

# Eris Lifesciences (ERIS)

Pharmaceuticals | NBIE Conference Update

**BUY**
**CMP: Rs825 | Target Price (TP): Rs1,022 | Upside: 24%**
**September 07, 2023**

## Strong runway for growth

### Key Points

- We hosted the management of Eris Lifesciences Ltd (Eris) at the NBIE virtual Investors' Conference to discuss the company's business outlook. The management believes that in FY24 it will start reaping the benefits of recent acquisitions, with expected topline of ~Rs20bn and EBITDA margin of ~35%.
- The Derma segment is expected to outpace company-level growth with margin improvement post commercialization of derma facility in Jan'24. In the Insulin business, the company is confident of achieving breakeven in FY24, led by scale-up of existing products & new launches.
- We like Eris due to its pure domestic play, Speciality focus, strong financials, healthy balance sheet and high return ratios. We maintain BUY with a target price (TP) of Rs1,022, valuing it at 14x June'25E EV/EBITDA.

### Business overview

- In FY24, the company will start reaping the benefits of recent acquisitions of Oaknet and the Derma product portfolio. It has a strong pipeline of products lined up, including line extensions.
- Eris will launch Linagliptin in the near term while Zayo sales have crossed Rs20mn/month. It has 10 products under development, most of which will be first-to-market. The company will continue to file first in market products in India.
- Eris will continue to grow 400-500bps faster than the IPM, which is expected to grow by 9-10%.
- The company does not expect to add any field force during the year.
- Price hike benefits will be seen 2QFY24 onwards.
- No other large patent expiry is expected in FY24.
- MR strength stands at ~2,900 reps. MR productivity stands at 5 lakh/month.
- The company will continue to stick with Chronic and Sub-chronic therapy areas. The business model is focused on oral medication, which is prescribed in clinics vs drugs being sold in hospitals.
- The Pharma sector is fragmented globally as well. While the Indian market remains competitive, the focus remains on the Indian markets.
- Eris has coverage of ~300 towns, which is 85% of IPM.
- For FY24, the company has targeted sales of ~Rs20-21bn with EBITDA margin of 35%.

Est Change	-
TP Change	-
Rating Change	-

### Company Data and Valuation Summary

Reuters	ERIS.BO
Bloomberg	ERIS IN Equity
Market Cap (Rsbn / US\$bn)	112.7 / 1.4
52 Wk H / L (Rs)	880 / 551
ADTV-3M (mn) (Rs / US\$)	162.0 / 2.0
Stock performance (%) 1M/6M/1yr	3.5 / 32.6 / 19.5
Nifty 50 performance (%) 1M/6M/1yr	1.2 / 5.6 / 11.3

Shareholding	3QFY23	4QFY23	1QFY24
Promoters	52.7	52.9	52.9
DII's	9.9	10.0	10.7
FII's	15.5	14.9	13.8
Others	21.9	22.3	22.6
Pro pledge	0.0	0.0	11.4

### Financial and Valuation Summary

Particulars (Rsmn)	FY22	FY23	FY24E	FY25E
Net sales	13,470	16,851	21,112	24,939
EBITDA	4,850	5,367	7,430	9,072
Net profit	4,061	3,787	5,040	6,500
EPS (Rs)	29.9	27.9	37.1	47.8
EPS growth (%)	14.2	(6.8)	33.1	29.0
EBITDA margin (%)	36.0	31.9	35.2	36.4
PER (x)	27.6	29.6	22.3	17.3
EV/Sales (x)	8.3	7.1	5.4	4.3
EV/EBITDA (x)	23.0	22.4	15.2	11.8
RoCE (%)	21.9	14.7	15.7	18.6
RoE (%)	23.3	18.5	21.0	22.7

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

## **Oaknet business**

- Oaknet had 65-70% gross margin with ~10% EBITDA margin when it was acquired (EBITDA margin of 24% in FY23, with expectation of 35% in FY24), with low PCPM. Post-acquisition, Oaknet re-activated the whole pipeline and 700 reps have been transferred to the company. The intent was to give them more products to sell. The company has worked on gross margin improvement through smart sourcing. The Derma facility will be ready in Jan'24, which will further improve gross margin to 70-75%.
- The rationale behind the acquisition of Derma brands was that most acquired brands were tail-end brands for incumbent companies and they weren't promoted aggressively. These brands had grown at a meagre high single digits over the last 2-3 years. Through Oaknet and Glenmark brands, the company has ventured into Medical Dermatology while through Dr Reddy's brands it has entered into Cosmetic Dermatology.
- The company has covered ~40-45% of the Dermatology market. Dermatology is expected to grow faster than the company's average growth rate.

## **Insulin business**

- The Insulin business posted sales of ~Rs90mn in 1QFY24. For FY24, the target is to reach Rs500mn. The current patient coverage is ~60,000 people. The company's aspiration is to reach 10% market share over the next 10 years.

## **Others**

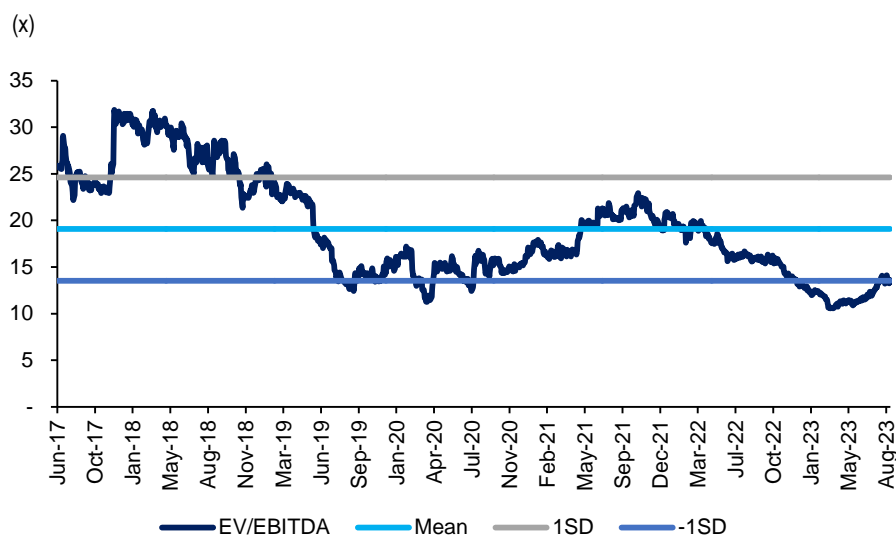
- The promoter pledged stake to increase their stake in the company.
- The Trade Generics business is not the focus area. Focus would continue to remain on Branded Formulations business. The company does not intend to venture into export branded generic markets.
- Overall, Eris has covered 30-35% of IPM. The company has the potential to expand coverage, enter new therapies and increase doctor coverage. Earlier, the focus was only on super specialist, but post covid, the company has shifted focus to MDs as well.

## Valuation and Outlook

Eris' adjusted net profit is expected to clock 31% CAGR over FY23-FY25E mainly on the back of 21.7% CAGR in revenue and improvement of 452bps in EBITDA margin to 36.4%. EBITDA margin is expected to improve from here on mainly on the back of: (1) Sharp improvement in Oaknet margins and MR productivity with consolidation of the acquired Dr Reddy's and Glenmark portfolios, shifting to in-house manufacturing and synergy benefits with the standalone business (2) Reduced loss in the Insulin segment (expected to reach breakeven in FY24) and (3) Operational leverage, especially driven by scale-up in new launches. Industry-leading growth in revenue is expected to continue due to its strong focus on the Chronic portfolio, market share gain in existing products, new launches and potential inorganic growth opportunities.

The company is currently trading at 22.3x/17.3x PE on FY24E/FY25E and 15.2x/11.8x EV/EBITDA on FY24E/FY25E numbers. We like Eris Life due to its pure domestic play, Speciality focus, strong financials, healthy balance sheet and high return ratios. We maintain BUY with a TP of Rs1,022, valuing it at 14x June'25E EV/EBITDA. We value Eris Life on EV/EBITDA basis as it removes tax rate volatility (especially post the Guwahati plant coming out from eligible tax exemption) and focus on the core operational performance.

### Exhibit 4: One-year Rolling Forward EV/EBITDA Chart



Source: BSE, Bloomberg, Company, Nirmal Bang Institutional Equities Research

## Financial statements

### Exhibit 5: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
<b>Net sales</b>	<b>12,119</b>	<b>13,470</b>	<b>16,851</b>	<b>21,112</b>	<b>24,939</b>
% growth	12.8	11.2	25.1	25.3	18.1
Raw material costs	2,383	2,585	3,524	4,184	4,758
Staff costs	2,293	2,523	3,462	4,188	4,951
Other expenditure	3,137	3,513	4,499	5,309	6,158
Total expenditure	7,813	8,621	11,484	13,681	15,867
<b>Gross profit</b>	<b>9,736</b>	<b>10,885</b>	<b>13,328</b>	<b>16,928</b>	<b>20,181</b>
% growth	7.9	11.8	22.4	27.0	19.2
<b>EBITDA</b>	<b>4,306</b>	<b>4,850</b>	<b>5,367</b>	<b>7,430</b>	<b>9,072</b>
% growth	16.9	12.6	10.7	38.4	22.1
EBITDA margin (%)	35.5	36.0	31.9	35.2	36.4
Other income	87	261	112	274	449
Interest costs	18	41	262	232	114
Depreciation	430	647	1,171	1,620	1,673
<b>Profit before tax &amp; Exceptional Items</b>	<b>3,945</b>	<b>4,422</b>	<b>4,046</b>	<b>5,853</b>	<b>7,734</b>
Exceptional Items	0	0	0	0	0
<b>Profit before tax</b>	<b>3,945</b>	<b>4,422</b>	<b>4,046</b>	<b>5,853</b>	<b>7,734</b>
% growth	19.0	12.1	-8.5	44.6	32.1
Tax	394	364	305	819	1,233
Effective tax rate (%)	10.0	8.2	7.5	14.0	15.9
<b>PAT before Minority Interest</b>	<b>3,551</b>	<b>4,058</b>	<b>3,742</b>	<b>5,034</b>	<b>6,500</b>
Share of MI	0	-3	-45	-6	0
<b>Reported PAT</b>	<b>3,551</b>	<b>4,061</b>	<b>3,787</b>	<b>5,040</b>	<b>6,500</b>
<b>Adjusted PAT</b>	<b>3,551</b>	<b>4,061</b>	<b>3,787</b>	<b>5,040</b>	<b>6,500</b>
% growth	19.9	14.4	-6.8	33.1	29.0
<b>Adjusted EPS (Rs)</b>	<b>26.2</b>	<b>29.9</b>	<b>27.9</b>	<b>37.1</b>	<b>47.8</b>
% growth	19.9	14.2	-6.8	33.1	29.0

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 6: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Share Capital	136	136	136	136	136
Reserves & Surplus	15,628	18,947	21,824	25,856	31,056
Net worth	15,764	19,083	21,960	25,991	31,192
Minority Interest	0	-1	247	241	241
Net deferred tax liabilities	457	419	-163	-184	-200
Total Loans	0	450	6,444	2,444	2,444
Other Long Term Liabilities	419	732	1,013	1,056	1,118
<b>Total Equities &amp; Liabilities</b>	<b>16,640</b>	<b>20,683</b>	<b>29,501</b>	<b>29,549</b>	<b>34,796</b>
Net Block	779	1,679	3,560	2,440	1,267
CWIP	0	240	214	214	214
Intangible Assets and Goodwill	7,776	7,531	22,124	22,124	22,124
Non-Current Investments	2,436	4,208	67	67	67
Other Non-Current Assets	2,648	2,748	321	385	439
Inventories	945	1,179	1,314	1,821	2,143
Debtors	1,405	1,610	2,927	2,327	2,740
Cash	383	523	585	1,339	6,916
Investments	504	995	300	800	1,300
Other current assets	1,434	1,966	2,521	1,300	1,300
Total current assets	4,670	6,273	7,647	7,587	14,400
Creditors	1,026	1,178	1,248	1,819	2,141
Other current liabilities	643	819	3,185	1,449	1,574
Total current liabilities	1,669	1,996	4,432	3,268	3,715
Net current assets	3,001	4,277	3,215	4,319	10,684
<b>Total assets</b>	<b>16,640</b>	<b>20,683</b>	<b>29,501</b>	<b>29,549</b>	<b>34,796</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 7: Cash flow

Y/E March(Rsmn)	FY21	FY22	FY23	FY24E	FY25E
PBT	3,945	4,422	4,046	5,853	7,734
Depreciation	430	647	1,171	1,620	1,673
Net Chg in WC	53	(299)	(1,755)	664	(413)
Taxes	(685)	(833)	(772)	(819)	(1,933)
Interest	18	41	262	232	114
Others	(7)	(196)	(34)	1,374	116
<b>CFO</b>	<b>3,754</b>	<b>3,783</b>	<b>2,917</b>	<b>8,923</b>	<b>7,290</b>
Capex	(257)	(1,203)	(14,958)	(500)	(500)
Net Investments made	(2,946)	(1,881)	4,904	(500)	(500)
Others	(30)	(112)	232	-	-
<b>CFI</b>	<b>(3,234)</b>	<b>(3,196)</b>	<b>(9,821)</b>	<b>(1,000)</b>	<b>(1,000)</b>
Change in Share capital	-	-	-	-	-
Change in Debts	0	335	7,763	(5,929)	-
Interest Paid	(18)	(39)	234	(232)	(114)
Div. & Div Tax	(747)	(816)	(999)	(1,008)	(1,300)
Others	(59)	73	(43)	-	-
<b>CFF</b>	<b>(824)</b>	<b>(447)</b>	<b>6,955</b>	<b>(7,169)</b>	<b>(1,414)</b>
<b>Total Cash Generated</b>	<b>(304)</b>	<b>140</b>	<b>52</b>	<b>755</b>	<b>4,877</b>
Cash Opening Balance	673	369	509	560	1,315
Cash Closing Balance	369	509	560	1,315	6,192

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 8: Key ratios

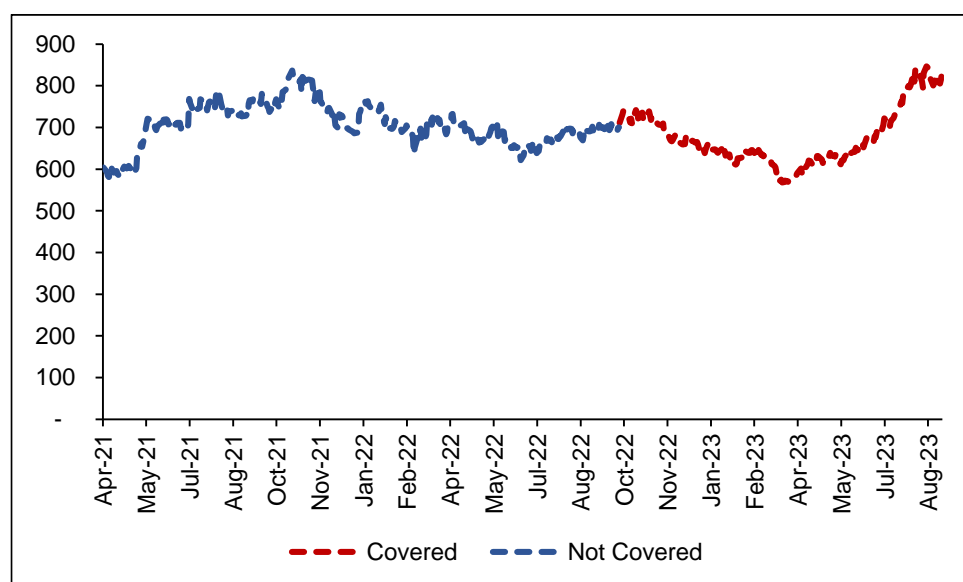
Y/E March	FY21	FY22	FY23	FY24E	FY25E
<b>Profitability &amp; return ratios</b>					
EBITDA margin (%)	35.5	36.0	31.9	35.2	36.4
Net profit margin (%)	29.3	30.1	22.5	23.9	26.1
RoE (%)	24.7	23.3	18.5	21.0	22.7
RoCE (%)	23.4	21.9	14.7	15.7	18.6
RoIC (%)	25.3	23.4	15.4	16.4	21.8
<b>Working capital &amp; liquidity ratios</b>					
Receivables (days)	42	41	49	41	41
Inventory (days)	28	32	28	32	32
Payables (days)	31	32	27	32	32
Current ratio (x)	2.8	3.1	1.7	2.3	3.9
Quick ratio (x)	2.2	2.6	1.4	1.8	3.3
<b>Leverage ratios</b>					
Net Debt/Equity (x)	-0.1	0.0	0.4	0.0	-0.2
Interest Cover (x)	215.1	101.4	16.0	25.0	65.2
Net Debt/EBITDA (x)	-0.2	-0.1	1.5	0.1	-0.6
<b>Valuation ratios</b>					
EV/sales (x)	9.2	8.3	7.1	5.4	4.3
EV/EBITDA (x)	25.8	23.0	22.4	15.2	11.8
P/E (x)	31.5	27.6	29.6	22.3	17.3
P/BV (x)	7.1	5.9	5.1	4.3	3.6

Source: Company, Nirmal Bang Institutional Equities Research

## Rating Track

Date	Rating	Market price	Target price (Rs)
29 September 2022	Buy	696	843
21 October 2022	Buy	705	843
18 January 2023	Buy	652	843
16 March 2023	Buy	586	804
17 May 2023	Buy	638	835
6 June 2023	Buy	640	835
8 August 2023	Buy	827	1,022
7 September 2023	Buy	825	1,022

## Rating Track Graph



## DISCLOSURES

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### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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