

# Eris Lifesciences

BSE SENSEX

57,635

S&amp;P CNX

16,986



Bloomberg	ERIS IN
Equity Shares (m)	138
M.Cap.(INRb)/(USDb)	79.4 / 1
52-Week Range (INR)	750 / 580
1, 6, 12 Rel. Per (%)	-4/-15/-20
12M Avg Val (INR M)	47

## Financials & valuations (INR b)

Y/E MARCH	FY23E	FY24E	FY25E
Sales	17.1	21.1	24.3
EBITDA	5.5	7.3	8.6
Adj. PAT	3.9	5.0	5.2
EBIT Margin (%)	25.3	28.8	30.2
Cons. Adj. EPS (INR)	28.3	36.5	37.8
EPS Gr. (%)	-4.2	29.1	3.5
BV/Sh. (INR)	160.1	188.6	218.4

## Ratios

Net D:E	0.0	-0.1	-0.2
RoE (%)	18.9	20.9	18.6
RoCE (%)	17.6	18.4	15.8
Payout (%)	24.7	21.9	21.2

## Valuations

P/E (x)	20.6	16.0	15.4
EV/EBITDA (x)	15.3	11.3	9.1
Div. Yield (%)	1.2	1.4	1.4
FCF Yield (%)	-4.8	4.4	7.6
EV/Sales (x)	5.0	3.9	3.2

## Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	52.7	52.3	52.7
DII	9.9	10.7	10.4
FII	15.5	15.4	13.3
Others	21.9	21.6	23.6

FII includes depository receipts

**CMP: INR584 TP: INR710 (+22%)**
**Buy**

## On an acquisition spree to enhance derma portfolio

### Deal to be EPS neutral over the medium term

- The acquisition of nine brands from Dr. Reddy's Lab (sales: INR500m for INR2.7b) is the third deal in the dermatology space over the past 12M.
- The valuation in terms of EV/sales stands at 5.4x/4.8x for FY23/FY24. This is higher than its earlier acquisitions.
- Given that the acquisition is funded through debt, we expect the deal to be earnings neutral over the medium term. Although enhancing the derma portfolio is step in the positive direction, increased leverage could slightly dilute the ROCE over the medium term.
- Having said this, we expect 16% EPS CAGR over FY23-25. We value ERIS at 19x 12M forward earnings to arrive at a price target of INR710 and reiterate our BUY rating on the stock.

### Deal details

- ERIS has acquired a portfolio of nine dermatology brands from Dr. Reddy's Labs (having primary sales of INR500m for FY23E) for a consideration of INR2.7b. The acquisition would be funded by debt (cost of debt is ~8-8.5%).
- The top brands HydroHeal/Cris ODT/Avarta registered a MAT sales of INR200m/130m/60m, respectively.
- The gross margin for this portfolio stands at about 78-80%.
- Assuming a 15% YoY growth in sales for FY24, the EV/sales turn out to be 5.4x/4.6x for FY23/FY24.

### Acquisitions drive derma portfolio expansion

- In FY23, ERIS has been expanding its derma portfolio through its inorganic route.
- Earlier in 3QFY23, ERIS acquired a portfolio of nine dermatology brands from Glenmark (having sales of INR850m) for a consideration of INR3.4b at 4x EV/sales for FY23. The top brands – Onabet/Halobate registered sales of INR300m/220m for the past 12M.
- In 1QFY23, ERIS acquired Oaknet Healthcare for INR6.5b at 3.3x EV/Sales for FY22. It added a portfolio of leading brands such as Cosvate and Cosmelite in dermatology and women's health.
- Overall, ERIS has spent INR12.7b, garnering sales of INR3.5b in the derma space.

### Key Highlights from the management Commentary

- ERIS expects a growth rate of 15-20% of the acquired portfolio for the next four years with an average sales of INR80-90m per product.
- The acquired portfolio from DRRD has primary sales of INR500m (FY23E) and had witnessed a CAGR of 8% over the past two years.
- ERIS expects gross margin of 78-80% for the overall derma portfolio.
- ERIS plans to allocate 100 MRs for these brands, of which, 50 will be hired, while the remaining 50 will be reshuffled internally. The total field force is expected to be 640 for the cosmetology segment.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

- Eris expects a gross debt of INR8.5b by end-March with ND/EBITDA of 1-1.5x. Eris expects interest outgo of INR700m.
- The cosmetology segment is at a premium to the dermatology segment in terms of pricing of products. It is also growing at a higher rate than the overall derma IPM (10-11%).
- Eris is looking at the acne and hair-care market in the cosmetology segment.
- As per AWACS, the top brands are Acrophy and Aquaderm. The top three brands had revenues of more than INR100m per annum, while two brands had revenues of more than INR200m per annum.

#### Valuation and view

- We expect 16% earnings CAGR over FY23-25, led by niche launches/line extensions across therapies of cardio-metabolic, dermatology, CNS, and women's health.
- Eris is broadening its growth levers across major therapies, supported with MR addition and increasing reach. The valuation remains attractive at 16x/15x FY24E/FY25E EPS of INR36.5/INR37.8. We reiterate our BUY rating on the stock.

**Exhibit 1: Dermatology deals by Eris**

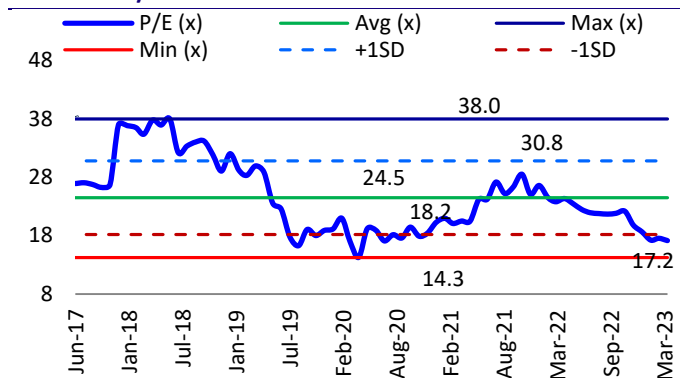
Period	Target	Consideration amount (INRm)	Sales of target company/brands at the time of acquisition (INRm)	Multiple (EV/Sales)	Deal structure	Comments
4QFY23	Part of derma portfolio from Dr. Reddy's Labs	2,750	667	4.0x	Funded through debt at 8% cost	❖ 9 Derma brands of DRRD; enhance presence in the cosmetic derma segment. Top brands HydroHeal/Cris ODT/Avarta had MAT sales of INR200m/130m/60m, respectively.
3QFY23	Part of derma portfolio from Glenmark Pharma	3,400	850	4.0x	Funded through debt at 8% cost	❖ 9 Derma brands of GNP; enhance presence in the anti-fungal and anti-psoriasis segments. The top brands – Onabet/Halobate registered sales of INR300m/220m for the past 12M. The gross margin for this portfolio stands at about 78%.
1QFY23	Oaknet	6,500	1950	3.3x	Mix of internal accruals (INR 3b) and borrowings	❖ Marked Eris' foray into the dermatology space. It enhanced Eris' prospects in Cosmetology and Women Healthcare.
FY22	MJ Biopharm				JV at 70:30 with Eris holding a 70 per cent stake	❖ JV to engage in marketing and distribution of human and analogue insulin, including, Aspart and Glargine.
<b>Total consideration</b>		<b>12,650</b>	<b>3,467</b>	<b>3.6X</b>		

Source: MOFSL, Company

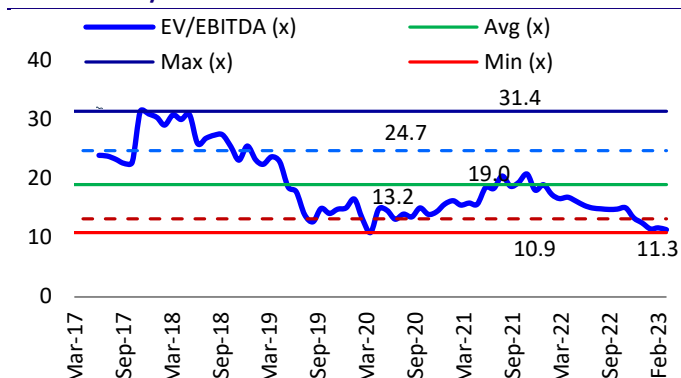
**Exhibit 2: Non-dermatology deals by ERIS**

Period	Target	Consideration amount(INRm)	Sales of target company/brands at the time of acquisition (INRm)	Multiple (EV/Sales)
FY17	Aprica (Amay Pharma)	329	398	0.8x
FY18	Strides Pharma	5000	2000	2.5x
FY19	UTH	129	70	1.8x
FY20	Kinedex	774	515	1.5x
FY21	Zomelis	960	640	1.5x
<b>Total consideration</b>		<b>7,192</b>	<b>3,623</b>	<b>2.0X</b>

Source: MOFSL, Company

**Exhibit 3: P/E chart**

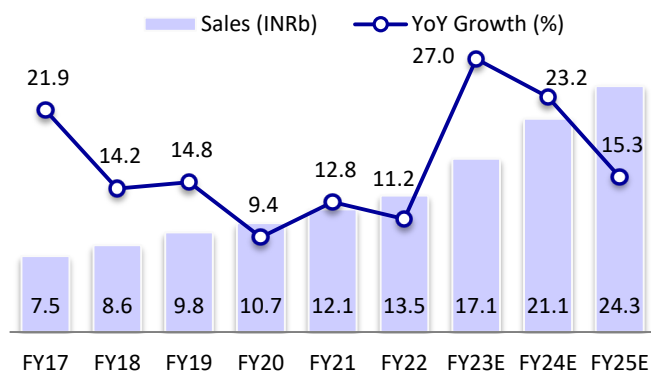
Source: MOFSL, Company, Bloomberg

**Exhibit 4: EV/EBITDA chart**

Source: MOFSL, Company, Bloomberg

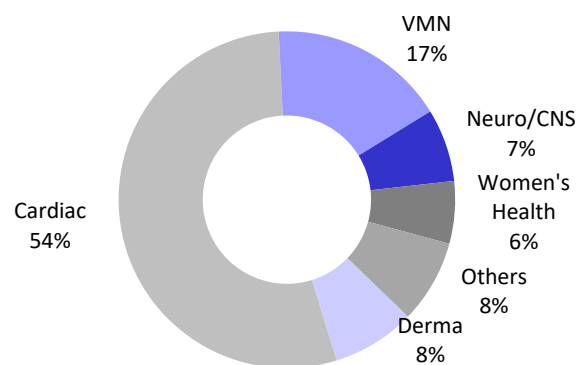
## Story in Charts

**Exhibit 5: Expect 19% revenue CAGR over FY23–25**



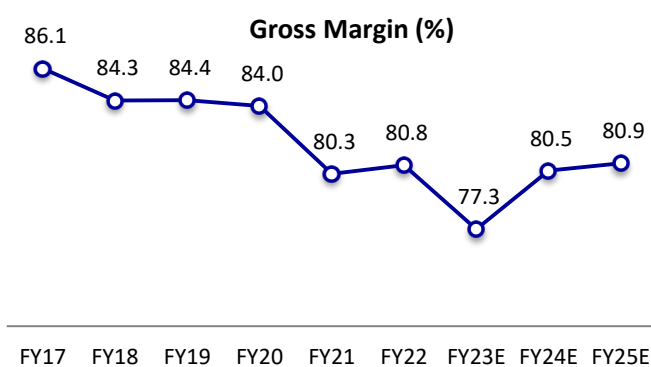
Source: MOFSL, Company

**Exhibit 6: Therapy-wise chart of ERIS**



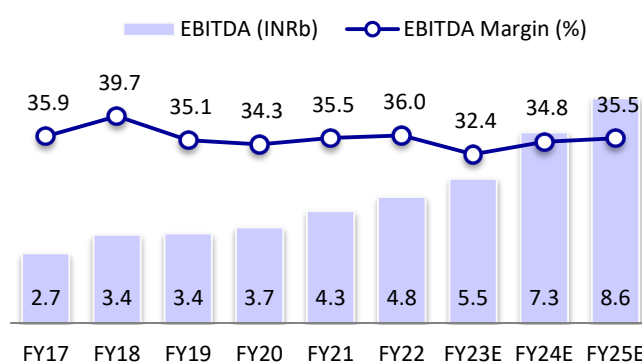
Source: MOFSL, Company

**Exhibit 7: Gross margin to stabilize at ~81% in FY25**



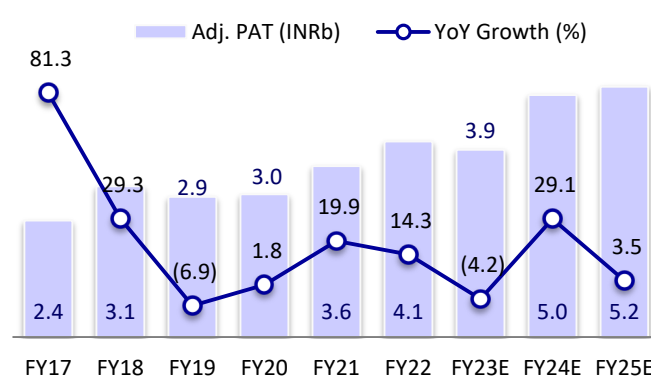
Source: MOFSL, Company

**Exhibit 8: EBITDA margin to expand by 310bp over FY23–25**



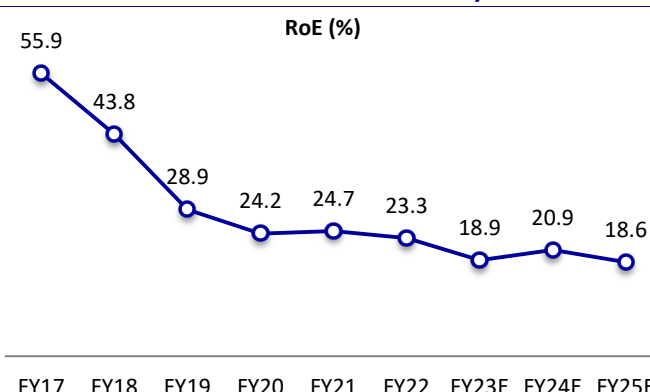
Source: MOFSL, Company

**Exhibit 9: PAT to exhibit 16% CAGR over FY23–25**



Source: MOSL, Company

**Exhibit 10: RoE to stabilize at around 19% by FY25**



Source: MOSL, Company

## Financial and valuations

### Consolidated - Income Statement

(INRm)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Total Income from Operations</b>	<b>7,495</b>	<b>8,556</b>	<b>9,822</b>	<b>10,741</b>	<b>12,119</b>	<b>13,470</b>	<b>17,102</b>	<b>21,071</b>	<b>24,298</b>
Change (%)	21.9	14.2	14.8	9.4	12.8	11.2	27.0	23.2	15.3
<b>Total Expenditure</b>	<b>4,808</b>	<b>5,157</b>	<b>6,372</b>	<b>7,057</b>	<b>7,813</b>	<b>8,621</b>	<b>11,561</b>	<b>13,738</b>	<b>15,672</b>
<b>EBITDA</b>	<b>2,687</b>	<b>3,399</b>	<b>3,449</b>	<b>3,684</b>	<b>4,306</b>	<b>4,850</b>	<b>5,541</b>	<b>7,333</b>	<b>8,626</b>
Margin (%)	35.9	39.7	35.1	34.3	35.5	36.0	32.4	34.8	35.5
Depreciation	237	256	364	502	430	647	1,207	1,268	1,295
<b>EBIT</b>	<b>2,450</b>	<b>3,143</b>	<b>3,086</b>	<b>3,182</b>	<b>3,876</b>	<b>4,203</b>	<b>4,334</b>	<b>6,064</b>	<b>7,331</b>
Int. and Finance Charges	3	106	229	22	18	41	273	684	599
Other Income	191	264	317	154	87	261	120	169	486
<b>PBT bef. EO Exp.</b>	<b>2,638</b>	<b>3,302</b>	<b>3,174</b>	<b>3,314</b>	<b>3,945</b>	<b>4,422</b>	<b>4,182</b>	<b>5,549</b>	<b>7,218</b>
EO Items	0	0	0	0	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>2,638</b>	<b>3,302</b>	<b>3,174</b>	<b>3,314</b>	<b>3,945</b>	<b>4,422</b>	<b>4,182</b>	<b>5,549</b>	<b>7,218</b>
Total Tax	219	173	262	351	394	364	293	527	2,021
Tax Rate (%)	8.3	5.2	8.3	10.6	10.0	8.2	7.0	9.5	28.0
Minority Interest	-2	0	0	0	0	0	0	0	0
<b>Reported PAT</b>	<b>2,421</b>	<b>3,129</b>	<b>2,912</b>	<b>2,963</b>	<b>3,551</b>	<b>4,058</b>	<b>3,889</b>	<b>5,022</b>	<b>5,197</b>
<b>Adjusted PAT</b>	<b>2,421</b>	<b>3,129</b>	<b>2,912</b>	<b>2,963</b>	<b>3,551</b>	<b>4,058</b>	<b>3,889</b>	<b>5,022</b>	<b>5,197</b>
Change (%)	81.3	29.3	-6.9	1.8	19.9	14.3	-4.2	29.1	3.5
Margin (%)	32.3	36.6	29.6	27.6	29.3	30.1	22.7	23.8	21.4

### Consolidated - Balance Sheet

(INRm)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	138	138	138	138	136	136	136	136	136
Total Reserves	5,534	8,476	11,368	12,828	15,628	18,947	21,874	25,795	29,892
<b>Net Worth</b>	<b>5,671</b>	<b>8,613</b>	<b>11,505</b>	<b>12,965</b>	<b>15,764</b>	<b>19,083</b>	<b>22,010</b>	<b>25,931</b>	<b>30,028</b>
Minority Interest	238	247	183	0	0	-1	-1	-1	-1
Total Loans	6	3,799	3	0	0	450	5,450	8,050	7,050
Deferred Tax Liabilities	346	-483	-931	-1,203	-1,511	-1,970	-1,970	-1,970	-1,970
<b>Capital Employed</b>	<b>6,262</b>	<b>12,175</b>	<b>10,760</b>	<b>11,762</b>	<b>14,253</b>	<b>17,562</b>	<b>25,488</b>	<b>32,010</b>	<b>35,106</b>
Gross Block	765	916	1,097	1,584	1,757	2,506	2,972	3,265	3,414
Less: Accum. Deprn.	208	390	544	711	978	1,294	1,663	2,038	2,438
<b>Net Fixed Assets</b>	<b>557</b>	<b>526</b>	<b>553</b>	<b>873</b>	<b>779</b>	<b>1,212</b>	<b>1,308</b>	<b>1,227</b>	<b>975</b>
Gross intangible asset	1,401	6,344	6,350	7,320	7,366	7,439	16,739	19,439	19,439
Accumulated amortization	20	94	233	379	541	873	1,709	2,604	3,498
<b>Net intangible asset</b>	<b>1,382</b>	<b>6,250</b>	<b>6,116</b>	<b>6,941</b>	<b>6,825</b>	<b>6,566</b>	<b>15,029</b>	<b>16,835</b>	<b>15,941</b>
Goodwill on Consolidation	378	935	936	935	935	935	935	935	935
Capital WIP	1	0	7	44	16	270	304	111	82
<b>Total Investments</b>	<b>2,686</b>	<b>3,839</b>	<b>3,765</b>	<b>780</b>	<b>2,940</b>	<b>5,204</b>	<b>5,204</b>	<b>5,204</b>	<b>5,204</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>2,263</b>	<b>2,046</b>	<b>2,711</b>	<b>4,244</b>	<b>4,847</b>	<b>6,103</b>	<b>6,256</b>	<b>12,000</b>	<b>16,907</b>
Inventory	558	654	827	695	945	1,179	1,581	1,879	2,144
Account Receivables	489	666	840	1,569	1,405	1,610	2,044	2,518	2,904
Cash and Bank Balance	24	106	75	673	383	523	579	5,075	8,945
Loans and Advances	1,192	618	970	1,307	2,114	2,791	2,052	2,529	2,916
<b>Curr. Liability &amp; Prov.</b>	<b>1,004</b>	<b>1,420</b>	<b>3,328</b>	<b>2,054</b>	<b>2,088</b>	<b>2,728</b>	<b>3,548</b>	<b>4,302</b>	<b>4,938</b>
Account Payables	386	908	841	1,001	1,026	1,178	1,579	1,877	2,141
Other Current Liabilities	169	154	2,083	491	474	839	1,065	1,312	1,513
Provisions	450	358	404	562	588	712	904	1,113	1,284
<b>Net Current Assets</b>	<b>1,259</b>	<b>626</b>	<b>-617</b>	<b>2,190</b>	<b>2,759</b>	<b>3,375</b>	<b>2,708</b>	<b>7,698</b>	<b>11,969</b>
<b>Appl. of Funds</b>	<b>6,262</b>	<b>12,176</b>	<b>10,760</b>	<b>11,762</b>	<b>14,253</b>	<b>17,562</b>	<b>25,488</b>	<b>32,010</b>	<b>35,106</b>

E: MOFSL Estimates

## Financial and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>EPS</b>	<b>17.6</b>	<b>22.8</b>	<b>21.2</b>	<b>21.5</b>	<b>25.8</b>	<b>29.5</b>	<b>28.3</b>	<b>36.5</b>	<b>37.8</b>
Cash EPS	19.3	24.6	23.8	25.2	29.0	34.2	37.1	45.7	47.2
BV/Share	41.2	62.6	83.7	94.3	114.6	138.8	160.1	188.6	218.4
DPS	0.0	0.0	0.0	2.9	5.5	5.5	7.0	8.0	8.0
Payout (%)	0.0	0.0	0.0	13.3	21.3	18.6	24.7	21.9	21.2
<b>Valuation (x)</b>									
P/E	33.1	25.6	27.5	27.1	22.6	19.8	20.6	16.0	15.4
Cash P/E	30.2	23.7	24.5	23.1	20.1	17.0	15.7	12.7	12.3
P/BV	14.1	9.3	7.0	6.2	5.1	4.2	3.6	3.1	2.7
EV/Sales	10.7	9.8	8.2	7.4	6.6	5.9	5.0	3.9	3.2
EV/EBITDA	29.8	24.7	23.2	21.6	18.5	16.5	15.3	11.3	9.1
Dividend Yield (%)	0.0	0.0	0.0	0.5	0.9	0.9	1.2	1.4	1.4
FCF per share	10.9	15.2	14.1	9.1	25.4	18.8	-27.8	25.5	44.2
<b>Return Ratios (%)</b>									
RoE	55.9	43.8	28.9	24.2	24.7	23.3	18.9	20.9	18.6
RoCE	55.8	35.7	26.1	24.4	24.8	23.2	17.6	18.4	15.8
RoIC	99.3	50.6	37.4	33.1	32.9	34.3	26.0	26.8	24.8
<b>Working Capital Ratios</b>									
Inventory (Days)	27	28	31	24	28	32	34	33	32
Debtor (Days)	24	28	31	53	42	44	44	44	44
Creditor (Days)	19	39	31	34	31	32	34	33	32
<b>Leverage Ratio (x)</b>									
Net Debt/Equity	-0.5	0.0	-0.3	-0.1	-0.2	-0.3	0.0	-0.1	-0.2

### Consolidated - Cash Flow Statement

(INRm)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	2,704	3,122	3,174	3,314	3,945	4,422	4,182	5,549	7,218
Depreciation	228	256	364	503	430	647	1,207	1,268	1,295
Interest & Finance Charges	1	96	218	6	-5	41	153	516	113
Direct Taxes Paid	-531	-696	-716	-518	-685	-833	-293	-527	-2,021
(Inc)/Dec in WC	-165	-222	-532	-527	53	-299	722	-494	-402
<b>CF from Operations</b>	<b>2,237</b>	<b>2,557</b>	<b>2,506</b>	<b>2,777</b>	<b>3,738</b>	<b>3,979</b>	<b>5,971</b>	<b>6,312</b>	<b>6,203</b>
Others	-235	-211	-277	-66	16	-196	0	0	0
<b>CF from Operating incl EO</b>	<b>2,002</b>	<b>2,346</b>	<b>2,230</b>	<b>2,712</b>	<b>3,754</b>	<b>3,783</b>	<b>5,971</b>	<b>6,312</b>	<b>6,203</b>
(Inc)/Dec in FA	-497	-251	-293	-1,458	-257	-1,203	-9,800	-2,800	-120
<b>Free Cash Flow</b>	<b>1,505</b>	<b>2,096</b>	<b>1,937</b>	<b>1,254</b>	<b>3,497</b>	<b>2,580</b>	<b>-3,829</b>	<b>3,512</b>	<b>6,083</b>
(Pur)/Sale of Investments	-1,100	-1,075	350	2,880	-2,946	-1,881	0	0	0
Others	-241	-4,571	-108	-189	-17	-112	120	169	486
<b>CF from Investments</b>	<b>-1,838</b>	<b>-5,896</b>	<b>-51</b>	<b>1,233</b>	<b>-3,220</b>	<b>-3,196</b>	<b>-9,680</b>	<b>-2,631</b>	<b>366</b>
Issue of Shares	0	0	9	0	0	0	0	0	0
Inc/(Dec) in Debt	-65	0	-2,002	-1,841	-59	450	5,000	2,600	-1,000
Interest Paid	-2	-103	-217	-18	-18	-39	-273	-684	-599
Dividend Paid	-169	0	0	-470	-747	-816	-963	-1,100	-1,100
Others	0	3,735	0	-1,017	0	-42	0	0	0
<b>CF from Fin. Activity</b>	<b>-237</b>	<b>3,632</b>	<b>-2,211</b>	<b>-3,346</b>	<b>-824</b>	<b>-447</b>	<b>3,765</b>	<b>816</b>	<b>-2,699</b>
<b>Inc/Dec of Cash</b>	<b>-73</b>	<b>82</b>	<b>-31</b>	<b>598</b>	<b>-291</b>	<b>140</b>	<b>55</b>	<b>4,496</b>	<b>3,870</b>
Opening Balance	97	24	106	75	673	384	523	579	5,075
<b>Closing Balance</b>	<b>24</b>	<b>106</b>	<b>75</b>	<b>673</b>	<b>383</b>	<b>523</b>	<b>579</b>	<b>5,075</b>	<b>8,945</b>



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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