

October 25, 2022

## Q2FY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	850		825	
Sales (Rs. m)	19,477	21,622	19,656	22,005
% Chng.	(0.9)	(1.7)		
EBITDA (Rs. m)	6,652	7,417	8,000	9,031
% Chng.	(16.8)	(17.9)		
EPS (Rs.)	37.0	41.7	50.3	64.8
% Chng.	(26.4)	(35.7)		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	13,470	17,185	19,477	21,622
EBITDA (Rs. m)	4,850	5,660	6,652	7,417
Margin (%)	36.0	32.9	34.2	34.3
PAT (Rs. m)	4,061	4,133	5,028	5,661
EPS (Rs.)	29.9	30.4	37.0	41.7
Gr. (%)	14.4	1.8	21.7	12.6
DPS (Rs.)	6.1	6.1	6.1	6.1
Yield (%)	0.8	0.8	0.8	0.8
RoE (%)	23.3	20.0	20.7	19.7
RoCE (%)	23.8	20.4	20.1	19.3
EV/Sales (x)	7.3	5.9	5.1	4.5
EV/EBITDA (x)	20.4	17.9	15.0	13.2
PE (x)	24.6	24.2	19.9	17.7
P/BV (x)	5.2	4.5	3.8	3.2

### Key Data

ERIS.BO | ERIS IN

52-W High / Low	Rs.856 / Rs.600
Sensex / Nifty	59,832 / 17,731
Market Cap	Rs.100bn/ \$ (2,14,68,26,273)m
Shares Outstanding	136m
3M Avg. Daily Value	Rs.41.2m

### Shareholding Pattern (%)

Promoter's	52.29
Foreign	15.39
Domestic Institution	10.38
Public & Others	21.94
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	6.1	6.4	(9.2)
Relative	3.0	0.7	(7.5)

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## In line quarter; Oaknet acquisition tracking well

### Quick Pointers:

- Cardio-metabolic therapy segment continues to beats IPM growth.
- Guided for 32-33% OPM in FY23.

**Eris Lifesciences (ERIS) reported moderate operating profit (up 5% 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 maintain our 'BUY' rating at TP of Rs850, valuing 16x EV/EBITDA on Sept FY24E.**

- In-line revenue aided by Oaknet consolidation:** ERIS grew by 19% YoY vs IPM growth of 13% in 2Q as per AIOCD. Revenue grew by 28% YoY to Rs4.6bn in-line with our estimates aided by Oaknet consolidation. Industry growth of Cardio-Metabolic market remained at 9.6%, while company's core Cardio-Metabolic segment grew by 16.4% YoY. During the quarter, company's emerging specialty therapies i.e. Derma, CNS and Women's health have contributed 21% of revenue and grew by 25% each, while VMN segment grew at 14.5%. Oaknet contributed Rs681mn, while insulin contributed Rs31mn to total revenues.
- In-line EBITDA:** EBITDA came in at Rs 1.5bn (up 8% YoY and 17% QoQ), in line with our estimates. Operating margins stood at 32.9% (down 600bp YoY, up 50bp QoQ). The YoY decline in margins was on account of lower GMs and higher employee expenses. Gross margin was down by 160bp QoQ to 77%, while employee expenses grew by 51% YoY vs revenue growth of 28%. Tax came in lower at 1%. Resultant PAT came in at Rs1.2bn (up 2% YoY) vs our estimates of Rs 1.1bn.
- Key concall takeaways: (1)** Oaknet deal turned out well and continued growth momentum in Q2FY23. Management is confident about achieving EBITDA of Rs 500mn in FY23 which is one year ahead of expectation. **(2)** ERIS expects market to grow by early to mid-teen growth rate with 5-6% from new products, 4-5% from price increase and 3-4% from volume growth. **(3)** The brand Zomelis and Gluxit group sustained its growth rate and improved its monthly sales run rate by Rs 90mn / Rs50mn and expects to grow faster than the legacy products. **(4)** Eris has planned for more than 15 new launches in FY23 including 5-6 significant launches and also lined up an interesting Derma-Cosme pipeline for launch starting Oct '22. **(5)** ERIS expects Rs 180-200 mn revenue in FY23 from its human insulin portfolio which will scale-up quickly with the schedule launch of Xglar (Glargine in-licensed from Biocon) in Oct'22. **(6)** Company guided for tax rate to be at 8-9% in FY23 with EBITDA margin between the range of 32-33% given higher investments in Oaknet, initial launch expenses of Glargin, MR additions.

**Exhibit 1: 2QFY23 Result Overview (Rs mn): Inline EBITDA**

Y/e March	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)	H1FY23	H1FY22	YoY gr. (%)
<b>Net Sales</b>	<b>4,605</b>	<b>3,597</b>	<b>28.0</b>	<b>3,986</b>	<b>15.5</b>	<b>8,591</b>	<b>7,089</b>	<b>21.2</b>
Raw Material	1,057	664	59.2	851	24.2	1,908	1,353	41.1
<i>% of Net Sales</i>	<i>23.0</i>	<i>18.5</i>		<i>21.3</i>		<i>22.2</i>	<i>19.1</i>	
Personnel Cost	952	630	51.2	786	21.1	1,738	1,285	35.3
<i>% of Net Sales</i>	<i>20.7</i>	<i>17.5</i>		<i>19.7</i>		<i>20.2</i>	<i>18.1</i>	
Others	1,082	905	19.5	1,057	2.4	2,139	1,789	19.6
<i>% of Net Sales</i>	<i>23.5</i>	<i>25.2</i>		<i>26.5</i>		<i>24.9</i>	<i>25.2</i>	
Total Expenditure	3,091	2,198	40.6	2,694	14.7	5,784	4,426	30.7
<b>EBITDA</b>	<b>1,514</b>	<b>1,398</b>	<b>8.3</b>	<b>1,292</b>	<b>17.2</b>	<b>2,807</b>	<b>2,663</b>	<b>5.4</b>
<i>Margin (%)</i>	<i>32.9</i>	<i>38.9</i>		<i>32.4</i>		<i>32.7</i>	<i>37.6</i>	
Depreciation	286	150	91.3	234	22.1	521	295	76.7
<b>EBIT</b>	<b>1,228</b>	<b>1,249</b>	<b>(1.6)</b>	<b>1,058</b>	<b>16.1</b>	<b>2,286</b>	<b>2,369</b>	<b>(3.5)</b>
Other Income	52	70	(25.9)	27	89.0	79	129	(38.4)
Interest	71	11	563.2	72	(2.2)	143	18	
<b>PBT</b>	<b>1,209</b>	<b>1,308</b>	<b>(7.5)</b>	<b>1,013</b>	<b>19.4</b>	<b>2,222</b>	<b>2,479</b>	<b>(10.4)</b>
Total Taxes	16	124	(87.4)	82	(81.0)	98	228	(57.3)
<i>ETR (%)</i>	<i>1.3</i>	<i>9.5</i>		<i>8.1</i>		<i>4.4</i>	<i>9.2</i>	
Minority Income	(9)	0		(15)		(24)	0	
<b>Reported PAT</b>	<b>1,203</b>	<b>1,184</b>	<b>1.6</b>	<b>946</b>	<b>27.2</b>	<b>2,149</b>	<b>2,250</b>	<b>(4.5)</b>

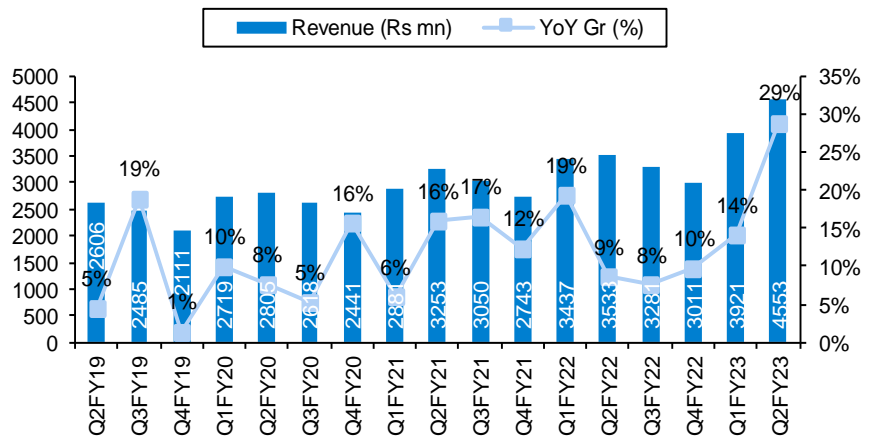
Source: Company, PL

**Exhibit 2: Break up of Consolidated Sale of Products**

Revenue Break up (Rs mn)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
ERIS	2,777	2,482	2,974	3,116	2,946	2,753	3,288	3,554
APRICA	163	113	170	167	146	96	159	169
Branded Formulations	2,940	2,560	3,144	3,283	3,092	2,849	3,447	3,723
Human Insulin	-	-	-	-	-	13	21	31
EHPL	110	147	294	250	140	272	239	208
Oaknet	-	-	-	-	-	-	351	681
Inter Company Sales	-	-	-	-	-	-	(35)	(39)
Consolidated	3,050	2,742	3,438	3,533	3,232	3,134	3,987	4,604

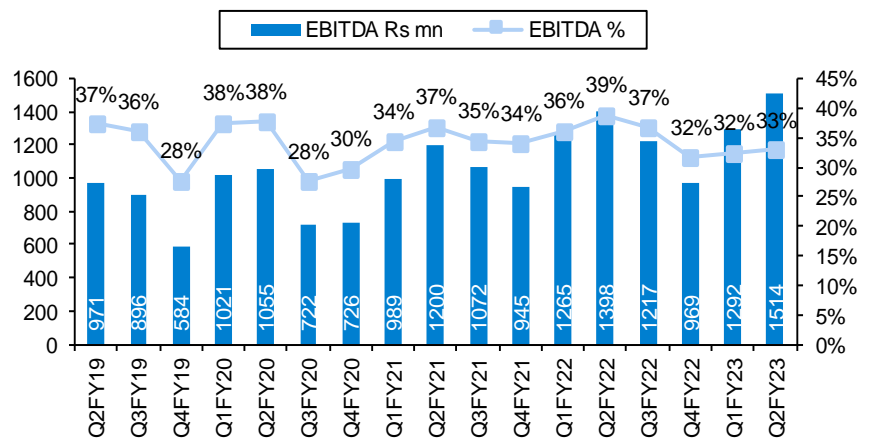
Source: Company, PL

**Exhibit 3: Revenue (Rs m): Top 15 brands continues to lead the growth**



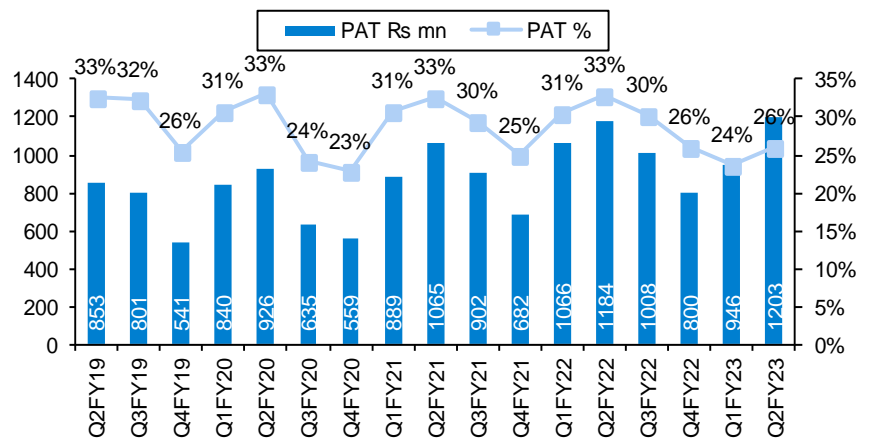
Source: Company, PL

**Exhibit 4: EBITDA Margin (%) YoY decline due to product mix**



Source: Company, PL

**Exhibit 5: PAT (Rs m) Inline PAT**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>13,470</b>	<b>17,185</b>	<b>19,477</b>	<b>21,622</b>
YoY gr. (%)	11.2	27.6	13.3	11.0
Cost of Goods Sold	2,585	3,778	4,188	4,652
Gross Profit	10,885	13,406	15,289	16,970
Margin (%)	80.8	78.0	78.5	78.5
Employee Cost	2,523	3,578	4,009	4,440
Other Expenses	3,513	4,169	4,627	5,113
<b>EBITDA</b>	<b>4,850</b>	<b>5,660</b>	<b>6,652</b>	<b>7,417</b>
YoY gr. (%)	12.6	16.7	17.5	11.5
Margin (%)	36.0	32.9	34.2	34.3
Depreciation and Amortization	647	1,093	1,192	1,350
<b>EBIT</b>	<b>4,203</b>	<b>4,567</b>	<b>5,460</b>	<b>6,067</b>
Margin (%)	31.2	26.6	28.0	28.1
Net Interest	41	293	280	200
Other Income	261	179	260	300
<b>Profit Before Tax</b>	<b>4,422</b>	<b>4,453</b>	<b>5,440</b>	<b>6,167</b>
Margin (%)	32.8	25.9	27.9	28.5
Total Tax	364	364	456	546
Effective tax rate (%)	8.2	8.2	8.4	8.9
<b>Profit after tax</b>	<b>4,058</b>	<b>4,089</b>	<b>4,984</b>	<b>5,621</b>
Minority interest	(3)	(44)	(44)	(40)
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>4,061</b>	<b>4,133</b>	<b>5,028</b>	<b>5,661</b>
YoY gr. (%)	14.4	1.8	21.7	12.6
Margin (%)	30.1	24.1	25.8	26.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>4,061</b>	<b>4,133</b>	<b>5,028</b>	<b>5,661</b>
YoY gr. (%)	14.4	1.8	21.7	12.6
Margin (%)	30.1	24.1	25.8	26.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,061	4,133	5,028	5,661
<b>Equity Shares O/s (m)</b>	<b>136</b>	<b>136</b>	<b>136</b>	<b>136</b>
<b>EPS (Rs)</b>	<b>29.9</b>	<b>30.4</b>	<b>37.0</b>	<b>41.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>10,123</b>	<b>17,523</b>	<b>19,273</b>	<b>21,523</b>
Tangibles	2,557	9,757	11,257	13,257
Intangibles	7,566	7,766	8,016	8,266
<b>Acc: Dep / Amortization</b>	<b>2,166</b>	<b>3,260</b>	<b>4,452</b>	<b>5,802</b>
Tangibles	1,298	2,119	3,031	4,092
Intangibles	868	1,140	1,421	1,710
<b>Net fixed assets</b>	<b>7,957</b>	<b>14,264</b>	<b>14,821</b>	<b>15,721</b>
Tangibles	1,259	7,638	8,226	9,165
Intangibles	6,698	6,626	6,595	6,556
Capital Work In Progress	270	258	251	246
Goodwill	935	935	935	935
Non-Current Investments	4,282	2,298	2,871	3,587
Net Deferred tax assets	1,970	1,970	1,970	1,970
Other Non-Current Assets	286	347	427	527
<b>Current Assets</b>				
Investments	995	995	995	995
Inventories	1,179	1,648	1,974	2,192
Trade receivables	1,610	2,119	2,401	2,666
Cash & Bank Balance	523	495	1,911	3,395
Other Current Assets	1,061	1,326	1,658	2,072
<b>Total Assets</b>	<b>22,433</b>	<b>28,859</b>	<b>33,251</b>	<b>38,327</b>
<b>Equity</b>				
Equity Share Capital	136	136	136	136
Other Equity	18,947	22,040	26,240	31,072
<b>Total Networkth</b>	<b>19,083</b>	<b>22,176</b>	<b>26,375</b>	<b>31,208</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	450	3,000	2,700	2,430
Provisions	321	241	181	135
Other non current liabilities	23	16	11	8
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	0	0	0	0
Trade payables	1,178	1,412	1,601	1,777
Other current liabilities	819	745	692	652
<b>Total Equity &amp; Liabilities</b>	<b>22,433</b>	<b>28,859</b>	<b>33,251</b>	<b>38,327</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	4,422	4,453	5,440	6,167
Add. Depreciation	647	1,093	1,192	1,350
Add. Interest	41	293	280	200
Less Financial Other Income	261	179	260	300
Add. Other	(196)	-	-	-
Op. profit before WC changes	4,915	5,839	6,912	7,717
Net Changes-WC	(299)	(1,432)	(1,165)	(1,281)
Direct tax	(833)	(579)	(707)	(802)
<b>Net cash from Op. activities</b>	<b>3,783</b>	<b>3,828</b>	<b>5,040</b>	<b>5,634</b>
Capital expenditures	(1,203)	(7,640)	(1,990)	(2,490)
Interest / Dividend Income	50	55	61	67
Others	(2,044)	2,000	(552)	(690)
<b>Net Cash from Inv. activities</b>	<b>(3,196)</b>	<b>(5,585)</b>	<b>(2,481)</b>	<b>(3,113)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	450	2,550	(300)	(270)
Dividend paid	(816)	(829)	(829)	(829)
Interest paid	(39)	293	280	200
Others	(56)	(289)	(212)	5
<b>Net cash from Fin. activities</b>	<b>(461)</b>	<b>1,725</b>	<b>(1,061)</b>	<b>(894)</b>
<b>Net change in cash</b>	<b>126</b>	<b>(32)</b>	<b>1,497</b>	<b>1,627</b>
Free Cash Flow	2,580	(3,812)	3,050	3,144

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Revenue</b>	<b>3,322</b>	<b>3,059</b>	<b>3,986</b>	<b>4,605</b>
YoY gr. (%)	7.0	10.0	14.1	28.0
Raw Material Expenses	614	618	851	1,057
Gross Profit	2,707	2,441	3,135	3,548
Margin (%)	81.5	79.8	78.7	77.0
<b>EBITDA</b>	<b>1,217</b>	<b>969</b>	<b>1,292</b>	<b>1,514</b>
YoY gr. (%)	13.5	2.5	2.1	8.3
Margin (%)	36.6	31.7	32.4	32.9
Depreciation / Depletion	169	184	234	286
<b>EBIT</b>	<b>1,048</b>	<b>785</b>	<b>1,058</b>	<b>1,228</b>
Margin (%)	31.6	25.7	26.5	26.7
Net Interest	10	13	72	71
Other Income	52	81	27	52
<b>Profit before Tax</b>	<b>1,090</b>	<b>853</b>	<b>1,013</b>	<b>1,209</b>
Margin (%)	32.8	27.9	25.4	26.3
Total Tax	82	54	82	16
Effective tax rate (%)	7.5	6.3	8.1	1.3
<b>Profit after Tax</b>	<b>1,008</b>	<b>800</b>	<b>931</b>	<b>1,194</b>
Minority interest	-	-	(15)	(9)
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,008</b>	<b>800</b>	<b>946</b>	<b>1,203</b>
YoY gr. (%)	11.8	17.2	(11.4)	1.6
Margin (%)	30.3	26.1	23.7	26.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,008</b>	<b>800</b>	<b>946</b>	<b>1,203</b>
YoY gr. (%)	11.8	17.2	(11.4)	1.6
Margin (%)	30.3	26.1	23.7	26.1
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,008</b>	<b>800</b>	<b>946</b>	<b>1,203</b>
Avg. Shares O/s (m)	138	138	138	138
<b>EPS (Rs)</b>	<b>7.4</b>	<b>5.9</b>	<b>7.0</b>	<b>8.9</b>

Source: Company Data, PL Research

**Key Financial Metrics**

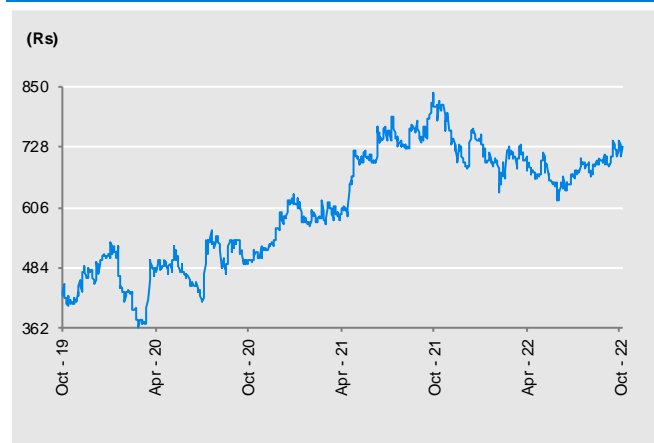
Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	29.9	30.4	37.0	41.7
CEPS	34.7	38.5	45.8	51.6
BVPS	140.5	163.2	194.1	229.7
FCF	19.0	(28.1)	22.4	23.1
DPS	6.1	6.1	6.1	6.1
<b>Return Ratio(%)</b>				
RoCE	23.8	20.4	20.1	19.3
ROIC	23.9	20.1	20.7	20.5
RoE	23.3	20.0	20.7	19.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	0.1	0.0	(0.1)
Net Working Capital (Days)	44	50	52	52
<b>Valuation(x)</b>				
PER	24.6	24.2	19.9	17.7
P/B	5.2	4.5	3.8	3.2
P/CEPS	21.2	19.1	16.1	14.3
EV/EBITDA	20.4	17.9	15.0	13.2
EV/Sales	7.3	5.9	5.1	4.5
Dividend Yield (%)	0.8	0.8	0.8	0.8

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY22	FY23E	FY24E	FY25E
Top 25 Products	13,318	15,150	17,264	19,708
Top 10 Products	11,070	12,408	13,919	15,626
Next 15 Products	2,248	2,742	3,345	4,081
Ex-Top 25 products	6,195	7,001	7,911	8,939

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	825	732
2	08-Aug-22	BUY	825	695
3	07-Jul-22	BUY	850	643
4	05-May-22	BUY	850	670
5	08-Apr-22	BUY	880	714
6	31-Jan-22	BUY	880	695
7	07-Jan-22	BUY	954	753
8	06-Dec-21	BUY	954	705
9	02-Nov-21	BUY	954	813

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	4,391
2	Aster DM Healthcare	BUY	234	249
3	Aurobindo Pharma	Accumulate	635	535
4	Cipla	BUY	1,110	1,131
5	Divi's Laboratories	Accumulate	4,140	3,727
6	Dr. Reddy's Laboratories	BUY	4,750	4,420
7	Eris Lifesciences	BUY	825	732
8	Fortis Healthcare	BUY	330	266
9	Glenmark Pharmaceuticals	Accumulate	450	401
10	HealthCare Global Enterprises	BUY	358	291
11	Indoco Remedies	BUY	430	336
12	Ipca Laboratories	Accumulate	1,000	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,550	1,467
15	Lupin	Hold	600	721
16	Max Healthcare Institute	BUY	427	414
17	Narayana Hrudayalaya	BUY	810	715
18	Sun Pharmaceutical Industries	BUY	1,070	945
19	Torrent Pharmaceuticals	BUY	1,850	1,579
20	Zydus Lifesciences	BUY	425	409

**PL's Recommendation Nomenclature (Absolute Performance)**

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



## ANALYST CERTIFICATION

### (Indian Clients)

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