

August 8, 2022

Q1FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	825		850	
Sales (Rs. m)	17,071	19,206	16,813	19,197
% Chng.	1.5	-		
EBITDA (Rs. m)	5,625	6,560	5,674	6,728
% Chng.	(0.9)	(2.5)		
EPS (Rs.)	30.8	37.1	32.6	38.1
% Chng.	(5.5)	(2.6)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	12,119	13,470	17,071	19,206
EBITDA (Rs. m)	4,306	4,850	5,625	6,560
Margin (%)	35.5	36.0	33.0	34.2
PAT (Rs. m)	3,551	4,061	4,190	5,041
EPS (Rs.)	26.1	29.9	30.8	37.1
Gr. (%)	20.1	14.4	3.2	20.3
DPS (Rs.)	6.1	6.1	6.2	7.4
Yield (%)	0.9	0.9	0.9	1.1
RoE (%)	24.7	23.3	20.3	20.8
RoCE (%)	27.0	23.8	20.9	20.7
EV/Sales (x)	7.7	6.9	5.6	4.9
EV/EBITDA (x)	21.7	19.2	17.1	14.4
PE (x)	26.6	23.2	22.5	18.7
P/BV (x)	6.0	4.9	4.2	3.6

Key Data

ERIS.BO | ERIS IN

52-W High / Low	Rs.863 / Rs.600
Sensex / Nifty	58,388 / 17,398
Market Cap	Rs.94bn / \$ 1,192m
Shares Outstanding	136m
3M Avg. Daily Value	Rs.35.53m

Shareholding Pattern (%)

Promoter's	52.30
Foreign	15.35
Domestic Institution	10.36
Public & Others	21.99
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.3	(2.9)	(7.1)
Relative	(1.4)	(2.5)	(13.3)

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In-line FY23 guidance

Quick Pointers:

- Guided 30% revenue growth and 16-17% EBITDA growth for FY23.
- Expect "Glargine" launch in Q3FY23, in-licensed agreement with Biocon.

Eris Lifesciences (ERIS) reported moderate operating profit (up 2% YoY), due to higher promotional expenses from new launches. However, we believe benefits of operating leverage will play out, as revenue scales up from these launches. Further acquisition of Oaknet gives Eris an entry in the derma segment, currently operating at sub optimal profitability. Eris's turnaround of Strides acquired portfolio provides comfort for similar execution. Further, the company continues to outperform cardio metabolic market (60% of its total revenues) which expects robust growth over next 3-4 years with wide patent expiration opportunities. We cut our FY23/24E EPS estimates by 5%/3% and maintain 'BUY' rating at TP of Rs825, valuing 17x EV/EBITDA on FY24E.

- In-line Revenue:** ERIS grew by 8.1% YoY vs IPM growth of 2.1% in 1Q as per AIOCD. Revenue grew 14% YoY to Rs4bn v/s our estimates of Rs3.8bn, aided by Oaknet consolidation. Industry growth of Cardio-Metabolic market remained at 5.5%, while company's core Cardio-Metabolic segment grew by 11% YoY. During the quarter, company's emerging therapies i.e. Derma, CNS and Women's health contributed ~20% of revenue and grew by more than 25% each, while VMN segment grew at 9.9%. Oaknet contributed Rs315mn, while insulin contributed Rs21mn to total revenues.
- EBITDA below estimates; weak GMs:** EBITDA came in at Rs1.3bn (up 2.1% YoY and 33% QoQ) v/s our estimates of Rs1.4bn. Operating margins stood at 32.4% (down 380bp YoY) because of product mix. Gross margin was down by 110bp QoQ to 78.7% in Q1, while other expenses grew by 24% YoY. PAT came in at Rs946mn (down 11% YoY) v/s our estimates of Rs 1.1bn. Segment wise Oaknet reported EBITDA of Rs64mn (20.4% OPM), while insulin reported negative EBITDA of Rs58mn.
- Key concall takeaways:** (1) Company's Glimisave MV brand crosses Rs1bn revenues and expects to have other brands including Glimisave M, Zomelis and Renerve plus to garner Rs1bn revenue annually by end of FY23 (2) Guided revenue of Rs200m and EBITDA loss of Rs150mn for insulin business in FY23 (3) Strong rebound in Cardiometabolic market between Jun-Jul'22 may lead to higher growth (4) Eris has planned new launches for FY23 of which it has already launched a key product "Glura" a sitagliptin brand in July'22. It has several launches lined up in diabetes involving combinations of Vildagliptin, dapagliflozin, sitagliptin Glimepiride, pioglitazone and metformin (5) ERIS plans to launch Glargine in Q3FY23, for which it has entered into an in-licensing arrangement with Biocon and continues to invest in promotional activities. (6) Over next 2 quarters guided for 200bps dip in GMs as lot of new products are getting bunched up for launches. Overall guided for consolidated revenue growth of 30% and EBITDA growth of 16% to 17% including Oaknet in FY23.

Exhibit 1: 1QFY23 Result Overview (Rs mn): Weak gross margin impacted operating performance

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Net Sales	3,986	3,493	14.1	3,059	30.3
Raw Material	851	689	23.6	618	37.7
<i>% of Net Sales</i>	<i>21.3</i>	<i>19.7</i>		<i>20.2</i>	
Personnel Cost	786	655	20.0	622	26.4
<i>% of Net Sales</i>	<i>19.7</i>	<i>18.8</i>		<i>20.3</i>	
Others	1,057	884	19.6	851	24.3
<i>% of Net Sales</i>	<i>26.5</i>	<i>25.3</i>		<i>27.8</i>	
Total Expenditure	2,694	2,228	20.9	2,091	28.9
EBITDA	1,292	1,265	2.1	969	33.3
<i>Margin (%)</i>	<i>32.4</i>	<i>36.2</i>		<i>31.7</i>	
Depreciation	234	145	61.6	184	27.7
EBIT	1,058	1,120	(5.6)	785	34.7
Other Income	27	59	(53.3)	81	(66.0)
Interest	72	8		13	473.7
PBT	1,013	1,171	(13.5)	853	18.7
Total Taxes	82	104	(21.5)	54	52.7
<i>ETR (%)</i>	<i>8.1</i>	<i>8.9</i>		<i>6.3</i>	
Minority Income	(15)	0		(3)	
Reported PAT	946	1,066	(11.3)	803	17.8

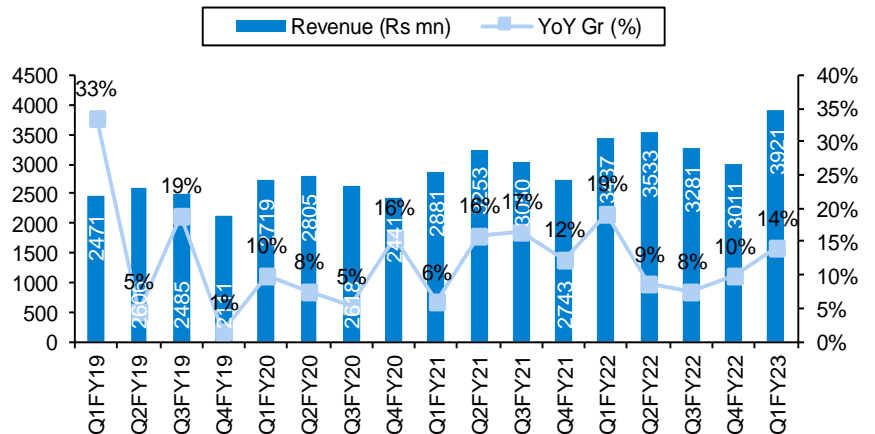
Source: Company, PL

Exhibit 2: Break up of Consolidated Sale of Products

Revenue Break up (Rs mn)	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
ERIS	2,913	2,777	2,482	2,974	3,116	2,946	2,753	3,288
Oaknet	-	-	-	-	-	-	-	315
APRICA	147	163	113	170	167	146	96	159
Human Insulin	-	-	-	-	-	-	13	21
EHPL	193	110	147	294	250	140	272	239
Other Adjustment							-75	-35
Consolidated	3,243	3,050	2,742	3,438	3,533	3,232	3,059	3,986

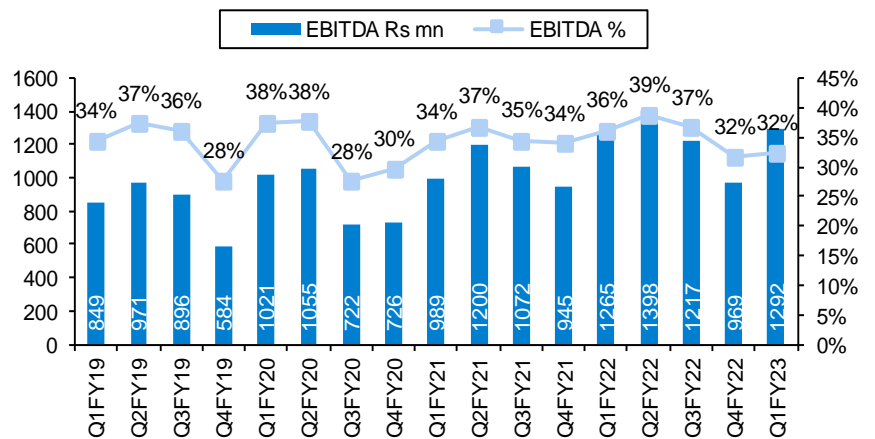
Source: Company, PL

Exhibit 3: Revenue (Rs m): growth driven by key brands



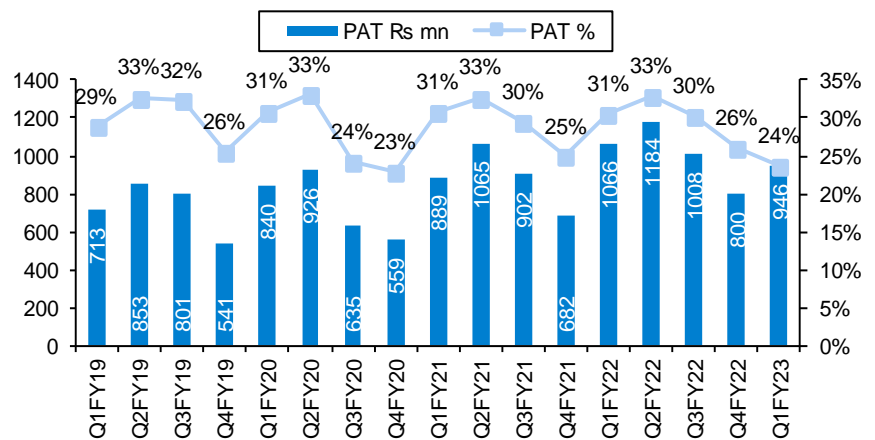
Source: Company, PL

Exhibit 4: EBITDA Margin (%) moderate EBITDA growth



Source: Company, PL

Exhibit 5: PAT (Rs m) YoY growth impacted due to weak gross margin



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	12,119	13,470	17,071	19,206
YoY gr. (%)	14.5	11.2	26.7	12.5
Cost of Goods Sold	2,383	2,585	3,070	3,183
Gross Profit	9,736	10,885	14,000	16,023
Margin (%)	80.3	80.8	82.0	83.4
Employee Cost	2,293	2,523	2,878	3,194
Other Expenses	3,137	3,513	5,498	6,269
EBITDA	4,306	4,850	5,625	6,560
YoY gr. (%)	22.2	12.6	16.0	16.6
Margin (%)	35.5	36.0	33.0	34.2
Depreciation and Amortization	430	647	938	944
EBIT	3,876	4,203	4,687	5,616
Margin (%)	32.0	31.2	27.5	29.2
Net Interest	18	41	157	100
Other Income	87	261	177	235
Profit Before Tax	3,945	4,422	4,708	5,751
Margin (%)	32.6	32.8	27.6	29.9
Total Tax	394	364	521	714
Effective tax rate (%)	10.0	8.2	11.1	12.4
Profit after tax	3,551	4,058	4,187	5,037
Minority interest	-	(3)	(3)	(3)
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,551	4,061	4,190	5,041
YoY gr. (%)	20.1	14.4	3.2	20.3
Margin (%)	29.3	30.1	24.5	26.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,551	4,061	4,190	5,041
YoY gr. (%)	20.1	14.4	3.2	20.3
Margin (%)	29.3	30.1	24.5	26.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,551	4,061	4,190	5,041
Equity Shares O/s (m)	136	136	136	136
EPS (Rs)	26.1	29.9	30.8	37.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	9,123	10,123	17,523	19,073
Tangibles	1,757	2,557	9,757	11,057
Intangibles	7,366	7,566	7,766	8,016
Acc: Dep / Amortization	1,519	2,166	3,023	3,967
Tangibles	978	1,298	1,883	2,547
Intangibles	541	868	1,140	1,421
Net fixed assets	7,604	7,957	14,500	15,106
Tangibles	779	1,259	7,874	8,510
Intangibles	6,825	6,698	6,626	6,595
Capital Work In Progress	16	270	258	251
Goodwill	935	935	935	935
Non-Current Investments	2,937	4,282	2,298	2,871
Net Deferred tax assets	1,511	1,970	1,970	1,970
Other Non-Current Assets	180	286	347	427
Current Assets				
Investments	504	995	995	995
Inventories	945	1,179	1,637	1,947
Trade receivables	1,405	1,610	2,105	2,368
Cash & Bank Balance	383	523	363	1,627
Other Current Assets	923	1,061	1,326	1,658
Total Assets	18,348	22,433	28,834	32,983
Equity				
Equity Share Capital	136	136	136	136
Other Equity	15,628	18,947	22,087	26,120
Total Networkth	15,764	19,083	22,223	26,256
Non-Current Liabilities				
Long Term borrowings	-	450	3,000	2,700
Provisions	313	321	241	181
Other non current liabilities	25	23	16	11
Current Liabilities				
ST Debt / Current of LT Debt	0	0	0	0
Trade payables	1,026	1,178	1,403	1,579
Other current liabilities	643	819	745	692
Total Equity & Liabilities	18,348	22,433	28,834	32,983

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	3,945	4,422	4,708	5,751
Add. Depreciation	430	647	938	944
Add. Interest	18	41	157	100
Less Financial Other Income	87	261	177	235
Add. Other	(7)	(196)	-	-
Op. profit before WC changes	4,386	4,915	5,803	6,795
Net Changes-WC	53	(299)	(1,417)	(1,142)
Direct tax	(685)	(833)	(612)	(748)
Net cash from Op. activities	3,754	3,783	3,774	4,905
Capital expenditures	(257)	(1,203)	(7,640)	(1,790)
Interest / Dividend Income	13	50	55	61
Others	(2,989)	(2,044)	2,000	(552)
Net Cash from Inv. activities	(3,234)	(3,196)	(5,585)	(2,281)
Issue of share cap. / premium	0	-	-	-
Debt changes	0	450	2,550	(300)
Dividend paid	(747)	(816)	(838)	(1,008)
Interest paid	(18)	(39)	157	100
Others	(46)	(56)	72	28
Net cash from Fin. activities	(811)	(461)	1,941	(1,180)
Net change in cash	(290)	126	130	1,444
Free Cash Flow	3,496	2,580	(3,866)	3,115

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	3,597	3,322	3,059	3,986
YoY gr. (%)	9.0	7.0	10.0	14.1
Raw Material Expenses	664	614	618	851
Gross Profit	2,933	2,707	2,441	3,135
Margin (%)	81.5	81.5	79.8	78.7
EBITDA	1,398	1,217	969	1,292
YoY gr. (%)	12.1	13.5	2.5	2.1
Margin (%)	38.9	36.6	31.7	32.4
Depreciation / Depletion	150	169	184	234
EBIT	1,249	1,048	785	1,058
Margin (%)	34.7	31.6	25.7	26.5
Net Interest	11	10	13	72
Other Income	70	52	81	27
Profit before Tax	1,308	1,090	853	1,013
Margin (%)	36.4	32.8	27.9	25.4
Total Tax	124	82	54	82
Effective tax rate (%)	9.5	7.5	6.3	8.1
Profit after Tax	1,184	1,008	800	931
Minority interest	-	-	-	(15)
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,184	1,008	800	946
YoY gr. (%)	9.9	11.8	17.2	(11.4)
Margin (%)	32.9	30.3	26.1	23.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,184	1,008	800	946
YoY gr. (%)	9.9	11.8	17.2	(11.4)
Margin (%)	32.9	30.3	26.1	23.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,184	1,008	800	946
Avg. Shares O/s (m)	138	138	138	138
EPS (Rs)	8.7	7.4	5.9	7.0

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	26.1	29.9	30.8	37.1
CEPS	29.3	34.7	37.7	44.0
BVPS	116.0	140.5	163.6	193.3
FCF	25.7	19.0	(28.5)	22.9
DPS	6.1	6.1	6.2	7.4
Return Ratio(%)				
RoCE	27.0	23.8	20.9	20.7
ROIC	25.9	23.9	19.8	20.1
RoE	24.7	23.3	20.3	20.8
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	0.1	-
Net Working Capital (Days)	40	44	50	52
Valuation(x)				
PER	26.6	23.2	22.5	18.7
P/B	6.0	4.9	4.2	3.6
P/CEPS	23.7	20.0	18.4	15.8
EV/EBITDA	21.7	19.2	17.1	14.4
EV/Sales	7.7	6.9	5.6	4.9
Dividend Yield (%)	0.9	0.9	0.9	1.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Top 25 Products	11,727	13,318	15,150	17,264
Top 10 Products	9,884	11,070	12,408	13,919
Next 15 Products	1,842	2,248	2,742	3,345
Ex-Top 25 products	5,483	6,195	7,001	7,911

Source: Company Data, PL Research

Price Chart
Recommendation History

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	3,884
2	Aster DM Healthcare	BUY	234	183
3	Aurobindo Pharma	Accumulate	635	544
4	Cipla	BUY	1,110	977
5	Divi's Laboratories	Accumulate	4,300	3,659
6	Dr. Reddy's Laboratories	BUY	4,750	4,260
7	Eris Lifesciences	BUY	850	643
8	Fortis Healthcare	BUY	330	238
9	Glenmark Pharmaceuticals	Accumulate	450	390
10	HealthCare Global Enterprises	BUY	347	274
11	Indoco Remedies	BUY	430	377
12	Ipca Laboratories	BUY	1,085	946
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,600	1,220
15	Lupin	Hold	600	660
16	Max Healthcare Institute	BUY	427	370
17	Narayana Hrudayalaya	BUY	773	639
18	Sun Pharmaceutical Industries	BUY	1,070	943
19	Torrent Pharmaceuticals	BUY	1,750	1,529
20	Zydus Lifesciences	BUY	450	366

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

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