are they more south oriented, west oriented? I am just trying to figure out what kind of natural fit would the incoming team have with your existing operations?

Amit Bakshi: Nikhil, what happens is if there are 40 people, general rule of thumb is there are metros and state capitals. That is where generally people are put. But if you ask me how is the mix of the business? The mix of business is more skewed towards east and south. North excluding Delhi, north and west are areas which could be worked up better. That's how the business is split at this point of time.

Nikhil Mathur: What is the sourcing of these brands? Are they third-party sourced, or you will be manufacturing them in-house, transferring them in-house? What is the sourcing arrangement today of these brands? How will it change once the products are with Eris?

Amit Bakshi: Right now, I think all of this is third-party KK?

V. Krishnakumar: Yes, all of these are third party. For the time being, we will continue with third party sources. They may be existing third party sources, or we might look at other third-party sources, but these will not be part of the first crop of products that we bring in-house.

Amit Bakshi: Now our existing Derma piece is like Rs. 300-350 crores, the relationship with the suppliers is deeper because there is a bigger volume. That becomes an advantage when you add products.

Nikhil Mathur: One final question on business. The growth is 9.7%. How much of this is organic and what component of this 9.7% is coming from acquisitions that we have done in the past?

V. Krishnakumar: Nikhil, organic growth was in the high single digits. Our covered market growth for the half year was 2.5%. We have grown at more than 400-500 bps over the covered market. That is where it is landed.

Nikhil Mathur: 6%-7% is organic growth and the remainder is acquisition?

V. Krishnakumar: Yes. High single-digit, you can take 7% - 8% as the organic growth. The remaining is from the acquisitions.

Moderator: Thank you. Next question is from the line of Dhruv Maheshwari. Please go ahead.

Dhruv Maheshwari: Out of the Rs. 366 crores of consideration for the acquisition, how much is the working capital?

Kruti Raval: Dhruv, we are waiting for the purchase price allocation report to come. We will update you after that.

Dhruv Maheshwari: Noted. Just one quick clarification on the guidance of the Rs. 2,000 crores revenue, 700 to 710 EBITDA. Is the Biocon portfolio acquisition included in that?

Amit Bakshi: No.

Moderator: Thank you. The next question is from the line of Harith Ahamed from Avendus Spark. Please go ahead.

Harith Ahamed: In recent months, there has been a lot of excitement around GLP-1 agonists, and we have also indicated plans to launch Liraglutide through our MJ partnership. I am trying to understand, for the other GLP-1 agonists which probably will see getting expired in the coming years, for instance, Semaglutide.

On other GLP-1 agonists like Semaglutide, do we have any plans formed up as of now? I am also trying to understand the impact of GLP-1 agonists on other Anti-Diabetic therapies, like Oral Anti-Diabetic drugs and probably Insulins? Will there be a shift in volumes from these therapies towards GLP-1 agonists? Do you see an impact of this for our business?

Amit Bakshi: Yes. I will answer the second question first. GLPs have been around for a couple of years now whether it is the Oral Semaglutide or Liraglutide and the combinations have been available for, I think, 4 years now, and we have seen the kind of market which they have taken. They have not really disrupted the other Oral OADs as well as Insulin. About Semaglutide, if I remember correctly, Semaglutide is out of patent in 26.

V. Krishnakumar: 2030.

Amit Bakshi: No, no, that is Oral. This is injectable. Injectable is out in 2026 in my view. Of course, if Semaglutide is out, there will be a big play in India because the global data on Semaglutide is very nice, and we will surely participate in that product whenever it happens. Right now, we see 26. Liraglutide will set the tone for the Indian companies. It might not go as far as Semaglutide. Of course, the product is different, but that's what seems to most likely happen from here.

Harith Ahamed: You have talked about three emerging therapies for you; Derma, CNS, and Women's Health and I am assuming that we are adding Nephrology to that list of emerging therapies. How should we think about our intent to get into new therapies from here on? For the next few years, are we going to consolidate these newly entered therapies before we think about getting into newer therapies or are we open to expanding our therapeutic exposure further?

Amit Bakshi: Yes, things have been a little dynamic in the past couple of years. As of now, technically, in the Chronic space, we have almost covered everything other than Respiratory with Nephrology coming in. I think the top five other than Respiratory is all covered. So, we are good at that. The immediate thing would be to scale this up because Derma is seeing good traction. Nephrology, we are just getting into. Neurology is also showing good traction. Let's see. There are a couple of products to be launched on that side also. Right now, we have all these therapies which are ready to be scaled up.

Now what will happen in future? Little difficult to tell. Let us see how it goes, but yes, we have been open to any good proposal, any good business which makes sense and does not really depart us from our core thinking. That's the line which we have always maintained.

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

Ankur Shah: Can you just throw some light on organic growth? Because I think that is coming off quite a bit. The second question is, just from a thought process point of view, we have been doing acquisitions, and I think now we have spent close to Rs. 1,500 crores after I consider the Biocon acquisition. What is the thought process? Aren't we spreading ourselves too thin without getting the organic growth in-line? That's a concern from an investor's point of view.

V. Krishnakumar: The way we think about growth is as follows, which is that one of the key features of our business model has been that it has always been a high margin and a high cash flow model. In fact, you mentioned Rs. 1,500 crores. I will just recap the journey of the last six, seven years. If I look at the cash generation that has happened in the last 6 years, it's been north of Rs. 2,000 crores, right? As a company, we have a strategic choice of where we are going to deploy this. We have chosen to deploy it to get into therapies where we are not present. We got into Neurology with the Strides acquisition. Then we had an acquisition in 2019 where we got into the DPP-4 segment. We acquired a brand from Novartis. Then more recently, we have gotten into Dermatology and now Nephrology.

When we think about our capital allocation strategy, it's always about looking at cash that is thrown up by the business and seeing how we can deploy it meaningfully to deliver high returns. When we look at it in that framework, this approach seems to be making sense to us because these acquisitions are being done without taking unnecessary pressure on the balance sheet, without betting the house. Sitting from where we are and looking at it from where we are looking, it looks like a coherent and balanced growth approach to us.

I don't see any change in the business model. We expect to continue to be a high margin business. We expect to continue to be a high cash flow business.

This balance of organic and inorganic will continue to be a feature at Eris going forward as well. The one thing I can say is that we will continue to be very disciplined about it. Strategic discipline and financial discipline, I don't think that will be ever diluted.

As far as execution is concerned, I will let Amit talk about the people point because I think that is a very significant point. We are getting a team from Biocon. The whole leadership of the Nephrology and Dermatology teams and the field force is going to transition to Eris, right? That should take care of your execution question. That doesn't necessarily dilute any bandwidth from the current operations. If that's what you are asking.

Ankur Shah: Yes. I appreciate the financial strength and the balance sheet, but just from a thought process angle, I think, incrementally, when I look at the portfolio which we are leaving, like, now Derma is the focus area, but the areas where we have established brands and maybe they might have scope for growth or however I want to think about it, I am just seeing the organic growth waning off.

That's a bit of a concern for me in the sense, it will be cash flow generative and all, but, is our competitive strength built in that particular segment, is it waning off? That is my overall concern. I obviously appreciate how you all have undertaken on acquisition with the prudent approach, but whatever we are building, is it sustainable growth from an organic point of view? That is something which concerns me.

V. Krishnakumar: There are a couple of data points I will share with you. If you look at how our established brands portfolio is performing, we have Top-20 mother brands that account for 70% of our revenue, right? This group has grown at 11% if you look at the most recent data, and 13 out of these top 20 brands rank among the top five in their respective categories. As far as our power brand portfolio is concerned, we have absolutely no challenge there. They continue to grow.

The second point I would like to make is that, at the end of the day, our growth is not disconnected from the market. Amit made the point earlier on in the discussion that for the last couple of years, H1 has been a bit of a low growth phenomenon in the market, and H2 has picked up. The covered market growth, the market that we operate in, that market has grown at 2.5% for the first half of this year. The best we can do is to beat that market, which we have done, which is why our organic growth is 7% to 8%.

Ankur Shah: On the 20 mother brands portfolio, what you mean to say is that we have maintained or increased our market share in the covered markets where we are operating.

Amit Bakshi: Yes. If the market grows by 2.5% and you grow by 8%, then, of course, you gain market share, but to give a perspective to what KK is saying, let's talk about our Diabetes market, which is the number one market. I am happy to tell you that we have moved to number four in our covered market and just digest this data point.

On a MAT basis, the market has grown by Rs. 500 crores. New growth is Rs. 500 crores, and we have garnered 15% of that growth. Not only the existing market share but also the incremental market share. At a 4.5% or 4.8% market share, we have gained 15% incremental market share. That's how it is happening.

The only caveat here is there are a couple of brands which we are selling but not reflecting in our primary sales. KK just spoke about the two brands, which are Linares and FCM which were "at-risk" launches. What would happen now that we have relaunched it, I expect 300 to 400 basis point growth coming in only from this product when we start selling it again.

That's the nutshell. But 2.5% versus 8%, you are always gaining market share. Most part of our large brands are gaining market share, but yes, if it could have been 10%, it would have been better. Of course, 10% would have been better, 12% would have been better, but we are getting there. I think once we get these new products primaries, we should be getting there, and you see the H2 to become quite different from H1.

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

Rahul Jeewani: If you see for the second quarter while our standalone branded pharma business has grown at a 13% kind of a rate, the consol growth for us is only around 10%. It is likely that the trade generics business is having an impact as far as our consol growth is concerned. When do you see this impact waning off and the standalone growth to start mirroring on the consol growth as well?

Amit Bakshi: We are talking about branded which is 97% of the whole thing. Now what we are talking about is the remaining 3%, and we have been quite clear. We have been talking about this from a couple of quarters now, that trade generics is something which we don't think is picking up the way we would have wanted. The growth will again come from the 97% of the business. This 97% of the business is our core business, and that is where we expect more growth to come in H2, and especially when the other products come in, that will start showing up in the primary numbers.

Rahul Jeewani: This organic growth of 7% to 8% which you indicated is for this 97% of the business?

Amit Bakshi: Yes.

Rahul Jeewani: You indicated that the covered market growth for us is around 2.5%, but if we look at the Chronic segment, the Chronic segment in first half would have still grown at a 9% to 10% rate. What is leading to this muted growth for our covered market in terms of any specific therapy segments where the market growth has been lackluster apart from, let's say, the Oral Anti-diabetes segment?

Amit Bakshi: We are on a little different page. I think you are talking about the IMS data. We subscribe to the AWACS data. Am I right on that?

Kruti Raval: Yes.

Amit Bakshi: If you look at the IMS data, our growths are different there. They are much higher than what is reported here, and so the data which we refer to the market data is showing 4% growth in Chronic and 2.5% overall.

Kruti Raval: Covered market.

Amit Bakshi: Covered market. What you are looking, I don't have our numbers in IMS, since we don't subscribe to it, but my decent guess is that our numbers would be quite fair in that data.

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

Prashant Nair: My first question is the revenue number that you have provided for the acquired business from Biocon, are those revenues at company level or do we have to mark them down to get the revenues that you would approve?

V. Krishnakumar: These are primary revenues, Prashant.

Amit Bakshi: Company level.

V. Krishnakumar: Company, yes.

Prashant Nair: Second question is, if you take your main therapy, say, Diabetes, Cardiac, Dermatology now and maybe VMN, would you have a sense of how much of these markets would you be covering now? What is the proportion of your covered market to the overall market just to get a sense of how much more you have in terms of gaps to fill?

Amit Bakshi: I'll answer this. I have seen this data. Diabetes we are 83%, Cardiovascular we are 54%. VMN is a very large market. It will be little difficult to guess that right. Dermatology we are 50%. We have 50-52%. That's about the larger market, Prashant.

Prashant Nair: Dermatology after including this acquisition you have done, or this is before that?

Amit Bakshi: After including this, we are close to 50%. 50-52%, give and take 2% here and there.

Prashant Nair: Just one follow-up on that. Given Cardiac and Dermatology are still in that 50% range, are these areas where you would be looking to cover up any more of the gaps or do you feel you are present in the segment that you want to be?

Amit Bakshi: Yes, there are certain gaps. Prashant, there are some markets which are really old like the Amlodipine market, plain Amlo, they are still big market, but they are very old market.

The way we will enhance our presence in Cardiology is through new products. Out of these 14 products which we have been talking about almost five to six are in the Cardiology hypertension space, and that will start rolling in I think from Jan-Feb next year, and then every quarter we have one or two products coming in.

The new launches will be skewed towards Cardiology because the coverage has been quite good in Diabetes already. We will see a lot of launches in Cardiology. Dermatology, of course, it's going to be a process which will happen for the next 2-3 years. We would like to get into more contemporary markets and try to have an indirect effect. Indirect means, Amlodipine-Cilnidipine. So, Cilnidipine will replace Amlodipine at some point of time. That's the guess. These are the market which would replace the older markets and those markets where we will play the big game.

Moderator: Thank you. Next question is from line of Harshal from Mirae Asset. Please go ahead.

Harshal Patil: Most of my questions are answered. I just need one clarification from you. In quarter one call, this is with respect to the brands in Derma which we acquired from Dr. Reddy's and Glenmark. We had said that we are like close to 75% of the full potential and we are expecting to reach the full thing in Q2. Sir, where are we on that?

Amit Bakshi: Not completely on board in Q2. We are more likely at 90%. Between the two, the brands which we acquired from Glenmark, we have almost reached. We have reached 100% rather. It is the Dr. Reddy's brands where we have a little bit of a struggle. A Q2 number is more like 90-92%.

Harshal Patil: In the subsequent quarters, we can probably expect to reach the full thing.

Amit Bakshi: Yes, we would reach there. What might happen is we might not reach everything say in what we acquired brand to brand, but an overall level, we will definitely reach there.

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

V. Krishnakumar: Thank you. In closing, we have announced the execution of definitive agreements for the acquisition of Biocon's Nephrology and Dermatology businesses for Rs. 366 crores inclusive of working capital. The business has a current revenue run-rate of Rs. 100 crore per annum. The key leadership and entire field force of this business are expected to move to Eris post deal.

For the first half of this financial year, our consolidated operating revenue grew by 13% to Rs. 972 crores, our consolidated EBITDA grew by 25% to Rs. 351 crores and our consolidated profit after tax grew by 1.7% to Rs. 216 crores. Our operating cash flow for H1 stood at 75% of EBITDA.

We reaffirm our FY24 guidance of Revenue Rs. 2,000 to 2,100 crores, EBITDA Rs. 700 to 710 crores, and profit after tax Rs. 410 to 415 crores.

On behalf of Eris, we send our best wishes to you and your loved ones for the upcoming festival season. Thank you and have a good evening.

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.

This document has been revised to improve readability.