

November 9, 2023

## Q2FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,050		910	
Sales (Rs.m)	20,122	23,663	20,122	22,700
% Chng.	-	4.2		
EBITDA (Rs.m)	7,031	8,429	7,031	8,104
% Chng.	-	4.0		
EPS (Rs.)	29.6	32.4	29.5	33.2
% Chng.	0.4	(2.3)		

### Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	16,852	20,122	23,663	26,711
EBITDA (Rs. m)	5,368	7,031	8,429	9,775
Margin (%)	31.9	34.9	35.6	36.6
PAT (Rs. m)	3,822	4,027	4,413	5,740
EPS (Rs.)	28.1	29.6	32.4	42.2
Gr. (%)	(6.0)	5.4	9.6	30.1
DPS (Rs.)	6.1	7.0	7.0	9.0
Yield (%)	0.7	0.8	0.8	1.0
RoE (%)	18.6	17.1	16.5	18.7
RoCE (%)	16.9	16.5	19.0	21.9
EV/Sales (x)	7.8	6.6	5.4	4.7
EV/EBITDA (x)	24.5	18.8	15.3	12.7
PE (x)	32.5	30.8	28.1	21.6
P/BV (x)	5.6	5.0	4.4	3.8

### Key Data

### ERIS.BO | ERIS IN

52-W High / Low	Rs.972 / Rs.551	
Sensex / Nifty	64,832 / 19,395	
Market Cap	Rs.124bn/ \$ 1,490m	
Shares Outstanding	136m	
3M Avg. Daily Value	Rs.127.7m	

### Shareholding Pattern (%)

Promoter's	54.91
Foreign	13.20
Domestic Institution	14.52
Public & Others	17.37
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	3.6	45.5	28.6
Relative	4.7	38.6	21.1

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# Eris Lifesciences (ERIS IN)

Rating: BUY | CMP: Rs912 | TP: Rs1,050

## In-line EBITDA; Strengthening its derma portfolio

### Quick Pointers:

- Signed agreement with Biocon Biologics to strengthen presence in Nephrology & Derma space.
- Reiterated guidance of Rs20-21bn revenue with EBITDA of Rs7bn in FY24.

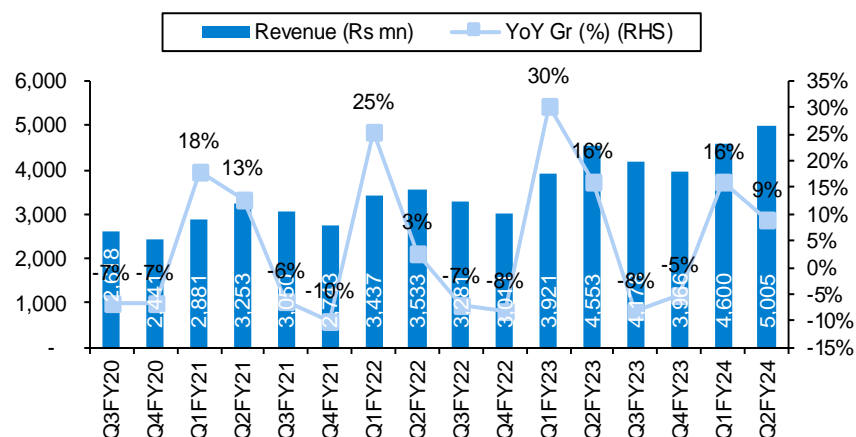
**Eris Lifesciences (ERIS) Q2FY24 reported healthy EBITDA of Rs1.8bn (up 21% YoY) with sharp improvement in OPM at 35.8% (up 300bps YoY). We expect margins to sustain as revenue scales up from recent acquisitions which is currently operating at sub optimal profitability. The company has multiple growth 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. We maintain our 'BUY' rating with revised TP of Rs1,050 (Rs910 earlier), valuing 16x EV/EBITDA on Sept 2025E as we roll forward.**

- In line revenues, up 10% YoY:** ERIS's performance was driven by derma acquisitions. Overall branded formulation business grew by 13% aided by acquired derma portfolio. Mgmt cited 7-8% organic growth. During 1HFY24 revenues from insulin business stood at Rs 190mn.
- Another quarter of strong EBITDA margins:** On operational front EBITDA came in at Rs 1.8bn (up 20% YoY and 7% QoQ). EBITDA margins improved YoY and stood at 35.8% (up 390bps YoY). The YoY improvement was largely due to higher GMs and scale up in Oaknet's profitability. Gross margin increased YoY, by 430bps to 81.1% during the quarter on account of better product mix. PAT came in at Rs1.2bn (up 3% YoY); against our estimate of Rs 1.1bn. Tax came in lower at 3%. Depreciation & finance charges came in higher as expected reflecting recent acquisitions.
- Key concall takeaways: New acquisition:** Eris has signed a definitive agreement to acquire the dermatology & nephrology businesses of Biocon Biologics for Rs3.7bn. The same will be funded through a mix of debt Rs2.8bn and remaining through internal accruals. Current revenue run rate of overall portfolio stood at Rs 1bn with ~22% OPM. The deal is likely to position Eris in 2<sup>nd</sup> position in psoriasis with 11% market share. Guided for +30% OPM from FY25 and will be EPS accretive from FY26. **Business mix:** Ramp up of its injectable anti-diabetes franchise remains on track. Margin improvement through Derma in-sourcing is likely to start from Q4 FY24. Received DCGI approval for 2 R&D products Gliclazide-Dapagliflozin and Gliclazide-Sitagliptin, (first in market combination) with launch expected in Q3FY24. **Launched** four new cosmetic derma products in Q2, including Hydroheal Nova, Efatop Hydra and Crisanew. Re-launched 2 products, Linares and FCM injection during the quarter. Commercial production of its Derma block at Ahmedabad facility to commence in Q4FY24. Reiterated **annual guidance** of Rs20-21bn revenue with EBITDA of Rs7-7.1bn in FY24. Net debt stood at Rs6.2bn vs Rs 6.7bn as of Q1FY23 end.

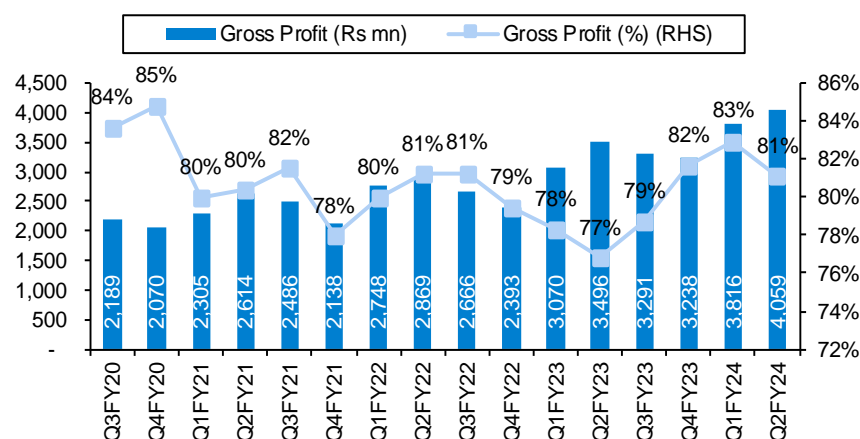
**Exhibit 1: Q2FY24 Result Overview (Rs mn): EBITDA in line**

Y/e March	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	1HY24	1HY23	YoY gr. (%)
<b>Net Sales</b>	<b>5,053</b>	<b>4,605</b>	<b>9.7</b>	<b>4,666</b>	<b>8.3</b>	<b>9,719</b>	<b>8,591</b>	<b>13.1</b>
Raw Material	946	1,057	(10.5)	784	20.7	1,730	1,908	(9.3)
<i>% of Net Sales</i>	<i>18.7</i>	<i>23.0</i>		<i>16.8</i>		<i>17.8</i>	<i>22.2</i>	
Personnel Cost	985	952	3.5	1,041	(5.3)	2,026	1,738	16.6
<i>% of Net Sales</i>	<i>19.5</i>	<i>20.7</i>		<i>22.3</i>		<i>20.8</i>	<i>20.2</i>	
Others	1,310	1,082	21.1	1,143	14.6	2,453	2,139	14.7
<i>% of Net Sales</i>	<i>25.9</i>	<i>23.5</i>		<i>24.5</i>		<i>25.2</i>	<i>24.9</i>	
Total Expenditure	3,242	3,091	4.9	2,968	9.2	6,210	5,784	7.3
<b>EBITDA</b>	<b>1,811</b>	<b>1,514</b>	<b>19.6</b>	<b>1,698</b>	<b>6.7</b>	<b>3,510</b>	<b>2,807</b>	<b>25.1</b>
<i>Margin (%)</i>	<i>35.8</i>	<i>32.9</i>		<i>36.4</i>		<i>36.1</i>	<i>32.7</i>	
Depreciation	421	286	47.1	409	2.9	830	521	59.4
<b>EBIT</b>	<b>1,391</b>	<b>1,228</b>	<b>13.2</b>	<b>1,289</b>	<b>7.9</b>	<b>2,680</b>	<b>2,286</b>	<b>17.2</b>
Other Income	35	52	(32.7)	10	248.1	45	79	(43.4)
Interest	163	71	130.5	174	(6.4)	337	143	
<b>PBT</b>	<b>1,262</b>	<b>1,209</b>	<b>4.4</b>	<b>1,125</b>	<b>12.2</b>	<b>2,388</b>	<b>2,222</b>	<b>7.5</b>
Total Taxes	39	16	152.2	188	(79.1)	227	98	133.0
<i>ETR (%)</i>	<i>3.1</i>	<i>1.3</i>		<i>16.7</i>		<i>9.5</i>	<i>4.4</i>	
Minority Income	(11)	(9)		(12)		(23)	(24)	
<b>Reported PAT</b>	<b>1,234</b>	<b>1,203</b>	<b>2.6</b>	<b>949</b>	<b>30.0</b>	<b>2,184</b>	<b>2,149</b>	<b>1.6</b>

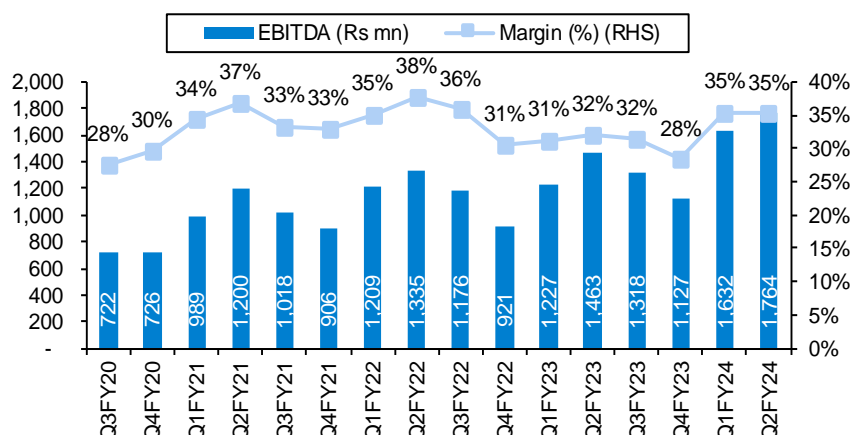
Source: Company, PL

**Exhibit 2: Steady performance from branded formulation business**


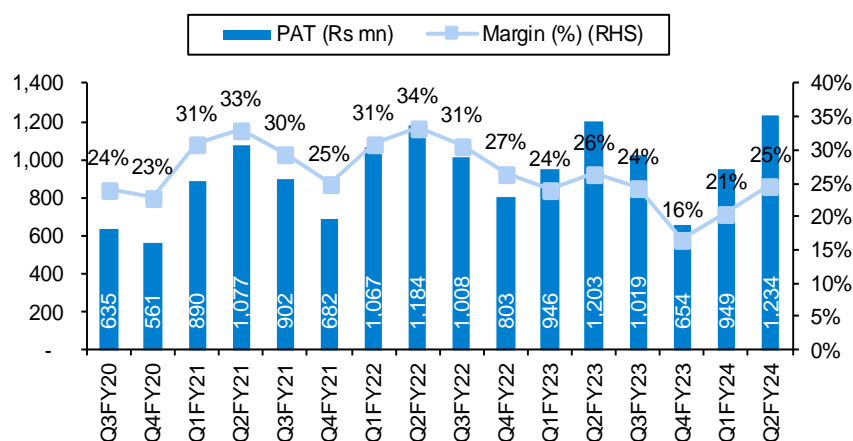
Source: Company, PL

**Exhibit 3: Better product mix helped margins YoY**


Source: Company, PL

**Exhibit 4: Higher GMs and Oaknet's profitability aided better EBITDA**


Source: Company, PL

**Exhibit 5: Higher profitability YoY led by recent acquisitions**


Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>16,852</b>	<b>20,122</b>	<b>23,663</b>	<b>26,711</b>
YoY gr. (%)	25.1	19.4	17.6	12.9
Cost of Goods Sold	3,524	3,662	4,259	4,808
Gross Profit	13,329	16,460	19,404	21,903
Margin (%)	79.1	81.8	82.0	82.0
Employee Cost	3,462	4,327	5,149	5,767
Other Expenses	4,499	5,102	5,826	6,361
<b>EBITDA</b>	<b>5,368</b>	<b>7,031</b>	<b>8,429</b>	<b>9,775</b>
YoY gr. (%)	10.7	31.0	19.9	16.0
Margin (%)	31.9	34.9	35.6	36.6
Depreciation and Amortization	1,171	1,736	1,918	2,005
<b>EBIT</b>	<b>4,197</b>	<b>5,295</b>	<b>6,511</b>	<b>7,770</b>
Margin (%)	24.9	26.3	27.5	29.1
Net Interest	262	748	819	396
Other Income	112	100	60	100
<b>Profit Before Tax</b>	<b>4,047</b>	<b>4,647</b>	<b>5,752</b>	<b>7,474</b>
Margin (%)	24.0	23.1	24.3	28.0
Total Tax	305	697	1,409	1,794
Effective tax rate (%)	7.5	15.0	24.5	24.0
<b>Profit after tax</b>	<b>3,742</b>	<b>3,950</b>	<b>4,343</b>	<b>5,680</b>
Minority interest	(80)	(77)	(70)	(60)
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>3,822</b>	<b>4,027</b>	<b>4,413</b>	<b>5,740</b>
YoY gr. (%)	(5.9)	5.4	9.6	30.1
Margin (%)	22.7	20.0	18.6	21.5
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,822</b>	<b>4,027</b>	<b>4,413</b>	<b>5,740</b>
YoY gr. (%)	(5.9)	5.4	9.6	30.1
Margin (%)	22.7	20.0	18.6	21.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,822	4,027	4,413	5,740
<b>Equity Shares O/s (m)</b>	<b>136</b>	<b>136</b>	<b>136</b>	<b>136</b>
<b>EPS (Rs)</b>	<b>28.1</b>	<b>29.6</b>	<b>32.4</b>	<b>42.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>26,370</b>	<b>31,570</b>	<b>33,070</b>	<b>34,570</b>
Tangibles	26,366	31,566	33,066	34,566
Intangibles	3	3	3	3
<b>Acc: Dep / Amortization</b>	<b>4,004</b>	<b>5,740</b>	<b>7,658</b>	<b>9,663</b>
Tangibles	4,004	5,740	7,658	9,663
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>22,365</b>	<b>25,829</b>	<b>25,412</b>	<b>24,907</b>
Tangibles	22,362	25,826	25,408	24,903
Intangibles	3	3	3	3
Capital Work In Progress	214	214	214	214
Goodwill	3,318	3,318	3,318	3,318
Non-Current Investments	67	67	67	67
Net Deferred tax assets	163	163	163	163
Other Non-Current Assets	312	312	312	312
<b>Current Assets</b>				
Investments	300	300	300	300
Inventories	1,314	1,654	2,075	2,342
Trade receivables	2,927	3,418	3,890	4,391
Cash & Bank Balance	585	348	1,195	2,759
Other Current Assets	2,481	2,481	2,481	2,481
<b>Total Assets</b>	<b>36,673</b>	<b>40,731</b>	<b>42,053</b>	<b>43,880</b>
<b>Equity</b>				
Equity Share Capital	136	136	136	136
Other Equity	21,824	24,899	28,359	32,876
<b>Total Network</b>	<b>21,960</b>	<b>25,035</b>	<b>28,495</b>	<b>33,012</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	6,444	6,944	5,444	2,444
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,856	1,856	856	856
Trade payables	1,248	1,654	1,945	2,195
Other current liabilities	2,342	2,342	2,342	2,342
<b>Total Equity &amp; Liabilities</b>	<b>36,673</b>	<b>40,731</b>	<b>42,053</b>	<b>43,880</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	4,047	4,647	5,752	7,474
Add. Depreciation	1,171	1,736	1,918	2,005
Add. Interest	262	748	819	396
Less Financial Other Income	112	100	60	100
Add. Other	(35)	(216)	(130)	(160)
Op. profit before WC changes	5,445	6,915	8,359	9,715
Net Changes-WC	(1,755)	(424)	(601)	(518)
Direct tax	(772)	(697)	(1,409)	(1,794)
<b>Net cash from Op. activities</b>	<b>2,917</b>	<b>5,794</b>	<b>6,348</b>	<b>7,403</b>
Capital expenditures	(14,969)	(8,900)	(1,500)	(1,500)
Interest / Dividend Income	-	-	-	-
Others	5,148	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(9,821)</b>	<b>(8,900)</b>	<b>(1,500)</b>	<b>(1,500)</b>
Issue of share cap. / premium	23	-	-	-
Debt changes	7,850	500	(2,500)	(3,000)
Dividend paid	(999)	(952)	(952)	(1,224)
Interest paid	(234)	(748)	(819)	(396)
Others	327	330	270	280
<b>Net cash from Fin. activities</b>	<b>6,966</b>	<b>(870)</b>	<b>(4,001)</b>	<b>(4,340)</b>
<b>Net change in cash</b>	<b>62</b>	<b>(3,977)</b>	<b>847</b>	<b>1,564</b>
Free Cash Flow	(12,052)	(3,106)	4,848	5,903

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
<b>Net Revenue</b>	<b>4,233</b>	<b>4,028</b>	<b>4,666</b>	<b>5,053</b>
YoY gr. (%)	27.4	31.7	17.1	9.7
Raw Material Expenses	888	728	784	946
Gross Profit	3,345	3,300	3,882	4,107
Margin (%)	79.0	81.9	83.2	81.3
<b>EBITDA</b>	<b>1,372</b>	<b>1,189</b>	<b>1,698</b>	<b>1,811</b>
YoY gr. (%)	12.7	22.7	31.4	19.6
Margin (%)	32.4	29.5	36.4	35.8
Depreciation / Depletion	299	351	409	421
<b>EBIT</b>	<b>1,073</b>	<b>838</b>	<b>1,289</b>	<b>1,391</b>
Margin (%)	25.4	20.8	27.6	27.5
Net Interest	30	89	174	163
Other Income	22	10	10	35
<b>Profit before Tax</b>	<b>1,065</b>	<b>759</b>	<b>1,125</b>	<b>1,262</b>
Margin (%)	25.2	18.8	24.1	25.0
Total Tax	63	144	188	39
Effective tax rate (%)	5.9	19.0	16.7	3.1
<b>Profit after Tax</b>	<b>1,002</b>	<b>615</b>	<b>937</b>	<b>1,223</b>
Minority interest	(16)	(39)	(12)	(11)
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,019</b>	<b>654</b>	<b>949</b>	<b>1,234</b>
YoY gr. (%)	1.1	(18.5)	0.4	2.6
Margin (%)	24.1	16.2	20.3	24.4
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,019</b>	<b>654</b>	<b>949</b>	<b>1,234</b>
YoY gr. (%)	1.1	(18.5)	0.4	2.6
Margin (%)	24.1	16.2	20.3	24.4
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,019</b>	<b>654</b>	<b>949</b>	<b>1,234</b>
Avg. Shares O/s (m)	138	138	138	138
<b>EPS (Rs)</b>	<b>7.4</b>	<b>4.7</b>	<b>6.9</b>	<b>8.9</b>

Source: Company Data, PL Research

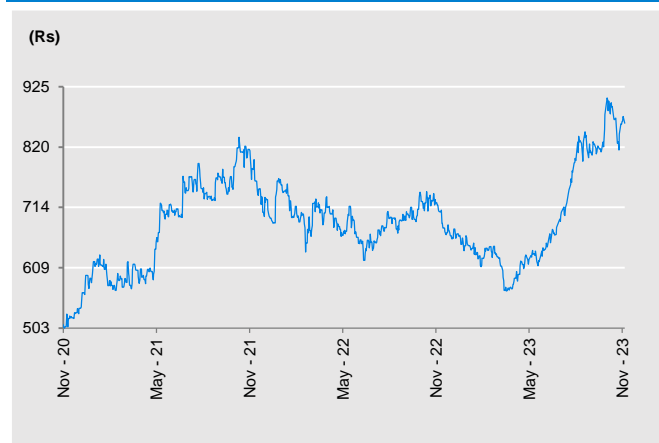
### Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	28.1	29.6	32.4	42.2
CEPS	36.7	42.4	46.6	57.0
BVPS	161.5	184.1	209.5	242.8
FCF	(88.6)	(22.8)	35.6	43.4
DPS	6.1	7.0	7.0	9.0
<b>Return Ratio(%)</b>				
RoCE	16.9	16.5	19.0	21.9
ROIC	11.7	13.2	16.1	19.0
RoE	18.6	17.1	16.5	18.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.3	0.3	0.2	0.0
Net Working Capital (Days)	65	62	62	62
<b>Valuation(x)</b>				
PER	32.5	30.8	28.1	21.6
P/B	5.6	5.0	4.4	3.8
P/CEPS	24.8	21.5	19.6	16.0
EV/EBITDA	24.5	18.8	15.3	12.7
EV/Sales	7.8	6.6	5.4	4.7
Dividend Yield (%)	0.7	0.8	0.8	1.0

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	BUY	910	900
2	08-Aug-23	BUY	910	828
3	06-Jul-23	BUY	780	706
4	17-May-23	BUY	780	638
5	06-Apr-23	BUY	780	585
6	17-Mar-23	BUY	780	586
7	18-Jan-23	BUY	850	652
8	06-Jan-23	BUY	850	647

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,800	5,060
2	Aster DM Healthcare	BUY	345	327
3	Aurobindo Pharma	Accumulate	900	901
4	Cipla	BUY	1,350	1,174
5	Divi's Laboratories	Reduce	3,150	3,522
6	Dr. Reddy's Laboratories	Reduce	5,300	5,397
7	Eris Lifesciences	BUY	910	900
8	Fortis Healthcare	BUY	365	328
9	Glenmark Pharmaceuticals	Reduce	570	794
10	HealthCare Global Enterprises	BUY	385	361
11	Indoco Remedies	BUY	385	350
12	Ipca Laboratories	Hold	880	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,675	1,462
14	Krishna Institute of Medical Sciences	BUY	2,000	1,870
15	Lupin	Hold	1,010	1,155
16	Max Healthcare Institute	BUY	675	601
17	Narayana Hrudayalaya	BUY	1,110	1,092
18	Sun Pharmaceutical Industries	BUY	1,280	1,116
19	Suntech Realty	BUY	565	436
20	Torrent Pharmaceuticals	BUY	2,250	1,877
21	Zydus Lifesciences	Accumulate	670	599

## 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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