Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

February 23, 2024

Analyst Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		BUY	
Target Price	1,100		1,100	
Sales (Rs. m)	26,183	29,313	26,183	29,313
% Chng.	-	-		
EBITDA (Rs. m)	9,541	10,742	9,541	10,742
% Chng.	-	-		
EPS (Rs.)	32.7	39.4	32.7	39.4
% Chng.	-	-		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	16,852	20,243	26,183	29,313
EBITDA (Rs. m)	5,368	7,234	9,541	10,742
Margin (%)	*31.9*	*35.7*	*36.4*	*36.6*
PAT (Rs. m)	3,822	4,268	4,447	5,355
EPS (Rs.)	28.1	31.4	32.7	39.4
Gr. (%)	*(6.0)*	*11.7*	*4.2*	*20.4*
DPS (Rs.)	6.1	7.0	7.0	7.0
Yield (%)	*0.7*	*0.8*	*0.8*	*0.8*
RoE (%)	*18.6*	*18.1*	*16.6*	*17.5*
RoCE (%)	*16.9*	*16.6*	*20.1*	*21.1*
EV/Sales (x)	7.4	6.3	4.8	4.3
EV/EBITDA (x)	23.4	17.6	13.2	11.7
PE (x)	30.9	27.7	26.5	22.0
P/BV (x)	5.4	4.7	4.2	3.6

Key Data	**ERIS.BO | ERIS IN**
52-W High / Low	Rs.972 / Rs.551
Sensex / Nifty	73,158 / 22,217
Market Cap	Rs.118bn/ $ 1,426m
Shares Outstanding	136m
3M Avg. Daily Value	Rs.218.55m

Shareholding Pattern (%)

Promoter's	54.90
Foreign	13.13
Domestic Institution	14.55
Public & Others	17.42
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.7)	2.9	38.6
Relative	(5.0)	(8.3)	13.2

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Eris Lifesciences (ERIS IN)

Rating: BUY | CMP: Rs868 | TP: Rs1,100

Execution remains a key to scale acquired portfolio

Eris Lifesciences (ERIS) in its analyst meet highlighted scale up in its recent acquired Derma portfolio, doctor engaging initiatives, revenue aspiration of Rs50bn for FY29 and steps to achieve same along with rationale of Swiss parental acquisition. We expect margins to sustain at 35-36%, as revenue scales up from recent acquisitions which is currently operating at sub optimal profitability. The company has multiple growth levers 1) broad based offerings in derma segment 2) opportunities in cardio metabolic market with patent expirations and 3) benefits of operating leverage, as revenue scales up from these acquisitions. We expect Revenue/EBITDA CAGR of ~20%/25% over FY23-26E. Maintain 'BUY' rating with TP of Rs1,100 valuing at 15x EV/EBITDA on FY26E.

- **Scale up of diabetes portfolio:** ERIS began to establish significant presence in Oral Anti diabetic therapy, with latest generation molecules such as DPP4 and SGLT 2 inhibitors. With brands such as Zomelis, Gluxit, Glura, Zayo, etc., the company achieved leadership positions in patent expiry opportunities and expanded market share in Diabetes to 5% from 3.5% earlier. Company is trying to fill gap by enabling doctors to manage complications. We remain positive on ERIS's plan to leverage more such opportunities over the next 2-3 years.

- **Deepening presence in Derma space:** FY23 acquisitions of brands such as Oaknet, Glenmark (GNP) and DR Reddy (DRRD) led to strong growth momentum and notable margin improvement from 10% in FY22 to 25% in FY23 to 35%+ in 9MFY24. Eris's focus on improving doctors coverage, especially in metros thereby resulted in increased sales. The covered market in derma is worth Rs60bn (50% of total market). Though the acquired portfolio from GNP grew 10%, DRRD was flattish given ERIS was rationalizing portfolio.

- **Entry into injectables & RoW markets:** Eris acquires 51% stake in Swiss Parenterals, which gives an entry into Sterile Injectables and RoW markets. Swiss has 1000 dossier pipeline, OSD portfolio in RoW markets which Eris will leverage. Furthermore, Eris will leverage its distribution network platform across hospitals and Swiss product range to establish a Small Volume Parenterals branded Formulations business in India. Majorly of Swiss business is B2B till date that follows direct distribution model with no field force. EBITDA margins remain healthy at 37%.

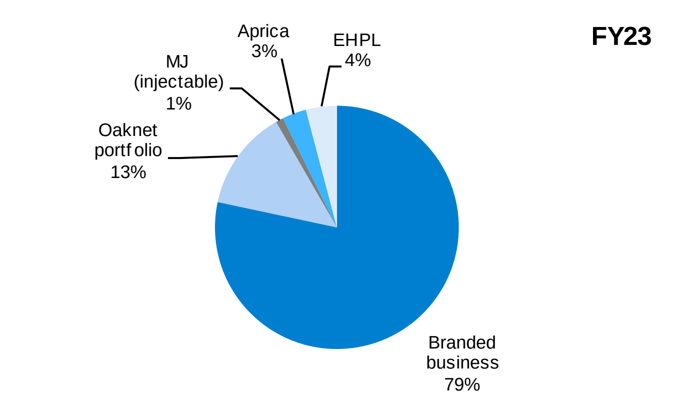
- **Management's guidance over FY24-29E at Rs50bn,** implies 20% CAGR over next five years. Company guided 12-13% organic growth and will continue to explore M&A deals to achieve revenue aspiration. Guided for Rs2.4bn of revenue from new launches in FY25E.

- **Financial snapshot:** We expect healthy Revenue CAGR of ~20% over FY23-FY26E to touch Rs 29,133 mn in FY26E from Rs 16,852 mn in FY23. We believe increasing penetration into new therapeutic verticals, with ramp up in acquired and base portfolios to aid topline growth. On operational front we expect EBITDA CAGR of ~25% over FY23-FY26E EBIDTA margins to expand from 31.85% in FY23 to 36.6% in FY26E. EBITDA in absolute terms is expected to reach Rs 10,562 mn in FY26E from Rs 5,368 mn in FY23. Improvement in margin will be largely driven by cost rationalization efforts and scale up in Oaknet's profitability.

Key takeaways:

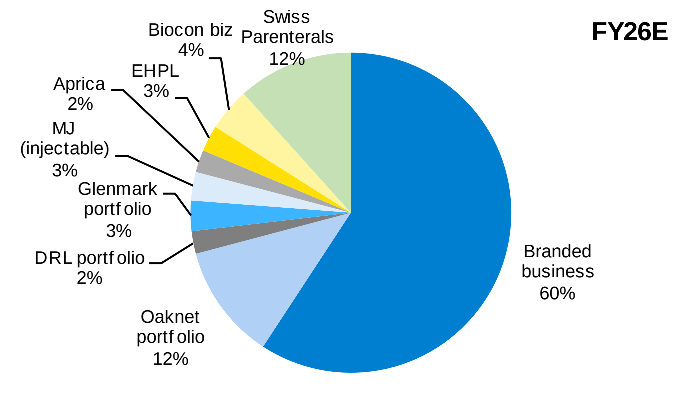
- Zomelis DM is enjoying good market share ~13.5%.
- Expects Cyblex and Remylin to soon enter Rs1bn club.
- Eris has successfully integrated Glenmark's derma portfolio, reflecting transformation from GP derma to Core derma.
- Glenmark portfolio is a core derma focused portfolio. 75% of the prescriptions were from Dermatologists.
- Mgmt cited 10% growth from Glenmark's portfolio in FY24.
- Glenmark's brand Demelan outperformed the market. Sales increased from Rs 100mn to Rs 240mn (up 121%).
- Onabet, Halovate and Sorvate are likely to deliver healthy growth.
- DRL portfolio: ReVibra and Avarta helped Eris gain entry in cosmetology. 9MFY24 growth remained flattish.
- Oaknet: Prescription contribution from derma increased to 48% from 33% in FY22. Sales contribution form Metro's increased from 24% to 40%.
- Written off Rs 200mn expiry products inventory during 9MFY24.
- Swiss Parenterals: Focus remains on ramping up its Mexico biz and opening up to high value markets like Brazil, Australia and Canada.
- 0.7% contribution is derived from CMO opportunities.
- Lost key markets recently such as Ukraine and Srilanka impacting margins. Also letting go low margin revenue business.
- Henceforth, specialty biz to remain under Eris Life whereas general sterile biz would be under Swiss Parenterals. Pipeline also includes Penem products such as Meropenem, Ertapenem etc.

Exhibit 1: Segmental mix in FY23



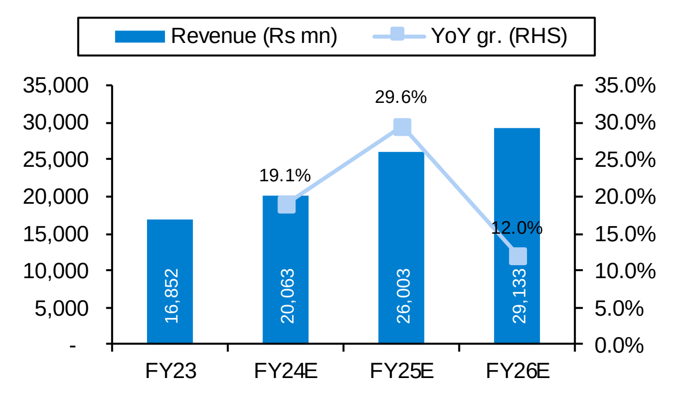
Source: Company, PL

Exhibit 2: Segmental mix in FY26E



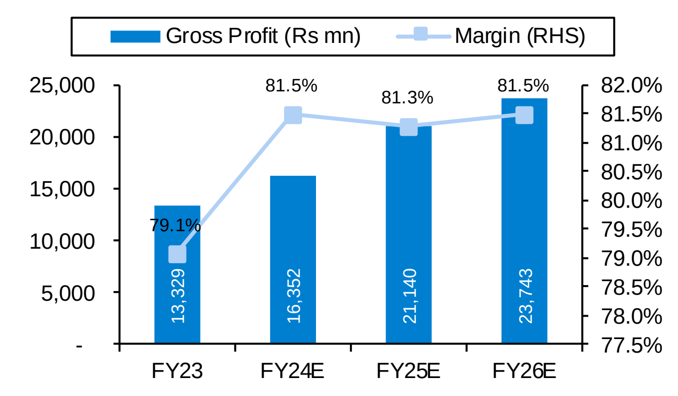
Source: Company, PL

Exhibit 3: Steady performance from branded formulations



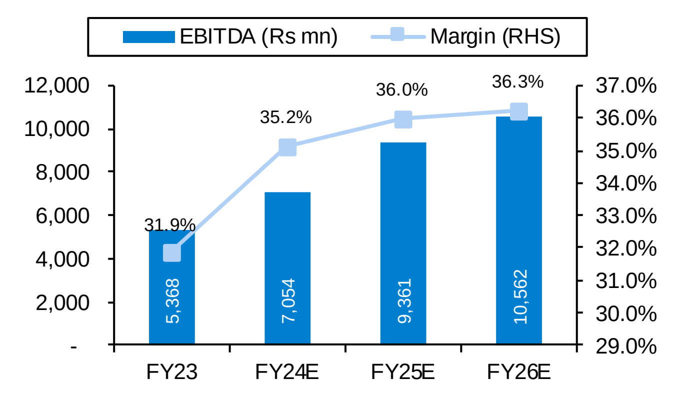
Source: Company, PL

Exhibit 4: Better product mix to help margins YoY



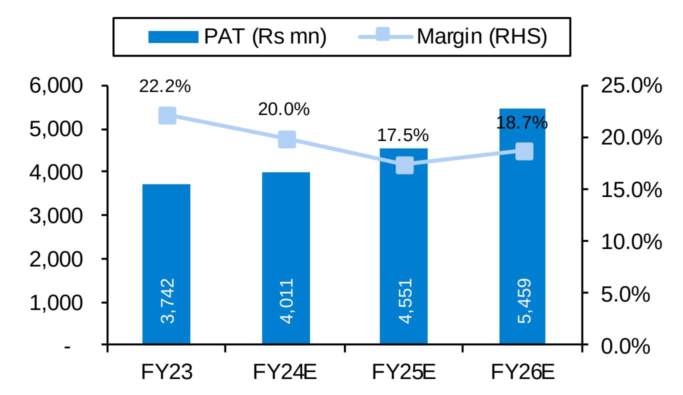
Source: Company, PL

Exhibit 5: GMs & Oaknet's profitability to aid EBIDTA margin



Source: Company, PL

Exhibit 6: Higher profitability YoY led by recent acquisitions



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	**16,852**	**20,243**	**26,183**	**29,313**
YoY gr. (%)	*25.1*	*20.1*	*29.3*	*12.0*
Cost of Goods Sold	3,524	3,712	4,863	5,390
Gross Profit	13,329	16,532	21,320	23,923
Margin (%)	*79.1*	*81.7*	*81.4*	*81.6*
Employee Cost	3,462	4,085	5,310	5,947
Other Expenses	4,499	5,213	6,469	7,234
EBITDA	**5,368**	**7,234**	**9,541**	**10,742**
YoY gr. (%)	*10.7*	*34.8*	*31.9*	*12.6*
Margin (%)	*31.9*	*35.7*	*36.4*	*36.6*
Depreciation and Amortization	1,171	1,779	2,241	2,439
EBIT	**4,197**	**5,455**	**7,300**	**8,303**
Margin (%)	*24.9*	*26.9*	*27.9*	*28.3*
Net Interest	262	721	1,232	1,144
Other Income	112	110	100	110
Profit Before Tax	**4,047**	**4,844**	**6,168**	**7,269**
Margin (%)	*24.0*	*23.9*	*23.6*	*24.8*
Total Tax	305	653	1,437	1,631
Effective tax rate (%)	*7.5*	*13.5*	*23.3*	*22.4*
Profit after tax	**3,742**	**4,191**	**4,731**	**5,639**
Minority interest	(80)	(77)	284	284
Share Profit from Associate	-	-	-	-
Adjusted PAT	**3,822**	**4,268**	**4,447**	**5,355**
YoY gr. (%)	*(5.9)*	*11.7*	*4.2*	*20.4*
Margin (%)	*22.7*	*21.1*	*17.0*	*18.3*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**3,822**	**4,268**	**4,447**	**5,355**
YoY gr. (%)	*(5.9)*	*11.7*	*4.2*	*20.4*
Margin (%)	*22.7*	*21.1*	*17.0*	*18.3*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,822	4,268	4,447	5,355
Equity Shares O/s (m)	**136**	**136**	**136**	**136**
EPS (Rs)	**28.1**	**31.4**	**32.7**	**39.4**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	**26,370**	**32,947**	**36,147**	**42,047**
Tangibles	26,366	32,943	36,143	42,043
Intangibles	3	3	3	3
Acc: Dep / Amortization	**4,004**	**5,783**	**8,024**	**10,462**
Tangibles	4,004	5,783	8,024	10,462
Intangibles	-	-	-	-
Net fixed assets	**22,365**	**27,164**	**28,123**	**31,584**
Tangibles	22,362	27,160	28,119	31,581
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
Current Assets				
Investments	300	300	300	300
Inventories	1,314	1,649	2,280	2,554
Trade receivables	2,927	3,408	4,274	4,789
Cash & Bank Balance	585	508	356	586
Other Current Assets	2,481	2,481	2,481	2,481
Total Assets	**36,673**	**42,210**	**44,514**	**48,995**
Equity				
Equity Share Capital	136	136	136	136
Other Equity	21,824	24,960	28,275	32,499
Total Networth	**21,960**	**25,096**	**28,411**	**32,635**
Non-Current Liabilities				
Long Term borrowings	6,444	8,444	7,944	7,944
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,856	1,856	856	856
Trade payables	1,248	1,649	2,137	2,394
Other current liabilities	2,342	2,342	2,342	2,342
Total Equity & Liabilities	**36,673**	**42,210**	**44,514**	**48,995**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	4,047	4,664	5,988	7,089
Add. Depreciation	1,171	1,779	2,241	2,439
Add. Interest	262	721	1,232	1,144
Less Financial Other Income	112	110	100	110
Add. Other	(35)	(33)	(384)	(394)
Op. profit before WC changes	5,445	7,131	9,077	10,278
Net Changes-WC	(1,755)	(414)	(1,009)	(532)
Direct tax	(772)	(653)	(1,437)	(1,631)
Net cash from Op. activities	**2,917**	**6,063**	**6,631**	**8,116**
Capital expenditures	(14,969)	(6,577)	(3,200)	(5,900)
Interest / Dividend Income	-	-	-	-
Others	5,148	-	-	-
Net Cash from Invt. activities	**(9,821)**	**(6,577)**	**(3,200)**	**(5,900)**
Issue of share cap. / premium	23	-	-	-
Debt changes	7,850	2,000	(1,500)	-
Dividend paid	(999)	(952)	(952)	(952)
Interest paid	(234)	(721)	(1,232)	(1,144)
Others	327	109	100	110
Net cash from Fin. activities	**6,966**	**436**	**(3,584)**	**(1,986)**
Net change in cash	**62**	**(78)**	**(153)**	**230**
Free Cash Flow	(12,052)	(514)	3,431	2,216

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	28.1	31.4	32.7	39.4
CEPS	36.7	44.5	49.2	57.3
BVPS	161.5	184.5	208.9	240.0
FCF	(88.6)	(3.8)	25.2	16.3
DPS	6.1	7.0	7.0	7.0
Return Ratio(%)				
RoCE	16.9	16.6	20.1	21.1
ROIC	11.7	13.2	16.6	17.3
RoE	18.6	18.1	16.6	17.5
Balance Sheet				
Net Debt : Equity (x)	0.3	0.4	0.3	0.2
Net Working Capital (Days)	65	61	62	62
Valuation(x)				
PER	30.9	27.7	26.5	22.0
P/B	5.4	4.7	4.2	3.6
P/CEPS	23.6	19.5	17.7	15.1
EV/EBITDA	23.4	17.6	13.2	11.7
EV/Sales	7.4	6.3	4.8	4.3
Dividend Yield (%)	0.7	0.8	0.8	0.8

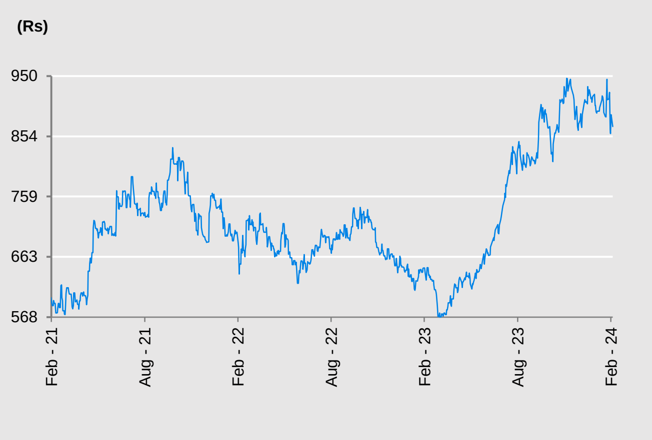
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	**4,028**	**4,666**	**5,053**	**4,863**
YoY gr. (%)	*31.7*	*17.1*	*9.7*	*14.9*
Raw Material Expenses	728	784	946	889
Gross Profit	3,300	3,882	4,107	3,974
Margin (%)	*81.9*	*83.2*	*81.3*	*81.7*
EBITDA	**1,189**	**1,698**	**1,811**	**1,755**
YoY gr. (%)	*22.7*	*31.4*	*19.6*	*27.9*
Margin (%)	*29.5*	*36.4*	*35.8*	*36.1*
Depreciation / Depletion	351	409	421	457
EBIT	**838**	**1,289**	**1,391**	**1,298**
Margin (%)	*20.8*	*27.6*	*27.5*	*26.7*
Net Interest	89	174	163	181
Other Income	10	10	35	42
Profit before Tax	**759**	**1,125**	**1,262**	**1,159**
Margin (%)	*18.8*	*24.1*	*25.0*	*23.8*
Total Tax	144	188	39	144
Effective tax rate (%)	*19.0*	*16.7*	*3.1*	*12.4*
Profit after Tax	**615**	**937**	**1,223**	**1,015**
Minority interest	(39)	(12)	(11)	(13)
Share Profit from Associates	-	-	-	-
Adjusted PAT	**654**	**949**	**1,234**	**1,027**
YoY gr. (%)	*(18.5)*	*0.4*	*2.6*	*0.9*
Margin (%)	*16.2*	*20.3*	*24.4*	*21.1*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**654**	**949**	**1,234**	**1,027**
YoY gr. (%)	*(18.5)*	*0.4*	*2.6*	*0.9*
Margin (%)	*16.2*	*20.3*	*24.4*	*21.1*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**654**	**949**	**1,234**	**1,027**
Avg. Shares O/s (m)	138	138	138	138
EPS (Rs)	**4.7**	**6.9**	**8.9**	**7.4**

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	14-Feb-24	BUY	1,100	924
2	08-Jan-24	BUY	1,050	928
3	09-Nov-23	BUY	1,050	912
4	07-Oct-23	BUY	910	900
5	08-Aug-23	BUY	910	828
6	06-Jul-23	BUY	780	706
7	17-May-23	BUY	780	638
8	06-Apr-23	BUY	780	585
9	17-Mar-23	BUY	780	586

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	7,050	6,434
2	Aster DM Healthcare	BUY	500	440
3	Aurobindo Pharma	Accumulate	1,120	1,026
4	Cipla	Accumulate	1,400	1,375
5	Divi's Laboratories	Reduce	3,150	3,652
6	Dr. Reddy's Laboratories	Reduce	5,650	5,841
7	Eris Lifesciences	BUY	1,100	924
8	Fortis Healthcare	BUY	780	444
9	Glenmark Pharmaceuticals	Reduce	570	893
10	HealthCare Global Enterprises	BUY	420	367
11	Indoco Remedies	Accumulate	380	369
12	Ipca Laboratories	Hold	1,060	1,152
13	J.B. Chemicals & Pharmaceuticals	BUY	1,920	1,800
14	Jupiter Life Line Hospitals	BUY	1,360	1,229
15	Krishna Institute of Medical Sciences	BUY	2,200	2,078
16	Lupin	Hold	1,600	1,606
17	Max Healthcare Institute	BUY	925	799
18	Narayana Hrudayalaya	BUY	1,435	1,365
19	Sun Pharmaceutical Industries	BUY	1,640	1,415
20	Sunteck Realty	BUY	565	452
21	Torrent Pharmaceuticals	BUY	2,700	2,526
22	Zydus Lifesciences	Accumulate	855	804

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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