

BUY

Target Price: Rs 730

 CMP : Rs 590
 Potential Upside : 24%

MARKET DATA

 No. of Shares : 138 mn
 Market Cap : Rs 81 bn
 Free Float : 44%
 Avg. daily vol (6mth) : 241,160 shares
 52-w High / Low : Rs 728 / Rs 511
 Bloomberg : ERIS IB Equity
 Promoter holding : 56%
 FII / DII : 8% / 9%

Eris Lifesciences

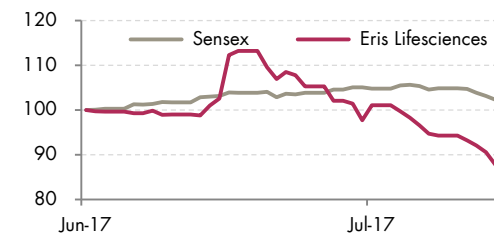
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Positioned for 'chronic' returns

Financial summary (consolidated)

Y/E	Sales	Adj PAT	Con. EPS*	Change		RoCE	EV/E			
Mar	(Rs mn)	(Rs mn)	(Rs)	EPS (Rs)	YOY (%)	P/E (x)	RoE (%)	(%)	(x)	DPS (Rs)
FY16	5,970	1,336	-	9.7	49.7	60.7	47.3	49.9	46.5	6.0
FY17	7,250	2,421	-	17.6	81.2	33.5	57.7	59.1	29.2	-
FY18E	8,754	3,339	-	24.3	37.9	24.3	47.5	49.4	22.2	0.5
FY19E	10,398	4,180	-	30.4	25.2	19.4	39.0	41.4	17.4	0.6

Source: Company, Axis Capital

Price performance

Key drivers

YoY growth	FY16	FY17	FY18E	FY19E
India formulations	9	21	21	19
Gross margin (%)	83.6	85.6	85.5	85.8
EBITDA margin (%)	28.7	37.1	39.0	40.3
EPS (%)	50	81	38	25

Positioned for 'chronic' returns...

Eris has a **unique positioning** in the India Pharma market. It is **100% into domestic formulations** and the **2nd fastest growing** (22% CAGR % over FY13-17) among the top 35 pharma companies in India. Eris is ranked 32nd despite being a relatively new entrant (established in 2007). Its key focus is on **high growth high margin chronic segment** (65.6% of revenue vs. 52% in FY13) – its strategy to create **strong prescription-led brands** ensures **higher MR[^] productivity** and continues to **drive operating leverage**. Given **strong FCF** generating business model and **net cash**, we expect **M&A** in its **therapeutic gaps** to add to the above industry growth expected in its base business.

Given **strong financials** (20%, 31% revenue and PAT growth over FY17-19; 37% EBITDA margin in FY17 is one of the highest in the industry) and **superior return ratios** (ROCE of over 40% in FY17-19), we **initiate coverage with BUY and TP of Rs 730** (24x FY19 EPS). At CMP, the stock trades at 24x FY18E EPS of Rs 24.3 and 19.4x FY19E EPS of Rs 30.4.

IPM^{^^} (USD 17.1 bn in FY17) posted 12% CAGR over FY13-17 led by faster growing chronic therapy (14% CAGR over FY13-17) given increasing lifestyle disorders. As per IMS estimates, IPM is likely to post 11.6% CAGR over CY16-21.

♦ Eris' focused approach within the fragmented India Pharma market...

- Lifestyle-related disorders (esp. in high-growth chronic segments like cardiology & anti-diabetes representing 61.6% of sales)
- KOLs# which drive prescriptions – through specialists and super specialists (96% for Eris* vs. 62% for IPM)
- Sales in metro cities and class 1 towns – which drive maximum prescriptions (77% for Eris vs. 66% for IPM)
- Identifying and addressing diagnostic, therapeutic and patient compliance gaps

♦ ...has led to strong growth and improvement in rank in chronic segment

- Over 2x growth (29% CAGR over FY13-17) of IPM chronic which led to improvement in rank from 26th to 20th led by
 - 26% CAGR from cardiovascular therapy (33% of FY17 sales, ranked 18th in IPM)
 - 35% CAGR from anti-diabetics (29% of FY17 sales, ranked 10th in IPM)

...Positioned for 'chronic' returns

- ◆ **Huge growth opportunity as it has only 0.7% market share of IPM**
 - Apart from growing key chronic therapeutic areas, Eris targets to enhance its presence in other large and high growth therapeutic areas (neuro, derma, gynae)
 - Given the net cash, it is well positioned to scale up via acquisitions – Amay Pharma (CVS, Anti-diabetics) & Kinedex (Ortho)
- ◆ **Focus on profitability led to margin expansion albeit with some moderation in revenue**
 - 17% revenue CAGR over FY13-FY17 due to exit from 'me too' acute market and tier-3/4 markets, as it focused on improving profitability – leading to 33% EBITDA CAGR with ~1,520 bps margin expansion to 37% led by
 - Improved product mix – share of chronic increased to 65.6% in FY17 from 52% in FY13
 - Cost optimization initiatives (scale back from small cities, rationalization of MR's leading to lower staff & travelling costs)
- ◆ **Above-industry EBITDA margin sustainable; expect 25% EBITDA and 31% EPS CAGR over FY17-19E**
 - Despite soft Q1 due to GST, we expect above-industry 20% revenue CAGR led by high growth chronic brands & acquisitions
 - Success in newer therapeutic segments (gastro, women health, ortho, neuropathic pain, etc.) could propel growth
 - Higher utilization at Assam facility, improving MR productivity and turnaround in acquisitions to improve margin
 - We expect 31% EPS CAGR over FY17-19 aided by lower tax expenses, as Assam facility is eligible for tax incentives
- ◆ **Best positioned in the sector: Growth visibility with superior margin, return ratios, WC cycle, FCF generation**
 - RoCE (adjusted for cash, MAT credit) was higher at ~59% and expected to improve further
 - Favourable Working Capital (WC) to sustain despite increasing scale of operations (NWC stood at 29 days in FY17)
 - High cash conversion: FCF of Rs 3.3 bn over FY13-17; expect generation of ~Rs 5.9 bn in FCF over FY17-FY19E
- ◆ **Key risks:** Pricing policy, stricter marketing norms

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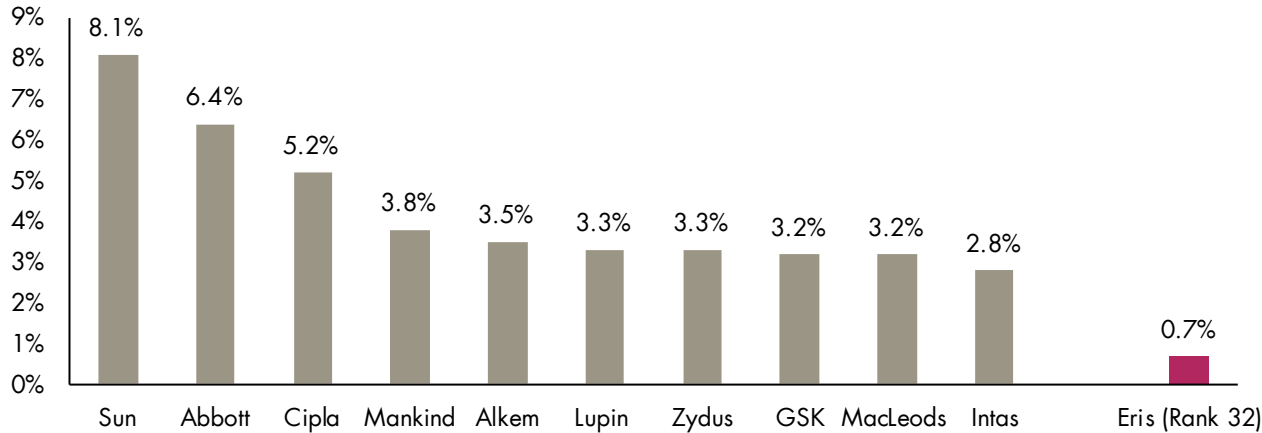
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Eris Lifesciences

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Positioning: Eris ranks 32nd, 2nd fastest growing amongst top 35

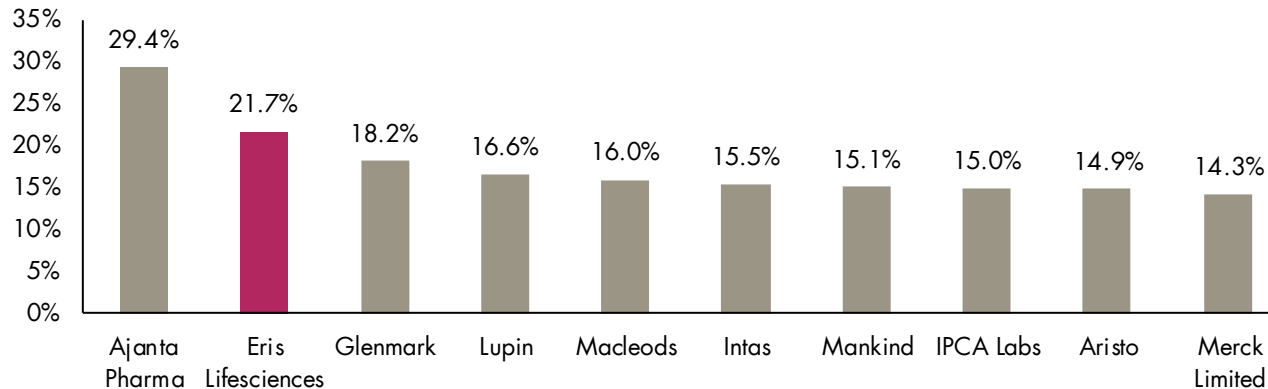
Eris ranks 32nd amongst top 35 companies by revenue market share in IPM for FY17



Source: IMS TSA MAT, March 2017, Companies Note: India pharmaceutical market (IPM)

Incorporated in 2007, Eris ranks 32nd in IPM with market share of 0.7% in FY17 as per IMS

Eris clocked 2nd highest sales CAGR (%) over FY13-FY17 in IPM



Source: IMS TSA MAT, March 2017, Companies

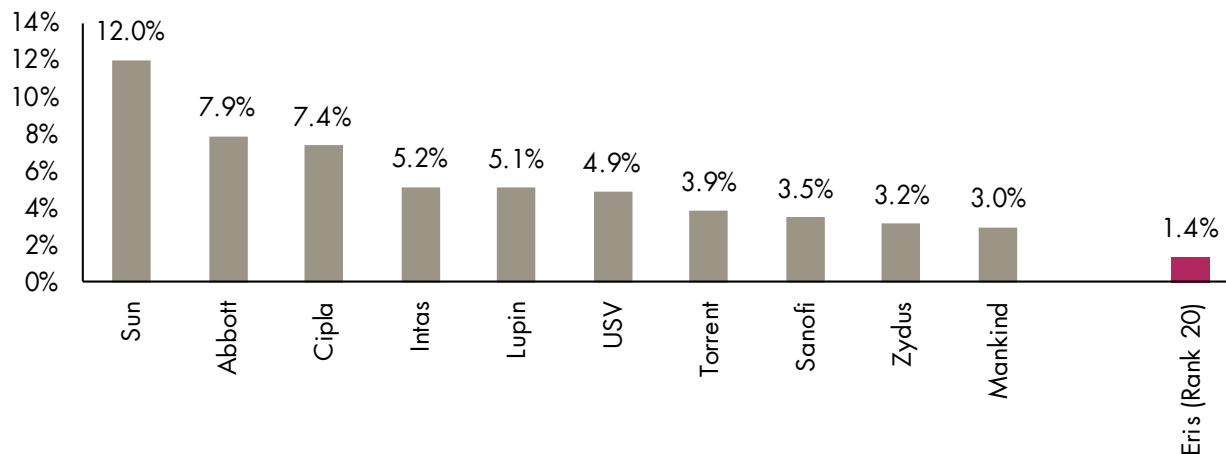
2nd fastest growing pharma company in terms of sales over FY13-17 among the 35 largest pharmaceutical companies in the IPM

Eris Lifesciences

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Eris Chronic – fastest growing, improving ranks ...

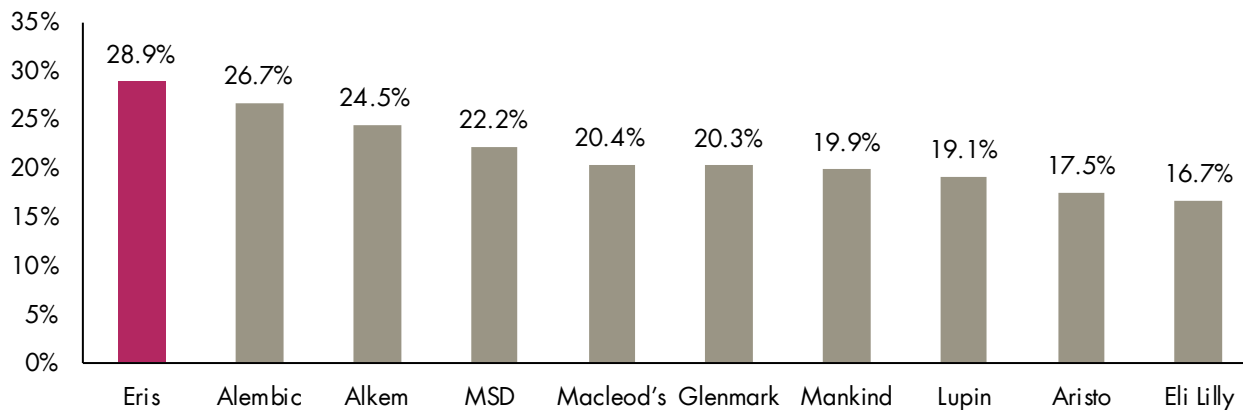
20th amongst 377 companies by revenue market share in IPM (chronic category for FY17)



Source: IMS TSA MAT, March 2017, Companies

In chronic category, Eris has improved rank from 26th in FY13 to 20th in FY17, as per IMS

Eris posted highest chronic sales CAGR (%) over FY13-FY17 in IPM

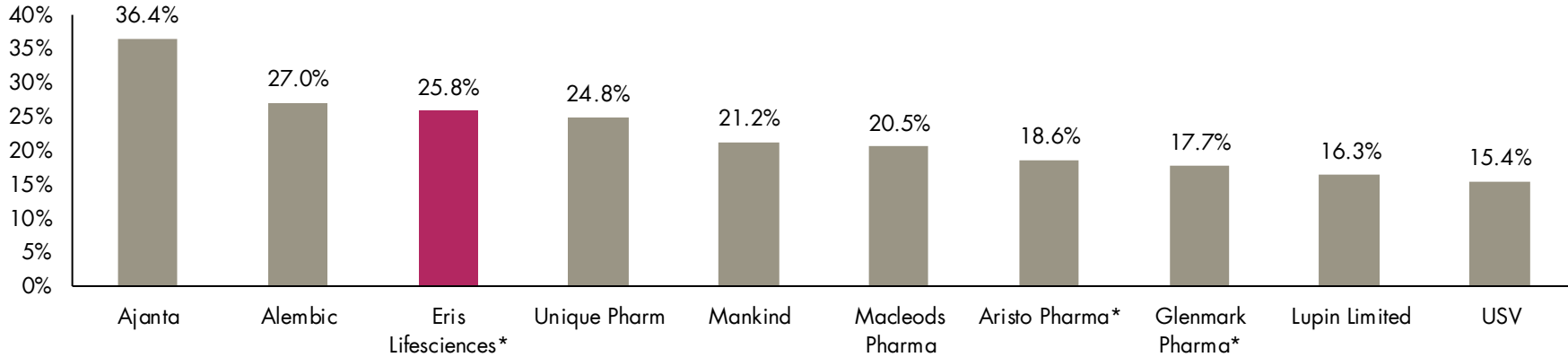


Source: IMS TSA MAT, March 2017, Companies

Fastest-growing company in chronic category in terms of sales over FY13-17 among the 25 largest pharmaceutical companies in IPM

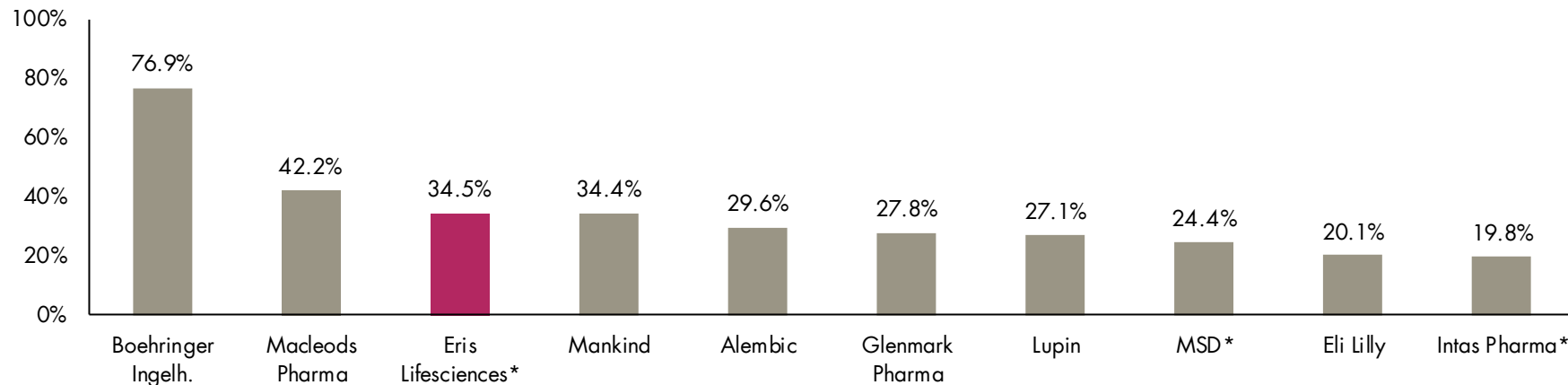
...driven by cardiac and anti-diabetic

Cardiac segment – Third fastest growing company within top 25 companies in IPM



Source: IMS TSA MAT, March 2017, Companies Note: IPM – India Pharmaceutical Market CAGR over Fiscal 2013 to 2017, *company including its subsidiaries/acquired entities

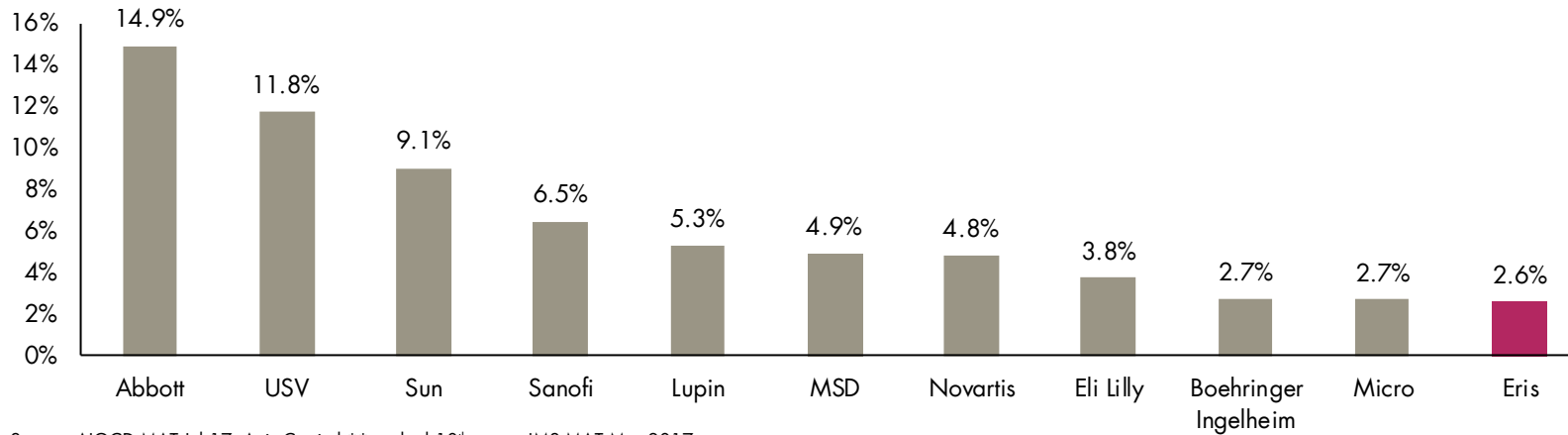
Anti-diabetic segment – Third fastest growing company within top 25 companies in IPM



Source: IMS TSA MAT, March 2017, Companies Note: IPM – India Pharmaceutical Market CAGR over Fiscal 2013 to 2017, *company including its subsidiaries/acquired entities

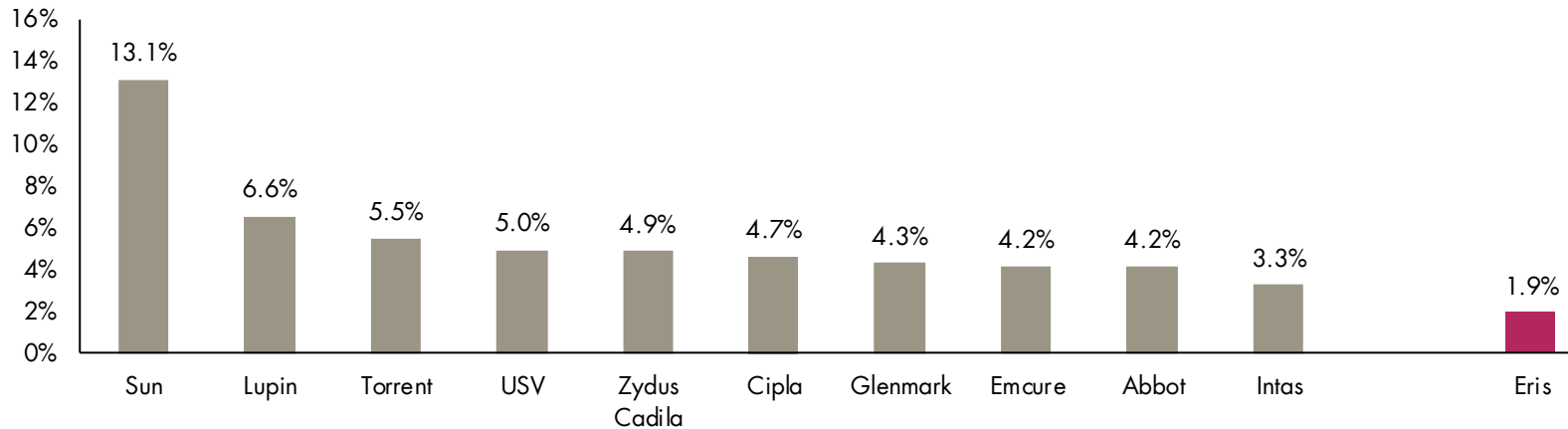
Strong positioning in cardiac and anti-diabetic segments

Anti-diabetic segment – ranks 11th



Source: AIOCD MAT Jul 17, Axis Capital ** ranked 10th as per IMS MAT Mar 2017

Cardiac segment – ranks 18th



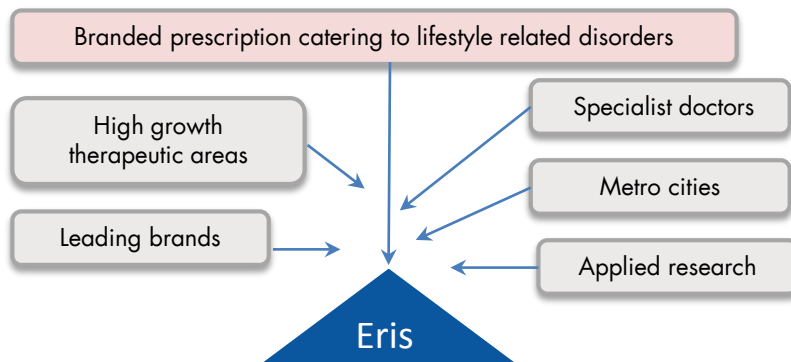
Source: AIOCD MAT Jul'17, Axis Capital ** ranked 18th as per IMS MAT Mar 2017

Key focus areas

Eris Lifesciences

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Eris' strategy



Source: Company, Axis Capital

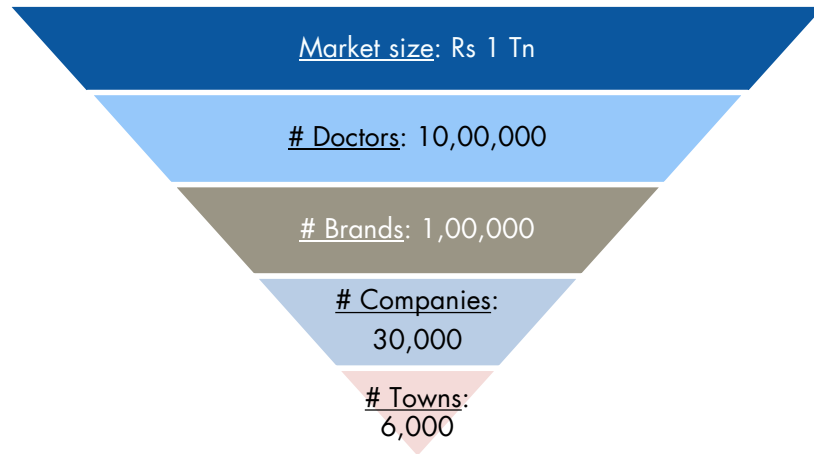
Eris growing over 2x in faster growing chronic therapy

Therapy (Rs mn)	Eris revenues (FY17)	% of revenues	Eris CAGR	IPM MAT	% of revenues	IPM CAGR
Chronic	5,491	65.6%	28.9%	391,719	34.3%	14.3%
Cardiovascular	2,738	32.7%	25.8%	134,032	11.7%	11.6%
Anti-diabetics	2,423	28.9%	34.5%	100,586	8.8%	19.1%
Others ¹	330	3.9%	20.5%	157,102	13.7%	14.1%
Acute	2,885	34.4%	12.0%	751,539	65.7%	10.6%
Vitamins	1,147	13.7%	7.4%	89,340	7.8%	12.5%
Gastroenterology	777	9.3%	8.2%	122,262	10.7%	12.3%
Pain-Analgesics	275	3.3%	64.6%	74,920	6.6%	10.5%
Anti-infectives	220	2.6%	5.7%	148,238	13.0%	5.7%
Gynaecology	225	2.7%	36.8%	55,708	4.9%	9.9%
Others ²	242	2.9%	17.5%	261,072	22.8%	1270.0%
Total	8,376	100.0%	21.7%	1,143,258	100.0%	11.8%

Source: IMS TSA MAT, March 2017. Revenue/MAT for Fiscal 2017 in Rs million; CAGR during Fiscal 2013 to 2017

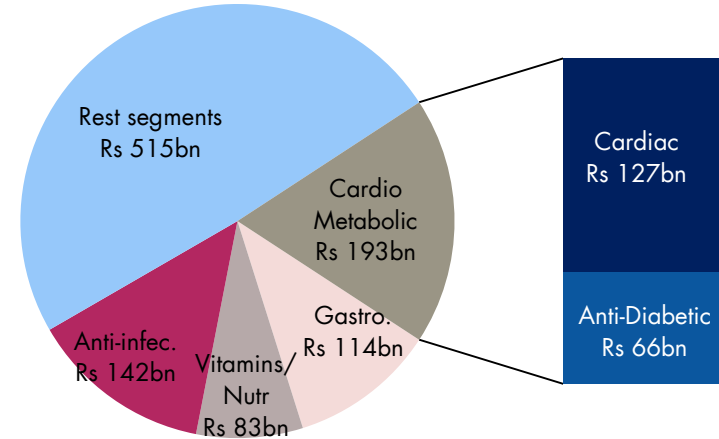
Segmental focus within the fragmented India Pharma market

Fragmented Indian branded formulations market



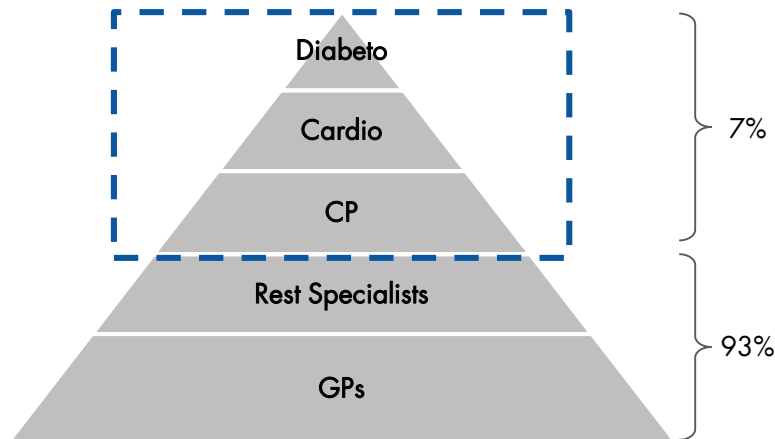
Source: Company, Axis Capital

Eris targets Rs. 190 bn cardio-metabolic market



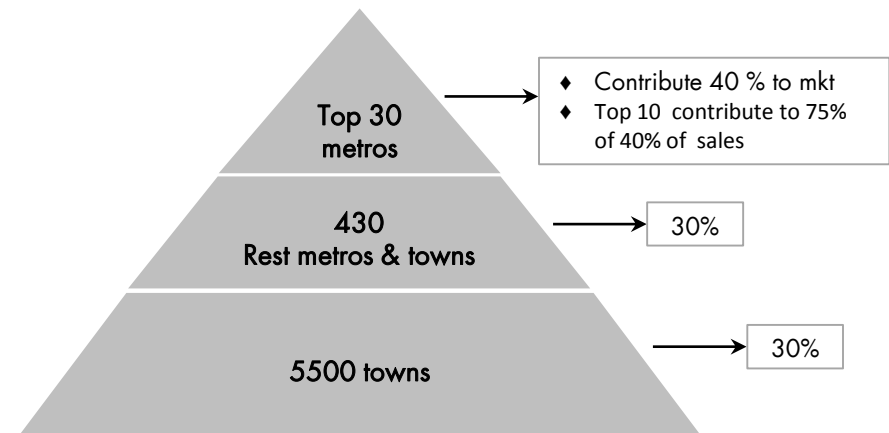
Source: Company, Axis Capital

7% of doctors drive 70% Rx in cardio-metabolic market



Source: Company, Axis Capital

Eris' focus on metros : key markets for cardio- metabolic

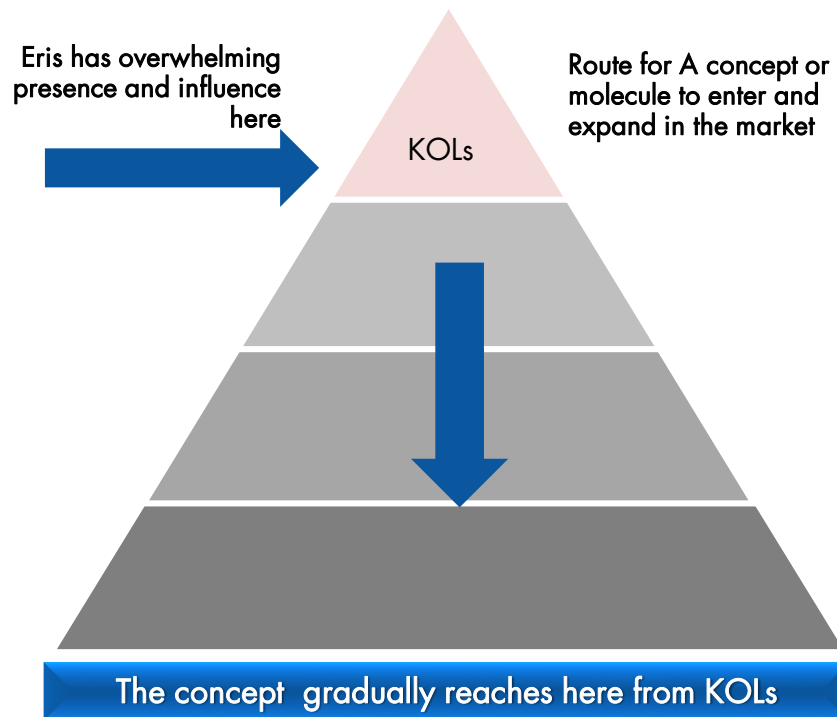


Source: Company, Axis Capital

How Eris cracked the market in a short time span?

KOL's (Key Opinion Leaders) are doctors who influence other doctors' medical practices, including prescriptions

Eris' product/concept lifecycle pyramid



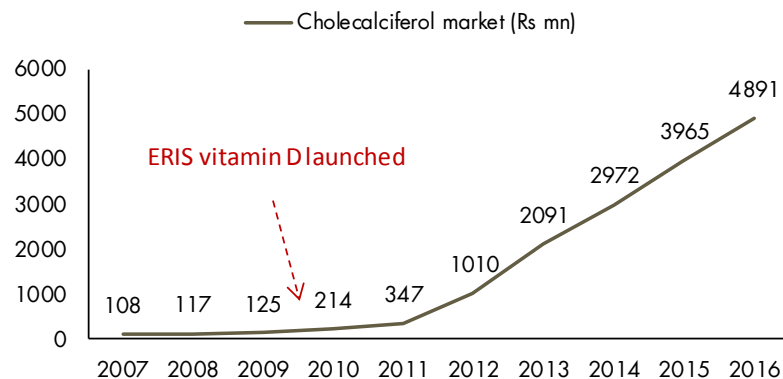
- ◆ Eris has a unique Super Specialty Engagement to identify opportunities through cognitive engagement through advisory Board Meetings to analyze
 - Therapy gap assessment
 - Strategy formulation
 - New product identification
- ◆ Eris also engages in video advisory meetings for gaining deep insights of clinical behavior

Source: Company, Axis Capital

Applied research: Ability to create markets...

- ◆ Eris' approach to R&D is driven by objective of creating new markets and improve clinical outcomes
- ◆ To meet this objective, Eris has successfully practiced the principle of '**Applied Research**' which deals with solving practical problems and generally employs empirical methodologies. It accesses and uses some part of the research communities' accumulated theories, knowledge, methods, and techniques for a specific and often business- or client-driven purpose
- ◆ **E.g. vitamins:** Eris introduced Vitamin D brand, *Tayo 60K*, considering the therapeutic relevance of Cholecalciferol (Vitamin D) in lipid metabolism, diabetes and hypertension, as opposed to merely prescription as a supplement
- ◆ Eris has created the largest brand in the Vitamin D and mecobalamin subgroup, in terms of revenues, with a market share of 29.4% in FY16 (*Source: IMS*) by leveraging upon its doctor-patient engagement model
- ◆ Eris now has significant share in Vitamin D franchise (~Rs. 1 bn in sales for FY17)

Eris changed market dynamics. which is touchina Rs 5 bn mark



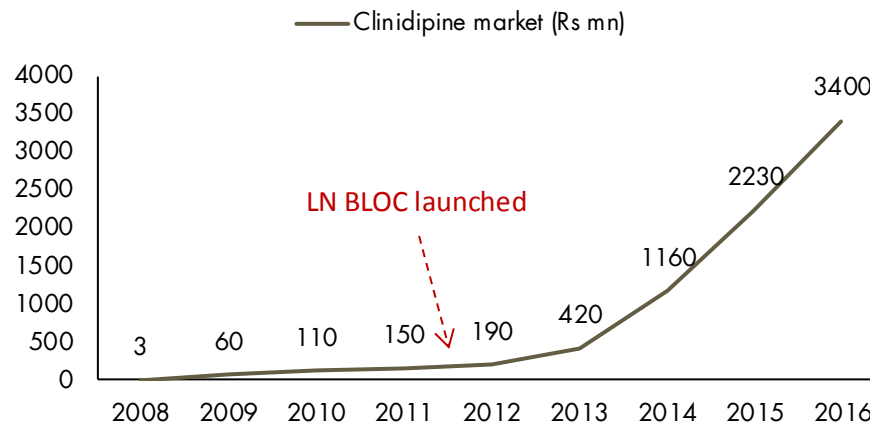
Source: Company, Industry

Detailed research about the properties of Cholecalciferol revealed its therapeutic role in diabetes, hypertension and lipid metabolism

...ability to create markets through applied research

- ♦ Hypertension market was dominated by Amlodipine (for more than 2 decades globally). Cilnidipine was a Japanese molecule launched in India in 2007, however it was unable to challenge Amlodipine for 5 years
- ♦ Eris' applied research clearly revealed the potential of the product, and it launched LN BLOC through its Inspira sales division

Launch of LN Bloc led Cilnidipine grow into a major market over past 5 years



India is the only market where Amlodipine is being challenged and being displaced by Cilnidipine rapidly

Source: Company, Industry

- ♦ Amlodipine and combinations is a Rs 18 bn market; thus, the opportunity for the market and LN Bloc to grow at ~45% for next 4-5 years is very much visible. Eris expects the LN Franchisee to triple to Rs 1.6-1.7 bn market over next four years from Rs 0.6 bn currently

Key strengths

Thrust on high growth high margin chronic segment...

1. Focus on branded prescription-based pharmaceutical products **catering to lifestyle related disorders**: In FY17, Eris generated 65.6% of revenue from the chronic category (Source: IMS) with focus on:
 - developing, manufacturing and marketing products which are linked to lifestyle related disorders that are chronic in nature and, to a target population which primarily consults specialists and super-specialists
2. Fastest growing company in certain **high-growth therapies** with a portfolio of complimentary products:
 - In chronic category (65.6% of FY17 revenue), **cardiovascular and anti diabetics** account for 61.6% of FY17 revenue (IMS)
 - In acute category, **vitamins and gastroenterology** therapeutic areas account for 23% of FY17 revenue (IMS)
 - It has extended its product portfolio by selecting therapeutic areas which are lifestyle related disorders, are underpenetrated, or have potential to drive cross linkages with its existing portfolio and coverage at doctor level

Eris has outpaced IPM growth in key chronic therapies

Therapy (Rs mn)	Eris revenues (FY17)	% of revenues	Eris CAGR	IPM MAT	% of revenues	IPM CAGR
Chronic	5,491	65.6%	28.9%	391,719	34.3%	14.3%
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Total	8,376	100.0%	21.7%	1,143,258	100.0%	11.8%

Source: IMS TSA MAT, March 2017, Company. Revenues/MAT is for Fiscal 2017 in Rs million; CAGR during Fiscal 2013 to 2017

...driven by cardiovascular...

- ◆ Eris is the **third fastest growing company** among the top 25 companies in the cardiovascular therapeutic area of the IPM, registering a CAGR of 25.8% over FY13-17. Eris had 33% of its sales from the cardiac segment (ranked 18th in the IPM) for FY17
- ◆ Portfolio of 63 brands (including 44 brands in hypertension), of which **27 brands were ranked in the top 10** in their respective subgroup of the IPM in terms of revenue for FY17
- ◆ Eris extended the coverage and reach of its products through its approach of extracting benefits of cross linkages in specialties. For example, Eris' coverage for hypertension **extends beyond cardiologists and consulting physicians to include nephrologists, endocrinologists and diabetologists**

Key brands in cardiovascular therapeutic area

Key Mother Brand Group	Year of Launch	Indication	Market Share	Revenue (Rs mn)	CAGR (FY13-17)	Prescription Ranking
Eritel	2008	Hypertension	5.3%	1022	29%	4
Olmin	2010	Hypertension	6.8%	487	36%	3
Atorsave	2007	Lipid Lowering	3.5%	377	7%	6
LN Bloc	2012	Hypertension	10.8%	360	168%	2
Crevast	2010	Lipid Lowering	2.5%	230	20%	6

2nd highest prescription rank with the 2nd highest PDM

As on Mar 31, 2017	Prescription Rank	Prescription Share	Average Prescribers	PDM*
Cardiologists				
Sun*	1	20.5%	6,891	88
Eris Lifesciences*	2	10.9%	4,710	68
USV	3	10.0%	5,172	57
Lupin Limited	4	8.3%	5,490	44
Glenmark Pharma	5	7.3%	5,601	38
Cardiologists Total		100.0%	7,881	374

Source: IMS Medical Audit MAT, March 2017, Company. Data presented is only for subgroups in which Eris is present *company including its subsidiaries/acquired entities
 Note: PDM- Prescriptions per Doctor per Month

Source: IMS TSA MAT, March 2017 For Fiscal 2017, Company *key brands including extensions

* Market share data and other other financial information relating to the pharmaceutical industry and Eris operations, products and therapeutic areas are sourced from IMS

...anti-diabetic

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- ◆ Eris is the **third fastest growing company** among the top 25 companies in the IPM, registering a CAGR of 34.5% over FY13-17. Eris had 29% of its sales from anti-diabetic (ranked 10th in the IPM) for FY17
- ◆ Portfolio of 26 brands in the anti-diabetics therapeutic area, of which **7 brands were ranked in the top 10** in their respective subgroup of the IPM, in terms of revenue for FY17
- ◆ Eris has focused on **oral anti-diabetics (OAD) therapeutic area**. The share of oral anti-diabetics as a percentage of overall sales from anti-diabetics (including insulin and devices) has increased to 74% in FY17 from 71.2% in FY12. Glimepiride and combinations accounted for 41.6% and DPP-IV & gliptins account for 29.8% of OAD market

Key brands in the anti-diabetic therapeutic area

Key Mother Brand Group	Year of Launch	Indication	Market Share	Revenue (Rs mn)	CAGR (FY13-17)	Prescription Ranking
Glimisave	2007	Anti-diabetics	5.5%	1,709	29%	3
Tendia	2015	Anti-diabetics	7.2%	288	NA	3
Cyblex	2014	Anti-diabetics	4.2%	220	NA	6
Advog	2009	Anti-diabetics	2.5%	109	12%	14

Source: IMS TSA MAT, March 2017 For Fiscal 2017, Company *key brands including extensions

3rd highest prescription share with the 2nd highest PDM

As on Mar 31, 2017	Prescription Rank	Prescription Share	Average Prescribers	PDM*
Diabetologists/Endocrinologists				
Sun*	1	22.4%	3,854	84
USV	2	13.3%	3,467	55
Eris Lifesciences*	3	11.6%	3,051	55
Lupin Limited	4	8.4%	3,014	40
Glenmark Pharma	5	7.5%	3,141	35
Diabetologists/Endocrinologists Total		100.0%	4,442	281

Source: IMS Medical Audit MAT, March 2017, Company *company including its subsidiaries/acquired entities Note: PDM – Prescriptions per Doctor per Month

* Market share data and other other financial information relating to the pharmaceutical industry and Eris operations, products and therapeutic areas are sourced from IMS

Portfolio of leading brands...

3. Portfolio of high volume and leading brands

Revenue contribution from top brands higher than IPM

% of Revenue	Top 10 Brands	Top 25 Brands
Eris	72.5%	92.2%
Average of Top 25 Companies in IPM	48.0%	69.2%

Source: IMS TSA MAT, March 2017, Company

* Top brands' revenue including extensions

Greater proportion in growth phase of product lifecycle

Lifecycle of Pharmaceutical Molecules	Eris	IPM
Growth*	73.0%	30.7%
Mature*	25.1%	39.4%
Decline*	1.6%	28.7%

Source: SMSRC based on data for MAT ending February 28, 2017, Company

*Growth, mature and decline phases refer to rate of growth in prescriptions of pharmaceutical molecules (all molecules taken together) at a CAGR of 8%, minus 1% and minus 5%, respectively, for the relevant period.

High proportion of revenue from top brands

Mother Brand Group	Therapeutic Area	Revenue (Rs mn)			Market share	
		Fiscal 2013	Fiscal 2017	CAGR (FY13-17)	Fiscal 2013	Fiscal 2017
Glimesave	Anti-diabetics	616	1,709	29%	3.9%	5.5%
Eritel	Cardiovascular	374	1,022	29%	4.2%	5.3%
Rabonik	Gastroenterology	381	542	9%	5.3%	4.4%
Remylin	Vitamins	359	530	10%	7.1%	6.3%
Tayo	Vitamins	391	527	8%	8.4%	4.9%
Olmin	Cardiovascular	142	487	36%	4.0%	6.8%
Atorsave	Cardiovascular	286	377	7%	3.0%	3.6%
LN Bloc	Cardiovascular	7	360	168%	2.0%	10.8%
Tendia	Anti-diabetics	0	288	NA	NA	7.2%
Crevast	Cardiovascular	109	230	20%	2.8%	2.5%
Top 10 Mother Brand Group Total		2,666	6,071	23%		

Source: IMS TSA and Medical Audit MAT, March 2017, Company

...and brands in growth phase

Higher revenue contribution from top 10 and top 25 mother brand groups

FY2017	Top 10 Mother Brand contr.	Top 25 Mother Brand contr.
Average of Top 25 Companies in IPM	48%	69%
Eris Lifesciences	73%	92%
Industry peers		
Sun Pharma	26%	45%
Abbott	38%	57%
Cipla	29%	52%
Mankind Pharmaceuticals	34%	59%
Alkem Laboratories	52%	71%
Glaxo Smithkline	57%	82%
Pfizer Wyeth India	64%	86%

Source: IMS TSA MAT, March 2017, Companies

Higher proportion of products in the growth phase of product lifecycle

Corporate	Growth* Share (%)	Mature* Share (%)	Decline* Share (%)
IPM	31%	39%	29%
Eris Lifesciences	73%	25%	2%
Industry peers			
Sun Pharma	47%	26%	26%
Abbott	26%	49%	25%
Cipla	30%	30%	40%
Mankind Pharmaceuticals	42%	39%	20%
Alkem Laboratories	61%	24%	15%
Glaxo Smithkline	22%	44%	34%
Pfizer Wyeth India	5%	65%	31%

Source: SMSRC, Companies * Growth, mature and decline phases refer to rate of growth in prescriptions of pharmaceutical molecules at a CAGR of 8%, minus 1% and minus 5%, respectively, for MAT Feb 2017

Focus on metro cities and specialist doctors

4. A. Focus on metro cities

- ◆ Eris' portfolio largely focuses on therapeutic areas which have a higher incidence in metro cities and class 1 towns and which rely on prescriptions by specialists and super specialists. ~87% of diabetologists/ endocrinologists, 89% of cardiologists and 89% of gastroenterologists were located in metro cities and class 1 towns (among top 780 cities, towns in India; Source: IMS, Sep 30, 2016)
- ◆ According to IMS, 76.8% of Eris' revenue came from these areas for FY17 vs. 66% from metro cities and class 1 towns for the IPM. Further, metro cities and Class 1 towns in India contributed 72% to the chronic category and 62.9% to the acute category for IPM in FY17

Eris: Increased focus on metro cities in line with chronic focussed strategy

Therapeutic Area	Eris Revenues	% from metro cities and class 1 towns	IPM MAT	% from metro cities and class 1 towns
Cardiovascular	2,738	75%	134,032	70%
Anti-diabetics	2,423	75%	100,586	73%
Vitamins	1,147	82%	89,340	65%
Gastroenterology	777	79%	122,262	61%

Source: IMS TSA and Town Class MAT, March 2017; Company Revenues/ MAT for Fiscal 2017 in Rs mn, Company

4. B. Focus on specialist doctors/super specialists

- ◆ Cardiologists, diabetologists/ endocrinologists and consulting physicians together comprise only 11.4% of total doctor population in India; however, they contributed 52.2% to prescriptions for anti-diabetics and cardiovascular therapeutic areas
- ◆ Eris created 7 sales divisions, aligned with its key therapeutic areas, and is engaging with specialists and super specialists
- ◆ Eris has increased its doctor base to 50,282 (~15.7% of total doctors in India) in FY17 from 24,606 (~9.0% of total doctors) in FY12. Company has also been able to increase its share in prescriptions to 1.3% in FY17, up from 0.9% in FY12 (Source: IMS).

Eris: High share of prescriptions from specialist doctors

% of Prescriptions	Super-specialist	Specialist	General Physicians	Specialist + Super-Specialist
IPM	23%	38%	38%	62%
Eris (mother brands)	54%	43%	4%	96%

Superior engagement model

5. Multi-faceted product selection and engagement model leading to growth in prescription

Eris targets product opportunities to identify gaps in lifestyle-led disorders

Gap	Therapeutic category	Initiative
Diagnostics	Hypertension	<p>Launched ABPM on call which included providing insights and accessibility of ABPM to doctors and patients; Eris has supported approximately 16,300 patients and 2,800 doctors, through this initiative</p> <p>* ABPM- Ambulatory Blood Pressure Monitoring, key tool in diagnosing and monitoring hypertension</p>
	Diabetes	<p>Launched 'Tendia CGM On Call', which included actively engaging with doctors with requirements for CGM for their patients; Eris' specially trained executive also installed CGM devices on the patients which monitor glucose levels for 3-6 days; post monitoring, Eris collect data for the relevant doctor</p> <p>* CGM- Continuous Glucose Monitoring</p>
Therapeutic	Vitamin	Eris introduced a chewable tablet of Vitamin D, Tayo 60k in 2011, a cholecalciferol brand in chewable form
	Hypertension	<p>Eris focused on managing hypertension with an aspect of preventing vital organ damage along with blood pressure reduction,</p> <p>Accordingly Eris introduced Cilnidipine, a newer generation anti-hypertensive molecule that reduced adverse effects on the kidneys, in 2012.</p>
Patient Compliance	Diabetes	Introduced 'Optidrex technology' in February 2016, to make its Glimisave M (Metformin) brand tablets significantly smaller to address patient compliance gaps due to large tablets
	Gastroenterology	Launched its MacRabonik (Rabeprazole) brand in 2014, which consisted of a delayed dual release of rabeprazole, in order to address compliance gaps with dual dosage requirements of proton pump inhibitors.

Source: Company, Axis Capital

Sales, marketing and distribution aligned to product portfolio

6. Sales, marketing and distribution through sales divisions aligned with product portfolio

- ♦ Eris's marketing strategy involves an active engagement with Key Opinion Leaders (KOLs) and doctors including round table discussions, seminars on existing treatment gaps, alternative mechanisms of action and change in treatment paradigm
- ♦ Eris has created 7 sales divisions (see slide 56 for details) aligned with its key therapeutic areas focused on developing brand specific marketing strategies and growing engagement with specialists and super specialists
- ♦ The number of Eris' marketing representatives as of September 30, 2016 had dropped to 1,310 due to rationalization of its sales initiatives, reflecting its increasing focus on metro cities and tier 1 towns. However, the number of marketing representatives has increased to 1,501 as of March 31, 2017, led by acquisition of Amay Pharma and Kinedex
- ♦ Eris has increased its doctor base to 50,282 (~15.7% of doctors in metro cities/class 1 towns in India) in FY17 from 24,606 (~9.0%) in FY12. Company has also been able to increase its share in prescriptions in metro cities and class 1 towns to 1.3% in FY17, up from 0.9% in FY12 (*Source: IMS Medical Audit MAT, March 2017*)

Increasing MR productivity

	FY13	FY14	FY15	FY16	FY17	H1FY17*
Revenues (Rs. mn)...(A)	3,931	5,088	5,456	5,970	7,250	3,708
Number of MR's ... (B)	1,138	1,350	1,499	1,422	1,501	1,310
MR productivity (Rs mn)... (A/B)	3.45	3.77	3.64	4.20	4.83	5.66

Source: Company, MR Productivity = (A)/(B); Revenues (A)/ Number of MR's (B)

Note: H1FY17 MR productivity has used annualized revenue of H1FY17/ Number of MRs

MR productivity declined in FY17 from H1FY17 due to increase in MR's led by Amay/Kinedex acquisitions, however, revenues were only partially consolidated

Strategies for future growth

Increasing scale in existing therapies

- ◆ **Consolidate and grow scale in existing therapeutic areas** through a mix of initiatives which include:
 - ◆ **Targeting new categories within existing therapeutic areas** – for instance, strengthening position in anti-diabetes therapeutic area by launching new products in the insulin and 'glucagon-like peptide-1'(GLP1) categories
 - ◆ **Expand network of KOLs** to increase coverage of specialists to drive growth in prescriptions
 - ◆ **Continuing to execute on doctor-patient engagement model** by leveraging diagnostics and technology to aid better outcomes and enhance patient compliance
 - ◆ **Enhancing product lifecycle management** by identifying clinical benefits and commercializing new extensions or combinations and
 - ◆ **Enhancing productivity and efficiency of sales and marketing personnel** through training, technology and exploiting synergies between divisions

- ◆ **Targeting products going off-patent in India to grow portfolio**
 - ◆ Strategy will be to launch branded prescription generics of products on the expiry of the relevant patent in India particularly within the therapeutic areas in which Eris has a significant presence
 - ◆ Patents in relation to six products (sitagliptin, vildagliptin, linagliptin, insulin aspart protamine crystalline recombinant, ticagrelor and liraglutide recombinant) in the cardiovascular and anti-diabetics therapeutic areas, currently under patent in India, are expected to expire by FY18-24, with combined market size for FY17 at Rs 22.6 bn (source: IMS)
 - ◆ Strategy of engaging with specialist doctors and leadership position in these therapeutic areas make Eris well positioned to market these cardiovascular and anti-diabetics products

Targeting high-growth therapies

Target and enhance presence in large and high-growth therapeutic areas

- ◆ Focused on opportunities in therapeutic areas which can grow, **chronic neurological pain, dermatology and gynaecology**
- ◆ Continues to target lifestyle disorders and the chronic category targeting products that have to be
 - ◆ Prescribed over an extended period of time as opposed to one time incidence related medication,
 - ◆ Identifying gaps in existing interventions,
 - ◆ Analyzing patient compliance, and
 - ◆ Working with KOLs, doctors and patients through active engagement to develop, manufacture and market new indications which fulfill an unmet need or are clinically differentiated

Enhance its presence in large and high-growth therapeutic areas of the IPM

Therapeutic area	Revenues (Rs bn)	Therapy position (IPM)	Growth CAGR (FY13-17)	Initiatives
Neurology	68.8	9	12.2%	Focus on the management of chronic neuropathic pain
Dermatology	79.9	8	18.2%	Focus on the fast growing cosmeceuticals subgroup
Gynaecology	55.7	-	9.9%	Expand in the female infertility and endocrine disorders
Osteoarthritis and Muscoloskeletal	10.4	-	10.7%	Acquired 75.48% equity in Kinedex, which focuses on products in the mobility related disorders

Source: IMS TSA MAT, March 2017, Company

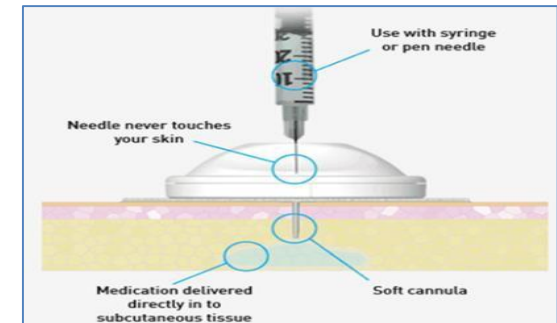
Exploring in-licensing opportunities

- ◆ Explore in-licensing and partnerships to leverage sales, marketing and distribution and manufacturing infrastructure
 - Eris' therapeutic focus and alignment of divisions, sales teams along therapeutic areas position it as a partner of choice for pharmaceutical companies looking to utilize its distribution channel for marketing their products in India
 - Company also intends to explore additional alternatives or in-licensing and co-development of products
 - In December 2016, Eris entered into an exclusive marketing agreement with India Medtronic Pvt Ltd for co-promotion, distribution and marketing of the i-Port Advance injection port, requiring less injections than regular insulin delivery methods
 - i-Port Advance lets the patients take their medication without having to puncture their skin for each shot. The USFDA approved product is a first of its kind in India and is patented in the US. This measure is expected to widen the anti-diabetic solutions portfolio of Eris besides enhancing its image as a patient centric pharmaceutical company

i-Port: Eris is exploring in-licensing opportunities to support improved patient experience



Source: Axis Capital



- In May 2017, Eris entered into a tie-up agreement to exclusively market certain formulations in the acute pain analgesics therapeutic area manufactured by Pharmedica under license from the Council of Scientific and Industrial Research – Central Drug Research Institute, in India. It also entered into 3 deeds of assignment to acquire the rights and title for 3 brands for a consideration of Rs100 mn (certain additional payments contingent on sales of 3 brands)

Scaling up through acquisitions

◆ Enhance product line and expand capabilities through strategic acquisitions

- Eris intends to selectively explore asset, brand acquisitions and joint ventures that will
 - develop operating leverage for key therapeutic areas by unlocking potential efficiency and synergy benefits
 - strengthen or expand product portfolio within existing therapeutic areas including cardiovascular and anti-diabetics
 - increase sales, marketing and distribution network, customers and geographical reach

◆ Scaling up through acquisitions to consolidate position in lead therapies

- In July 2016, Eris acquired registered and unregistered trademarks in relation to 40 brands, including trademarks in relation to Atorica, Apriglim and Rosurica brands from **Amay Pharmaceuticals** (previously known as Aprica Pharma) for Rs 328.7 mn in order to grow its product portfolio in the **CVS** and **anti-diabetics therapeutic** areas
- Additionally, in Sept'16, Eris executed a non-competition and non-solicitation agreement for a period of 5 years with Amay Pharma for an aggregate fee of Rs 50 mn. Amay Pharma's revenue from the brands acquired were Rs 192.8 mn for FY17 (Source: IMS TSA MAT, March 2017). Amay Pharma is present in 8 states (100 MR's). Eris plans to increase team to 170 MR's, targeting pan-India presence
- In November 2016, Eris acquired 61.5% stake in **Kinedex Healthcare** from its existing shareholders for Rs 629 mn
 - In Dec 2016, company acquired an additional 14% of the equity in Kinedex for a consideration of Rs 143 mn, taking its aggregate equity shareholding in Kinedex to 75.5% (aggregate consideration of Rs 772 mn)
 - Acquisitions aimed at increasing its presence in the **mobility related disorders** in the musculoskeletal therapeutic area
 - Kinedex' revenue stood at Rs 830 mn for FY17
 - Kinedex' top mother brand group – Rosiflex (incl. its extensions) – had revenue of Rs 396 mn for FY17 (Source: IMS)

Kinedex acquisition

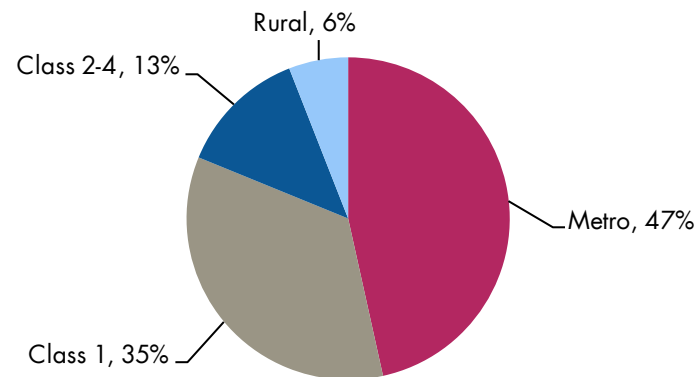
- ◆ **Kinedex:** Over Nov-Dec 2016, Eris acquired 75.5% stake in Kinedex Healthcare from its existing shareholders for an aggregate consideration of Rs 771.8 mn. Kinedex is a pharmaceutical company which has great strength in differentiated products with focus on **mobility related disorders** in the musculoskeletal therapeutic area
- ◆ Kinedex should witness robust synergies with Eris’ existing portfolio. The customer focus of Kinedex is alike Eris, with 83% of its business derived from metros and tier 1 cities. Additionally, Kinedex is largely present within chronic therapies which is in line with Eris’ business strategy

Kinedex – presence in chronic segment

Brand	Indication	Duration of therapy	Specialty	Differential advantage
Rosiflex	Osteo arthritis	> 6 months	Ortho	Propagated the benefits of Rosehip extract in osteoarthritis
Meltocal	Pregnancy & lactation	6-12 months	Gynec	Patient compliance- Mouth Dissolving calcium
Lactovel	Inadequate breast milk production	> 3 months	Gynec	-
Oleevcal	Post menopausal osteoporosis	3 months or more	Ortho/gynec	Olive Leaf Extract for Osteoblastogenesis

Source: Company, Axis Capital

Kinedex – higher presence (83%) in larger cities



Source: Company, Axis Capital

Way forward

- ◆ Focus on improving Kinedex’ **MR productivity especially** in the South (where Yield Per Man (YPM) is lower than Rs 0.2mn/month) by leveraging on its strong presence in the south
- ◆ Rationalizing product portfolio and MR count from 320 to 240 which will lead to improved productivity; Created 2 divisions: Kinedex1 with 170 MRs and Kinedex2 with 70 MRs to provide more targeted focus on key brands

Key risks

Key risks...

Additional pricing regulations in India

India enacted the National Pharmaceuticals Pricing Policy (NPPA) in 2012, which lays down the principles for pricing essential drugs. As a result, a number of drug formulations were identified and added to India's National List of Essential Medicines (NLEM) and these drugs are subject to price control in India. The DPCO 2013 governs the price control mechanism for formulations listed in the NLEM. The NPPA may also notify the ceiling price for additional formulations under the DPCO or some or all of the remaining formulations listed in the NLEM.

Eris has 39 brands extensions that presently fall within the list of scheduled formulations whose prices are regulated by the DPCO 2013. These brands contributed 14.3% and 12% to revenue in FY16 and FY17

Eris' ability to freely set prices of its products if restricted by government regulation, healthcare legislation and pressure from third parties will affect its profits.

UCPMP

The **Uniform Code of Pharmaceutical Marketing Practices ("UCPMP")**, which became effective across India from January 1, 2015, is currently a voluntary code which provides detailed guidelines about promotional materials, conduct of medical representatives, physician samples, gifts and relationships with healthcare professionals. If the UCPMP is made mandatory in the future, Eris would be required to spend a considerable amount of time and resources to conform to the requirements of the UCPMP. Eris has received letters from various medical councils, including from Delhi Medical Council, Punjab Medical Council, Maharashtra Medical Council and Rajasthan Medical Council, alleging that it has made payment for travel expenses or provided gifts to certain medical practitioners in contravention of the UCPMP.

If any of these allegations are upheld in course of any proceedings or found to be in violation of applicable regulations and statutes, and if any governmental or regulatory action is taken against Eris, it will hit its reputation, business and results of operations.

Extensive regulation in IPM

In 2016, the Government of India issued certain notifications prohibiting the manufacture, sale and distribution of fixed dose combination drugs. Pursuant to writ petitions filed by certain pharmaceutical companies including Eris, the High Court of Delhi quashed such notifications on December 1, 2016. An appeal against such order of the High Court of Delhi has been filed before the Supreme Court of India. In the event that the Supreme Court reinstates the notifications prohibiting the sale of fixed dose combination drugs, it will adversely affect Eris' business, results of operations and financial condition.

Source: Company, Axis Capital

...Key risks

Stricter norms by IMC

Pursuant to a notification on October 8, 2016, the Indian Medical Council (Professional Conduct, Etiquette and Ethics) Regulations, 2002, were amended and doctors in India are required to provide prescriptions to patients in terms of **generic pharmaceutical names instead of particular brand or trade names** of medicines. In the event doctors, including specialists and super specialists, are unable to or restrict from prescribing Eris' products, the demand for and volume of sales of Eris' products may decrease, which may adversely affect Eris' business, results of operations and financial condition.

Concentration risks in portfolio

Eris is dependent on its top 10 brands, which together generated 72.5% of its total revenue for FY17.

MR attrition

A significant increase in Eris' employee attrition rate could also result in decreased operational efficiencies and productivity, loss of market knowledge and doctor relationships, and an increase in recruitment and training costs, thereby adversely affecting business, results of operations and financial condition. In the event that Eris is unable to hire people with necessary knowledge or necessary expertise, its business may be severely disrupted, and its financial condition and results of operations may be adversely affected.

Reduction/termination of tax incentives

Eris benefits from certain tax regulations and incentives that accord favorable treatment to its manufacturing facility. For example, the North East Industrial and Investment Promotion Policy, 2007, (NEIIP) is applicable to its Assam Facility, pursuant to which, it is eligible to avail of certain tax incentives including income tax and excise duty exemption for a period of 10 years (until FY24 and FY25 respectively) in addition to certain capital investment and trade subsidies. The reduction or termination of its tax incentives or non-compliance with the conditions under which such tax incentives are made available will increase Eris' tax liability and adversely affect Eris' business, prospects, results of operations and financial condition.

Litigation

There are certain outstanding legal proceedings involving Eris, its subsidiaries, promoters and directors, that are incidental to its business and operations. These proceedings are pending at different levels of adjudication before various courts, tribunals, quasi-judicial authorities and appellate tribunals. Any adverse outcome in any of these proceedings may adversely affect company's profitability and reputation and may have an adverse effect on its results of operations and financial condition.

Source: Company, Axis Capital

Financials

P&L snapshot

Eris Lifesciences

PHARMACEUTICALS

(Rs mn)	FY13	FY14	FY15	FY16	FY17	FY18F	FY19F
Revenue from operations	3,931	5,088	5,456	5,970	7,250	8,754	10,398
<i>YoY Growth (%)</i>	43	29	7	9	21	21	19
Total material Cost	737	987	942	977	1,043	1,274	1,482
Gross Profit	3,193	4,101	4,513	4,993	6,207	7,480	8,916
Gross margin (%)	81.2	80.6	82.7	83.6	85.6	85.5	85.8
Employee cost	673	905	1,256	1,247	1,320	1,633	1,934
Other expenses	1,661	2,206	2,042	2,031	2,200	2,434	2,797
EBITDA	859	989	1,215	1,715	2,686	3,414	4,185
EBITDA margin (%)	21.9	19.4	22.3	28.7	37.1	39.0	40.3
Finance cost	7	2	0	1	2	2	2
Depreciation & Amortization	35	48	155	204	237	173	211
Other income	14	44	35	34	191	370	597
PBT	831	983	1,094	1,544	2,638	3,609	4,568
Total tax	247	274	202	196	219	271	388
<i>Tax rate (%)</i>	<i>30%</i>	<i>28%</i>	<i>18%</i>	<i>13%</i>	<i>8%</i>	<i>8%</i>	<i>9%</i>
Net profit	582	708	892	1,336	2,421	3,339	4,180
<i>YoY Growth (%)</i>	58	22	26	50	81	38	25
EPS (Rs)	4.2	5.1	6.5	9.7	17.6	24.3	30.4

Source: Company, Axis Capital

Revenue drivers...

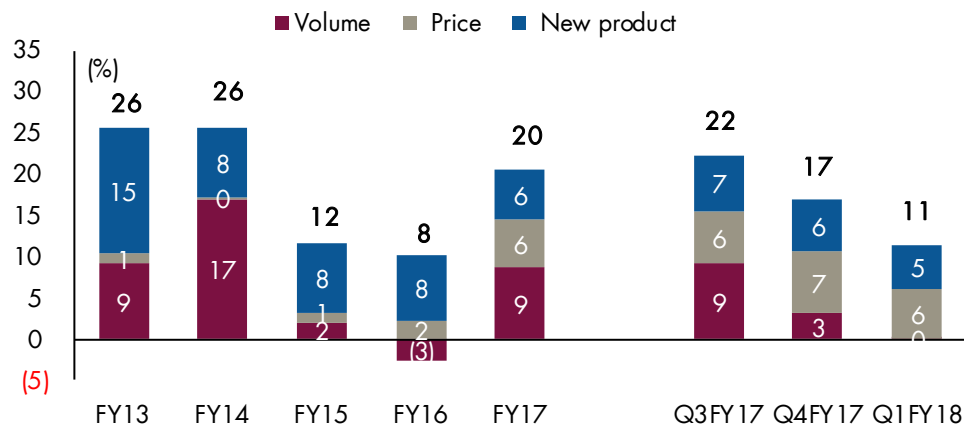
While reshaping acute strategy, chronic growth remained strong

(Rs mn)	FY13	FY14	FY15	FY16	FY17
Revenues	3,821	5,733	6,104	7,077	8,376
YoY Growth (%)	45%	50%	6%	16%	18%
Chronic	1,990	3,229	3,692	4,433	5,491
YoY Growth (%)	41%	62%	14%	20%	24%
Acute	1,832	2,503	2,412	2,644	2,885
YoY Growth (%)	50%	37%	-4%	10%	9%

Source: IMS TSA MAT, March 2017, Company

- ◆ FY15/16 revenue impacted due to
 - Reshaping the acute strategy, and subsequent exit from me-too acute brands
 - Expansion of NLEM
 - Scale back from smaller cities (New strategy: Chronic, Acute focus in metros/tier 1)

Eris growth drivers – strong volume growth in FY17



Source: AIOCD

- ◆ FY17 revenue adversely impacted by
 - NLEM: - 2.7% price decline across NLEM portfolio, in line with WPI
 - FDC: Key brand Triglimisave (~4% of FY17 revenue vs. 6% of FY16); now cleared by DGCI, eliminating the overhang of the ban
 - Demonetization impact in H2FY17
 - Not many launches in FY17
- ◆ Q1FY18 – volumes impacted by trade channel destocking ahead of GST rollout

...Revenue drivers

Eris Lifesciences

PHARMACEUTICALS

Revenue break-up

(Rs mn)	FY13	FY14	FY15	FY16	FY17	FY18F	FY19F
Domestic formulations (Gross)	3,930	5,085	5,472	5,967	7,250	8,754	10,398
YoY Growth (%)	43%	29%	8%	9%	21%	21%	19%
- Eris Standalone	3,930	5,085	5,472	6,020	6,884	7,631	8,939
YoY Growth (%)	43%	29%	8%	10%	14%	11%	17%
- Aprica					243	480	600
YoY Growth (%)						98%	25%
- Kinedex					172	641	851
YoY Growth (%)						274%	33%

Source: Company, Axis Capital

- ◆ We expect robust revenue growth over FY17-19E driven by
 - Growth on an adversely affected FY17 base (NLEM – price decline, FDC, Demonetization) and Q1 FY18 (GST)
 - Focus on top-10 brands with high-growth potential
 - New therapeutic categories – launched 2 brands under Neuro segment in Q2FY18 with 75 MRs
 - New brands across key categories
 - 2 in Women healthcare, 1 in cardio, 1 in ortho and 1 in respiratory over next 3-4 months
 - Scalable and value accretive Inorganic initiatives
 - Amay Pharma: Current presence in 8 states (100 MR's). To increase MR team, targeting pan-India presence
 - Kinedex: Improvement in MR productivity in south India with targeted focus on key brands

~370 bps gross margin expansion over FY13-17...

(Rs mn)	FY13	FY14	FY15	FY16	H1FY17	H2FY17	FY17	FY18F	FY19F
Gross Profit	3,193	4,101	4,513	4,993	3,165	3,041	6,207	7,480	8,916
Gross margins (%)	81.2%	80.6%	82.7%	83.6%	85.4%	85.9%	85.6%	85.5%	85.8%

Source: Company, Axis Capital

- ◆ **Gross margin expanded over FY13 - FY17 led by**
 - Improved revenue mix – Chronic portfolio contribution increased to 65.6% in FY17, from 52% in FY13 (Source: IMS)
 - Transition of high margin large brands manufacturing to its Assam facility (Eris initially outsources manufacturing of new launches to third party manufacturer, and transfers manufacturing to its own facility once the brand gains traction)

- ◆ **Gross margin to expand over FY17-19E aided by**
 - Increasing share of products manufactured at its Assam facility
 - Growth on high margin focus brands
 - Transition to specialized, semi-chronic & premium value disease areas focused in large cities
 - Improvement in Kinedex' gross margin (over 70% from ~60-65%% in FY17)

Eris Lifesciences

PHARMACEUTICALS

... coupled with increased MR productivity, lower other expenses...

(Rs mn)	FY13	FY14	FY15	FY16	FY17	H1FY17
Employee Cost	673	905	1,256	1,247	1,320	667
YoY Growth (%)	57%	35%	39%	-1%	6%	
As % of sales	17%	18%	23%	21%	18%	18%

(Rs mn)	FY13	FY14	FY15	FY16	FY17	H1FY17*
Total Revenues	4,030	5,080	5,490	6,020	7,298	3,708
Total MR's	1,138	1,350	1,499	1,422	1,501	1,310
Total MR Productivity	3.5	3.8	3.7	4.2	4.9	5.7

(Rs mn)	FY13	FY14	FY15	FY16	FY17
Other Expenses	1,661	2,206	2,042	2,031	2,200
YoY Growth (%)	35%	33%	-7%	-1%	8%
As % of sales	42%	43%	37%	34%	30%

(Rs mn)	FY13	FY14	FY15	FY16	FY17
Advertising, publicity and awareness	277	731	337	444	378
As % of sales	7%	14%	6%	7%	5%

Selling and Distribution	240	253	205	201	243
As % of sales	6%	5%	4%	3%	3%

Travelling and conveyance	583	652	720	616	734
As % of sales	15%	13%	13%	10%	10%

Legal and professional	268	300	333	301	331
As % of sales	7%	6%	6%	5%	5%

- ◆ Higher employee cost in FY14 and FY15 led by
 - Increase in MR's to 1,499 in FY15 (1,138 in FY13) driven by launch of 2 new sales divisions – Victus in FY14 and Eris-2 in FY15
- ◆ Lower employee cost in FY16 led by
 - Rationalization of MR headcount from 1,499 in FY15 to 1,422 in FY16, 1,310 in H1FY17 – in line with its strategy to focus on larger cities
 - Increase in MR's in end FY17 led by Amay/Kinedex acquisitions
- ◆ Other expenses declined in FY15 primarily on
 - Lower advertising and publicity expenses
 - FY14 expense included launch expenses for 2 sales divisions
- ◆ Other expenses declined in FY16 due to
 - Subsequent decline in travelling and conveyance expenses with decrease in number of MR's
 - Positive operating leverage aided by higher utilization at its Guwahati manufacturing facility

...resulted in ~ 1,580 bps expansion in EBITDA margin

(Rs mn)	FY13	FY14	FY15	FY16	H1FY17	H2FY17	FY17	FY18F	FY19F
EBITDA	859	989	1,215	1,715	1,471	1,215	2,686	3,414	4,185
EBITDA margin (%)	21.9%	19.4%	22.3%	28.7%	39.7%	34.3%	37.1%	39.0%	40.3%
YoY Growth (%)	46.9%	15.2%	22.8%	41.2%	N.A.	N.A.	56.6%	27.1%	22.6%

Source: Company, Axis Capital

- ◆ **EBITDA margin expanded over FY13- H1FY17 led by**
 - Higher gross margin led by improved product mix, transition of manufacturing to its Assam facility
 - Rationalization of MR headcount from 1,499 in FY15 to 1,310 in H1FY17 (largely within acute segment), and subsequent decline in other operating expenses (travelling expenses, etc)
 - Improving MR productivity (Rs 5.7 mn in H1FY17, Rs 4.2mn in FY16, from Rs 3.7mn in FY15)
- ◆ **EBITDA margin adversely affected in H2FY17, as sales were temporarily impacted by demonetization and consolidation of lower margin Amay/Kinedex portfolios**
- ◆ **Above-industry EBITDA margin sustainable; expect steady improvement ahead**
 - Continued focus on high growth higher margin brands is improving MR productivity,
 - Higher utilization at its Guwahati manufacturing facility with transition of products previously manufactured at the partnered Sozin facility (partnership retired in end Aug 2016 accounted for 18.7% revenues in FY17)
 - Scale-up in Amay Pharma's operating margin
 - Scale-up in Kinedex' operating margin – (1)Improvement in gross margin to over 70% (vs. ~60-65% when acquired) driven by Eris' superior sourcing abilities, (2) Rationalization of MR count and (3) Improved YPM

Financials (consolidated)

(Rs mn)	FY13	FY14	FY15	FY16	FY17	FY18F	FY19F
D&A	35	48	155	204	237	173	211

Source: Company, Axis Capital

- ◆ Depreciation and amortization expenses increased in
 - FY17: Amortization of goodwill related to Amay Pharma, Kinedex acquisitions
 - FY16: Additional equipment purchased for marketing and awareness initiatives
 - FY15: Depreciation on building, plant and machinery at Eris' Assam facility
- ◆ D&A expenses to decline in FY18E
 - FY18E: Lower amortization expenses owing to transition to Ind-AS accounting standards (As per Ind-AS, goodwill needs to be tested for impairment annually rather than statutory amortization over 5 years)

(Rs mn)	FY13	FY14	FY15	FY16	FY17	FY18F	FY19F
Tax expense	247	274	202	196	219	271	388
Tax rate (%)	30%	28%	18%	13%	8%	8%	9%

Source: Company, Axis Capital

- ◆ Net current tax expense decreased in
 - FY17: MAT credit of Rs 320 mn; FY16 : MAT credit of Rs 132.3 mn (nil in FY15)
 - FY15: Commencement of the fiscal benefits in relation to Assam Facility (which enjoys full tax break)
- ◆ Tax rates to trend lower over FY17-19E, as
 - Transition of products manufactured at its partnered Sozin facility (18.7% revenues in FY17) to its own Assam facility
 - Eris' Assam Facility eligible for income tax incentives until FY24 and excise duty exemption until FY25

Strong balance sheet

Strong net cash position

(Rs mn)	FY13	FY14	FY15	FY16	FY17
Cash	49	73	57	97	24
Current investments	465	670	692	1,274	2,585
Total cash & equivalents	514	742	750	1,371	2,609
Long term borrowings	6	-	5	-	5
Short term borrowings	-	-	-	-	-
Total borrowings	6	-	5	-	5

- Given strong net cash position, Eris continues to actively seek and evaluate potential acquisitions of brands, companies or assets that will enhance its product line and bridge any therapeutic gaps in India

Favorable working capital cycle to sustain despite increasing scale of operations

(Rs mn)	FY13	FY14	FY15	FY16	FY17
Trade receivables	166	223	237	254	489
Debtor days	14	14	15	15	19
Inventory	432	448	576	476	558
Inventory days	31	32	34	32	26
Trade payables	220	374	367	246	385
Creditor days	19	21	25	19	16
NWC days	26	24	25	28	29

Source: Company, Axis Capital

Significant FCF improvement over FY17-19E

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(Rs mn)	FY13	FY14	FY15	FY16	FY17	FY18F	FY19F
Cash flows from operating activities							
Operating profit before working capital changes	900	990	1,216	1,744	2,693	3,414	4,185
Changes in working capital	(166)	202	(78)	(82)	(164)	30	(43)
Cash generated from operations	734	1,192	1,138	1,662	2,529	3,444	4,142
Less: Direct taxes paid (net of refunds)	(360)	(301)	(234)	(347)	(531)	(770)	(975)
A. Net cash generated from operating activities	374	891	903	1,315	1,999	2,674	3,167
Purchases of fixed assets	(78)	(519)	(131)	(236)	(1,236)	(200)	(250)
Free cash flow (FCF)	296	371	772	1,078	762	2,474	2,917
B. Net cash (used in)/generated from investing Activities	(358)	(827)	(921)	(439)	(1,841)	170	347
Proceeds/(Repayment) of long-term borrowings (net)	(24)	(21)	(5)	(5)	(6)	-	-
C. Net cash (used in)/generated from financing activities	(31)	(23)	5	(837)	(237)	(83)	(103)
Net increase/ (decrease) in cash and cash equivalents	(8)	46	(16)	39	(79)	2,762	3,411
Opening cash and cash equivalents	28	20	66	50	89	23	2,785
Closing cash and cash equivalents	20	66	50	89	23	2,785	6,196

Source: Company, Axis Capital

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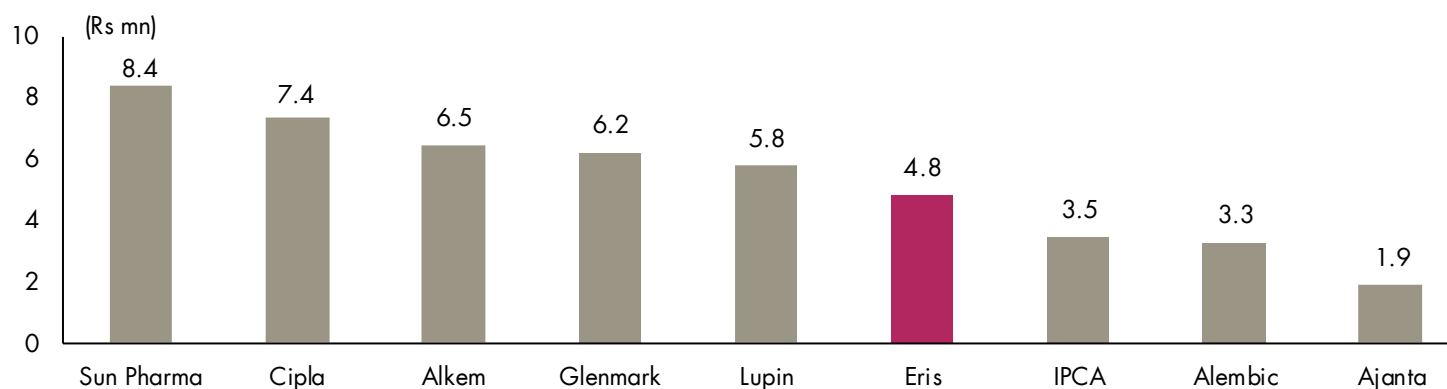
Peer comparison – Eris to post superior sales growth

Revenue growth

Revenue (Rs mn)	Domestic FY17		% of total	Domestic CAGR			% Acute	Total CAGR	
				FY12-17	% Chronic	% Sub-chronic		FY12-17	FY17-19E #
MNC Pharma									
Sanofi	23,686	23,686	100%	11%	52%	5%	44%	11%	7%
GSK Pharma	29,827	29,827	100%	3%	13%	22%	66%	3%	10%
Pfizer	21,431	21,431	100%	14%	16%	20%	64%	14%	5%
India Pharma									
Ajanta	19,326	5,930	31%	24%	50%	11%	38%	23%	14%
Alkem	57,812	42,153	73%	19%	11%	25%	64%	23%	14%
Cipla	146,300	55,300	38%	11%	42%	13%	45%	15%	15%
Torrent	58,570	19,770	34%	17%	53%	24%	23%	17%	12%
Eris	7,495	7,495	100%	22%	61%	20%	18%	22%	20%

Source: Company, Bloomberg, AIOCD #CAGRs based on Bloomberg consensus estimates for total business

MR productivity



Eris – superior margin profile...

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Margin profile

Eris Peers Company Name	Gross Margin (%)			Employee Cost (% of sales)			EBITDA Margin (%)				
	FY14	FY16	FY17	FY14	FY16	FY17	FY14	FY16	FY17	FY18E	FY19E
MNC Pharma	58%	57%	57%	15%	15%	15%	24%	21%	20%	19%	21%
Sanofi	55%	54%	55%	13%	15%	15%	24%	23%	22%	22%	23%
GSK Pharma	54%	55%	53%	14%	16%	16%	19%	17%	14%	15%	17%
Pfizer	66%	61%	63%	17%	14%	14%	28%	25%	23%	21%	22%
India Pharma											
Ajanta	71%	74%	79%	13%	15%	15%	31%	35%	36%	32%	33%
Alkem	56%	61%	62%	17%	17%	17%	13%	17%	17%	17%	19%
Cipla	62%	63%	64%	16%	18%	18%	22%	19%	18%	19%	20%
Torrent	69%	76%	69%	18%	13%	17%	23%	41%	24%	23%	24%
Eris	81%	84%	86%	18%	21%	18%	19%	22%	37%	39%	40%

Source: Company, Bloomberg Note: FY18-19E margins based on Bloomberg consensus estimates

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... yields superior return ratios, asset turnover and NWC

Superior return ratios

Eris Peers Company Name	RoE (%)				RoCE (%)				Net Debt/Equity (x)				PAT CAGR	
	FY12	FY14	FY16	FY17	FY12	FY14	FY16	FY17	FY12	FY14	FY16	FY17	(FY12-17)	(FY17-19E)
MNC Pharma														
Sanofi	17%	18%	15%	18%	25%	29%	26%	24%	-0.2	-0.2	-0.4	-0.3	14%	13%
GSK Pharma	33%	24%	22%	16%	33%	24%	21%	20%	-1.0	-1.0	-0.8	-0.5	-10%	16%
Pfizer	14%	34%	11%	15%	21%	29%	19%	17%	-0.7	-0.5	-0.5	-0.6	13%	0%
India Pharma														
Ajanta	29%	47%	37%	37%	30%	46%	37%	37%	0.7	0.3	0.1	-0.1	46%	10%
Alkem	25%	18%	22%	22%	12%	10%	17%	18%	-0.1	0.0	-0.2	0.0	17%	12%
Cipla	16%	15%	8%	8%	17%	18%	13%	8%	-0.2	0.0	0.3	0.2	-3%	46%
Torrent	31%	40%	59%	24%	25%	30%	28%	16%	-0.2	0.1	0.1	0.3	27%	11%
Eris	126%	50%	47%	58%	108%	57%	49%	55%	-0.4	-0.4	-0.4	-0.5	46%	31%

Source: Company, Bloomberg

Asset turnover (x)

Company	FY12	FY14	FY16
MNC Pharma			
Sanofi	1.3	1.6	1.5
GSK Pharma*	7.9	8.8	10.0
Pfizer	9.4	9.7	1.6
India Pharma			
Ajanta	1.9	1.9	1.9
Alkem	3.5	3.3	4.2
Cipla	1.1	1.1	1.0
Torrent	2.2	1.8	1.8
Eris	15.1	10.7	8.6

Source: Company, Bloomberg

NWC days

Company	FY12	FY14	FY16	FY17
MNC Pharma				
Sanofi	59	52	65	61
GSK Pharma*	31	8	43	39
Pfizer	63	54	29	8
India Pharma				
Ajanta	98	86	86	78
Alkem	70	89	74	79
Cipla	145	131	127	113
Torrent	18	59	30	36
Eris	19	24	28	29

Source: Company, Bloomberg

Valuation

Eris Lifesciences

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Peer valuation – P/E

Eris Peers Company Name	Mcap (USD mn)	Mcap (Rs mn)	P/E (x)			
			FY16	FY17	FY18F	FY19F
MNC Pharma						
Abbott India	1,434	92,025	35	36	26	20
Sanofi	1,471	94,371	40	32	29	26
Glaxo Pharma	3,159	202,656	54	60	54	45
Pfizer	1,276	81,850	37	24	29	24
India Pharma						
Ajanta	1,667	106,967	26	21	21	17
Alkem	3,389	217,429	24	22	22	16
Cipla	7,190	461,239	34	38	29	20
Lupin	6,718	430,945	19	25	25	21
Sun Pharma	18,260	1,171,432	25	25	25	20
Torrent	3,460	221,961	13	24	24	19
India Diagnostic						
Dr Lals Pathlabs	1,050	67,387	51	44	38	32
Thyrocare	594	38,125	74	55	41	32

Source: Company, Bloomberg *Market Cap as on 17.08.2017

Eris to command premium given superior

- ◆ Sales growth and margin
- ◆ Return ratios
- ◆ CF and B/S (WC and Cash)

Given strong financials (20%, 31% revenue and PAT growth over FY17-19; 37% EBITDA margin in FY17 is one of the highest in the industry) and superior return ratios (ROCE of over 40% in FY17-19), **we initiate BUY with TP of 730 (24x FY19 EPS).**

Company financials (Consolidated)

Eris Lifesciences

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Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	5,970	7,250	8,754	10,398
Other operating income	-	-	-	-
Total operating income	5,970	7,250	8,754	10,398
Cost of goods sold	(977)	(1,043)	(1,274)	(1,482)
Gross profit	4,993	6,207	7,480	8,916
<i>Gross margin (%)</i>	<i>83.6</i>	<i>85.6</i>	<i>85.5</i>	<i>85.8</i>
Total operating expenses	(3,278)	(3,520)	(4,066)	(4,731)
EBITDA	1,715	2,686	3,414	4,185
<i>EBITDA margin (%)</i>	<i>28.7</i>	<i>37.1</i>	<i>39.0</i>	<i>40.3</i>
Depreciation	(204)	(237)	(173)	(211)
EBIT	1,512	2,449	3,241	3,974
Net interest	(1)	(2)	(2)	(2)
Other income	34	191	370	597
Profit before tax	1,544	2,638	3,609	4,568
Total taxation	(196)	(219)	(271)	(388)
<i>Tax rate (%)</i>	<i>12.7</i>	<i>8.3</i>	<i>7.5</i>	<i>8.5</i>
Profit after tax	1,349	2,419	3,339	4,180
Minorities	(13)	2	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	1,336	2,421	3,339	4,180
<i>Adj. PAT margin (%)</i>	<i>22.4</i>	<i>33.4</i>	<i>38.1</i>	<i>40.2</i>
Net non-recurring items	-	-	-	-
Reported net profit	1,336	2,421	3,339	4,180

Source: Company, Axis Capital

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	1	138	138	138
Reserves & surplus	2,991	5,262	8,533	12,630
Net worth	2,992	5,399	8,671	12,768
Borrowing	-	5	5	5
Other non-current liabilities	256	248	283	323
Total liabilities	3,280	5,652	8,959	13,096
Gross fixed assets	714	1,710	1,910	2,160
Less: Depreciation	-	-	-	-
Net fixed assets	714	1,710	1,910	2,160
Add: Capital WIP	-	-	-	-
Total fixed assets	714	1,710	1,910	2,160
Total Investment	1,900	2,686	2,696	2,707
Inventory	476	558	648	741
Debtors	254	489	456	541
Cash & bank	97	24	2,604	5,766
Loans & advances	472	744	1,309	1,965
Current liabilities	693	758	808	938
Net current assets	609	1,137	4,258	8,134
Other non-current assets	57	119	95	95
Total assets	3,280	5,652	8,959	13,096

Company financials (Consolidated)

Eris Lifesciences

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Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	1,544	2,638	3,609	4,568
Depreciation & Amortisation	204	237	173	211
Chg in working capital	(82)	(164)	30	(43)
Cash flow from operations	1,315	1,999	2,674	3,167
Capital expenditure	(236)	(1,236)	(200)	(250)
Cash flow from investing	(439)	(1,841)	170	347
Equity raised/ (repaid)	-	-	-	-
Debt raised/ (repaid)	(5)	(65)	-	-
Dividend paid	(831)	(169)	(80)	(101)
Cash flow from financing	(837)	(237)	(83)	(103)
Net chg in cash	39	(79)	2,762	3,411

Valuation ratios

Y/E March	FY16	FY17	FY18E	FY19E
PE (x)	60.7	33.5	24.3	19.4
EV/ EBITDA (x)	46.5	29.2	22.2	17.4
EV/ Net sales (x)	13.4	10.8	8.7	7.0
PB (x)	27.1	15.0	9.4	6.4
Dividend yield (%)	1.0	-	0.1	0.1
Free cash flow yield (%)	1.3	0.9	3.0	3.6

Source: Company, Axis Capital

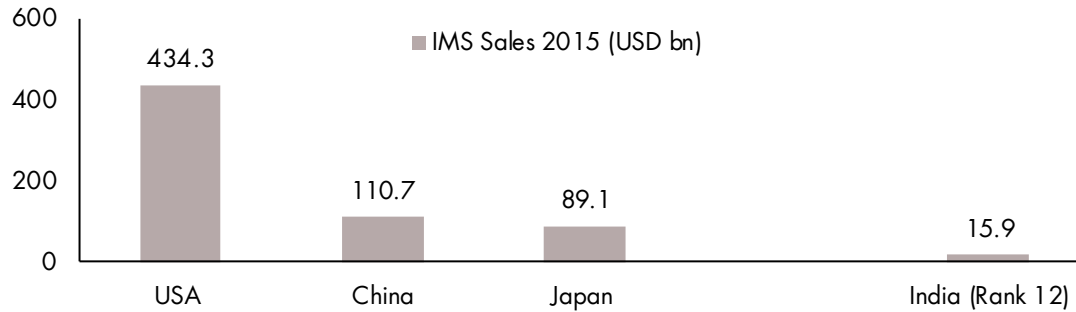
Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	9.7	17.6	24.3	30.4
CEPS (Rs)	11.2	19.3	25.5	31.9
DPS (Rs)	6.0	-	0.5	0.6
Dividend payout ratio (%)	62.2	-	2.0	2.0
GROWTH				
Net sales (%)	9.4	21.4	20.8	18.8
EBITDA (%)	41.2	56.6	27.1	22.6
Adj net profit (%)	49.7	81.2	37.9	25.2
FDEPS (%)	49.7	81.2	37.9	25.2
PERFORMANCE				
RoE (%)	47.3	57.7	47.5	39.0
RoCE (%)	49.9	59.1	49.4	41.4
EFFICIENCY				
Asset turnover (x)	3.3	3.3	2.8	2.6
Sales/ total assets (x)	1.6	1.4	1.1	0.9
Working capital/ sales (x)	0.1	0.1	0.2	0.2
Receivable days	15.5	24.6	19.0	19.0
Inventory days	40.9	44.6	44.3	43.5
Payable days	21.1	30.8	26.2	26.8
FINANCIAL STABILITY				
Total debt/ equity (x)	-	0.0	0.0	0.0
Net debt/ equity (x)	(0.5)	(0.6)	(0.7)	(0.8)
Current ratio (x)	1.9	2.5	6.3	9.7
Interest cover (x)	1,263.1	1,012.0	1,379.1	1,690.8

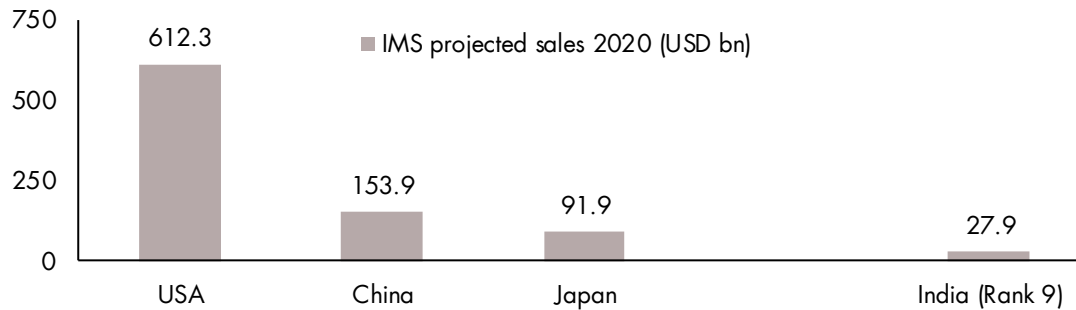
Appendix

India's global pharma rank improving on higher growth

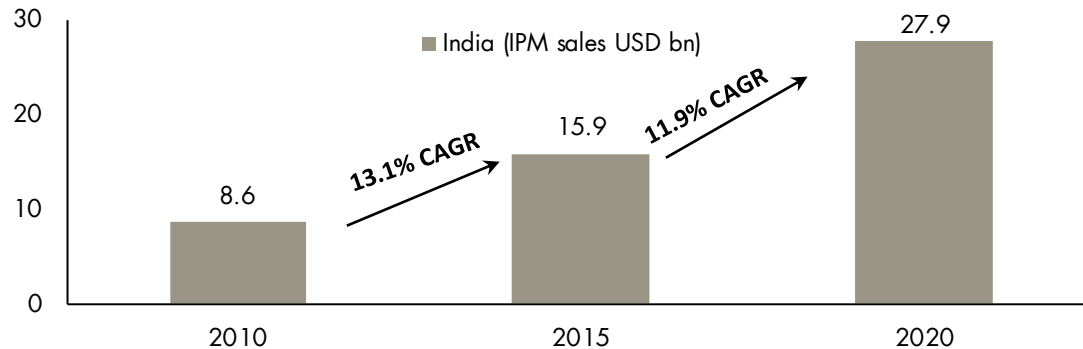
India current ranking of 12 amongst global pharmaceutical markets...



... is expected to improve to 9th rank ...



... driven by higher growth expectation in India vs. peers

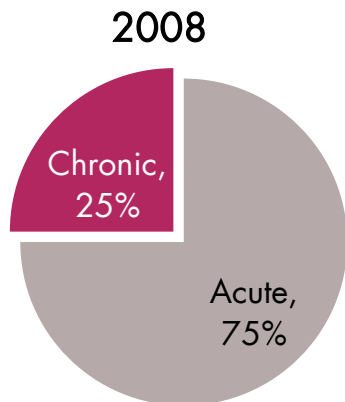


- India is estimated to become the 9th largest pharmaceutical market in the world by 2020 from 12th in 2015...
- ...led by 11.9% CAGR over CY15-20, as per IMS estimates, higher than global pharmaceuticals' 5.6% CAGR over CY15-20, as India's growth is driven by
 1. Favourable demographics and macro-economic developments
 2. Rising prevalence of chronic diseases
 3. Medical talent including specialists and super specialists
 4. Increasing insurance coverage

IPM: Chronic driving domestic formulation growth

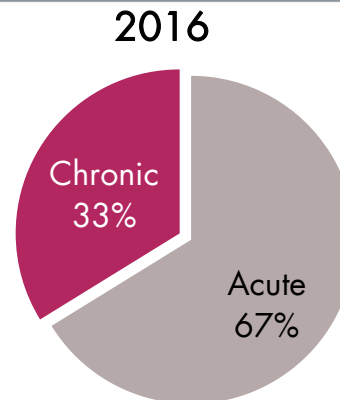
IPM: Acute vs. Chronic

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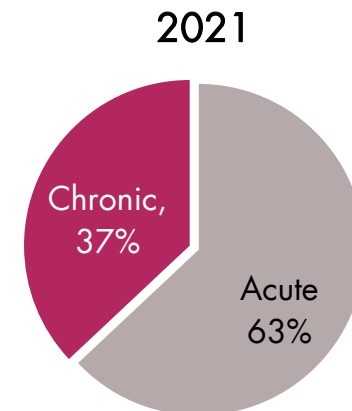
CAGR (2008 -2016)

Acute :14%
Chronic : 20%



CAGR (2016 -2021)

Acute :10%
Chronic : 14%



Top 5 therapeutic segments

	Rank
Anti-infectives	1
Cardiac	2
Gastro Intestinal	3
Respiratory	4
Pain / Analgesics	5

Top 5 therapeutic segments

	Rank
Anti-infectives	1
Cardiac	2
Gastro Intestinal	3
Anti Diabetic	4
Vitamins / Nutrients	5

Chronic therapies have also exhibited higher growth over FY13-17

Chronic Category			Acute Category		
Therapeutic Area	MAT FY 2017 (Rs bn)	CAGR (FY13 - 17)	Therapeutic Area	MAT FY 2017 (Rs bn)	CAGR (FY13 - 17)
Cardiovascular	134.0	11.6%	Gastro Intestinal	122.3	12.3%
Anti-diabetics	100.6	19.1%	Vitamins	89.3	12.5%
Neurology	68.8	12.2%	Gynaecology	55.7	9.9%
Respiratory	35.4	14.8%	Respiratory	54.1	9.9%
Others*	52.8	16.2%	Others**	430.2	10.0%

IPM: Higher growth in chronic – led by increasing lifestyle disorders

- ◆ The chronic category of IPM includes therapies intended for **non-communicable diseases that are prolonged in duration**. Some examples of chronic diseases include heart disease, diabetes, cancer and arthritis
- ◆ The widespread rise of chronic diseases is largely **lifestyle led** and driven by **rapid urbanization, increasingly sedentary lifestyles and changing eating habits**
- ◆ As of March, 2015, an estimated 33% of the Indian adult population have high blood pressure, while the prevalence of elevated cholesterol and blood glucose levels is at approximately 27% and 10%, respectively

Chronic therapies have exhibited sustainable growth, and consistently outperformed overall IPM growth

Therapeutic Area	MAT for Fiscal (Rs bn)					YoY Growth in Fiscal				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Cardiovascular	87	96	108	124	134	13%	10%	13%	15%	8%
Anti-diabetics	50	60	71	86	101	18%	19%	19%	21%	18%
Neurology	43	48	54	63	69	11%	10%	13%	16%	10%
Respiratory	20	24	27	31	35	8%	15%	17%	14%	13%
Urology	11	12	15	17	20	13%	14%	17%	19%	14%
Oncology	7	10	12	16	17	22%	42%	18%	28%	8%
Chronic Pain / Analgesics	10	12	14	15	16	12%	11%	18%	11%	6%
Others*	0	1	1	1	1	9%	11%	3%	18%	10%
Total Chronic	229	261	300	351	392	14%	14%	15%	17%	12%
Total IPM	731	806	915	1048	1143	11%	10%	13%	15%	9%

Source: IMS TSA MAT, March 2017, Company *Others comprises topical drugs used for treatment of varicose therapy

IPM: Chronic therapy – key market dynamics

- ◆ **Higher prescriptions by specialists:** Cardiologists, diabetologists/ endocrinologists and consulting physicians together comprised only 11.4% of the total doctor population in India as of March 31, 2017; however, they contributed 52.2% of prescriptions for anti-diabetics and cardiovascular therapeutic areas (source: IMS)
- ◆ **Higher prevalence in larger cities:** Metro cities and class 1 towns accounted for 66% of IPM revenue in FY17 (IMS)
 - Chronic category of IPM was 72% vs. 62.9% for Acute category, given greater prevalence of lifestyle related disorders in urban and semi-urban areas compared to rural areas (source: IMS)

Higher prescriptions by specialists

Specialty	IPM Prescription Share	IPM - Value per Prescription (Rs.)
Diabetologists / Endocrinologists	1.1%	1,350
Cardiologists	2.4%	990
Gastroenterologists	1.1%	860
Neurologists/ Neurosurgeons	1.6%	820
Nephrologists / Urologists	1.0%	630
Others*	38.3%	280
Consulting Physicians	8.3%	560
Gynaecologists	7.7%	350
General Physicians (MBBS)	12.0%	200
General Physicians (Non MBBS)	26.5%	120
	100.00%	300

Source: IMS analysis, IMS TSA and Medical Audit MAT, September 2016, Company

*Others include dentists, paediatricians, general surgeons, chest specialists, ENT specialists, ophthalmologists, oncologists, psychiatrists, orthopedics and dermatologists

Higher prevalence in metros/class 1 towns

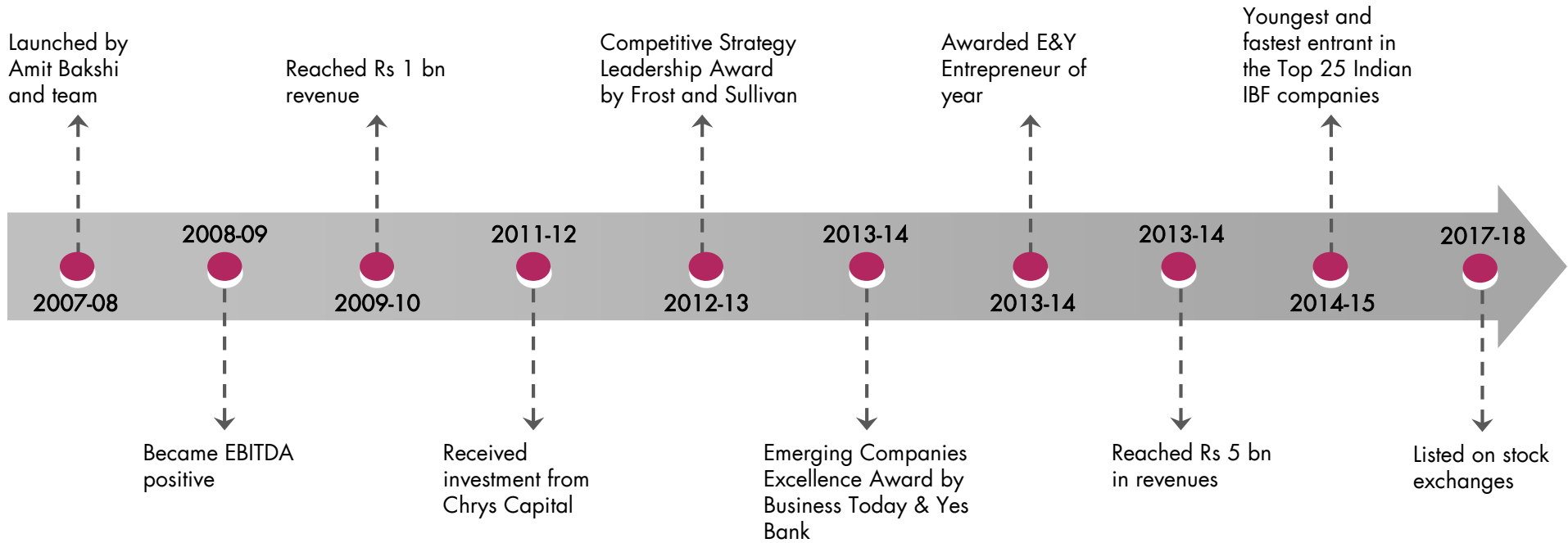
Therapeutic Area	IPM MAT	% from metro cities and class 1 towns
Cardiovascular	134,031.7	70.1%
Anti-diabetics	100,586.3	73.1%
Vitamins	89,339.7	64.7%
Gastroenterology	122,262.2	61.0%

Source: IMS analysis; IMS TSA and Town Class MAT, March 2017 in Rs mn, Company

Metro cities: Cities in India with a population of over 1 million

Class 1 towns: Towns and cities in India with a population between 100,000 and 1 million

Eris – key milestones



Eris – therapy and brand growth trends

Eris growth across therapies

YoY / Therapies	% Sales	FY13	FY14	FY15	FY16	FY17	1QFY18
Cardiac	34%	24%	38%	20%	10%	17%	8%
Anti-Diabetic	29%	16%	37%	28%	15%	32%	21%
Vit. / Min. / Nut.	14%	29%	10%	-7%	-2%	21%	3%
Gastro Intestinal	11%	18%	12%	1%	-1%	4%	-7%
Anti-Infective	3%	96%	21%	-16%	-13%	1%	-12%
Gynaecology	3%	25%	20%	0%	1%	19%	56%
Pain/ Analgesics	3%	33%	32%	1%	22%	61%	19%
Respiratory	2%	209%	28%	64%	23%	13%	10%
Neuro / CNS	1%	5%	13%	-7%	12%	-1%	-2%
Hormones	0%	-7%	-4%	-26%	-8%	-22%	-22%
Total (Rs bn)	6.6	26%	26%	12%	8%	20%	10%

Source: AIOCD, % of FY17 sales

Eris growth across top 10 brands

YoY / Products	% Sales	FY13	FY14	FY15	FY16	FY17	1QFY18
Glimisave M	8%	13%	44%	3%	-8%	30%	13%
Remylin D	6%	23%	15%	5%	1%	16%	2%
Glimisave MV	6%	-	-	170%	31%	47%	22%
Triglimisave	4%	22%	2%	33%	6%	-8%	37%
Eritel CH	3%	-	181%	38%	1%	17%	10%
LN Bloc	3%	-	1020%	129%	29%	39%	11%
Atorsave	3%	-6%	0%	4%	4%	4%	-3%
Eritel	3%	11%	22%	8%	9%	-12%	2%
Rabonik Plus	3%	17%	20%	-1%	-19%	-26%	-12%
Tayo 60K	3%	441%	34%	-17%	31%	4%	6%
Total Top 10 (Rs bn)	2.8	26%	34%	17%	4%	20%	11%

Source: AIOCD, % of FY17 sales

Eris – strong marketing and distribution set-up in India

Eris has created 7 sales divisions focusing on developing brand specific marketing strategies and engaging doctors

Sales Division	Fiscal Year of Launch	Therapeutic Areas Covered	Doctor specialty covered	Key Mother Brand Groups
Eris	Fiscal 2008	Cardiovascular and Anti-diabetes	Consulting Physicians, Cardiologists, Endocrinologists, Diabetologists, Neurologists, Nephrologists	Glimisave, Eritel, Remylin D
Nikkos	Fiscal 2009	Gastrointestinal and Respiratory	Gastroenterologists, ENTs, Endocrinologists, Diabetologists, Consulting Physicians, Cardiologists	Rabonik, Alerfix, Marzon
Adura	Fiscal 2010	Cardiovascular and Anti-diabetes	Consulting Physicians, Cardiologists, Endocrinologists, Diabetologists, Neurologists, Nephrologists	Olmin, Crevast, Tayo 60K
Montana	Fiscal 2012	Gynaecology and Paediatrics	Gynaecologists, Paediatricians, Endocrinologists	Metital, Calshine P
Inspira	Fiscal 2013	Cardiovascular and Anti-diabetes	Consulting Physicians, Cardiologists, Endocrinologists, Diabetologists, Nephrologists	LN Bloc
Victus	Fiscal 2014	Anti-diabetes	Endocrinologists, Diabetologists, Consulting Physicians	Tendia, Cyblex
Eris2	Fiscal 2015	Pain Management	Orthopedicians	Mienta, Orthosenz, Reposit

Source: Company data

Sales, marketing, distribution personnel constitute ~83% of total employee strength

Particulars	Number of Employees	% of Total Employees
Medical Representatives	1,501	56.75%
Field Managers	696	26.31%
Manufacturing Facility employees	198	7.49%
Corporate Office	250	9.45%
Total	2,645	100%

Source: Company data

Eris – manufacturing facility

- ◆ Eris owns and operates a manufacturing facility in Guwahati, Assam, which complies with Indian regulatory requirements. It also outsources the manufacturing of certain products, and currently uses ~20 third party manufacturers in India. Assam facility contributed 59.3% to revenue in FY17 with an additional 18.67% of revenue contributed by products manufactured through the manufacturing facility of Eris's partnership with Sozin Flora Pharma. The remainder of its products were manufactured through third party contract manufacturing arrangements
- ◆ Eris retired Sozin Unit on August 31, 2016, and consequently, production of certain products from Sozin's plant was transitioned to its manufacturing facility in Guwahati, Assam. Third party manufacturing arrangements contributed 20.28% to FY16 and 22.03% to FY17 revenue. Key products manufactured through third party manufacturing arrangements include mother brand groups Marzon, Tendia and Calshine P which had revenue of Rs 187 mn, Rs 287 mn and Rs 137 mn respectively for FY17 (source: IMS TSA MAT, March 2017)
- ◆ Pursuant to the North East Industrial and Investment Promotion Policy, 2007, Eris' facility is eligible to avail of certain tax incentives including income tax and excise duty exemption for a period of 10 years from the date of commencement of commercial production until FY25
- ◆ Subject to fulfilment of prescribed conditions, Eris is entitled to claim deduction of 100% of the profits and gains derived from the specified business from Guwahati, Assam, under Section 80IE of the Act for 10 consecutive assessment years commencing with the assessment year relevant to the previous year in which the undertaking begins to manufacture or produce articles provided such manufacture commences before 31st March 2017

Guwahati Facility – current utilization levels/ No need for significant capex in the near term, as Guwahati facility is still underutilized

Product	Fiscal 2015		Fiscal 2016		H1FY17		Fiscal 2017	
	Output	Utilization	Output	Utilization	Output	Utilization	Output	Utilization
Tablets	379.72	37.97%	508.37	50.84%	311.21	62.24%	760.53	76.05%
Capsules	55.52	66.87%	41.40	49.87%	20.07	48.34%	47.83	57.61%

Source: Company, *Commercial production commenced in May, 2014., Output in million units

Capacity utilization = Output / Installed capacity. Installed capacity is calculated assuming operations on a single shift basis. The manufacturing plant can operate up to a maximum of three shifts per day.

Eris – NLEM coverage

Rs mn	FY14	FY15	FY16	FY17
Eritel	190	204	222	195
Atorsave	174	181	188	196
Crevast	135	151	147	147
Olmin	85	95	129	161
Glimisave	78	77	68	68
Others	596	546	572	585
Eris-Standalone under NLEM	1,259	1,255	1,328	1,352
Eris Sales	5,515	6,154	6,623	7,989
Eris-Standalone Under NLEM (as % of total sales)	23%	20%	20%	17%
Kinedex Brands under NLEM	42	38	55	55
Kinedex Total Sales	344	411	587	654
Kinedex Under NLEM (as % of total sales)	12%	9%	9%	8%
Aprica Brands under NLEM	59	59	79	79
Aprica Total Sales	107	121	168	176
Aprica Under NLEM (as % of total sales)	55%	49%	47%	45%
Total Under NLEM	1,360	1,352	1,462	1,486
Total Sales	5,966	6,686	7,378	8,819
Eris- Consol Under NLEM (as % of total sales)	23%	20%	20%	17%

Source: AIOCD

IPM - GST Impact

Eris Lifesciences

PHARMACEUTICALS

Inventory Days impacted channel destocking

Company	Apr'17	May'17	June Week 1	June Week 4	July Week 1	July Week 4	Aug Week 1
IPM	41	40	27	17	18	22	26
Sun Pharma	27	25	21	15	16	17	21
Cipla	53	53	31	20	22	26	29
Torrent	33	31	22	16	15	20	22
Sanofi	26	27	18	14	14	17	17
Lupin	43	41	28	19	19	25	28
Alkem	39	37	25	13	14	20	25
Glaxo	30	29	21	13	13	16	19
Pfizer	44	44	25	18	15	21	24
Eris Lifesciences	38	37	29	20	26	28	32
Ajanta Pharma	33	37	26	20	16	16	21

Source: AIOCD

- ◆ While the initial build-up of inventory was slow and gradual in the first half of July, we observe that normalcy is returning gradually. Accordingly primary sales loss of pharma companies in Jun'17 may continue to recover through Aug-Sep'17 (partially recovered in Jul'17)
- ◆ We expect volume recovery by Q2FY18 for most India Pharma companies.

Eris - Q1FY18: Growth hit by GST impact; Strong gross margin sustainable

- ◆ Revenue growth was softer (1.5% YoY consolidated, declined 12% YoY standalone ex-acquisitions) due to GST impact but was better than peers' (down 10%-20% YoY)
- ◆ Standalone gross margin at 87.4% on higher contribution from its own Assam manufacturing facility; Tax rate was lower at 3.8% given tax benefits from Assam facility
- ◆ FCF at ~Rs 600 mn (~Rs 500 mn adjusted for acquisition) in Q1; Net cash at ~Rs 3.52 bn as at Q1FY18
- ◆ Kinedex and Amay Pharma – reported Rs 230 mn in sales with 10% EBITDA margin (vs. negative EBITDA in FY17)

Standalone financials

(Rs mn)	Q1FY17	Q1FY18	YoY (%)
Revenues	1,844	1,623	(12)
Gross Profit	1,475	1,418	(4)
Gross Profit margin (%)	80.0	87.4	743 bps
Staff	307	299	(3)
Staff as % of Sales	17	18	177 bps
Other expenses	455	428	(6)
Other exp as % of Sales	24.7	26.4	170 bps
EBITDA	712	691	(3)
EBITDA margin (%)	38.6	42.6	395 bps
Interest	0	-	(100)
Depreciation	45	39	(14)
Other Income	51	71	38
PBT	718	723	1
Tax	97	23	(76)
Tax rate	13.4	3.2	-1022 bps
Minority	25	26	
Reported PAT	622	699	13

Source: Company, Axis Capital

Consolidated financials

(Rs mn)	Q1FY17	Q1FY18	YoY (%)
Revenues	1,824	1,852	2
Gross Profit	1,515	1,577	4
Gross Profit margin (%)	83.0	85.2	213 bps
Staff	314	357	14
Staff as % of Sales	17	19	203 bps
Other expenses	465	507	9
Other exp as % of Sales	25.5	27.4	186 bps
EBITDA	736	714	(3)
EBITDA margin (%)	40.3	38.6	-177 bps
Interest	0	0	(55)
Depreciation	54	46	(15)
Other Income	52	69	33
PBT	733	737	0
Tax	105	28	(73)
Tax rate	14.4	3.8	-1055 bps
Minority	(3)	-	
Reported PAT	624	708	13

Board of Directors profile

Name	Designation	Age	Director since	Experience
Amit Indubhushan Bakshi	Chairman & Managing Director	42 Years	27-Jan-07	Previously worked with companies in the pharmaceutical sector in various capacities and has more than 10 years experience in the pharmaceutical industry. Has been recognized as an 'Entrepreneur of the Year, 2013' by Ernst & Young
Himanshu Jayantbhai Shah	Executive Director	40 Years	25-Jan-07	Previously worked with companies in the pharmaceutical sector in various capacities and has more than 10 years experience in the pharmaceutical industry
Inderjeet Singh Negi	Executive Director	45 Years	27-Jan-07	Previously worked with Intas Pharmaceuticals Limited as a regional sales manager. Has 13 years of experience in the pharmaceutical industry.
Rajiv Gulati	Independent Director	59 Years	3-Feb-17	Over 30 years of experience in the pharmaceutical industry. Previously worked with companies in the pharmaceutical sector in various capacities
Vijaya Sampath	Independent Director	63 Years	3-Feb-17	Has more than 15 years of experience in the legal profession. Currently a senior partner in Lakshmikumaran and Sridharan, an Indian law firm. Previously worked with the Indian Aluminium Company. Was associated with Bharti Airtel Limited for 8 years.
Dr. Kirit Nanubhai Shelat	Independent Director	71 Years	3-Feb-17	He has 40 years of experience in public administration. He was also the chairman of certain public undertakings including Gujarat Agro Industries Corporation and Land Development Corporation.
Shardul Suresh Shroff	Independent Director	61 Years	3-Feb-17	Has over 35 years of experience, as a corporate attorney. Has been a member of several committees appointed by the Government of India, including the J.J. Irani Committee (2006) on corporate governance. Also serves on the board of directors of various companies, as an independent director, including Ashok Leyland Ltd, Visa Power Ltd and Hindustan Media Ventures Ltd.

Source: Company, Axis Capital

Key management profile

Eris Lifesciences

PHARMACEUTICALS

Name	Designation	Joined	Qualification	Experience
Mr. Sachin Shah	CFO	2013	Chartered Accountant, Bachelor's degree in commerce from the Chhatrapati Shahu Ji Maharaj University, Kanpur	Previously worked with ICICI Bank Limited and Avendus Capital Private Limited
Mr. Milind Talegaonkar	Company Secretary and Compliance officer	2013	Associate of the Institute of Company Secretaries of India. Bachelor's degree in Arts (management) from the Barkhatullah University, Bhopal. Diploma in entrepreneurship administration and business laws from the West Bengal National University of Juridical Sciences	Over 16 years of experience in corporate legal and secretarial compliances. Previously worked with L&T Infrastructure Development Projects Limited; Indo Rama, HEG Limited
Mr. Rajendra Rambhai Patel	Head of Procurement	2007	Bachelor's degree in science from North Gujarat University and a diploma in pharmacy from the Gujarat University	Previously worked with companies in the pharmaceutical sector and has more than 10 years experience in the pharmaceutical industry
Mr. Kaushal Kamlesh Shah	Head of Manufacturing and Distribution	2007	Bachelor's degree in commerce from the Gujarat University and a post graduate diploma in management from Som-Lalit Institute of Management Studies	Previously worked with companies in the pharmaceutical sector and has more than 10 years experience in the pharmaceutical industry

Source: Company, Axis Capital

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