

Eris Lifesciences

Estimate change	↓
TP change	↔
Rating change	↔

CMP: INR695
TP: INR850 (+22%)
Buy

Steady outperformance across major therapies

Work in progress for building Insulin and its Analogue portfolio

- ERIS delivered an operationally better-than-expected 1QFY23 performance, led by outperforming the industry in Cardio-metabolic, CNS, Dermatology, and Women's Health therapies. In addition to gaining market share in existing brands, it is on track for introductions across major therapies over the next 12-15 months.
- We reduce our FY23/FY24 EPS estimate by 8%/2%, factoring in: a) increased marketing spends on launches, and b) higher employee cost towards the addition of MRs in its Insulin portfolio. We value ERIS at 22x 12M forward earnings to arrive at our TP of INR850. We remain positive on ERIS' strategy of scaling up newer therapies and introducing superior products in the base therapies. We maintain our Buy rating.

Spends on the marketing front lowers margin

- Revenue grew 14% YoY to INR4b (est. INR3.7b) in 1QFY23.
- Gross margin contracted by 160bp YoY to 78.7% due to a change in the product mix
- EBITDA margin contracted at a higher rate of 380bp YoY to 32.4% (est. 30.5%) on account of higher employee costs (up 100bp) and greater other expenses (up 120bp as a percentage of sales).
- Consequently, EBITDA was largely stable YoY at INR1.3b (est. INR1.1b).
- PAT declined by 13% YoY to INR931m (est. INR878m) due to lower other income and a higher interest outgo.

Key highlights from the management commentary

- The management has guided at a 30%/16-17% YoY growth in revenue/ EBITDA for FY23.
- From an EBITDA margin of 32.4% in 1QFY23, it expects the same to inch back up to 36% by FY25.
- It expects four brands to garner over INR1b in annual revenue, including Zomelis by the end of FY23.
- The management expects growth in the Cardio-metabolic segment (53% of 1QFY23 sales) to revive on a low base of FY22 and due to new introductions.
- It expects the Insulin business to garner INR200m/INR150m in sales/ operating loss in FY23.
- Over the next four years, the management expects Drolute (Dydrogesterone) to emerge as an INR1b revenue product.
- It sees a 200bp dip in gross margin over the next two quarters due to six-to-seven launches.

Bloomberg	ERIS IN
Equity Shares (m)	138
M.Cap.(INRb)/(USDb)	94.5 / 1.2
52-Week Range (INR)	863 / 601
1, 6, 12 Rel. Per (%)	-2/-2/-14
12M Avg Val (INR M)	67

Financials & valuations (INR b)

Y/E MARCH	FY22	FY23E	FY24E
Sales	13.5	17.0	19.6
EBITDA	4.8	5.7	6.8
Adj. PAT	4.1	4.2	5.5
EBIT Margin (%)	31.2	27.6	30.0
Cons. Adj. EPS (INR)	29.5	30.4	39.7
EPS Gr. (%)	14.3	2.9	30.8
BV/Sh. (INR)	138.8	162.2	193.9

Ratios

Net D:E	-0.3	-0.1	-0.2
RoE (%)	23.3	20.2	22.3
RoCE (%)	23.2	19.3	20.0
Payout (%)	18.6	23.1	20.1

Valuations

P/E (x)	23.5	22.9	17.5
EV/EBITDA (x)	19.7	17.4	13.8
Div. Yield (%)	0.8	1.0	1.2
FCF Yield (%)	2.7	-2.0	5.4
EV/Sales (x)	7.1	5.8	4.8

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	52.3	52.7	52.7
DII	10.7	10.5	10.1
FII	15.4	13.3	13.5
Others	21.7	23.5	23.8

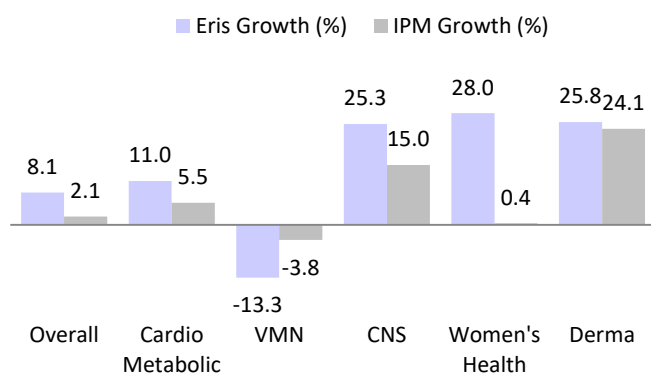
FII includes depository receipts

Consolidated - Quarterly Earning Model

(INR m)

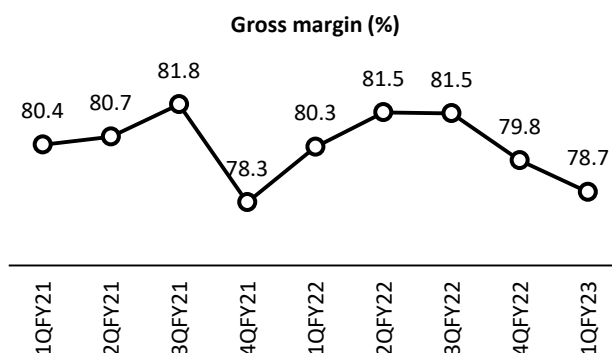
Y/E March	FY22				FY23E				FY22	FY23E	Estimate	Var. %
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
Gross Sales	3,493	3,597	3,322	3,059	3,986	4,352	4,384	4,305	13,470	17,027	3,737	6.7
YoY Change (%)	19.1	9.0	7.0	10.0	14.1	21.0	32.0	40.7	11.2	26.4	7.0	
Total Expenditure	2,228	2,199	2,104	2,091	2,694	2,994	2,885	2,784	8,621	11,357	2,597	
EBITDA	1,265	1,398	1,217	969	1,292	1,358	1,499	1,521	4,850	5,670	1,140	13.4
Margins (%)	36.2	38.9	36.6	31.7	32.4	31.2	34.2	35.3	36.0	33.3	30.5	
Depreciation	145	150	169	184	234	236	245	255	647	970	190	
Interest	8	11	10	13	72	63	60	61	41	257	65	
Other Income	59	70	52	81	27	35	55	53	261	170	85	
PBT before EO expense	1,171	1,308	1,090	853	1,013	1,094	1,249	1,258	4,422	4,614	970	4.4
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	1,171	1,308	1,090	853	1,013	1,094	1,249	1,258	4,422	4,614	970	
Tax	104	124	82	54	82	104	119	134	364	438	92	
Rate (%)	8.9	9.5	7.5	6.3	8.1	9.5	9.5	10.6	8.2	9.5	9.5	
Reported PAT	1,067	1,184	1,008	800	931	990	1,131	1,124	4,058	4,175	878	6
Adj PAT	1,067	1,184	1,008	800	931	990	1,131	1,124	4,058	4,175	878	6.0
YoY Change (%)	19.8	9.9	11.8	17.2	-12.7	-16.4	12.2	40.5	14.3	2.9	-17.7	
Margins (%)	30.5	32.9	30.3	26.1	23.4	22.7	25.8	26.1	30.1	24.5	23.5	

Exhibit 1: ERIS outperforms IPM growth in 4QFY22



Source: MOFSL, Company

Exhibit 2: Gross margin on a downward trend



Source: MOFSL, Company



Highlights from the management interaction

- During 1QFY23 ERIS launched Sitagliptin and one women's health product
- Dydrogesterone market size is about INR7b growing at 60% YoY and ERIS is expected to do annual sales of INR300m for the first year
- The margin profile of Drolute is lower given the API supply issues. However, the situation is expected to normalize in next two years
- Sulfonylurea market is expected to grow 6% YoY, out of which, 3% will be driven by volumes and rest will come from prices
- The MJ Biopharm's Insulin Glargine study is on time and it is expected to take another 6 months to complete
- Liraglutide and Insulin Glargine are in Phase-3 trials on schedule and both will be launched around the same time
- Agreement with Biocon will entail one-time payment at the start and the agreement has an exit clause
- Overall, the base business is expected to give 10% growth (comprising Sulfonyl urea and Sartans)
- Higher cost of financing costs on account of debt for Oaknet acquisition
- Tax rate remains low as Guwahati facility contributes 78% of the revenues
- 25% EBITDA to OCF conversion for the quarter quite low due to new launches similar level expected to in2QFY23 as well

New launches to drive strong growth

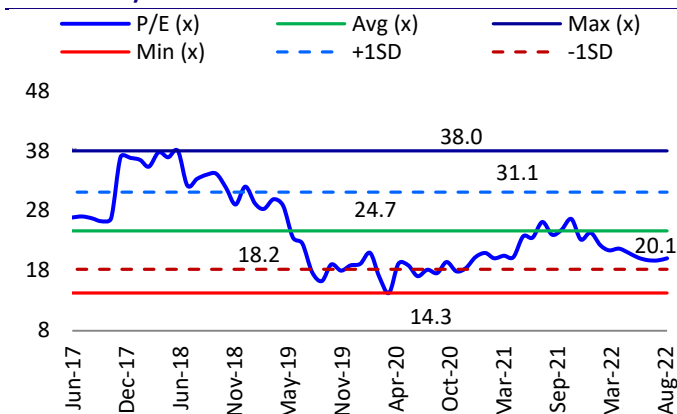
Key therapies continue outperformance against IPM

- Eris has outperformed IPM by wide margin at 600bp in 1QFY23 exhibiting 8.1% YoY growth vs IPM sales growth of 2.1% during the same period. Eris has delivered better-than-industry growth across its top therapies which account for 84% of its total sales in 1QFY23.
- Eris is targeting 5-6 new launches with total of 15 launches planned for FY23. In 1QFY23, Eris launched Sitagliptin and one gynaec product. Additionally, Insulin Glargine launch in 3QFY23, provides strong product pipeline.
- Further, product patent expiration in cardio-metabolic segment provides interesting opportunities for Eris over next 3-4 years.
- Accordingly, we expect 21% sales CAGR over FY22-24.

Valuation and view

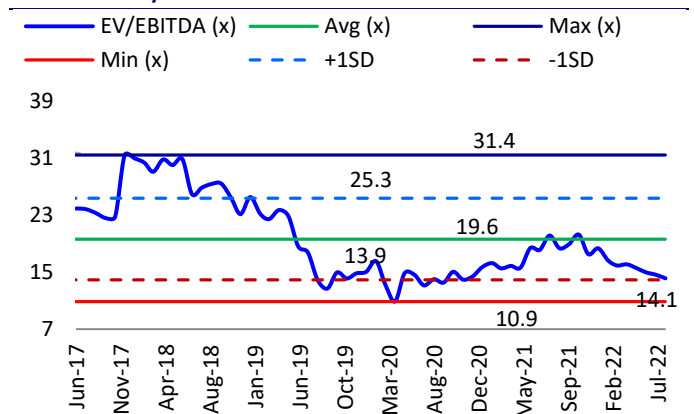
- We reduce the EPS estimate by 8%/2% for FY23/FY24, factoring a) increased marketing spend on new launches, b) higher employee cost towards addition of MRs for insulin portfolio. We value Eris at 22x 12M forward earnings to arrive at price target of INR850.
- We expect 16% earnings CAGR over FY22-24, led by 22%/23%/14% sales CAGR in anti-diabetic/gynaecology/cardiology segment on account of niche launches, line extensions and increasing number of doctors prescribing Eris products. We expect the earnings growth to be lower than revenue growth as the new acquisition/launches will have gestation period before it is on par with Eris' profitability.
- We remain positive on Eris' strategy of scaling up newer therapies and introducing superior products in the base therapies. Maintain Buy.

Exhibit 3: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 4: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg



Eris Lifesciences

Exhibit 5: Top 10 drugs

Drug	Therapy	MAT Jun'22			Growth (%)	
		Value (INR m)	Growth (%)	Mkt Share (%)	Last 3M	Jun'22
Total		16,650	9.0	100.0	6.9	16.9
Glimisave M	Anti-Diabetic	1,180	-14.2	7.1	-14.8	-6.6
Glimisave Mv	Anti-Diabetic	1,088	20.9	6.5	22.7	34.9
Renerve Plus	VMN	1,046	-5.8	6.3	9.7	17.5
Zayo	Cardiac	615	339.8	3.7	41.0	-12.1
Tendia M	Anti-Diabetic	464	11.4	2.8	22.6	29.9
Zomelis Met	Anti-Diabetic	424	25.5	2.5	23.5	29.0
Eritel Ch	Cardiac	366	-6.8	2.2	8.4	17.4
Eritel Ln	Cardiac	353	21.5	2.1	11.1	17.1
Remylin D	VMN	339	-18.0	2.0	-18.9	-7.4
Lnbloc	Cardiac	336	3.0	2.0	1.0	17.9

*Three-months: Apr-Jun'22

Source: AIOCD, MOFSL

Exhibit 6: Therapy mix (%)

	Share	MAT Growth (%)	3M*	Jun'22
Total	100.0	9.0	6.9	16.9
Anti-Diabetic	32.5	11.3	13.5	26.2
Cardiac	27.6	17.1	11.6	14.1
VMN	18.7	-7.0	-14.5	7.0
Neuro / Cns	8.3	30.0	25.8	25.3
Gastro Intestinal	4.6	-0.4	5.3	5.3
Gynaecological	3.9	18.6	31.9	32.9

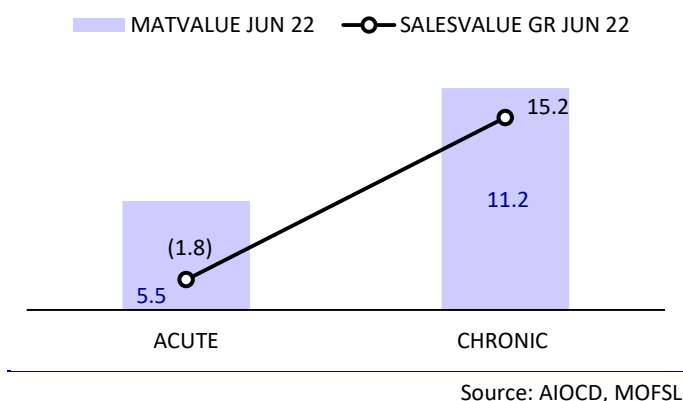
Source: AIOCD, MOFSL

Exhibit 7: Brand-wise growth distribution

	% of sales	MAT growth (%)	Growth Contribution (%)
Total	100.0	9.0	100.0
Top 10 Brands	37.3	8.9	37.2
11 to 25 Brands	22.3	13.3	31.9
26 to 50 Brands	18.1	3.8	8.0
Above 50 Brands	22.2	9.3	22.9

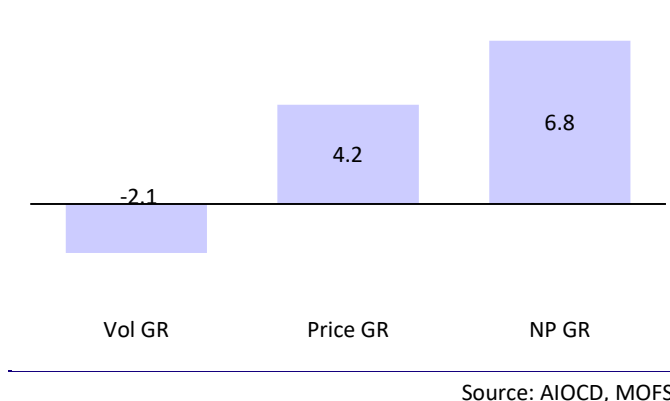
Source: AIOCD, MOFSL

Exhibit 8: Acute v/s Chronic (MAT growth)



Source: AIOCD, MOFSL

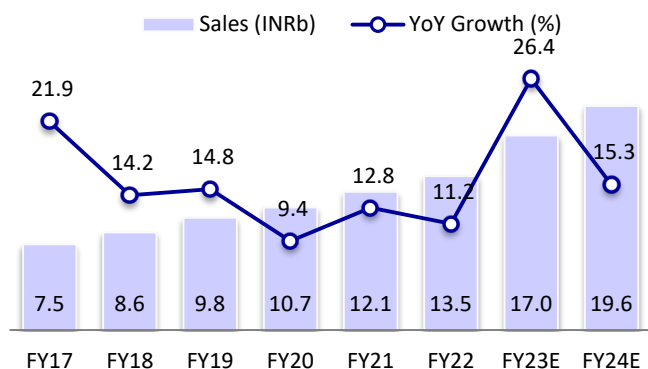
Exhibit 9: Growth distribution (%) (MAT Jun'22)



Source: AIOCD, MOFSL

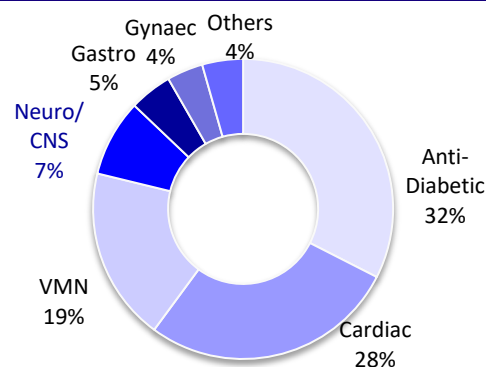
Story in Charts

Exhibit 10: Expect 21% revenue CAGR over FY22–24



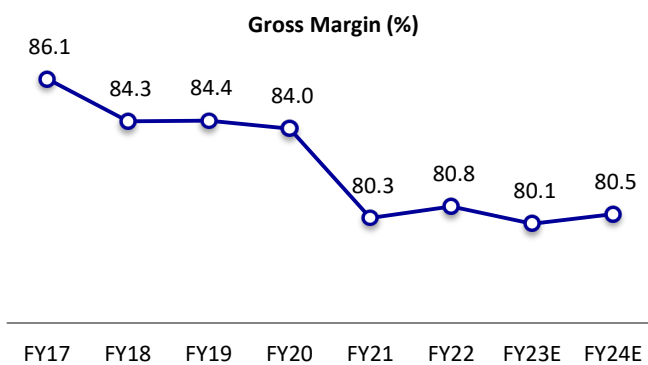
Source: MOFSL, Company

Exhibit 11: Anti-Diabetic largest therapy on MAT Jun'22 basis



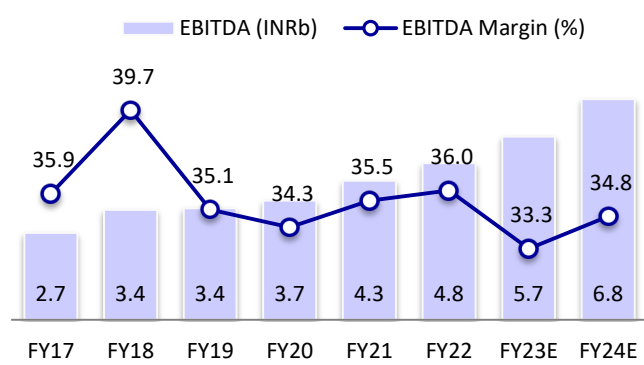
Source: MOFSL, Company

Exhibit 12: Gross margin to stabilize at ~80% over FY22–24



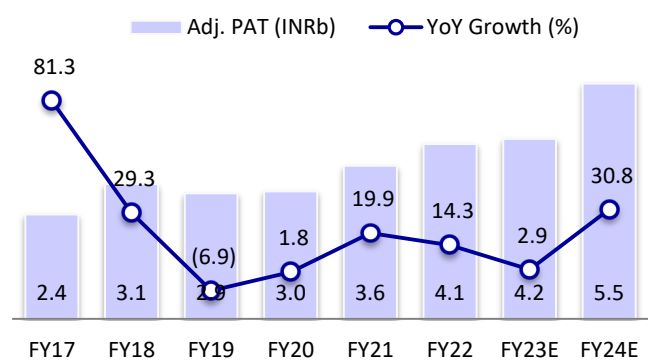
Source: MOFSL, Company

Exhibit 13: EBITDA margin to contract by 120bp over FY22–24



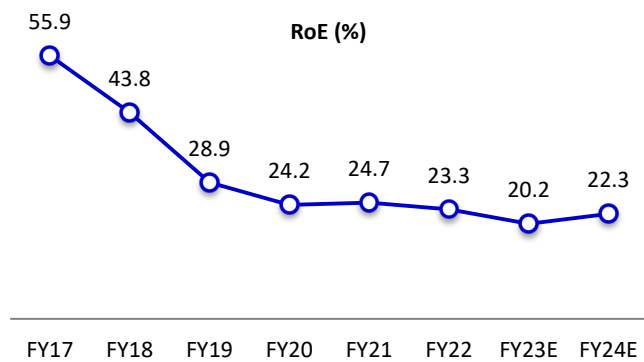
Source: MOFSL, Company

Exhibit 14: PAT to exhibit 16% CAGR over FY22–24



Source: MOSL, Company

Exhibit 15: RoE to stabilize near 22%



Source: MOSL, Company

Financial and valuations

Consolidated Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	7,495	8,556	9,822	10,741	12,119	13,470	17,027	19,627
Change (%)	21.9	14.2	14.8	9.4	12.8	11.2	26.4	15.3
Total Expenditure	4,808	5,157	6,372	7,057	7,813	8,621	11,357	12,797
EBITDA	2,687	3,399	3,449	3,684	4,306	4,850	5,670	6,830
Margin (%)	35.9	39.7	35.1	34.3	35.5	36.0	33.3	34.8
Depreciation	237	256	502	502	430	647	970	945
EBIT	2,450	3,143	2,947	3,182	3,876	4,203	4,700	5,885
Int. and Finance Charges	3	106	229	22	18	41	257	179
Other Income	191	264	317	154	87	261	170	432
PBT bef. EO Exp.	2,638	3,302	3,035	3,314	3,945	4,422	4,614	6,138
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	2,638	3,302	3,035	3,314	3,945	4,422	4,614	6,138
Total Tax	219	173	262	351	394	364	438	675
Tax Rate (%)	8.3	5.2	8.6	10.6	10.0	8.2	9.5	11.0
Minority Interest	-2	0	0	0	0	0	0	0
Reported PAT	2,421	3,129	2,773	2,963	3,551	4,058	4,175	5,463
Adjusted PAT	2,421	3,129	2,773	2,963	3,551	4,058	4,175	5,463
Change (%)	81.3	29.3	-11.4	6.9	19.9	14.3	2.9	30.8
Margin (%)	32.3	36.6	28.2	27.6	29.3	30.1	24.5	27.8

Consolidated Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	138	138	138	138	138	136	136	136
Total Reserves	5,534	8,476	11,368	12,828	15,628	18,947	22,160	26,523
Net Worth	5,671	8,613	11,505	12,965	15,766	19,083	22,296	26,659
Minority Interest	238	247	183	0	0	-1	-1	-1
Total Loans	6	3,799	3	0	0	450	3,950	3,250
Deferred Tax Liabilities	346	-483	-931	-1,203	-1,511	-1,970	-1,970	-1,970
Capital Employed	6,262	12,175	10,760	11,762	14,255	17,562	24,275	27,938
Gross Block	765	916	1,097	1,584	1,757	2,506	2,972	3,440
Less: Accum. Deprn.	208	390	544	711	978	1,294	1,663	2,048
Net Fixed Assets	557	526	553	873	779	1,212	1,308	1,392
Gross intangible asset	1,401	6,344	6,350	7,320	7,366	7,439	13,339	13,339
Accumulated amortization	20	94	233	379	541	873	1,473	2,033
Net intangible asset	1,382	6,250	6,116	6,941	6,825	6,566	11,866	11,306
Goodwill on Consolidation	378	935	936	935	935	935	935	935
Capital WIP	1	0	7	44	16	270	304	286
Total Investments	2,686	3,839	3,765	780	2,940	5,204	5,204	5,204
Curr. Assets, Loans, and Adv.	2,263	2,046	2,711	4,244	4,849	6,103	8,169	12,823
Inventory	558	654	827	695	945	1,179	1,553	1,750
Account Receivables	489	666	840	1,569	1,405	1,610	2,035	2,345
Cash and Bank Balance	24	106	75	673	383	523	1,053	4,661
Loans and Advances	1,192	618	970	1,307	2,116	2,791	3,528	4,067
Curr. Liability and Prov.	1,004	1,420	3,328	2,054	2,088	2,728	3,512	4,008
Account Payables	386	908	841	1,001	1,026	1,178	1,552	1,748
Other Current Liabilities	169	154	2,083	491	474	839	1,060	1,222
Provisions	450	358	404	562	588	712	900	1,037
Net Current Assets	1,259	626	-617	2,190	2,761	3,375	4,658	8,816
Appl. of Funds	6,262	12,176	10,760	11,762	14,255	17,562	24,274	27,938

Financial and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EPS	17.6	22.8	21.2	21.5	25.8	29.5	30.4	39.7
Cash EPS	19.3	24.6	23.8	25.2	29.0	34.2	37.4	46.6
BV/Share	41.2	62.6	83.7	94.3	114.6	138.8	162.2	193.9
DPS	0.0	0.0	0.0	2.9	5.5	5.5	7.0	8.0
Payout (%)	0.0	0.0	0.0	13.3	21.3	18.6	23.1	20.1
Valuation (x)								
P/E	39.5	30.5	32.8	32.3	26.9	23.5	22.9	17.5
Cash P/E	36.0	28.2	29.2	27.6	24.0	20.3	18.6	14.9
P/BV	16.9	11.1	8.3	7.4	6.1	5.0	4.3	3.6
EV/Sales	12.7	11.6	9.7	8.8	7.9	7.1	5.8	4.8
EV/EBITDA	35.6	29.2	27.7	25.8	22.1	19.7	17.4	13.8
Dividend Yield (%)	0.0	0.0	0.0	0.4	0.8	0.8	1.0	1.2
FCF per share	10.9	15.2	14.1	9.1	25.4	18.8	-14.0	37.5
Return Ratios (%)								
RoE	55.9	43.8	28.9	24.2	24.7	23.3	20.2	22.3
RoCE	55.8	35.7	26.1	24.4	24.8	23.2	19.3	20.0
RoIC	99.3	50.6	37.4	33.1	32.9	34.3	29.1	29.5
Working Capital Ratios								
Inventory (Days)	27	28	31	24	28	32	33	33
Debtor (Days)	24	28	31	53	42	44	44	44
Creditor (Days)	19	39	31	34	31	32	33	33
Leverage Ratio (x)								
Net Debt/Equity ratio	-0.5	0.0	-0.3	-0.1	-0.2	-0.3	-0.1	-0.2

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	2,704	3,122	3,174	3,314	3,945	4,422	4,614	6,138
Depreciation	228	256	364	503	430	647	970	945
Interest and Finance Charges	1	96	218	6	-5	41	86	-253
Direct Taxes Paid	-531	-696	-716	-518	-685	-833	-438	-675
(Inc.)/Dec. in WC	-165	-222	-532	-527	53	-299	-753	-550
CF from Operations	2,237	2,557	2,506	2,777	3,738	3,979	4,479	5,605
Others	-235	-211	-277	-66	16	-196	0	0
CF from Operations incl. EO	2,002	2,346	2,230	2,712	3,754	3,783	4,479	5,605
(Inc.)/Dec. in FA	-497	-251	-293	-1,458	-257	-1,203	-6,400	-450
Free Cash Flow	1,505	2,096	1,937	1,254	3,497	2,580	-1,921	5,155
(Pur.)/Sale of Investments	-1,100	-1,075	350	2,880	-2,946	-1,881	0	0
Others	-241	-4,571	-108	-189	-17	-112	170	432
CF from Investments	-1,838	-5,896	-51	1,233	-3,220	-3,196	-6,230	-18
Issue of Shares	0	0	9	0	0	0	0	0
Inc./(Dec.) in Debt	-65	0	-2,002	-1,841	-59	450	3,500	-700
Interest Paid	-2	-103	-217	-18	-18	-39	-257	-179
Dividend Paid	-169	0	0	-470	-747	-816	-963	-1,100
Others	0	3,735	0	-1,017	0	-42	0	0
CF from Fin. Activity	-237	3,632	-2,211	-3,346	-824	-447	2,281	-1,979
Inc./Dec. in Cash	-73	82	-31	598	-291	140	530	3,608
Opening Balance	97	24	106	75	673	384	523	1,053
Closing Balance	24	106	75	673	383	523	1,053	4,661

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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