

Eris Lifesciences

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	ERIS IN
Equity Shares (m)	138
M.Cap.(INRb)/(USDb)	96.3 / 1.2
52-Week Range (INR)	856 / 601
1, 6, 12 Rel. Per (%)	2/0/-9
12M Avg Val (INR M)	61

Financials & valuations (INR b)

Y/E MARCH	FY22	FY23E	FY24E
Sales	13.5	17.4	20.0
EBITDA	4.8	5.7	7.0
Adj. PAT	4.1	4.1	5.3
EBIT Margin (%)	31.2	26.3	29.4
Cons. Adj. EPS (INR)	29.5	29.6	38.8
EPS Gr. (%)	14.3	0.1	31.3
BV/Sh. (INR)	138.8	161.3	192.1

Ratios

Net D:E	-0.3	-0.1	-0.2
RoE (%)	23.3	19.7	22.0
RoCE (%)	23.2	18.9	19.8
Payout (%)	18.6	23.7	20.6

Valuations

P/E (x)	23.9	23.9	18.2
EV/EBITDA (x)	20.0	17.7	13.7
Div. Yield (%)	0.8	1.0	1.1
FCF Yield (%)	2.7	-2.1	5.6
EV/Sales (x)	7.2	5.8	4.8

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	52.3	52.3	52.7
DII	10.7	10.7	9.9
FII	15.4	15.4	13.6
Others	21.6	21.7	23.8

FII includes depository receipts

CMP: INR708

TP: INR860 (+21%)

Buy

Enhanced efforts toward product launch-related activities

Operationally beat on estimates

- Eris Lifesciences (ERIS) delivered better than expected 2QFY23 performance, led by superior traction in new launches and improved operating leverage. ERIS is not only sustaining the momentum in its recently launched products, but it is also preparing itself for an aggressive pace of new introductions.
- We reiterate our earnings estimate for FY23/FY24 and continue to value ERIS at 22x 12M forward earnings to arrive at a price target of INR860.
- We remain positive on ERIS on the back of a) exciting product pipeline over the next three years, led by patent expiration, b) enhancing anti-diabetes portfolio, c) diversifying into therapies such as dermatology, cosmetology, Central nervous system (CNS) and women health. We reiterate our Buy rating on the stock.

Oaknet addition and marketing expenses lower EBITDA growth vs revenue growth

- ERIS 2QFY23 revenues grew 28% YoY at INR4.6b (our est INR4.4b). Oaknet business and enhanced traction from Insulin led overall YoY growth in revenue for the quarter. Standalone revenue grew at a moderate rate of 10% YoY, dragging revenue growth to some extent for the quarter.
- Gross margin contracted 450bp YoY to 77% (our est 79.7%) due to product mix change and higher RM cost.
- EBITDA margin contracted further by 600bp YoY to 32.9% (our est.31.2%). This is largely due to higher employee expense (+320bp YoY as % of sales), partially offset by lower other expenses (-170bp YoY).
- Accordingly, EBITDA increased at a lower rate of 8% YoY to INR1.5b (est. INR1.4b), compared to YoY revenue growth for the quarter.
- Adj. PAT was stable YoY to INR1.2b (our est. INR1b), due to higher depreciation/amortization and interest cost, partly offset by lower tax outgo.
- For 1HFY23, Revenue/EBITDA grew 21%/5% YoY to INR8.6b/INR2.8b, respectively. However, PAT declined 6% YoY to INR2.1b.

Key highlights from the management Commentary

- ERIS guided for a consolidated revenue growth of 30% YoY and EBITDA growth of 16-17% YoY (including Oaknet) for FY23.
- For the Oaknet business, ERIS guided for INR500m EBITDA in FY23 vs earlier guidance of INR500m in FY24. It achieved INR165m EBITDA in 2QFY23.
- ERIS expects emerging Therapies (21% of current revenue) to grow ahead of the market by a significant margin with a) new launches in Dermatology and Cosmetology, b) force Multiplying effect in Women's Health therapy with two divisions having 470+ Reps across Eris & Oaknet, c) expansion of specialist coverage, and d) inorganic expansion
- The company successfully launched four drugs (Zomelis D, Glura, Gluxit S & FCM Injection) in H1 FY23.
- ERIS intends to garner a revenue of INR180-200m from insulin in FY23.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

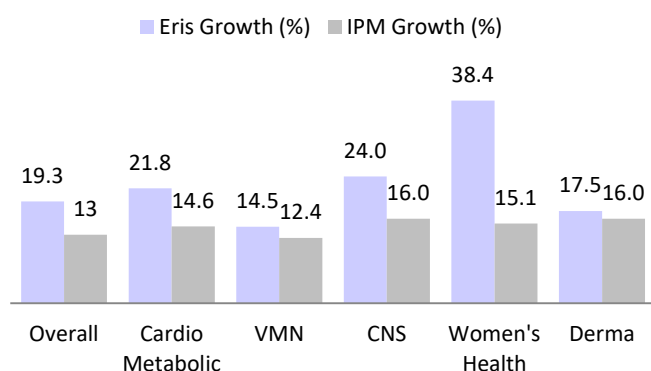
Consolidated - Quarterly Earning Model

(INR m)

Y/E March	FY22				FY23E				FY22	FY23E	Estimate	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	%
Gross Sales	3,493	3,597	3,322	3,059	3,986	4,605	4,384	4,379	13,470	17,354	4,352	5.8
YoY Change (%)	19.1	9.0	7.0	10.0	14.1	28.0	32.0	43.1	11.2	28.8	21.0	
Total Expenditure	2,228	2,199	2,104	2,091	2,694	3,091	2,951	2,962	8,621	11,697	2,994	
EBITDA	1,265	1,398	1,217	969	1,292	1,514	1,434	1,417	4,850	5,657	1,358	11.5
Margins (%)	36.2	38.9	36.6	31.7	32.4	32.9	32.7	32.4	36.0	32.6	31.2	
Depreciation	145	150	169	184	234	286	287	282	647	1,090	236	
Interest	8	11	10	13	72	71	65	61	41	269	63	
Other Income	59	70	52	81	27	52	55	57	261	191	35	
PBT before EO expense	1,171	1,308	1,090	853	1,013	1,209	1,137	1,131	4,422	4,490	1,094	10.6
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	1,171	1,308	1,090	853	1,013	1,209	1,137	1,131	4,422	4,490	1,094	
Tax	104	124	82	54	82	16	148	181	364	427	104	
Rate (%)	8.9	9.5	7.5	6.3	8.1	1.3	13.0	16.0	8.2	9.5	9.5	
Reported PAT	1,067	1,184	1,008	800	931	1,194	989	950	4,058	4,063	990	21
Adj PAT	1,067	1,184	1,008	800	931	1,194	989	950	4,058	4,063	990	20.6
YoY Change (%)	19.8	9.9	11.8	17.2	-12.7	0.8	-1.9	18.8	14.3	0.1	-16.4	
Margins (%)	30.5	32.9	30.3	26.1	23.4	25.9	22.6	21.7	30.1	23.4	22.7	

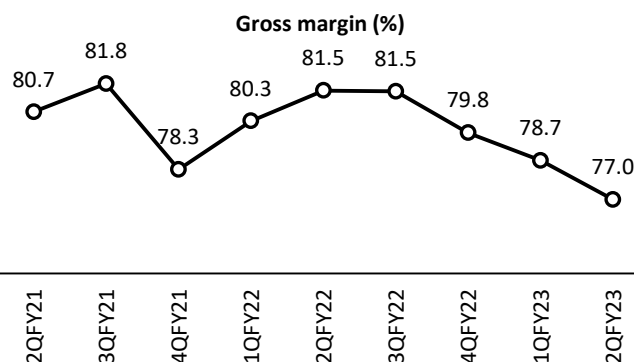
E: MOFSL Estimates

Exhibit 1: ERIS outperforms IPM growth in 2QFY23



Sources: MOFSL, company reports

Exhibit 2: Gross margin on a downward trend



Sources: MOFSL, company reports



Highlights from the management commentary

- Oaknet growth momentum continues with Q2 revenue of INR680m and EBITDA of INR165m (24.2% margin). Moreover, ERIS expanded Dermatologist coverage to 90% from 60% in just three months
- SGL2 and DPP4 contribute 35-40% to ERIS diabetes portfolio
- ERIS launched Dydrogesterone/FCM injection in the Gynae division.
- ERIS has an interesting Derma-Cosme pipeline for launch over the near term.
- Typically, new launches have lower GMs, dragging the overall GM for ERIS in the recent past. However, with increased volume, the EBITDA margin is expected to widen at the overall level.
- Oaknet's PCPM run rate is 3-3.5Lacs and has enough scope to improve overall productivity.
- ERIS expects cardio metabolic market to sustain early to mid-teen growth rate over the next three years, led by a) 5-6% from New Products, b) 4-5% from Price Increase, and c) 3-4% from Unit Growth.
- ERIS guided for ETR of 9-10% for FY23.

Product launches, diversifying therapies – key for growth

Superior execution across therapies

- In 1H FY23, ERIS revenue grew 21% YoY to INR8.6b, driven by steady outperformance in cardio-metabolic therapy as well as emerging therapies (Derma/CNS/Women's health). While growth in the VMN category has moderated over the past four quarters due to reduced off-take on account of easing COVID-led consumption. However, ERIS continues to outperform market in this therapy as well.
- Particularly, in 2Q FY23, ERIS has outperformed IPM by a wide margin, exhibiting 19.3% YoY growth. IPM registered a sales growth of 13% YoY over the same period.

New product pipeline to further augment growth

- ERIS is targeting five to six new launches with a total of 15 launches planned for FY23. H1 FY23 witnessed four significant launches (Zomelis D, Glura, Gluxit S & FCM Injection).
- In addition to Xsulin (Human Insulin), ERIS would be expanding injectable anti-diabetes franchise through Xglar (Glargine), GLP1 agonist and marketing through 200-strong field force.
- ERIS is planning new product launches in Medical Dermatology and Cosmetology through the Oaknet platform. Moreover, expansion of the product range in CNS and Women's Health therapies will also help deliver growth.

Expansion of physician network

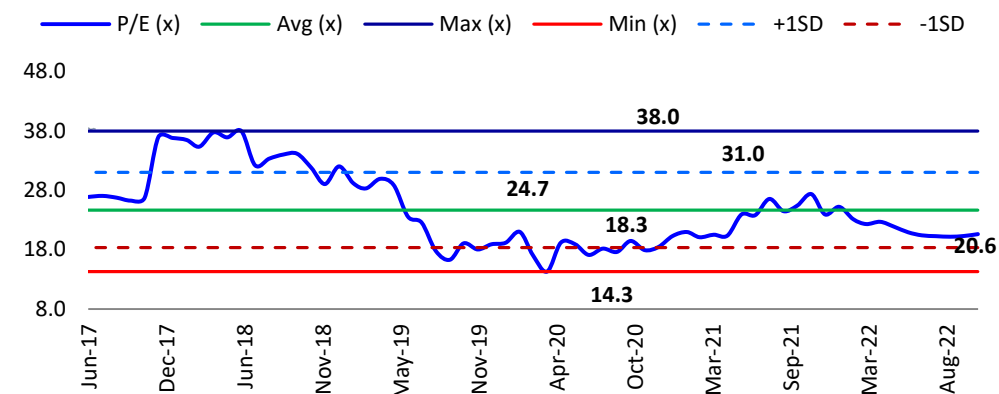
- ERIS is continuing its efforts to expand its coverage of specialists and consulting physicians and have added 200 representatives since YTD.

Oaknet profitability improving at a better than expected pace

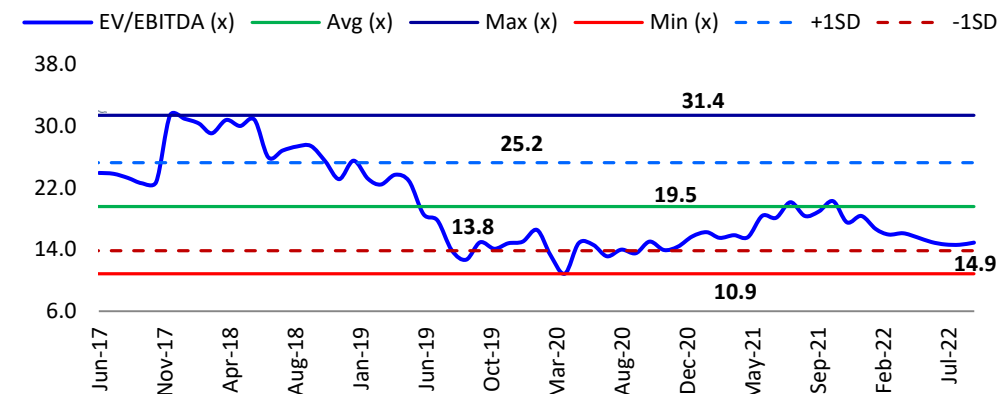
- In a period of four months since the acquisition of Oaknet, ERIS achieved 24.2% EBITDA margin vs just 10% in FY22.
- With new launches and enough scope to improve MR productivity, ERIS is well-positioned to grow sales and expand margins of Oaknet.

Valuation and view

- Reiterating our EPS estimate for FY23/FY24, we continue to value ERIS at 22x 12M forward earnings and arrive at a price target of INR860.
- We expect 15% earnings CAGR over FY22-24, led by 22%/23%/15% sales CAGR in anti-diabetic/gynaecology/cardiology segment on account of niche launches, line extensions, and increasing number of doctors prescribing ERIS products. With the recent acquisition and a gestation period, we expect a slower earnings growth than the revenue growth.
- We remain positive on the back of a) a successful Oaknet business, b) new product launches leading to superior portfolio (Zomelis D, Glura, Gluxit S & FCM Injection), and c) widening physician network and increasing MR productivity.
- We reiterate our Buy rating on the stock.

Exhibit 3: P/E chart

Sources: MOFSL, company reports, Bloomberg

Exhibit 4: EV/EBITDA chart

Source: MOFSL, company reports, Bloomberg



Eris Lifesciences

Secondary sales grew 21.6% YoY in Sep'22 v/s 18.8% in Aug'22. Majority of the top 10 brands drove the growth outperforming the IPM for Sep'22

Double-digit growth in all the major therapies drove the outperformance against IPM in Sep'22

The top 25 brands contributed ~60% to overall growth

Growth in new launches/prices was slightly offset by a dip in volumes on a MAT basis in Sep'22

Exhibit 5: Top 10 drugs

Drug	Therapy	MAT Sep'22			Growth (%)	
		Value (INR m)	Growth (%)	Mkt Share (%)	Last 3M	Sep'22
Total		17,473	11.1	100.0	20.2	21.6
Glimisave M	Anti Diabetic	1,181	-13.7	6.8	0.4	-3.3
Glimisave Mv	Anti Diabetic	1,175	26.0	6.7	34.8	35.3
Renerve Plus	Vitamins / Minerals / Nutrients	1,088	-1.5	6.2	15.5	15.7
Zayo	Cardiac	524	96.6	3.0	-72.3	-90.7
Tendia M	Anti Diabetic	486	17.3	2.8	20.2	37.8
Zomelis Met	Anti Diabetic	452	23.6	2.6	28.3	22.3
Eritel Ch	Cardiac	391	5.1	2.2	27.7	30.9
Eritel Ln	Cardiac	377	24.4	2.2	29.5	35.9
Gluxit	Anti Diabetic	359	48.0	2.1	32.9	33.2
Lnbloc	Cardiac	357	11.4	2.0	26.5	35.2

*Three-months: Jul-Sep'22

Sources: AIOCD, MOFSL

Exhibit 6: Therapy mix (%)

	Share	MAT Growth (%)	3M*	Sep'22
Total	100.0	11.1	20.2	21.6
Anti Diabetic	33.3	15.9	31.0	33.1
Cardiac	27.1	17.5	13.6	13.5
Vitamins / Minerals / Nutrients	18.5	-4.9	14.2	17.2
Neuro / Cns	8.3	26.4	24.3	23.7
Gastro Intestinal	4.4	-0.4	2.7	2.9
Gynaecological	2.3	53.6	67.2	50.7

Sources: AIOCD, MOFSL

Exhibit 7: Brand-wise growth distribution

	% of sales	MAT growth (%)	Growth Contribution (%)
Total	100.0	11.1	100.0
Top 10 Brands	36.6	12.3	40.0
11 to 25 Brands	22.3	9.4	19.2
26 to 50 Brands	18.1	9.0	14.9
Above 50 Brands	23.0	12.7	25.9

Sources: AIOCD, MOFSL

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

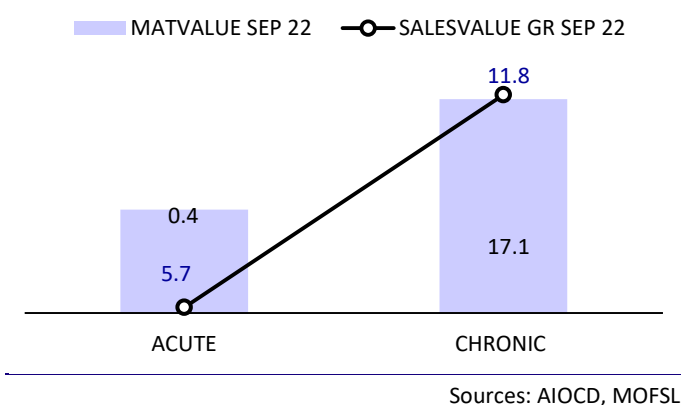
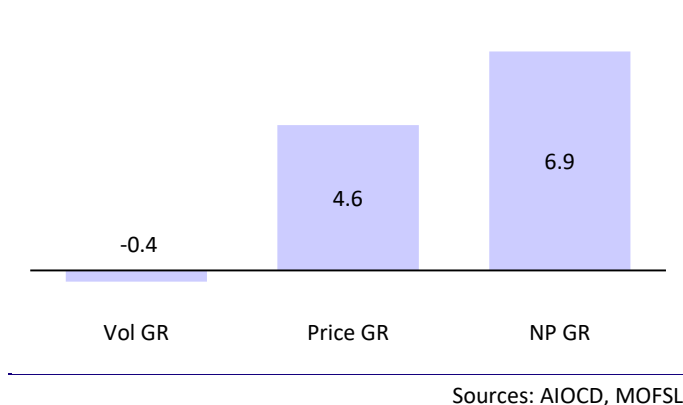
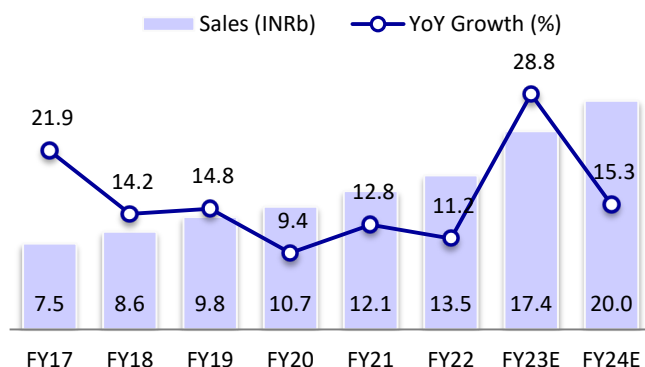


Exhibit 9: Growth distribution (%) (MAT Sep'22)



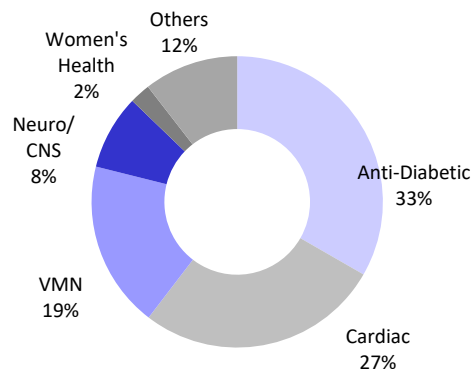
Story in Charts

Exhibit 1: Expect 21% revenue CAGR over FY22–24



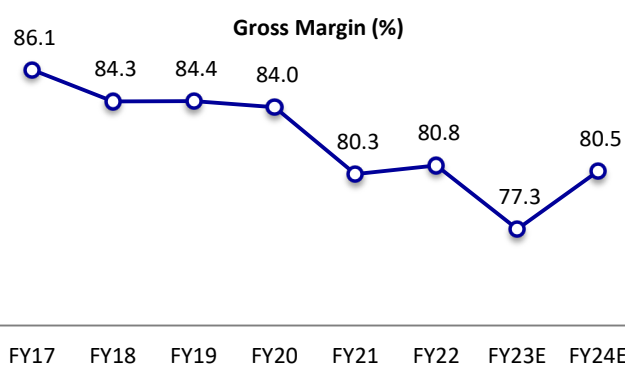
Sources: MOFSL, company reports

Exhibit 2: Anti-diabetic largest therapy on MAT Sep'22 basis



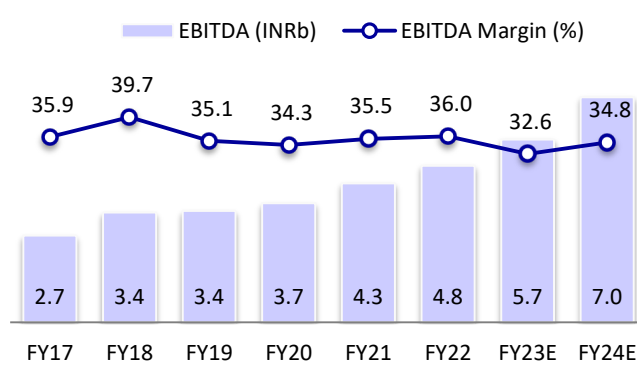
Sources: MOFSL, company reports

Exhibit 3: Gross margin to stabilize at ~80% over FY22–24



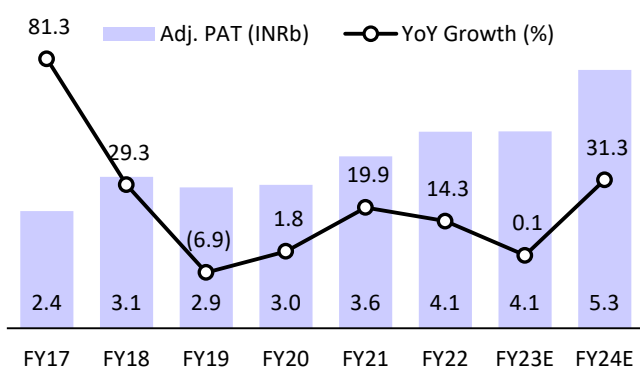
Sources: MOFSL, company reports

Exhibit 4: EBITDA margin to contract by 120bp over FY22–24



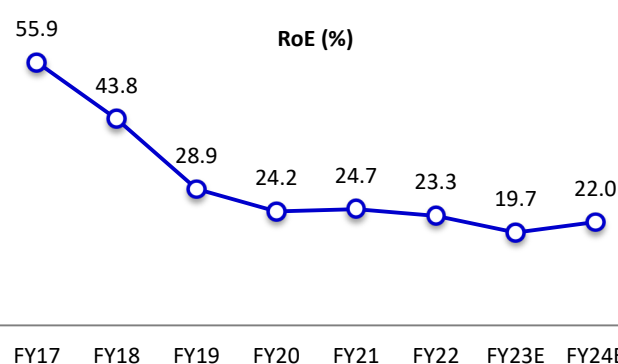
Sources: MOFSL, company reports

Exhibit 5: PAT to exhibit 15% CAGR over FY22–24



Sources: MOFSL, company reports

Exhibit 6: RoE to stabilize near 22%



Sources: MOFSL, company reports

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	17,354	20,009
Change (%)	21.9	14.2	14.8	9.4	12.8	11.2	28.8	15.3
Total Expenditure	4,808	5,157	6,372	7,057	7,813	8,621	11,697	13,046
EBITDA	2,687	3,399	3,449	3,684	4,306	4,850	5,657	6,963
Margin (%)	35.9	39.7	35.1	34.3	35.5	36.0	32.6	34.8
Depreciation	237	256	502	502	430	647	1,090	1,078
EBIT	2,450	3,143	2,947	3,182	3,876	4,203	4,567	5,885
Int. and Finance Charges	3	106	229	22	18	41	269	208
Other Income	191	264	317	154	87	261	191	220
PBT bef. EO Exp.	2,638	3,302	3,035	3,314	3,945	4,422	4,490	5,897
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	4,490	5,897
Total Tax	219	173	262	351	394	364	427	560
Tax Rate (%)	8.3	5.2	8.6	10.6	10.0	8.2	9.5	9.5
Minority Interest	-2	0	0	0	0	0	0	0
Reported PAT	2,421	3,129	2,773	2,963	3,551	4,058	4,063	5,337
Adjusted PAT	2,421	3,129	2,773	2,963	3,551	4,058	4,063	5,337
Change (%)	81.3	29.3	-11.4	6.9	19.9	14.3	0.1	31.3
Margin (%)	32.3	36.6	28.2	27.6	29.3	30.1	23.4	26.7

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	22,048	26,284
Net Worth	5,671	8,613	11,505	12,965	15,766	19,083	22,184	26,420
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	24,162	27,699
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	1,593	2,286
Net intangible asset	1,382	6,250	6,116	6,941	6,825	6,566	11,746	11,052
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	8,261	12,916
Inventory	558	654	827	695	945	1,179	1,600	1,784
Account Receivables	489	666	840	1,569	1,405	1,610	2,074	2,391
Cash and Bank Balance	24	106	75	673	383	523	992	4,595
Loans and Advances	1,192	618	970	1,307	2,116	2,791	3,596	4,146
Curr. Liability and Prov.	1,004	1,420	3,328	2,054	2,088	2,728	3,596	4,085
Account Payables	386	908	841	1,001	1,026	1,178	1,598	1,782
Other Current Liabilities	169	154	2,083	491	474	839	1,081	1,246
Provisions	450	358	404	562	588	712	917	1,057
Net Current Assets	1,259	626	-617	2,190	2,761	3,375	4,665	8,830
Appl. of Funds	6,262	12,176	10,760	11,762	14,255	17,562	24,162	27,699

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	29.6	38.8
Cash EPS	19.3	24.6	23.8	25.2	29.0	34.2	37.5	46.7
BV/Share	41.2	62.6	83.7	94.3	114.6	138.8	161.3	192.1
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	23.7	20.6
Valuation (x)								
P/E	39.5	30.5	32.8	32.3	26.9	23.5	23.9	18.2
Cash P/E	36.0	28.2	29.2	27.6	24.0	20.3	18.8	15.1
P/BV	16.9	11.1	8.3	7.4	6.1	5.0	4.4	3.7
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	17.7	13.7
Dividend Yield (%)	0.0	0.0	0.0	0.4	0.8	0.8	1.0	1.1
FCF per share	10.9	15.2	14.1	9.1	25.4	18.8	-14.5	39.2
Return Ratios (%)								
RoE	55.9	43.8	28.9	24.2	24.7	23.3	19.7	22.0
RoCE	55.8	35.7	26.1	24.4	24.8	23.2	18.9	19.8
RoIC	99.3	50.6	37.4	33.1	32.9	34.3	28.3	30.2
Working Capital Ratios								
Inventory (Days)	27	28	31	24	28	32	34	33
Debtor (Days)	24	28	31	53	42	44	44	44
Creditor (Days)	19	39	31	34	31	32	34	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	4,490	5,897
Depreciation	228	256	364	503	430	647	1,090	1,078
Interest and Finance Charges	1	96	218	6	-5	41	78	-12
Direct Taxes Paid	-531	-696	-716	-518	-685	-833	-427	-560
(Inc.)/Dec. in WC	-165	-222	-532	-527	53	-299	-822	-562
CF from Operations	2,237	2,557	2,506	2,777	3,738	3,979	4,409	5,841
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	4,409	5,841
(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	-1,991	5,391
(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	191	220
CF from Investments	-1,838	-5,896	-51	1,233	-3,220	-3,196	-6,209	-230
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	-269	-208
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	2,269	-2,008
Inc./Dec. in Cash	-73	82	-31	598	-291	140	468	3,603
Opening Balance	97	24	106	75	673	384	523	992
Closing Balance	24	106	75	673	383	523	992	4,595

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

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