

Eris Lifesciences

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	ERIS IN
Equity Shares (m)	138
M.Cap.(INRb)/(USDb)	122.1 / 1.5
52-Week Range (INR)	928 / 551
1, 6, 12 Rel. Per (%)	1/36/18
12M Avg Val (INR M)	93

Financials & valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	16.9	20.8	24.7
EBITDA	5.4	7.4	8.9
Adj. PAT	3.8	4.6	4.8
EBIT Margin (%)	24.9	27.1	28.4
Cons. Adj. EPS (INR)	27.8	33.7	34.7
EPS Gr. (%)	-5.8	21.4	2.7
BV/Sh. (INR)	159.7	185.5	212.1

Ratios

Net D:E	0.3	0.2	0.2
RoE (%)	18.6	19.6	17.4
RoCE (%)	16.0	15.2	14.2
Payout (%)	19.8	23.7	23.1

Valuations

P/E (x)	32.6	26.8	26.1
EV/EBITDA (x)	24.6	17.7	14.5
Div. Yield (%)	0.6	0.9	0.9
FCF Yield (%)	-4.4	2.5	2.1
EV/Sales (x)	7.8	6.3	5.3

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	54.9	52.9	52.3
DII	14.5	10.7	10.7
FII	13.2	13.8	15.4
Others	17.4	22.6	21.6

FII includes depository receipts

CMP: INR898 **TP: INR930 (+4%)** **Neutral**

In-line 2Q earnings; On acquisition spree

Enters Nephrology space, expands dermatology offerings through acquisitions

- Eris Life sciences (ERIS) delivered an in-line 2QFY24 operational performance. The profitability of its acquired businesses (Oaknet, Glenmark brands and Dr. Reddy brands) improved to company level in 1HFY24.
- The recent acquisition of Biocon's business enables ERIS to make in-roads in Nephrology and expand its derma offerings. In the past 12 months, ERIS spent about INR16b in total on acquisitions.
- We maintain our estimates for FY24/FY25. The acquisition of Biocon business is expected to be earnings neutral in FY25. We continue to value ERIS at 23x 12M forward earnings to arrive at a TP of INR930. In addition to its core therapies of anti-diabetes, cardiology and VMNs, ERIS has enhanced its presence in dermatology and nephrology through acquisitions, thereby expanding its overall offerings in the branded formulation space. The current valuation adequately factors in the upside in earnings. Hence, we maintain our Neutral rating on the stock.

Superior product mix drives margin YoY/QoQ

- 2QFY24 revenues grew 10% YoY to INR5b (in-line).
- Gross margin expanded 430bp YoY to 81.3% due to a better product mix.
- However, EBITDA margin expanded 290bp YoY to 35.8% (est. 36.9%), due to better GM and lower employee expense (-120bp as a % of sales), offset by increase in other expenses (+260bp as % of sales). Likewise, EBITDA increased by 20% YoY to INR1.8b (in-line).
- Adj. PAT grew 2% YoY to INR1.2b (in line), due to higher depreciation (+47% YoY), higher interest costs (>2x YoY) and lower other income.
- In 1HFY24, revenue/EBITDA/PAT grew 13% YoY/25% YoY/1% YoY to INR9.7b/INR3.5b/INR2.2b.

Acquisition at fair valuation of 3.6x EV/sales and 12x EV/FY25 EBITDA

- ERIS has signed a definitive agreement with Biocon to purchase nephrology and dermatology business for a consideration of INR3.6b (including net working capital). The transaction is expected to be closed by end-CY23.
- The current sales of this business stands at INR1b (INR650m – nephrology; INR350m – dermatology). This deal provides ERIS an entry to the nephrology division and enhances its portfolio in dermatology therapy. The business has EBITDA margin of 20%, which ERIS aims to increase to 30% in FY25.
- The deal is valued at 3.6x EV/sales and 12x EV/FY25 EBITDA. The valuation is decent, compared other deals in this space.
- With this deal, ERIS would add 120 people (including leadership roles) from Biocon. In addition to market share gains in existing brands, ERIS would launch products and enhance sourcing to improve growth prospects of this deal.
- The deal would be funded using debt (INR2.8b) and internal accruals. Due to this deal, total debt would increase from INR6.1b to INR7.2b by FY24 end.

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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	FY23				FY24E				FY23	FY24E	Estimate	Var %
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
Gross Sales	3,986	4,605	4,233	4,028	4,666	5,053	5,291	5,804	16,851	20,814	5,020	0.7
YoY Change (%)	14.1	28	27.4	31.7	17.1	9.7	25	44.1	25.1	23.5	9	
Total Expenditure	2,694	3,091	2,861	2,839	2,969	3,242	3,402	3,834	11,484	13,446	3,167	
EBITDA	1,292	1,514	1,372	1,189	1,697	1,811	1,889	1,971	5,368	7,368	1,852	-2.2
Margins (%)	32.4	32.9	32.4	29.5	36.4	35.8	35.7	34	31.9	35.4	36.9	
Depreciation	234	286	299	351	409	421	430	468	1,171	1,728	410	
Interest	72	71	30	89	174	163	120	110	262	567	150	
Other Income	27	52	22	10	10	35	30	29	112	104	25	
PBT before EO expense	1,013	1,209	1,065	759	1,125	1,262	1,369	1,422	4,046	5,177	1,317	-4.2
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	1,013	1,209	1,065	759	1,125	1,262	1,369	1,422	4,046	5,177	1,317	
Tax	82	16	63	144	188	39	164	229	305	621	224	
Rate (%)	8.1	1.3	5.9	19	16.7	3.1	12	16.1	7.5	12	17	
Minority Interest & Profit/Loss of Asso. Cos.	15	13	13	39	12	11	21	25	80	84	26	
Reported PAT	946	1,207	1,015	654	948	1,234	1,226	1,217	3,822	4,640	1,119	10.3
Adj PAT	946	1,207	1,015	654	948	1,234	1,226	1,217	3,822	4,640	1,119	10.3
YoY Change (%)	-11.3	1.9	0.8	-18.2	0.3	2.3	20.7	86	-5.8	21.4	-7.2	
Margins (%)	23.7	26.2	24	16.2	20.3	24.4	23.2	21	22.7	22.3	22.3	

E: MOFSL Estimates

Exhibit 1: Dermatology deals by ERIS

Period	Target	Consideration amount (INRm)	Sales of target company/brands at the time of acquisition (INRm)	Multiple (EV/Sales)	Comments
2QFY24	Branded Formulations' India business from Biocon Biologics Ltd,	3660	1000	3.7x	❖ 20 brands in Nephrology and Dermatology segment.
4QFY23	Part of derma portfolio from Dr. Reddy's Labs	2,750	667	4.0x	❖ 9 Derma brands of DRRD; enhance presence in the cosmetic derma segment. Top brands HydroHeal/Cris ODT/Avarta had MAT sales of INR200m/130m/60m, respectively.
3QFY23	Part of derma portfolio from Glenmark Pharma	3,400	850	4.0x	❖ 9 Derma brands of GNP; enhance presence in the anti-fungal and anti-psoriasis segments. The top brands – Onabet/Halobate registered sales of INR300m/220m for the past 12M. The gross margin for this portfolio stands at about 78%.
1QFY23	Oaknet	6,500	1950	3.3x	❖ Marked ERIS' foray into the dermatology space. It enhanced ERIS' prospects in Cosmetology and Women Healthcare.
FY22	MJ Biopharm				❖ JV to engage in marketing and distribution of human and analogue insulin, including, Aspart and Glargine.
Total consideration		16,310	4421	3.7x	

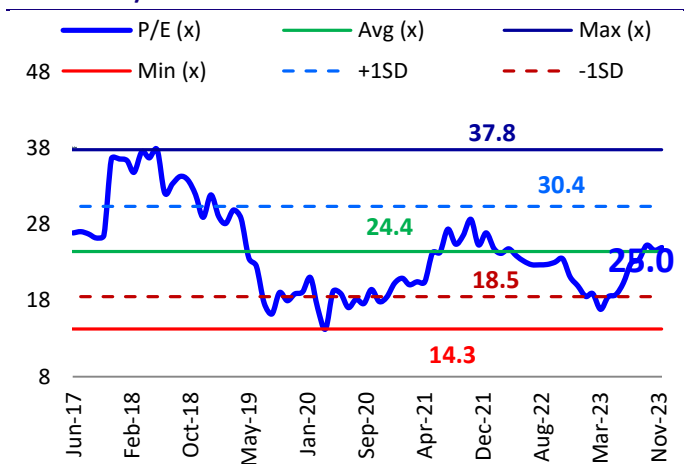
Source: MOFSL, Company



Highlights from the management interaction

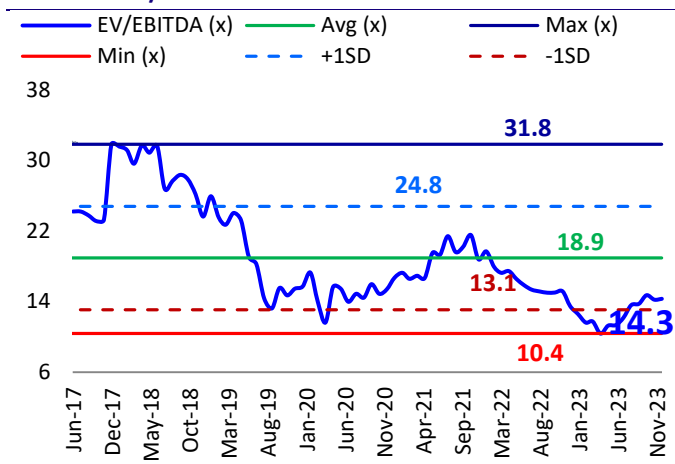
- ERIS has maintained its revenue guidance of INR20b-INR21b and EBITDA guidance of INR7b-INR7.1b for FY24.
- ERIS has approval for two combinations (Gliclazide-Dapagliflozin and Gliclazide-Sitagliptin) and would be launching soon.
- It also relaunched brands, Linares and FCM, in 2QFY24.
- Within Derma-cosmetology space, it has launched Hydroheal, Nova, Efatop Hydra and Crisanew in 2QFY24.
- The injectable anti-diabetes franchise had revenue of INR190m in 1HFY24 and is on track to achieve INR500m in FY24.

Exhibit 2: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 3: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Building growth blocks through organic/inorganic route

Acquisition of brands in Nephrology/Dermatology to enhance growth prospects

- With the acquisition of Nephrology and dermatology business from BBL, ERIS has gained entry to Nephrology division and enhanced portfolio in dermatology therapy.
- The market for Nephrology-related medications is INR30b (CAGR of 11%). With this acquisition, Eris has a strong base in Power brands and Emerging brands to launch the Nephrology franchise. A strong platform is offered by well-known drugs like Renodapt and Tacrograf, which are used in organ transplants, as well as up-and-coming brands like Bionesp and Erypro, which are used in CKD-induced anaemia.
- Additionally, in dermatology segment, Eris will become the 2nd largest player in Psoriasis with a market share of 11%.
- Post deal, Eris proportion of covered market to overall market in Diabetes/CVS/Dermatology segment is 83%/54%/50% respectively.

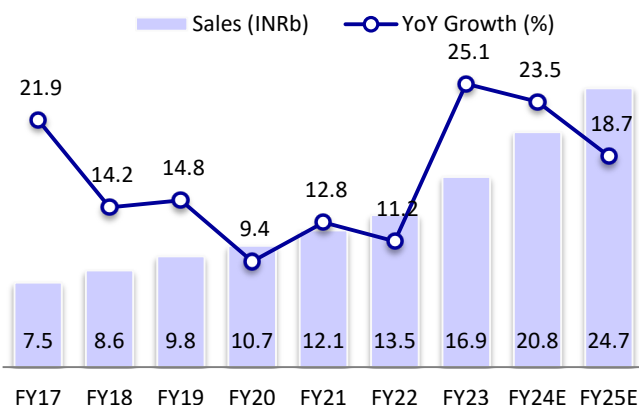
Outperformance in Base therapies to continue

- In 1H FY24, revenue grew 13% YoY to INR9.7b. The growth was mainly driven by robust performance in Anti-diabetic/Gynae segments.
- In addition to products ready to be commercialized in FY24, ERIS is also working on two new drugs each in Neurology/GI/Gynae in addition to one new drug each in CV and Respiratory space. These are expected to be commercialized by FY25.
- On MAT Sep'23 basis, the top-20 power brands (70% of revenues) have grown at a robust growth of 11%.
- Over the next 2-3 years, Eris can continue to leverage opportunities where it can dominate the market. It currently has market-leading positions in patent expiry opportunities through brands such as Zomelis, Gluxit, Glura, Zayo.
- Moreover, the launch of Glargine and Liraglutide from MJ's pipeline in 4QFY24 remains on track, leading to a promising growth outlook.
- We expect ERIS to outperform the industry over the near to medium term as it has an established presence in the cardiac/antidiabetic segments. Additionally, the new product pipeline and patent expiry provide robust growth visibility in the future. We expect ERIS to post overall sales CAGR of 21% over FY23-25.

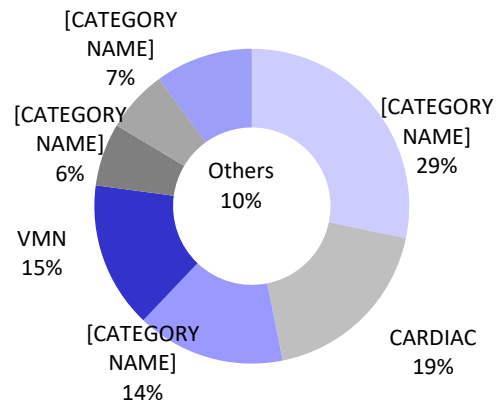
Valuation and view

- We maintain our estimates for FY24/FY25. The acquisition of Biocon business is expected to be earnings neutral in FY25. We continue to value ERIS at 23x 12M forward earnings to arrive at a TP of INR930.
- In addition to its core therapies of anti-diabetes, cardiology and VMNs, ERIS has enhanced its presence in dermatology and Nephrology through acquisitions, thereby expanding its overall offering in branded formulation space. Current valuation adequately factors in the upside in earnings. Hence, we maintain Neutral on the stock.

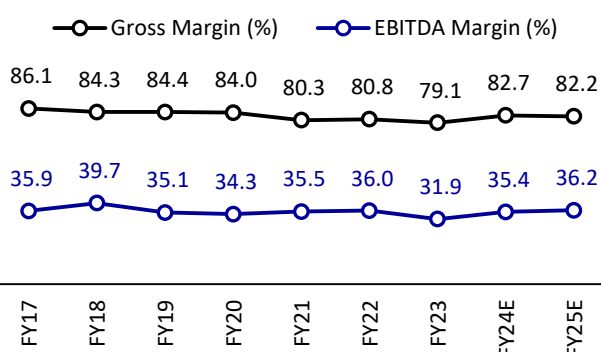
Story in Charts

Exhibit 4: Expect 21% revenue CAGR over FY23–25


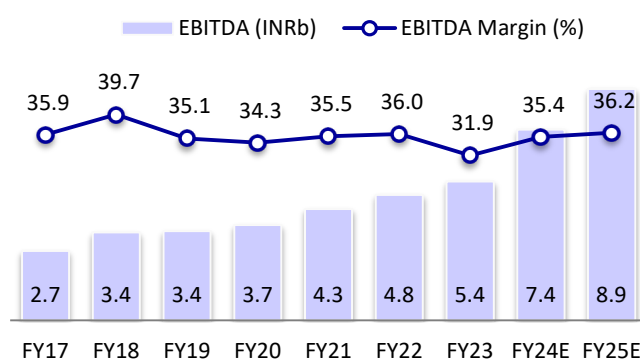
Source: MOFSL, Company

Exhibit 5: Therapy-wise chart MAT SEP'23


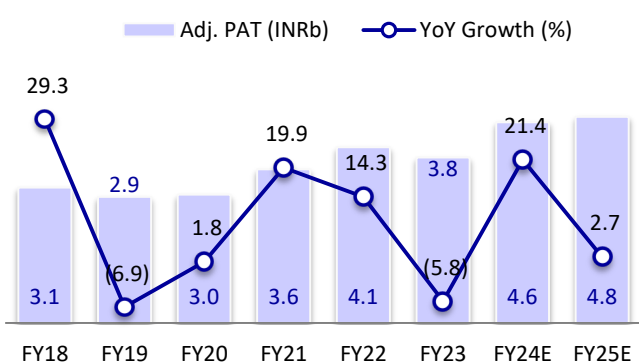
Source: MOFSL, Company

Exhibit 6: Gross margin to reach ~82% in FY25


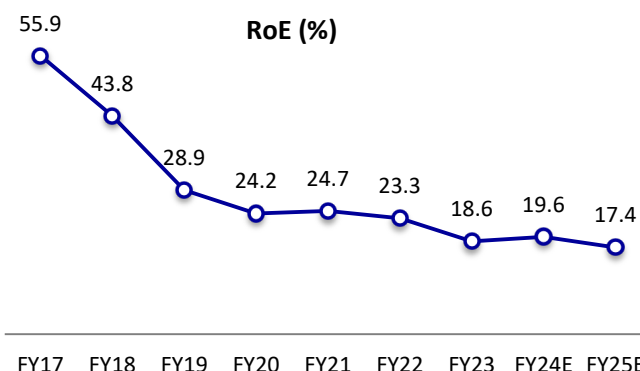
Source: MOFSL, Company

Exhibit 7: EBITDA margin to expand by 430bp over FY23–25


Source: MOFSL, Company

Exhibit 8: PAT to exhibit 12% CAGR over FY23–25


Source: MOFSL, Company

Exhibit 9: 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
Total Income from Operations	7,495	8,556	9,822	10,741	12,119	13,470	16,851	20,814	24,705
Change (%)	21.9	14.2	14.8	9.4	12.8	11.2	25.1	23.5	18.7
Total Expenditure	4,808	5,157	6,372	7,057	7,813	8,621	11,484	13,446	15,762
EBITDA	2,687	3,399	3,449	3,684	4,306	4,850	5,368	7,368	8,943
Margin (%)	35.9	39.7	35.1	34.3	35.5	36.0	31.9	35.4	36.2
Depreciation	237	256	364	502	430	647	1,171	1,728	1,927
EBIT	2,450	3,143	3,086	3,182	3,876	4,203	4,197	5,640	7,016
Int. and Finance Charges	3	106	229	22	18	41	262	567	693
Other Income	191	264	317	154	87	261	112	104	148
PBT bef. EO Exp.	2,638	3,302	3,174	3,314	3,945	4,422	4,046	5,177	6,472
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	5,177	6,472
Total Tax	219	173	262	351	394	364	305	621	1,618
Tax Rate (%)	8.3	5.2	8.3	10.6	10.0	8.2	7.5	12.0	25.0
Minority Interest	-2	0	0	0	0	0	80	84	88
Reported PAT	2,421	3,129	2,912	2,963	3,551	4,058	3,822	4,640	4,766
Adjusted PAT	2,421	3,129	2,912	2,963	3,551	4,058	3,822	4,640	4,766
Change (%)	81.3	29.3	-6.9	1.8	19.9	14.3	-5.8	21.4	2.7
Margin (%)	32.3	36.6	29.6	27.6	29.3	30.1	22.7	22.3	19.3

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	25,364	29,030
Net Worth	5,671	8,613	11,505	12,965	15,764	19,083	21,960	25,500	29,166
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	36,484	39,150
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
Net Fixed Assets	557	526	553	873	779	1,212	3,040	2,651	2,151
Gross intangible asset	1,401	6,344	6,350	7,320	7,366	7,439	20,546	23,246	26,906
Accumulated amortization	20	94	233	379	541	873	1,744	2,859	4,151
Net intangible asset	1,382	6,250	6,116	6,941	6,825	6,566	18,803	20,387	22,755
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	14,021	15,625
Inventory	558	654	827	695	945	1,179	1,314	1,539	1,804
Account Receivables	489	666	840	1,569	1,405	1,610	2,927	3,615	4,291
Cash and Bank Balance	24	106	75	673	383	523	560	4,683	4,565
Loans and Advances	1,192	618	970	1,307	2,114	2,791	3,387	4,184	4,966
Curr. Liability & Prov.	1,004	1,420	3,328	2,054	2,088	2,728	3,590	4,354	5,146
Account Payables	386	908	841	1,001	1,026	1,178	1,248	1,461	1,712
Other Current Liabilities	169	154	2,083	491	474	839	1,207	1,490	1,769
Provisions	450	358	404	562	588	712	1,136	1,403	1,665
Net Current Assets	1,259	626	-617	2,190	2,759	3,375	4,599	9,667	10,479
Appl. of Funds	6,262	12,176	10,760	11,762	14,253	17,562	30,344	36,484	39,149

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	27.8	33.7	34.7
Cash EPS	19.3	24.6	23.8	25.2	29.0	34.2	36.3	46.3	48.7
BV/Share	41.2	62.6	83.7	94.3	114.6	138.8	159.7	185.5	212.1
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	19.8	23.7	23.1
Valuation (x)									
P/E	51.4	39.8	42.7	42.0	35.0	30.7	32.6	26.8	26.1
Cash P/E	46.8	36.8	38.0	35.9	31.3	26.4	24.9	19.5	18.6
P/BV	21.9	14.4	10.8	9.6	7.9	6.5	5.7	4.9	4.3
EV/Sales	16.6	15.0	12.7	11.5	10.2	9.2	7.8	6.3	5.3
EV/EBITDA	46.3	37.7	36.1	33.6	28.8	25.6	24.6	17.7	14.5
Dividend Yield (%)	0.0	0.0	0.0	0.3	0.6	0.6	0.6	0.9	0.9
FCF per share	10.9	15.2	14.1	9.1	25.4	18.8	-40.0	23.1	19.0
Return Ratios (%)									
RoE	55.9	43.8	28.9	24.2	24.7	23.3	18.6	19.6	17.4
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	16.4	16.1
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	25
Leverahe Ratio (x)									
Net Debt/Equity	-0.5	0.0	-0.3	-0.1	-0.2	-0.3	0.3	0.2	0.2

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	5,177	6,472
Depreciation	228	256	364	503	430	647	1,171	1,728	1,927
Interest & Finance Charges	1	96	218	6	-5	41	262	463	545
Direct Taxes Paid	-531	-696	-716	-518	-685	-833	-772	-621	-1,618
(Inc)/Dec in WC	-165	-222	-532	-527	53	-299	-1,755	-945	-931
CF from Operations	2,237	2,557	2,506	2,777	3,738	3,979	2,952	5,802	6,395
Others	-235	-211	-277	-66	16	-196	-34	168	0
CF from Operating incl EO	2,002	2,346	2,230	2,712	3,754	3,783	2,917	5,970	6,395
(Inc)/Dec in FA	-497	-251	-293	-1,458	-257	-1,203	-8,413	-2,800	-3,780
Free Cash Flow	1,505	2,096	1,937	1,254	3,497	2,580	-5,495	3,170	2,615
(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	104	148
CF from Investments	-1,838	-5,896	-51	1,233	-3,220	-3,196	-9,821	-2,696	-3,632
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	-693
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
CF from Fin. Activity	-237	3,632	-2,211	-3,346	-824	-447	6,880	849	-2,881
Inc/Dec of Cash	-73	82	-31	598	-291	140	-23	4,123	-118
Opening Balance	97	24	106	75	673	384	523	560	4,683
Others	0	0	0	0	0	0	60	0	0
Closing Balance	24	106	75	673	383	523	560	4,683	4,565

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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