PL Capital
PRABHUDAS LILLADHER

Eris Lifesciences (ERIS IN)

Rating: BUY | CMP: Rs1,292 | TP: Rs1,420

October 26, 2024

Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	**BUY**		**BUY**	
Target Price	**1,420**		**1,250**	
Sales (Rs. m)	33,740	37,967	33,740	37,967
% Chng.	-	-		
EBITDA (Rs. m)	12,197	14,021	12,197	14,021
% Chng.	-	-		
EPS (Rs.)	39.9	54.7	39.8	54.6
% Chng.	*0.2*	*0.2*		

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	20,091	30,137	33,740	37,967
EBITDA (Rs. m)	6,748	10,598	12,197	14,021
Margin (%)	*33.6*	*35.2*	*36.2*	*36.9*
PAT (Rs. m)	3,920	3,811	5,423	7,442
EPS (Rs.)	28.8	28.0	39.9	54.7
Gr. (%)	*2.6*	*(2.8)*	*42.3*	*37.2*
DPS (Rs.)	-	-	7.0	7.0
Yield (%)	-	-	*0.5*	*0.5*
RoE (%)	*16.4*	*13.7*	*17.0*	*19.9*
RoCE (%)	*11.8*	*14.1*	*16.9*	*20.5*
EV/Sales (x)	9.4	6.6	5.7	4.8
EV/EBITDA (x)	28.0	18.7	15.8	13.1
PE (x)	44.8	46.1	32.4	23.6
P/BV (x)	6.8	5.9	5.1	4.3

Key Data	ERIS.BO | ERIS IN
52-W High / Low	Rs.1,522 / Rs.800
Sensex / Nifty	79,402 / 24,181
Market Cap	Rs.176bn/ $ 2,091m
Shares Outstanding	136m
3M Avg. Daily Value	Rs.413.1m

Shareholding Pattern (%)

Promoter's	54.87
Foreign	8.02
Domestic Institution	18.64
Public & Others	18.47
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.6	46.2	55.1
Relative	7.9	36.9	25.1

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In-line quarter; strong margins

Quick Pointers:

- Guidance for +Rs30bn of consolidated revenues with 35% OPM in FY25
- New product launches to aid growth in base business in 2HY25

Eris Lifesciences' (ERIS) Q2FY25 EBITDA was in line with our estimate (Rs2.65bn; 46% YoY). Eris has opted for inorganic route to diversify and scale up existing portfolio. This has been implemented without diluting margins. We expect margins to sustain at +35% as revenue scales up from recent acquisitions, which are currently operating at sub-optimal profitability. The company has multiple growth levers such as broad-based offerings in the derma segment, opportunities in the cardiometabolic market with patent expirations and benefits of operating leverage, as revenue scales up from these acquisitions. Our FY25 and FY26E EBITDA broadly remain unchanged. We maintain 'BUY' rating with revised TP of Rs1,420 (valuing at 16x EV/EBITDA on Sep'26E) as we roll forward.

- **Revenue aided by acquired portfolio:** ERIS reported strong revenue growth of 47% YoY aided by integration of Swiss Parenterals and synergies from Biocon's portfolio. The management cited base organic business growth at 7% for 1HY25. Chronic and sub-chronic together account for 85% of revenue. Among the businesses acquired in FY24, Biocon acquisition reported healthy run-rate of Rs1.34bn in Q2 (flat QoQ), while Swiss Parenterals reported Rs820mn revenue vs Rs730mn in Q1.

- **GMs flat QoQ; healthy OPM:** EBITDA came in at Rs2.65bn (up 46% YoY), in line with our estimate. OPM came in at ~35.7%, up 110bps QoQ; while base business OPM was up by 374bps YoY. GMs came in at 74.8%, flat QoQ and down 630bps YoY. The YoY GMs were down largely on account of change in product and business mix due to integration of new businesses. Depreciation & finance charges came in higher due to consolidation of new businesses. Tax rate stood at 25%. Resultant PAT came in at Rs916mn (down 26% YoY), in line with our estimate.

- **Key concall takeaways: Domestic formulations business:** Base business to grow at 9-10% YoY in FY25, excl new product launches. Launched ERLY, a brand of liraglutide (GLP-1); the new product pipeline to support growth in 2HY25.Bhopal facility to commence production of RHI vials from next month, should enhance margins starting FY26. Ahmedabad facility set for ramp-up, benefiting from the 115BAB scheme, which would aid margins. 30% of the derma production undertaken in-house vs 11% in Q1. **Swiss Parenterals:** Generated Rs1.5bn in revenue in 1HY25, guided for Rs3.3bn in 2HFY25 with 35% OPM. Launched OSD-based CDMO exports with its Ahmedabad site awaiting EU-EMP inspection in Q4 and thereby will target large EU generic players. **Injectable:** Current monthly run rate at Rs70mn, should achieve Rs1bn in revenue in FY25 from the domestic market. **New acquisitions:** Eris to invest Rs540mn for 30% stake in Levim; would aid end-to-end presence in biologics and provide economics of scale. **Insulin:** Facing supply constraints, but expects 18-20% CAGR over the next 2-3 years. **Capex:** Guidance of Rs1-1.2bn, in addition to Rs540mn for the Levim acquisition. **Net debt:** Stood at Rs25bn, guided for Rs20bn by FY26 end.

Exhibit 1: Q2FY25 Result Overview (Rs mn): In-line estimates

Y/e March(Rs mn)	Q2FY25	Q2FY24	YoY gr. (%)	Q1FY25	QoQ gr. (%)	1HY24	1HY23	YoY gr. (%)
Net Sales	**7,412**	**5,053**	***46.7***	**7,197**	***3.0***	**14,609**	**9,719**	***50.3***
Raw Material	1,863	946	*96.9*	1,806	*3.1*	3,669	1,730	*112.1*
% of Net Sales	*25.1*	*18.7*		*25.1*		*25.1*	*17.8*	
Personnel Cost	1,256	985	*27.5*	1,326	*(5.3)*	2,583	2,026	*27.4*
% of Net Sales	*17.0*	*19.5*		*18.4*		*17.7*	*20.8*	
Others	1,648	1,310	*25.7*	1,565	*5.3*	3,213	2,453	*31.0*
% of Net Sales	*22.2*	*25.9*		*21.7*		*22.0*	*25.2*	
Total Expenditure	**4,767**	**3,242**	***47.0***	**4,697**	***1.5***	**9,464**	**6,210**	***52.4***
EBITDA	**2,645**	**1,811**	***46.0***	**2,500**	***5.8***	**5,145**	**3,510**	***46.6***
Margin (%)	*35.7*	*35.8*		*34.7*		*35.2*	*36.1*	
Depreciation	805	421	*91.2*	759	*6.0*	1,564	830	*88.5*
EBIT	**1,840**	**1,391**	***32.3***	**1,741**	***5.7***	**3,581**	**2,680**	***33.6***
Other Income	46	35	*30.7*	16	*177.4*	62	45	*38.1*
Interest	595	163	*265.0*	604	*(1.5)*	1,198	337	
PBT	**1,291**	**1,262**	***2.3***	**1,153**	***12.0***	**2,444**	**2,388**	***2.4***
Total Taxes	328	39	*734.9*	259	*26.5*	587	227	*158.1*
ETR (%)	*25.4*	*3.1*		*22.5*		*24.0*	*9.5*	
Minority Income	48	(11)		62		110	(23)	
Reported PAT	**916**	**1,234**	***(25.8)***	**832**	***10.1***	**1,748**	**2,184**	***(20.0)***

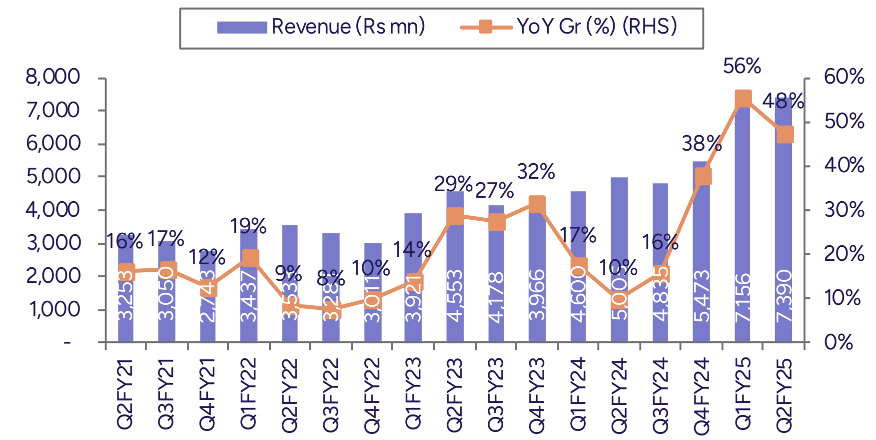
Source: Company, PL

Exhibit 2: Revenue and margin across segments

Revenues INR mn	Q1FY25	Q2FY25	1HY25
Base business	5,010	5,100	10,110
Biocon business	1,310	1,340	2,650
Swiss Parenterals	730	820	1,550
Total revenues	**7,050**	**7,260**	**14,310**
EBITDA margin	**Q1FY25**	**Q2FY25**	**1HY25**
Base business	39%	41%	40%
Biocon business	23%	25%	24%
Swiss Parenterals	36%	33%	34%
Consol margins	34%	36%	35%

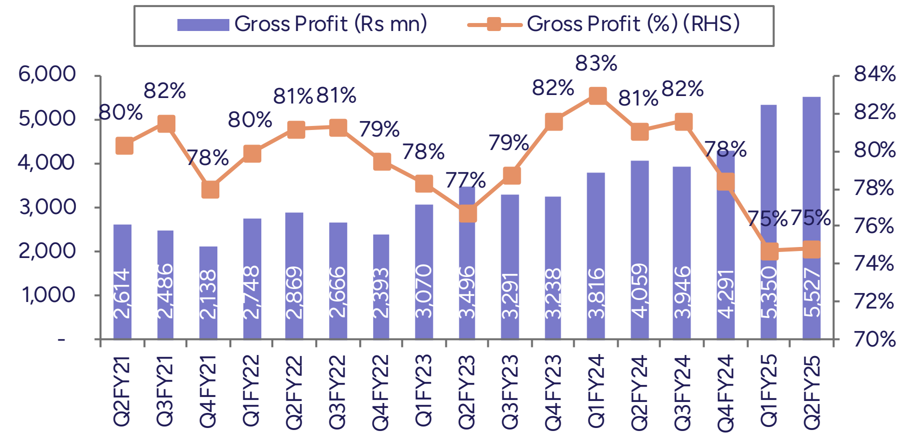
Source: Company, PL

Exhibit 3: Organic biz growth at 7% in H1



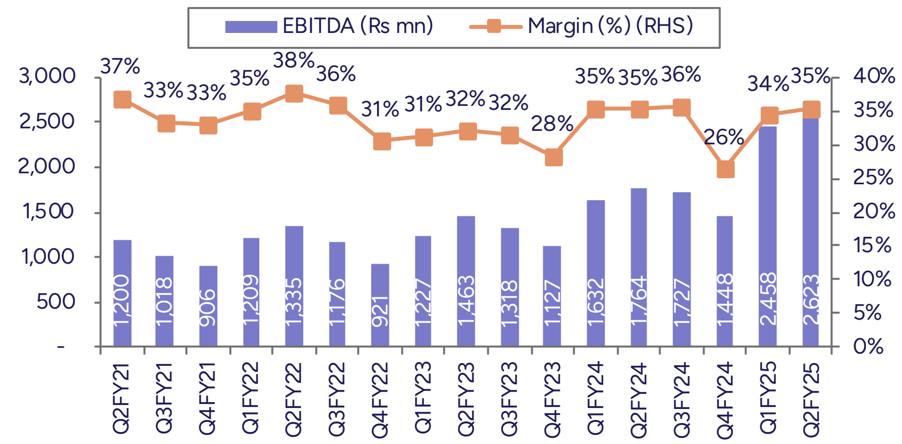
Source: Company, PL

Exhibit 4: Shift in product mix impacted margins YoY



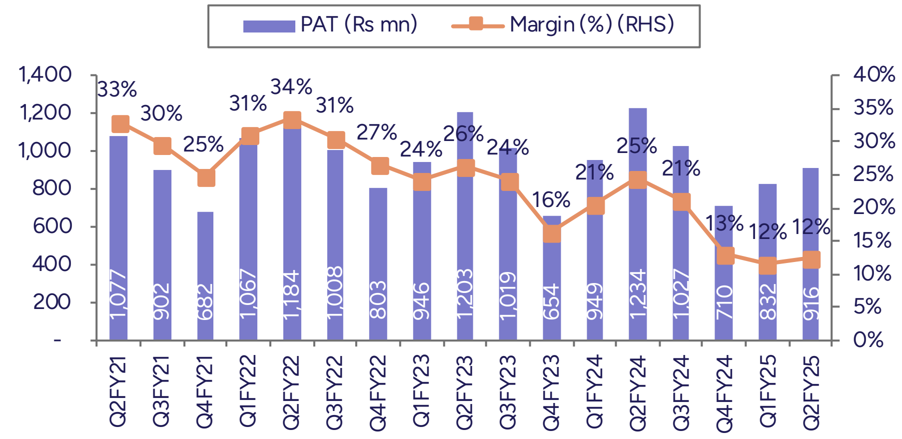
Source: Company, PL

Exhibit 5: Portfolio integration led to margin decline YoY



Source: Company, PL

Exhibit 6: Acquisitions and higher tax impacted profitability



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	**20,091**	**30,137**	**33,740**	**37,967**
YoY gr. (%)	*19.2*	*50.0*	*12.0*	*12.5*
Cost of Goods Sold	3,800	6,931	7,423	8,353
Gross Profit	16,291	23,205	26,318	29,614
Margin (%)	*81.1*	*77.0*	*78.0*	*78.0*
Employee Cost	4,038	5,452	6,106	6,777
Other Expenses	5,505	7,156	8,015	8,816
EBITDA	**6,748**	**10,598**	**12,197**	**14,021**
YoY gr. (%)	*25.7*	*57.0*	*15.1*	*14.9*
Margin (%)	*33.6*	*35.2*	*36.2*	*36.9*
Depreciation and Amortization	1,826	3,115	3,339	3,399
EBIT	**4,922**	**7,483**	**8,858**	**10,621**
Margin (%)	*24.5*	*24.8*	*26.3*	*28.0*
Net Interest	848	2,335	1,735	1,135
Other Income	238	100	150	250
Profit Before Tax	**4,312**	**5,247**	**7,273**	**9,736**
Margin (%)	*21.5*	*17.4*	*21.6*	*25.6*
Total Tax	342	1,207	1,600	2,045
Effective tax rate (%)	*7.9*	*23.0*	*22.0*	*21.0*
Profit after tax	**3,971**	**4,040**	**5,673**	**7,692**
Minority interest	51	229	250	250
Share Profit from Associate	-	-	-	-
Adjusted PAT	**3,920**	**3,811**	**5,423**	**7,442**
YoY gr. (%)	*2.6*	*(2.8)*	*42.3*	*37.2*
Margin (%)	*19.5*	*12.6*	*16.1*	*19.6*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**3,920**	**3,811**	**5,423**	**7,442**
YoY gr. (%)	*2.6*	*(2.8)*	*42.3*	*37.2*
Margin (%)	*19.5*	*12.6*	*16.1*	*19.6*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,920	3,811	5,423	7,442
Equity Shares O/s (m)	**136**	**136**	**136**	**136**
EPS (Rs)	**28.8**	**28.0**	**39.9**	**54.7**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	**40,499**	**54,659**	**55,659**	**56,659**
Tangibles	40,493	54,653	55,653	56,653
Intangibles	6	6	6	6
Acc: Dep / Amortization	**5,830**	**8,945**	**12,285**	**15,684**
Tangibles	5,830	8,945	12,285	15,684
Intangibles	-	-	-	-
Net fixed assets	**34,669**	**45,714**	**43,375**	**40,976**
Tangibles	34,663	45,708	43,369	40,969
Intangibles	6	6	6	6
Capital Work In Progress	191	191	191	191
Goodwill	8,612	8,612	8,612	8,612
Non-Current Investments	155	155	155	155
Net Deferred tax assets	(2,359)	(2,359)	(2,359)	(2,359)
Other Non-Current Assets	771	771	771	771
Current Assets				
Investments	0	0	0	0
Inventories	1,890	2,807	3,143	3,537
Trade receivables	4,220	6,027	6,748	7,593
Cash & Bank Balance	14,006	668	817	2,930
Other Current Assets	2,848	2,848	2,848	2,848
Total Assets	**70,488**	**70,919**	**69,785**	**70,738**
Equity				
Equity Share Capital	136	136	136	136
Other Equity	25,725	29,537	34,007	40,497
Total Networth	**25,861**	**29,673**	**34,143**	**40,633**
Non-Current Liabilities				
Long Term borrowings	6,545	6,045	6,045	6,045
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	20,808	17,308	11,308	5,308
Trade payables	2,683	3,303	3,698	4,161
Other current liabilities	2,804	2,804	2,804	2,804
Total Equity & Liabilities	**70,488**	**70,919**	**69,785**	**70,738**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	4,312	5,247	7,273	9,736
Add. Depreciation	1,826	3,115	3,339	3,399
Add. Interest	848	2,335	1,735	1,135
Less Financial Other Income	238	100	150	250
Add. Other	(137)	(329)	(400)	(500)
Op. profit before WC changes	6,849	10,369	11,947	13,771
Net Changes-WC	(987)	(2,105)	(662)	(776)
Direct tax	(1,002)	(1,207)	(1,600)	(2,045)
Net cash from Op. activities	**4,860**	**7,057**	**9,686**	**10,950**
Capital expenditures	(6,960)	(14,160)	(1,000)	(1,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	**(6,960)**	**(14,160)**	**(1,000)**	**(1,000)**
Issue of share cap. / premium	45	-	-	-
Debt changes	14,637	(4,000)	(6,000)	(6,000)
Dividend paid	-	-	(952)	(952)
Interest paid	(773)	(2,335)	(1,735)	(1,135)
Others	1,612	100	150	250
Net cash from Fin. activities	**15,521**	**(6,235)**	**(8,537)**	**(7,837)**
Net change in cash	**13,422**	**(13,338)**	**149**	**2,113**
Free Cash Flow	(2,100)	(7,103)	8,686	9,950

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	28.8	28.0	39.9	54.7
CEPS	42.3	50.9	64.4	79.7
BVPS	190.2	218.2	251.1	298.8
FCF	(15.4)	(52.2)	63.9	73.2
DPS	-	-	7.0	7.0
Return Ratio(%)				
RoCE	11.8	14.1	16.9	20.5
ROIC	8.7	10.7	12.8	15.7
RoE	16.4	13.7	17.0	19.9
Balance Sheet				
Net Debt : Equity (x)	0.5	0.8	0.5	0.2
Net Working Capital (Days)	62	67	67	67
Valuation(x)				
PER	44.8	46.1	32.4	23.6
P/B	6.8	5.9	5.1	4.3
P/CEPS	30.6	25.4	20.1	16.2
EV/EBITDA	28.0	18.7	15.8	13.1
EV/Sales	9.4	6.6	5.7	4.8
Dividend Yield (%)	-	-	0.5	0.5

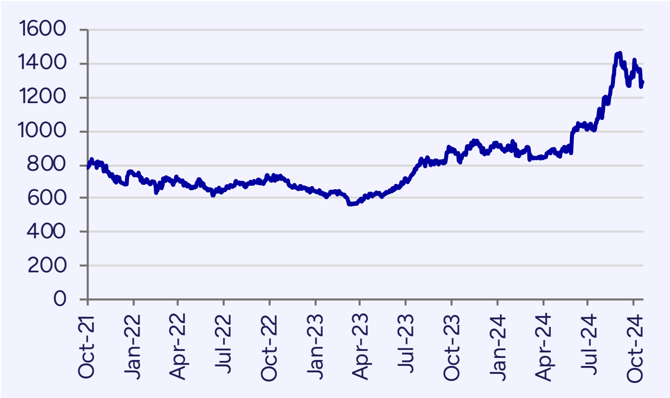
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	**4,863**	**5,509**	**7,197**	**7,412**
YoY gr. (%)	*14.9*	*36.8*	*54.2*	*46.7*
Raw Material Expenses	889	1,182	1,806	1,863
Gross Profit	3,974	4,327	5,391	5,550
Margin (%)	*81.7*	*78.5*	*74.9*	*74.9*
EBITDA	**1,755**	**1,484**	**2,500**	**2,646**
YoY gr. (%)	*27.9*	*24.8*	*47.2*	*46.0*
Margin (%)	*36.1*	*26.9*	*34.7*	*35.7*
Depreciation / Depletion	457	539	759	805
EBIT	**1,298**	**945**	**1,740**	**1,841**
Margin (%)	*26.7*	*17.2*	*24.2*	*24.8*
Net Interest	181	330	604	595
Other Income	42	151	16	46
Profit before Tax	**1,159**	**766**	**1,153**	**1,292**
Margin (%)	*23.8*	*13.9*	*16.0*	*17.4*
Total Tax	144	(30)	259	328
Effective tax rate (%)	*12.4*	*(3.9)*	*22.5*	*25.4*
Profit after Tax	**1,015**	**796**	**894**	**964**
Minority interest	(13)	87	62	48
Share Profit from Associates	-	-	-	-
Adjusted PAT	**1,027**	**710**	**832**	**916**
YoY gr. (%)	*0.9*	*8.5*	*(12.4)*	*(25.8)*
Margin (%)	*21.1*	*12.9*	*11.6*	*12.4*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**1,027**	**710**	**832**	**916**
YoY gr. (%)	*0.9*	*8.5*	*(12.4)*	*(25.8)*
Margin (%)	*21.1*	*12.9*	*11.6*	*12.4*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**1,027**	**710**	**832**	**916**
Avg. Shares O/s (m)	138	138	138	138
EPS (Rs)	**7.4**	**5.1**	**6.0**	**6.6**

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-24	BUY	1,250	1,351
2	05-Aug-24	BUY	1,250	1,128
3	08-Jul-24	BUY	1,100	1,012
4	22-May-24	BUY	1,100	908
5	08-Apr-24	BUY	1,100	851
6	23-Feb-24	BUY	1,100	868
7	14-Feb-24	BUY	1,100	924
8	08-Jan-24	BUY	1,050	928
9	09-Nov-23	BUY	1,050	912

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	7,150	6,774
2	Aster DM Healthcare	BUY	500	443
3	Aurobindo Pharma	Accumulate	1,525	1,466
4	Cipla	Accumulate	1,680	1,623
5	Divi's Laboratories	Accumulate	5,000	5,426
6	Dr. Reddy's Laboratories	Reduce	6,000	6,633
7	Eris Lifesciences	BUY	1,250	1,351
8	Fortis Healthcare	BUY	515	581
9	HealthCare Global Enterprises	BUY	420	430
10	Indoco Remedies	Accumulate	320	315
11	Ipca Laboratories	Reduce	1,250	1,491
12	J.B. Chemicals & Pharmaceuticals	BUY	2,100	1,715
13	Jupiter Life Line Hospitals	BUY	1,475	1,432
14	Krishna Institute of Medical Sciences	BUY	480	550
15	Lupin	BUY	2,300	2,198
16	Max Healthcare Institute	BUY	975	926
17	Narayana Hrudayalaya	BUY	1,420	1,219
18	Sun Pharmaceutical Industries	BUY	1,885	1,910
19	Sunteck Realty	BUY	700	588
20	Torrent Pharmaceuticals	Accumulate	3,300	3,474
21	Zydus Lifesciences	Accumulate	1,305	1,057

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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