"Eris Lifesciences Q3 FY '20 Results Conference Call"

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MANAGEMENT: MR. AMIT BAKSHI - CHAIRMAN & MANAGING DIRECTOR, ERIS LIFESCIENCES LIMITED
MR. HIMANSHU SHAH – EXECUTIVE DIRECTOR, ERIS LIFESCIENCES LIMITED
MR. I.S. NEGI- EXECUTIVE DIRECTOR, ERIS LIFESCIENCES LIMITED
MR. SACHIN SHAH- CFO, ERIS LIFESCIENCES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY 20 Results Conference Call of Eris Lifesciences. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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. Amit Bakshi, Chairman and Managing Director of the company. Thank you, and over to you, sir.

Amit Bakshi: Thank you. Good evening, everybody, and welcome to the Q3 FY20 earnings call. Let me take you through the presentation, and then we will open for Q&A. The first slide in our presentation talks about a very momentous period for us. As you are aware, in the last call, I told you that we have initiated a study called India Heart Study. It got mentioned in nothing less than the official journal of ESH, which is a great thing to happen. And we could be possibly be one of the very few companies or the only company in India to have achieved this feat. Again, this puts forward the whole thought of achieving thought leadership in hypertension.

Immediately then, I come to the point, which is higher expenditure in this quarter. So we see a 14 crore to 16 crore higher expenditure in this quarter, which is nonrecurring in nature. The reason of this expenditure is, number one, we have hired around 219 BEs and the managers for 2 different businesses. These expenditures are for their onboarding, for the training and also for sometimes a notice payout, especially at the higher managerial level.

Secondly, we have invested heavily on Zomelis and Rariset, which is our Sucrosomial Iron. These are the two products, which we were quite bullish on. These were launched in the month of December, so nothing much is captured in the sales. But going forward, it seems that these 2 products itself will contribute around 6% to 8% of additional growth in the coming year. So it's a good start. AIOCD numbers do tell us that we are somewhere averaging INR 3-3.5 crores per month at this point of time based on the number of strips.

The other point is we are not able to sell Zomelis as much as secondary because we had an arrangement with Novartis that first Abbott will sell their stock. And according to an order from the court, Abbott is allowed to sell it only until April. So we think that the entire sale will be captured from the first quarter of the new year.

Rariset, again we have invested very heavily, just to give a number on that, we have done around 400 medical education meetings only in the first month of launch that is December itself. And we are seeing a good traction. In these trends, if they move forward, which we are sure, then we are looking at around 18 crore to 20 crore brands of the Sucrosomial Iron in the next financial year.

The other news is that Guwahati plant is now ready for production of the newer products, which we're talking about, especially in the softgels and the nutraceuticals. And we will be hitting around 80% of our revenue coming out of the Guwahati plant from the first quarter of next year.

We have also got some renewed focus in the business. The entire business is now defined into 5 SBUs, and we've got some people from outside to manage these SBUs. So 2 SBUs are in the Cardio Metabolic business, which remains our largest business. Because of a very sharp focus on CNS, CNS has also been put in as an SBU. And there is one business which is Acute business, wherein we already have a person in-charge, the cluster head, who has joined us recently. And one SBU is for the newer businesses. This, not exactly restructuring, but kind of putting them into buckets, will give more focus to each of the businesses. And these will be run in a more professional manner than before.

Now coming to the secondary growth, I'll talk about the Q3 and the 9 months ending one after the other. So you see this year, up till now, the market grew by 9.5%. Acute has actually grown by 10%. So acute has overgrown chronic, which is not very common, but this has happened this time. And especially in the third quarter, it has grown ahead of chronic quite significantly looking at the past records.

So that is one of the reasons that our sales for a 9-month perspective, as per the secondary, is 10.2%. And for the Q3, it's 6.4% where in acute, we have degrown by 7.8%. And in chronic, we have grown by 11.0% vis-à-vis 9.2% of IPM. The change in the performance for Q3 is actually coming from subchronic brands and 2 brands, in particular, where we have underperformed the market. The market has grown by 8.3% in the third quarter, and we have grown just by 3.8%, and this category (sub chronic) is 22% of our sales. On a 9-month basis, we have grown at around 8.8%, almost at par with the market. This underperformance in quarter 3 is because of 2 brands, which has already been corrected in the month of January because the January sales are out. And we saw a 9.8% growth in January as per the same data we are talking about.

Now for the financial highlights, so Q3, we grew by 5.3% in sales internally. We have an 18% dip in EBITDA, which I've explained. We have spent around 18 crores extra. There is no exceptional item there. Next quarter, we will come back to around 55 crores-60 crores. Our average has been 70 crore-74 crore. Generally, in the fourth quarter, it is between 55 crores to 65 crores, and we have preponed certain expenses, including our budget meetings, all that has been done in December. So there's a blip there, but this will even out by the end of the next quarter. On the 9-month side, we've grown by 7.7%, 3% growth in EBITDA and 1.3% growth in net profit. Rest everything is as it is.

We can take in questions now.

Moderator: Thank you very much. We will now begin the questions and answers session. The first question is from the line of Amey Chalke from HDFC Securities. Please go ahead.

Amey Chalke: I'm from Haitong. So first question is on obviously incremental investments. So we have added around 300 MRs. So going ahead, should we expect the MR count to remain stable for at least a year or so? Or what is thought process over there? Then the second question is, we have announced that we are entering into the generic space. What kind of investment will go into this business? And what is the thought process in entering into the generic market at this point of time? These 2 questions.

Amit Bakshi: Sure. I'm sorry. I didn't mention the trade generic part. So we are entering into trade generic. I think next month, we will start the billing. So the whole thing will start coming out in April. So I'll answer the first question first, let me start from the trade generic part, which I missed in my presentation. So the idea of getting into trade generic was two. Pronged one is that, as you're aware, our company is largely an 18 crore to 20 crore brand company, which contributes more than 75% of the sales. Our representation into acute market has always been very less. And over the years, it has come down to 14%-15% now. The trade generic market, as you guys are aware, is more of an Acute business than anything else. This business has been growing steadily in the country, and there have been companies who have been able to demonstrate good EBITDA margins also.

Now going ahead, the plan is to launch this division. We already have the leaders in place, and we have got one of the best talents of the industry. We are setting our distribution system at this point of time. The idea is to be on the trade generic side, but to be more on an OTC-able kind of product. So initially, there will be a mix of OTC-able product and pure pharma, but the strategy is moving ahead with more rigor in the OTC-able path, so that it is scalable and it is also profitable. So that's the thinking around trade generics. Amey, your question on the expenditure. Can you please say it again? About the people? Yes. So right now, what addition of people is still to happen in the trade generic, we will have a team of around 50 people. Right now, we already have 20 people, 25 people boarded. But as a thumb rule, we always invest in the managers and the leaders first. So the people now coming would more be at the bottom of the pyramid, the front-facing field force. So 25 more people for trade generics. No other plans at least for the first 6 months of the launch. Depending upon how we do, we'll think about it in the latter half of the next year.

Talking about our current business. We just added one division in chronic. We have no plans for this year, but we see some more products coming in the next year. So a possibility of one more division in Cardio Metabolic is there may be in the second half of next year. So until the first half of next year, we don't see any significant addition. There would be some 30-40 people, depending upon how we want to expand the current business.

Amey Chalke: Yes. Just one follow up that do you expect this business to be margin dilutive because we are operating at 35%-plus EBITDA margin. And so typically, what I understood from the industry, the margins in the trade generic side is close to 20% or more or less over there. So what is your thoughts on that?

Amit Bakshi: No. Amey, I don't see this coming to the level of the ebitda margin of present business. That is the reason we are taking this into wholly 100% owned subsidiary, so there is no mix up between the two businesses. We don't see this business going to 30%-35%, even in the long term. But we are very hopeful that once we gain traction, 20% ebitda margin is something which is achievable.

Moderator: Thank you. The next question is from the line of Tausif Shaikh from Prabhudas Lilladher. Please go ahead.

Tausif Shaikh: Can you give us the breakup of revenue subsidiary-wise? And can you just break up that 18 crore which you have spent extra on other expense? How much you have spent in Zomelis and new employees?

Amit Bakshi: Both the things we don't have the break up. We have been giving the breakup for all this time. So we are no more giving the breakup because they have been completely integrated now. As far as the additional expenditure which you are saying, so look, broadly I don't have the math splitting. But broadly, what happens, it is like from a people point of view, it is onboarding, it is training, it is notice period buyout, especially at the manager level, and then it is about internal meetings as well as external meetings. So promotional expenditure is at the top, followed by people and their settlement.

Tausif Shaikh: Okay. Just one more, if I can. You have moved into generics. Can you throw some more light on it, like how many products you're planning to launch in the next 6 months?

Amit Bakshi: So you have to bear with me for one more quarter. What I can tell you right now that we are ready with around 65 products as of now. But is this enough? The answer is no. So the brand addition in generic is not as filtered as in our core businesses. So as and when the need arise, products are added, but this business typically is done at a larger brand level, at a more SKU level.

Moderator: Thank you. The next question is from the line of Rahul Veera from Abakkus Asset Management. Please go ahead.

Rahul Veera: Sir, I just wanted to understand in terms of our product shift to our own Guwahati facility, we've moved up to 65% in Q3 FY '20, but there's been no improvement in the gross margin, sir?

Amit Bakshi: Yes. We actually dropped down to 65% of product shifted to Guwahati. Before we took Strides, we were at 75%-80%. We actually dropped down from there because we didn't have a couple of lines available with us. Now with the line coming back to us and 80% moving in Guwahati, we'll see, that difference will now come up from the first quarter of next year.

Rahul Veera: Okay. And the generic 65 products that we are planning will be manufactured in-house?

Amit Bakshi: No. Nothing in-house as of now.

Moderator: Thank you. The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: This first question is Zomelis. Did you have to cut prices after you bought this brand?

Amit Bakshi: No. Now the price which we are selling is at Rs. 9 and Rs. 10. Rs. 9 for the 500 mg variant and Rs. 10 for the higher metformin variant.

Anubhav Aggarwal: And when the innovator was selling they were selling at around 25 for this?

Amit Bakshi: Yes. In that range.

Anubhav Aggarwal: Okay. And the other question was on this 2 brands that you mentioned, which have not done well. What are these 2 brands?

Amit Bakshi: So these 2 brands are Remylin D and Tayo.

Anubhav Aggarwal: So there's nothing new, right? For us, these 2 brands have not been doing well for some time, right?

Amit Bakshi: No. It is not. It is only in quarter 3 they got, so if you look at in quarter 2, the contribution from quarter 2 to quarter 3 has come down by around Rs. 3 crore.

Anubhav Aggarwal: Okay. And then I have one question, just asking, on this Acute division we've been always saying that we are not focused. So why don't we decide when we were restructuring business to let go this Acute division? I mean why don't we divest it?

Amit Bakshi: Okay. Anubhav, acute and the semi-chronic is intertwined with each other. So, what happens in every one division where there is an acute, there are a couple of products for semi chronic also. So we'll give you an example. Our biggest acute basket lies in our gastro division, which also has ReNerve in that. So while from an AIOCD part of it, we say it is only 14%, but it is intertwined with other reasonably big brands also. In fact, what we have done is that we have put this under a different SBU. And we've got somebody who has a lot of experience handling this for the last 30-35 years. And we are looking to improving our share in acute because acute market from the last 2 years have been performing well. It is not the time 2 years back when they were consistently underperforming. So it makes sense for us that we kind of revamp this business and try and get better in that. Regarding Zomelis, look, the data is telling me that we are already at a 3.5 lakh run rate. Now 3.5 lakh run rate at the new NRV is around 3 crores, 3.5 crores a month. That's the AIOCD data, which I'm quoting.

Anubhav Aggarwal: Okay. And just last question on this generic entry. So just asking that this option was always available to us, and we've chosen to enter this business when the regulator is considering this industry of putting margin caps. So what's triggered this, our entry so late into trade generics?

Amit Bakshi: Yes, Anubhav. It's a very reasonable question. Why did we enter now? As a company, we are going through expansion, which I had talked about in the last call. This space in my head wasn't as big or was not becoming as big as it has actually become. The advantage with us is that we are very concentrated on brands, less number of brands doing larger business. Now when it comes to the trade margin issue, which you are talking about, Anubhav, in my understanding, trade margin business will not completely change, this business will not go away anyway. Now if you know, in volume terms, it is quite large and there is a huge population who goes to the chemist and asks for drugs for his ailment. So this business might get a little restructured in a manner, but this business getting into big problem doesn't seem likely.

Anubhav Aggarwal: So if I can just ask a very simple question. I think what is the fixed quantum that we're attributing to the business? Like, I know a lot of it you will buy from outside etc. so all will be variable, but what's our total fixed cost investment into this business?

Amit Bakshi: So fixed cost investment is only going to be on the people and on the inventory. Nothing else.

Anubhav Aggarwal: And how much would that be?

Amit Bakshi: People cost would be, say, around Rs. 12 crore to Rs. 15 crore, even less than that, maybe Rs. 10 crore for a full year when we are 50 people. And we think that the gross margins here would be in the range of 50%-52%. So depending upon whatever the sales is that part would come down.

Moderator: Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Could you just expand a bit, again, on your trade generics business with who you would be competing with, the current distribution approach and how it differs from a branded generics business, which typically, we see in the Indian market?

Amit Bakshi: Yes. So that's a lot to talk actually. I'll try to put this in the shortest possible framework. So typically, branded business is a prescription business and a trade generic business is something, which is over-the-counter business where a patient goes to the chemist and either they buy something for themselves or chemist gives him whatever he needs, depending upon the problem he is having. The distribution system is very different. So you have different distribution for the branded generic, which is more of fulfilling kind of a distribution, where there is a demand fulfillment, and the demand is generated by prescriptions, while trade generics is more of a push business, where you are doing demand creation, and it is more on the shelf kind of a push, which happens.

Riddhesh Gandhi: We don't have MRs and all of that in the generic trade business?

Amit Bakshi: No. This is a distribution-driven business. So the distributor is a quasi-salesperson here. So you don't require that many feet on the ground. It is more of a distribution business.

Riddhesh Gandhi: Got it. And in terms of at the EBITDA level, I'm assuming these are still lower in terms of margins?

Amit Bakshi: Yes. Absolutely.

Riddhesh Gandhi: Got it. And the reason why you guys are actually expanding into this area is because you see this as being a trend in the acute space, which you're seeing?

Amit Bakshi: Yes. To an extent, yes. And this is one market which has actually grown very well in the last 5 years. Typically, we enjoy a lot of respect in the market from a brand perspective because of being at the top of the pyramid. That makes it easier for people to recommend and sell our brands, and our presence in the biggest market of generics, trade generics, from a branded perspective is very lower, almost missing. So there's nothing which eats into our own business, which we are doing. So they completely remain separated.

Riddhesh Gandhi: Got it. And how much actually profit margin would the pharmacist make with a trade generic as opposed to actually a branded generic?

Amit Bakshi: So significantly more. I would not be able to quantify because it depends upon pharmacist to pharmacist. But it is significantly more than the branded business.

Riddhesh Gandhi: Got it. So effectively you'd be running these 2 parallelly or you would ultimately, look to move your skew towards being a traded generics business?

Amit Bakshi: No. They are completely different. Absolutely. This would be running in a different subsidiary. This has a different distribution system. So they don't cut each other at all.

Riddhesh Gandhi: Got it. And are there any other of your peers who is also looking at this market or not really?

Amit Bakshi: No. So I think the larger peers, the larger companies are already in this market, and some of them have been doing exceptionally well.

Moderator: Thank you. The next question is from the line of Subrata Sarkar from Mount Intra Finance. Please go ahead.

Subrata Sarkar: Sir, a couple of questions. First, can you share the January data of AIOCD and your position with respect to chronic and sub chronic and acute?

Amit Bakshi: Okay. So I can't spend much time here. I'll just tell you it as a preview. So acute, there's a degrowth of minus 3%; chronic, there is a growth of 13.6%; and sub chronic, there's a growth of 10%; and overall, there's a growth of 10%.

Subrata Sarkar: Okay. Perfect, sir. Sir, now on a broader level, one question, since we have now launched Vildagliptin, is there any cannibalization possibility for our Tendia in that respect?

Amit Bakshi: So Tendia growth slowing off is a possibility, and that is happening in the market. So there would be some amount of cannibalization, which will happen. The cannibalization will happen on the growth, not on the base business. So the Teneligliptin market, which by now was growing by around 25%, 30%, we expect this to come to around 10% to 14% in the next year. Having said that, whenever this kind of thing happens in the market, the lead brands generally tend to take a larger share because the noise comes down drastically. So we are hopeful that Tendia will continue to beat the market and remain a very vibrant brand in this market.

Subrata Sarkar: Okay, sir. Sir, now just one question. Can you share some, color on Strides, the acquired Strides portfolio. How it is doing, sir?

Amit Bakshi: So we have been doing this for 4-5 quarters. We are not doing it anymore. I'm sorry for that.

Subrata Sarkar: Okay. No issue. Sir, last question, regarding this China and coronavirus issue, sir, on the API side, are we facing any, in the entire supply chain, is there any problem on that? And what we are anticipating on that, sir?

Amit Bakshi: So yes, it's a valid point. If this continues for a long period of time, then there will be certain challenges around the intermediate. As of now, the way we see this, the kind of comfort which we are getting from the vendors in China, it seems that we should be okay.

Subrata Sarkar: Okay. So how much time if it continues we can face some challenge, sir? That's till what time we can sustain easily and then there will be some effect, sir?

Amit Bakshi: So look, like everybody, we also have bulked up on things which we thought are important, at least, we have bulk of the orders. So I don't find any problem until the first quarter. And by that time, everything should settle down. I don't think there's an issue there.

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

Prakash Agarwal: Yes. Sir, on the cost, just a reconfirmation and clarification. You mentioned it would normalize to the earlier levels, which is about 70 crores-75 crores. Is that right understanding?

Amit Bakshi: Yes, Prakash, absolutely right understanding. This is only one time this has happened. We have been maintaining our other cost at around 28%-29%. And that's going to be the norm. Nothing is changing there. Only in this quarter, we had preponed some expenditures and also built up some campaigns and other promotion for the newer brands. That's the only moving point. We remain around 27% with 29% on other cost as it has always been the case.

Prakash Agarwal: Okay. And this will be from Q4 onwards, basically?

Amit Bakshi: Yes.

Prakash Agarwal: Okay. And on the revenue front also, we've always said that we will try and grow higher than the market growth. But even if I adjust the sub chronic element, which is like 20%, I would say, we will be still near or below market. What is leading to the base business, be it chronic or acute or whatever? On a blended basis, we are still below or near market growth. So what is not playing out for us at the moment? I mean future, obviously, new products will come to that, but the base, like-to-like 6.4%. You explained that in sub chronic, 2 brands have not grown, but say, like-to-like, even if we add that back, we would be still 9% or below. So what is not playing out?

Amit Bakshi: What is not playing out, that 65% of our market, which is in the chronic side has underperformed in the 9-month period. And typically, Prakash, whenever acute has over performed the chronic business, if you take a large slice out, you will see that chronic business suffers. This is from a larger point of view. And from an inside point of view, what we have not been able to done is turning around our acute business. As I just said that, even in January, there is a negative growth of 3.4%. It's not the top, which is actually making us bleed. The top 65% and the next 20% is still 20% ahead of the market. But it is the lower acute, which is dragging us down.

Prakash Agarwal: And just taking it forward. So when you say you're expecting 6% to 8% of additional growth, that is via Zomelis and Rariset which practically means 60 crores to 80 crores?

Amit Bakshi: Yes, absolutely.

Prakash Agarwal: So this you are seeing from FY21? Because you mentioned, I think, that Zomelis sales will only see light from 1st April because of the inventory sitting in the system?

Amit Bakshi: Yes Prakash, please complete.

Prakash Agarwal: So I'm just trying to understand what is the run rate which we can actually assume in Q4 before we start seeing some growth from new launches?

Amit Bakshi: Q4 run rate, you're talking about the current quarter?

Prakash Agarwal: Topline.

Amit Bakshi: Yes. So look, Q4 is generally a quarter which is subdued. And not having a lot of tailwind in the third quarter doesn't make me very positive about quarter 4. We'll do what we have done in the 9 months period, but I do not promise something spectacular coming out in the fourth quarter. My entire bet, which you initially said, is that I want to get around 7% to 8% only from these 2 products in the next year and I can see there is an undercurrent which is there. Also remember that we have launched a couple of more brands. I spoke to you about this in the last call that we had been guilty of not launching new products because of trying to integrate everything, which we had bought in the last couple of years. So in the month of December and the month of January, we have also launched a couple of more products, which are in the base business, especially in CNS. So that also will take traction. So all put together, I am keeping 6% to 8%, maybe 9% of additional growth only from the new products, which hasn't happened in the last couple of years.

Prakash Agarwal: Okay. And the base growth that you're assuming for your base portfolio, around 10%?

Amit Bakshi: Yes. So in subdued circumstances, I'm almost at the market or a little lower than the market. So when this starts picking up, the chances are that we will again try and beat the market at the base level.

Prakash Agarwal: Okay. And last question on the allocation of cash. I mean, even after doing this buyback, we would still be with some cash. What is the thought there in terms of using the cash?

Sachin Shah: We have 106 crores of cash as of yesterday.

Amit Bakshi: Yes.

Prakash Agarwal: Okay. And this is after paying Zomelis and I think a buyback would have been done, right?

Sachin Shah: Yes. It is after paying 93 crores for Zomelis, $13 million to be precise and 100 crores of buyback. And also, if you remember, we did a prepayment of 175 crores of loan also. So we have done that all this year. So after all the cash outflow, we are at 106 crores of cash as of yesterday.

Amit Bakshi: Yes. Prakash, regarding the strategy of cash, we will come out with a structured strategy for that, which will be between buyback and dividend now. We have to discuss in the light of new tax regime that what will be a suitable way out. But between these 2 options, we will come out with a strategy, say, in the next quarter.

Prakash Agarwal: No. So I was trying to understand, is there a thought on buying more brands or using the cash from a growth perspective, not from a buyback or dividend perspective.

Amit Bakshi: Yes, that always remains at the top. So there is some amount of the whole cash, which we would strategize in terms of giving back to shareholders, but the largest chunk of cash will always be utilized for growth opportunities.

Prakash Agarwal: Okay, great. And one more, if I may. On the gyne piece, where does it fit in acute? I mean gastro, gyne, vitamins will all be clubbed under acute now?

Amit Bakshi: So yes. In our SBU, it is all intertwined. In the secondary reports, which you see, they are differentiated as per the AIOCD classification.

Prakash Agarwal: No, I saw your Slide 10, which is like 5 SBUs.

Amit Bakshi: Yes.

Prakash Agarwal: So your gyne, vitamins sold will be clubbed under acute. Is it?

Amit Bakshi: Yes. So acute will be clubbing the gastro business, the gyne business as well as the ortho business. So around 30 crores, 31 crores of a monthly business between these 3, which is a mix of acute as well as semi chronic will come under the acute SBU, which will have special focus.

Moderator: Thank you. The next question is from the line of Sapna Jhawar from IndiaNivesh. Please go ahead.

Sapna Jhawar: So I remember distinctly last time we spoke about product rationalization, the entire exercise that we did. So then, why is it that our tail-end brands still continue to underperform, we still have certain set of brands, which are underperforming in our portfolio. I mean if you could just throw some light on that.

Amit Bakshi: Let me just get some data before I speak to you. Kruti, are you carrying that brand data? So I can tell you about 9-month period of our top 10 brands, which are 66% of the revenue. So Glimisave, our top brand, is going ahead of the market. Eritel, our #2 brand, is growing below the market. Now Eritel has been restructured, and we are shifting this to a new division, which is clearly hypertension-based. ReNerve is going much ahead of the market. Tendia is going ahead of the market. Cyblex is going ahead of the market. Olmin is going ahead of the market. LN Bloc is shade under the market. Tayo for the 9-month period is growing ahead of the market. Rabonik, the PPI brand of ours, is growing much below the market. That's how the top 10 brands stands up for us.

Sapna Jhawar: Sure. So in your initial remarks, you did mention that Remylin D and Tayo underperformed in Q3, but they have resumed result growth back now in Q4. I mean we're already in middle of Q4. So what went wrong then? And what have we done to correct that?

Amit Bakshi: No. Look, what happened, last quarter had October, which is actually a little disruptive month from a pharmaceutical point of view. So in the month of October, we expected it to go down. But then we could not compensate in the month of November-December. So I cannot be very specific about that. But let us start looking at it for a 9-month period and ignore a quarter. So for a 9-month period, it has done well, ahead of the market. It's only the quarter 3 where it has gone well below the market.

Sapna Jhawar: Okay. So the second question that I have is about Zomelis. Now we've already invested 93 crores when you bought the trademark and then certain investments when we hired this MRs. What kind of a breakeven time line are we working with for this particular product?

Amit Bakshi: Breakeven time line, we haven't worked. But we can tell you broadly how will it work like. So now as soon as we start hitting the market with all our stocks, we expect this brand to be at least 50 crores in the next year. Internally, we will make around 78% gross margin in this brand. So the gross profit would be 40 crores, very significant. Regarding addition of people, so additional of people, for first 6 months we will not give them any other brand. They will remain a team only for one brand. Later on, we will push some more brands in that division, and that is how the whole productivity will increase. So we haven't done the payout numbers, but I can broadly give you how will it stand at the gross level.

Sapna Jhawar: Sure. And I suppose with 50 crores as a revenue guidance that we're expecting for this, this would actually be amongst the top 10, top 15 products very soon for the next year. With 78% gross margins, do we expect gross margins to actually be stagnant or dilutive for next year? Is that what we are guiding for?

Amit Bakshi: No. This 78% has significant headroom. These are the first supplies. So once the market edges up, we will have significant headroom. And Zomelis will be at the upper end of the company gross margins.

Sapna Jhawar: Sure. And my third question is regarding Rariset. Now which set of doctors will this product go to? Will it be like a subset to any chronic product? Or this will be a purely chronic prescription?

Amit Bakshi: So this will go in 2 segments. One is gynecology, of course, which remains the largest market for iron. And second is nephrology, which has the highest productivity for iron supplement. The nature of this product is not acute. During pregnancy it is indicated for the last 2 trimesters and also 6 months after the child birth. So it has the life cycle of at least 9 months to 12 months, almost every time. And in nephrology, it could be used for even longer.

Moderator: Thank you. The next question is from the line of Ranveer Singh from Sunidhi Securities. Please go ahead.

Ranveer Singh: Sir, on trade generics part, what have been the total investment in this business? I mean planned investment.

Amit Bakshi: Business has not yet started. So we will not be able to give you the numbers. But as I alluded to when I was speaking to one colleague that the only 2 investment would be people and the inventory.

Ranveer Singh: Yes. So given that their operating margin or EBITDA margin will be lower than your base business, so just wanted to understand the kind of return we will be getting from this business over 2, 3 years? That is what precisely I wanted to understand.

Amit Bakshi: Return on capital?

Ranveer Singh: Yes.

Amit Bakshi: Just give us more time to respond to. That business has not even taken off as of now.

Ranveer Singh: Okay. And the last year we started 3 business verticals. So what has been the contribution of these verticals?

Amit Bakshi: Which?

Ranveer Singh: That fertility, nutrients and one more division you added?

Amit Bakshi: Okay. So the fertility business, which is for 50 people, will end up at around 11 crore to 12 crore this year. And the other business was Nutriverse. The Nutriverse business we started with some 35 people. We have scaled it to 100 people in the last quarter. And right now, their run rate is around 70 lakhs to 80 lakhs per month.

Moderator: It seems we've lost the line of the current participant. So we will move to the next question, which is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.

Tushar Manudhane: Sir, just on the chronic segment, which is 64% of the revenue, if you can just help me on the price, volume, new launches, growth?

Amit Bakshi: We don't have that number. We will have to get to you offline. Maybe my colleague, Kruti, can help you on that.

Moderator: Thank you. The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: Amit sir, I just wanted to understand this new structure which you have put up, which you have reorganized your divisions into 5 SBUs. Earlier when you had the division structure, you had the division heads who were directly reporting to you. So under the new structure, you will have the division heads reporting to this SBU heads or…?

Amit Bakshi: Cluster head, yes.

Anubhav Aggarwal: And now what's happened? So some of the division heads have been promoted to the SBU heads? Or all the 5 SBU heads you have hired from outside?

Amit Bakshi: No. Only 1 we've hired from outside. The rest 4 have been internal promotion.

Anubhav Aggarwal: Okay. So when you were evaluating, so how does this change life for you? Is it that now you will have 5 guys reporting to you versus, I don't know, earlier all the guys equal the number of divisions were reporting to you? How does things change for you?

Amit Bakshi: Yes, Anubhav. It changes significantly for me. One is that I get more time to invest in the newer businesses and other strategic things. And I'm quite hopeful that this will ease out a lot of growth also, because this was a point when it was getting too much from a reporting perspective. So we had to take this and then we took some time. We involved some agencies outside, did some good homework on that. And then we have made the structure and then put people there. So what difference does it makes to my life is that I will be able to give more time to Newer business and more strategic plays. My time which was into operations will considerably go down in the first year, but significantly go down after the first year.

Anubhav Aggarwal: And just one more question I had is now for last 1 year we've been trying to get into more and more businesses. Just a thought, which comes is, are we stretching ourselves in the sense that base portfolio is not growing as fast as it was doing, let's say, 2, 3 years back. Newer businesses are all subscale right now. Maybe one business may become good at some point of time, but it's a very tricky phase where the newer business which are at subscale maybe all may not perform. And we entered one more business, trade generic. It will, of course, take some more of your time. So you always had the choice of picking one, let's say, it could have been CNS or, let's say, concentrating on one more therapy in more focused way versus like investing your time in so many business, sir. How did you come to a conclusion of investing in so many other businesses, smaller businesses?

Amit Bakshi: Okay. So look, Anubhav. Let's be reasonable. While what you say has merits, but let us take the kind of resources, which we have got into. So if you remember, I just spoke about the IVF business. So we started this business with 50 people, and now we are doing Rs. 2 lakh productivity per person, which we are planning to take it to Rs. 3.25 lakh for the next year. So if we are getting to 2 lakh productivity in 2 years, that's not a bad thing to start. Second, my resource allocation has only been 50 people. Plus this is a market which is a very growing market. That's number one. If you see the large investments we have done from a resources point of view, Zomelis has been one of the largest investment which we have done, which is right in the middle of our core business, and there also I'm expecting the greatest growth. CNS is the largest investment we have done in this year. And I had told you in the last year, in the last call that we are expecting CNS business to grow significantly. So if you look at my CNS business, if you cut the CNS business growth, you will see that, that business, which was Rs. 1.5 crore-Rs. 2 crore to start with from what we took in Strides, in 2 years is now reporting around 4.8 crores at AIOCD. So the energy and the resources allocation are in the right businesses.

Now talking about the generic business. I am not going to run generic business. We think we have hired one of the best person and I am very confident about this. So my time allocation on trade generic business is only going to be at the strategic level. We have a clear cut understanding that our core business is our best business, and this is the best scalable business. The new launches, whether it is out of the patent or in-licensing, is our second biggest opportunity. So between these 2 opportunities, you will always find us giving most of the resources and most of the time.

Moderator: Thank you. The next question is from the line of Vishal Biraia from Aviva Life Insurance. Please go ahead.

Vishal Biraia: Sir, over the medium term, say, 3 to 5 years, what is the kind of growth outlook that you have? And what are the kind of investments, including capital expenditure and acquisition of products? What are the kind of investments that you are envisaging?

Amit Bakshi: Money in terms of acquisition is something which is difficult for me to think about at this point of time or to articulate rather. But I have always maintained that we generate a lot of cash and the best way to put cash to work is on growth side. So whenever we have an opportunity, which we think is scalable, we will always go for that. That remains one. CAPEX on the other side. So look, from a manufacturing point of view, we have just done around Rs. 25 crore, INR 30 crore. Let's broadly put between Rs. 35 crores to Rs. 40 crores we have just put in. Post this enhancement, at 80% of sales manufactured at Guwahati, we would be at 35% to 40% of utilization capacity on 3 shift basis. So I really don't see the CAPEX into manufacturing, unless and until there's a strategic reason.

Vishal Biraia: Okay. And just for the Strides, the portfolio that you acquired from Strides, could you share the revenue and EBITDA for the 9 months?

Amit Bakshi: We haven't done that. I'm sorry. We have shared it in the last quarter. We haven't done this for this quarter.

Vishal Biraia: Okay. The last question is on the working capital. Could you share how the working capital has moved from September to December?

Sachin Shah: So working capital, basically, the stocks have increased because we have stocked a lot of material this time. And that's for the stock purpose. Otherwise, there is no significant increase from September to December in terms of the debtors period or creditors period.

Vishal Biraia: Inventory has increased, you said.

Amit Bakshi: Inventory has increased a bit.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management for closing comments.

Amit Bakshi: Thank you all for taking out time and I hope we have done this well, and see you on the next call. Thank you.

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