

March 17, 2023

## Event Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	780		850	
Sales (Rs. m)	20,552	22,901	19,470	21,614
% Chng.	5.6	6.0		
EBITDA (Rs. m)	6,981	7,937	6,600	7,407
% Chng.	5.8	7.2		
EPS (Rs.)	33.4	39.6	36.3	41.2
% Chng.	(8.0)	(3.9)		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	13,470	17,131	20,552	22,901
EBITDA (Rs. m)	4,850	5,563	6,981	7,937
Margin (%)	36.0	32.5	34.0	34.7
PAT (Rs. m)	4,061	4,042	4,534	5,385
EPS (Rs.)	29.9	29.8	33.4	39.6
Gr. (%)	14.4	(0.5)	12.2	18.8
DPS (Rs.)	6.1	6.1	6.1	6.1
Yield (%)	1.0	1.0	1.0	1.0
RoE (%)	23.3	19.6	19.0	19.2
RoCE (%)	23.8	17.4	17.0	17.9
EV/Sales (x)	5.8	5.1	4.2	3.6
EV/EBITDA (x)	16.2	15.6	12.2	10.5
PE (x)	19.6	19.7	17.6	14.8
P/BV (x)	4.2	3.6	3.1	2.6

### Key Data

ERIS.BO | ERIS IN

52-W High / Low	Rs.750 / Rs.580
Sensex / Nifty	57,635 / 16,986
Market Cap	Rs.80bn / \$ 963m
Shares Outstanding	136m
3M Avg. Daily Value	Rs.27.06m

### 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	(9.2)	(18.0)	(19.6)
Relative	(3.4)	(16.3)	(20.8)

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## Enhancing broad based offerings in derma

**Eris Lifesciences (ERIS) acquisition of nine derma brands from Dr Reddy along with recent acquisition of brands from Glenmark will provide them comprehensive offerings in dermatology. In the near term, this acquisition will increase ERIS net debt and we see this acquisition as EPS dilutive. We downgrade our FY24E and FY25E EPS estimates by 9% and 3% each, given higher depreciation and interest cost. The company has multiple growth levers such as broad based offerings in derma segment, opportunities in cardio metabolic market with patent expirations and benefits of operating leverage, as revenue scales up from these acquisitions which is currently operating at sub optimal profitability. We maintain our 'BUY' rating with revised TP of Rs780 (Rs850 earlier), valuing 14x EV/EBITDA on FY25E.**

- Contours of the transaction:** ERIS has announced to acquire nine derma brands of Dr. Reddy's (DRRD) along with its line extensions for cash consideration of Rs 2.75bn. These nine brands reported ~Rs500mn of revenues in FY23, indicating acquisition cost works out at 5.5x sales. The acquisition will help ERIS to augment and expand the cosmetic dermatology business through its product offerings. As per AWACS, these brands reported revenues of Rs 528mn in FY21, Rs 616mn in FY22 and Rs 621mn in FY23 (till Feb'23). The transaction will be funded by external borrowings and expected to complete by end of March'23.
- Broad based offerings in derma segment:** In FY23, ERIS has done three acquisitions – all in dermatology segments - 1) 100% stake in Oaknet Healthcare (Derma+ cosmetology), 2) Top 9 brands of medicated derma products from GNP and 3) 9 brands of cosmetic products from DRRD. Overall spend Rs12.7bn towards these acquisitions. ERIS have successfully scale up profitability of Oaknet portfolio within its one year of acquisition at 25% OPM (2x growth). Guided for +Rs4bn of topline across these portfolios with +34-35% OPM in FY24E.
- Key concall takeaways: (1)** The acquisition of brands from GNP enhances ERIS's presence in medical dermatology (antifungal/anti-psoriasis) while acquisition of brands from DRRD enhances presence in high growing cosmetic segment. On consolidation of derma portfolio ERIS will rank at no.3 in derma covered market with 7% market share. **(2)** Acrofy, AcquaDerm, Avarta, HydroHeal, Revibra are the key acquired brands from DRRD. Out of these 9 brands acquired, three brand consists revenue of +Rs 100mn **(3)** ERIS will be adding one more division which will market cosmetic brands with likely addition of 50 MR **(4)** The deal will be funded by external debt at 8-8.5% cost of debt. Mgmt sees net debt of Rs8.5bn by end of FY23. **(5)** The acquired brands from GNP and DRRD enjoys 78-80% gross margin. Overall mgmt. sees corporate level margins of entire derma portfolio in FY24 **(8)** ERIS target to achieve 15-20% revenue CAGR of these acquired derma brands over next 3-4 years and evaluating to manufacture them in house at its Gujarat plant.

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>13,470</b>	<b>17,131</b>	<b>20,552</b>	<b>22,901</b>
YoY gr. (%)	11.2	27.2	20.0	11.4
Cost of Goods Sold	2,585	3,728	4,334	4,864
Gross Profit	10,885	13,402	16,218	18,038
Margin (%)	80.8	78.2	78.9	78.8
Employee Cost	2,523	3,498	4,267	4,683
Other Expenses	3,513	4,341	4,970	5,418
<b>EBITDA</b>	<b>4,850</b>	<b>5,563</b>	<b>6,981</b>	<b>7,937</b>
YoY gr. (%)	12.6	14.7	25.5	13.7
Margin (%)	36.0	32.5	34.0	34.7
Depreciation and Amortization	647	1,160	1,499	1,613
<b>EBIT</b>	<b>4,203</b>	<b>4,404</b>	<b>5,481</b>	<b>6,324</b>
Margin (%)	31.2	25.7	26.7	27.6
Net Interest	41	273	640	500
Other Income	261	121	80	140
<b>Profit Before Tax</b>	<b>4,422</b>	<b>4,252</b>	<b>4,921</b>	<b>5,964</b>
Margin (%)	32.8	24.8	23.9	26.0
Total Tax	364	254	432	619
Effective tax rate (%)	8.2	6.0	8.8	10.4
<b>Profit after tax</b>	<b>4,058</b>	<b>3,998</b>	<b>4,490</b>	<b>5,345</b>
Minority interest	(3)	(44)	(44)	(40)
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>4,061</b>	<b>4,042</b>	<b>4,534</b>	<b>5,385</b>
YoY gr. (%)	14.4	(0.5)	12.2	18.8
Margin (%)	30.1	23.6	22.1	23.5
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>4,061</b>	<b>4,042</b>	<b>4,534</b>	<b>5,385</b>
YoY gr. (%)	14.4	(0.5)	12.2	18.8
Margin (%)	30.1	23.6	22.1	23.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,061	4,042	4,534	5,385
<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>29.8</b>	<b>33.4</b>	<b>39.6</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>23,673</b>	<b>25,423</b>	<b>27,173</b>
Tangibles	2,557	15,907	17,407	18,907
Intangibles	7,566	7,766	8,016	8,266
<b>Acc: Dep / Amortization</b>	<b>2,166</b>	<b>3,777</b>	<b>5,276</b>	<b>6,889</b>
Tangibles	1,298	2,637	3,856	5,179
Intangibles	868	1,140	1,421	1,710
<b>Net fixed assets</b>	<b>7,957</b>	<b>19,896</b>	<b>20,147</b>	<b>20,284</b>
Tangibles	1,259	13,270	13,551	13,728
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	1,643	2,083	2,322
Trade receivables	1,610	2,112	2,534	2,823
Cash & Bank Balance	523	779	751	2,239
Other Current Assets	1,061	1,326	1,658	2,072
<b>Total Assets</b>	<b>22,433</b>	<b>34,821</b>	<b>37,716</b>	<b>42,078</b>
<b>Equity</b>				
Equity Share Capital	136	136	136	136
Other Equity	18,947	21,949	25,609	30,206
<b>Total Networkth</b>	<b>19,083</b>	<b>22,085</b>	<b>25,745</b>	<b>30,342</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	450	9,000	7,650	6,885
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	1,408	1,689	1,882
Other current liabilities	819	745	692	652
<b>Total Equity &amp; Liabilities</b>	<b>22,433</b>	<b>34,821</b>	<b>37,716</b>	<b>42,078</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	4,422	4,252	4,921	5,964
Add. Depreciation	647	1,160	1,499	1,613
Add. Interest	41	273	640	500
Less Financial Other Income	261	121	80	140
Add. Other	(196)	-	-	-
Op. profit before WC changes	4,915	5,685	7,061	8,077
Net Changes-WC	(299)	(1,425)	(1,326)	(1,310)
Direct tax	(833)	(553)	(640)	(775)
<b>Net cash from Op. activities</b>	<b>3,783</b>	<b>3,707</b>	<b>5,095</b>	<b>5,992</b>
Capital expenditures	(1,203)	(13,790)	(1,990)	(1,990)
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>(11,735)</b>	<b>(2,481)</b>	<b>(2,613)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	450	8,550	(1,350)	(765)
Dividend paid	(816)	(829)	(829)	(829)
Interest paid	(39)	273	640	500
Others	(56)	(289)	(212)	5
<b>Net cash from Fin. activities</b>	<b>(461)</b>	<b>7,705</b>	<b>(1,751)</b>	<b>(1,089)</b>
<b>Net change in cash</b>	<b>126</b>	<b>(323)</b>	<b>863</b>	<b>2,289</b>
Free Cash Flow	2,580	(10,083)	3,105	4,002

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Net Revenue</b>	<b>3,059</b>	<b>3,986</b>	<b>4,605</b>	<b>4,233</b>
YoY gr. (%)	10.0	14.1	28.0	27.4
Raw Material Expenses	618	851	1,057	888
Gross Profit	2,441	3,135	3,548	3,345
Margin (%)	79.8	78.7	77.0	79.0
<b>EBITDA</b>	<b>969</b>	<b>1,292</b>	<b>1,514</b>	<b>1,372</b>
YoY gr. (%)	2.5	2.1	8.3	12.7
Margin (%)	31.7	32.4	32.9	32.4
Depreciation / Depletion	184	234	286	299
<b>EBIT</b>	<b>785</b>	<b>1,058</b>	<b>1,228</b>	<b>1,073</b>
Margin (%)	25.7	26.5	26.7	25.4
Net Interest	13	72	71	30
Other Income	81	27	52	22
<b>Profit before Tax</b>	<b>853</b>	<b>1,013</b>	<b>1,209</b>	<b>1,065</b>
Margin (%)	27.9	25.4	26.3	25.2
Total Tax	54	82	16	63
Effective tax rate (%)	6.3	8.1	1.3	5.9
<b>Profit after Tax</b>	<b>800</b>	<b>931</b>	<b>1,194</b>	<b>1,002</b>
Minority interest	-	(15)	(9)	(16)
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>800</b>	<b>946</b>	<b>1,203</b>	<b>1,019</b>
YoY gr. (%)	17.2	(11.4)	1.6	1.1
Margin (%)	26.1	23.7	26.1	24.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>800</b>	<b>946</b>	<b>1,203</b>	<b>1,019</b>
YoY gr. (%)	17.2	(11.4)	1.6	1.1
Margin (%)	26.1	23.7	26.1	24.1
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>800</b>	<b>946</b>	<b>1,203</b>	<b>1,019</b>
Avg. Shares O/s (m)	138	138	138	138
<b>EPS (Rs)</b>	<b>5.9</b>	<b>7.0</b>	<b>8.9</b>	<b>7.5</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	29.9	29.8	33.4	39.6
CEPS	34.7	38.3	44.4	51.5
BVPS	140.5	162.6	189.5	223.3
FCF	19.0	(74.2)	22.9	29.5
DPS	6.1	6.1	6.1	6.1
<b>Return Ratio(%)</b>				
RoCE	23.8	17.4	17.0	17.9
ROIC	23.9	17.6	16.4	17.7
RoE	23.3	19.6	19.0	19.2
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	0.3	0.2	0.1
Net Working Capital (Days)	44	50	52	52
<b>Valuation(x)</b>				
PER	19.6	19.7	17.6	14.8
P/B	4.2	3.6	3.1	2.6
P/CEPS	16.9	15.3	13.2	11.4
EV/EBITDA	16.2	15.6	12.2	10.5
EV/Sales	5.8	5.1	4.2	3.6
Dividend Yield (%)	1.0	1.0	1.0	1.0

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	18-Jan-23	BUY	850	652
2	06-Jan-23	BUY	850	647
3	25-Oct-22	BUY	850	736
4	06-Oct-22	BUY	825	732
5	08-Aug-22	BUY	825	695
6	07-Jul-22	BUY	850	643
7	05-May-22	BUY	850	670
8	08-Apr-22	BUY	880	714

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,488
2	Aster DM Healthcare	BUY	265	228
3	Aurobindo Pharma	BUY	565	469
4	Cipla	BUY	1,070	906
5	Divi's Laboratories	Hold	2,700	2,884
6	Dr. Reddy's Laboratories	BUY	4,900	4,201
7	Eris Lifesciences	BUY	850	652
8	Fortis Healthcare	BUY	360	272
9	Glenmark Pharmaceuticals	Accumulate	460	423
10	HealthCare Global Enterprises	BUY	375	282
11	Indoco Remedies	BUY	430	363
12	Ipca Laboratories	Hold	865	863
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,965
14	Krishna Institute of Medical Sciences	BUY	1,660	1,469
15	Lupin	Hold	675	737
16	Max Healthcare Institute	BUY	500	436
17	Narayana Hrudayalaya	BUY	965	719
18	Sun Pharmaceutical Industries	BUY	1,175	1,035
19	Torrent Pharmaceuticals	BUY	1,820	1,557
20	Zydus Lifesciences	Accumulate	480	435

**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



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