

Eris Lifesciences

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	ERIS IN
Equity Shares (m)	138
M.Cap.(INRb)/(USDb)	86.8 / 1.1
52-Week Range (INR)	750 / 551
1, 6, 12 Rel. Per (%)	2/-6/-20
12M Avg Val (INR M)	43

Financials & valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	16.9	20.7	23.9
EBITDA	5.4	7.2	8.5
Adj. PAT	3.7	4.4	4.6
EBIT Margin (%)	24.9	26.9	28.5
Cons. Adj. EPS (INR)	27.2	31.7	33.8
EPS Gr. (%)	-7.8	16.4	6.7
BV/Sh. (INR)	159.7	183.4	209.1

Ratios

Net D:E	0.3	0.2	0.1
RoE (%)	18.2	18.5	17.2
RoCE (%)	16.0	15.6	14.0
Payout (%)	20.2	25.3	23.7

Valuations

P/E (x)	23.4	20.1	18.9
EV/EBITDA (x)	17.8	13.1	10.6
Div. Yield (%)	0.9	1.3	1.3
FCF Yield (%)	-6.3	3.5	6.6
EV/Sales (x)	5.7	4.5	3.8

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	52.9	52.7	52.7
DII	10.0	9.9	10.5
FII	14.9	15.5	13.3
Others	22.3	21.9	23.5

FII includes depository receipts

CMP: INR638
TP: INR720 (+13%)
Buy

Promotional spend on the rise for extended portfolio offering

On track to improve profitability of inorganic opportunities

- Eris Lifesciences (ERIS) delivered in-line 4QFY23, led by steady growth in base business and improved performance of Oaknet as well as insulin franchise. Besides, addition of complimentary brands in medical/cosmetic dermatology from Glenmark Pharma and Dr. Reddy's Lab is expected to enhance derma offerings going forward.
 - We retain our earnings estimates for FY24/FY25 and value ERIS at 19x 12M forward earnings to arrive at our TP of INR720.
 - We remain positive on ERIS aided by its: a) robust portfolio offerings in anti-diabetes, cardiovascular and dermatology segments through organic as well as inorganic route, b) field force addition, which would expand coverage of specialist/consulting physicians, and c) improving operating leverage.
- Reiterate BUY.**

Superior product mix more than offset by higher marketing spends for the quarter

- ERIS' 4QFY23 revenue grew 31.7% YoY to INR4b (in line).
- Gross margin expanded 210bp YoY to 82% due to better product mix.
- However, EBITDA margin contracted 210bp YoY to 29.5% (est. 30.5%), as better GM was more than offset by higher opex (other expenses/employee cost up 330bp/100bp YoY as a % of sales).
- Likewise, EBITDA increased 23% YoY to INR1.2b (in line).
- Adj. PAT decreased 23% YoY to INR615m (est. INR665m), due to higher depreciation/interest cost/tax outgo.
- For FY23, ERIS' revenue/EBITDA grew 24%/11% YoY to INR16.8b/INR5.3b. However, PAT declined 8% YoY to INR3.7b.
- Its standalone sales/EBITDA margin came in at INR3.1b/35.4% for 4QFY23.

Other highlights

- Oaknet sales/EBITDA margin came in at INR675m/27% for 4QFY23. Oaknet's sales grew 28% YoY to INR2.5b with an EBITDA margin of 24% for FY23.
- ERIS' MJ insulin sales were at INR58m, while the operational loss stood at INR55m for the quarter.
- Net debt was at INR7.7b at the end of FY23.

Key highlights from the management commentary

- Despite higher operational costs related to Gujarat facility and addition of MRs, ERIS remains confident to improve profitability in FY24 on YoY basis.
- It may add one more division comprising ~100 MRs in dermatology in FY24. Current overall MR strength stands at 2,900.
- ERIS has shown strong improvement in operating performance of Oaknet. The EBITDA margin has expanded to 24% in FY23 from 10% in FY22. Particularly, in 4QFY23, it achieved an EBITDA margin of 26%.

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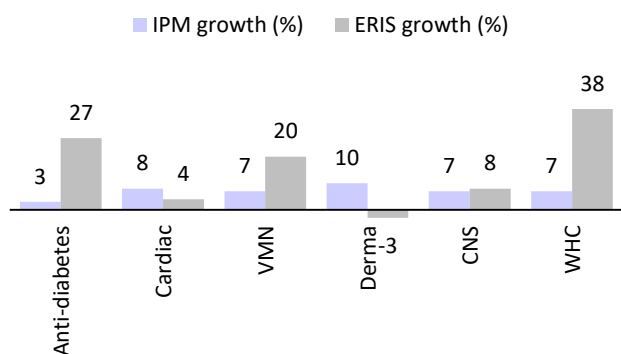
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Consol P&L snapshot

(INR m)

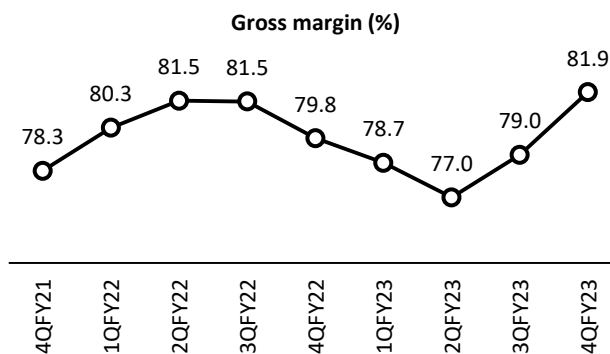
Y/E March	FY22				FY23				FY22	FY23	Estimate	Var %
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Gross Sales	3,493	3,597	3,322	3,059	3,986	4,605	4,233	4,028	13,470	16,851	3,985	1.1
YoY Change (%)	19.1	9	7	10	14.1	17.7	27.4	31.7	11.2	25.1	30.2	
Total Expenditure	2,228	2,199	2,104	2,091	2,694	3,091	2,861	2,839	8,621	11,484	2,768	
EBITDA	1,265	1,398	1,217	969	1,292	1,514	1,372	1,189	4,850	5,368	1,217	-2.3
Margins (%)	36.2	38.9	36.6	31.7	32.4	32.4	32.4	29.5	36	31.9	30.5	
Depreciation	145	150	169	184	234	286	299	351	647	1,171	387	
Interest	8	11	10	13	72	71	30	89	41	262	99	
Other Income	59	70	52	81	27	52	22	10	261	112	16	
PBT before EO expense	1,171	1,308	1,090	853	1,013	1,209	1,065	759	4,422	4,047	747	1.7
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	1,065	759	4,422	4,047	747	
Tax	104	124	82	54	82	16	63	144	364	305	81	
Rate (%)	8.9	9.5	7.5	6.3	8.1	1.3	5.9	19	8.2	7.5	10.9	
Reported PAT	1,067	1,184	1,008	800	931	1,194	1,002	615	4,058	3,742	665	-7.5
Adj PAT	1,067	1,184	1,008	800	931	1,194	1,002	615	4,058	3,742	665	-7.5
YoY Change (%)	19.8	9.9	11.8	17.2	-12.7	0.8	-0.5	-23.1	14.3	-7.8	-16.8	
Margins (%)	30.5	32.9	30.3	26.1	23.4	25.9	23.7	15.3	30.1	22.2	16.7	

Exhibit 1: ERIS outperformed IPM in 4QFY23



Source: MOFSL, IQVIA

Exhibit 2: Gross margin reached 82% in 4QFY23



Source: MOFSL, Company



Highlights from the management interaction

- Certain supply-related issues hit Insulin sales for the quarter. It expects to scale-up the insulin business over near term and remains confident to achieve break-even in FY24E.
- ERIS delivered 11.0%/9.5% YoY growth in standalone revenue for 4QFY23/FY23. The overall growth rate was lower than expected due to sales return and write-offs related to Zac-d and Zayo brands.
- Overall, ERIS has invested INR12.6b on inorganic front in FY23.
- It intends to repay the debt to the tune of INR4b-INR5b in FY24.
- The effective tax rate is expected to be 14-15% in FY24.

Execution remains the key

Enhancing presence in derma category through organic/inorganic routes

- In FY23, ERIS' revenue grew 25% YoY to INR17b, driven by steady outperformance in cardio-metabolic therapy/emerging therapies (CNS/ Women's health) and addition of acquired products.
- In FY23, ERIS carried out three acquisitions to expand its dermatology portfolio – a portfolio of nine dermatology brands each from GNP and DRRD in addition to the Oaknet brands. The cumulative consideration amount for these acquisitions was nearly INR13b.
- With these acquisitions, ERIS made its entry into the derma (cosmetic derma/ anti-fungal and anti-psoriasis segments/women's healthcare) segment.
- Considering the gross margin of 80% for these portfolio and minimal addition of opex, we expect healthy improvement in profitability over medium term.

Base therapies continue to perform well

- Revenue of top-20 brands rose 17% YoY in FY23 accounting for 70% of sales.
- In addition to Xsulin (Human Insulin), ERIS would be expanding injectable anti-diabetes franchise through Xglar (Glargine), a GLP1 agonist. It plans to market through the 200-strong field force.
- Given its established presence in the cardio-metabolic segment and pipeline of patent expiries available over the near to medium term, we expect ERIS to outperform the industry in this segment over the next two to three years.

Focusing on additional therapies (CNS/WHC) for growth

- Other emerging therapies (CNS, WHC) formed 12% of FY23 revenue (INR2.8b).
- ERIS plans to expand product range in the CNS and WHC categories as well and leverage existing MR base to improve productivity, thus driving profitability.

Valuation and view

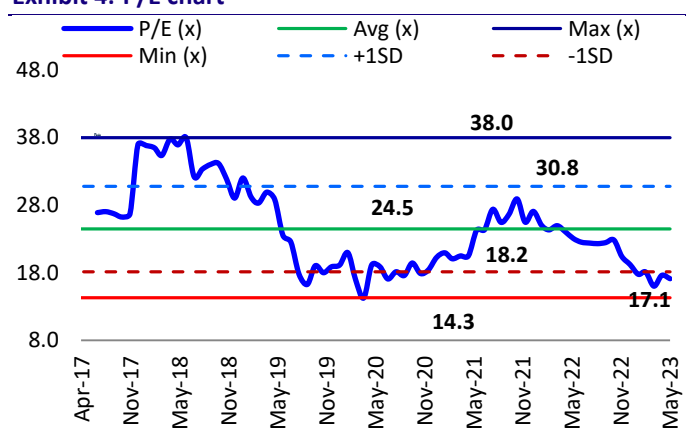
- We retain our earnings estimates for FY24/FY25 and value ERIS at 19x 12M forward earnings to arrive at our TP of INR720.
- We remain positive on ERIS aided by its: a) robust portfolio offerings in anti-diabetes, cardiovascular and dermatology segments through organic as well as inorganic routes, b) field force addition, which would expand coverage of specialist/consulting physicians, and c) improving operating leverage. **Reiterate BUY.**

Exhibit 3: EBITDA profile of various entities of ERIS

Entity (INR m)	4QFY23				FY23				EBITDA margin (%)		
	Revenue	YoY Growth (%)	EBITDA	YoY Growth (%)	Revenue	YoY Growth (%)	EBITDA	YoY Growth (%)	4QFY23	FY23	FY22
Eris (standalone)	3146	11	1115	10	13307	9	5051	4	35	38	40
Oaknet (BGx)	675		182		2268		570		27	25	10
Aprica (BGx)	74	-24	-20		542	-7	46	-52	(27)	8	16
EHPL (TGx)	104	-35	-13	-58	696	-31	-43	-35			
Eris M J (Insulin)	58		-55		172		-201				
Eris Therapeutics	5		-20		6		-36				
Inter co. adjustments	-34		0		-140		-20				
Cons. Revenue	4028	32	1189	23	16851		5367		30	32	36

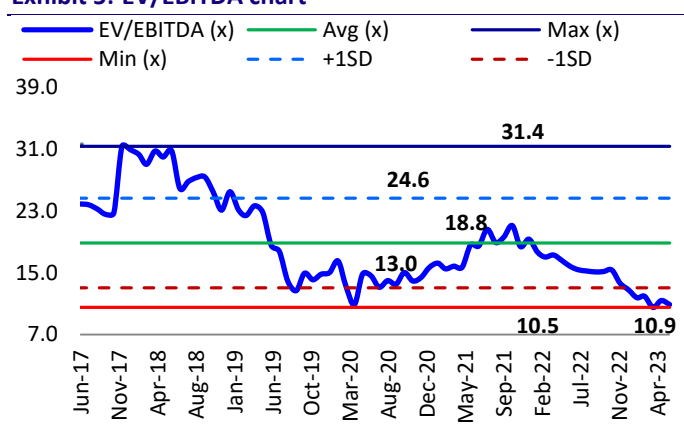
Source: MOFSL, Company

Exhibit 4: P/E chart



Source: MOFSL, Company, Bloomberg

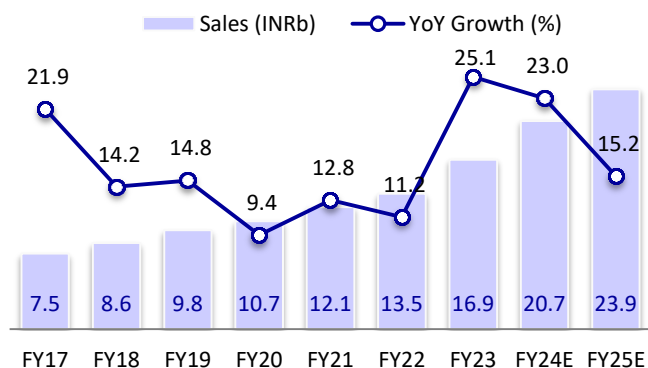
Exhibit 5: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

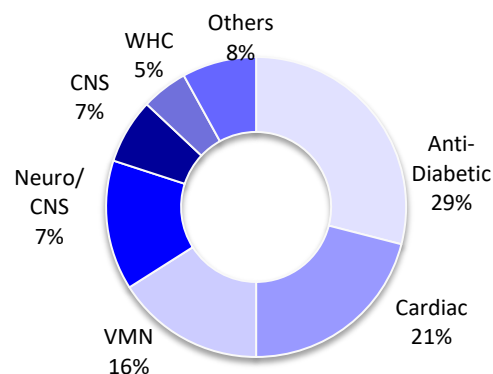
Story in Charts

Exhibit 6: Expect 19% revenue CAGR over FY23–25



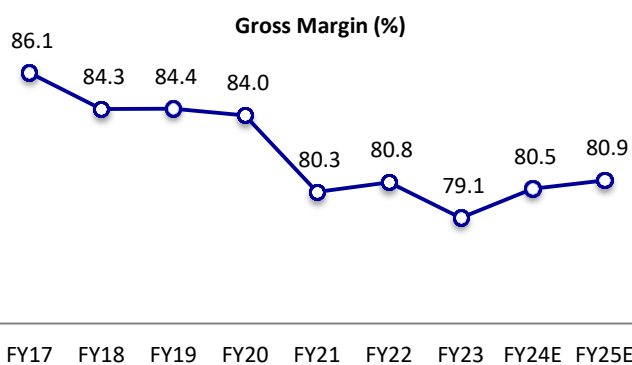
Source: MOFSL, Company

Exhibit 7: Therapy-wise chart (FY23)



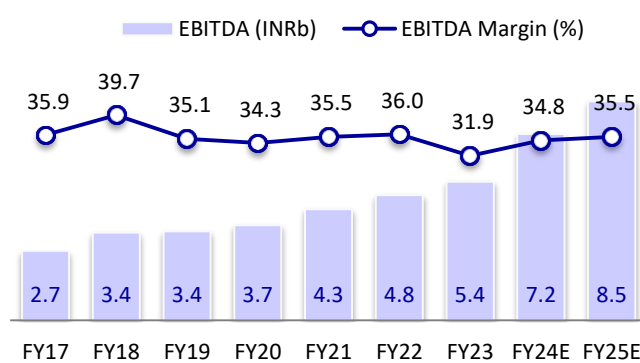
Source: MOFSL, Company

Exhibit 8: Gross margin to stabilize at ~81% in FY25



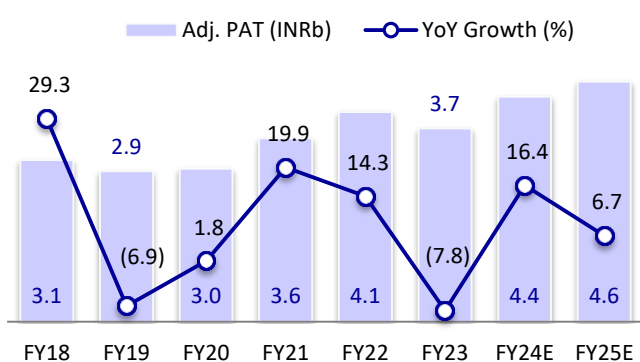
Source: MOFSL, Company

Exhibit 9: EBITDA margin to expand by 360bp over FY23–25



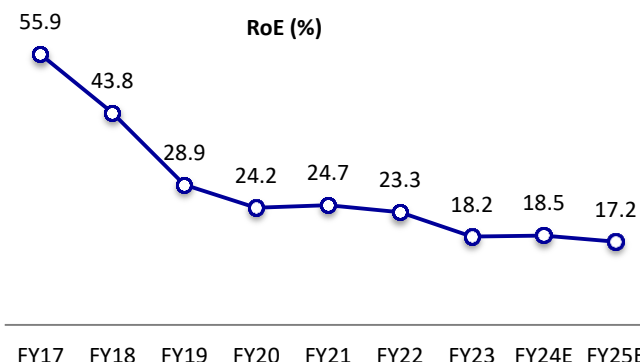
Source: MOFSL, Company

Exhibit 10: PAT to exhibit 11% CAGR over FY23–25



Source: MOFSL, Company

Exhibit 11: RoE to stabilize near 17% by FY25



Source: MOFSL, Company

Financial and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	7,495	8,556	9,822	10,741	12,119	13,470	16,851	20,720	23,872
Change (%)	21.9	14.2	14.8	9.4	12.8	11.2	25.1	23.0	15.2
Total Expenditure	4,808	5,157	6,372	7,057	7,813	8,621	11,484	13,509	15,398
EBITDA	2,687	3,399	3,449	3,684	4,306	4,850	5,368	7,211	8,475
Margin (%)	35.9	39.7	35.1	34.3	35.5	36.0	31.9	34.8	35.5
Depreciation	237	256	364	502	430	647	1,171	1,639	1,660
EBIT	2,450	3,143	3,086	3,182	3,876	4,203	4,197	5,572	6,814
Int. and Finance Charges	3	106	229	22	18	41	262	927	842
Other Income	191	264	317	154	87	261	112	166	477
PBT bef. EO Exp.	2,638	3,302	3,174	3,314	3,945	4,422	4,046	4,811	6,450
EO Items	0	0	0	0	0	0	0	0	0
PBT after EO Exp.	2,638	3,302	3,174	3,314	3,945	4,422	4,046	4,811	6,450
Total Tax	219	173	262	351	394	364	305	457	1,806
Tax Rate (%)	8.3	5.2	8.3	10.6	10.0	8.2	7.5	9.5	28.0
Minority Interest	-2	0	0	0	0	0	0	0	0
Reported PAT	2,421	3,129	2,912	2,963	3,551	4,058	3,742	4,354	4,644
Adjusted PAT	2,421	3,129	2,912	2,963	3,551	4,058	3,742	4,354	4,644
Change (%)	81.3	29.3	-6.9	1.8	19.9	14.3	-7.8	16.4	6.7
Margin (%)	32.3	36.6	29.6	27.6	29.3	30.1	22.2	21.0	19.5

Consolidated - Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	138	138	138	138	136	136	136	136	136
Total Reserves	5,534	8,476	11,368	12,828	15,628	18,947	21,824	25,078	28,622
Net Worth	5,671	8,613	11,505	12,965	15,764	19,083	21,960	25,214	28,758
Minority Interest	238	247	183	0	0	-1	247	247	247
Total Loans	6	3,799	3	0	0	450	8,300	10,900	9,900
Deferred Tax Liabilities	346	-483	-931	-1,203	-1,511	-1,970	-163	-163	-163
Capital Employed	6,262	12,175	10,760	11,762	14,253	17,562	30,344	36,198	38,742
Gross Block	765	916	1,097	1,584	1,757	2,506	4,634	4,857	4,992
Less: Accum. Deprn.	208	390	544	711	978	1,294	1,594	2,163	2,754
Net Fixed Assets	557	526	553	873	779	1,212	3,040	2,694	2,238
Gross intangible asset	1,401	6,344	6,350	7,320	7,366	7,439	20,546	23,246	23,246
Accumulated amortization	20	94	233	379	541	873	1,744	2,813	3,882
Net intangible asset	1,381	6,250	6,116	6,941	6,825	6,566	18,803	20,433	19,364
Goodwill on Consolidation	378	935	936	935	935	935	3,318	3,318	3,318
Capital WIP	1	0	7	44	16	270	217	93	79
Total Investments	2,686	3,839	3,765	780	2,940	5,204	367	367	367
Curr. Assets, Loans&Adv.	2,263	2,046	2,711	4,244	4,847	6,103	8,189	13,639	18,367
Inventory	558	654	827	695	945	1,179	1,314	1,546	1,762
Account Receivables	489	666	840	1,569	1,405	1,610	2,927	3,599	4,147
Cash and Bank Balance	24	106	75	673	383	523	560	4,329	7,660
Loans and Advances	1,192	618	970	1,307	2,114	2,791	3,387	4,165	4,798
Curr. Liability & Prov.	1,004	1,420	3,328	2,054	2,088	2,728	3,590	4,348	4,991
Account Payables	386	908	841	1,001	1,026	1,178	1,248	1,468	1,673
Other Current Liabilities	169	154	2,083	491	474	839	1,207	1,484	1,709
Provisions	450	358	404	562	588	712	1,136	1,396	1,609
Net Current Assets	1,259	626	-617	2,190	2,759	3,375	4,599	9,291	13,376
Appl. of Funds	6,262	12,176	10,760	11,762	14,253	17,562	30,344	36,198	38,742

E: MOFSL Estimates

Financial and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS	17.6	22.8	21.2	21.5	25.8	29.5	27.2	31.7	33.8
Cash EPS	19.3	24.6	23.8	25.2	29.0	34.2	35.7	43.6	45.9
BV/Share	41.2	62.6	83.7	94.3	114.6	138.8	159.7	183.4	209.1
DPS	0.0	0.0	0.0	2.9	5.5	5.5	5.5	8.0	8.0
Payout (%)	0.0	0.0	0.0	13.3	21.3	18.6	20.2	25.3	23.7
Valuation (x)									
P/E	36.2	28.0	30.1	29.6	24.7	21.6	23.4	20.1	18.9
Cash P/E	32.9	25.9	26.7	25.3	22.0	18.6	17.8	14.6	13.9
P/BV	15.4	10.2	7.6	6.8	5.6	4.6	4.0	3.5	3.0
EV/Sales	11.7	10.7	8.9	8.1	7.2	6.5	5.7	4.5	3.8
EV/EBITDA	32.6	26.9	25.4	23.6	20.3	18.0	17.8	13.1	10.6
Dividend Yield (%)	0.0	0.0	0.0	0.5	0.9	0.9	0.9	1.3	1.3
FCF per share	10.9	15.2	14.1	9.1	25.4	18.8	-40.0	22.0	42.1
Return Ratios (%)									
RoE	55.9	43.8	28.9	24.2	24.7	23.3	18.2	18.5	17.2
RoCE	55.8	35.7	26.1	24.4	24.8	23.2	16.0	15.6	14.0
RoIC	99.3	50.6	37.4	33.1	32.9	34.3	19.0	16.6	15.8
Working Capital Ratios									
Inventory (Days)	27	28	31	24	28	32	28	27	27
Debtor (Days)	24	28	31	53	42	44	63	63	63
Creditor (Days)	19	39	31	34	31	32	27	26	26
Leverage Ratio (x)									
Net Debt/Equity	-0.5	0.0	-0.3	-0.1	-0.2	-0.3	0.3	0.2	0.1

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	2,704	3,122	3,174	3,314	3,945	4,422	4,046	4,811	6,450
Depreciation	228	256	364	503	430	647	1,171	1,639	1,660
Interest & Finance Charges	1	96	218	6	-5	41	262	761	364
Direct Taxes Paid	-531	-696	-716	-518	-685	-833	-772	-457	-1,806
(Inc)/Dec in WC	-165	-222	-532	-527	53	-299	-1,755	-924	-754
CF from Operations	2,237	2,557	2,506	2,777	3,738	3,979	2,952	5,830	5,915
Others	-235	-211	-277	-66	16	-196	-34	0	0
CF from Operating incl EO	2,002	2,346	2,230	2,712	3,754	3,783	2,917	5,830	5,915
(Inc)/Dec in FA	-497	-251	-293	-1,458	-257	-1,203	-8,413	-2,800	-120
Free Cash Flow	1,505	2,096	1,937	1,254	3,497	2,580	-5,495	3,030	5,795
(Pur)/Sale of Investments	-1,100	-1,075	350	2,880	-2,946	-1,881	4,904	0	0
Others	-241	-4,571	-108	-189	-17	-112	-6,313	166	477
CF from Investments	-1,838	-5,896	-51	1,233	-3,220	-3,196	-9,821	-2,634	357
Issue of Shares	0	0	9	0	0	0	0	0	0
Inc/(Dec) in Debt	-65	0	-2,002	-1,841	-59	450	7,850	2,600	-1,000
Interest Paid	-2	-103	-217	-18	-18	-39	-234	-927	-842
Dividend Paid	-169	0	0	-470	-747	-816	-999	-1,100	-1,100
Others	0	3,735	0	-1,017	0	-42	264	0	0
CF from Fin. Activity	-237	3,632	-2,211	-3,346	-824	-447	6,880	573	-2,942
Inc/Dec of Cash	-73	82	-31	598	-291	140	-23	3,769	3,331
Opening Balance	97	24	106	75	673	384	523	560	4,329
Others	0	0	0	0	0	0	60	0	0
Closing Balance	24	106	75	673	383	523	560	4,329	7,660

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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 be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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