"Eris Lifesciences Limited
Q1 FY25 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY25 Earnings Conference Call of Eris Lifesciences Limited.

We have with us on the call today, Mr. Amit Bakshi - Chairman and Managing Director; Mr. V. Krishnakumar - Chief Operating Officer and Executive Director; Mr. Sachin Shah - Chief Financial Officer; and Ms. Kruti Raval – Head, Investor Relations.

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. Please note this call 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: Good evening, everybody, and welcome to our Q1 conference call. Before we dive into the details, it is useful to take a couple of minutes to articulate how we think about our business and how the business is structured, since there has been a lot of change in the last few months. This also gives you a sense of how this presentation is organized. We have two strategic business units. One is Domestic Branded Formulations or DBF, which accounted for 90% of our Q1 revenue and then we have Swiss Parenterals, which is our exports focused business which accounts for 10% of Q1 revenue.

Now, within Domestic Branded Formulations, we are calling out two separate pieces, the Base business and the Biocon business. The Base business consists of everything that's been amalgamated, including all the Derma pieces and everything which is fully integrated and part of Eris. The Biocon business is being structured into Biocon-1 and Biocon-2. Biocon-1 is the portion that we acquired in November '23 and Biocon-2 is the portion that was acquired most recently in early April.

We are calling out these various segments in this presentation and are giving you a lot of color about how the Biocon 1st piece and the Biocon-2 piece have done in Q1, and we are also giving you a sense of how we expect these segments to perform through the year. It is probably useful to let you know at this stage that now we will revisit these pieces in Q4. Once we set out a guidance on how we expect them to perform, we'll come back to you in Q4 and tell you how they've performed vis-à-vis the expectations. But we won't necessarily be calling out this level of detail on these segments every quarter.

With that context, let's move ahead. We start with the base business. Happy to share with you that Eris now ranks among the Top 20 companies in the market. Just as a reminder, we went public in 2017 and at that time, we were ranked 29. So, the company has gained nine ranks since the IPO. Today, we have five brands with more than Rs. 100 crores of revenue. This includes Basalog and Insugen and we have 12 brands with revenues of Rs. 50 to Rs. 100 crores.

In terms of Q1, as per the AWACS report, our covered market grew at 8.1%, and we beat the covered market by 460 bps. So 12.7% is where we landed for Q1. Four out of six therapies saw market-beating growth. Oral Anti-Diabetes market share inched towards 6% with very good growth in all our big brands. Also, in terms of new product launch and scale up, we ranked number third in the market in terms of count and value for new products.

Moving on to the financial highlights for the Base business. We had an organic revenue growth of 10% in Q1. The gross margin in Q1 was 86%, which is up by nearly 300 basis points on a year-on-year basis. The EBITDA margin for Q1 was at 39%, which is up by 185 bps on a year-on-year basis. This was again due to a mix of productivity gains, gross margin improvement and better fixed cost leverage.

It's also worthy calling out that our Derma portfolio gross margin was up 400 bps in 80%. You might recall that we told you that we started manufacturing the Derma products in-house from January. This is some of that getting reflected. Fixed costs as a percentage of revenue are up by 97 bps year-on-year. *(Pls note, in the call, this was erroneously read as "Fixed costs as a percentage of revenue are* ***down*** *by 97 bps year-on-year.")*

In terms of guidance for the year, we are looking at an organic revenue growth of 12-14% with an EBITDA margin of 37%. This is for the base business.

Now moving to the Biocon-1 business segment. We saw a very strong start to business integration. This is a portfolio that we had acquired in November 2023, Dermatology and Nephrology. It has been about six to seven months since acquisition. This portfolio clocked a Q1 revenue growth of 16%, with a 40% growth being seen in the top seven power brands in both Derma and Nephro. The piece has a Q1 YPM of close to Rs. 7.5 lakhs. The teams are settled down. They are all well integrated. We augmented the Derma team to around 80 reps.

The gross margin for this segment has improved by 1,500 basis points in Q1. You might recall that at the time of acquiring, we had a 50% GC which is now at 65%, and we expect further upside. The Q1 EBITDA margin for this piece was at 39% versus 19% at the time of acquisition. Again a 2,000 bps gain in just six months to seven months from acquisition. In terms of guidance for the year, we are looking at a Rs. 125 crores revenue, which is a 25% growth on the acquired base with an EBITDA margin of 36%, which is up by 1,700 bps from the acquired base.

Moving forward to the second Biocon segment which was acquired in early April. This segment has Insulin, Oncology and Critical Care. Again, integrated well ahead of schedule. We saw a 13% revenue growth in Q1 with a YPM of close to Rs. 8 lakhs. Basalog and Insugen – very strong early traction. We now have two more Rs. 100 crores brands in the kitty. In Onco and Critical Care, we have lined up a lot of new product launches. Swiss is manufacturing a good portion of the Critical Care portfolio.

In terms of gross margin and EBITDA margin, the Q1 numbers represent what we acquired the business at. So, 40% gross margin and 19% EBITDA margin is what the business came with, and that is where it is at the end of Q1. We expect a further upside of up to 1,000 bps in gross margin, driven by sourcing initiatives and in tandem with that an expected improvement in EBITDA margin as well.

In terms of outlook for the year, we are looking at Basalog and Insugen to do a combined revenue of Rs. 280 crores, which represents a 40% growth over the acquired base. If I add the Xsulin and Xglar, which are our homegrown Insulin products, our Insulin franchise for this year should land at about Rs. 340 crores to Rs. 350 crores. For the Biocon-2 segment, we expect a revenue of around Rs. 460 crores in FY25, which represents a 28% growth on the acquired base with an EBITDA margin of 28% which is an improvement of 900 bps from the acquired base.

This is the Domestic Branded Formulations Q1 financial summary. All three segments put together clocked a revenue of Rs. 632 crores for the quarter, which is close to a 40% growth. EBITDA stood at Rs. 225 crores for the quarter. The EBITDA margin stood at 36% for the quarter, it was 39% excluding Biocon with a YPM of close to Rs. 5.7 lakhs.

Dissecting this further, we now give you the P&L for the DBF segment. Same set of headline numbers as the previous slide, but the thing that really stands out here which we are happy to share is that the fixed cost synergies from integration have really started coming in. We saw a gross margin reduction of close to 600 bps in Q1 because of a change in product mix - Biocon coming in - but we also saw a reduction of around 450 bps in fixed costs (as a percentage of sales) leading to a Q1 EBITDA margin dip of only around 140 bps. In terms of guidance for the year, we're looking at a total Domestic

Formulations revenue of Rs. 2,600 plus crores with an EBITDA margin of 36%.

There is something we would like to call out the way the DBF business has evolved. It has evolved from a "Specialty" business to a "Specialty plus Super-specialty" business. The addition of segments like Critical Care, Oncology and Nephrology, these are Super-specialty segments which are still growing at 10%-plus volume growth per annum. We are also happy about the fact that despite nearly doubling in size, this is still predominantly a Chronic/ Sub-chronic business for more than 85% of the turnover. This is something that results in significant headroom for growth going forward.

Moving on to Swiss Parenterals Q1 financials. Revenue of Rs. 73 crores with an EDITDA of Rs. 26 crores. In terms of guidance for the year, we are looking at a revenue of Rs. 330 crores with an EBITDA of Rs. 115 crores, which represents a top-line growth of around 14% and an EBITDA growth of around 30%. A lot of building blocks being have been put in place, new regulatory inspections and qualifications are taking place, and we continue to expand the product pipeline. They have an order book of nearly Rs. 130 crores for delivery this year. Looking good as of now.

Now we move on to the consolidated P&L for the quarter. Total revenue of Rs. 720 crores, which represents a 54% growth. Again, Q1 margin movement at a consolidated level also reflects the fixed cost synergies. At a gross margin level, we are at 75%, which is down more than 800 bps, again due to business mix and product mix. But at the EBITDA margin level, we are down only 164 bps because fixed expenses as a percentage of revenue are down by more than 660 bps.

Q1 EBITDA of Rs. 250 crores consolidated, which represents a growth of 47%. Book tax rate has increased, as guided. We continue to pay cash tax at 17%. Also we have taken the full impact of all Amort and depreciation and finance costs in Q1. The Q1 PAT of Rs. 89 crores reflect all this cumulative impact. Cash flow from operations for the quarter was at 70% of EBITDA. At a cash EPS level, we saw a growth of 10% and net debt as of 30th June stood at Rs. 2,700-plus crores.

We'd like to share an update in terms of an acquisition of an approved LL site. LL stands for Loan License manufacturing. This is a site in Bhopal, which was built to Biocon quality specs – a very, very good quality fill-finish facility for Insulins. It was designed as a broad-spectrum Biosimilar fill-finish facility to handle a wide range of Biosimilar products. They have capacity which is operational for liquid vials, and we will also look to add cartridges and pre-filled syringes. It has attractive fiscal benefits under Section 115BAB.

Now, if you look at our thesis for this, we look at it from two perspectives. One is that this site is a key stepping stone to realize our Biotech vision. In a lot of ways, we are looking at this site to be a Biotech Hub for Eris with injectable manufacturing capability across a wide range of presentations, which is vials, cartridges and PFS, and across a wide range of product categories, namely Insulins, Analogues, GLP1s, MABs and so on.

The second point is that this site really enables us to get GLP-ready, because an approved fill-finish site is the most critical component of the last mile in building competitive advantage for a scalable and profitable GLP play. In the GLP business, having a cartridge filling line of this caliber is probably the most valuable asset that one can have today.

We have a lot of plans for the site in terms of where it can potentially take us. Now in terms of the "Buy" versus "Build" rationale, we see that this site has reduced at least two years for us in terms of time to market compared to setting up a greenfield operation. We will immediately realize a margin improvement in our Insulin segment, which has significant scale now a revenue base of Rs. 340 crores to Rs. 350 crores is the outlook we have given for the year. We see that as soon as we move to the site, we will see a margin bump of at least 1,000 bps. So in many ways this acquisition really sets the stage for our large molecules play.

Putting it all together, what does the year look like? We are looking at a DBF revenue of Rs. 2,600 crores with an EBITDA margin of 36%. This is how it breaks up between the organic piece and Biocon. At a consol level, we are looking at a revenue of Rs. 3,000-plus crores with an EBITDA margin of 35%. In terms of capital expenditure for the year, the site acquisition will cost Rs. 105 crores and we envisage an additional capex of Rs. 100 crores to Rs. 120 crores on the various Biotech segments that we spoke about. These numbers factor in everything as laid out in terms of Depri, Amort, Interest costs, Cash tax rate and Operating cash flow ratio.

We remain committed to rebuilding balance sheet strength. This is the balance sheet strategy that we had shared with you at the end of the last financial year that we would want to reduce the Debt to EBITDA ratio to less than 2x in 18 months. So, we are on track. By the end of fiscal '25, Net Debt of Rs. 2,600 crores or slightly below and by fiscal '26, Net Debt of around Rs. 2,000 crores, that is where we see us going.

In closing, I will call out our five strategic priorities for the year. In the base business, we are looking at a 12-14% organic growth with an EBITDA margin of 37%. In the Biocon business, we are looking at an overall revenue growth of 27% with a margin expansion of close to 1,000 bps. With Swiss Parenterals, we are looking to deliver a revenue of Rs. 330 crores with a 35% EBITDA margin. More importantly, build the base for accelerated growth in export markets as well as oral solid exports. We are looking to rebuild balance sheet strength as per our guidance and really take tangible next steps in terms of our large molecule play in terms of both manufacturing capability and product basket.

That brings us to the end of this presentation. Thank you.

Moderator: We'll take our first question from Dhruv Maheshwari from Perpetuity Ventures LLP. Please go ahead.

Dhruv Maheshwari: Hi. Thank you for the opportunity. I have a few questions. The first one is regarding the Cardiac portfolio, which has been constantly underperforming the IPM since the last few years. This trend has also continued for this year as well. If you can highlight the reason behind it and what are the initiatives being taken to get this segment back on track? My numbers are according to the IQVIA database.

Amit Bakshi: Yes. You are right. Even in AWACS, the data kind of looks similar. But if I remember correctly, in June we had come very close to the market. We were still behind, but I think 100-150 basis points. The basic reason, if you go into the detail, is Zayo. This was Sacubitril-Valsartan, which we launched, which actually got to a Rs. 5 crores monthly run rate and when the generalization happened and we actually ran short of stocks, so we couldn't service the market; 3-4 months before the LOE happened. That is the loss which we created and which we have not been able to get back.

Primarily coming from one brand, which is Zayo; reflection of Zayo now is more like Rs. 1.5 crores per month from a peak of Rs. 5 crores. That's something which has hit us. But I am quite ok to say that from next quarter onwards, we would be hitting the market numbers and third quarter onwards, you will see us getting ahead of it. Primary two reasons.

One is, we have got two of our products which have been approved, which you remember we told from our R&D basket. One is Dapagliflozin and Metoprolol, which has already been approved. We will be launching next month. The second is Dapagliflozin with Bisoprolol, which also has been approved. We should be launching it in the next month or the next month after that. So Q2 will see two solid launches in Cardiology, especially heart failure. So that's the plan from a Cardiology point of view.

Dhruv Maheshwari: Got it. The next one is regarding the D&A. During Q4 FY24, the guidance was about Rs. 285 crores for FY25, which has been revised to Rs. 305 crores. What makes majority of the difference between these two numbers?

Dhruv Maheshwari: Depreciation. Yes. It was revised from Rs. 285 crores to Rs. 305 crores within this presentation?

V. Krishnakumar: Yes. What we put out in Q4 were estimates. Now what we have taken is the actual Depri and Amort that has come in Q1, we have just annualized it and given you the kind of what the year is looking like. It was basically an estimate versus the actual accrual. Nothing major in this.

Dhruv Maheshwari: Got it. These were the two questions I had. Thank you.

Moderator: The next question is from Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: Thank you for the opportunity. If you can help me understand the clean base of FY24 for our base business in terms of revenue and EBITDA, on which we have provided guidance of revenue growth of 12-14% and EBITDA margin of 37%, that would be great.

V. Krishnakumar: Kunal, the clean base is around Rs. 1,850 crores.

Kunal Dhamesha: Rs. 1,850 crores revenue, and EBITDA?

V. Krishnakumar: The base business EBITDA that we've given you, which was 37% last year.

Amit Bakshi: Why don't you check in the...

V. Krishnakumar: It's there in the chart.

Amit Bakshi: It's there in the chart.

V. Krishnakumar: Base business of 37%.

Kunal Dhamesha: So, 37% margin stays the same.

V. Krishnakumar: It's there on the Slide 7. Base business EBITDA of 37%. That's our reference point.

Amit Bakshi: Which is Q1, or he's asking for the entire year?

V. Krishnakumar: Q1 was around about in the similar range.

Kunal Dhamesha: This is Q1'24, right? I am asking about the full year FY24, sir.

Amit Bakshi: Kunal, let us kind of get this number and give it to you. It will be in that vicinity what KK is saying.

V. Krishnakumar: Yes, but if you're looking at the basis point level kind of clarity, we can get back to you. The revenue is in the range of Rs. 1,850 crores.

Kunal Dhamesha: I'm just asking from a perspective as to what kind of EBITDA margin improvement for the base business that we are baking in on a year-on-year basis and then what would drive that? Since we are expecting strong growth of 12-14%, I naturally assume that there will be some gains on productivity, etc., for the base business, right. Then that should also translate to the improvement in margins?

V. Krishnakumar: Yes, very fair. We have called out 37% margin for the base business in FY25. You're saying what is the equivalent number in FY24. We'll come back to you with the exact number. I think margin expansion will be a combination of the three levers that we called out in Q1, which is productivity gains, gross margin and fixed cost synergies.

Amit Bakshi: Yes, Kunal, you're right. It should happen. But at this point of time, we are happy to call it at 37%. Wait a while to see how it kind of comes up.

Kunal Dhamesha: This 1,850 - sorry to harp on this. Rs. 1,850 crores includes Oaknet or anything that we have bought one year before, right?

V. Krishnakumar: Yes. It includes the Oaknet, Glenmark, Reddy's, but it does not include any Biocon.

Kunal Dhamesha: It does not include Biocon. The Swiss Parenterals revenue for this quarter is entirely exports?

Moderator: I'm sorry, your voice is breaking, sir. Mr. Dhamesha?

Kunal Dhamesha: I'm saying that the Swiss Parenterals revenue, is it all exports in this quarter?

V. Krishnakumar: Yes, Kunal, whatever we have shared with you, Rs. 73 crores, that's all exports.

Kunal Dhamesha: Ok. When we say that we have started some Critical Care products, etc., that would have been included in our DBF revenue, Domestic Business Revenue.

V. Krishnakumar: Yes. The sale is included in Domestic Branded Formulations and any intercompany is eliminated when we do the consolidation. Whatever you see, Rs. 73 crores in Swiss is clean revenue.

Kunal Dhamesha: Ok. Perfect.

Sachin Shah: Kunal. Hi, Sachin here. The standalone revenue of Swiss is Rs. 92 crores. But what we have shown is Rs. 73 crores. It is after elimination of intercompany transactions. There is only one counting which is sold forward by Eris. So Swiss sells to Eris, Eris sells forward.

Kunal Dhamesha: In domestic business. In the international business, the same whatever Swiss had business model that continues.

Sachin Shah: Yes.

Kunal Dhamesha: Ok. Perfect. At the end of quarter one, what would have been our MR strength? How should we look that over this year or maybe coming one or two years?

V. Krishnakumar: Kunal, our DBF MR strength is close to 3,700-plus now. More than 560 reps added through the two Biocon deals. That's where we stand right now.

Amit Bakshi: We don't have any plans, Kunal, as of now to increase the headcounts for this year. Next year, of course, there would be plans. This year, we are looking to consolidate.

Kunal Dhamesha: Sure. This includes the first-line business managers?

Amit Bakshi: No, these are representatives.

Kunal Dhamesha: Ok. Shall I add 10% more to that?

Amit Bakshi: That number will be bigger, Kunal. We'll get to you. But because we talk YPM, so we generally give the representative number.

Kunal Dhamesha: On the MR?

Amit Bakshi: On the MR.

Kunal Dhamesha: Ok. But my understanding is that ABM is also generally on the field only, right?

Amit Bakshi: Yes, of course, they're on the field. There are other managers also in the field. But YPM is derived from the representatives. The general practice is to get the MR number.

Kunal Dhamesha: Sure, sure. I have more questions. I'll join back the queue. Thank you, and all the best.

Kruti Raval: Thank you.

Moderator: Thank you. We have our next question from Kunal Randeria from Axis Capital. Please go ahead.

Kunal Randeria: Hi. Good evening and hope I'm audible. My first question is on the acquisition that you made. I think the entire reason for doing this JV with MJ Biopharm was to expand into Insulins and GLP1s where they would be responsible for supplying the products and manufacturing and things like that. Just wondering what prompted you to acquire this asset now.

Moderator: Mr. Randeria, can you self-mute whenever you're not asking a question? Thank you. Sir, please go ahead.

Amit Bakshi: What you are saying is absolutely right. The scale which we are now acquiring in Insulin, the scale is such that we will not be able to service that from MJ. We are looking at some Rs. 350-360 crores by the end of this year and the growth is quite good. Therefore, we had to have a second parallel site available for us. Otherwise also, this business, as KK told you, we are looking for gross margin improvement and more control over the entire supply chain. These were the reasons, primarily because the value and the volumes were beyond MJ to kind of supply. That is the primary reason.

Kunal Randeria: Got it. Thanks. Secondly, on Biocon-2, margins today are like 19%. I mean, can they go back to company-level kind of margins in the next couple of years?

Amit Bakshi: We are giving a guidance of 28% for the Biocon-2 piece and overall, 33% for both Biocon put together.

Kunal Randeria: Fair enough, sir. What I meant was maybe the next two or three years, can they go to like mid-30s, late-30s?

Amit Bakshi: The day our plant starts functioning completely, we should be there.

Kunal Randeria: Got it. Which means that in the next couple of years, we should expect consolidated margins to be somewhere in late-30s?

Amit Bakshi: Yes. Consol level margin even this year would be in late-30s. But if this happens, it has a chance to kind of beat that.

Kunal Randeria: Got it. I have a few more questions. I'll join back.

Amit Bakshi: Sure.

Moderator: The next question is from Bino Pathiparampil from Elara Capital. Please go ahead.

Bino Pathiparampil: Good evening. Just a quick clarification on the tax rate. The cash tax rate you have mentioned is 17%. The reported rate for the quarter was 22.5% roughly. Would that be the rate for the full year as well?

Sachin Shah: We expect that to be around 25% tax rate. 24-25%. The annual tax-rate.

Bino Pathiparampil: The annual tax rate.

Sachin Shah: Yes.

Bino Pathiparampil: Annualized. Ok, great. Thank you.

Amit Bakshi: What will happen is now, we were 80% manufacturing ourselves and now we are only doing 60% in-house, 40% has gone out and the major reason is the Biocon piece. So, when we build our plant, this is also under the same, what is it called, Kruti?

Kruti Raval: Section 115BAB.

Amit Bakshi: Yes. This is also 115BAB. Once the transfer happens, we'll get two kinds of runways. One is the margin expansion, and the other is a tax benefit. So going forward, we want to come back to that 80% and that's where the work is going on.

Bino Pathiparampil: Understood. When you shift manufacturing to that plant, the reported tax rate will come back to 17-18%.

Amit Bakshi: Yes. At some point of time, yes. If we are able to achieve that 80%, this is work in progress. But incrementally, you will see that more and more things are coming inside.

Bino Pathiparampil: Understood. Ok. Thank you very much.

Moderator: We'll take the next question from Vijay Karpe from Shriram Life. Please go ahead.

Vijay Karpe: Yes. Thank you for the opportunity. I just have one question. I appreciate the rationale which has been given for the latest acquisition. But as per the management commentary which we had given in the fourth quarter, we had said that there will be no more acquisitions, and it will be all about putting the head down and focusing on execution. Can we expect some more acquisitions, or would this be the last acquisition?

Amit Bakshi: No. If you look at our commentary, we had put in Rs. 70-80 crores for the greenfield project. Actually, nothing has changed. That Rs. 70-80 crores of capex has moved here. The plan has not changed. The only thing which has changed is from a greenfield to a brownfield. Otherwise, it remains the same. I reiterate that it's again, heads down execution. No acquisition, unless and until our balance sheet comes back in that order.

Vijay Karpe: Ok. Thank you.

Amit Bakshi: Sure.

Moderator: Thank you. We'll take a question from Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: Hi. Thank you for the opportunity again. One on the Ahmedabad plant. I think last quarter, we had said that there's some drag of about Rs. 30 crores on EBITDA. What's the current drag on the EBITDA from the plant and what's the current utilization?

V. Krishnakumar: Kunal, the plant is ramping up very well as we speak. Just to give you a sense, this year we are looking at a 70% increase in throughput from the plant, but the operating cost increases 3% over last year. The unabsorbed fixed costs which we had called out last year, I think it was to the tune of Rs. 17-18 crores, if I recall. That will be substantially lower. I mean Q4, it should go down to zero. But I think at an annual level, we'll probably be down to less than Rs. 5 crores.

Kunal Dhamesha: Ok. This Rs. 30 crores number that I have was for full year.

V. Krishnakumar: No, that was a combination of other factors also. Happy to get on to a separate call and go through that, but there were other items in the Rs. 30 crores.

Amit Bakshi: Yes. I think, Kunal, it had some acquisition cost. It had some SAP cost.

V. Krishnakumar: And it had some one-time items, which came in Q4, which was a significant number.

Amit Bakshi: Yes.

Kunal Dhamesha: Sure. That is fine. On this debt reduction, we are expecting only around Rs. 400 crores debt reduction versus we should be generating OCF of at least around Rs. 700 crores this year?

V. Krishnakumar: Yes. This year, OCF, yes, you are right. Then we have to service the interest out of that, which is close to Rs. 240 crores. Then you have the capex which we've called out between the acquisition and the organic capex. Net of that, whatever is left will go towards the debt servicing and that should get us to that 2,600 or slightly lower kind of a number by the end of the year.

Kunal Dhamesha: This beyond acquisition capex, is it just the maintenance or addition of lines or...

V. Krishnakumar: Yes. We have called out all the Biotechnology areas. I think Insulins is one piece which is this acquisition and then we have MABs and hormone. As we have called out, we would like to really build a strong packet to get into a Biotechnology play. This is all going towards that. Nothing maintenance nature here. This is all creating new capability.

Amit Bakshi: Kunal, if you...

Kunal Dhamesha: It will be fill-finish, right?

Amit Bakshi: Yes. There's no DS as of now. It's all fill-finish.

Kunal Dhamesha: Ok. How many lines we are putting?

Amit Bakshi: In which plant?

Kunal Dhamesha: Like the entire Rs. 120 crores which we are using for our internal capex consumption. How many manufacturing lines will we have?

Amit Bakshi: Kunal, what happens. The final line is something which is only incremental cost. We have to actually make provision for lines. It depends upon how much sales we are anticipating. For example, in Insulin, we are putting four plus two, four for the vials and two for the cartridges. The hormone plant is very, very early days. We are just kind of digging it down. For MABs, we will be putting only two lines, so depending upon that.

But important thing from my side is, Kunal, you look at the way the product mix is happening. We are shifting from a specialty to a little bit of a super-specialty also. We are becoming a little product company, a little tech company. With all this coming through, we will be participating in what some people call high resistance or whatever...

Kruti Raval: High entry barrier.

Amit Bakshi: High entry barrier businesses or low competition businesses or the future businesses. That's the moot point. We think that is what the Bhopal facility gives us. Because I don't agree with KK when he says two years, getting the licenses itself sometimes takes 1.5 years, two years, so building plus the licenses. You know Biotech licenses are a little bit time-taking process in India. In my view, we are better off at least three to four years.

Kunal Dhamesha: Sure. This is the capex for this year. This is not the capex for the overall project. We just continue for next two years to three years, right?

Amit Bakshi: It will spill over, Kunal.

Kunal Dhamesha: Yes. Because my sense, if you are saying six lines, if you are even putting six lines plus hormone plus MAB, the capex would be much higher. That's what my sense is. I might be wrong.

V. Krishnakumar: Kunal, let me clarify. Over FY25 and FY26, we called out a number of Rs. 200 crores, which is between Insulin, MABs and Hormones. It'll be executed over FY25 and FY26 and the number we have called out is Rs. 200 crores.

Kunal Dhamesha: Rs. 200 crores, ok, perfect. Last one on the tax rate. We expect the tax rate, effective tax rate to go from 25% to 18% as we ramp up from the new plant. What's the timeline? And how should we see the progression? Is it gradual, step jump, like stepdown in a way in terms of ETR?

Sachin Shah: Kunal, so gradually from 25%, I think in next year, we should be 23% then 21%. By that time, I think 2-3 years, it will take for us to finish our MAT. So, once we finish our MAT that is there in the ELL books, then we plan to go to 18%. That's how we'll reach there. It's our book tax rate. Cash tax will always be 17%.

Moderator: Sorry, we just lost his connection, sir. We'll take the next question from Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Sir, just on the site which has been acquired, can you help us know what's the gross block of the site?

Kruti Raval: Tushar, the gross block is about Rs. 65 crores. The net block is about Rs. 56 crores.

Tushar Manudhane: Any particular reason they got incorporated in 2020. I understand they would have also taken two years to build the facility, but approvals and all are still to take time. For that matter, the sales is also yet to come. Anything you would like to highlight here?

Sachin Shah: Tushar, as far as we know, there was a date for the base. The moot point was to get it incorporated under the new law which allows the 15% tax rate.

That's how it was incorporated after 2019, around that time. They started their commercial manufacturing before 31st March '24. That was the basic idea behind that.

Tushar Manudhane: Ok. Just on the comment, all approvals in place for Insulin manufacturing. So, you mean which geography -- is it like more of India or...

Amit Bakshi: Yes, only India. Tushar, only India and only the vials. We have the licenses for the vials line. The cartridges line, we don't have the licenses, and the line has also to be put up.

Tushar Manudhane: These at least for the India market, like at least we started through vials, cartridges and PFS. To start the commercial production in first place, what is the kind of timeline one should think of?

Amit Bakshi: Tushar, I think Q3, we should be there. Q3, we should start the manufacturing of vials first and the cartridges would take another 1 to 1.5 years, depending upon how soon we are able to get the validation done.

Tushar Manudhane: Understood. I'm just asking on this particular aspect, how much subsequent further investment would be required in the form of capex?

Amit Bakshi: In this plant, for the Insulin piece alone, we require around Rs.20-25 crores and once we start the MAB lines, it will be an addition.

Tushar Manudhane: This is a part of the capex which you have already identified. This is not over and above the capex?

Amit Bakshi: Yes, same thing.

Tushar Manudhane: Broadly, how much opex would be there for this facility? Because I assume currently, it's already at least operational, if not, from a compliance point of view. But...

Amit Bakshi: Tushar, we do not like to give the opex number. Let us start the operation first, and then we will be in a better position to tell you about the opex.

Tushar Manudhane: And just -- my side, maybe you…

Moderator: Sorry, sir, you're sounding muffled, Mr. Manudhane.

Tushar Manudhane: Yes. We are already at Rs. 250 crores EBITDA as we stand on 1Q FY25 right…

Moderator: I'm sorry, you're sounding muffled again.

Tushar Manudhane: Yes. What I was trying to ask is that we are already at Rs. 250 crores EBITDA for first quarter FY25 and the guidance indicates that we would end FY25 by Rs. 1,050 crores. Just the kind of improvement in the operations of both base business as well as acquired units, isn't that too conservative? We are already at that number more or less, plus minus Rs.10-12 crores as we stand today.

Amit Bakshi: Tushar, from a guidance point of view, we'll stick to Rs. 1,050 crores, but we'll be happy, very happy if it goes up. The efforts are on the same side, but from a guidance point of view, we would like to stick there.

Moderator: Thank you. The next question is from Prashant Nair from Ambit Capital. Please go ahead.

Prashant Nair: Hi. Amit, in the past, you have mentioned that generally, you would like to keep your EBITDA margins in that 35-36% range and look for growth, reinvest anything over and above that for growth. Now, your margins seem to be, given your guidance, tracking a bit above those levels. Is there any change either in thinking or in the way the business has shaped up? Where do you see kind of peak EBITDA margins settling, say, if you take the next three, five years as a timeframe?

Amit Bakshi: Hi, Prashant, you are right. Look, we also had a little bit of surprise because we haven't done a business which gives 60% gross margins and 40% EBITDA. There was a little bit of uncertainty around that piece. But having spent some time with business, the productivities are very nice and there is a tailwind in these businesses. Now I can see a chance of margins getting better with all that which is planned. So, certainly next year, it should be better if that changes. Now I can tell you that 35% in the next two, three years might not be the case. It should inch up.

Prashant Nair: Ok, great. Yes. That's it from me. Thank you.

Amit Bakshi: Thank you, Prashant.

Moderator: Thank you. We have a question from Kunal Dhamesha from Macquarie. Please go ahead.

Kunal Dhamesha: Hi. Thank you for the opportunity. One question for Amit. So now you have these pieces in place, you have been with this business for a quarter in FY25. What's the kind of growth profile of this entire consolidated business that you are looking at? Beyond FY25, what will be the growth profile of the business?

Moderator: I'm sorry. Mr. Dhamesha, may I request you to repeat the entire question again, please?

Kunal Dhamesha: Sure. I'm saying that you have acquired a lot of these businesses and now we have spent some time with them. So, beyond FY25, what's the growth profile of this entire consolidated business look like and the investments which would be required to grow at that basis?

Amit Bakshi: Kunal, so how do I answer this? One thing which at this point of time looks clear is that the Insulin piece will see a growth going forward, and we are also investing in more Insulins. We are right now covering only two pieces. If everything goes well, we should be launching a GLP now, and then there are other Insulins which we are investing in. We are not present in Aspart. We are not present in Aspart mix. We are not present in Lispro. We are not present in Degludec, which is expiring in '26, if I'm not wrong.

The Insulin piece seems to have a lot of headroom from a growth perspective, both from the existing products and there is a possible new product pipeline which is also very exciting. So, we continue to invest in them while we talk, and we will keep on informing you at the right time that how is it moving ahead. That is one piece which I'm quite reasonably confident.

The other piece, which is Oncology and Critical Care. Critical Care, again, the injectables is a large business. We have promised you; we will be Rs. 100 crores this year, which we will definitely be. But again, there is a lot of scope there. Once things start moving, that is one business which can also give us a better growth.

Simultaneously, Kunal, as I alluded to, for the Cardiovascular, there are new products also coming in. All that investment which we made last year in the R&D pipeline in the form of products, they will also show up. Certainly, there is some kind of a chip in terms of new product and growth. This piece looks to me something which can grow beyond that routine 10-12%. Hopefully, we should be in a trajectory for a couple of years which should be significantly beating the market.

Moderator: We'll take the next from Rahul Agrawal from Himalaya Investment Advisors. Please go ahead.

Rahul Agrawal: Thanks for the opportunity, and congratulations on a very good set of numbers with sharp turnaround in the Biocon businesses. My question is a version of what the previous participant was asking. From here on, if you look at the next three years, how do you see both growth and margins panning out? And if you can build up a little bit more on the numbers, like you said, the base may grow at 10-12%, but what rate would you expect Insulin to grow at? And combining it all together, where do you think can we go on the margins?

Amit Bakshi: Yes. We are coming back to the same point. Largely what I can tell you is that we are better prepared for growth because of the organization moving from specialty to super-specialty. We are 100% better prepared for a better growth. At the same point of time, we are better prepared for a margin expansion also, today.

But quantifying it for the next three years is something which is little difficult for us at this point of time. But what we can tell you, the macros and the way the second set of diversification has happened, clearly, kind of puts up there. Then the execution happens, and everything happens. We are there, but quantification would be a little difficult thing.

Rahul Agrawal: Understand. On the Swiss Parenterals business, when we had done the acquisition, we had said that we may also look at starting with branded formulation sales in emerging markets. Have we made up our mind around that? Is that something we want to pursue? and second, how do you see Swiss Parenterals shaping up over the next few years?

Amit Bakshi: Answering the first question, which is an important thing. There was a little bit change in the plan. First, we thought that we will put in the injectable piece directly into Swiss and we will run it from there. But then there was some reason which we couldn't do this, so we actually brought it in ELL itself. That's why you see it is reflecting here in ELL. Swiss continuously supports the domestic piece, but in an indirect way, not in a direct way.

From an export piece, there is a lot of stuff which is happening. At this point of time, we have given you the guidance for this year. I hope you appreciate the fact that export piece needs a little bit more time to kind of turn around because of regulatory things. But if you look at the kind of approvals which we are seeking in this year, they are quite significant, especially the Brazil piece and the Switzerland piece. We would need some more time to get back to you on that. For this year, our guidance would be, more or less intact.

Rahul Agrawal: Got it. Thank you so much, and congratulations once again.

Amit Bakshi: Thank you.

Moderator: Thank you. We'll take a question from Prashant Nair from Ambit Capital. Please go ahead.

Prashant Nair: Hi. Sorry, this is a repeat, probably. Sachin, I missed the comment you made about your tax rate and how it could move over the next few years. Can you just repeat that?

Sachin Shah: Prashant, we expect it to be around 25% at a consol level this year. With products moving in-house in the Ahmedabad plant and also the new acquisition that we had, gradually, I think every year it should go down by 2%. Because we also have a MAT credit in Eris, right? So, we have to consume that also in next three, four years. By that time, I think we should be around 18-19%. That's where we will reach.

Amit Bakshi: Yes. Fair enough.

Prashant Nair: Ok, great. Thank you.

Moderator: Thank you. Ladies and gentlemen, we'll take that as the last question for today. I now hand the conference over to Mr. V. Krishnakumar for closing comments. Over to you, sir.

V. Krishnakumar: Thank you all for your presence today. In summary, consolidated revenue for the quarter was Rs. 720 crores, which represents a 54% growth. Consolidated EBITDA for the quarter was at Rs. 250 crores, which represents a growth of 47%. We've integrated the Biocon acquisitions well ahead of schedule and started realizing significant synergies in our flagship domestic branded business, which accounts for 90% of our revenue.

We expect to deliver a growth of over 25% in the Biocon segment in FY25 with a significant jump in operating margins. Our business model has evolved from a “specialty” model to a “specialty plus super-specialty” model with the addition of segments like Oncology, Critical Care and Nephrology. As a Top

20 company in the IPM, we are taking tangible initiatives to step up our game in the Biotech space as well. Thank you and have a good evening.

Moderator: Thank you very much, sir. Thank you, members of the management. Ladies and gentlemen, on behalf of Eris Lifesciences Limited, that concludes this conference. Thank you for joining us and you may now exit the meeting.

This document has been revised to improve readability.