

June 3, 2020

Q4FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		BUY	
Target Price	576		547	
Sales (Rs. m)	11,696	13,306	11,397	12,965
% Chng.	2.6	2.6		
EBITDA (Rs. m)	3,801	4,418	3,579	4,239
% Chng.	6.2	4.2		
EPS (Rs.)	23.6	27.9	22.2	26.5
% Chng.	6.3	5.5		

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	9,672	10,582	11,696	13,306
EBITDA (Rs. m)	3,300	3,274	3,801	4,418
Margin (%)	34.1	30.9	32.5	33.2
PAT (Rs. m)	2,886	2,670	3,211	3,793
EPS (Rs.)	21.0	19.7	23.6	27.9
Gr. (%)	(1.9)	(6.3)	20.3	18.1
DPS (Rs.)	1.2	2.9	2.9	2.9
Yield (%)	0.2	0.6	0.6	0.6
RoE (%)	28.7	21.8	22.4	21.7
RoCE (%)	25.7	22.6	22.6	22.1
EV/Sales (x)	7.1	6.5	5.7	4.8
EV/EBITDA (x)	20.7	21.2	17.6	14.6
PE (x)	24.8	26.4	22.0	18.6
P/BV (x)	6.2	5.4	4.5	3.7

Key Data

ERIS.BO | ERIS IN

52-W High / Low	Rs.595 / Rs.321
Sensex / Nifty	33,826 / 9,979
Market Cap	Rs.71bn/ \$ 937m
Shares Outstanding	136m
3M Avg. Daily Value	Rs.82.8m

Shareholding Pattern (%)

Promoter's	55.55
Foreign	10.19
Domestic Institution	11.18
Public & Others	23.08
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.8	16.7	(0.8)
Relative	3.5	40.8	16.5

Surajit Pal

surajitpal@plindia.com | 91-22-66322259

Tausif Shaikh

tausifshaikh@plindia.com | 91-22-66322246

Chronic, Sub-Chronic products continue to outperform IPM

Quick Pointers:

- New BE's productivity to reap benefit from 2HFY21E.
- Top-10 brands to drive growth.

We continue to prefer ERIS over other mid-cap companies due to 1) pure domestic play, very limited regulatory and currency risk, 2) contribution of chronic/sub-chronic products with consistent demand structure and 3) strong balance sheet. In FY20, ERIS had been in expansion mode by launching off-patent molecules, foray in new therapeutic and trade generics, in-licensing molecules and added new headcounts. However benefit from this expansion is yet to yield benefit and has led EBITDA margin to declined to 28-30% in 2HFY20 versus 37-38% in 1HFY20 mainly on account of marketing expense and increase in MR count.

We have increased our earnings estimates for FY21E and FY22E by 6% post encouraging growth in top-10 brands, better gross margin (85%) in Q4FY20 and management guidance. Maintaining PE 21x of FY22E earnings, our new TP is Rs576 (previous Rs547) and we also change our rating to 'Accumulate' (earlier BUY) due to recent rally in stock price.

Performance better than expected: Revenue/EBITDA grew 16% and 24% YoY to Rs Rs2,441m (PLe Rs2216m) and Rs726m (PLe Rs595m). While EBITDA Margin was 30% (PLe 27%) v/s 28% YoY. Employee cost increased 17% YoY due to increase in MR count as guided by ERIS.

Conference Call and Key Highlights:

- During Q4FY20, Eris chronic therapies (65% of revenue) grew 19.6% yoy vs IPM growth of 12.1%. Sub chronic therapies grew 13.4% (22% of revenue) yoy vs IPM growth of 7.3%. Acute therapies underperformed with 7% de-growth v/s IPM growth rate of 8.8%.
- Guided gross margin decline of 100-150bps in Q1FY21E due to increase in API price. However, EBITDA margin would not be impacted due to lower marketing spend as MR's are still off the field.
- Top 10 brands contributed 66% of sales. This brands grew 15.2% yoy vs 11.3% yoy growth of their respective markets.
- 461 BE's were added in FY20 due to foray into new segment (Gx, derma). Total BE's count stands at 2,461.
- Guwahati plant contributed to 76% of revenue in Q4FY20 and guided to inch higher ~80% by Q1FY21E. Plants continued to operate smoothly even after the COVID lockdown.

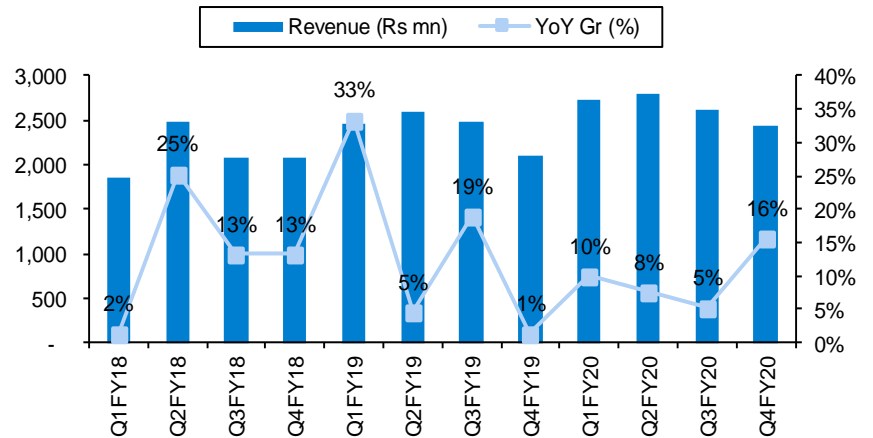
- Cash outflow was Rs1,470m towards buyback/dividend, Rs1,780m loan repayment and Rs1,170m acquisition of brand. Cash & equivalents stands at Rs1450m.
- ERIS acquired Zomelis from Novartis for Rs930m in Q3FY20 that had a MATsale of Rs640m. ERIS launched a new division Aspire dedicated for Zomelis with 1,86BEs. Revenue realization from Zomelis would be post Q1FY21E due to inventory held by Abbott. Guided revenue of Rs500m with 75-80% gross margin for FY21E and FY22E. ERIS plans to price the product at Rs9-10/Unit v/s Abbott price of Rs21-22/unit.
- Rariset Launch: In Q3FY20, ERIS launched Rariset, under in-licensing agreement with Pharmanutra S.P.A for their patent protected Sucrosomial Iron. The product would be prescribed by Gynaecologist and Nephrologist that will have product cycle of 9 months. ERIS conducted 400 medical meetings as a part of promotional activity for Rariset.
- Foray in Generic: It entered Generic space by adding 25 BEs at the higher managerial and plans to add further 25BEs at lower levels in FY21E. Plans to launch 65 products initially, but none of these will be manufactured in-house. Its generic division is expected to have annual fixed cost of Rs100-150m and gross margin would be in the range of 50-55%.

Exhibit 1: Q4FY20 Result Overview (Rs mn)

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net Sales	2,441	2,111	15.6	2,618	10,582	9,672	9.4
Raw Material	371	349	6.4	428	1,715	1,537	11.6
<i>% of Net Sales</i>	<i>15.2</i>	<i>16.5</i>		<i>16.4</i>	<i>16.2</i>	<i>15.9</i>	
Personnel Cost	553	472	17.0	524	2,053	1,907	7.7
<i>% of Net Sales</i>	<i>22.6</i>	<i>22.4</i>		<i>20.0</i>	<i>19.4</i>	<i>19.7</i>	
Others	791	706	12.1	944	3,289	2,929	12.3
<i>% of Net Sales</i>	<i>32.4</i>	<i>33.4</i>		<i>36.1</i>	<i>31.1</i>	<i>30.3</i>	
Total Expenditure	1,714	1,527	12.3	1,896	7,058	6,372	10.8
EBITDA	726	584	24.4	722	3,524	3,300	6.8
<i>Margin (%)</i>	<i>29.8</i>	<i>27.7</i>		<i>27.6</i>	<i>33.3</i>	<i>34.1</i>	
Depreciation	143	112	28.0	127	503	364	38.3
EBIT	583	472	23.5	595	3,021	2,936	2.9
Other Income	37	155	(75.9)	131	316	467	(32.3)
Interest	4	44		4	8	229	(96.4)
PBT	617	582	5.9	722	3,329	3,174	4.9
Total Taxes	56	44	28.8	87	352	262	34.4
<i>ETR (%)</i>	<i>9.1</i>	<i>7.5</i>		<i>12.0</i>	<i>10.6</i>	<i>8.3</i>	
Minority Interest	-	(2)		-	7	4	
Reported PAT	561	541	3.6	635	2,970	2,908	2.1

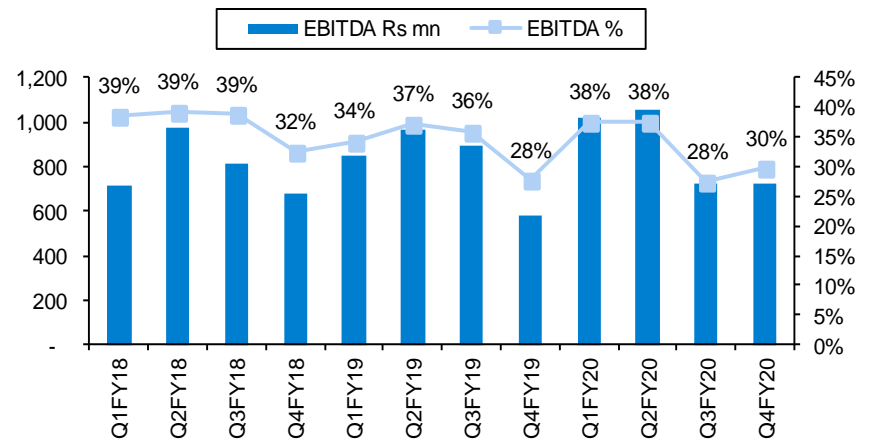
Source: Company, PL

Exhibit 2: Revenue (Rs mn) and YoY Growth (%)



Source: Company, PL

Exhibit 3: EBITDA (Rs mn) and EBITDA Margin (%)



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	9,672	10,582	11,696	13,306
YoY gr. (%)	16.9	9.4	10.5	13.8
Cost of Goods Sold	1,537	1,966	1,708	1,903
Gross Profit	8,135	8,616	9,989	11,403
Margin (%)	84.1	81.4	85.4	85.7
Employee Cost	1,907	2,053	2,222	2,462
Other Expenses	-	-	-	-
EBITDA	3,300	3,274	3,801	4,418
YoY gr. (%)	12.4	(0.8)	16.1	16.2
Margin (%)	34.1	30.9	32.5	33.2
Depreciation and Amortization	364	503	543	550
EBIT	2,936	2,771	3,258	3,868
Margin (%)	30.4	26.2	27.9	29.1
Net Interest	229	8	4	2
Other Income	467	316	354	396
Profit Before Tax	3,174	3,079	3,608	4,262
Margin (%)	32.8	29.1	30.8	32.0
Total Tax	279	399	397	469
Effective tax rate (%)	8.8	13.0	11.0	11.0
Profit after tax	2,894	2,679	3,211	3,793
Minority interest	9	9	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,886	2,670	3,211	3,793
YoY gr. (%)	(1.9)	(7.5)	20.3	18.1
Margin (%)	29.8	25.2	27.5	28.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,886	2,670	3,211	3,793
YoY gr. (%)	(1.9)	(7.5)	20.3	18.1
Margin (%)	29.8	25.2	27.5	28.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,886	2,670	3,211	3,793
Equity Shares O/s (m)	138	136	136	136
EPS (Rs)	21.0	19.7	23.6	27.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	8,051	8,271	8,521	8,771
Tangibles	1,485	1,655	1,855	2,055
Intangibles	6,566	6,616	6,666	6,716
Acc: Dep / Amortization	1,381	1,869	2,413	2,962
Tangibles	931	1,009	1,113	1,418
Intangibles	450	860	1,300	1,545
Net fixed assets	6,669	7,781	6,108	5,808
Tangibles	553	2,025	742	637
Intangibles	6,116	5,756	5,366	5,172
Capital Work In Progress	27	44	46	48
Goodwill	936	996	1,082	1,185
Non-Current Investments	486	115	141	172
Net Deferred tax assets	931	1,192	1,192	1,192
Other Non-Current Assets	152	85	123	179
Current Assets				
Investments	3,149	748	838	921
Inventories	827	695	1,057	1,167
Trade receivables	840	1,586	1,602	1,094
Cash & Bank Balance	75	673	3,090	5,336
Other Current Assets	776	986	1,775	3,195
Total Assets	15,537	15,533	17,648	20,848
Equity				
Equity Share Capital	138	136	136	136
Other Equity	11,368	12,825	15,636	19,029
Total Network	11,505	12,961	15,772	19,165
Non-Current Liabilities				
Long Term borrowings	3	-	-	-
Provisions	194	264	198	149
Other non current liabilities	56	31	22	15
Current Liabilities				
ST Debt / Current of LT Debt	-	86	43	22
Trade payables	841	1,023	801	911
Other current liabilities	2,214	572	286	143
Total Equity & Liabilities	15,537	15,533	17,648	20,848

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	3,174	3,329	3,608	4,262
Add. Depreciation	364	503	543	550
Add. Interest	229	8	4	2
Less Financial Other Income	467	316	354	396
Add. Other	206	(862)	(2,286)	37
Op. profit before WC changes	3,972	2,978	1,869	4,851
Net Changes-WC	(571)	(565)	(1,666)	(1,074)
Direct tax	(635)	(666)	(722)	(852)
Net cash from Op. activities	2,766	1,747	(518)	2,924
Capital expenditures	(264)	(220)	(250)	(250)
Interest / Dividend Income	10	11	12	13
Others	95	2,779	(95)	(89)
Net Cash from Inv. activities	(159)	2,570	(333)	(326)
Issue of share cap. / premium	0	(2)	-	-
Debt changes	(2,739)	84	(43)	(22)
Dividend paid	(165)	(400)	(400)	(400)
Interest paid	229	8	4	2
Others	-	-	-	-
Net cash from Fin. activities	(2,676)	(310)	(439)	(420)
Net change in cash	(69)	4,007	(1,290)	2,178
Free Cash Flow	2,501	1,527	(768)	2,674

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	2,719	2,805	2,618	2,441
YoY gr. (%)	10.0	7.6	5.3	15.6
Raw Material Expenses	459	457	428	371
Gross Profit	2,260	2,347	2,189	2,070
Margin (%)	83.1	83.7	83.6	84.8
EBITDA	1,021	1,055	722	726
YoY gr. (%)	20.3	8.7	(19.5)	24.4
Margin (%)	37.6	37.6	27.6	29.8
Depreciation / Depletion	115	117	127	143
EBIT	906	938	595	583
Margin (%)	33.3	33.4	22.7	23.9
Net Interest	9	5	4	4
Other Income	52	95	131	37
Profit before Tax	949	1,028	722	617
Margin (%)	34.9	36.6	27.6	25.3
Total Tax	109	101	87	56
Effective tax rate (%)	11.5	9.8	12.0	9.1
Profit after Tax	841	927	635	561
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	840	927	635	561
YoY gr. (%)	18.0	8.7	(20.8)	3.6
Margin (%)	30.9	33.1	24.3	23.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	840	927	635	561
YoY gr. (%)	18.0	8.7	(20.8)	3.6
Margin (%)	30.9	33.1	24.3	23.0
Other Comprehensive Income	-	(1)	-	(2)
Total Comprehensive Income	840	926	635	559
Avg. Shares O/s (m)	138	138	138	138
EPS (Rs)	6.1	6.7	4.6	4.1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	21.0	19.7	23.6	27.9
CEPS	23.6	23.4	27.6	32.0
BVPS	83.7	95.5	116.2	141.1
FCF	18.2	11.2	(5.7)	19.7
DPS	1.2	2.9	2.9	2.9
Return Ratio(%)				
RoCE	25.7	22.6	22.6	22.1
ROIC	32.6	22.2	27.6	30.6
RoE	28.7	21.8	22.4	21.7
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.1)	(0.2)	(0.3)
Net Working Capital (Days)	31	43	58	37
Valuation(x)				
PER	24.8	26.4	22.0	18.6
P/B	6.2	5.4	4.5	3.7
P/CEPS	22.0	22.3	18.8	16.3
EV/EBITDA	20.7	21.2	17.6	14.6
EV/Sales	7.1	6.5	5.7	4.8
Dividend Yield (%)	0.2	0.6	0.6	0.6

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Top 25 Products	8,869	10,449	11,727	13,318
Top 10 Products	7,748	8,914	9,884	11,070
Next 15 Products	1,121	1,535	1,842	2,248
Ex-Top 25 products	4,170	4,939	5,483	6,195

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	18-Apr-20	BUY	547	486
2	14-Apr-20	BUY	522	417
3	17-Feb-20	Accumulate	522	467
4	03-Jan-20	Accumulate	459	490
5	21-Nov-19	Accumulate	459	418
6	07-Nov-19	Accumulate	459	426
7	03-Oct-19	Accumulate	459	431
8	29-Jul-19	Accumulate	459	402
9	04-Jul-19	Accumulate	812	498

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	702	644
2	Cadila Healthcare	Sell	263	324
3	Cipla	Reduce	542	570
4	Dr. Lal PathLabs	Sell	895	1,583
5	Dr. Reddy's Laboratories	Accumulate	4,326	3,915
6	Eris Lifesciences	BUY	547	486
7	Glenmark Pharmaceuticals	Sell	257	314
8	Indoco Remedies	Hold	259	236
9	Ipca Laboratories	Accumulate	1,728	1,619
10	Jubilant Life Sciences	Hold	414	445
11	Lupin	BUY	1,001	870
12	Sun Pharmaceutical Industries	Hold	467	450
13	Thyrocare Technologies	Sell	307	503

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Surajit Pal- PGDBA, CFA, M.Com, Mr. Tausif Shaikh- BA, Major in Economics, Financial Management Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Surajit Pal- PGDBA, CFA, M.Com, Mr. Tausif Shaikh- BA, Major in Economics, Financial Management Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com