

“Eris Lifesciences Q2FY18 Results Conference Call hosted by Axis Capital Limited”

November 20, 2017

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- Moderator:** Ladies and gentlemen, good day and welcome to the Eris Lifesciences Q2FY18 Results 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 phone. 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 and good afternoon everybody. I welcome you all on behalf of Axis Capital to the Q2 FY18 Eris Lifesciences conference call represented by senior management team, Mr. Amit Bakshi – Chairman and Managing Director; Mr. Himanshu Shah – Executive Director and Mr. Sachin Shah – CFO. Just before I hand over, congrats on very strong set of numbers and the acquisition. Wish you all the very best. Over to you, sir.
- Amit Bakshi:** Thank you, Prakash. I welcome all for this second call of ours for Q2 numbers as well as whatever questions are related to this acquisition which we have just announced. Can we please take in the questions?
- Moderator:** Sure sir. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Aditya Khemka from DSP BlackRock. Please go ahead.
- Aditya Khemka:** Amit sir, couple of questions from the acquisition itself. Firstly, Strides is telling us that the business that they are selling to you is EBITDA neutral and I understand there will be synergies in our end. So could you sort of guide us towards what a sort of EBITDA margin should we expect from the acquired entity for the year, let us say FY19?
- Amit Bakshi:** So Aditya, if you look at the overall deal, there are couple of things which will make us more comfortable over the EBITDA. The first thing is that this deal is at around 69%, technically 69%-70% of gross margins. Now if you look at 70% gross margins, there are two moving parts in it. One is that a significant part of this is outsourced within Strides. Second is that because of channel consolidation, the expiries reported for the last year were around 10% which generally in the context of the industry is around 2.5% to 3%. So that means that 7%-7.5% lower which has come on the CoGS because of that was due to a one kind of a blip on expiries. Taking these two consideration together, we as of now feel that it is quite easy for us to get this acquired portfolio at around 75% of GC maybe in the next two quarters from now, in fact. That is the gross margin. When you look at these gross margins and then most of the portfolio will actually sit on our existing divisions as you know Aditya that by now almost all the specialties which we are acquiring in this business are already been run in the company. Therefore, a large part of this portfolio will fit on the existing divisions. So having these two considerations, this portfolio has the potential of making a very significant amount of EBITDA.

- Aditya Khemka:** Okay. And as a part of this acquisition, Amit sir, how many MRs are we acquiring from Strides?
- Amit Bakshi:** So Aditya, we are working out on numbers, so this is something which we will conclude in the next one week itself. But a ballpark number of say 200 is good to start with.
- Aditya Khemka:** Okay. 200 MRs is what you are acquiring, okay.
- Amit Bakshi:** I mean, it is work in progress, but I am just giving you a broad number.
- Aditya Khemka:** Sure. And secondly on the accounting of this acquisition Amit sir, so most of this 500 crores that we pay would be recognized as intangible brands and there would be some good will, I mean do we have any clarity on how those accounting treatments would be done?
- Amit Bakshi:** No. This is actually a business transaction. It is a slum sale which will include IP, brand, distribution agreement and also human resources.
- Aditya Khemka:** Right. So whatever intangibles you recognize in terms of brands, you would amortize this over what period, 15 years, 20 years?
- Amit Bakshi:** Aditya, we as a company have this policy of advertising over 50 years, as per Ind-AS and we are doing it for 50 years.
- Aditya Khemka:** Okay. And last question from my side if I may, on the acquired entity, so when you pay 500 crores, I think your balance sheet had only about 200-250 crores of cash, so some of that you will need to run the business as well. So how much would you need to borrow to pay this?
- Amit Bakshi:** So Aditya, just a little correction on the numbers. As of this quarter we have almost 400 plus crores sitting in our books and so this will be a mix of the accruals which we have and some outside debt. But if you look at it in the second layer, the delta between the two is we are making roughly almost the same amount in our treasury income which probably we will pay for the interest cost. So it doesn't really move the needle any which ways.
- Aditya Khemka:** Okay. How much cash do we need to run normal operations? I mean till now we have 400 crores of cash from the books because our business generates a lot of cash which we don't really reinvest, there is no need to reinvest. But in the normal course of operations, how much cash do you need to retain on your books?
- Amit Bakshi:** So look, since I told you there is not much of a play between the borrowing as well as the income which we generate on the treasury, we will have a fair mix of debt and cash. So we would as of now like to retain a significant amount of cash into books and the rest could be borrowed out.
- Moderator:** Thank you. We will take the next question from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.

- Ashish Thavkar:** So with this Stride acquisition, we never had a presence in the south. So how are we placed there? How are we thinking of exploiting the Strides' presence there?
- Amit Bakshi:** So broadly Ashish if you ask me as a promoter, what actually excites me the most in this entire deal, other than the franchise which we call the branch is the leverage which one can have on the geography split. So 52% of the sales of that 181 crores which will come to us eventually is basically from one state that is Tamil Nadu and if I add the second and the third state in that order, almost 70% of the sales is coming from just 3 states. Now what it gives us, Ashish, is a huge leverage to put this out pan India. As you rightly said that as a company we are equally strong in West and South with reasonable good footprints in the North also. So that is one area which actually looks to us in the big lever.
- Ashish Thavkar:** So of this 600 MRs that we have and you said we are comfortable with 200 MRs, would it be fair to assume that almost all of the MRs from the south region would be retained?
- Amit Bakshi:** So Ashish I haven't worked that out. So I will not be able to comment, but just to correct on the number, we as if now are close to 1.600 people.
- Ashish Thavkar:** No, I mean the acquired MRs from the Strides side.
- Amit Bakshi:** Yes. So that is something which is work in progress. Very difficult to comment as of now, but logically what you are saying makes a lot of logical sense that we would like to retain protect and grow the most important chunk of the business. So that is very logical, but we still have to move on that.
- Ashish Thavkar:** Fair enough. My second was on obviously on the manufacturing side. Do we have enough capacity at Guwahati so that we can bring everything in-house?
- Amit Bakshi:** Yes. In my last call, I remember telling everybody that at 80%-82% of Eris sale coming from Guwahati, we are still at around 34%-35% of utilization. So this sales for all practical purpose is say 20%-22% of what we do. So that means there is enough space even after this acquisition if everything else has to move to Guwahati.
- Ashish Thavkar:** That is comfortable. Sir, you said we are targeting November 30th closure, right? So from December onwards the numbers would get consolidated?
- Amit Bakshi:** Yes, I believe so.
- Moderator:** Thank you. We will take the next question from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.
- Anubhav Agarwal:** Amit Bhai, based on the description that you have given for this acquisition, it looks like will it be fair to say you expecting it to breakeven in just two quarters because that is what if the gross margin expands and expiry date impact is nullified and the amount of MRs you are

hiring, the productivity is already 90 lakhs already, so two quarter a breakeven or will it take higher?

Amit Bakshi: I would say the breakeven is just around the corner, maybe the first month is a breakeven.

Anubhav Agarwal: And this expiry thing that you talked about for fiscal 17, how has been the trend in the first 6 months of this year because this should have already normalized to 2.5% to 3% in the first 6 months?

Amit Bakshi: So look I don't have the first 6 number and I will not be able to give an exact figure, but what I understand that in the first 6 months we are at around 6% and also remember that this takes care of a lot of stocks which actually came back during June which was one month prior to the GST. This business should be at around 6% for this year first half and some of it has also been contributed from the GST in fact. So I don't say, Anubhav, that this is going to be 3% this year, but there is no way that this could be hovering more than 3%-3.5% from next year onwards.

Anubhav Agarwal: Okay. And just one clarity, we have been very focused on super specialist, when you look at the prescriber composition here, because CNS is the only part of the portfolio, so how does the prescriber composition looks like here, the portfolio that we are acquiring?

Amit Bakshi: So it is in line to what we have. It is very good. So what happens Anubhav, if we step back for a moment, you know that our 26 mother brands contribute around 92%-94% of our sales. So this has in a very unique opportunity from a point of view that almost a lot of thing would fit in very well because we have a lot of headroom from that point of view. So the natural fit is something, all that work which we have put in the last 10 years of consolidating when the same brands could now pay us off well. So it is difficult to find a fit like we two are having together in terms of an overlap. And the reason is because we have been very focused in our portfolio. So that is number one. Second when it comes to prescription, so there are two ways of looking at it Anubhav, one is that who are the real specialty who drive this business? So for example, if (Inaudible) 14:15 is a brand which is the number one specialty for that and there is no two thoughts that urology is the number one specialty by far for that. So it is in the right place and that happens for almost everything.

Anubhav Agarwal: Correct. And just moving ahead of acquisition, if you can just give some update on the products that you launched in the first 6 months basically last quarter, so specially on CNS like when you put a division yourself for 75 to 80 people what have we launched at Eris before we acquired this entity?

Amit Bakshi: Yes Anubhav. So you remember in the last call, if you remember, I said we are launching it with only two products? We only launch two brands in our CNS. So the idea always in Super Specialty, Anubhav, is to first settle down with everything else and then start launching the product. So as of now in our CNS division we have only two brands. So that helps, again the

same thing this portfolio, then again fits in very beautifully because even in this CNS there is no big overlap.

Moderator: Thank you. We will take the next question from the line of Arpit Kapoor from IDFC Mutual Fund. Please go ahead.

Arpit Kapoor: Most of the questions have been answered, but just on the base, on Eris, how much was South for us ex the Strides' business that we acquired?

Amit Bakshi: So roughly 26% contribution is from South, roughly.

Arpit Kapoor: Whether there is a scope for the base business expansion in South or the synergy mostly will be driven by the fact that we will expand the Strides business across the other geographies?

Amit Bakshi: So Arpit a very large proportion would be the expansion of the Strides business. Having said that we will also have certain advantages of people who have good experience moving in into other divisions also. So that might to an extent help the existing business. But that is something which we have really not worked out at this point of time.

Moderator: Thank you. We will take the next question from the line of Mayur Patel from DSP BlackRock. Please go ahead.

Mayur Patel: Sir, just want to check one thing that are there any low hanging margin triggers. You said first month itself you will breakeven, but beyond that anything can you share anything is visible as of now where you can bring up the margin of this business somewhere close to your current margins?

Amit Bakshi: So I think I have answered most of it but for the benefit I will just try and articulate it again. So right now the margins which are shown are around 69%-70%. Now there are two components of it. One is that out of this portfolio most of it is third party manufacturing. Now, when you move a third party manufacturing to your own factory, it typically gives you a 10%-12% upside, that is how we have seen in the last so many years. But that is a process which happens over 2 to 4 quarters. The number two as I mentioned, there was a 10% expiry which was reported last year. So what happens, expiry is generally free goods. It counts on the CoGS, not on the sales. So if you flatten it to the industry level of around 2.5%-3% it is something which is to be gained there. So this low lying fruits which you are talking about and what I am talking about is all a matter of one to two quarter and then slowly build that from second, third and fourth quarter.

Mayur Patel: So sir, is there any number where steady states after one year, not even two quarters, what could the steady state margins which you desire to see in this business?

Amit Bakshi: So my colleagues tell me that it would be upwards 75, but at this point of time I would like to give that numbers as 75.

- Mayur Patel:** This is the gross margin you are talking about?
- Amit Bakshi:** Yes.
- Mayur Patel:** Okay. Because there is lot of between gross and operating itself there is lot of things you can typically the way we have seen, you have turned around the ____ (19:22) and so at operating level, is there any target or anything which you see in this business?
- Amit Bakshi:** Okay. So let me articulate this. So let us take an example. Suppose this 180 crores sale has to fit on 100 people which are across the country. What would then happen, almost 60 people will be very underpenetrated. So to actually fill up this gaps 60 people, 60% of the people will have to rebuild the portfolio one or the other brand. So what we are seeing today is actually what I articulated earlier, is the result of only 30% people who are in some kind of productivity. Rest everybody would be quite low in productivity and to get them to that level the whole pipeline has to be filled once again and then they will need to rebuild. So that is the kind of a leverage at the operating level on a geography side which is available.
- Moderator:** Thank you. We will take the next question from the line of Prashant Nair from Citigroup. Please go ahead.
- Prashant Nair:** So, just couple of questions from me. So when you give this 75% gross margin number, does this include both shifting of manufacturing in-house plus the expiry normalization in full or are you just saying over the next couple of quarters, you will be able to get through this number, although complete shifting of manufacturing may take a bit longer?
- Amit Bakshi:** So Prashant, what my reply to the question was, what do you see after 4 quarters, say at the same time next year. To which I said that, I see at least 75%.
- Prashant Nair:** Okay, fine. Got it. And secondly, the 181 crores sales or the product portfolio that you see, do you see, the need to rationalize that in any form to fit in with the way you run the business or do you think you will run with most of the products or you will protect most of the sales as we go forward as well?
- Amit Bakshi:** So Prashant, this is a nice question. Like look, what happens in every acquisition, not everything at any point of time is useful. But the good thing about this acquisition that in obvious 180 crores, the top 9 brands again contribute to 74% and all these 9 brands in my mind are quite fleshy. There would be some rationalization which always happens at the tail but thankfully the tail is not big here. If I just cut the first 9, I reach 73%, I take couple of more, then I am close to 78%-80%.
- Moderator:** Thank you. We will take the next question from Charulata Gaidhani from Dalal and Broacha. Please go ahead.

- Charulata Gaidhani:** If you can give me a breakup of the percentage revenues in growth portfolio, matured and declining?
- Amit Bakshi:** So as a company Charu, we have 73% growth, 25% mature and whatever remains 3%-4% in decline. And even for the acquired portfolio quite a vast majority is in the growth in matured. We have to still figure out the exact number. But from a guidance point of view, current is 73, 25 and the acquired good also more or less be in the same range.
- Charulata Gaidhani:** But I guess that is as per the DRHP, right?
- Amit Bakshi:** Yes, so it doesn't change, Charu, over the period of time. More or less it remains stable.
- Charulata Gaidhani:** And there have been quite a few acquisitions over the last 6 to 9 months. So overall how do you see the EBITDA going in FY18 and 19?
- Amit Bakshi:** As you know we are not giving any guidance for the next year. But I think rest everything is quite fairly understood. This business is coming in in the last quarter, almost in the last quarter. For the next year it would be around and we hope to build up on this. So all those things put together, I mean it is anybody's guess.
- Charulata Gaidhani:** Okay. So there should be, I think from FY17 there may be a little bit of impact on the gross margin and the EBITDA margins in FY18?
- Amit Bakshi:** So yes, there will be a narrow impact both on the gross margin as far as the EBITDA margin from a margin point of view. But the expansion in EBITDA should be significant enough to propel us.
- Moderator:** Thank you. We will take the next question from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.
- Dheeresh Pathak:** Standalone revenues for 1H is almost flattish, like 1% or 2% growth. Lot of companies have reported now and some have shown high single digit growth for 1H and some have been flattish, depending up on restocking, destocking and how it impacted each company. So can you just comment what you saw for your business, because 1H flattish revenue is not what we would expect from Eris. We would expect much higher growth.
- Amit Bakshi:** Yes, even we expect much high growth from us. But this is purely what is happening in the environment, this is purely environmental driven. So I will not have as good view as you on the industry side. But I think in my own understanding that H1 between 0% to 3%-4% growth is something which almost good company would be inching towards. So we had a poor quarter one where we de-grew by 12%, we covered in the second quarter by 15%. Going ahead we feel that we should be back in a reasonably good growth. One is the settling down of the transient issues and second is the low base which will now encounter going ahead from the last year.

- Dheeresh Pathak:** So for full year we grow in double digits in standalone?
- Amit Bakshi:** In standalone double digits, look I will be happy to grow in double digit in standalone for the entire year.
- Dheeresh Pathak:** Alright. When we do consol minus standalone, my understanding is that is the two acquisitions that we have done. There if that math is a good indicator of the two acquisitions, then the EBITDA margins have gone down sequentially and there was an expectation that we would see improvement each quarter. So what is impacting that? Because gross profit has improved, but EBITDA margins are down.
- Amit Bakshi:** So Pritesh, my numbers which indicate for the two acquisition are between 9% to 11% of EBITDA which sequentially have gone up.
- Dheeresh Pathak:** Okay. Because the way we are measuring it is consol minus standalone numbers and there EBITDA margins are down sequentially from 10% to 8.6%. Maybe I can take this offline if you are saying if it is actually...
- Amit Bakshi:** Yes, but what my numbers telling me Pritesh, I will repeat that. I see 9% to 11% in both the business. But I will do this match and come back to you.
- Dheeresh Pathak:** Okay. There you know, if anything you can share on those two acquisitions like how do we expect them to reach to the company level profitability, how soon?
- Amit Bakshi:** So my view which had been consistent from the last quarter is that sequentially these businesses should show better EBITDA as we operate of the operating margins, everything kicks in. So getting it to the Eris level of EBITDA is not a possibility, maybe not in the next year also. But sequential growth is something which we expect to happen quarter-on-quarter.
- Dheeresh Pathak:** Okay. And last question if I may, on the Strides portfolio, the impression was that it is not as fast growing as compared to the industry and therefore they have been struggling, one was because they didn't have the own manufacturer, Yes there is the growth because the Ranbaxy assets that they have acquired they were slow growing. So can you just comment on that, like especially the Ranbaxy Assets which is the large part of I would assume of the total portfolio?
- Amit Bakshi:** Yes. I can surely tell you that. Look, I can tell you this from a macro level. I will not be able to comment what happened internally. So at a macro level if you see CNS and take a 3 year-2-year piece it has been growing above the market rate. And a very large part of this portfolio belongs to CNS which is indicative of the fact that this portfolio has been meeting the industry from quite some time. And in my view Pritesh, it will continue to do that because you know CNS is now the third largest chronic market after cardiology and diabetes and the macros are favorable. Longer life expectancy, aging these are all factors which will help this portfolio in this disease area to grow. And to my mind, this disease area is a fantastic area to be in therapeutic area to be in for coming long time.

- Dheeresh Pathak:** No, but the assets which we have bought, they are the Ranbaxy CNS assets.
- Amit Bakshi:** It is a perfect representation of the CNS market. It is a perfect reflection of the CNS market. It is absolutely in-line. It is all primary therapy. A very large portion is primary therapy which are all at a very reasonable and a good stage in their life cycle.
- Dheeresh Pathak:** So it is the slow growth that they were reporting is because of their own doing. It is not to do with the molecule growth, is that the correct understanding?
- Amit Bakshi:** Pritesh, I would refrain by saying anything on this. On an industry side I have already given my views.
- Moderator:** Thank you. We will take the next question from the line of Neha Manpuria from JP Morgan. Please go ahead.
- Neha Manpuria:** Sir, out of the 9 brands that you said contribute in around 75% of the sales, is there any overlap with our portfolio that we have currently?
- Amit Bakshi:** The overall is very minimal. So I have not worked out a number, but what I can tell you is that there is a very minimal overlap.
- Neha Manpuria:** So we won't require any big divestment from the large brands per se?
- Amit Bakshi:** Not at all.
- Neha Manpuria:** And including the portfolio that we have acquired, what would be our NLEM exposure?
- Amit Bakshi:** So we were 13% on our business before acquisition and this acquisition has only 5% contribution in NLEM.
- Neha Manpuria:** Okay. And sir, my last question, we have seen a couple of acquisitions that we have done, how do you look at our growth strategy going ahead, given this is one of the largest one, and since this would breakeven pretty fast. You know what areas would you be looking at more such acquisitions or brand portfolio additions?
- Amit Bakshi:** Look, we have been absolutely consistent right from the day one, that what are the areas we would like to get into and those areas have been chronic and super specialty acute. As of now, it seems that we have done quite a bit especially the Strides portfolio which is a large portfolio. Going ahead from here, it is a matter of some good brands if we can get through maybe on an individual or couple of them. So that is the strategy. The areas remain the same, either it is chronic, lifestyle or it is super specialty acute.
- Moderator:** Thank you. We will take the next question from the line of C Srihari from PCS Securities. Please go ahead.

- C Srihari:** Going by the numbers, it seems that in FY16 there was a slight de-growth in this portfolio followed by an exponential growth there in FY17. Could you please touch on both and in particular about the growth factor?
- Amit Bakshi:** I don't think what you are saying is completely correct. Let me check that. But the numbers which I had was, so there was a de-growth in the single digit and the growth back is also on the single digit. So the IMS reflection was both ways, down and plus, in single digit.
- C Srihari:** So I think probably then there is some mistake in the numbers that you have reported. I think it was 110 followed by 106 and then 180 plus.
- Amit Bakshi:** No, there is a problem there. The range both ways have been single digit.
- C Srihari:** Okay, fine. So the growth is more to do with new launches or organic growth?
- Amit Bakshi:** I haven't really gone through, but I can intuitively tell you that the largest brand which contributes almost say 40% to the overall sales of the acquired portfolio was in a positive growth last year.
- Moderator:** Thank you. We will take the next question from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.
- Anubhav Agarwal:** Two-three questions on the existing portfolio, you mentioned that your existing MRs are now 1,600 versus 1,500 last quarter. Where have they added this 100 people etc. in the base business?
- Amit Bakshi:** So Anubhav, look last quarter wouldn't have reported the neuro business, because neuro business started in July.
- Anubhav Agarwal:** Oh, is it? Okay. You mentioned about 75-80 people are still... Okay, got it. So can you just say that the channel inventory level for us pre-GST and now, where do we stand right now. Just trying to see that how much we can benefit in second half from just restocking cycle further.
- Amit Bakshi:** So Anurag, the news on restocking hasn't been as encouraging as we would have liked it to be and there seems to be pressure on restocking even as we are talking. So my sense is that, once the process gets more eased out which we think it happened, so now the change in the stance is that I don't think as of now it is more to do about the rate, it is more to do about the process and easing out and people getting familiar with the process. So that is I think is work in progress. But restocking remains an issue which is very difficult to comment as of now. How will it turnout, I don't know. But let me tell you, Anubhav that at the end of October, I think and I can say for myself of course, we had come down quite significantly on the inventory level. We don't see any month going forward of holidays, so these are all full months which you get. So I don't think from here there is any space left to further correction. It can only go North, how much we will have to wait and see.

- Anubhav Agarwal:** So sir, for us to take a objective call, can you help us, let us say your current inventory level is let us say 20% lower than what you started with or 10%, some idea will be, I am just correlating with the question which was asked by Dheeresh earlier that when the sales for us was weaker than peers and of course the restocking has not panned out as much for us. So some quantification will be useful.
- Amit Bakshi:** So look, this is little dynamic and please understand, the inventory which we can calculate is only what is lying at the stockiest level. Nobody has any ways and means to know all the inventories because a large part of the inventory always lies at the chemist level which we have no control on, but still I would like to tell you at the stockiest level, we would have been close to 36 days, 1.2 times 36 days at the start and we think we are between 22 to 25 days as of now.
- Anubhav Agarwal:** And Amit sir, just the last question on the new launches, you mentioned last quarter that you will be launching couple of products in the women portfolio, gynec portfolio this quarter. Can you just talk about what have you launched in gynec portfolio and all?
- Amit Bakshi:** So what we have done is, you remember we acquired a company called UTH. This company in whatever size it was, but was a truly nutrition company and this nutrition was all supportive of chronic lifestyle diseases. So what we have done is, we have picked a couple of products from there and that is what we will be launching with our field force, on the chronic side. So that is one thing which has happened and the material launch which happened in quarter two is one was you know we launched a product called Tayo, branch extension of Tayo. And the next launches are all happening in October, other than the CNS.
- Anubhav Agarwal:** So they could have happened by now? We are already in mid of November.
- Amit Bakshi:** Yes, of course.
- Anubhav Agarwal:** So you launched one product or couple of products here already?
- Amit Bakshi:** So we launched one product in the diabetes division and that is the meal replacement which we have launched already in the diabetes division. There is one more product which we have launched in the gynecology division and we just build something in the respiratory side. So these are the three things which we have already done.
- Anubhav Agarwal:** Which you mentioned last time as a nasal corticosteroid, is that the one you have already launched in respiratory?
- Amit Bakshi:** Yes, absolutely. So that is a new thing we have brought to the market. It is a bioadhesive progress. So the problem with most of these sprays were that is there was a dripping issue. And we have developed a technology which is bioadhesive, which sticks on to the tissue. So that is just being launched.

Anubhav Agarwal: Just last question on this particular product, what is the addressable market, I mean what is the total market that we are entering into?

Amit Bakshi: The nasal spray itself is around 220 crores.

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

Charulata Gaidhani: My question pertains to the earlier acquisitions. Have you brought anymore product into the market and after the acquisition, how much time would you take to launch or get into the market?

Amit Bakshi: Madam look, the clear-cut focus and agenda whenever anything is required, is first of all to built on the operations side. So we typically would not launch anything major on the acquired portfolio, because our practice is to first consolidate all the other matrix and then launch. So we actually haven't launched anything material on the acquisition which we have done earlier.

Charulata Gaidhani: And you plan to launch them?

Amit Bakshi: So that is always a work in progress.

Charulata Gaidhani: Okay. How long would it take?

Amit Bakshi: So as I told you that is work in progress, it just depends upon the timing when everybody is ready, so that is how long it takes.

Charulata Gaidhani: Okay. Do you plan to add more debt?

Amit Bakshi: No plan as of now.

Moderator: Thank you. We will take the next question from the line of Damyanti Kerai from HSBC. Please go ahead.

Damyanti Kerai: My question is regarding progress on **(Inaudible) 43:32**. How much we have moved to Guwahati and where are we in terms of gross margin improvement for the **(Inaudible)** business?

Amit Bakshi: So when we took this business, we were at around 39% CoGS, so that means 61% of gross margins, roughly. We are now reporting on a run rate basis around 70% gross margins. So that is the progress which we have done there.

Damyanti Kerai: Okay. And earlier you mentioned we will be moving large part of our manufacturing to Guwahati by third quarter, so are we on track for that?

- Amit Bakshi:** So look our standalone sale and large contribution is already coming from Guwahati. We are again in the same ballpark number of 80%-82%. Regarding the acquisition we are working towards it and we are hopefully again that during third quarter now that we have another portfolio also, so we will have to prioritize it. But the plan of having more and more in Guwahati remains intact.
- Moderator:** Thank you. We will take the next question from the line of Prakash Agarwal from Axis Capital Limited. Please go ahead.
- Prakash Agarwal:** Just wanted to check the GST. If we add back the GST adjustment, how would the reported growth of 25% and standalone growth of 15% look like?
- Amit Bakshi:** So we all know that, right? It will add up around 6%-6.5% to the topline?
- Prakash Agarwal:** Yes. So many companies have a variation from 4% to 10% and that is why we are just clarifying the same. So it is about 6% across the lines. Okay, thanks. And sir secondly given the low base of demonetization of second half last year, on the standalone side, how do we see this the portfolio with several launches growing?
- Amit Bakshi:** So Prakash look, as I told you there are two things which will be coming. One is that I think the inventory levels are at the rock bottom which would only goes north from where we are and number two is these are full months which are ahead of us. On the low base of last year, my view is that, the coming quarters should be reasonably big in terms of growth.
- Prakash Agarwal:** So I mean, industry growth 10%-12%, can the industry come back to 10%-12% and you continue to grow 30%-50% higher?
- Amit Bakshi:** So for the next 6 months if you are saying that will the industry grow 10% to 12%, I would say on a 6 month there is scope for industry to grow little more than what you are saying, for the 6 months' period.
- Moderator:** Thank you. We will take the next question from the line of C Srihari from PCS Securities. Please go ahead.
- C Srihari:** This bioadhesive product that you are talking about, has the technology been developed in-house and secondly what are the other areas, technology platforms that you are working on? Thank you.
- Amit Bakshi:** Yes, this technology has been developed in-house and as of now we are not in a position to actually tell what else is happening. Those are in early stages. We really don't know how in general would this play out.
- C Srihari:** Which therapies, can you at least tell that?
- Amit Bakshi:** So therapies, Srihari for us would always remain those 4-5 which we operate in.

- C Srihari:** Anything cutting edge there or where would you place it in terms of complexity?
- Amit Bakshi:** So Srihari, finally the proof of the pudding is the eating. So once it is introduced, how well it is accepted by the fraternity that will always remain to be seen and no matter how good we feel about what we have done. So these answers are better done by the market post launch.
- C Srihari:** I mean what I mean to say is, let us say if you consider this bioadhesive product as revolutionary, so would the others or at least a few of them fit in that segment?
- Amit Bakshi:** No, so revolutionary is a little large word for us to claim. But we can surely say that they are incrementally innovative which basically solves the current problems in those therapy for those patients. So that is how we look towards in innovation and management.
- Moderator:** Thank you. We will take the next question from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.
- Ashish Thavkar:** Sir, since we do not have access to last year's quarterly numbers, just wanted to know whether we have seasonality across our numbers in the sense that whether Q3 and Q4 are starkly different than what we have reported in first half?
- Amit Bakshi:** Ashish, our portfolio is not in that category where it is very seasonal. And also please understand this is a new year in itself because the first quarter was little disrupted, the second quarter is building upon. So this would now set the new normal. So even if I had to tell you what happened in quarter three last year, there are so many moving parts between quarter to quarter, starting from October-December last year. So we would settle down in this year and then we will be in a better position to tell you that.
- Ashish Thavkar:** Okay. Got it. Sir, last question from my side. I wanted to know how the Teneligliptin and the combination picking up for us?
- Amit Bakshi:** So Teneligliptin and combination has been doing pretty well for us. We, in our specialty are number two at this point of time and the market is looking better than what I would have thought 6 months back. So we are gearing up and we would like to remain in the top two for a long period of time.
- Ashish Thavkar:** Okay. Sir, in the combination form you are at number two, you are saying?
- Amit Bakshi:** Yes.
- Ashish Thavkar:** And how big could be the market now for the molecule as such?
- Amit Bakshi:** It is between 450-500 crores.
- Ashish Thavkar:** Okay, that big?

- Amit Bakshi:** Yes, it really becomes spiraled up actually.
- Ashish Thavkar:** Okay. So just to ask where you the first guys to come on street with this molecule or...?
- Amit Bakshi:** No. Unfortunately we were not.
- Moderator:** Thank you. Ladies and gentlemen, as there are no further questions from the participants. I would now like to hand the conference over to Mr. Prakash Agarwal from Axis Capital Limited for closing comments.
- Prakash Agarwal:** Yes, on behalf of Axis Capital, we thank you all for joining the call and wish all the best to the management. Any last comments, sir?
- Amit Bakshi:** No. I mean, just before closing I would like to tell you that, sequentially if you see we grew more than 20% for the first half all put together and with the new acquisition coming in, if we are able to turn it around the way we see it is happening, for the next couple of years, we should remain in a very high trajectory of growth and you know we are working hard to see to it that we deliver the best results. Thank you everybody.
- Moderator:** Thank you very much sir. 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.