

# Eris Lifesciences

Estimate change



TP change



Rating change



**CMP: INR825 TP: INR885 (+7%) Downgrade to Neutral**

## In-line earnings; working on new launches

### Work-in-progress to better margins of acquired assets

- Eris Lifescience (ERIS) delivered an in-line 1QFY24 performance. ERIS remains on track to improve profitability of acquired businesses and build a new launch pipeline over the next 9-12 months.
- We raise our EPS estimates by 8%/5% for FY24/FY25, factoring in a) healthy product launches in the dermatology, diabetes and cardiology segments, b) reducing operational losses of Insulin venture, and c) better capacity utilization. We value ERIS at 25x 12M forward earnings to arrive at a TP of INR885.
- ERIS is implementing efforts towards a) strong franchise build-up in dermatology, b) expanding offerings in the diabetes space, and c) enhancing doctor/specialist coverage. Having said this, the enhanced marketing efforts and gradual improvement in business from new launches, it would keep earnings growth under check. Also, valuation leaves limited upside from current levels. Hence we downgrade to Neutral

### Product mix drives margins

- 1QFY24 revenues grew 17.1% YoY to INR4.7b (in line).
- Gross margin expanded 460bp YoY to 83.2% due to a better product mix.
- EBITDA margin expanded by 400bp YoY to 36.4% (est. 34.3%), due to better GM and lower other expenses (-200bp as a % of sales), offset by an increase in employee costs (+260bp as a % of sales).
- Likewise, EBITDA increased by 31.4% YoY to INR1.7b (est. INR1.6b).
- Adj. PAT was flat YoY at INR948m (est. INR949m), due to higher depreciation/interest cost/lower other income

### Other highlights

- ERIS MJ sales came in at INR90m in 1QFY24. EBITDA burn rate declined to INR25m from INR55m QoQ.
- During 12M ending Jun'23, Anti-Diabetic sales grew 23.3% YoY to INR6.8b.
- Revenue from the CVD business grew 15.2% YoY to INR4.7b on 12M ending Jun'23 basis.

### Key highlights from the management commentary

- Organic sales growth is expected to be in low double digits YoY in FY24.
- ERIS expects EBITDA margin at around 35% in FY24.
- With 1QFY24 sales of INR90m from Insulin, it intends to reach INR500m in FY24. The company also intends to achieve EBITDA break-even in 4QFY24.
- ERIS would also be re-launching FCM injection after the favorable litigation verdict.
- About 8-10 launches are lined up in the remainder of FY24 in the dermatology category.



Bloomberg	ERIS IN
Equity Shares (m)	138
M.Cap.(INRb)/(USDb)	112.2 / 1.4
52-Week Range (INR)	838 / 551
1, 6, 12 Rel. Per (%)	13/20/7
12M Avg Val (INR M)	70

#### Financials & valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	16.9	20.6	23.7
EBITDA	5.4	7.5	8.7
Adj. PAT	3.8	4.7	4.9
EBIT Margin (%)	24.9	28.3	29.6
Cons. Adj. EPS (INR)	27.8	33.9	35.5
EPS Gr. (%)	-5.8	22.1	4.6
BV/Sh. (INR)	159.7	185.7	213.2

#### Ratios

Net D:E	0.3	0.2	0.0
RoE (%)	18.6	19.7	17.8
RoCE (%)	16.0	15.2	14.2
Payout (%)	19.8	23.6	22.5

#### Valuations

P/E (x)	29.9	24.5	23.4
EV/EBITDA (x)	22.7	16.0	13.3
Div. Yield (%)	0.7	1.0	1.0
FCF Yield (%)	-4.8	2.8	5.4
EV/Sales (x)	7.2	5.9	4.9

#### Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	52.9	52.9	52.3
DII	10.7	10.0	10.7
FII	13.8	14.9	15.4
Others	22.6	22.3	21.7

FII includes depository receipts

**Tushar Manudhane - Research Analyst** (Tushar.Manudhane@MotilalOswal.com)

**Research Analyst: Sumit Gupta** (sumit.g@motilaloswal.com) | **Akash Dobhada-** (Akash.Dobhada@motilaloswal.com)

**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](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

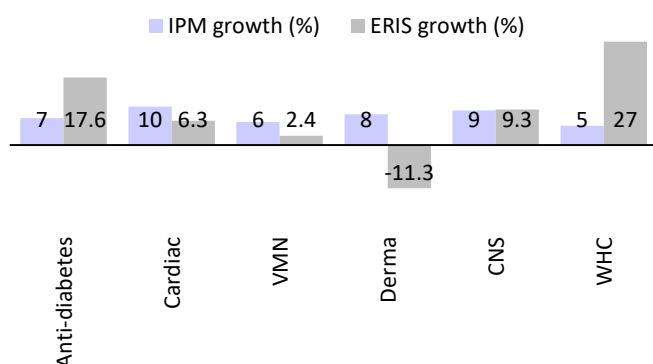
## Consolidated - Quarterly Earning Model

(INR m)

Y/E March	FY23				FY24E				FY23	FY24E	Estimate	Var %
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
Gross Sales	3,986	4,605	4,233	4,028	4,666	5,020	5,291	5,588	16,851	20,564	4,743	-1.6
YoY Change (%)	14.1	17.7	27.4	31.7	17.1	9.0	25.0	38.7	25.1	22.0	19.0	
Total Expenditure	2,694	3,091	2,861	2,839	2,969	3,167	3,349	3,573	11,484	13,058	3,116	
EBITDA	1,292	1,514	1,372	1,189	1,697	1,852	1,942	2,015	5,368	7,506	1,627	4.3
Margins (%)	32.4	32.4	32.4	29.5	36.4	36.9	36.7	36.1	31.9	36.5	34.3	
Depreciation	234	286	299	351	409	410	430	433	1,171	1,681	380	
Interest	72	71	30	89	174	150	120	123	262	567	225	
Other Income	27	52	22	10	10	25	30	38	112	103	32	
PBT before EO expense	1,013	1,209	1,065	759	1,125	1,317	1,422	1,497	4,046	5,360	1,054	6.7
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	1,013	1,209	1,065	759	1,125	1,317	1,422	1,497	4,046	5,360	1,054	
Tax	82	16	63	144	188	184	213	191	305	777	105	
Rate (%)	8.1	1.3	5.9	19.0	16.7	14.0	15.0	12.8	7.5	14.5	10.0	
MI & Profit/Loss of Asso. Cos.	15	13	13	39	12	26	21	25	80	84	0.0	
Reported PAT	946	1,207	1,015	654	948	1,159	1,229	1,331	3,822	4,667	949	0.0
Adj PAT	946	1,207	1,015	654	948	1,159	1,229	1,331	3,822	4,667	949	0.0
YoY Change (%)	-11.3	1.9	0.8	-18.2	0.3	-4.0	21.1	103.4	-5.8	22.1	1.9	
Margins (%)	23.7	26.2	24.0	16.2	20.3	23.1	23.2	23.8	22.7	22.7	20.0	

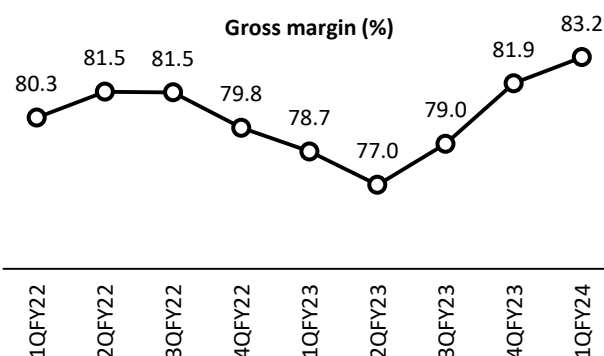
E: MOFSL Estimates

## Exhibit 1: ERIS outperformed IPM in 1QFY24



Source: MOFSL, IQVIA

## Exhibit 2: Gross margin reached 83% in 1QFY24



Source: MOFSL, Company



## Highlights from the management interaction

- ERIS has achieved company-level EBITDA margin in its Oaknet portfolio.
- It has an active pipeline of 10 fixed-dose combinations, with R&D expenses of INR300m.
- ETR would be 13-16% for FY24.
- Net debt stood at INR6.7b as of 1QFY24.

## Superior execution to improve the profitability

## Deepening presence in dermatology

- In 1QFY24, revenue grew 17% YoY to INR4.7b, driven by strong outperformance in Anti-diabetic/emerging therapies like Women's health (WHC).
- Superior execution has helped its Oaknet portfolio reach company-level margins.
- ERIS launched Minoxidil Booster and Hydroheal Nova within dermatology in 1QFY24. Additionally, it intends to launch 8-10 products in acne, haircare, emollients and antifungal.
- Besides, ERIS plans to launch its Pediatric dermatology segment in 2QFY24.

- Considering increased profitability of Oaknet, focus on the cosmetic segment, new launches, and entry into the pediatric dermatology segment, we expect further improvement in profitability.

### Base therapies continue to outperform

- Revenue of top-20 brands rose 13% YoY in 1QFY24, accounting for 49% of sales.
- All the brands in the base business showed robust growth on MAT'23 basis.
- Additionally, ERIS has launched Human Insulin and re-launched Zayo. Zayo has ramped up significantly to INR20m p.m. revenue by Jun'23.
- With the loss of exclusivity of linagliptin in Aug'23 and an expected launch of Glargine and Liraglutide in 4QFY24, the overall growth outlook remains promising.
- With an established presence in the cardiac/antidiabetic segments, the new product pipeline and patent expiry in near future, we expect ERIS to outperform the industry over the near to medium term.

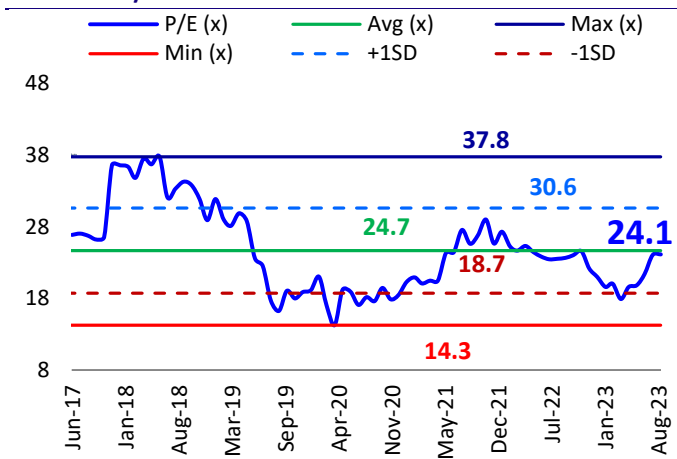
### Enhancing presence in CHS/WHC to drive overall growth

- Other emerging therapies, WHC and CNS, outperformed IPM by 1800bp and 30bp respectively, in 1QFY24.
- ERIS plans to continue to invest in these therapies and expand its presence through leveraging the field force.

### Valuation and view

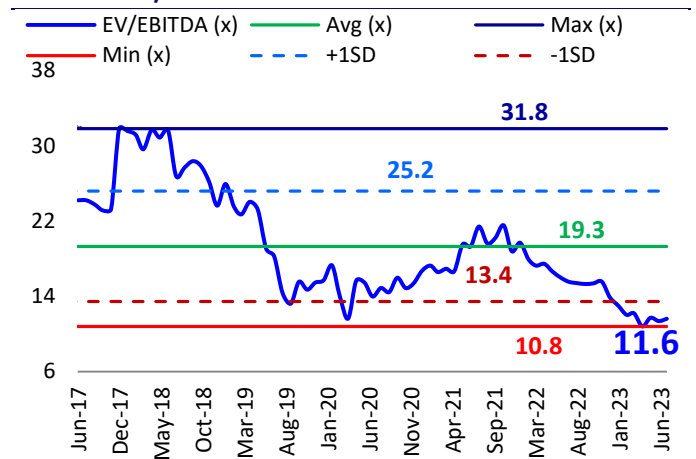
- We raise our EPS estimates by 8%/5% for FY24/FY25, factoring in a) healthy product launches in the dermatology, diabetes and cardiology segments, b) declining operational losses of Insulin venture, and c) better capacity utilization. We value ERIS at 23x 12M forward earnings to arrive at a TP of INR955.
- ERIS is implementing efforts towards a) strong franchise build-up in dermatology, b) expanding offerings in the diabetes space, and c) enhancing doctor/specialist coverage. Having said this, the enhanced marketing efforts and gradual improvement in business from new launches, it would keep earnings growth under check. Also, valuation leaves limited upside from current levels. Hence we downgrade to Neutral.

Exhibit 3: P/E chart



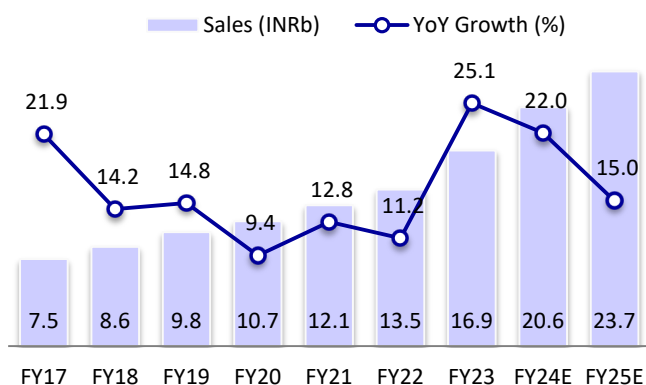
Source: MOFSL, Company, Bloomberg

Exhibit 4: EV/EBITDA chart

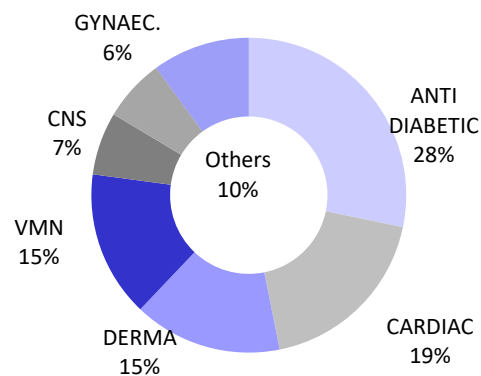


Source: MOFSL, Company, Bloomberg

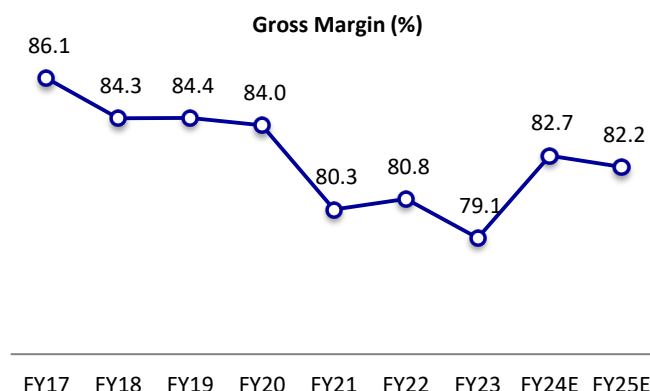
## Story in Charts

**Exhibit 5: Expect 18% revenue CAGR over FY23–25**


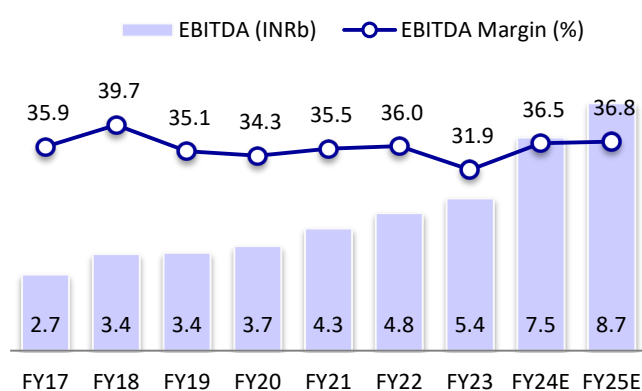
Source: MOFSL, Company

**Exhibit 6: Therapy-wise chart MAT JUN'23**


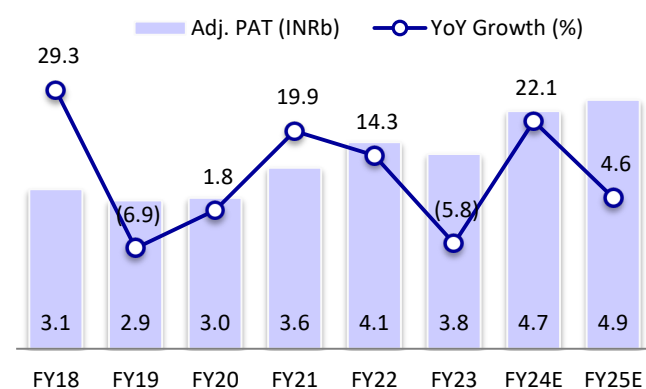
Source: MOFSL, Company

**Exhibit 7: Gross margin to stabilize at ~82% in FY25**


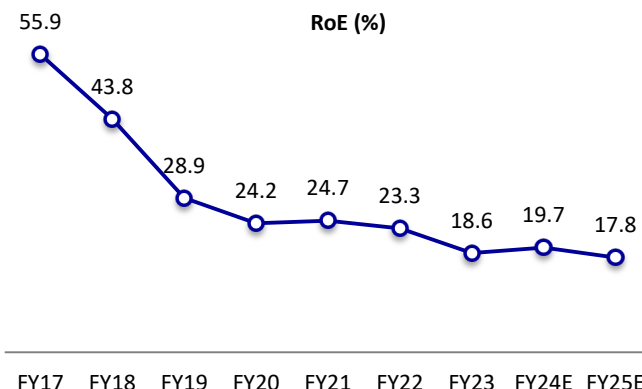
Source: MOFSL, Company

**Exhibit 8: EBITDA margin to expand by 500bp over FY23–25**


Source: MOFSL, Company

**Exhibit 9: PAT to exhibit 13% CAGR over FY23–25**


Source: MOFSL, Company

**Exhibit 10: RoE to stabilize near 18% 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
<b>Total Income from Operations</b>	<b>7,495</b>	<b>8,556</b>	<b>9,822</b>	<b>10,741</b>	<b>12,119</b>	<b>13,470</b>	<b>16,851</b>	<b>20,564</b>	<b>23,655</b>
Change (%)	21.9	14.2	14.8	9.4	12.8	11.2	25.1	22.0	15.0
<b>Total Expenditure</b>	<b>4,808</b>	<b>5,157</b>	<b>6,372</b>	<b>7,057</b>	<b>7,813</b>	<b>8,621</b>	<b>11,484</b>	<b>13,058</b>	<b>14,950</b>
<b>EBITDA</b>	<b>2,687</b>	<b>3,399</b>	<b>3,449</b>	<b>3,684</b>	<b>4,306</b>	<b>4,850</b>	<b>5,368</b>	<b>7,506</b>	<b>8,705</b>
Margin (%)	35.9	39.7	35.1	34.3	35.5	36.0	31.9	36.5	36.8
Depreciation	237	256	364	502	430	647	1,171	1,681	1,705
<b>EBIT</b>	<b>2,450</b>	<b>3,143</b>	<b>3,086</b>	<b>3,182</b>	<b>3,876</b>	<b>4,203</b>	<b>4,197</b>	<b>5,824</b>	<b>7,000</b>
Int. and Finance Charges	3	106	229	22	18	41	262	567	515
Other Income	191	264	317	154	87	261	112	103	142
<b>PBT bef. EO Exp.</b>	<b>2,638</b>	<b>3,302</b>	<b>3,174</b>	<b>3,314</b>	<b>3,945</b>	<b>4,422</b>	<b>4,046</b>	<b>5,360</b>	<b>6,628</b>
EO Items	0	0	0	0	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>2,638</b>	<b>3,302</b>	<b>3,174</b>	<b>3,314</b>	<b>3,945</b>	<b>4,422</b>	<b>4,046</b>	<b>5,360</b>	<b>6,628</b>
Total Tax	219	173	262	351	394	364	305	777	1,657
Tax Rate (%)	8.3	5.2	8.3	10.6	10.0	8.2	7.5	14.5	25.0
Minority Interest	-2	0	0	0	0	0	80	84	88
<b>Reported PAT</b>	<b>2,421</b>	<b>3,129</b>	<b>2,912</b>	<b>2,963</b>	<b>3,551</b>	<b>4,058</b>	<b>3,822</b>	<b>4,667</b>	<b>4,882</b>
<b>Adjusted PAT</b>	<b>2,421</b>	<b>3,129</b>	<b>2,912</b>	<b>2,963</b>	<b>3,551</b>	<b>4,058</b>	<b>3,822</b>	<b>4,667</b>	<b>4,882</b>
Change (%)	81.3	29.3	-6.9	1.8	19.9	14.3	-5.8	22.1	4.6
Margin (%)	32.3	36.6	29.6	27.6	29.3	30.1	22.7	22.7	20.6

### 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	25,391	29,174
<b>Net Worth</b>	<b>5,671</b>	<b>8,613</b>	<b>11,505</b>	<b>12,965</b>	<b>15,764</b>	<b>19,083</b>	<b>21,960</b>	<b>25,527</b>	<b>29,310</b>
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
<b>Capital Employed</b>	<b>6,262</b>	<b>12,175</b>	<b>10,760</b>	<b>11,762</b>	<b>14,253</b>	<b>17,562</b>	<b>30,344</b>	<b>36,511</b>	<b>39,294</b>
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	2,206	2,841
<b>Net Fixed Assets</b>	<b>557</b>	<b>526</b>	<b>553</b>	<b>873</b>	<b>779</b>	<b>1,212</b>	<b>3,040</b>	<b>2,651</b>	<b>2,151</b>
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
<b>Net intangible asset</b>	<b>1,382</b>	<b>6,250</b>	<b>6,116</b>	<b>6,941</b>	<b>6,825</b>	<b>6,566</b>	<b>18,803</b>	<b>20,433</b>	<b>19,364</b>
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
<b>Total Investments</b>	<b>2,686</b>	<b>3,839</b>	<b>3,765</b>	<b>780</b>	<b>2,940</b>	<b>5,204</b>	<b>367</b>	<b>367</b>	<b>367</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>2,263</b>	<b>2,046</b>	<b>2,711</b>	<b>4,244</b>	<b>4,847</b>	<b>6,103</b>	<b>8,189</b>	<b>13,924</b>	<b>18,926</b>
Inventory	558	654	827	695	945	1,179	1,314	1,495	1,711
Account Receivables	489	666	840	1,569	1,405	1,610	2,927	3,572	4,109
Cash and Bank Balance	24	106	75	673	383	523	560	4,724	8,352
Loans and Advances	1,192	618	970	1,307	2,114	2,791	3,387	4,133	4,755
<b>Curr. Liability &amp; Prov.</b>	<b>1,004</b>	<b>1,420</b>	<b>3,328</b>	<b>2,054</b>	<b>2,088</b>	<b>2,728</b>	<b>3,590</b>	<b>4,277</b>	<b>4,912</b>
Account Payables	386	908	841	1,001	1,026	1,178	1,248	1,419	1,624
Other Current Liabilities	169	154	2,083	491	474	839	1,207	1,473	1,694
Provisions	450	358	404	562	588	712	1,136	1,386	1,594
<b>Net Current Assets</b>	<b>1,259</b>	<b>626</b>	<b>-617</b>	<b>2,190</b>	<b>2,759</b>	<b>3,375</b>	<b>4,599</b>	<b>9,647</b>	<b>14,014</b>
<b>Appl. of Funds</b>	<b>6,262</b>	<b>12,176</b>	<b>10,760</b>	<b>11,762</b>	<b>14,253</b>	<b>17,562</b>	<b>30,344</b>	<b>36,511</b>	<b>39,294</b>

E: MOFSL Estimates

## Financial and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>EPS</b>	<b>17.6</b>	<b>22.8</b>	<b>21.2</b>	<b>21.5</b>	<b>25.8</b>	<b>29.5</b>	<b>27.8</b>	<b>33.9</b>	<b>35.5</b>
Cash EPS	19.3	24.6	23.8	25.2	29.0	34.2	36.3	46.2	47.9
BV/Share	41.2	62.6	83.7	94.3	114.6	138.8	159.7	185.7	213.2
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	19.8	23.6	22.5
<b>Valuation (x)</b>									
P/E	47.1	36.5	39.2	38.5	32.1	28.1	29.9	24.5	23.4
Cash P/E	42.9	33.7	34.8	32.9	28.7	24.3	22.9	18.0	17.3
P/BV	20.1	13.3	9.9	8.8	7.2	6.0	5.2	4.5	3.9
EV/Sales	15.2	13.8	11.6	10.6	9.4	8.5	7.2	5.9	4.9
EV/EBITDA	42.5	34.7	33.1	30.8	26.4	23.5	22.7	16.0	13.3
Dividend Yield (%)	0.0	0.0	0.0	0.3	0.7	0.7	0.7	1.0	1.0
FCF per share	10.9	15.2	14.1	9.1	25.4	18.8	-40.0	23.4	45.0
<b>Return Ratios (%)</b>									
RoE	55.9	43.8	28.9	24.2	24.7	23.3	18.6	19.7	17.8
RoCE	55.8	35.7	26.1	24.4	24.8	23.2	16.0	15.2	14.2
RoIC	99.3	50.6	37.4	33.1	32.9	34.3	19.0	16.5	17.0
<b>Working Capital Ratios</b>									
Inventory (Days)	27	28	31	24	28	32	28	27	26
Debtor (Days)	24	28	31	53	42	44	63	63	63
Creditor (Days)	19	39	31	34	31	32	27	25	25
<b>Leverahe Ratio (x)</b>									
Net Debt/Equity	-0.5	0.0	-0.3	-0.1	-0.2	-0.3	0.3	0.2	0.0

### 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	5,360	6,628
Depreciation	228	256	364	503	430	647	1,171	1,681	1,705
Interest & Finance Charges	1	96	218	6	-5	41	262	464	373
Direct Taxes Paid	-531	-696	-716	-518	-685	-833	-772	-777	-1,657
(Inc)/Dec in WC	-165	-222	-532	-527	53	-299	-1,755	-884	-740
<b>CF from Operations</b>	<b>2,237</b>	<b>2,557</b>	<b>2,506</b>	<b>2,777</b>	<b>3,738</b>	<b>3,979</b>	<b>2,952</b>	<b>5,844</b>	<b>6,309</b>
Others	-235	-211	-277	-66	16	-196	-34	168	0
<b>CF from Operating incl EO</b>	<b>2,002</b>	<b>2,346</b>	<b>2,230</b>	<b>2,712</b>	<b>3,754</b>	<b>3,783</b>	<b>2,917</b>	<b>6,012</b>	<b>6,309</b>
(Inc)/Dec in FA	-497	-251	-293	-1,458	-257	-1,203	-8,413	-2,800	-120
<b>Free Cash Flow</b>	<b>1,505</b>	<b>2,096</b>	<b>1,937</b>	<b>1,254</b>	<b>3,497</b>	<b>2,580</b>	<b>-5,495</b>	<b>3,212</b>	<b>6,189</b>
(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	103	142
<b>CF from Investments</b>	<b>-1,838</b>	<b>-5,896</b>	<b>-51</b>	<b>1,233</b>	<b>-3,220</b>	<b>-3,196</b>	<b>-9,821</b>	<b>-2,697</b>	<b>22</b>
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	-567	-515
Dividend Paid	-169	0	0	-470	-747	-816	-999	-1,100	-1,100
Others	0	3,735	0	-1,017	0	-42	264	-84	-88
<b>CF from Fin. Activity</b>	<b>-237</b>	<b>3,632</b>	<b>-2,211</b>	<b>-3,346</b>	<b>-824</b>	<b>-447</b>	<b>6,880</b>	<b>849</b>	<b>-2,703</b>
<b>Inc/Dec of Cash</b>	<b>-73</b>	<b>82</b>	<b>-31</b>	<b>598</b>	<b>-291</b>	<b>140</b>	<b>-23</b>	<b>4,164</b>	<b>3,628</b>
Opening Balance	97	24	106	75	673	384	523	560	4,724
Others	0	0	0	0	0	0	60	0	0
<b>Closing Balance</b>	<b>24</b>	<b>106</b>	<b>75</b>	<b>673</b>	<b>383</b>	<b>523</b>	<b>560</b>	<b>4,724</b>	<b>8,352</b>

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Explanation of Investment Rating	
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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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