Eris Lifesciences Limited

Q2 & H1 FY2027 Earnings Conference Call

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Management Representative:

Mr. Amit Bakshi
Chairman and Managing Director

Mr. Chirag Mehta
Executive Director

Mr. Sachin Shah
Chief Financial Officer

Moderator

Ladies and gentlemen, good day, and welcome to the Q2 FY2027 Earnings Conference Call of Eris Lifesciences Limited. Today, we have with us on the call, Mr. Amit Bakshi, Chairman and Managing Director; Mr. Chirag Mehta, Executive Director and Mr. Sachin Shah, Chief Financial Officer.

As a reminder, all participant lines will be in listen-only mode. And there will be an opportunity for you to ask questions. Please note, this call is being recorded.

I would now like to hand over the conference to Mr. Chirag Mehta, Executive Director of the company. Thank you, and over to you sir.

Chirag Mehta

Good afternoon, everyone, and welcome to our Q2 FY27 results call. I trust you have had the opportunity to review the investor presentation. Before we begin the question-and-answer session, I would like to take you through some key highlights.

At a consolidated level, we delivered a YoY growth of 12.6% in Q2 of FY27 and 12.8% in the first half of the year.

Our Domestic Branded Formulation business grew by 14.1% in Q2 and 14.2% YoY in H1 FY27. Adjusted for the Zorvia business, the branded formulation business growth stood at 16.5% and 14.9% respectively. Sundae continued to maintain its leadership position as the number one brand in prescriptions and in units. On profitability, consolidated EBITDA grew by 7.3% YoY in Q2 and 7.2% in H1 FY27, while profit after tax had grown by 39.2% in Q2 and 27.3% year-to-date.

For further details are all available in the investor presentation. We can now open the floor for questions.

Moderator

The first participant is Niharika Agarwal. Please unmute the line, and please go ahead with the question. Niharika ma'am, please unmute your line and ask your questions.

Niharika Agarwal

Hello, So gross margins have improved approximately 134 bps on a QoQ level, right? But on EBITDA margins, we are still seeing some pressure. So, I wanted to understand when will gross margin gains translate into EBITDA expansion?

Amit Bakshi

Yeah. So, look, we are ahead of our guidance. We guided that in H2, the EBITDA margins will be around 35%, which have moved to 36%, thanks to the earlier improvement of gross margins also. And as stated earlier, H2 will see an improvement in both gross margin and EBITDA forward.

Niharika Agarwal

Okay. Thank you. In terms of the Zorvia deal, after we account for lost product sales and the 7% royalty, approximately, how much would be the net incremental EBITDA benefit that we see from out-licensing?

Amit Bakshi So, at an EBITDA level, this business which we outsourced was not EBITDA positive for us. It was hardly there, and all this 7% royalty should add up to that.

Niharika Agarwal Thank you. And my last question was on the Bhopal facility. Could you help quantify the expected cost savings and the timeline for the 100-bps gross margin benefit?

Amit Bakshi The 100 bps of gross margin benefit should accrue in the next two quarters. And when we can shift the entire business, which is by somewhere in Q2 next year, then we would see more like a 1.5-2% reduction in COGS.

Niharika Agarwal Okay. And what proportion of the relevant Insulin and Injectable volumes have already shifted?

Amit Bakshi Very small negligible, but it will ramp up very quickly now.

Niharika Agarwal Okay. And what incremental Depreciation and Fixed Cost should be factored in during the transition?

Amit Bakshi Yeah. So, the current Depreciation, we expect around INR 200 to 300 crores more to be capitalized. So that's around 15% of the INR 30 more crores on an annual basis is what should be added to the Depreciation.

Niharika Agarwal Okay. Thank you for the opportunity. That's all for me.

Moderator The next question comes from the line of Mr. Rahul Agarwal. Please introduce yourself and the company you are representing, sir, and request you to ask the questions.

Rahul Agarwal This is Rahul from EverFlow Partners. Amit, my first question is on the Bhopal site. Earlier, when we had increased the CapEx there and expanded potential capacity there, you had indicated that there could be potential beyond just fulfilling our internal requirements, be it partnerships or scale-up there. Is there any progress on that, and what sort of scale do you expect in the medium term from that side?

Amit Bakshi Yeah. Rahul, there is progress on that side, but nothing concrete as of now to tell you. But the kind of facility which we have built up is quite a bit in demand. We have conducted a couple of audits there, so I think the results of the audit will also come in the next couple of months. So, we are still in discussing nothing which I can tell you at this point of time, from other than our own Insulin manufacturing point of view.

Rahul Agarwal Got it. And when you say audits, do you mean for EU or other regulatory certifications?

Amit Bakshi Yeah, regulatory.

Rahul Agarwal Got it. And on the GLP-1 side, Amit, how is the ramp-up coming along? What sort of scale do you think that the generic market will reach on a run-rate basis by the end of the year, and where are we today? And how do you expect Eris's position in that?

Amit Bakshi So Rahul, we are quite excited with the GLP opportunity. We still remain very positive on the outcome. As of now, we maintain number one in units and number one in prescription because we have a Vial component also. Therefore, we are number two as in value. But the market is ramping up well, and I feel that the market might double in the next year from where we started from. So, looks like now we are talking about INR 40-45 crores a month. That's the number. I think that next year, we should be doing around INR 80-90 crores a month.

Rahul Agarwal Got it. For the next full year, you are saying?

Amit Bakshi Yes.

Rahul Agarwal Got it. And one last question, Amit, on the Swiss Parenterals side. How's the progress on the regulatory issue remediation there? By when do you expect that to progress? And is the original target of CDMO scale-up to potentially INR 1,000 crore level over three-four years still intact? Or is that something that you would have to review once the regulatory process gets over and you review the contracts with the partners?

Amit Bakshi Yeah. So, Rahul, we are in touch with everybody. As of now, we have already stated in the slide that nothing has moved out. Progress is on. As far as the remediation is concerned, we'll be taking the closeout in the month of November to get everything done. And we expect sometimes at the end of the year, we will be able to invite the auditors once again.

So, the remediation work is on line. We have spoken to all our CDMO partners. Anyway, we had only one active sale during the current year. Rest of them were anyways in the next year, and their development work is going on regularly as we speak. So, till this point of time, this is the status.

Rahul Agarwal Got it. Thank you so much.

Moderator The next participant is Mr. Harith Ahmed. Please go ahead, sir.

Harith Ahmed Hi. Thanks for the opportunity. So, the first question is on the plant shutdown that you talked about at our Swiss facility. So, how should we think about the financial impact for the December quarter?

Amit Bakshi Yeah. Harith, as of now, we see that there is an opportunity for us to be 5% plus, minus of last year's number. I'm talking about the top line.

Harith Ahmed Okay.

Amit Bakshi The way we have planned out at this point of time, it is 5% here and there. So, that's how we are looking at it. And then the good thing is we were expecting a little more kind of the business has been a little robust than we would have imagined. So, we've got the numbers right. So, this is our outlook.

Harith Ahmed At EBITDA margins similar to Q2 levels, or will there be a drop?

Amit Bakshi Yes.

Harith Ahmed Okay. And Amit, your comment on the performance of our Semaglutide brand, good to hear the traction there. So, if you could give a bit of color on what the numbers look like in Q2? You have provided that for Q1, and some color on the breakup between the Vial presentation and the Pen device.

Amit Bakshi Okay. So, the breakup, I don't have, but I think our representative numbers for the quarter would be around INR 16-18 crores. We'll be close to that number for a quarter, INR 16-18 crores coming from GLP. But it's ramping up well. We're also coming up with a very large study, one of its kind, where we are basically being able to demonstrate that it is visceral fat which creates all the problems regarding the risk of CAD CKD. It's a very large and very appreciable study. We hope that it will be published in the next two months.

Harith Ahmed Okay. Just wanted to confirm. Did you mention an INR 45 crore run rate that we're tracking now, or?

Amit Bakshi No. I said the market without the Oral was tracking INR 45-50 crore.

Harith Ahmed Okay. Got it. And then your comment that we are approaching the end of our CapEx cycle. So, will you be able to share the CapEx expectation for FY27 and how we should think about FY28?

Amit Bakshi So, around INR 100 crores left in the second half, and then we should move down significantly.

Harith Ahmed Okay. Understood. Thanks for taking my questions. I'll get back in the queue.

Moderator Thank you, sir. The next question comes from Mr. Kunal Randeria. I would request Mr. Kunal to introduce himself and also introduce the company you represent. Please go ahead, sir.

Kunal Randeria Yeah. Hi. Good afternoon, and thanks for the opportunity. So, first question on the insulin business. Amit, sir, you mentioned in the past that there's a good scope for you to ramp up on the government side of business. So just wondering whether that opportunity still stands. Where are you in terms of monetizing it?

Amit Bakshi Yeah, Kunal. So, we stand by what we said. And the expansion of the Insulin portfolio as well as the capacity in Bhopal, both will enhance the supply side of the business. So, nothing changes on the stance. We still remain positive about that.

Kunal Randeria So, you mean to say the demand is intact? Once the supplies ramp up, that is when you should start seeing some revenue traction. So, it should be what, late '28, early '29 then?

Amit Bakshi No. Look, Kunal, our production from -- if you see the slide, we have put a pack shot, which has been manufactured from our Bhopal facility. So, our Bhopal has already started manufacturing, which means the controls are in our hands as of now. So, this should ramp up, say, from the first quarter of next year.

Kunal Randeria Got it. So, you also have a slide where you showed that you have kind of done better in OAD this time around. You have been struggling in OAD for a while now. So, is this what your primary sales also reflect? And should we expect to grow at least in line with the market going forward?

Amit Bakshi So, Kunal, look, while we were struggling, but 50% of our struggle was because of the discontinuation of a large brand last year. So, what happens by July, August, it tapered off. So, when it tapered off, we were like, 4-5% was contributed only by that brand.

And so, otherwise, there was always a basic amount of growth. So, what happens when it got tapered off, and then we had a couple of new launches, which are actually doing quite good. So, contrary to what we had been telling you in the past, I remember last time I told you would be 70% of the growth. Maybe we could be ahead of the market in the coming quarters. So, that point has kind of -- is behind us. And our new product, which comes from our own R&D, it just took six to eight months more than we were expecting, but the ramp-up is quite good.

Kunal Randeria Got it. That's useful. And just one more, if I can, for Mr. Amit, sir. So, can you share what your Net Debt number is today and your expectation? Because the Cash generation has been pretty strong. So, just want to kind of understand your net debt number today, and how do you see it at the end of FY27 and '28?

Sachin Shah Yes. The Net Debt as of today is around INR 2,144 to be precise as of 30th September. And we are aiming for around INR 150-200 crores of a paydown this year.

Kunal Randeria Right. So, in the next year, you have INR 400-500 crores more?

Amit Bakshi It should be. Because once the CapEx cycle cools down, I think that's a fair number to think about.

Kunal Randeria Got it. Thank you, all the best.

Moderator The next question comes from the line of Mr. Manish Reddy. Please go ahead and introduce yourself.

Manish Reddy Hello. Thank you for this opportunity. My first question is regarding the Bhopal facility. What is the expected full-year EBITDA benefit once the Bhopal manufacturing shift is completed? And when should the earnings be visible?

And the second question is related to the CapEx cycle. So, most of the CapEx cycle is expected to wind down by the end of FY27. So, Eris BioNxt, Swiss and Levim expected to contribute more from next year. So, what kind of earnings growth are we expecting for FY28? Will it be a meaningful acceleration considering FY27? What are the key assumptions behind the acceleration? Thank you.

Amit Bakshi Yeah, you're right. All this investment which was going on for the last couple of years should kind of spread out in the next year. So, Bhopal is a clear-cut case where the earnings will look up, and once we shift all our products there, and by the time we do it, we will have a gross margin benefit, which will then precipitate into an EBITDA margin benefit. So that's what I told you earlier that we expect 150 to 200 basis point of gross margin coming up, which will then be reflected in the EBITDA also.

Simultaneously, there will be tax gains also because, as of now, we pay around 37% tax on outsourcing, and Bhopal is 15BAB, so we'll come down to 15% of net tax. So that is Bhopal. Levim will largely contribute to getting newer products. As I mentioned that, we are the first company to get a Semaglutide recombinant approved for clinical trials, and we have a lot more products coming out from Levim.

And each of these products are meaningful from a value consideration once they have launched. So, Levim's contribution will not be seen in value terms, but will be more seen from a product term, which will then precipitate into value.

And the third major investment had gone in the large block which we have built in Swiss, which will also be a good revenue churn for us in the next year. We expect March, April, the PV batches to happen. And we had been little short on supply capacity. So, once that comes up, it will be advantage in the Swiss business. So, you're right, there are two direct components, and then there is one indirect component which should add to growth and margin.

Manish Reddy Thank you. Any numbers we are looking for FY28?

Amit Bakshi Numbers, you can calculate now, if the COGS comes down by a 150-basis point and it gets translated into EBITDA, it's all about putting these two things together.

Moderator Thank you, sir. The next participant is Mr. Nilay Parekh. I would request Mr. Nilay to introduce himself and also introduce the company he represents.

Nilay Parekh Niley here from Perpetuity Ventures. I have multiple questions in line. My first question is basically on the FY27 guidance on the Swiss Parenterals. Can you throw some light for this thing?

Amit Bakshi Yeah. So, we just mentioned now, it'll be plus or minus 5% of what we achieved last year.

Nilay Parekh Okay. And in terms of this EBITDA margin, can you say?

Amit Bakshi EBITDA will be in the range of 25%. So, there will be growth in EBITDA. Top line, these will be at 5% range.

Nilay Parekh Okay. Sure, sir. So, my second question is, could you please elaborate on the strategic rationale behind out-licensing this Injectable as well as this Acute portfolio to Zorvia Healthcare?

Amit Bakshi Yeah. So, if you're following us from sometime last year, we did make a mention that we have an INR 100 crore portfolio which doesn't suit our specialty, and all of them have been acquired. So, we have got a very good vehicle where we think that this business can actually grow, and it still remains with us.

Number two, it was never EBITDA-positive for us, and it was a drag on our gross margins also. After removing Zorvia, I think 87%, we move up couple of basis points in chronic therapy. So, we might come close to 90% in chronic, sub-chronic, which, in our view, is very strategic. So, these are two, three reasons why we decided to do this.

Nilay Parekh So, the last question is regarding the INR 30-35 crore of this exceptional loss that we have received this quarter. So, could you provide some details on the products that were related to that?

Amit Bakshi If you had been following us, there was a category in our portfolio which is called at-risk. What at-risk means we challenge the patent for some good reasons. And there was a group of around four products, if I remember correctly. These four products created a very good sale for us. So, you understand almost 20% of that, finally, we were not able to sell, and that is which has been kind of taken back.

Nilay Parekh Sure, sir. Okay. That is from my side. All the best for the quarter ahead. Thank you.

Amit Bakshi Thank you.

Moderator Thank you, sir. The next participant is Ms. Foram Parekh. I would request Ms. Foram to introduce herself and also introduce the company she represents from.

Foram Parekh Hello. Thank you for the opportunity. My name is Forum Parekh. I'm from BOB Capital. So, my first question is on OAD growth, which is 12%. So, if you can give us the breakup, how much is coming from price growth, and how much is coming from volume?

Amit Bakshi We don't have the breakup available with us, but you can conveniently, I mean, consider that it is as per the industry, right. There's nothing which I need to tell you which is out of order. So, it is as normal as it's in the IPM. It's an IPM reflection.

Foram Parekh Okay. And I see that domestic growth ex-Zorvia has been 16.5%. So now, with OADs performing above the IPM level and expected to stay there, and we have the most, I think demerged Dermatology and all these brands. So, can we expect domestic region to grow around the current levels of 16.5-17% as IPM is also growing?

Amit Bakshi So, we have given a guidance of 300 basis points ahead of the market, and I think we'll stick to that.

Foram Parekh Okay. And just a broader question. How do you look at the domestic IPM growth shaping out next year? This year has performed very well, and one of the reasons is because of new launches, because of Sema generics. So now, with Sema generics being in the base next year, how do you see your IPM growth sustaining?

Amit Bakshi Yeah, look, we are also happy to see the growth being what it is. And while Sema has participated in growth, but it is not as big as it could turn the whole lever. So, there is a lot of growth coming in different specialties, Cardiology being one, other than Diabetes. So, it's a pleasant thing for us also.

As of now, we predict that the growth next year will also be in the range of 11-12%. But this is a little bit of a new thing, so we need time to kind of wrap our head around. But as of today, looking at how the numbers have behaved, it seems the IPM will be around 11-12% next year also.

Foram Parekh Sure. That's helpful. And my second question is about tax rate. If you can give us some guidance on, how would the rate be for FY27 and next year as well?

Sachin Shah Yeah. So, the effective tax rate that we see for the current year should be in the range of 20-21%. And similarly, I think we'll continue next year also.

Foram Parekh Sure. That's helpful. Thank you.

Moderator The next question comes from Mr. Kirtan Donga. I would request Mr. Kirtan Donga to introduce himself and the company he represents.

Kirtan Donga Hello. Thank you for the opportunity. I'm Kirtan from Leo Capital. My question was on Insulin. We have a bunch of product launches lined up in segments which we have not been able to serve historically. How large is the market opportunity for us in those segments?

Amit Bakshi So, we alluded to this in last quarter. If I remember correctly, it has around INR 2,500 crores of Analog market, which has been growing very healthy almost in double digits. So that is the whole piece which we want to represent in the coming years.

And now, Diabetes contribute to 38% of our overall revenue, which is quite significant. And two of the brands in INR 200 crores-plus are also coming from the same franchise. So, we feel that Diabetes is our moat, and with the kind of new product filing which we are doing, we feel this will be a significant growth driver for the future.

Kirtan Donga Okay. Thank you.

Moderator The next participant is Mr. Mohammad Patel. I would request Mr. Mohammad Patel to introduce himself and the company he represents, sir.

Mohammad Patel This is Mohammed Patel from Edelweiss Public Alternatives. I have couple of questions. So, the first one is what led to the sequential improvement in Gross Margin in EBITDA?

Amit Bakshi So, Gross Margin, basically, product mix, and EBITDA also is a result of a better product mix. Bhopal has started contributing to one of their SKUs, so this could be one reason. But largely, it is product-mix-based, and EBITDA also follows. The EBITDA growth was little lower because we had a little higher other expense this quarter. So, that's about it.

Mohammad Patel Yeah. Next question was regarding other expenses. So, can you explain why it was 27% higher?

Amit Bakshi Yeah. So, man, this is the season for us. There's a lot of new launches coming in, and lot of money is going on the development also of new products, as well as filing and regulatory. So, it's a combination of both.

Mohammad Patel Okay. My next question is, so in the slide, you have mentioned gross margin levers, 100 basis points from Zorvia, 100 basis points from Bhopal. I just wanted to understand the timeline of when this will happen.

Amit Bakshi So, both of them are short term in the H2. Did I get that right?

Chirag Mehta Correct.

Mohammad Patel Okay. And on the Zorvia deal, when is it going to start reflecting in the numbers?

Amit Bakshi Number means?

Mohammad Patel In the quarterly numbers?

Amit Bakshi Reflecting next quarter.

Chirag Mehta From next quarter, it should start now.

Mohammad Patel Okay. And my last question, so are we on track for the product launches that we are targeted for FY27?

Amit Bakshi Yeah. Largely, we are on track. We got pushed and pushed on Esaxerenone, which we think is a very good product. Finally, we got permission last week, so we are launching in the next three days.

Mohammad Patel Okay. And should that drive the cardiac growth?

Amit Bakshi Yes, that should drive the cardiac growth. You are absolutely right.

Mohammad Patel Okay. And what about FY28? How many product launches are we planning?

Amit Bakshi I can tell you what comes from the regulatory pathway. We haven't bundled them together with the other product. So, we are expecting one to three Analogs to be launched in the next year, all coming from our own stable.

Mohammad Patel Okay. And how should we look at Swiss for next year?

Amit Bakshi We are looking at positively, but the real, we don't expect any major turnaround in Q1 next year. Post-Q1, depending upon how the GMP things happen and how the new block gets into function, things should start looking up quite a bit.

Mohammad Patel Okay. Thank you so much. All the best.

Amit Bakshi Thank you.

Moderator The next question comes from Mr. Yasser Lakdawala. I would request Mr. Yasser Lakdawala to introduce himself and the company he represents.

Yasser Lakdawala Hi. This is Yasser Lakdawala from M3 Investments. Amit ji, what would you sort of like midterm guidance on, like, a field force additions? I think we've got Oncology, Nephrology, Neuroscience, like, small portfolios there.

Yasser Lakdawala Thought process on scaling those up and what kind of field force addition would you be looking at over the next two to three years? Any thoughts on that would be great.

Amit Bakshi Well, we have never been a huge fan of adding lot of people, and the specialties that you are mentioning are less people driven, more product-driven. So, the point is that can we enrich Oncology? While we talk about the Bhopal facility from a biotech point of view, but we also have a mAb unit there. And we will start some tech transfer in the month of December.

And once those tech transfer happens and we go through the regulatory framework, by second half of next year, we will have couple of mAbs coming out of our own table. But these will only be formulations. So, we are trying to strengthen the portfolio in these segments rather than increase the people as of now.

Yasser Lakdawala And would you say like, a three-to four-year perspective, looking at 2030, are you sort of happy with the current sort of portfolio mix that we have, or would you still see room to add any therapy area you feel that you probably want to get in as a high-growth area or feel you get some good products that you could probably in-license? Are you happy with this current mix at the moment?

Amit Bakshi Yeah. So, actually, we have tried hard to reach this mix, actually. If you look at our mix today, it is 37% Diabetes, 15% Cardio, right. A similar number in Derma, and a similar number in VMN. This makes core five therapies quite concentrated, and these are the therapies which have a lot of tailwind also. And these also happen to be the therapy where we have invested in getting differentiated and new products.

So, from a therapy point of view, in fact, this is what we wanted to look like. So, we are quite okay with the therapy. For in-licensing and something, look, we will be playing in these therapies. If we get something which is exciting, then we might go for it. But anything new which we want to do from a therapy point of view, the answer today, as of now, is no.

Yasser Lakdawala Sure. And going forward, I mean, can we expect from a capital allocation standpoint, majority of our cash flow would be sort of reducing our debt? And maybe in case we do get some strategic opportunity, we have that room available. But broadly, you would say we'll be paying down debt over the next two to three years at least three to four years.

Amit Bakshi So, what we have been always like this, look, we have spent a lot of money. We know that we all had two choices, either to get the debt down or to build capabilities. We believe building capabilities is far-reaching than paying down the debt. And eventually, all our acquisitions turned out to be very well. Today at a company level, if we are delivering 36%, then you understand almost all business we acquired, some of

them were languishing at 8-10% EBITDA. They have all come to this company level. So, other than this, paying down debt is the only priority. That's it.

Yasser Lakdawala Thanks a lot, and I wish you all the best. Happy Diwali to all your team there.

Amit Bakshi Thank you so much. Same to you.

Moderator As there are no more questions, I believe. And we'll now hand over the call to Mr. Chirag Mehta for the closing comments.

Chirag Mehta Thank you all for your participation today. Before we conclude, let me just briefly recap the key highlights. As we mentioned, our Insulin and Biologics business has reached an important milestone with the approval to commence clinical trials in the recombinant Semaglutide, and our Analog portfolio is also progressing well into a regulatory phase. International business remains steady, and our EU GMP CAPA plan is on track. Our long-term outlook for the business remains unchanged and stable.

For H1 FY27, Consolidated Revenues, as mentioned before, have grown by 12.8%. Consolidated Debtor Days have improved by 10 days, from 80 days to 70 days, and our Capital Expenditure stood at INR 220 crores. EPS for the period was INR 23.58. Thank you once again for your time and continued interest in Eris Lifesciences. We are planning to hold an Investor Day on 19th November and look forward to seeing you all there. Thank you so much.

Note: This document has been edited to improve readability