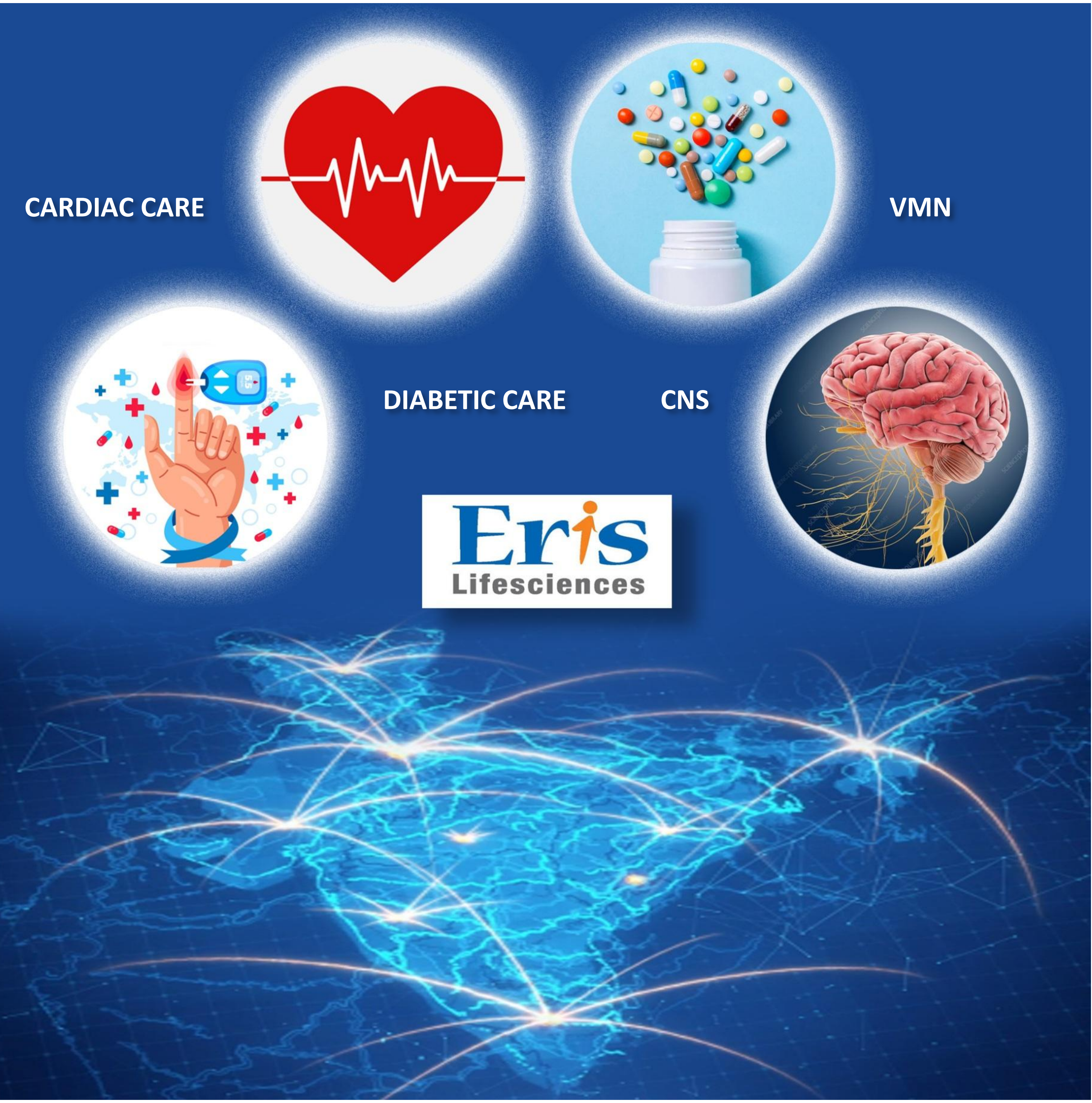
MOTILAL OSWAL

December 2021

Initiating Coverage | Sector: Healthcare

Eris Lifesciences



The Pharma Brand Master

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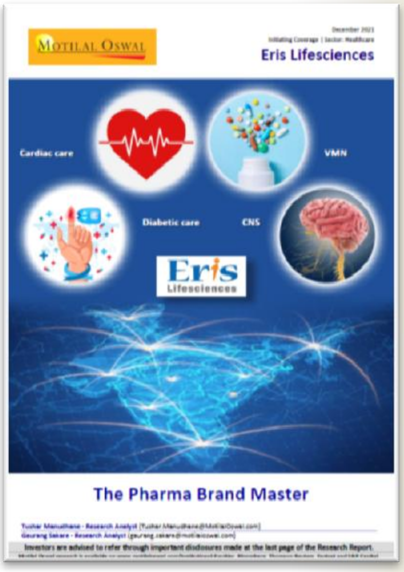


Eris Lifesciences

The Pharma Brand Master

Eris Lifesciences

BSE Sensex	S&P CNX
57,420	17,086

CMP: INR685 **TP: INR870 (+27%)** **Buy**

Eris
POWER OF EMPATHY
TRUTH OF SCIENCE

Stock Info

Bloomberg	ERIS IN
Equity Shares (m)	137.5
M.Cap.(INRb)/(USDb)	93.4 / 1.2
52-Week Range (INR)	863 / 553
1, 6, 12 Rel. Per (%)	-4/-10/-6
12M Avg Val (INR M)	129
Free float (%)	47.3

Financials & Valuations (INR b)

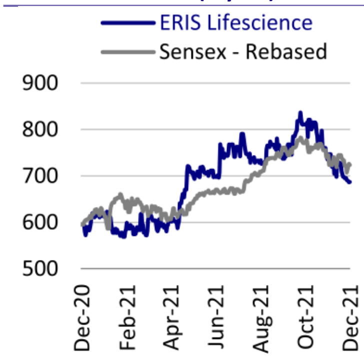
Y/E MARCH	2021	2022E	2023E
Sales	13.7	15.9	18.6
EBITDA	4.9	5.8	6.9
Adj. PAT	3.9	4.7	5.7
EBIT Margin (%)	30.9	31.9	32.8
Cons. Adj. EPS (INR)	28.3	34.2	41.2
EPS Gr. (%)	9.5	20.9	20.3
BV/Sh. (INR)	136.9	164.2	197.3
Ratios			
Net D:E	-0.3	-0.4	-0.5
RoE (%)	22.5	22.7	22.8
RoCE (%)	22.6	22.8	22.9
Payout (%)	21.2	20.5	19.4
Valuations			
P/E (x)	24.3	20.1	16.7
EV/EBITDA (x)	18.8	15.2	12.2
Div. Yield (%)	0.9	1.0	1.2
FCF Yield (%)	3.2	4.6	5.6
EV/Sales (x)	6.7	5.5	4.5

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	52.7	52.7	54.1
DII	9.9	10.1	10.9
FII	13.6	13.5	11.1
Others	23.8	23.8	23.9

FII Includes depository receipts

Stock Performance (1-year)



The Pharma Brand Master

Mix of Chronic portfolio, rising coverage, and better operating leverage to drive earnings growth

- **We initiate coverage on Eris Lifesciences (ERIS) with a BUY rating and a target price of INR870. In just 14 years (founded in CY07), ERIS has built a pure-play Branded Formulation business, with a revenue of INR13b (12M ending Sep'21). Notably, its PAT has nearly doubled to INR3.5b during FY16–21.**
- **ERIS ranks among the Top 25 Indian companies in revenue terms. ERIS has presence across the value chain in developing, manufacturing, and marketing of branded pharma products in select Chronic therapies (the fastest growing company in Chronic category), such as Anti-Diabetes (AD; 37% of sales), Cardiac Care (31% of sales), and Vitamins/Minerals/Nutrients (VMNs; 23% of sales).**
- **We expect a 17% earnings CAGR for ERIS over FY21–24 versus marginal earnings growth during FY18–21, driven by: a) higher scope of penetration of technically superior drugs in AD therapy (adding Insulin-analogs to the AD portfolio), b) its efforts to improve the coverage of super-specialists/high-end consulting physicians across therapies, c) better operating leverage on improved MR productivity, and d) higher in-house manufacturing.**
- **We ascribe a three-year industry average P/E multiple of 22x on 12M forward earnings to arrive at our TP, which implies 27% upside from current levels.**

AD – Building an ecosystem around diabetes management

- ERIS is a dominant player in AD therapy, with a market share of 5.6% (+160bp over FY16-21) in covered market. ERIS' sales recorded a 21% CAGR over FY17-21 to attain a revenue of INR4.5b (FY21; +19% YoY in 1HFY22).
- Within the industry level framework of increasing patient pool and evolving medication to lower hypoglycemia risk/weight management, ERIS has built an extensive range of products in Oral anti-diabetics (OAD). Besides conventional OADs, it has also been launching the latest molecules (DPP4/SGLT2 inhibitors) and gaining market shares in these products.
- Underpinned by its strong marketing franchise, ERIS improved its sales: a) of Zomelis by 6x (INR60m per month) in two years since its acquisition, and b) of Gluxit by 4x (INR30m per month) in one year since its launch.
- We believe that there is a strong visibility for new product offerings as at least one product is expected to go off-patent over the next ten years in OAD therapy. Additionally, foray into Insulin and its analogues through supply tie-up with MJ Biopharm, would bolster ERIS' portfolio in AD.
- Further, ERIS continues to provide medical equipment to track critical parameters for better diabetes management. Thus, its product and service offerings play a vital role in improving the prescription pace of its products.
- We project a 19% sales CAGR for ERIS in this category over FY21–24, given the under-penetration of newer molecules (DPP4/SGLT2 inhibitors, Insulin analogs, etc.), its established brand franchise, and better connect with patients through improved services.

Cardiovascular – Focus on aggressive expansion of super-specialty doctor coverage

- ERIS' sales recorded 14% CAGR over FY17-21 in the Cardiac Care category to reach INR3.7b in FY21 (+15% YoY in 1HFY22). Within this segment, ERIS has focused on medicines related to hypertension and lipid lowering subgroups that formed ~83% of current medication at industry level.
- The demand outlook for cardiovascular diseases remains strong (~37m cases in CY20 expected to reach 88m by CY50). While ERIS has built key brands such as Eritel (Telmisartan combination), Olmin (Olmesartan combination), Atorsave (Atorvastatin), LN Bloc (Cilnidipine), and Crevast (Rosuvastatin combination) in this segment, it intends to increase the coverage among super-specialty and high-end physical consultants by 50% over the next two years. This would not only comprise propagating own products but also conducting India-centric studies to enable scientific evidence and thus better diagnosis
- We expect a 13% CAGR for ERIS in this category over FY21-24 to reach INR5.3b of revenue led by: increased MR-doctor connect, technically superior products in hypertension/lipid lowering subgroups and new launches (such as Rivalto).

VMNs – rising awareness/co-prescription to improve outlook

- ERIS recorded a 27% CAGR over FY17-21 to reach INR2.8b of revenue in FY21 (+35% YoY in 1HFY22). The growth was driven by active engagements with cardiologists, diabetologists, and endocrinologists.
- The company has built the VMN portfolio as a natural extension of the Cardiac Care and AD portfolios.
- We project a 16% sales CAGR for ERIS in this category over FY21-24 to reach INR4.5b led by anticipated market share gains in existing products (through enhanced co-prescriptions), supported by new launches (such as ZAC D) and rising demand for immunity boosters.

MR additions to underpin new offerings/increased reach

- To complement its product offerings, ERIS has expanded its field force by 600 MRs to 2,182 (FY21) over past five years. The MR productivity, at INR4.8L per MR per month, is in line with industry average and has scope for improvement.
- The company aims to expand its coverage of super-specialists and consulting physicians; thus, we expect a calibrated increase in MRs (likely addition of 200 MRs in 4QFY22/1QFY23) over the next 2-3 years.

Valuations and view: Initiate coverage with a BUY rating

- ERIS has delivered a 13% revenue CAGR, with a steady 35% EBITDA margin over FY17-21. Notably, the EBITDA margin improved to 39% in 2QFY22.
- During FY18-20, ERIS had put considerable efforts in turning around the portfolio acquired from Strides. However, despite this exercise, it was able to maintain its profitability at pre-acquisition levels only.
- Overall, we project a 17% earnings CAGR, led by a 19%/13%/16.5% sales CAGR in AD/Cardiac Care/VMN segments, respectively, over FY21-24 along with a 130bp margin expansion during the period.

- The Indian Formulation and the Chronic Therapy businesses are expected to register a revenue CAGR of 11% and 13-14%, respectively, led by increasing population in the 15-64 and 60+ age groups, rising per capita incomes, and changing lifestyles.
- Interestingly, transformation is underway in the India Formulation industry, driven by: a) brand building through the MR-doctor virtual connect, b) efficiency improvement in supply chain management, utilizing the e-commerce route, and c) improved services to patients in teleconsultation, home services for diagnostic testing, the provision of medicines and d) focused marketing spends and cost rationalization using data from e-pharmacies.
- Underpinned by the Chronic-heavy portfolio, the MR force driving brand play, brand turnaround capabilities, increased in-house manufacturing, superior (35%) EBITDA margins, and better-than-industry growth prospects, we ascribe 22x 12M forward earnings to arrive at our TP of INR870 for ERIS. This implies a 27% upside from current levels. Initiate coverage with a BUY rating.
- **Key risks to our call:** (1) Higher number of ERIS' products coming under NPPA's price control mechanism to impact its profitability, (2) lower-than-expected prescriptions generated, (3) slower-than-anticipated pick up in insulin sales/cardiac care segment and (4) a delay in new launches.

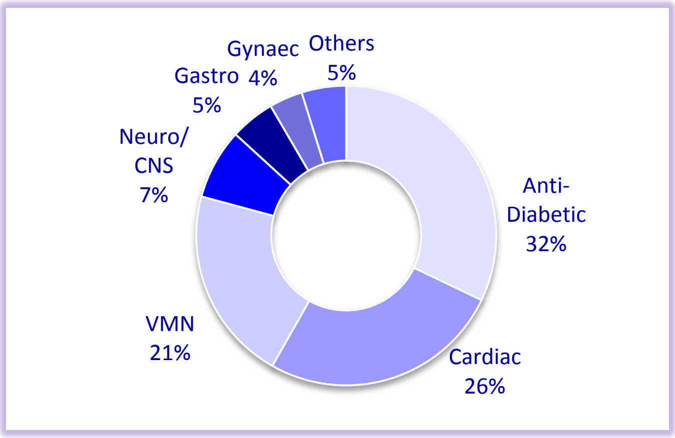
Exhibit 1: Valuation comparison table

Company	Price	MCap	EPS (INR)			ROE (%)			P/E(x)			EV/EBITDA(x)		
Name	(INR)	(INR b)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Sun Pharma	794	1,905	31.4	34.5	39.2	15.3	14.9	14.8	25.3	23.0	20.3	17.8	15.6	13.3
Dr. Reddy's Labs	4,737	788	194.5	221.0	264.8	17.0	16.7	17.2	24.3	21.4	17.9	15.6	12.5	10.2
Cipla	930	751	34.7	38.8	44.1	13.6	13.4	13.4	26.8	24.0	21.1	16.1	14.4	12.4
Cadila Healthcare	458	469	23.1	24.5	26.2	15.4	13.5	14.1	19.8	18.7	17.5	12.5	11.5	8.3
Lupin	916	416	27.9	38.0	46.2	9.6	13.2	14.2	32.8	24.1	19.8	18.0	13.4	12.2
Abbott India	18,794	399	373.9	434.8	498.9	29.7	31.2	32.0	50.3	43.2	37.7	35.5	31.2	27.0
GSK Pharma	1,730	293	35.9	39.3	43.4	35.1	33.1	31.2	48.2	44.0	39.9	33.8	31.8	28.2
Ipca Labs	2,039	259	86.5	101.2	116.8	21.2	20.7	20.1	23.6	20.1	17.5	16.9	11.0	17.5
Pfizer	5,008	229	133.3	147.7	167.7	22.3	22.4	21.3	37.6	33.9	29.9	24.8	23.2	21.3
Ajanta Pharma	2,179	189	77.7	94.3	114.0	21.0	21.7	22.2	28.0	23.1	19.1	19.5	15.8	12.7
Sanofi India	7,707	177	271.5	298.1	326.8	27.4	28.3	NA	28.4	25.9	23.6	21.0	18.9	NA
Alembic Pharma	781	154	35.9	45.6	49.9	13.7	15.7	15.3	21.8	17.1	15.7	17.9	14.0	12.6
JB Chemicals	1,663	129	61.0	74.0	88.9	23.2	23.4	23.6	27.2	22.5	18.7	19.6	16.1	13.2
Eris Lifesciences	**687**	**93**	**28.3**	**34.2**	**41.2**	**22.5**	**22.7**	**22.8**	**24.3**	**20.1**	**16.7**	**18.8**	**15.2**	**12.2**

Note: * Bloomberg estimates; Source: MOFSL, Bloomberg

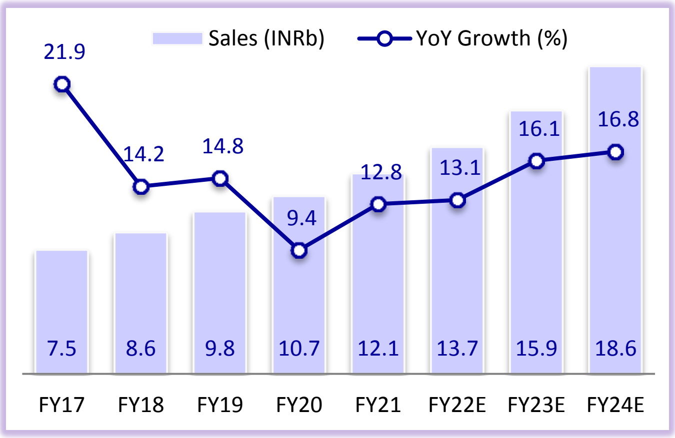
STORY IN CHARTS

Anti-Diabetes, Cardiac, and VMN contribute 79% to revenues for MAT Nov'21



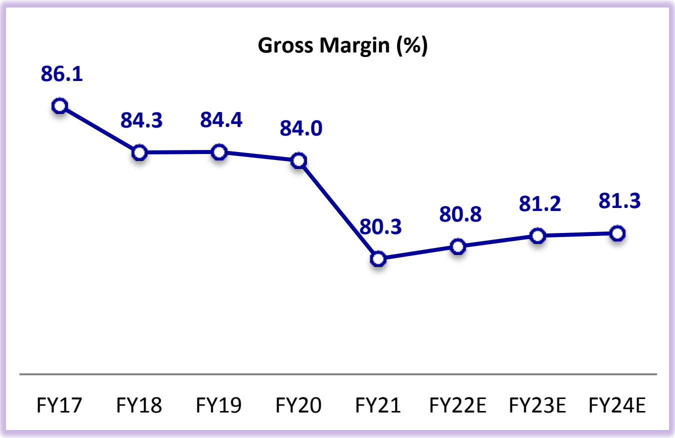
Source: MOFSL; Company

Expect 15% revenue CAGR over FY21–24



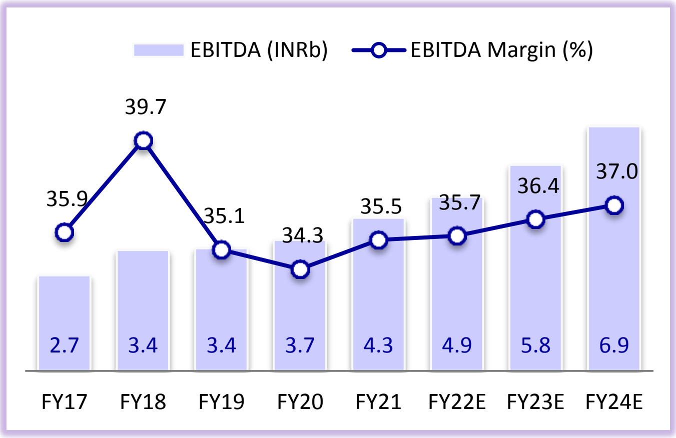
Source: MOFSL; Company

Gross margin to stabilize at ~81% over FY21–24E



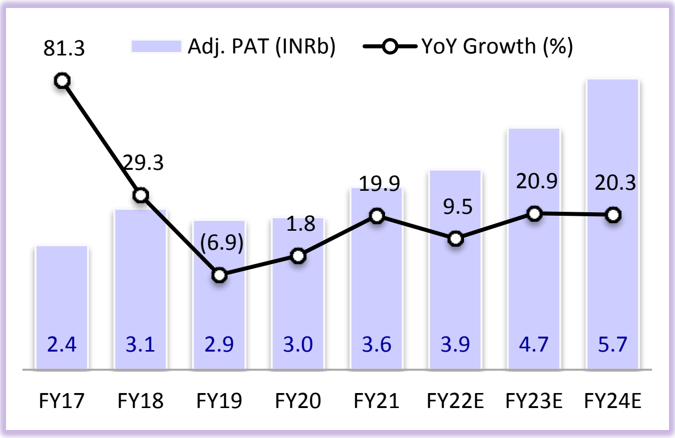
Source: MOFSL; Company

EBITDA margin to expand 150bp over FY21–24E



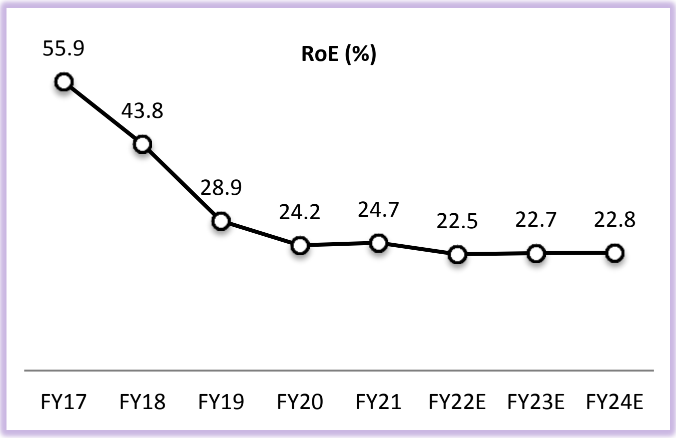
Source: MOFSL; Company

PAT to exhibit 17% growth over FY21–24E



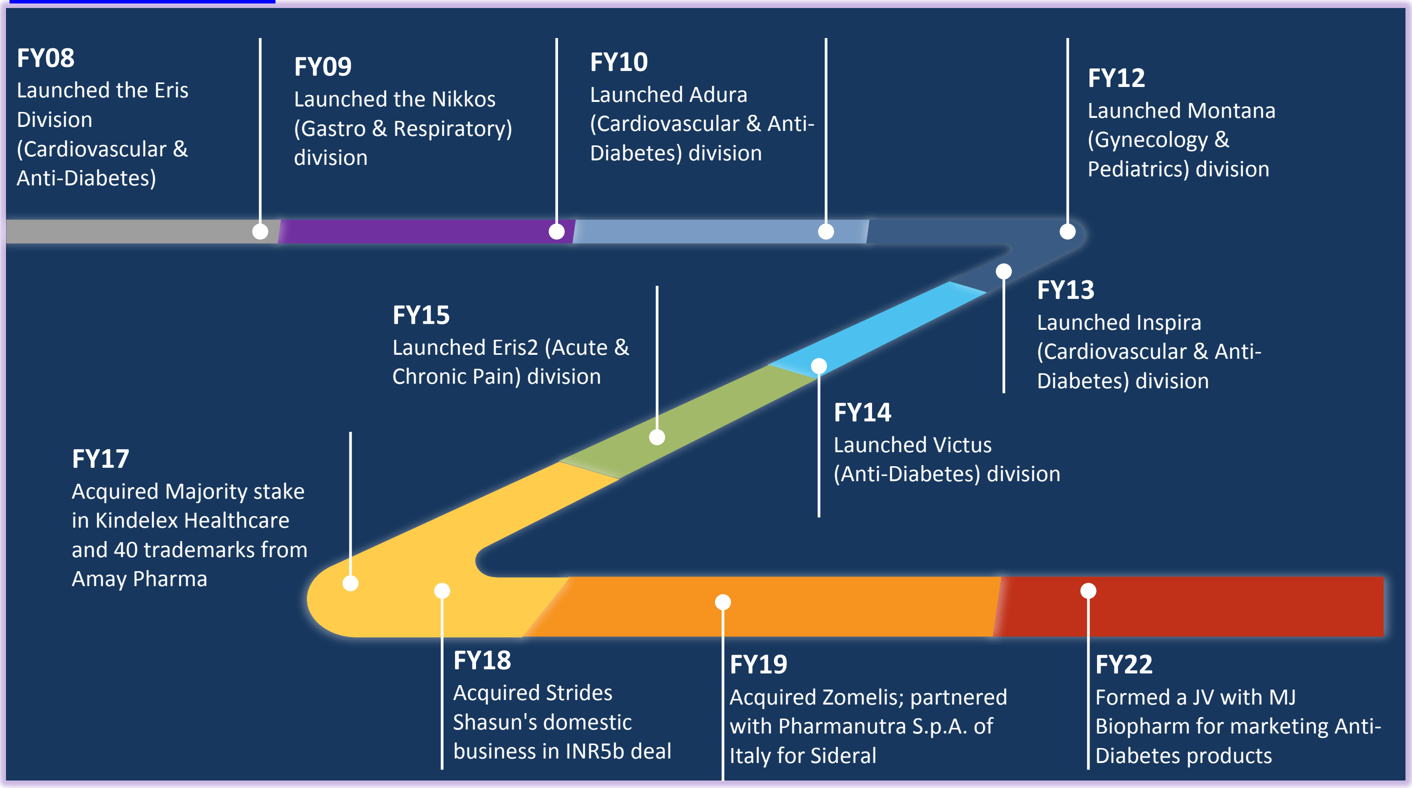
Source: MOFSL; Company

RoE to stabilize near 22.8%



Source: MOFSL; Company

JOURNEY SO FAR



About the company

- Established in 2007, ERIS is, by far, the youngest company in the IPM Top 25. It focuses on the India Branded Generics market in the Chronic and Acute categories. The company has drugs across Anti-Diabetes, Cardiovascular, Gastroenterology and Gynecology, Anti-Infectives, Vitamins, and other therapeutic areas. The company has a field force of 2,476 MRs and 1,041 field managers. ERIS features in the Top 30 companies in the India Branded Formulations market.
- ERIS has a fully integrated business model, with a marketing field force of ~2476, and owns a WHO GMP compliant manufacturing facility in Guwahati (which caters to 74% of revenues). It has a pan-India distribution network of over 2,100 stockists and 5,00,000+ chemists, which gives it a seamless presence across the nation.
- In addition to bringing evidence-based therapies to the market, ERIS has enabled patients to take charge of their diagnosis through patient care initiatives. Through in-licensing partnerships, it has provided blood pressure monitors, blood glucose monitors, and infrared thermometers, thereby enabling better diagnosis and subsequent medication.

Chronic-/brand-led sustained outperformance to industry

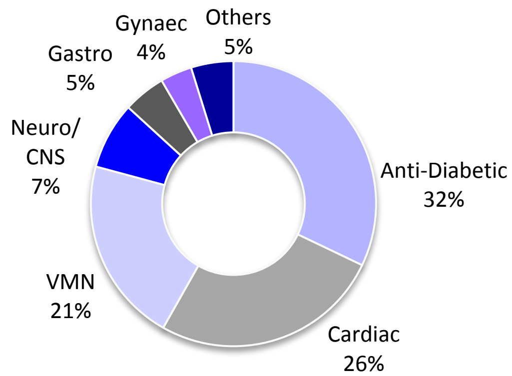
- **ERIS has created a niche for itself in the Branded Domestic Formulation segment (ranked 22nd), with a substantial focus on Chronic and Sub-Chronic therapies.**
- **With a focus on Diabetes / Cardiac Care and VMN, ERIS has outperformed these therapies at the industry level for the past two years.**
- **Accordingly, ERIS has entered into the league of the Top 20 companies in the Cardiology space and is among the Top 10 in the Anti-Diabetes space in India.**

Anti-Diabetes, CVD, and VMN – key focus areas for ERIS

ERIS' chronic therapies have outperformed overall therapy growth

- Compared with a 9.8% CAGR for IPM over FY16–21, ERIS has seen a 15% sales CAGR, implying superior execution on the marketing front.
- Over time, ERIS has built a stronghold in Chronic therapy, with Diabetes, Cardiac Care, and VMNs forming the Top 3 therapies and contributing 79% to the total revenues in MAT Nov'21.

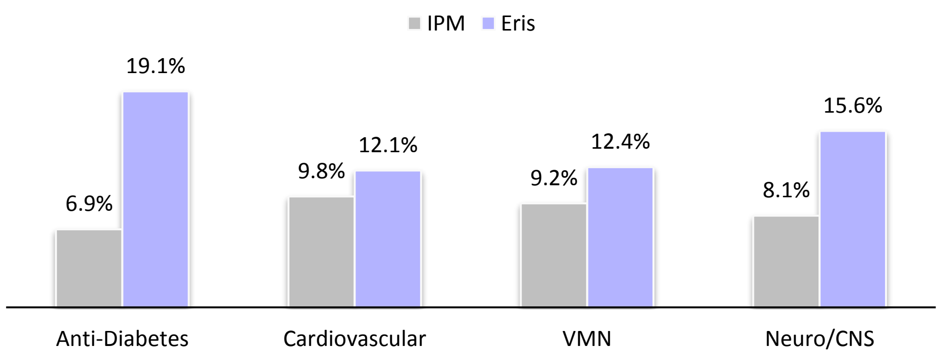
Exhibit 2: Anti-Diabetes, Cardiac, and VMN contribute 79% to MAT Nov'21 revenues



Source: AIOCD-AWACs, MOFSL, Company

- As per SMSRC MAT Aug'21, ERIS had high prescription ranks with super-specialist/high-end consulting physicians. Particularly, it was among the Top 5 among the diabetologists/cardiologists/neurologists/gastroenterologists in the represented market, which drove better-than-industry growth in core therapies.

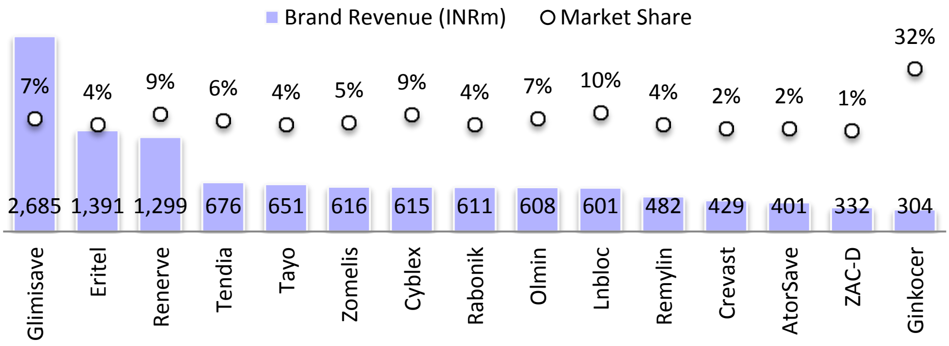
Exhibit 3: Key therapies outperform IPM over two years ended MAT Sep'21



Source: AIOCD-AWACs data for the period Sep'19 – Sep'21, MOFSL, Company

- Among the top therapies, ERIS has channelized its efforts in the Top 15 mother brands, which contribute 75% to the total revenue. Notably, 9 of these Top 15 mother brands are ranked among the Top 5 in their respective segments.

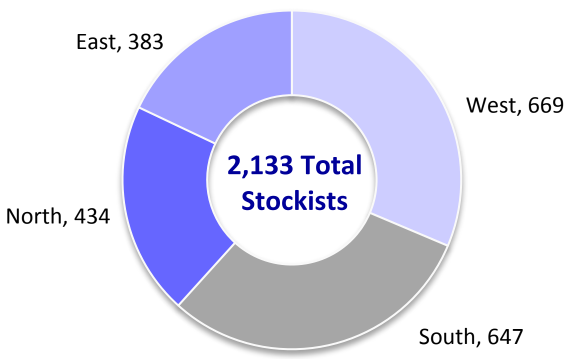
Exhibit 4: Top 15 mother brands contribute 75% to MAT Nov'21 revenues



Source: AIOCD-AWACs, MOFSL, Company

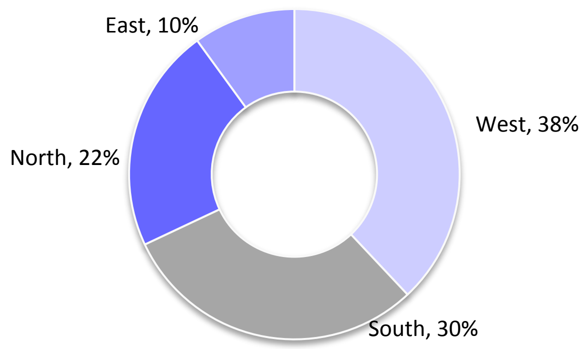
- Interestingly, ERIS has limited exposure of 7% to the National List of Essential Medicines (NLEM) portfolio, implying the limited impact of price control.
- ERIS launched 130 products (including 30 new-to-market and 100 line extensions) over FY16–21, while improving the brand franchises of existing products.
- Structurally, ERIS has ~11 divisions organized into four clusters / strategic business units.
- In addition to its marketing efforts towards brand building, ERIS has established a pan-India distribution network of 23 sales depots / 2,133 stockists and over 5L chemists to ensure the timely availability of medicines.

Exhibit 5: 62% of stockists…



Source: MOFSL, Company

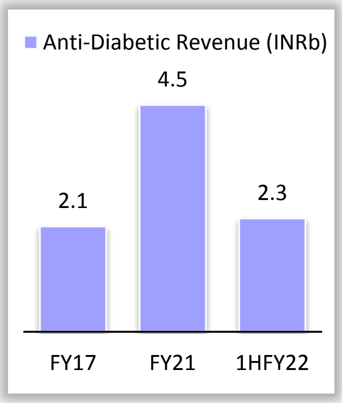
Exhibit 6: …contribute 68% to sales in FY21



Source: MOFSL, Company

AD – New launches/Services to patients will sustain outperformance

- **ERIS has built an extensive range of products (39 brands) in the Oral Anti-Diabetes Drug (OAD) category, including technically superior drugs such as DPP4 and SGLT2 inhibitors.**
- **Interestingly, multiple superior drugs are likely to lose patent protection over the next 10 years, which could enhance ERIS' product offerings.**
- **The recent supply agreement with MJ Biopharm would enable further portfolio expansion, led by Insulin / Insulin analogs and GLP1 agonists.**
- **In addition, ERIS continues to expand services by providing medical equipment to track critical parameters for better diabetes management. Thus, ERIS' product and service offering is a lethal combination to improve the prescription pace of its products.**
- **Overall, we expect revenue of INR7b during FY21–24 at 19% sales CAGR.**



Strong presence in Oral Anti-Diabetes Drug therapy

- ERIS' Anti-Diabetes portfolio saw a CAGR of 16.3% for MAT Nov'17-21. The company remains one of the leading players in the Diabetes market, with a revenue rank of #5 in the covered market and prescription rank of #3 among diabetologists.
- **Glimisave** is the company's flagship umbrella brand under the Anti-Diabetes therapeutic area, with sales of INR2.7b for MAT Nov'21. The brand saw a CAGR of 10% for MAT ended Nov'17–21, and the molecule also saw healthy growth of 9% (at the industry level) during this period. The brand had market share of 6.6% as of MAT Nov'21 and is growing faster than the market to capture even more market share.

Exhibit 7: ERIS' top drugs in AD outperform therapy growth

		Revenue (INR m)	Market share-covered Market (%)	Brand CAGR (%)	Therapy CAGR (%)	Molecule CAGR (%)
Brand	**Molecule**	**MAT Nov'21**	**Nov'21**	**MAT Nov'17-21**	**MAT Nov'17-21**	**MAT Nov'17-21**
Glimisave	Glimepiride combinations	2685	5.7	10.0	10.0	9.0
Tendia	Teneligliptin Combinations	676	6.3	14.3	10.0	15.9
Zomelis	Vildagliptin Combinations	616	5.0	198.7*	10.0	129.4*
Cyblex	Gliclazide Combinations	615	8.9	25.9	10.0	9.1
Gluxit	Dapagliflozin Combinations	305	5.0	1641.0*	10.0	45.2

*Growth over Nov'20 as brand launched after Nov'17; MOFSL, AIOCD-AWACs

- **The Tendia** brand franchise delivered sales of INR676m for Mat Nov'21 and saw a CAGR of 14.3% over MAT ended Nov'17–21 v/s the covered market CAGR of ~16%. The brand franchise saw slower growth v/s Cardiovascular and Metabolic (CVM) growth as slower growth was seen in Tendia. The brand reported market share of 6.3% at end-Nov'21 and ranked among the Top 5 brands in India under its sub-group.
- **Zomelis** has maintained its ramp-up since the acquisition and delivered sales of INR582m for MAT Nov'21, growing ~99% over MAT ended Nov'21 v/s covered market growth of ~29% during this period. The brand had market share of 5% at

end-Nov'21 and has maintained its position as the #1 Vildagliptin brand among the generic versions (ranked #3, including innovator brands).

- **Gluxit** has crossed INR250m annual sales within first year of launch and is leading (Ranked 1st) among 60+ generic brands. The monthly sales run-rate has scaled up-to INR30m currently.
- **Cyblex** delivered sales of INR615m for MAT Nov'21 at a CAGR of 26% over MAT ended Nov'17–21 v/s the covered market CAGR of ~9%. The brand had market share of 8.9% at end-Nov'21 and has a presence among the Top 5 brands in CVM.

Patent expiries present significant opportunity for ERIS

Patent expiries would drive an increase in supplies. The volume off take would more than offset the reduction in prices due to increased competition.

- ERIS' Oral Anti-Diabetes portfolio has the potential to expand significantly, with five patents set to expire over the next four years. These products currently represent ~INR25b in sales, with limited authorized generic players.
- **Sitagliptin** and **Linagliptin** are a class of oral hypoglycemics that block the enzyme dipeptidyl peptidase-4 (DPP-4). This class of diabetes therapy is better at managing weight and reducing the risk of hypoglycemia than first-line oral therapy, such as Glimepiride, in Type-2 diabetes patients. Currently, these drugs are at a 200–300% premium against generic DPP4 inhibitors.

Exhibit 8: Big product expiries in AD space over next five years

Molecules	Mechanism of action	Innovator	Patent expiry in India	Current price differential vs. alternate drugs
Sitagliptin	DPP-4 Inhibitor	MSD	Jul-22	2-3x
Linagliptin	DPP-4 Inhibitor	Boehringer Ingelheim	Aug-23	2-3x
Dulaglutide	GLP-1 Receptor Agonist	Eli Lilly and Company	Jun-24	Generics Not Available
Degludec	Insulin Analog	Boehringer Ingelheim	Jul-24	4x
Empagliflozin	SGLT-2 Inhibitor	Mitsubishi Tanabe	Mar-25	2-2.5x
Canagliflozin	SGLT-2 Inhibitor	Novo Nordisk	Dec-27	2-2.5x
Semaglutide	GLP-1 Receptor Agonist	Novo Nordisk	Dec-31	Generics Not Available

Source: MOFSL, Industry

- **Empagliflozin** and **Canagliflozin** are called SGLT2 inhibitors, a class of medication that alters the essential physiology of the nephron – unlike SGLT1 inhibitors that modulate sodium/glucose channels in the intestinal mucosa. The foremost metabolic effect appears to show that this pharmaceutical class inhibits the reabsorption of glucose in the kidney, therefore lowering blood sugar. This class of diabetes therapy is even better at managing weight and reducing the risk of hypoglycemia than DPP4 inhibitors. Currently, these drugs are at a 200–250% premium against generic SGLT2 inhibitors.
- **Dulaglutide** and **Semglutide** are glucagon-like peptide-1 receptor agonists (GLP-1 agonist) involved in the normalization of the level of glucose in blood (glycemia). This new class of therapy, in combination with Insulin, offers significantly better beta cell preservation and protection against hypoglycemia, and helps reduce bodyweight v/s existing Oral Anti-Diabetes Drug therapy options. It currently has a lower penetration in India and a higher per month cost. The therapy currently costs 20x more per month than oral diabetic medication. As the therapy becomes generic, it is expected to gain wider acceptance in India, offsetting the price erosion due to genericization.

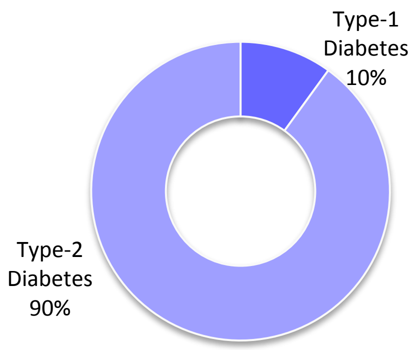
- **Degludec** is an ultra-long-acting Insulin analog developed by Novo Nordisk, currently available in India at a 400% higher cost than the comparable genericized Insulin Glargine. Insulin Degludec offers better HBA1c control than Insulin Glargine and results in significantly lower nocturnal hypoglycemia rates.

Changing lifestyles lead to favorable demand for AD therapy

Anti-Diabetes therapy largely comprises OAD.

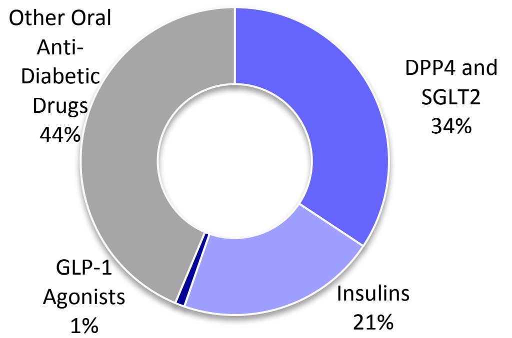
- Diabetes is a chronic disease wherein the body either cannot produce Insulin or cannot properly use the Insulin that it produces. Insulin is the hormone that controls the amount of glucose (sugar) in the blood. Diabetes is of two types – Type 1 & Type 2.
- Type 1 diabetes occurs when the immune system mistakenly attacks and kills the beta cells of the pancreas. Thus, there is very little or absolutely no Insulin produced in the body, as a result of which sugar builds up in the blood instead of being used as energy. This type develops mostly during childhood.
- Type 2 diabetes, which is more prevalent, occurs when the body cannot properly use the Insulin produced, which again leads to a sugar build-up in the body. This type occurs mostly in adults.

Exhibit 9: Type 2 diabetes is more prevalent



Source: MOFSL, Industry

Exhibit 10: Oral Anti-Diabetes Drugs have maximum share



Source: MOFSL, Industry

- Anti-Diabetes is the second largest Chronic category in India after Cardiovascular, with a market size of ~INR157b. The therapy grew at a CAGR of ~10% for the period from MAT Nov'17–Nov'21. 78% of the Anti-Diabetes market was driven by the Oral Anti-Diabetes group. Other groups comprise 'Insulin' and 'Newer Therapies'.
- Glimepiride and its combinations accounted for 30% of the total Anti-Diabetes market and 39% of the Oral Anti-Diabetes Drug market. It is used to treat Type 2 diabetes in patients who cannot control their blood sugar levels with diet and exercise alone.

Better treatment, low penetration bode well for higher off take of Insulin and Insulin analogs over medium-to-long term

- Unlike the developed world, India is still dominated by OAD. Accordingly, the penetration of DPP4/SGLT2 inhibitors is low at 44% vis-à-vis 83%/63% in the US/EU.
- The penetration of DPP4/SGLT2 inhibitors is expected to increase given its benefit related to cardiovascular protection, renal protection, and bodyweight management.
- Interestingly, penetration of Insulin (Human + Analog) remains even lower at 21% v/s 46%/39% in the US/EU.

- Insulin/GLP-1 has benefits such as beta cell preservation, protection from hypoglycemia, bodyweight reduction, and a slowdown in disease progression.
- While these products are technically superior, the adoption of Insulin is minimal due to supply constraints (complexity in manufacturing) and a high price point. For instance, the cost is INR12k per month for GLP-1 agonist and INR1200–1800 per month for Glargine therapy v/s INR400–600 for OAD.
- These products have scope to gain further traction in diabetes management, with ease of supply and a reduction in price point for the patients – as GLP-1 agonists go off patent in the future.

Proven brand franchise in AD and supply assurance enhance business prospects

- Supply assurance and the implementation of a strategic direction, rather than toll manufacturing agreements, are key for this JVs. No milestone payment has been decided with MJ Biopharm thus far.
- Considering ERIS' strong market position in OAD with blockbuster brands such as Zomelis and Gluxit, the company is well-positioned to ride the growth wave in DPP4 and SGLT2 inhibitors. Particularly, in the INR15b Human Insulin market, we believe that ERIS can garner 10% market share over 2–3 years.

JV with MJ Biopharm – a step towards building the Insulin portfolio

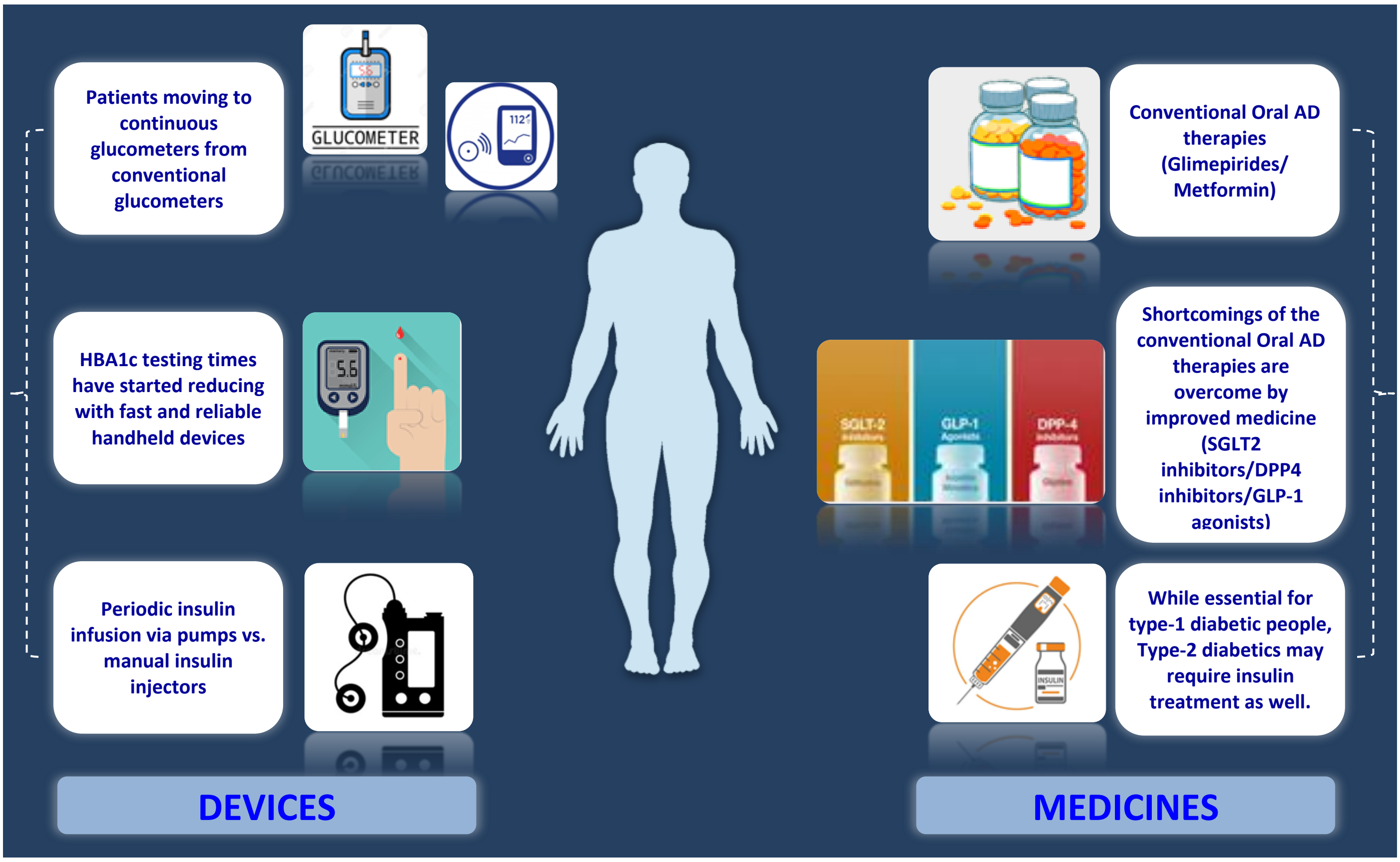
ERIS' strength in marketing and MJ Biopharm's manufacturing capabilities provide robust mutual benefit.

- With a strong presence in Oral AD therapy, ERIS plans to extend its offerings of Insulin and Insulin analogs.
- As Insulin / Insulin analogs are biopharma products, the JV with MJ Biopharm provides supply assurance for difficult-to-manufacture products.
- ERIS' strength in marketing and MJ Biopharm's manufacturing capabilities provide robust mutual benefit in the Domestic Formulation market.

Diabetes management: It is not just about medicine!!

- Over the past decade, there has been evolution not only on the medicine front for treating diabetes, but also on development of medical devices for tracking critical parameters to manage diabetes more efficiently.
- As highlighted in Exhibit 9, the availability of technically superior medicines (such as DPP4/SGLT2 inhibitors), easing supply for insulin and improving supply of insulin analogues over a period is expected to drastically transform the treatment of Diabetes versus conventional oral diabetes medicines.
- It is also crucial to improvise on the level of monitoring of the critical parameters of patients (glucose in blood, percentage of hemoglobin that is bound with blood glucose, etc.).
- Interestingly, compared with traditional finger-prick testing of blood glucose levels (which measures the level at a single point of time), use of continuous glucose monitor (CGM) allows trends in blood glucose to be displayed over time.
- Having continuous feedback on diet, exercise, and insulin requirements from a CGM can help one take more informed treatment decisions.
- Further, there have been advancements in reducing the HBA1c result timelines.
- In addition, there is availability of pumps for periodic insulin infusion as opposed to manual insulin injectors.
- Thus, the scope of managing diabetes using medication as well as monitoring devices has improved significantly over time.

Diabetes Ecosystem



Source: MOFSL, Industry

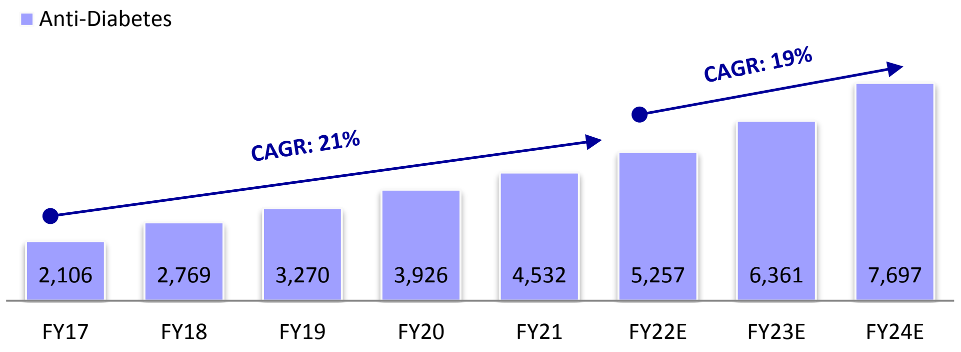
ERIS building ecosystem around diabetes management

- Over the past 14 years, ERIS has a proven track record of creating strong brand within conventional diabetes medicine (such as Glimisave) and gained 6% market share in a fragmented industry.
- Notably, even in newer medicines (such as dapagliflozin/vildagliptin), the company has been able to gain leading market share position in just a couple of years.
- ERIS has enhanced its efforts of building comprehensive portfolio and improvised the service offerings for patients considerably.
- With Glucometer (CIRCA VALIDO) as well as continuous glucose monitoring (GUARDIAN CONNECT), Eris is developing a comprehensive offering of medication as well as services.
- This benefits doctors for much better diagnosis of disease pattern, and in turn benefits patients in terms of medicine in-take and optimal diet management.
- Thus, ERIS is well positioned to improve coverage as well as to be widely accepted by patients at large.

New launches, increased coverage to drive 19% sales CAGR over FY21–24E

- ERIS outperformed the AD market by delivering 16% YoY sales growth in FY21 (v/s 6% YoY growth at the industry level), driven by the launch of Gluxit (Dapagliflozin) and growth in existing brands.
- Launched in Oct'20, Gluxit ranks second among the 30+ generic brands of Dapagliozin and enjoys market share of 6% by value (overall molecule) and had 11.5% share (among generic versions) as of Nov'21.

Exhibit 11: AD sales CAGR to come in at 19% over FY21–24E



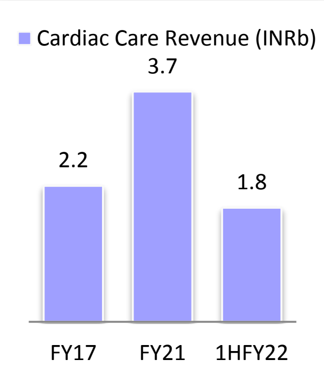
Source: MOFSL, Company

New launches and market share gains in existing products are key for growth in the AD segment.

- In addition to continued expansion in existing brands, ERIS intends to focus on new launches post patent expiry in the aforementioned molecules. The JV with MJ Biopharm is expected to provide opportunities in Insulin / Insulin analogs / GLP1 inhibitors.
- In addition to ERIS' efforts, we expect sectoral tailwinds to play a major part in overall therapy growth. We expect ERIS to benefit from the growing pool of diabetic patients.
- We expect a 19% sales CAGR over FY21–24 on the back of interesting products in the portfolio, portfolio expansion, and superior execution.

Coverage expansion to drive growth in Cardiac Care

- **ERIS saw an in-line CAGR in Cardiac Care v/s the industry over FY16–21.**
- **Considering its presence largely in the Hypertension category within the Cardiovascular segment, it intends to enhance its offering as well as expand its coverage of cardiologists and consulting physicians by 50% over the next two years.**
- **Additionally, on the back of the low base of FY21, we expect ERIS to garner a better sales CAGR (13% over FY21–24E).**



Cardiovascular business on strong footing despite COVID setback

- ERIS' Cardiac Care portfolio saw a sales CAGR of 13% during FY18–21, driven by its presence in the Telmisartan and Olmesartan group of molecules and its recent entry in the fast-growing Valsartan. Eris is ranked fourth in prescription rank among cardiologists and 11th in revenue in CVM.
- The company had a portfolio of 59 brands in this therapeutic area, of which 44 brands were in the Hypertension subgroup at end-MAT Nov'21. Growth for Eris in its Cardiac Care segment was impacted by COVID, with many molecules de-growing YoY in MAT ended Nov'21.

Exhibit 12: ERIS' top drugs in Cardiac Care have largely underperformed molecule growth

		Revenue (INR m)	Market share-covered Market (%)	Brand CAGR (%)	Therapy CAGR (%)	Molecule CAGR (%)
Brand	**Molecules**	**MAT Nov'21**	**Nov'21**	**MAT Nov'17-21**	**MAT Nov'17-21**	**MAT Nov'17-21**
Eritel	Telmisartan Combinations	1391	4.2	8.2	10.9	12.5
Olmin	Olmesartan Combinations	608	6.7	2.0	10.9	15.6
LNBLOC	Cilnidipine Combinations	601	9.1	11.2	10.9	17.5
Crevast	Rosuvastatin Combinations	429	1.9	16.4	10.9	15.1
Atorsave	Atorvastatin Combinations	401	2.3	8.6	10.9	7.0

Source: AIOCD-AWACs, MOFSL

- Notably, **Eritel (Telmisartan combination)** is the highest selling drug in this category, with sales of ~INR1.4b and market share of ~4.3%. Eritel posted a sales CAGR of 9.4% over FY17–21. Telmisartan combinations saw a CAGR of 15% at the industry level.
- Ex-Eritel, ERIS' Cardiovascular portfolio saw a 15% sales CAGR over FY17–21, driving growth in the Cardiovascular segment.
- Particularly, Olmin has sales of INR608m (FY21), with 6.7% market share. LNBloc has sales of INR601m (FY21), with 9% market share.

Anti-hypertension – largest part of Cardiovascular therapy at industry level

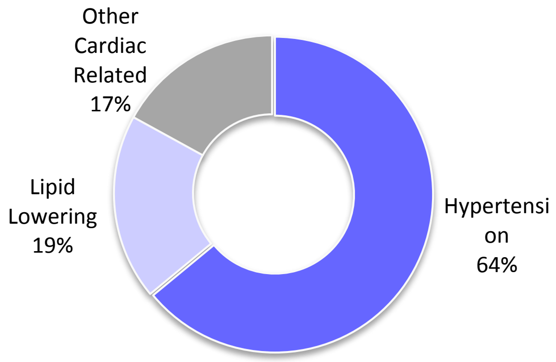
Hypertension drugs form the largest share of Cardiovascular therapy with 64%.

- The Cardiovascular therapeutic area is the largest Chronic therapeutic area in India, with a total market size of INR216b in MAT Nov'21. It has seen a CAGR of ~11% over MAT ended Nov'17–21. This therapeutic area comprises Anti-Hypertensives, Cardiac therapy, and Lipid Lowering sub-groups. Of these, Anti-Hypertensives is the largest sub-group and accounts for ~64% of revenues under the therapy.
- In Cardiovascular therapy, Anti-Hypertensives is a significant sub-group. Hypertension could lead to a heart attack, stroke, renal failure, or death if not

detected early on and treated properly. Anti-Hypertensives saw a CAGR of ~11% for the industry for MAT ended Nov'17–21.

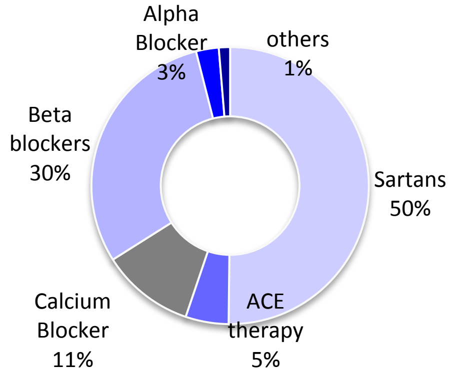
- Under Hypertensives, the Telmisartan group saw a 13.5% sales CAGR for MAT ended Nov'17–21, while the Olmesartan group saw a 3% CAGR over this period for the industry. Valsartan, which is smaller in size, has grown the fastest among the Sartans, with a 61% CAGR during this period. Losartan sales have remained flat for the period of Nov'17–21 as Telmisartan, Valsartan, and Olmesartan are more efficacious.

Exhibit 13: Hypertension drugs have highest market…



Source: MOFSL, Industry

Exhibit 14: …under which Sartans are most commonly used



Source: MOFSL, Industry

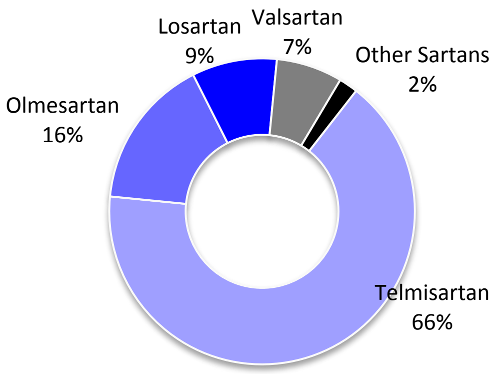
Exhibit 15: Different types of hypertension treatments

Anti-Hypertensive Treatments	Drugs	Remarks
Angiotensin II Receptor Blockers (Sartans)	❖ Telmisartan, Olmesartan, Losartan, Valsartan, etc.	❖ Block the effect of hormone angiotensin II dilating blood vessels and reducing BP
ACE Therapy	❖ Ramipril, Quinapril, Fosinopril, Enalapril, Captopril, etc.	❖ Remain the initial treatment choice; prevent constriction of blood vessels
Alpha Blockers	❖ Doxazosin, Prazosin, Terazosin	❖ Dilate blood vessels; not recommended as initial therapy
Beta Blockers	❖ Metoprolol, Atenolol, Celiprolol, Betaxolol, Bisoprolol, etc.	❖ Produce anti-hypertensive action by reducing heart rate and cardiac output; risk of stroke associated with them, hence not recommended as first-line treatment
Calcium Channel Blockers	❖ Amlodipine, Nicarddipine, Felodipine, Bepridil, etc.	❖ Decrease entry of calcium into heart cells and blood vessels, thus lowering heart rate and contractility and dilating arteries

Source: MOFSL, Industry

- Sartans are preferred to ACE therapy as they see high tolerance in human beings; the most common side effect with ACE therapy, coughing, is much lower in patients who are put on Sartans therapy.

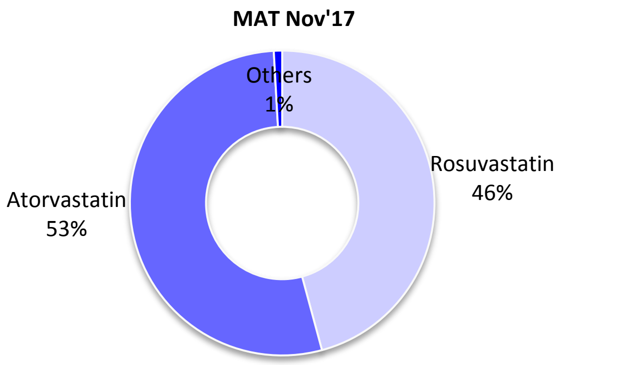
Exhibit 16: Telmisartan and Olmesartan are the highest sellers in the Sartans group



Source: MOFSL, Statista.com

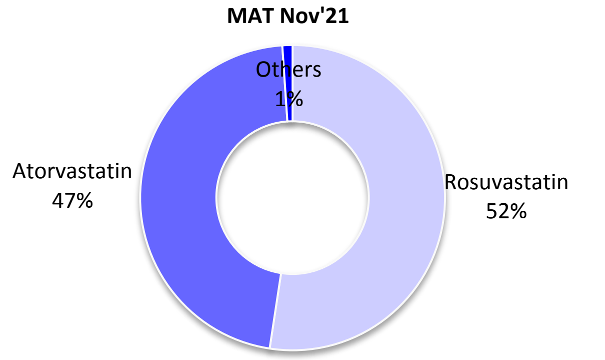
- Among the lipid lowering or cholesterol-reducing drugs, statins are the most common medication used. Statins work in the liver to prevent cholesterol from forming. This reduces the amount of cholesterol circulating in the blood. They are most effective at lowering LDL (bad) cholesterol. They also help lower triglycerides and raise HDL (good) cholesterol.

Exhibit 17: Although equally safe…



Source: MOFSL, AIOCD-AWACs

Exhibit 18: …Rosuvastatin is more effective in lipid lowering



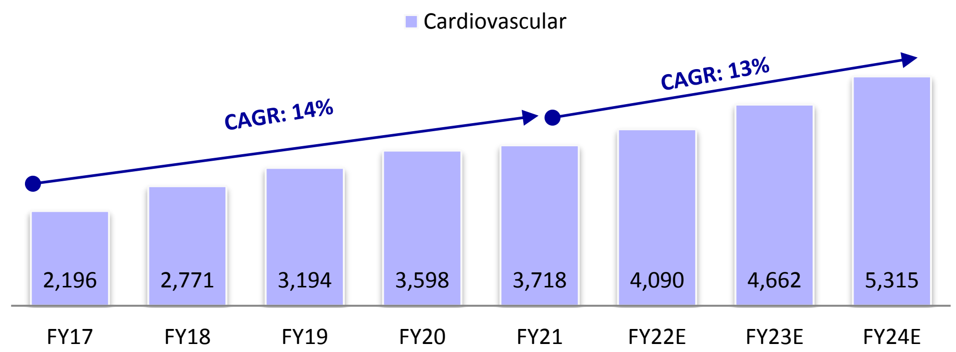
Source: MOFSL, AIOCD-AWACs

- Rosuvastatin has seen higher growth than Atorvastatin as it is more effective in lowering bad cholesterol and raising good cholesterol. However, the maximum dosage of either of the two drugs is equally effective in reversing heart diseases by clearing plaque from the arteries. ERIS' brand **Crevast** is a Rosuvastatin-based drug and has been growing faster than **Atorsave,** an Atorvastatin-based drug – this has been growing at a slower pace due to shift towards more effective drug, Rosuvastatin.

New launches, increased coverage to drive 13% sales CAGR over FY21–24E

- While ERIS underperformed the Cardiac Care market by delivering 3.3% YoY sales growth in FY21 (v/s 11% YoY growth at the industry level), it is geared up to improve execution in this segment.
- In FY21, it debuted in the fast-growing Anti-Thrombotics market through the launch of Rivalto (Rivaroxaban).

Exhibit 19: Cardiac Care to see sales CAGR of 13% over FY21–24E



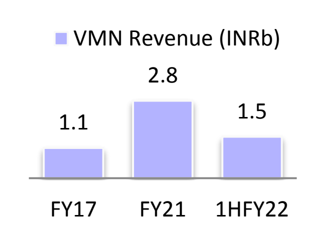
Source: MOFSL, Company

An increase in coverage remains key for growth in the Cardiac Care segment.

- In addition to new launches, it intends to aggressively enhance its marketing efforts towards increasing its knowledge-based relationship with cardiologists / consulting physicians by almost 50% over the next two years.
- We believe the FY21 performance to be an aberration led by COVID. On the back of an established field force, technically superior products in the hypertension/lipid lowering category, new launches (like Rivalto) and enhanced efforts towards increasing reach to doctor community, we expect a 13% sales CAGR over FY21–24.

Rising awareness, co-prescription to better VMN outlook

- **ERIS has a combination of own as well as acquired brands in the VMN category and has been outperforming the respective market over the past two years.**
- **COVID has boosted the level of awareness regarding immunity and general wellness, driving additional demand for products in the VMN category.**
- **As its portfolio is supplemented by the Anti-Diabetes / Cardiac Care segment and based on a favorable demand outlook, we expect a 17% sales CAGR in VMN therapy over FY21–24.**



Superior execution drives better-than-industry growth in VMN category

- Vitamins, Minerals, and Nutrients (VMN) comprises the third largest therapy area for ERIS. From FY11 to FY21, the VMN franchise has grown 1.1x faster than the market at a CAGR of 19%. Vitamins have seen newfound importance as immunity boosters during the COVID pandemic.

Exhibit 20: 5 of 8 brands outperform in respective product categories

Brand	Molecules	Revenue (INR m)	Market share-covered Market (%)	Brand CAGR (%)	Therapy CAGR (%)	Molecule CAGR (%)
		MAT Nov'21	Nov'21	MAT Nov'17-21	MAT Nov'17-21	MAT Nov'17-21
Renerve	Methylcobalamin Combinations	1299	9.3	15.2	9.9	5.7
Tayo	Vitamin D3 + Calcium Combinations	620	3.7	9.9	9.9	11.6
Remylin	Vitamin D + Methylcobalamin Combinations	482	4.2	-1.2	9.9	5.2
Zac	Multivitamins + Minerals	249	1.1	507.8*	9.9	15.9
Ginkocer	Ginkgo Biloba Combinations	304	32	15.3	9.9	5
Obicure	Slimming Preparations	113	77.2	8.1	9.9	0.0

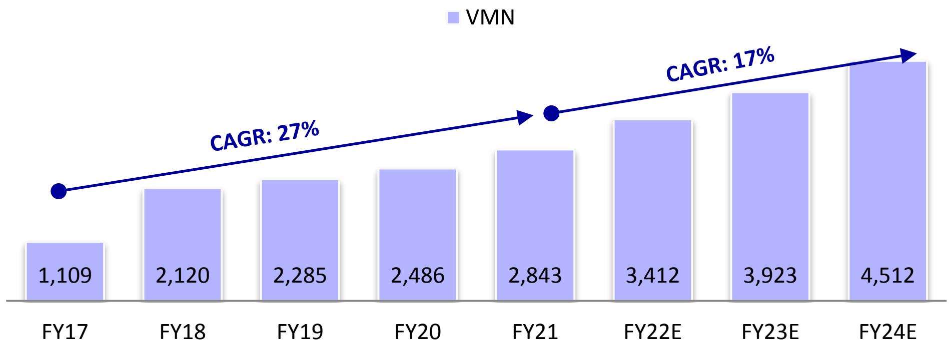
*Growth over Nov'20 as brand launched after Nov'17 Source: AIOCD-AWACs, MOFSL

- **Renerve Plus**, the highest selling brand under the Renerve Umbrella, belongs to the Methylcobalamin combinations molecule group. It saw a 16% CAGR over MAT ended Nov'17–21, outperforming the therapy CAGR of 9.9% over this period. The molecule itself saw a modest CAGR of 4.2% during this period. Renerve brands have a share of ~9% in the Methylcobalamin combinations.
- **Tayo 60** and **Calshine P** are part of Vitamin D3 group and have 4% and 2% market shares, respectively. **Tayo 60** outpaced therapy growth with a CAGR of 16.3% over MAT ended Nov'17–21, while **Calshine P** underperformed with an ~8% CAGR over the same period.
- **Zac D** brand, launched last year, has grown 5x YoY and currently has ~1% market share in the Multivitamins and Minerals market. There is slowdown in sales to some extent due to reduced covid cases.
- **Obicure** is a combination of the extracts of Caralluma Fimbriata, Garcinia Cambogia, Green Tea, Ginger, and Piperine. ERIS has a virtual monopoly in the market with 77% market share. ERIS exhibited a healthy 8% CAGR over Nov'17–21, whereas molecule growth was flat.
- **Ginkocer** is the largest brand (part of umbrella of brands) and contains Ginkgo Biloba, which functions as a neuroprotective agent, an antioxidant, a membrane stabilizer, and an inhibitor of platelet-activating factor via the terpene Ginkgolide B. ERIS' top 2 brands **Ginkocer** and **Ginkocer Plus** have 44% and 16% market share in their respective categories. **Ginkocer** outperformed the VMN market with an 18% CAGR over MAT Nov'17–21. **Ginkocer Plus** was launched in 2018 and has seen a CAGR of 371% since its launch.

Additional demand levers, established brands provide impetus to strengthen VMN franchise

- The shift in strategy from the Wellness segment to Specialty (diabetologists/nephrologists) has led to a strong offtake of the 'Renerve' brand, taking it to INR1.5b in size in FY21.
- Furthermore, increasing its reach to consulting physicians is expected to improve the sales outlook for the Tayo and Remylin brands.

Exhibit 21: VMN revenue growth expected to normalize



Source: MOFSL, Company

Increased demand for Cardio-metabolic therapy and the inclination to boost immunity are key for growth in the VMN category.

- Increased awareness about better immunity (on account of the COVID pandemic) is expected to drive overall demand for VMN products.
- On the back of this, coupled with new launches, we expect a 17% sales CAGR in the VMN category for ERIS over FY21–24.

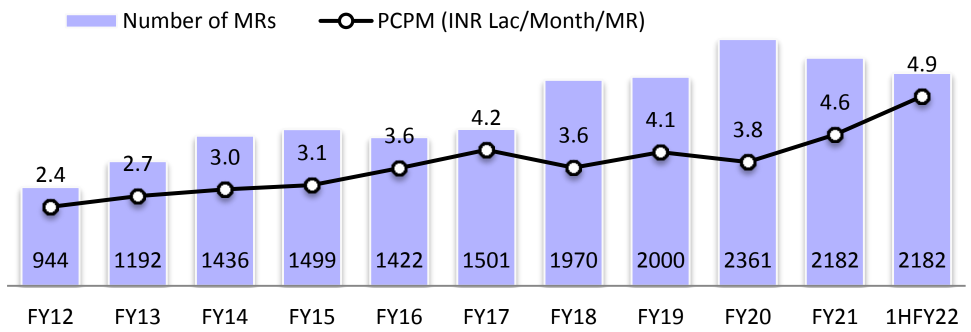
Sufficient scope to further improve MR productivity

- **To complement its product offering, ERIS has expanded its field force by 600 MRs in the past five years.**
- **The MR productivity is in line with the industry average, leaving adequate scope for improvement hereafter.**
- **It aims to expand its coverage of super-specialists and consulting physicians; thus, we expect a calibrated increase in MR over the next 2–3 years.**

Higher MR productivity to help generate better margins

- ERIS almost doubled its MR productivity, even after increasing its MR strength by 36% over FY13–17.
- The acquisition of the Strides portfolio and discontinuation of tail-end brands dented MR productivity in FY18.
- The synergizing of the Strides portfolio and enhanced efforts on the core portfolio led to gradual improvement in MR productivity. However, this was offset by the addition of MRs and the gestation time required for new MRs to achieve company-level productivity.

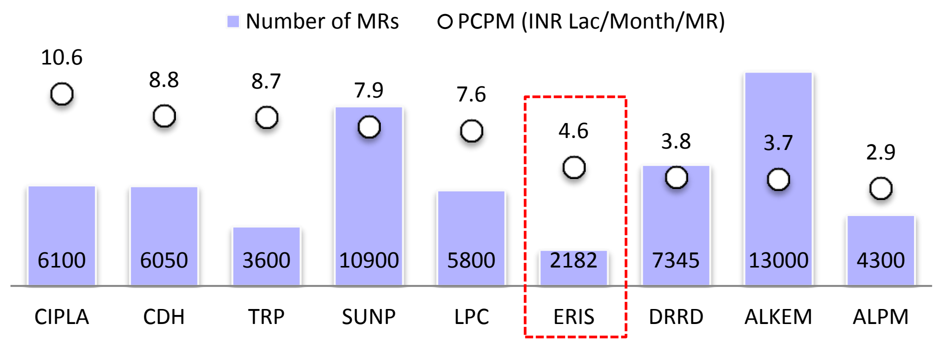
Exhibit 22: MR productivity on the uptrend



Source: MOFSL, Company

- Compared with the industry, there is adequate scope to improve MR productivity on the back of a) the improved coverage of doctors per MR and b) higher prescription rates from the existing coverage of doctors.

Exhibit 23: MR productivity currently below industry benchmark



Note: Data for FY21; Source: MOFSL, Industry

- The digital transformation underway at the industry level would enable ERIS to map its prescription/medicine off-take and improve MR efficiency.

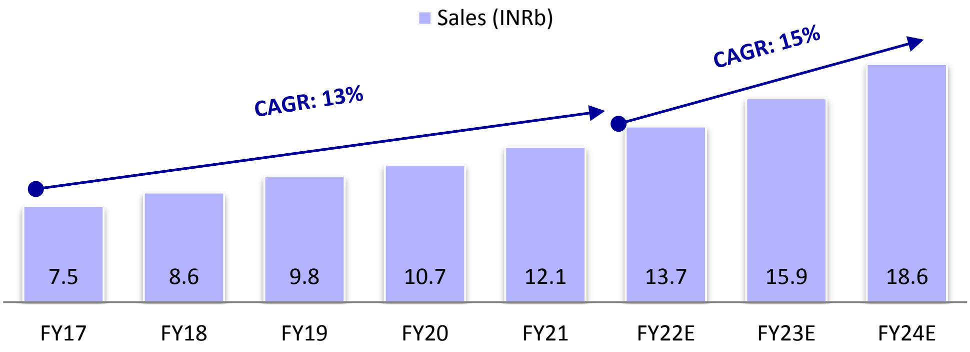
Multiple levers at play for robust earnings growth

- **ERIS delivered a 13% revenue CAGR, with a steady EBITDA margin of 35% over FY17–21. Notably, the EBITDA margin improved to 39% in 2QFY22.**
- **During FY18–20, ERIS put considerable effort into turning around the portfolio acquired from Strides. Despite this exercise, it was able to maintain its profitability at pre-acquisition levels.**
- **We expect a 17% earnings CAGR over FY21–24, led by a 15% revenue CAGR and better MR productivity / capacity utilization.**

New launches, increased reach, acquisitions drive revenue growth over past five years

- The company delivered a 13% sales CAGR to reach INR12.1b (from INR7.5b) over FY17–21, led by a steady mix of volume/price and new launches.

Exhibit 24: Expect 15% revenue CAGR over FY21–24E



Source: MOFSL, Company

- Over FY17–21, Cyblex, Tendia, Zomelis, Crevast, and Renerve have been among the key brands driving overall growth for ERIS.
- The acquisition of brands and businesses (Exhibit 25) has also contributed to revenue growth.

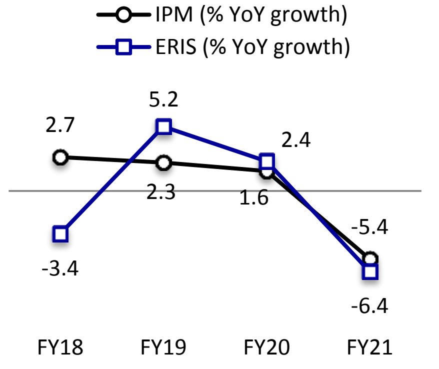
Exhibit 25: Acquisitions done by ERIS over past five years

		Amount paid	Sales of target company/brands at the time of acquisition	Addition of intangible assets
Year	Seller	INR m	INR m	INR m
FY17	Aprica (Amay Pharma)	329	398	356
FY18	Strides Pharma	5,000	2,000	3,786
FY18	UTH	129	70	335
FY18	Kinedex	774	515	1,008
FY21	Zomelis	960	640	960
Total Consideration Paid (INR m)		**7,192**		

Source: MOFSL, Company

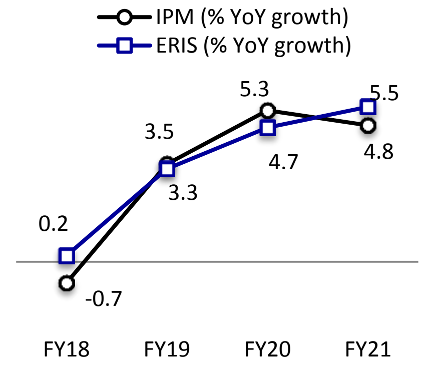
- There has been a steady mix of price, volumes, and new launches for ERIS v/s IPM over FY18–21.

Exhibit 26: ERIS' volume growth has trended higher than IPM.....



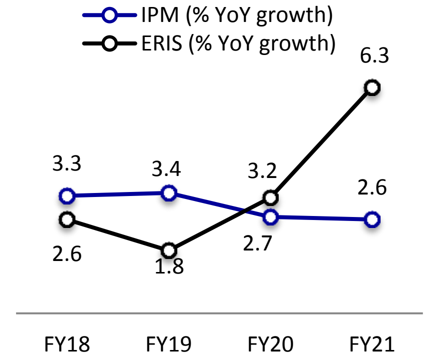
Source: AIOCD-AWACs

Exhibit 27: ... While price growth has trended lower....



Source: AIOCD-AWACs

Exhibit 28: ... new products growth in recent years higher than IPM.



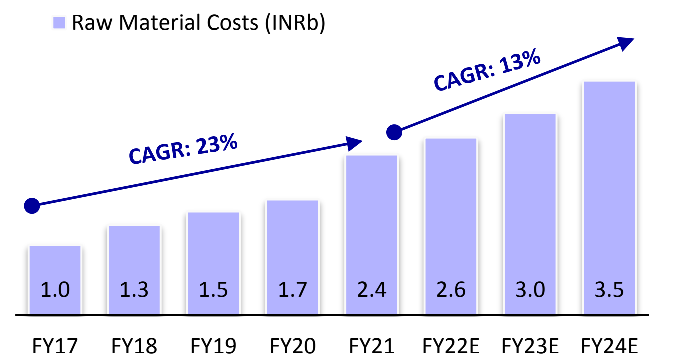
Source: AIOCD-AWACs

- Key drivers for revenue growth include 1) the pipeline of patent expiration opportunities in the Cardio-metabolic segment over the next 3–4 years, 2) growth in existing brands, 3) expansion in the coverage of specialists and consulting physicians over the next five years, 4) targeting newer growth therapies, and 5) value-accretive, high-return inorganic opportunities to complement organic growth.
- We expect ERIS to see a 15% revenue CAGR over FY21–24.

Product mix, RM costs drag down gross margin in FY21; expect gradual improvement going forward

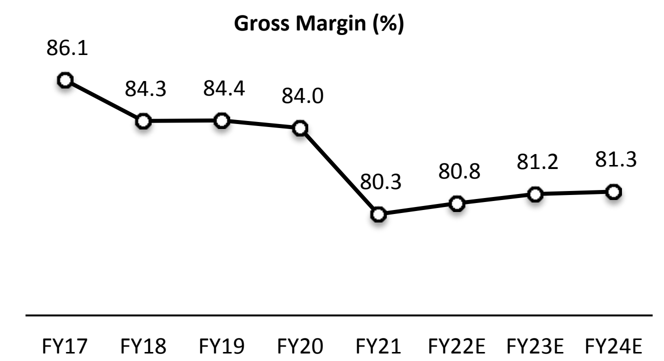
- ERIS saw an almost 575bp contraction in the gross margin over FY17–21, with the impact of the decline being far worse in FY21.
- This is largely attributable to the acquisition of the Strides portfolio in FY18, product mix and the increased sale of trade generics in FY21.
- While in-house manufacturing at Guwahati somewhat benefited the gross margin, this was offset by spiraling RM costs on account of COVID in FY21.

Exhibit 29: RM costs to see 13% CAGR over FY21–24E



Source: MOFSL, Company

Exhibit 30: Expect stable gross margins of ~81% over FY22–24



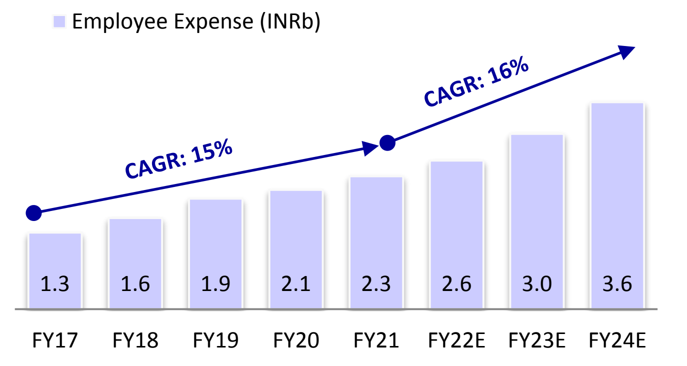
Source: MOFSL, Company

- While capacity utilization continues to improve in Guwahati, the cost of intermediates/solvents remains at elevated levels due to production cuts by China.
- We expect raw material concerns to ease by Mar'22. Coupled with increased in-house manufacturing and new launches, this would drive 100bp gross margin expansion over FY21–24E.

Lower other expenses offset higher RM and employee costs

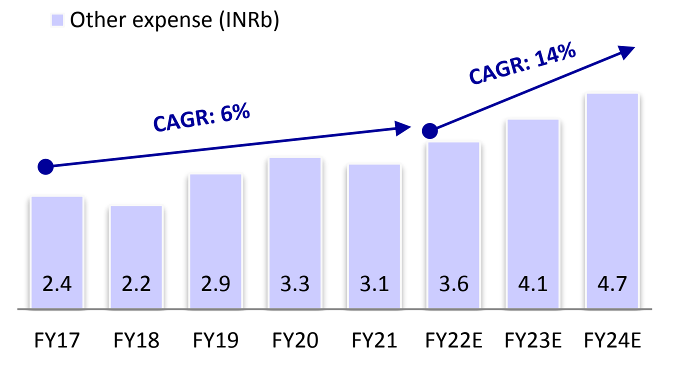
- The addition of MRs and employees at the Guwahati facility increased the overall employee cost by almost 1.7x over FY17–21.

Exhibit 31: Employee costs to grow 16% over FY21–24E



Source: MOFSL, Company

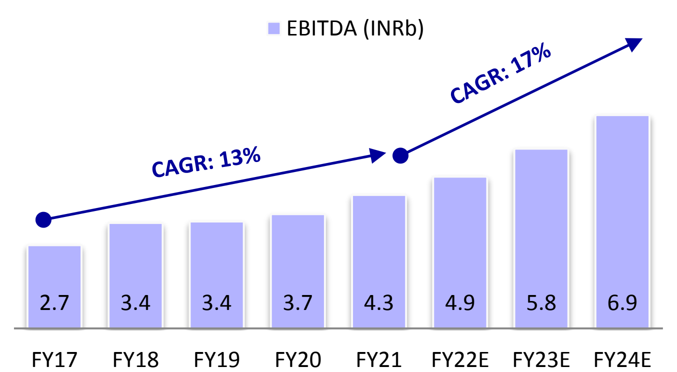
Exhibit 32: Expect sharp uptick in other expense CAGR to 14% over FY21–24E



Source: MOFSL, Company

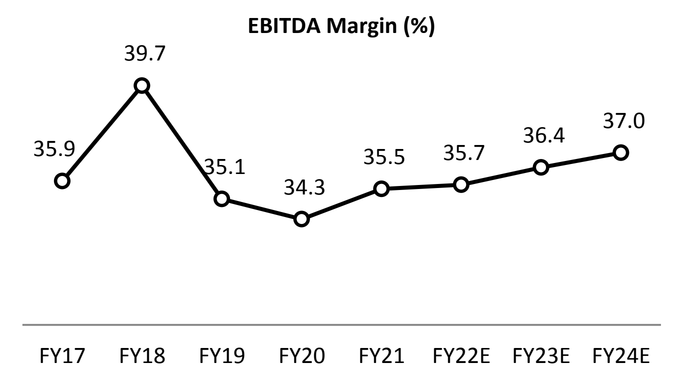
- However, the controlled increase in other expenses has offset the gross margin contraction as well as employee cost increase.
- Thus, the EBITDA margin remained stable at ~35% over FY17–21. In fact, reduced traveling costs on account of COVID sharply reduced the opex in FY21, resulting in 120bp YoY EBITDA margin expansion to 35.5%.

Exhibit 33: Expect EBITDA CAGR of 17% over FY21–24E



Source: MOFSL, Company

Exhibit 34: EBITDA margins to grow over FY21–24E on higher revenue growth, resulting in operating leverage



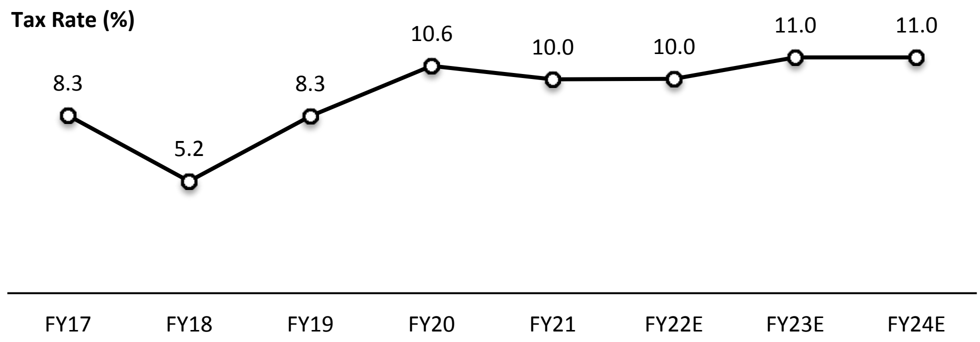
Source: MOFSL, Company

- For the Insulin portfolio, ERIS has guided for the addition of MRs in 4QFY22/1QFY23. Accordingly, we expect employee costs to increase over FY21–24.
- Improved sales growth, coupled with a superior product mix and increased capacity utilization, would aid better operating leverage and thus drive EBITDA margin expansion by 130bp over FY21–24E.

Tax benefits to continue with new Gujarat facility

- ERIS' effective tax rate has been on the lower side, with the tax rate decreasing to 10% in FY21 from 18% in FY15. The primary reason for the lower tax rate has been the tax benefit from its Guwahati facility.
- We expect the tax rate to remain at 10–11% levels as ERIS would accrue tax benefit from its new facility in Gujarat as well.

Exhibit 35: Expect tax rate of 10–11% over FY21–24

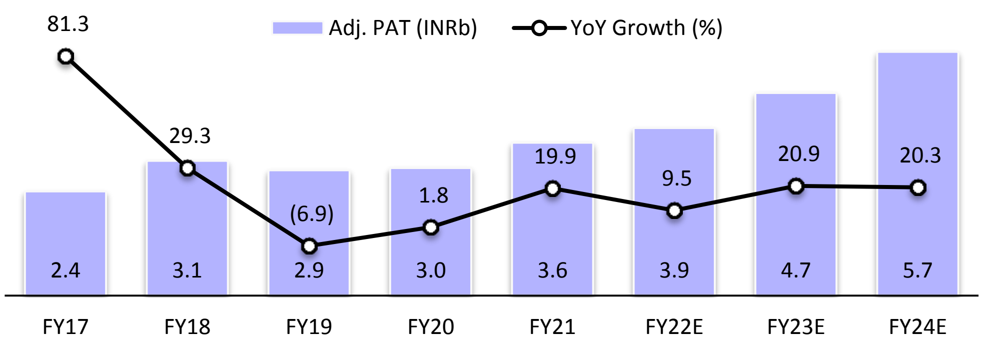


Source: Company, MOFSL

Improved operating performance, lower taxes lead to 22% earnings CAGR over FY15–21

- Although ERIS delivered a 13% EBITDA CAGR over FY17–21, the PAT CAGR was lower at 10% as depreciation expenses doubled over FY17-21.
- On the back of new launches, an improved demand scenario for base products, and better MR productivity, we expect ERIS to deliver a PAT CAGR of 16.8% to INR5.7b over FY21–24.

Exhibit 36: Expect PAT CAGR of 17% over FY21–24

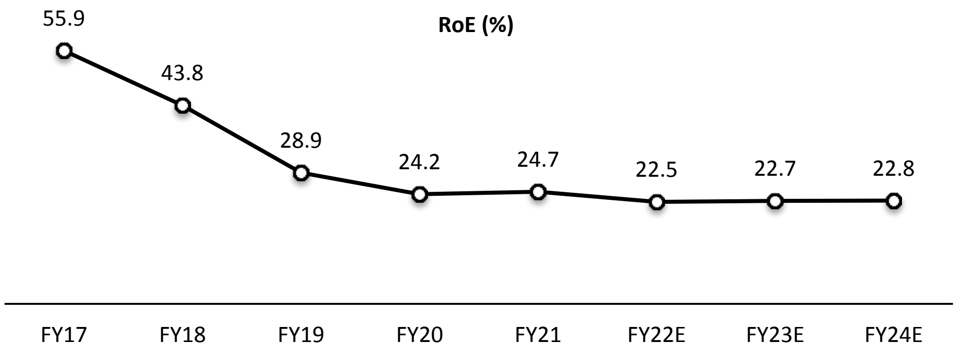


Source: MOFSL, Company

RoE to remain stable over FY21–24E v/s decline over FY17–21

- ERIS saw a reduction in ROE, largely on account of a) the acquisition of Strides' Branded Formulation portfolio, b) the addition of the Guwahati facility for higher in-house manufacturing, and c) the doubling of the tax rate.
- With a) improved profitability in the acquired portfolio, b) market share gains in existing products, c) higher capacity utilization, d) new launches driving MR productivity, and e) controlled opex (partly due to increased digital marketing), the company is expected to maintain ROE at 22–23% over FY21–24.

Exhibit 37: RoE to stabilize over FY21–24E



Source: MOFSL, Company

SWOT analysis

Sensitivity analysis

- **In our base case scenario, we expect 15%/17% sales/earnings CAGR to INR18.5b/INR5.6b over FY21-24.**
- **The base case scenario implies upside of 27% from current levels. Our bull case scenario indicates upside of 53% while bear case scenario indicates marginal upside from current levels.**

Base case		
Particulars		Remarks
EPS (12M forward)	39.4	❖ We assume a revenue/EBITDA/PAT CAGR of 15.3%/16.9%/16.8% over FY22-24.
Target PE multiple (x)	22.0	
12M forward Target Price (INR)	870	
CMP (INR)	687	
Potential upside/ (downside) (%)	27	

Bull case		
Particulars		Remarks
EPS (12M forward)	43.3	❖ We assume a revenue/EBITDA/PAT CAGR of 18%/20.1%/20.8%.
Target PE multiple (x)	24.0	
12M forward Target Price (INR)	1,050	
CMP (INR)	687	
Potential upside/ (downside) (%)	53	

Bear case		
Particulars	FY24	Remarks
EPS	34.7	❖ We assume a revenue/EBITDA/PAT CAGR of 11.1%/11.6%/11.4%.
Target PE multiple (x)	20.0	
12M forward Target Price (INR)	690	
CMP (INR)	687	
Potential upside/ (downside) (%)	0	

Base case

- We assume 19%/13%/17% sales CAGR in AD/cardiac care/VMN segment driving 15% overall sales CAGR over FY21-24. With better operating leverage, we factor 130bp margin expansion. Accordingly, we estimate 17% earnings CAGR over FY21-24. We assign 22x 12M forward earnings PE multiple (in-line with sector 3-year average) and arrive at price target of INR870, marking an upside of 27% from current levels.

Bull case

- We assume 23%/15%/19% sales CAGR in AD/cardiac care/VMN segment resulting in 18% overall sales CAGR over FY21-24. With higher sales growth and better MR productivity, we factor 180bp margin expansion. Accordingly, we estimate 21% earnings CAGR over FY21-24. We assign 24x 12M forward earnings PE multiple (10% premium to 3-year sector average) and arrive at price target of INR1,050, implying an upside of 53% from current levels.

Bear case

- We assume 23%/15%/19% sales CAGR in AD/cardiac care/VMN segment driving 11% overall sales CAGR over FY21-24. With moderate sales growth, we factor 30bp margin expansion. Accordingly, we estimate 11% earnings CAGR over FY21-24. We assign 20x 12M forward earnings PE multiple (10% discount to 3-year sector average) and arrive at price target of INR690, implying marginal upside from current levels.

Initiate with BUY

Transformation underway in India Formulation industry

- From a demand perspective, the India Formulation market is expected to deliver a 9–11% CAGR over FY21–27 (as per AIOCD-AWACS). Multiple drivers include a) an increasing population (60+ age; up 150bp as % of the population over past 10 years); b) changing lifestyles leading to the higher prevalence of chronic diseases, resulting in demand for therapies such as Cardiac and Diabetes; c) increased per capita incomes supporting the ability to pay for superior medicines; d) increased insurance penetration aiding the higher usage of healthcare services; and e) the government push for programs driving higher generic penetration.
- From a supply perspective, the India Formulation market is highly fragmented. However, given the very high dependence on doctor prescriptions for medicine, the market share is skewed, to some extent, towards companies with strong brand franchises. With increased awareness and better quality standards, trade generics have also formed a meaningful share in the overall India Formulation market.
- Transformation is underway in the form of a) building brands through the MR-doctor virtual connect; b) improving efficiency in supply chain management using the e-commerce route; and c) improving the service aspect for patients in teleconsultation, home services for diagnostic testing, and the provision of medicines. In fact, data from e-pharmacies would lead to more focused marketing spends and cost rationalization.

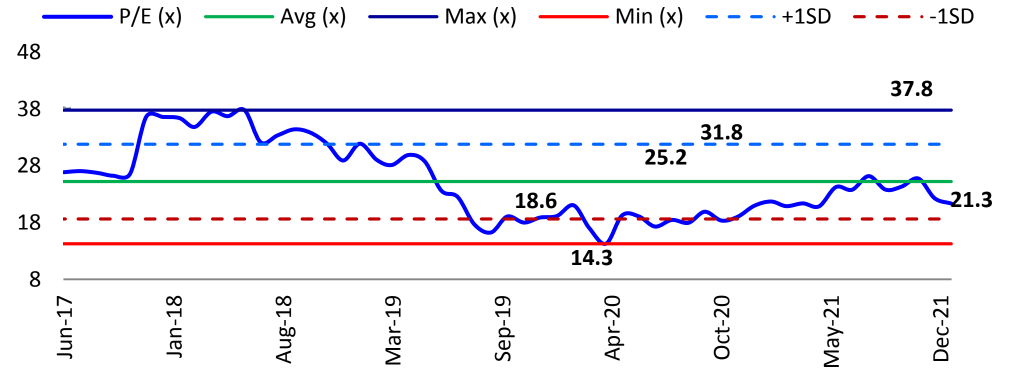
ERIS against the current backdrop

- ERIS's focus on Chronic therapy, with a strong skill set in building brands, bodes well for the company to benefit from the opportunities available in the India Formulation market. It has already built a mother brand (Glimisave) worth INR2b+ and some mother brands (Eritel/Renerve) worth INR1b+, and has long tail of brands worth INR500m+.
- From the beginning, it has endeavored to increase its portfolio offerings in AD, Cardiac Care, and VMN. There is sufficient scope for generic versions of newer molecules (post the patent expiry) to be made available to the India population, particularly in the AD space. With an already strong connect between super-specialists / consulting physicians, it has a channel ready for new launches.
- It also intends to increase its coverage among the doctor community across core therapies, which would further drive the business. Additionally, it has recently enhanced its AD portfolio by entering into a supply agreement with MJ Biopharm.
- Increased awareness about the importance of immunity building is expected to boost product sales in ERIS' VMN segment. Accordingly, we expect the company to be well-placed to outperform the India Formulation market.

Valuation and view

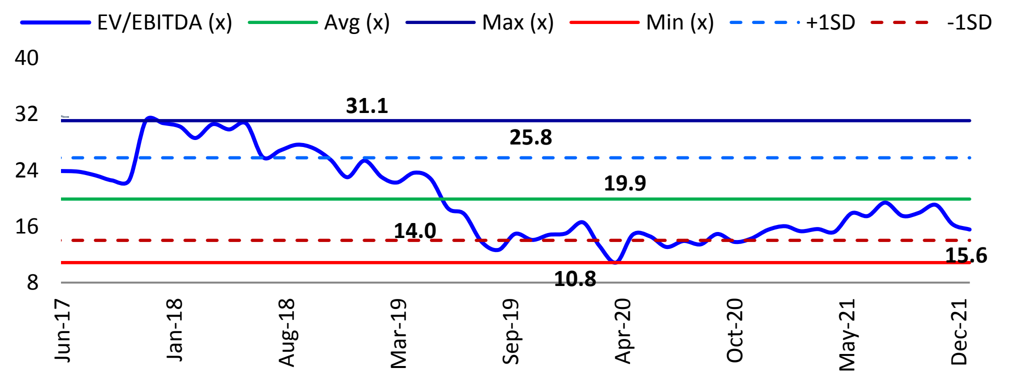
- Overall, we expect a 17% earnings CAGR, led by a 19%/13%/16.5% sales CAGR in AD / Cardiac Care/VMN, and a 130bp margin expansion over FY21–24.
- On the back of a) a Chronic-heavy portfolio, b) the MR force driving brand play, c) brand turnaround capabilities, d) increased in-house manufacturing, e) superior (35%) EBITDA margins, and f) better-than-industry growth prospects, we ascribe 22x 12M forward earnings to arrive at Target Price of INR870. This implies a 27% upside from current levels. Initiate with BUY.

Exhibit 38: ERIS – P/E chart



Source: Company, MOFSL

Exhibit 39: ERIS – EV/EBITDA chart



Source: Company, MOFSL

Key management personnel

Mr Amit Bakshi – Chairman & Managing Director

Mr Amit Bakshi has been on the company board since its inception, serving in the capacity of Chairman and Managing Director. He brings extensive experience working in the Indian Pharmaceutical industry and handles Strategic Management for the company across business functions. He has previously worked with companies in various capacities and has more than 20 years of experience in the Pharmaceutical industry. Mr Amit Bakshi was recognized as 'Entrepreneur of the Year, 2013' by Ernst & Young.

Mr Krishnakumar Vaidyanathan – Executive Director & COO

Mr Krishnakumar Vaidyanathan, in his role as Chief Operating Officer, oversees the business operations of the company. He has over two decades of professional experience across Lifesciences, Corporate Finance, and Management Consulting. His core areas of expertise include strategic planning, business building, mergers and acquisitions, corporate finance, and operational excellence. Prior to joining Eris, he has served as Corporate Finance Partner with Ernst & Young LLP for nine years. Prior to Ernst & Young, he has worked with Avendus Capital, Piramal Pharma Solutions, and McKinsey & Company. Mr Vaidyanathan holds an MBA in Finance from IIM Kolkata and a B.Tech from VJTI, Mumbai University.

Sachin Shah – Chief Financial Officer

Mr Sachin Shah is a qualified Chartered Accountant and he holds a bachelor's degree in commerce. He has been associated with the company since 1st January 2013, when he joined as Senior Manager – Finance and Processes. Pursuant to a board resolution dated 28th September 2016, he was appointed as the company's Chief Financial Officer. He has previously worked with ICICI Bank Limited and Avendus Capital Private Limited.

Mr Kaushal Kamlesh Shah – Head of Manufacturing & Distribution

Mr. Kaushal Kamlesh Shah has been associated with Eris since inception and serves in the capacity of Executive Director. He is responsible for driving manufacturing, strategic sourcing and distribution operations. He has 22 years' experience in the pharmaceutical industry. Mr. Shah holds a bachelor's degree in commerce from Gujarat University and a post graduate diploma in management from Som-Lalit Institute of Management Studies.

Mr Inderjeet Singh Negi – Head of Supply Chain & Sales Administration

Mr Inderjeet Singh Negi has been on the board of Eris since its inception and serves in the capacity of Executive Director. He is responsible for driving the supply chain and sales administration in line with the company's overall strategic direction. Mr Negi has worked with several pharmaceutical companies, including Sun Pharma and Intas Pharma, in various capacities and has more than 20 years' cumulative professional experience. Mr Negi is a science graduate from HNB Garhwal University.

Financial and valuations

Consolidated - Income Statement (INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	**7,495**	**8,556**	**9,822**	**10,741**	**12,119**	**13,711**	**15,920**	**18,594**
Change (%)	21.9	14.2	14.8	9.4	12.8	13.1	16.1	16.8
Total Expenditure	**4,808**	**5,157**	**6,372**	**7,057**	**7,813**	**8,816**	**10,125**	**11,714**
EBITDA	**2,687**	**3,399**	**3,449**	**3,684**	**4,306**	**4,895**	**5,795**	**6,880**
Margin (%)	35.9	39.7	35.1	34.3	35.5	35.7	36.4	37.0
Depreciation	237	256	502	502	430	659	718	773
EBIT	**2,450**	**3,143**	**2,947**	**3,182**	**3,876**	**4,236**	**5,077**	**6,107**
Int. and Finance Charges	3	106	229	22	18	30	25	23
Other Income	191	264	317	154	87	165	175	205
PBT bef. EO Exp.	**2,638**	**3,302**	**3,035**	**3,314**	**3,945**	**4,371**	**5,227**	**6,289**
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	**2,638**	**3,302**	**3,035**	**3,314**	**3,945**	**4,371**	**5,227**	**6,289**
Total Tax	219	173	262	351	394	481	523	629
Tax Rate (%)	8.3	5.2	8.6	10.6	10.0	11.0	10.0	10.0
Minority Interest	-2	0	0	0	0	0	0	0
Reported PAT	**2,421**	**3,129**	**2,773**	**2,963**	**3,551**	**3,890**	**4,704**	**5,660**
Adjusted PAT	**2,421**	**3,129**	**2,773**	**2,963**	**3,551**	**3,890**	**4,704**	**5,660**
Change (%)	81.3	29.3	-11.4	6.9	19.9	9.5	20.9	20.3
Margin (%)	32.3	36.6	28.2	27.6	29.3	28.4	29.5	30.4

Consolidated - Balance Sheet (INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	138	138	138	138	138	138	138	138
Total Reserves	5,534	8,476	11,368	12,828	15,628	18,692	22,434	26,993
Net Worth	**5,671**	**8,613**	**11,505**	**12,965**	**15,766**	**18,829**	**22,571**	**27,131**
Minority Interest	238	247	183	0	0	0	0	0
Total Loans	6	3,799	3	0	0	0	0	0
Deferred Tax Liabilities	346	-483	-931	-1,203	-1,511	-1,511	-1,511	-1,511
Capital Employed	**6,262**	**12,175**	**10,760**	**11,762**	**14,255**	**17,319**	**21,060**	**25,620**
Gross Block	765	916	1,097	1,584	1,757	2,319	3,012	3,525
Less: Accum. Deprn.	208	390	544	711	978	1,305	1,692	2,133
Net Fixed Assets	**557**	**526**	**553**	**873**	**779**	**1,014**	**1,320**	**1,392**
Gross intangible asset	1,401	6,344	6,350	7,320	7,366	7,366	7,366	7,366
Accumulated amortization	20	94	233	379	541	873	1,204	1,535
Net intangible asset	**1,382**	**6,250**	**6,116**	**6,941**	**6,825**	**6,494**	**6,162**	**5,831**
Goodwill on Consolidation	378	935	936	935	935	935	935	935
Capital WIP	1	0	7	44	16	553	361	297
Total Investments	**2,686**	**3,839**	**3,765**	**780**	**2,940**	**2,940**	**2,940**	**2,940**
Curr. Assets, Loans & Adv.	**2,263**	**2,046**	**2,711**	**4,244**	**4,849**	**7,742**	**12,067**	**17,393**
Inventory	558	654	827	695	945	1,066	1,224	1,416
Account Receivables	489	666	840	1,569	1,405	1,589	1,846	2,156
Cash and Bank Balance	24	106	75	673	383	2,692	6,217	10,574
Loans and Advances	1,192	618	970	1,307	2,116	2,394	2,780	3,247
Curr. Liability & Prov.	**1,004**	**1,420**	**3,328**	**2,054**	**2,088**	**2,359**	**2,725**	**3,168**
Account Payables	386	908	841	1,001	1,026	1,158	1,330	1,539
Other Current Liabilities	169	154	2,083	491	474	536	622	727
Provisions	450	358	404	562	588	665	773	902
Net Current Assets	**1,259**	**626**	**-617**	**2,190**	**2,761**	**5,383**	**9,342**	**14,225**
Appl. of Funds	**6,262**	**12,176**	**10,760**	**11,762**	**14,255**	**17,319**	**21,060**	**25,620**

Financial and valuations

Ratios

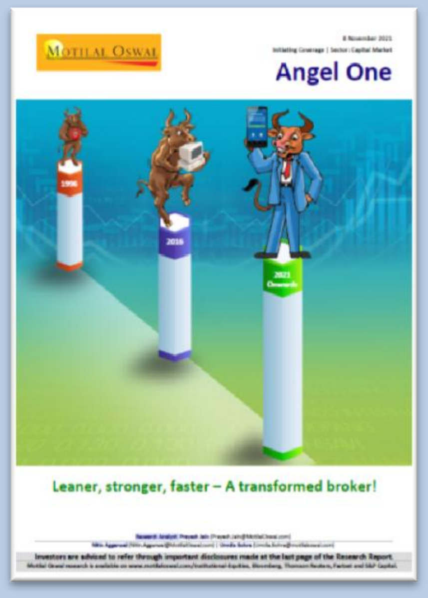
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
EPS	**17.6**	**22.8**	**21.2**	**21.5**	**25.8**	**28.3**	**34.2**	**41.2**
Cash EPS	19.3	24.6	23.8	25.2	29.0	33.1	39.4	46.8
BV/Share	41.2	62.6	83.7	94.3	114.7	136.9	164.2	197.3
DPS	0.0	0.0	0.0	2.9	5.5	6.0	7.0	8.0
Payout (%)	0.0	0.0	0.0	13.3	21.3	21.2	20.5	19.4
Valuation (x)								
P/E	39.0	30.2	32.5	31.9	26.6	24.3	20.1	16.7
Cash P/E	35.5	27.9	28.9	27.3	23.7	20.8	17.4	14.7
P/BV	16.7	11.0	8.2	7.3	6.0	5.0	4.2	3.5
EV/Sales	12.6	11.5	9.6	8.7	7.8	6.7	5.5	4.5
EV/EBITDA	35.2	28.9	27.4	25.5	21.9	18.8	15.2	12.2
Dividend Yield (%)	0.0	0.0	0.0	0.4	0.8	0.9	1.0	1.2
FCF per share	10.9	15.2	14.1	9.1	25.4	21.8	31.5	38.4
Return Ratios (%)								
RoE	55.9	43.8	28.9	24.2	24.7	22.5	22.7	22.8
RoCE	55.8	35.7	26.1	24.4	24.8	22.6	22.8	22.9
RoIC	99.3	50.6	37.4	33.1	32.9	34.2	40.3	47.1
Working Capital Ratios								
Inventory (Days)	27	28	31	24	28	28	28	28
Debtor (Days)	24	28	31	53	42	42	42	42
Creditor (Days)	19	39	31	34	31	31	30	30
Leverage Ratio (x)								
Net Debt/Equity	-0.5	0.0	-0.3	-0.1	-0.2	-0.3	-0.4	-0.5

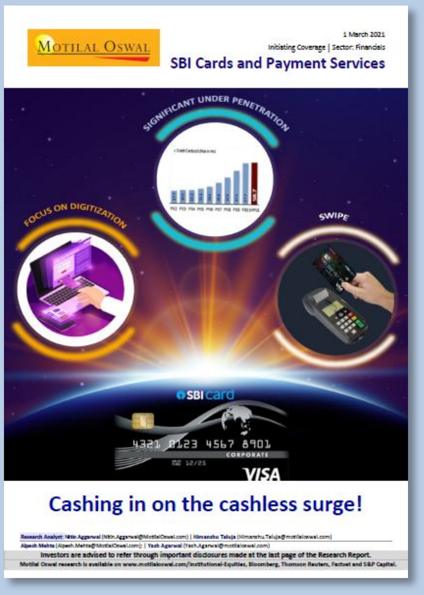
Consolidated - Cash Flow Statement **(INR m)**

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	2,704	3,122	3,174	3,314	3,945	4,371	5,227	6,289
Depreciation	228	256	364	503	430	659	718	773
Interest & Finance Charges	1	96	218	6	-5	-135	-150	-182
Direct Taxes Paid	-531	-696	-716	-518	-685	-481	-523	-629
(Inc)/Dec in WC	-165	-222	-532	-527	53	-313	-435	-526
CF from Operations	**2,237**	**2,557**	**2,506**	**2,777**	**3,738**	**4,101**	**4,838**	**5,725**
Others	-235	-211	-277	-66	16	0	0	0
CF from Operating incl EO	**2,002**	**2,346**	**2,230**	**2,712**	**3,754**	**4,101**	**4,838**	**5,725**
(Inc)/Dec in FA	-497	-251	-293	-1,458	-257	-1,100	-500	-450
Free Cash Flow	**1,505**	**2,096**	**1,937**	**1,254**	**3,497**	**3,001**	**4,338**	**5,275**
(Pur)/Sale of Investments	-1,100	-1,075	350	2,880	-2,946	0	0	0
Others	-241	-4,571	-108	-189	-17	165	175	205
CF from Investments	**-1,838**	**-5,896**	**-51**	**1,233**	**-3,220**	**-935**	**-325**	**-245**
Issue of Shares	0	0	9	0	0	0	0	0
Inc/(Dec) in Debt	-65	0	-2,002	-1,841	-59	0	0	0
Interest Paid	-2	-103	-217	-18	-18	-30	-25	-23
Dividend Paid	-169	0	0	-470	-747	-826	-963	-1,100
Others	0	3,735	0	-1,017	0	0	0	0
CF from Fin. Activity	**-237**	**3,632**	**-2,211**	**-3,346**	**-824**	**-856**	**-988**	**-1,123**
Inc/Dec of Cash	**-73**	**82**	**-31**	**598**	**-291**	**2,310**	**3,525**	**4,356**
Opening Balance	97	24	106	75	673	383	2,692	6,217
Closing Balance	**24**	**106**	**75**	**673**	**383**	**2,692**	**6,217**	**10,574**

REPORT GALLERY

RECENT INITIATING COVERAGE REPORTS





Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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