“Eris Lifesciences Limited
Q4 & FY22 Earnings Conference Call”

May 04, 2022

MANAGEMENT:

MR. AMIT BAKSHI, CHAIRMAN AND MANAGING DIRECTOR
MR. V KRISHNAKUMAR, CHIEF OPERATING OFFICER & EXECUTIVE DIRECTOR
MR. SACHIN SHAH, CHIEF FINANCIAL OFFICER
MS. KRUTI RAVAL, INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to Q4 and FY22 Conference Call of Eris Lifesciences.

We have with us on the call today, Mr. Amit Bakshi – Chairman & 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. 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 '*' and then '0' on your touch tone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. V. Krishnakumar – Chief Operating Officer and Executive Director of the Company. Thank you and over to you sir.

V. Krishnakumar: Thank you. Good afternoon and welcome to our fourth quarter conference call. I am Krishnakumar and I am happy to connect with you today.

At the outset, I am delighted to inform you that Eris has entered the elite club of Indian pharma companies to have crossed Rs. 400 crore of profit after tax in just 15 years from inception. There are less than a handful of pharma companies in this category.

We have delivered an EPS growth of 14% in this financial year on the back of a 21% EPS growth, which we delivered in the last financial year. This represents a compounded annual growth rate of 18% over the last two financial years.

Now, let me take you through the financial and business highlights for the quarter and the year. As per AWACS, the Indian Pharma Market grew by nearly 4% in Q4 of FY22. Acute therapies grew at 5.5% as COVID and other infections started waning. Chronic and sub-chronic therapies grew by 2.6%, which is the third quarter in a row of subdued growth compared to the long term average quarterly growth rate of 10% to 11%, which the chronic segment has seen for the longest period of time.

In comparison, I am happy to share that Eris grew at 9.2% in Q4 of this year. Our core cardiometabolic franchise, which is 60% of our business grew at 14.1% in Q4 compared to a market growth of 2.8%.

VMN, which is our third largest therapy has grown at 8.6% in FY22 versus the market growth of 12.2%. CNS which is 8% of our business, grew 33% for the year compared to a market growth of 9%, so nearly four times of the market. And Women's Health which is again a very fast-growing segment for us, grew at 24% to 25% for the year compared to a market growth of 15%.

When we compare from the pre-COVID base, Eris has grown at 3x of the Indian Pharma Market, that is Eris has grown at a CAGR of 9% compared to the pharma market CAGR of 3% excluding COVID medications. On this basis, Eris continues to feature among the top 10 fastest growing pharma companies in the IPM when you take it from pre-COVID level.

At the start of the year, we had guided for three key product launches and 10 total new launches for FY22. In line with our guidance, we have launched three key products. Xsulin, which is our brand of human insulin; Drolute, which is our brand in the fast-growing dydrogesterone market; and Linares which is our brand of linagliptin a commercially attractive opportunity in the DPP4 inhibitor segment in oral diabetes. All these three key launches happened in Q4 of FY 22.

In addition, our power brands in diabetes such as Glimisave, Zomelis and Gluxit continue to enjoy dominant market positions in their respective segments.

On the back of our strong position in the oral anti-diabetic market, this year marked our entry into insulins through a joint venture with MJ Biopharm, in which Eris holds 70% equity stake. Through the formation of this joint venture, we bridge an important gap in our diabetes care portfolio and are well positioned to leverage the market opportunity in insulins, analogues, and GLP1 agonists.

By way of detailed financials, our consolidated operating revenue for Q4 stood at Rs. 306 crore, which represents a 10% growth over Q4 of last year. The consolidated EBITDA for this quarter was Rs. 97 crores, which is a growth of 2.5% over Q4 of last year.

As I mentioned, Q4 of this year has been a very heavy investment quarter for the company in terms of strategic new product launches like Drolute, Xsulin and Linares as well as the launch of a dedicated insulin division with a field force of 200 personnel, the impact of all of which is reflected in the Q4 EBITDA margin.

Consolidated profit after tax for Q4 stood at Rs. 80 crores which represents a growth of nearly 17% over Q4 of last year. Consolidated revenue for the year stands at Rs. 1,347 crores, and has grown by 11% over last year. Consolidated EBITDA for the year is Rs. 485 crores, which represents an EBITDA margin of 36% and an EBITDA growth of 12.6% over last year. Consolidated profit after tax for the year is Rs. 406 crores, which represents a year-on-year growth of 14.3% over last year.

Our standalone YPM grew to Rs. 5 lakhs in this financial year FY22 up from Rs. 4.5 lakhs in FY21.

Our business model continues to be cash accretive with a consolidated operating cashflow of Rs. 378 crores in FY22, which represents 78% of EBITDA. As guided by our dividend policy, in FY22 we have declared and paid a dividend of Rs. 6.01 per share, which implies a payout ratio of 20% of consolidated net profits.

FY23 represents the start of an exciting period in the diabetes space in terms of molecules losing exclusivity, and hence a deluge of new product launches. We expect to launch more than 15 new products in this financial year, including five to six significant new products.

Moving on, in line with our inorganic growth strategy which we have articulated to you, Eris has today announced the acquisition of 100% equity stake in Oaknet Healthcare a dermatology focused domestic formulations company. As Oaknet becomes part of the Eris group, it brings with it a well-established portfolio of brands in dermatology and women's health, both of which are areas of strategic interest for us. Oaknet had a revenue base of Rs. 195 crores for the year ended March 31, 2022.

The Eris specialty franchise will get a significant impetus with the acquisition of Oaknet. Along with Oaknet, Eris is now present in 87% of the chronic market, which is worth Rs. 55,000 crores with a leading presence in the major chronic therapies in the market, namely cardiology, oral diabetes care, insulin, neurology/ CNS and dermatology.

Oaknet has near 100% coverage of approximately 11,000 dermatologists across India with a 60% penetration. Oaknet derives 43% of its total prescriptions in dermatology from dermatologists compared to 38% for the market, which suggests that Oaknet has a very strong specialty franchise.

In addition, Oaknet is very strong in medical dermatology, which is curative, and in a tropical country like India will always remain the bedrock of the dermatology business. This acquisition also gives us an opportunity to scale up the cosmetology franchise, which is largely driven by dermatologists. The deal brings marquee brands like Cosvate and Cosmelite into the Eris portfolio. Four out of the top 5 derma brands of Oaknet are ranked within the top 5 in their respective segments.

We have already seen that Eris is in a high growth phase in the women's health category with a 24% year-on-year growth in FY22. The addition of Oaknet will give us the opportunity to cross sell the Oaknet portfolio as well.

The acquisition will be completed by way of a share purchase agreement as a result of which Oaknet will become a wholly owned subsidiary of Eris and will be renamed as Eris Oaknet Healthcare Limited. The total consideration payable for the stake is Rs. 650 crores out of which Rs. 300 crores will be sourced from internal accruals and Rs. 350 crores will be financed by borrowings. We expect the transaction to achieve financial closure by the end of May 2022.

We have created significant value from our acquisitions of the Strides domestic business and Zomelis brand through multiple levers including brand growth, launch of line extensions, expansion of field force productivity, and significant COGS reduction. As we integrate Oaknet operations, we expect significant value creation levers to come into play through new product launches in medical dermatology as well as cosmetology, expansion of field force productivity and other operating efficiencies.

Our two-year outlook on this business is a revenue of Rs. 250 crores along with an EBITDA of Rs. 50 crores, which represents a 20% EBITDA margin. This is our target for FY24. We expect this acquisition to strengthen our foundation in the domestic market along with therapeutic diversification and we are confident that the deal will create value for our shareholders in the long term.

Our growth in FY23 as well as over the next three years will be led by growth in our power brands portfolio, leveraging patent expiration opportunities, and through scaling up our insulin and Oaknet businesses. We are also exploring some interesting in-licensing opportunities on which we will keep you updated.

In FY23, we are targeting an organic revenue growth of 15% and a combined revenue growth of 30% including Oaknet. We are looking at an organic EBITDA growth (excluding Oaknet) of 15% and an organic EPS growth (excluding Oaknet) of 11% to 12% in FY23.

A higher magnitude of depreciation will come to play in FY23 on account of the commissioning of our new manufacturing facility later this year. FY23 will also be a heavy year in terms of investments being made, including the insulin business, the scale up of Oaknet, field force expansion in our cardiometabolic business, landmark new product launches, the commissioning of our new manufacturing facility and the implementation of SAP S/4HANA.

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

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. We will take our first question from the line of Amey Chalke from Haitong Securities. Please go ahead.

Amey Chalke: On the Oaknet acquisition, basically, this is around Rs. 190 crores revenue portfolio. However, there is only one large brand which I can observe, which is around Rs. 40 to Rs. 45 crores in revenue size, which is also not very sizeable where we could really call it as a large brand. This basically also reflects in the profitability of the company, which is substantially lower than Eris profitability level at this point of time.

So, I really wanted to understand the rationale behind this acquisition with respect to these points. And also, if you can talk about the clobetasol market, where the Oaknet has large franchise basically, and why this particular molecule and not any other molecules in this therapy.

Amit Bakshi: I will take it one by one. If you go through the financials, you will find that the gross margins are in excess of 73% which we believe can be expanded this year itself. And over a period of time reach 76% to 78%. Why I say that, one of the levers is that there is a lot of price increase headroom which is available in these leading brands. So, when you have a 73% to 75%, of gross margin, it is the line items in-between which basically affects the EBITDA margin. And generally, the most important factor there becomes productivity. So, the low EBITDA is on account of low productivity rather than low gross margins. We have our ideas around improving productivity. We want to increase this productivity to a reasonable level. We can see a Rs. 5 lakh kind of productivity over a period of time, and that is something which is possible.

As soon as the business starts attaining a high productivity, the EBITDA margins can swell. If you remember we took Strides when there was almost no EBITDA and now we can assure you that Strides EBITDA is in-line with the company's EBITDA, that's number one.

Number two, you are right about the clobetasol market. What we tend to forget a little bit is that India is a tropical country. Therefore, the bedrock is curative dermatology, which is skin infection, atopic dermatitis, psoriasis and so on and so forth. Now, while being the old products, these products getting out of use is very difficult, in my opinion. And what it also does is, what cosmetology doesn't offer is wide range of prescriber base that is a high price point product. But if you see, if you go through the product, there are very few prescribers.

As KK told you in the opening remarks, we have almost 60% penetration in the overall population of dermatologists. That is a good point to start. Is clobetasol something which we can look at 15% year-on-year growth, the answer is no. The good thing is we can look at 7% to 9% of price rise for the next five years, that's the kind of headroom the prices do have, but from an organic unit perspective, no. But then it gives you a very solid bedrock in entering dermatology for other products, the newer dermatology products and also cosmetologists to be built upon them.

Amey Chalke: The second question is related to insulin. I guess we have already garnered crores plus sales in the first quarter itself, so wanted to know how has been the reception and if any learnings from this launch and also the outlook if you can provide on this insulin portfolio.

Amit Bakshi: I think we should be closing into Rs. 20 crores in the first full year of launch, which to my mind would be a record of sorts. We just looked into numbers; we couldn't find anybody in the first year getting there. So, I think that would be a record in sort. That is playing out very well.

As you must be informed that there has been a 10% price hike which has been given to DPCO products. So, once the new batches come in, we will be incorporating the price hike also, that price hike will significantly improve the gross margins also. We will continue to launch newer products in human insulin range. As of now we are launching a disposable pen in the month of May. That will be our entry to disposable pen market around Rs. 200 to Rs. 250 crores, a decent market. We are happy with insulins, the real fun, and the scale-up will happen when the newer insulins will come. But first year we think that we will be able to garner close to Rs. 20 crore of sale on around 140 people division.

Amey Chalke: Second question related to insulin. What is our offering exactly when we go to the doctor, is it the pricing or anything else which is apart from the product in terms of any device or anything which you try to sell it when you go to the doctor.

Amit Bakshi: Amey, it's a little technical, but since you have asked, I will be happy to answer you. Our game in this market is, using insulin and CGM together so you get a little bit of a pump effect. So if you use the CGM while initiating the patients and you monitor the glucose and then adjust your insulin levels. Typically we have seen global data that there needs to be 10 incremental dosage of insulin to get to the control level. But without having, a running selfie like a CGM, there has been a hesitation in the physician's mind to get right there due to the fear of hypoglycemia.

Our number one offering is usage of insulin with CGM and to try to make it comparable to an insulin pump. That is where the whole game is. We are initiating a lot of CGMs with the usage of insulin. Combining technology with insulin is the way forward globally. Because of all these patient care initiatives we had, we had an advantage of going there. We are working and talking to people to get in more technology on insulin. Insulin to our mind will sell more with better technologies than the product itself.

Moderator: Thank you. We will take our next question from the line of Tarang from Old Bridge Capital. Please go ahead.

Tarang: Good evening, a couple of questions from my side one. 1) How many additional MRs do you think you will be onboarding in your derma and cosmetology franchise? Given the GCs on the business the forecast for '24 seems a little conservative on the EBITDA.

2) KK guided a 15% growth in revenue and consequently 15% growth in profitability, operating profits for FY23. One would have presumed profitability to grow much higher given the GCs and given the price increase that the franchise can take. What is driving significantly higher costs in FY23 over FY22, above the EBITDA levels?

V. Krishnakumar: 15% growth guidance on top line and EBITDA organically is being provided for the Eris business excluding Oaknet. That's the first clarification. We have provided an EPS growth guidance of 11% to 12% for the same business, which is the current Eris excluding Oaknet.

I will answer your question on EBITDA growth being in line with top-line growth and why is EBITDA growth not faster. I would like to reiterate that FY23 is a year of monumental investments for the company. We have not seen so many categories of investments coming together, in one year, in a long time.

We have guided for 15 new product launches for the year, including five or six major launches. This has its own impact on marketing and promotion, then we have the insulin business which is scaling up, because we have created a 200 strong field force only in February/March timeframe. The full cost of that 200-member division is going to come for the first time in this financial year and that's a significant number. That will be the second item.

Thirdly, we have the new manufacturing plant at Gujarat that is going to get commissioned in September/October timeframe. The operating costs of that manufacturing facility are going to be sitting in our accounts for at least half of the year. Last but not the least, we are taking up SAP S/4HANA implementation, it's not a major amount, but it is still a finite expense item.

So, despite all of these costs coming into the P&L for the first time in this financial year, we are still confident of delivering EBITDA growth in line with top-line growth. That is something that is going to happen because a lot of the new products that we launched in the last two to three years are scaling up very admirably. For example, Zomelis will be Rs. 100 crore franchise this year and Gluxit should be a Rs. 50 crore franchise this year.

Because of the scale up of products and consistent growth, the YPM will improve. So, whatever acceleration in EBITDA is brought about by the improved YPM, will be partly nullified by these investments during the year, which is why we are guiding to 15% EBITDA growth on a top-line of 15%.

As far as Oaknet is concerned, we have not provided any guidance for FY23 yet. We have shared numbers of FY22 - Oaknet had an EBITDA margin of 10% and that does not worry us too much. Because as Amit said, Oaknet has a gross profit margin of nearly 75%, which is fantastic because our consolidated gross profit margin is 81%. Of the plethora of assets that one sees in the market, which come up for acquisition, 75% gross margin is really a fantastic number. We will bring operational efficiencies on there. We will bring YPM productivity, field force productivity initiatives, we will bring in new product launches and we are confident that we can take this from a 10% EBITDA margin business to a 20% EBITDA margin business in two years. So, our FY24 guidance is 20% EBITDA, because the starting point is 10%.

As far as the numbers for FY23 are concerned from Oaknet, as you might have known, we have still not closed the deal, it will take us some time to do that. By the time we come back to you next quarter, we will have a very clear view on what FY23 numbers will be for Oaknet and we will give you an update at that time.

Tarang: Just a follow up. I understand this glide path from 10% to 20%. But I just wanted to get a sense on the incremental number of MRs that are likely to be added to achieve the revenue and operating profitability threshold that you are guiding for.

V. Krishnakumar: Currently the business has 650 MRs.

Amit Bakshi: And we are not planning to add any.

Moderator: Thank you. Will take our next question from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: One clarity on this gross margin of 75% and EBITDA margin of 10%; other than productivity is there any line item which is really depressing it. For example dermatology, is there sampling strategy used by the company or something like that, or is it only productivity?

Amit Bakshi: No, there's nothing else which we could see. In fact, the FRS is well in control. The debtor days have been around 25 days. The two things which we need to worry about is the FRS and the debtor days on the quality side so both of them are ok. But this business has been on around 700 people last year. So, the productivity in one of the business is very low, which houses 300 people, which is Gyne Plus+. That is the sore point. If you take that out and only focus on derma products, the productivity is quite high. So, the EBITDA margins would also be better there. There's only one piece which is pulling it down.

Anubhav Aggarwal: Actually it's a good point. That was my second question. When you took Strides portfolio, you pruned down the portfolio significantly. As I see the spread of this portfolio derma is big, even women's health is not a very big portfolio, it's small at about Rs. 20 crore, no big brand exists in rest of the portfolio. Do you think it's worthwhile to even consider the rest of the portfolio?

Amit Bakshi: Anubhav, one, good news is that last year, we gave a breakup of CNS and nutraceuticals this way, but internally, the way we are shaped up is that the gynecology business did around Rs. 77 crores last year, the division. And we are in line to do Rs. 115 crores this year. The major impact there had been a product called Drolute, which we are looking at around Rs. 35 crores in this year and we had a very good campaign in the last couple of months. It just comes at the right time. We are having certain possibilities in our portfolio and we were looking at how do we take it forward. Because we have decided that after cardiometabolic this will be the biggest franchise over the next three to five years. It just sits in there well.

Anubhav Aggarwal: I did not follow. Which product you are saying is so good in Oaknet portfolio which will fit very well which is a gap in your portfolio right now.

Amit Bakshi: No. What I am saying is Oaknet is now 100% subsidiary and if you read the slide we say that there is a cross-selling opportunity. Internally in Eris this year, we have seen a very big jump in the gynecology business. We did Rs. 77 crores last year and we have taken Rs. 115 crores target for this year, which has actually happened because of launch of dydrogesterone in Eris. We were trying to increase people in Eris in the next year any which ways because the productivity does allow elbow room to add people. This division and our brands, we will have a lot of cross play there.

Anubhav Aggarwal: Understood. You are saying that you can improve productivity because you anyways needed people. This is true about gynae. What about the other anti-infective portfolio of the company or let's say gastro products, etc. Are those meaningful areas you will continue or you may not continue?

Amit Bakshi: We are not disrupting it Anubhav the way we disrupted the whole Strides thing. Because while we were taking Strides, we were very clear that what we want to get out of that is around 35% to 40% EBITDA over a couple of years. Here we are focusing on the overall expansion of revenues. We are not disturbing the apple cart, if you can call it an apple cart. We are not talking about tail brands being pruned off, they have their own life. Over a period of time, tail brands do have problems, but we are not pruning them off. We are only adding. That is the reason we are not saying that we will pull off anything. Rest brands will remain where they are, we are not reducing the numbers. So, there is no disruption in the entire thing.

V. Krishnakumar: The company on its own has been doing a lot of pruning over the last couple of years, because they had a very small franchise in cardiology, cardiometabolic and some other brands. There is a lot of rationalization that they have done on their own. So the focus will be on expansion and growth.

Anubhav Aggarwal: Just one clarity. Out of 650 reps, almost 350 are for derma, right now 300 is for rest of the portfolio. Then the productivity is not too different across the two portfolios, right? Derma is like almost 60% of the revenues here but not too different right?

Amit Bakshi: No, derma houses around Rs. 122 crores if I am not wrong.

Anubhav Aggarwal: Yes, but supported by 350 reps right.

Amit Bakshi: Yes. The other division houses around Rs. 68 crores.

V. Krishnakumar: The derma productivity is Rs. 3 lakhs, and the other division has a productivity of Rs. 1.5 lakhs.

Anubhav Aggarwal: A clarity on the prescriptions. Let's say if we concentrate only on derma portfolio Rs. 122 crore, roughly what percentage of prescriptions are coming from the specialist dermatologists versus GPs here.

Amit Bakshi: That's the breakup which we gave.

V. Krishnakumar: 43% of the prescriptions are coming from dermatologists that is specialists, whereas for the market 38% of the prescriptions come from dermatologists. So, Oaknet has a better skew in favor of specialists, compared to the average derma market.

Anubhav Aggarwal: And in terms of state wise presence, is it a national player or skewed sales coming from certain states.

Amit Bakshi: Like every businesses there are skews and there are certain market that is not doing well. So, give us some time to get on greater details, but the first look says that East and North are better and West and South are not there in the productivity as of now.

Anubhav Aggarwal: Just one clarity on the guidance given for ex-Oaknet basically the base business of Eris. So, effectively 15% guidance means we are talking about adding close to about Rs. 200 crore incremental revenues. Out of this Rs. 200 crore revenues, can you just talk about the products that you have not launched so far, what kind of contribution you are assuming from them in this guidance, let say Rs. 50 crore kind of number, Rs. 70 crore, what's your sense?

Amit Bakshi: Anubhav, that would be quite detailed. I don't think we will be able to do that on a call. But largely we say five to six very significant products. One of them we just launched right now, which is called Zomelis D, which is Dapa and Vildagliptin. But the total I can tell you from a Rs. 200 crore, the new product will be very sizable. But clearly to put it that way we have not done that plan.

Anubhav Aggarwal: Just to get the idea of these five to six launches, I think that will be largely public knowledge. Let's say Sitagliptin, I am assuming Valsartan, Sacubitril and Zomelis which we launched, so these three will be out of those five to six?

Amit Bakshi : Yes, Zomelis D would be there, Sita would be there, a combination of Sita would also be there. And there will be more. There are a lot more.

What I can tell you, future is Sita, a DPP4 and SGLT2 combination. That will happen in three to four avatars. Plus there will be some more products with Dapagliflozin. If you look everything, we say 15, but six of them are very significant. When I say very significant, Anubhav, we have talked about this. We think three years, Rs. 50 crores and six years, Rs. 100 crores, that is very significant.

Moderator: Thank you. We will take our next question from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: On this Oaknet, in terms of the revenue growth for next two years, leaving aside the cross-selling and on the existing product for example, in case of diabetes, there is good clarity in terms of the new molecule itself coming to the market. That way is there any growth potential on the derma side or rather which kind of new molecules we intend to add in the derma space?

Amit Bakshi: We can do a lot, but how much we do, we will have to wait a while. If you ask me the possibilities, the possibility is this new age derma. The possibility is total cosmetology, because as I said the bedrock is the dermatology prescription even for cosmetology business. From the probability point of view, there is entire new age dermatology, the anti-fungals with combinations and there is cosmetology. But we will have to see how much we can chew. That is something which we will figure out over a period of time. We need at least one quarter more, to get a little more detailed on this.

Tushar Manudhane: And just on the guidance with respect to the organic growth of 15% in top-line as well as 15% in EBITDA, effectively it implies 36% EBITDA margin for FY23 on organic basis wherein for 4Q, we are at 32%. And the opening remarks had comment on in terms of higher spend on the promotional front, given the pace of new launches going to happen for FY23. Still you think you will be able to maintain 36% EBITDA margin for FY23?

Amit Bakshi: Yes, we think that's the reason we have put it there. The reason is very simple. The new brands which were launched in the last two years are now scaling up. That scale is very useful as KK pointed out that we are looking at Zomelis franchisee as Rs. 100 crores this year. This could have been the shortest Rs. 100 crores for us. We know that at this price point, it is quite profitable. This is what will work to the advantage, which will nullify all that growth spend which would happen.

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

Prakash Agarwal: My question actually is similar to the earlier participant. My exit rate of Q4 is about 32% on consol and 36% on standalone and there is a ramp-up of product launches - insulins, which are relatively lower margin product plus the 15 plus launches that you are talking about. I understand you spoke about these recently launched products which are scaling up. But given the cost escalation across segments, achieving 36% margin on base business, how confident you are? And apart from the new launches, what would be the other building blocks to that?

V. Krishnakumar: One thing I would like to clarify, is that starting Q1 of this year i.e. FY 23, we actually plan to start reporting segment wise EBITDA. That will give everybody complete clarity, in terms of how each individual business is performing. Having said that, the interplay of various factors and this was an expectation that even we had, going into the year that this is a year of such heavy investments so, can we maintain the margin, but we ran the math and whatever the math tells us is that we will be able to do this. So, if you look at our standalone business, this year we had a 40% EBITDA margin. There is nothing on the face of it, which tells me that we will not be able to maintain that EBITDA.

The other aspect which is basically the loss that will be brought in by insulin because this is like the first full financial year. We have considered those aspects and taking all of those into account, it is looking clear that we should be able to hang on to a 36% EBITDA margin on a whole year basis.

Now, what I have still not worked out is, how will this vary on a quarter-on-quarter basis, because certain things happen in certain quarters. For example, we have said that, we are adding 170 field force in the Eris cardiometabolic divisions. All of that is happening in Q1. Similarly, we have spoken about new product launches, and we even discussed some names. Some will happen in Q2, some will happen in Q3.

What I can't clarify now is how the quarter-on-quarter EBITDA profile will vary. But on a full year basis, we should be able to be where we have guided.

Prakash Agarwal: That is consolidated, 36%

V. Krishnakumar: Consolidated 36%, yes.

Prakash Agarwal: That will be commendable, given so many things going on in the company.

Amit Bakshi: Yes, but Prakash, if you look a little closer, you have seen that our gross margin has actually improved in this year.

V. Krishnakumar: Yes, standalone has gone from 82.5% to 84% this year. We have had around 150 bps improvement in gross margins.

Amit Bakshi: It all basically comes down to the product mix. If you have solid brands which keep on growing. Let me tell you, there is no better delta than productivity gain for improving EBITDA. So, if we are gaining productivity, then it works out very well.

Prakash Agarwal: There is also a comment on the ESOP plan. How big it is and what is the yearly P&L impact on that?

V. Krishnakumar: This round of ESOP that has been issued, the dilution is around 16 basis points. And the P&L impact of that will be in the range of Rs. 3.5 crores to Rs. 4 crores that has also been factored into whatever numbers we are talking about.

Prakash Agarwal: From the tax side, we will be starting to inch up from now only, or it would be the fiscal 25, where you will enter the 20% tax rate.

V. Krishnakumar: Yes, we ran the math here. It will be a step jump in FY25. And let me walk you through that. In FY25, we will have both the Guwahati and Gujarat manufacturing facilities operational. Based on the math that we ran, we see a blended effective tax rate of 28% to 29% in FY25, as production from the Gujarat facility will still be ramping up. But this will come down to an 18% to 19% level by FY30, as production from our Gujarat facility ramps up even further.

Just to recap, 28% to 29% in FY25, going down to 18% to 19% by FY30. Having said that, we will be able to avail of our accumulated MAT credit till the end of FY29. So even though the book tax rate will increase in FY25, this will not impact our cash flows for the next four or five years after that.

Prakash Agarwal: Lastly, we had about Rs. 500 plus crore cash, and we used Rs. 300 crore and Rs. 350 crore we are taking as a debt. What's the plan here, are we keeping some for future acquisition? Is the plate too full? What is the plan on the M&A side for fiscal '23?

V. Krishnakumar: There are a lot of opportunities on the table at any point in time, Prakash. You are absolutely right, it did not make sense to completely clean up the kitty that is one. Second, on a monthly basis, we expect to throw up Rs. 30 crores to Rs. 35 crores of cash as we speak. It is clear that we don't want to be reckless. We have discussed this before. We don't want to make acquisitions just because there is cash. We have taken our time to screen opportunities and all the criteria that I had outlined to you in the past, like we will only look at a specialty company, we will only look at high gross margins. We have put things through many of those screens, and only those kinds of opportunities will go through. This is a very exciting time for expansion and we are going to be very focused on expansion over the next two to three years, whether it is organic or inorganic. You may consider this as some kind of war chest for the same.

Moderator: Thank you. The next question is from the line of Tarang from Old Bridge Capital. Please go ahead.

Tarang: Just wanted to check, what is the cost of debt? And how much of it is fixed? How much of it is variable?

Sachin Shah: We have taken debt at 6.75%. It's variable but my sense is it should be fixed for one year at least.

Moderator: Thank you. We will take a next question from the line of Gagan Thareja from ASK Investment Managers. Please go ahead.

Gagan Thareja: Just a couple of questions. One, what are the contours of your arrangement with MJ Bio for the insulin deal. You will be procuring your insulin from them. Second, from a regulatory standpoint, what are the approvals that MJ Pharma has for its insulin products?

V. Krishnakumar: I will answer the second question first. Starting 2016, MJ has been supplying human insulin vials and cartridges to nearly 25 countries around the world. They have approvals for India clearly, and they have approvals for a bunch of semi-regulated markets.

Amit Bakshi: South Africa is the one they got last month.

V. Krishnakumar: South African TGA has also approved them. But our interest and our alignment with MJ is clearly for the Indian market, where the value proposition is that MJ will be doing the manufacturing and we will be doing the marketing. So far as our new product pipeline is concerned, including products like Glargine and Liraglutide, MJ will be responsible for clinical development and regulatory approval and commercialization. That's the overall contours of the deal.

Gagan Thareja: Would it be fair to assume your gross margins there would be significantly different from your base portfolio?

V. Krishnakumar: Yes. Human insulin has been under price control for a long period of time so human insulin is not a very exciting product in terms of gross margin. But then human insulin is not the reason why we even got into this. The reason why we got into this whole venture is for the insulin analogues, like Glargine, Aspart and Lispro and for the GLP1 agonist products, like Liraglutide. Once those products come into play, and our expectation is Glargine, we are pegging in CY23 and Liraglutide in CY24. Once those products come into the mix, the gross margin profile of that business will change dramatically. That is our overall thesis on which we have gotten into this business.

Amit Bakshi: After the 10% price hike, the Human Insulin margins will be as good as the Oaknet margins.

Gagan Thareja: Does MJ Biopharma have a WHO GMP for their facility?

V. Krishnakumar: That is right, they do.

Gagan Thareja: One final question. While you indicated that the diabetes portfolio will see a step jump in DPP4 and SGLT2 combinations, which will enable you to prop up your growth there. It will come at the expense of Sulfonylureas, which today are the mainstay for your business. To a certain extent, there will be cannibalization between the two. If you could help us understand how should we think of your Sulfonylurea portfolio and at the same time, the transition to DPP4 and SGLT2 could create what scale for you, in that segment?

V. Krishnakumar: I will just provide some numbers and then defer to Amit, who can provide you with a lot more insights. Sulfonylurea market is not going to get replaced. Diabetes is a progressive disease. In the initial years, the patient might be on one therapy, and then as the disease progresses, you progress to what is called polytherapy. You start with one product, then you go to two products, then you go to three products. We don't see a scenario where Glimepiride is going to vanish from the prescription.

What does that mean in terms of numbers is that the volume growth and the value growth of Glimepiride segment will slow down. We are pegging Glimepiride at a 2% to 4% volume growth and then you slap on some price increase, it is possible to get 6% to 8% per annum value growth in Glimepiride, which is what we are looking at. Whereas DPP4 and

SGLT2, it's crazy, because in the first year the market gets created. Vildagliptin is seeing 50% year-on-year growth even after two years.

So, what happens is, both segments grow, but Glimepiride grows at a slower rate. If you look at the mix of therapy that shifts to DPP4 and SGLT2 overtime, those therapies become heavier but that is not because Sulfonylureas are de-growing.

Amit Bakshi: Yes, technically it's all about the first-line treatment. So, Glimepiride Metformin has been a first-line treatment for a long period of time. The first-line treatment now is moving to DPP4 and SGLT2. So, we will have less initiations of new patient on Glimepiride. But when diabetes becomes a little, it becomes 10 years old, then typically you need Sulfonylureas to get controlled. As KK aptly put, we are ourselves budgeting a volume growth of 2% to 4% plus some price bolt on here and there, 8% value growth is what we are kind of budgeting.

Gagan Thareja: With MJ Biopharma, is it a contract manufacturing fees plus royalty arrangement or is there a profit share arrangement with them?

V. Krishnakumar: The profit share is automatically built-in because MJ is an equity partner in this business. MJ Biopharma holds 30% equity share in the venture. It is a long term strategic arrangement.

Moderator: Thank you. Our next question is from line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: Just one question. Could you guide for the effective tax rate we are looking at for FY2023-24?

V. Krishnakumar: We don't expect it to be significantly different from what it is now because the Gujarat facility will come on stream. It might go to 11% to 12%. But we don't expect a massive jump over where it is right now.

Sonal Gupta: Just to be clear. The Guwahati facility will not have any tax benefits from FY25. And that's why we are going to see the jump in '25, right.

V. Krishnakumar: That is right.

Sonal Gupta: What is the benefit at Gujarat? What sort of tax benefit do you enjoy?

V. Krishnakumar: There is no special tax benefit available for Gujarat as a location, but under the whole 'Make In India' regime we will have a effective tax rate of 15% plus surcharge in the Gujarat facility. This is nothing special about Gujarat, this is available wherever you would setup the new facility.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference back to Mr. V. Krishnakumar for closing comments.

V. Krishnakumar: Thank you everybody for your participation in the call. By way of summary, Eris has entered the dermatology therapy through the acquisition of a 100% stake in Oaknet Healthcare at an equity valuation of Rs. 650 crores. Eris's specialty franchise will get a significant boost with the acquisition of Oaknet. The acquisition brings marquee brands like Cosvate and Cosmelite into the portfolio. We expect the Oaknet business to deliver a revenue of Rs. 250 crores with an EBITDA of Rs. 50 crores in the next two years. That is in FY2023-24.

We delivered an EPS growth of 14% in FY22 on the back of a 21% EPS growth delivered in the last financial year. This represents a compounded average growth rate of 18% per annum over the last two years. FY23 is a year of significant investments in terms of the insulin business, field force expansion, landmark new product launches, commissioning of a new manufacturing facility and SAP implementation.

We expect our organic growth to be driven by growth in our power brands portfolio, new product pipeline, expansion of specialist and CP coverage and our expansion into newer specialties. For FY23, we are targeting an organic revenue growth of 15% and a combined revenue growth of 30% including Oaknet. We are looking at an organic EBITDA growth (excluding Oaknet) of 15% and an organic EPS growth (excluding Oaknet) of 11% to 12% in FY23. Thank you all. Have a good day and stay safe.

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

This document has been revised to improve readability.