“Eris Life Sciences Q1 FY18 Earnings Conference Call”

August 18, 2017

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

MODERATOR: **MR. PRAKASH AGARWAL – AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Eris Lifesciences Q1 FY18 Earnings Conference Call hosted by Axis Capital Limited. 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Prakash Agarwal from Axis Capital Limited. Thank you, and over to you, sir.

Prakash Agarwal: Thanks, Janice**.** Good evening everybody. I welcome you all on behalf of Axis Capital to the first earnings concall of Eris Lifesciences represented by senior management team; Mr. Amit Bakshi – Chairman & Managing Director, Mr. Himanshu Shah – Executive Director and Mr. Sachin Shah – Chief Financial Officer. Over to you, sir.

Amit Bakshi: Like Prakash, I also welcome all of you for the first ever investor call for the company. We are here to discuss the quarter one numbers, so let me just give you a very short synopsis of the result and then very quickly we will move onto question-and-answer session.

So at the consolidated level in the first quarter of the current year, the revenues grew by a meager 2% with an EBITDA of Rs. 71 crores with EBITDA margins of around 39% with a PAT margin of around 38% and the same Rs. 70 crore as PAT. However, on a standalone basis if I cut this result into two parts, on the standalone basis if you look at the Eris business, which is almost 85% of the total business as of now has degrown by 12% quarter-on-quarter. This has been as all of you are aware this is mainly led by the GST transition and the inventory which we had to readjust. On a standalone basis, Eris grew by 12%, but actually reported EBITDA of 43% which is primarily due to two factors. One, it again speaks about the business model which we have been talking even in the past and second, because very large proportion of the first quarter sales of Eris had been manufactured by in Guwahati which is our own facility which enjoys tax benefit till 2024 and we saw lot of price benefits coming from this movement. In the last year on a consolidated sale, we were around 54%-55% of contribution from the Guwahati plant which in the first quarter moved to high 70s and early 80s, so that resulted in almost 400 basis points advantage at the gross margin and standalone Eris reported gross margins of around 87% which also helped EBITDA to look good and EBITDA is 43%.

Other good news within this bad set of environment is that the two acquisitions or the two partnered companies which we had partnered within the last year, both of them, in a very weak quarter from a topline perspective have reported to be positive on EBITDA. So both Kinedex and the other acquisition* have reported a positive EBITDA for the first quarter. And the last point is that we see roughly around 50-55 crores being added in this year as an FCS which is in line to our treasury, which now stands somewhere close to around Rs. 350 odd crores. So this is the very nutshell presentation of the result. Prakash, I think we can open for questions now.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. We take the first question from the line of Ashish Thakkar from Motilal Oswal. Please go ahead.

* inadvertently mentioned as Amay during call

Ashish Thakkar: Sir, if you could throw some lights on how post GST scenario is looking for us and is there a normalization beginning July?

Amit Bakshi: Look, we are halfway through August and little more qualified, so more or less it seems as the second quarter not only for us, but for many in the industry would be mainly from a domestic sale point of view, one of the best quarters which we had seen. Having said that, have we returned to the same inventory days as we were pre GST or I would say in the second-third quarter of the last year because we have been seeing some disruption right from the demonetizing days that is October-November. So the answer to that question is no, it is not happening as of now, but my sense tells me that the way the inventory days are increasing, by the end of this quarter or early next quarter, we should be almost in the same line where we started say one year back.

Ashish Thakkar: So, would the lost sales be recouped or they all gone?

Amit Bakshi: So, look there was no lost sale as such because I do not think in my wisdom, there was a major loss at the chemist level. So chemist serving to patient was a disruption in that channel, even if it would have been there, it was very small. So maybe we cannot even consider it, so there was no actually a treasury sale loss. Between the inventories, there had been a change and the inventories will now come back to the level on the last year, that is what my understanding is.

Ashish Thakkar: I think industry level we were below the industry level on the inventory days, right, so?

Amit Bakshi: Look in the chronic side and all of you know that in the presentation that 26 of our mother brands contributed to 95% of our business, so any which way we never had a very large tail**.** Having the small tail or maybe no tail helps you in managing better inventories also. So from that perspective, we might be a shade better.

Ashish Thakkar: Sir, having the first quarter with the GST disruption and the kind of visibility that we have in the market, is it the right time to ask guidance from you or you would prefer to wait till the second quarter gets along?

Amit Bakshi: Whatever guidance I can give you at this point of time which has already spell it out and I repeat that there is a very bright chance that second quarter, for lot of companies in the industry on the domestic sale part would one of the best quarters they have reported, they would report rather. And we seem to be a part of that group.

Ashish Thakkar: And the kind of gross margins you are confident, you will be able to clock this kind of gross margins going ahead also?

Amit Bakshi: So these gross margins have been absolutely stable. So if you look at the gross margins right from the third quarter and the fourth quarter, when more and more manufacturing started from Guwahati which is our own plant, the margins were moving up. So there is nothing new in the margins. These are the most stable set of numbers.

* inadvertently mentioned as Amay during call

Moderator: Thank you. We take the next question from the line of Anibhav Agarwal from Credit Suisse. Please go ahead.

Anibhav Agarwal: Amit bhai, one question on this purchase of goods that you have. I am talking about the standalone operations. So purchase of goods is still about 40% of total material cost for us, can you just give some idea or maybe Sachin can help us that what is roughly the cost difference between when you buy goods outside versus when you manufacture?

Sachin Shah: If you see the third party purchasers, that also includes the cost that the third party purchasers puts in this conversion cost also and their fixed cost also. For us, because the way the accounting standard says us to put it, the cost for the Guwahati is around 8%-9%, 9%-10%, right. So that is only cost of materials. Other conversion cost is all included in the other expenses for Guwahati.

Anibhav Agarwal: So if you were to combine and look like-to-like, what will be the difference between that two?

Sachin Shah: I think 50% should be the difference between both of them.

Anibhav Agarwal: The current sourcing that you doing from Guwahati is in early 80s right, that is what Amit bhai mentioned that what is the maximum rate you can increase that percentage to for the standalone operations?

Sachin Shah: Production, I think we can go up to 93%-95% because this 5% is liquids, I do not think we intend to manufacture from there.

Anibhav Agarwal: And when do you guys plan to get these numbers from early 80s right now to (+90%)?

Amit Bakshi: So Anubhav, reaching from 80 to 90s will happen in a very phase manner and it will happen over a period of time. If you ask me, my visibility for this year remains at whatever level we are plus maybe a 2% more and then maybe going in the next year, things might change a little bit. But for this year, we see it seems that we would like to restrict ourselves at 82%-83% given the fact that most of our large brands have already come in. Now if you would like to take the other production, that will start getting into the tail of product which has a potential to disrupt the process a little bit because of the changeover. So my idea for this year remains where we are plus a couple of more percentages points 2 to 3 and then we take a call going forward.

Anibhav Agarwal: Okay. So basically just to summarize that you are saying that for the more important products, you are already manufacturing inhouse and it is only for the tail products that where the balance 20% is you are getting manufactured outside?

Amit Bakshi: Yes, more or less.

Anibhav Agarwal: And what about the acquisitions? So if I just do a subtraction of consol minus standalone, it seems that for the acquisitions that we have done, we still sourcing everything from outside. Guwahati is not making good selling as of now.

Amit Bakshi: Absolutely. So there is a plan around there, Anubhav because in this acquisition, the large brands were actually a brand where we had some agreement with the companies outside India to supply us raw materials and we have already in very advanced discussion with them. My guidance is that a large part of Kinedex will move to Guwahati starting from second quarter and we would see a good percentage of acquisition being manufactured in Guwahati from the third quarter itself.

Anibhav Agarwal: And what will you do to gross margins right now? Acquisitions are at 70% gross margin. So once you start that, what will you do to that part of gross margin?

Amit Bakshi: So, I will breakup this margin into the two partnered companies. So, the Kinedex gross margin for the first quarter is in 64%-65%. We have a visibility of improving this by at least 10% starting from the third quarter.

Anibhav Agarwal: And within a year, you should be able to achieve the 10% point number?

Amit Bakshi: Yes, we are hopeful to that.

Anibhav Agarwal: And what about the other acquisition*?

Amit Bakshi: So, the other acquisition* is reasonably there. They are already at a 78%-79% gross margin. So only the scale will then help gross margins to go up. I am not expecting a huge upside on the gross margin because of the shift. The upside on the gross margin in the other acquisition* will come when the revenue will become large.

Anibhav Agarwal: How revenue become larger will help your gross margin?

Amit Bakshi: So what happens if you have bigger brands, then what happens it makes sense for us to shift them.

Anibhav Agarwal: Okay, so shift to Guwahati that is what you are saying.

Amit Bakshi: And then it also helps us to negotiate better with the raw material supply. So all those advantages of scale will kick in.

Anibhav Agarwal: Can you give rest split of sales of about 98 to 100 crores of sales unless that you are doing for acquisitions right now, can you just split between Kinedex and the other acquisition* right now?

Amit Bakshi: So in the first quarter, I can give you the numbers between the two, just give me a minute. 11 crores from the other acquisition* and 12 crores from Kinedex.

Anibhav Agarwal: And just last question from my side. On the gross margins standalone operations where we are doing (+87%), roughly can you give an idea that our core franchise of cardiac and diabetic which more than two-thirds of our sales, roughly their margins will be 90% plus over there. Would that be the right assumption?

* inadvertently mentioned as Amay during call

Amit Bakshi: You can safely assume that the margins there are above 87%.

Anibhav Agarwal: Of course right, but I am just trying to say that if that franchises through profitable that margins will be north of 90%?

Amit Bakshi: So look, we have not done this calculation as of now, but yes, assuming it is more than 87% and say close to 90% is the fair assumption.

Moderator: Thank you. We take the next question from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Sir, any dividend policy have you framed?

Sachin Shah: Yeah, dividend policy as in we keep some amount with the company for our acquisitions and investments that we have to make for the growth of the company. Other than that, we will obviously distribute with the shareholders if we do not find any better use of that because finally we want to increase the shareholder value. So that I think we will decide post first half.

Ravi Naredi: Balance between CAPEX and available fund to us?

Sachin Shah: Yeah, we do not have CAPEX, but acquisitions and all if we find something good, we try and use it there and over and above that, we will deploy it as a dividend.

Ravi Naredi: So can you tell us what will be the CAPEX or acquisition cost in financial year 18?

Sachin Shah: We cannot put a number to the acquisition cost. We might look into a lot of investment opportunities that are there. There is some amount of money that will keep with us. Over and above that during the year whatever we add to the treasury, we will distribute it to the shareholders so that the shareholder value increases finally. That is the motive.

Ravi Naredi: And what is the R&D expenses target for the topline in percentage terms of topline?

Sachin Shah: R&D, we do not classify separately as of now because we do not have an R&D facility as such. There is no classification of R&D as a separate expense that because part of our other expenses only.

Ravi Naredi: And it is not a much amount in our company?

Sachin Shah: No domestic formulation company has R&D.

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

Prashant Nair: Just couple of questions. Firstly, since we have not seen full set of quarter in the past, this is the first quarterly number you are reporting. Just wanted to get a sense is there any skew in your numbers across the different quarters either in terms of say how costs are recognized or should we take first quarter as broadly representative of the full year?

Amit Bakshi: So Prashant, historically our first quarter has been the biggest quarter of the year and that generally is in line with the industry when you do not have a lot of acute products. Other than that, there is absolutely nothing which is disproportional at any point.

Prashant Nair: Okay. And the second question relates to your Guwahati manufacturing facility, so once you have got to this 82%-83% inhouse manufacturing, what capacity utilization would you be at and how long do you think this facility can help you scale up before you need to think of more manufacturing asset?

Amit Bakshi: So Prashant, at an 80%-82% level, we are roughly at around 35% of capacity utilization.

Moderator: Thank you. We take the next question from the line of Kumar Saurab from Motilal Oswal. Please go ahead.

Kumar Saurab: Sir, if you can help explain the drivers for our margins why our margins are different than where we see our competitors right now especially even though chronic heavy portfolio, the gross margins are not close to 90% for your peers and EBITDA margins of 40% is very impressive. So how do you differentiate yourself compared to your peers?

Amit Bakshi: There are two set of differentiation. One lies in the selection of the portfolio, second is on the productivity side and third is on the overall process of sales and strategic management. So these are broadly three things. The portfolio from a percentage point is very important because my understanding is that if we cut this pie from any other company, the margins would not be very different. It is always about the second and the third portfolio where there is a drag in the margins. That is one point. Second point is that because our productivity has been better from quite some time and we keep on working on productivity and we generally at all time do not think that adding people is the only way of adding revenue, so that helps our productivity. Third is the business model itself where if you see that because we do a business of brands at a super specialty level, the cost which goes behind that is not linear. So all these three things help for having a good gross margin and also maintaining a good EBITDA and you must also understand this that this possibly has been the poorest quarter for us because of its disruption and this is the reflection which comes at this point of time.

Kumar Saurab: Makes sense sir. So sir going forward taking a 3 or 5-year view, how sustainable is the growth in the current therapy areas and which would be the new therapy areas which you would be targeting and will the margin sustain when you enter those therapy areas?

Amit Bakshi: So 3 to 5 years is a very long period of time to actually comment on specifics, but I can broadly tell you that since now very substantial part of our business is lying at this level what you are talking about. Even if there is an incremental business where the margins are little less than what we are having, will it really turn the needle, move the needle, the answer is no. Even if it does, it does not move to a significant level. Second question of yours was what is our expansion plan? So we have been telling you in the past and which we already have started. So, we have already started business for neurology, so that is one area which we committed that we would get into. Other than our focus area that is the cardiovascular, the diabetes, women health and bone health is one area which we are looking very aggressively into. So we might have some more inroads in these two areas.

Kumar Saurab: And sir we have some interesting in-licensing plans, if you can shed some light. How should we look at it?

Amit Bakshi: So as of now, it is work in progress. We have not reached a point where we can tell you, therefore I will just wait for some more time when we have some concrete things in hand, but we are working towards that.

Kumar Saurab: And sir finally just on the disclosures part, are we planning to put investor presentations going forward because it is a new company for us and to understand, it would help us.

Amit Bakshi: Definitely, Saurabh. We will make it a practice that we will put the presentation and we are working on the presentation. Maybe in a couple of days, you will find that in our website and sorry for the delay this time. Next time, we make sure that on the day of result, maybe next day in the morning itself, we have the presentation ready.

Moderator: Thank you. We take the next question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: Do you expect any competition in the top 10 brands and/or do you expect any pricing controls coming going forward?

Amit Bakshi: So madam, look competition is already very intense and the nature of the business is such that it is a very intense competitive business. So that was always there and that for all reason should remain there. As far as the pricing is concerned, till this point of time there is no heads-up, there is no information. As and when something comes up, we will be happy to share, but nothing as of now.

Charulata Gaidhani: So currently also, the top 10 mother brand group, they comprise what percentage of the revenue?

Amit Bakshi: So nothing much has changed. We had reported in the last year that our top 10 mother brands contribute to around 75 and odd percent. So nothing has changed on that side. They continue to have the same amount of contribution.

Charulata Gaidhani: And with the industry moving towards generics because of the government directives, do you think that it will impact the sale?

Amit Bakshi: So ma'am, I think it is little premature for me to get into that because there is no direction as such, though we saw the new drug policy day before yesterday and we are still looking at that. But till this point of time, there is no indication where I can actually comment on this.

Moderator: Thank you. We take the next question from the line of Neil Wadhwani from RSM. Please go ahead.

Neil Wadhwani: Just to understand do you have any new products in the pipeline and if yes, then when it is expected to hit the markets?

Amit Bakshi: So that is important. Because of the GST disruption, the plans for launching products were all moved to the second quarter. So we actually did not launch anything in the first quarter because of the availability issues. Going from second quarter, as of now we have plan for around 5 launches over this quarter and a part of next quarter.

Moderator: Thank you. We take the next question from the line of Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru: First question Amit on PDM side, if you can give color how productivity you commented about, it has improved, how many prescriptions per doctor have increased like say last one or two years?

Amit Bakshi: So Girish, I am not having that data with me at this point of time that IMS data, but I am sure that you will find that data in our presentation because before going into IPO, we had all those data together. I can give you a color on the first quarter since our base business has declined by 12%, so that decline would obviously come in the productivity also. So for sure in the first quarter, the productivity would have gone down. That is what I can comment from the first quarter perspective. From a PDM perspective, it is not something which we basically trace on a monthly basis. Those are more trends which are useful for strategic purpose and taking the company ahead. So that data, I do not have for this quarter and it does not move every quarter. It is more or less stable. So you can find that data in our investor presentation and in case you are interested in the quarter one, we will ask our colleague to dig in and send it to you.

Girish Bakhru: My question was not specific to this quarter, but generally if I have to compare vis-à-vis peers, will you be very far off from the average in the industry right now, just a ballpark color on how much like room there to drive sales from productivity side?

Amit Bakshi: So the room there is enormous because if you look at our productivity, offhand what I can tell you, our productivity in our given specialty has been very high. So if I remember the data correctly which we have shown in the presentation time before IPO, our productivity in different specialty was the productivity rank was between 1 to 3 and from a headroom point of view, there is a huge headroom which is available even at that side.

Girish Bakhru: And on the product portfolio side, you said that was one of the factors which has brought in differentiation. Are there more success stories like Chlorthalidone and Vitamin D which you have done really well in last few years? Are there more products like that in the pipeline?

Amit Bakshi: So broadly when we think about adding a product, we take a very strong cognizance of the fact that we keep ourselves away from a real me-too kind of a product. So if you see our last 5-10 launches, you will find most of them having some amount of differentiation and some value add, so that is more or less the DNA of the company which we keep on doing this, but for example if we launch neurology, which we just did, so there the scope of a formulation, innovation is limited. So at that point you will find more products which have already been available. So that is the broad policy.

Girish Bakhru: And just lastly if you have a data offhand or how much would your market share be in the hypertension market and Vitamin D market given that there are so many brands that you have in your portfolio in these areas?

Amit Bakshi: So again Girish, this data is already being there. I can just tell you, you are saying hypertension, so let me tell you in our represented market, our market share for hypertension is close to around 7.5% in the total hypertension market, not represented. We are close to around 4%-4.2% and you pardon me for if I am not exactly correct because I am just telling you for what I remember.

Girish Bakhru: Alright. And for Vitamin D, would you be again in top 5 or something?

Amit Bakshi: If I add Vitamin D and all their combinations, then we would be in top 3 rather.

Moderator: Thank you. We take the next question from the line of C Srihari from PCS Securities. Please go ahead.

C Srihari: Amitji, what is your field force currently and what are the hirings you have planned out for current fiscal and next fiscal? Secondly, how closely are you looking at the M&A side and if so, what is the kind of sweet spot you would be looking at? And finally in the new they are talking about facing out loan licensing, how feasible do you think that is? Thank you.

Amit Bakshi: So current headcount including our partnered company is around 1500 people at discrete and as I told you, we have added some more in the neurology division which we have already started. The plan for this year is to add another 100 people by the end of this year, so that is about the organic side. From an M&A side, we maintained that, we remained open and we are looking for businesses which we think we can add value and run them better. As far as the sweet spot is concerned, so look instead of a sweet spot from pricing or from a turnover point of view, the way we think is our sweet spot lies more in specialty and therapy focus. That is what we continuously look at and we are still doing that. So at an opportune time, if we have something on the table, we will bring it across.

C Srihari: The loan licensing part of it?

Amit Bakshi: So don't you think it is premature to talk about something? We have gone through the draft which had been circulated. So it seems that there is a lot of focus to have a certain quality standards across which is a very welcome move from the healthcare perspective, but we really need to understand more and wait for the time to give a color on that.

* inadvertently mentioned as Amay during call

C Srihari: Just to repeat on the M&A front, let us say you find a very good acquisition at probably let's say 500 crores value. Would you go for it?

Amit Bakshi: So this is little hypothetical. So how do I respond to this? Let me think over this. Look, so you are saying that if there is a target which has got 500 crores and it fixes your bill, would you go for it? The answer is that there is no reason for us to sit tight and not to go for that. Rest depends upon how best it fix, how passionate you are for that particular asset.

C Srihari: So basically I wanted to understand if you are really ready to stretch if the opportunity is good.

Amit Bakshi: Absolutely, we are.

Moderator: Thank you. We take the next question from the line of Anibhav Agarwal from Credit Suisse. Please go ahead.

Anibhav Agarwal: Sir one question of course on the standalone business we had a sales decline, but if you were to just see the prescription growth, roughly can you help us not on the console, but standalone what kind of prescription growth are we running at right now, what kind of number, mid-single digit or 6%-7% or what kind of number?

Amit Bakshi: In the first quarter?

Anibhav Agarwal: First quarter, yeah or second half last year whichever number.

Amit Bakshi: Anubhav, I am not having the numbers about the prescription growth because we look at prescription growth from a very different angle of specialty and portfolio. So what my numbers would always be more linked to the therapies and the super specialty. So I am not carrying the number of prescription to growth. I can tell you the last data that which we had shared that 97% of our prescription comes from specialty and super specialty.

Anibhav Agarwal: The genesis of the question was that of course because of GST implementation because the channel inventory coming down, we have reported a sales decline of 12%. I know the AICD shares the number that the secondary sales growth number, but I was just thinking that that is other barometer to see how company is doing in prescription growth. So that way I appreciate you will have prescription growth specialty wise, but if you were to just put a number for the overall company, that just help us summarizing.

Amit Bakshi: So I am not carrying the number as of now, but just let me tell you Anubhav that we have not seen any impact on the trend of prescription across. So, either demonetization or GST has actually done a significant difference to the trend of prescription. So that is where we stand as of now. To give you the number on the prescription growth side, I am not carrying it now, but I am sure somebody from the office can send across to you.

Anibhav Agarwal: That is helpful. And couple of questions on the absolute cost. If you look at employee cost number and the other expenditure number, now on an absolute basis, they are lower year-on-year and even if I compare versus second half because sales what we reported in first quarter standalone operations if I analyze it very much equal to second half we have done, I know second half was impacted by demonetization, but still absolute other expenses down as well as employee cost is down as well. Can you help with those numbers that what is helping those numbers to be down?

Amit Bakshi: So look, employee cost is not down. It is 30 crores 70 lakhs versus 30 crores. So you really do not have anything there. It could be a function of some small things which can happen at the end of the month from a salary perspective. I do not think there is anything to read there.

Anibhav Agarwal: But there could have been at least like-to-like increase in the salary of the people, right. So most of the pharma companies if I track, they do have a 10%-11% salary increase year-on-year, right. So that certainly tells number of people in the organization is much lesser now.

Amit Bakshi: Absolutely. So, Anubhav what has happened is you are looking at quarter one. What happened in the last year between quarter one and quarter four, there was some amount of rationalization which was happened. So that would keep on coming in the next quarter. So from the next quarter, you will see that effect coming in, but I was just telling you from a broader perspective that from a broader perspective, there is no much chase there. As far as the other expenses are concerned, you will appreciate that one part of expenses always clubbed with the new launches and the first quarter was not the right time for new launches because the channel was disrupted and the stockists were not very willing to take up newer products. They wanted to solve their older issues. So we had to hold back all the launches for the first quarter. So that is where you see that difference coming in on the other expenses.

Anibhav Agarwal: So from second quarter, it will normalize?

Amit Bakshi: Yes, second quarter it will normalize.

Anibhav Agarwal: What about the employee cost? So now effectively even after adding 100 people in the neurology division, but we are looking for this year and quarterly run rate somewhere employee cost between 30 and 35 crores only. That will be our quarterly run rate effectively at least for next 3 quarters?

Amit Bakshi: Yes, I do not think there would be any difference. What you are saying is absolutely right because the first quarter number will not capture the neurology because it was not launched in the first quarter for obvious reason, but there the number of people is only 75. So this is a stable number plus the new people and that is where it will stabilize.

Anibhav Agarwal: And just lastly on this 5 product launches that you talked about in second quarter, can you just give an idea that breakup of this 5 products across therapies like how many in cardiac, how many in diabetes, and how many in other new gynec etc.?

Amit Bakshi: So we are looking at two products in Women Health, one product in Respiratory, one product in Orthopedics and one product in Cardiovascular.

Anibhav Agarwal: Amit, I will not ask you which product; once you launch it, then we will ask next time.

Amit Bakshi: Sure. Thank you.

Moderator: Thank you. We take the next question from the line of Ashish Thakkar from Motilal Oswal. Please go ahead.

Ashish Thakkar: Sir, on the C&S side, how many products are we launching?

Amit Bakshi: We just launched two products.

Ashish Thakkar: And with the team of 75 people, is this the way whenever new division comes in, is the ballpark number we could assume, you would be going with 50 to 70 MRs**?**

Amit Bakshi: No, it actually depends upon what is the objective of the division. So just to give you a number that roughly there are around 2500 neurologist in the country and that is what we wanted to cover. So the number of people is basically driven from the fact that what is the coverage plan and then, how is that coverage plan split in geography? So that it is feasible. So these are the two big leading questions which take us through the number of people which we deploy.

Ashish Thakkar: So therapy wise, do we also look at how a particular division breaks even at the EBITDA or specifically if I want to ask, how the MR productivity is measured, so typically how does the MR in a new division like C&S, how much time does he take to breakeven?

Amit Bakshi: That maths in the company is very clear. So that remains something. I am sorry, there is nothing like a secret thought, but that is something which is a formula which we have developed and which we keep absolutely glued to. So our breakeven point, EBITDA points, number of people, this is what we think that we have worked very well towards it. So I will not be able to really give you a breakup of how do we work on those numbers, but yes, broadly all these things are a great consideration for all our actions which we take in expansion and also consolidation.

Ashish Thakkar: Fair enough. So on the 75 people that we have added in the C&S, so broadly if you could give us a mix of how many are fresher's and how many are the veterans in the industry, probably guys with 5-6 years of experience?

Amit Bakshi: That is a little difficult one, but I will try and give you a certain color on that. So look, a large part of those people have been shifted from the company alone. They were working for different division because we feel that people who have worked with us for more than 2 years are well drenched into the culture and how do we work and that is more important to us, then getting people of this having an exposure from the same therapy. So we typically do that when we launch something new, we take out people who have 2 years of experience, shift them to this division and then fill the vacancies from outside. So that continuation never stops and we do not actually suffer a lot to bring our culture into the new division. So that is how we broadly work.

Ashish Thakkar: Fair enough, that is helpful. Sir finally guidance on the tax for the full year, if you may?

Sachin Shah: The tax rate for the first quarter has been around 4% and going forward, 7% to 8% should be the tax rate that is what we see.

Moderator: Thank you. We take the next question from the line of Prakash Agarwal. Please go ahead.

Prakash Agarwal: Sir, just in the opening remarks you made a comment of free cash flow of about 55 crores for the first quarter and just wanted to understand also you mentioned cash position of 330 crores. I understand cash position as on March 31st 2017 was 250 crores. So just trying to understand these numbers.

Amit Bakshi: So our number is that the cash position post March, right, by the end of March was close to 300 crores.

Prakash Agarwal: At a fair value.

Amit Bakshi: At a fair value. I think Sachin would answer this better, Prakash.

Sachin Shah: Prakash, because the IndAS has been applicable, so whatever we are saying that treasuries had fair value. So the opening treasury was around 300 crores which is at quarter one end is around 352 crores. The increase is around 52 crores for the first quarter and that is in line with the FCF conversion.

Prakash Agarwal: And secondly in terms of just understanding, this flat quarter, even to do a full year mid-teen number, we will need to grow upwards of 20%. So I am just trying to understand the full year broad level growth guidance?

Amit Bakshi: Prakash, ideally I would have liked to see how second quarter actually shapes up and then possibly give understanding for the whole year, but since you have asked this, then growing in mid-teens I think we should be growing significantly higher than that mid teen number which you are talking about. So that is where we see the growth, but the real color would come in only when the second quarter closes out.

Prakash Agarwal: And mid teen you are saying for full year or for the next 9 months?

Amit Bakshi: So I am saying that for the next 9 months, we should be growing at a higher level than the mid-teens which you are indicating.

Prakash Agarwal: And lastly on the acquisitions that you have already done, so you mentioned 23 crores, 12 from Kinedex and the other acquisition* and also talked about the margin expansion. Just trying to understand that how should we look at this year and next year given that you said that we take assets with the position that it is to fully leverage out. So base business, we understand you have been growing higher teens, but for this what is the kind of turnaround one should expect?

Amit Bakshi: So if you ask me, I am happy the way both of these partnered companies are growing and lot of correction which needed to be done has already been done which is reflecting in the fact that

* inadvertently mentioned as Amay during call

both of these businesses which had never seen EBITDA at a compromised sale of the first quarter are EBITDA positive. So for these two assets, our expectation is to grow them significantly more than the average growth rate of the company and the margin expansions are still primitive. So my sense tells me that by the end of the year, both of these partnered companies which show a much better growth on top of that would show a much better bottom-line growth.

Moderator: Thank you. We take the next question from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Sir, the Prime Minister is recommending generic name prescription by doctor. So you see any disruption in our sales or in pharmaceutical industry particularly?

Amit Bakshi: Again I will apologize for not being able to answer this question because the fact of the matter is that there is no credible information which we have towards the plan. But having said that, whatever little we can understand from the draft which has come in. So if you look at the colors of that draft, I do not think this is a real issue going forward.

Moderator: Thank you. We take the next question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: Can you give me the geographic breakup of sales?

Amit Bakshi: So I can give you a ballpark number, maybe not absolutely clear, but South and West put together accounts for almost 64%-65% of sale which are the largest market also. Around 25%-26% comes from North and the remaining 10%-12% comes from East.

Charulata Gaidhani: There was some product rationalization that happened between Q4 and Q1?

Amit Bakshi: No ma'am, there was no product rationalization which happened.

Charulata Gaidhani: So your entire focus is only on the top 10 brands or top 20 brands that you have and these are all specialized medicines?

Amit Bakshi: So our focus is clearly on the therapies in which we are working and these brands represent the biggest opportunities on those therapies. So naturally the focus and the emphasis on those will remain.

Charulata Gaidhani: Now, can you throw some light on how much you spend on R&D or how many scientists you have. How have you been able to reach here?

Amit Bakshi: I missed the last point. How have you been able to…?

Charulata Gaidhani: Reach here in the sense in terms of gaining market share.

Amit Bakshi: Yeah. So I will just quickly answer your question, the first part that we have been quite active in formulation, innovation and bringing differentiated products, but we did not feel the need of reporting that expenditure in a separate format on which we are now putting our heads together and thinking loud. So that for us to see in the future. The second question of yours is little lengthy and I might be able to tell you offline, but you can see the DRHP which is already there. It captures the entire spirit of your question and talks about our yearly sales and how they have moved up over the last 10 years.

Charulata Gaidhani: Okay fine. How many scientists do you have in product development?

Amit Bakshi: So our team of people who work directly or indirectly on product development, product differentiation and formulation, innovation could be roughly in the number between 45-50.

Moderator: Thank you. We take the next question from the line of C Srihari from PCS Securities. Please go ahead.

C Srihari: Being a domestic oriented company, I think attrition rate is the key issue. So how have you been firing on this pattern? And secondly whenever you do an M&A, what is the kind of payback period you look at? Thank you.

Amit Bakshi: So Himanshu will answer this.

Himanshu Shah: Attrition, whole industry suffers from a high attrition when it comes to representative, but when we take more important part of our team is managers. So there the attrition has always been sub 10% and when it comes to acquisition, typically this is the brand business. So when we say acquire brand, typically one can have a look from 2-3 years point of view, 4 years point of view as a payback, but that is not the right way of looking at brands because brand over a period of time becomes real big and India with such demographics, you see brand growing faster year-after-year. So then we apply that 5- to 10-year kind of scenario. So this is how we typically look at it. It has to be in right specialty, right indication, and primary indication chronic therapy that is what we typically look at.

C Srihari: So in the best case scenario, you could even have a 2 years payback kind of a scenario?

Himanshu Shah: There can be instances where it can be much shorter also.

Moderator: Thank you. That was the last question. I now hand the floor over to the management for their closing comments.

Amit Bakshi: So, I once again would like to thank all of you for sparing time and logging onto our investor call. We will be happy to provide any other information which you seek offline and thank you so much. Hopefully, we will connect in the next quarter result. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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