

Eris Lifesciences

BSE SENSEX 73,097
S&P CNX 22,147



Bloomberg	ERIS IN
Equity Shares (m)	138
M.Cap.(INRb)/(USDb)	117.4 / 1.4
52-Week Range (INR)	972 / 551
1, 6, 12 Rel. Per (%)	-2/-4/13
12M Avg Val (INR M)	158

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
Sales	20.0	31.4	35.9
EBITDA	7.1	11.0	12.6
Adjusted PAT	4.3	4.5	5.9
EBIT Margin (%)	26.7	26.1	26.6
Cons. Adj EPS (INR)	31.1	32.4	43.2
EPS Gr. (%)	11.9	4.2	33.3
BV/Sh. (INR)	182.8	207.2	242.4

Ratios

Net D-E	0.2	0.8	0.5
RoE (%)	18.2	16.6	19.2
RoCE (%)	14.0	13.5	13.7
Payout (%)	25.7	24.7	18.5

Valuation

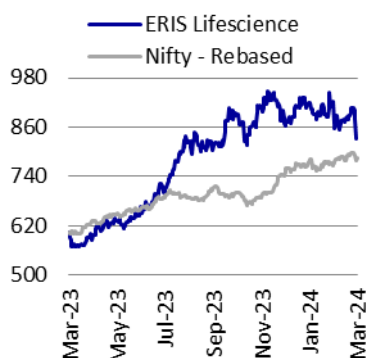
P/E (x)	27.8	26.6	20.0
EV/EBITDA (x)	17.5	13.0	10.8
Div. Yield (%)	0.9	0.9	0.9
FCF Yield (%)	2.7	-12.2	7.8
EV/Sales (x)	6.2	4.5	3.8

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	54.9	54.9	52.7
DII	14.6	14.5	9.9
FII	13.1	13.2	15.5
Others	17.4	22.6	21.9

FII Includes depository receipts

Stock's performance (one-year)



CMP: INR863 TP: INR930 (+8%) Neutral

Acquisition to expand diabetes offerings, add oncology products

Execution remains key over next 15-18 months

- Eris Lifesciences (ERIS) has agreed to acquire the India branded formulation business of Biocon Biologics for INR12.4b. The acquisition will expand the company's presence in the domestic injectable market in diabetes and oncology areas.
- The deal is valued at 12x 1-year forward EV/EBITDA, implying 25% YoY growth in EBITDA after the acquisition.
- ERIS has also proposed to buy a 19% stake in Swiss Parenterals from ERIS promoters for INR2.4b.
- Both deals would increase the company's net debt to INR24b in FY24 from INR8.9b as of 3QFY24.
- We change our earnings estimates by (-6%)/4% for FY25/FY26 to account for the acquisition and the increase in interest outgo in FY25. We assume reduction in net debt in FY26 on the back of free cash flow generation. We value ERIS at 22x 12-month forward earnings to arrive at a TP of INR930. ERIS has been aggressively expanding its product portfolio/therapy presence through M&A for the past 12-15 months. With total investments of INR35b till date, ERIS has diversified into dermatology, nephrology, and women's healthcare.
- The latest acquisitions would enhance the company's diabetes offerings in injectable dosage and add Monoclonal antibodies (MABs) in the oncology space. Now that the offerings are considerably expanded, scaling up the acquired business and improving the overall profitability would be vital for ERIS in the medium term. We maintain our Neutral rating on the stock.

Acquisition details

- ERIS has signed an agreement to acquire the Indian branded formulation business from Biocon Biologics for INR12.4b. The entire deal would be funded through debt.
- ERIS has entered into a 10-year supply agreement with Biocon Biologics for the sourcing of drug substance with an optional technology transfer.
- In addition to nephrology/derma portfolios, ERIS has now acquired diabetes/critical care and oncology portfolio from Biocon Biologics.
- Moreover, ERIS will acquire a 19% additional stake in Swiss Parenterals from ERIS promoter group.
- With these acquisitions, the company's net debt would increase to INR24b in FY24.

Insulin portfolio/MABs to enhance coverage of diabetes/oncology

- Biocon's branded portfolio comprises insulin portfolio (INR2b; 55% of sales), critical care products (INR800m; 22% of sales) and oncology products (INR800m; 22% of sales).

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- Even though the volume off-take has been stable at the industry level in the insulin segment, the Biocon team has been able to gain market share in leading brands like Basalog (from 8.2% to 10.5% over past four years) and Insugen (from 9.5% to 11% over past four years).
- The favorable regulatory stance and interchangeability acceptance for Basalog provide scope for further market share gains. In addition, the shift of manufacturing to a Swiss Parenterals facility would also improve the margins of the acquired portfolio.
- Further, ERIS intends to build synergy through cross-selling Swiss Parenterals products, given that it would gain comprehensive hospital coverage through the Biocon acquisition.

Valuation and view

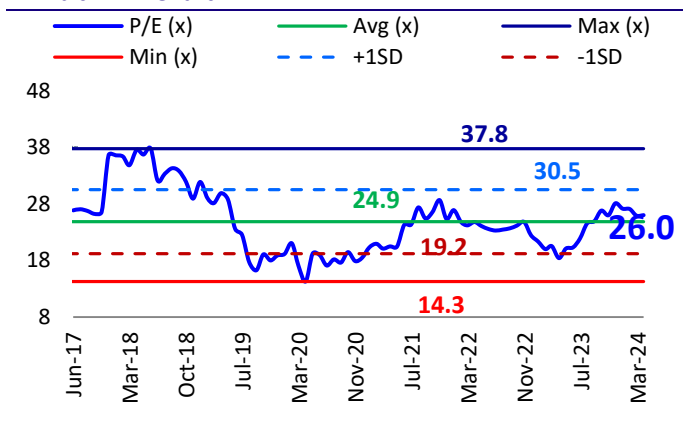
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- The latest acquisitions would enhance the company's diabetes offerings in injectable dosage and add MABs in the oncology space. Now that the offerings are considerably expanded, scaling up the acquired business and improving the profitability of its overall business would be vital for ERIS in the medium term. We maintain our Neutral rating on the stock.

Exhibit 1: Recent acquisition history

Period	Target	Consideration (INR m)	Sales of target company/brands at the time of acquisition (INR m)	Multiple (EV/Sales)	Deal structure	Comments
4QFY24	Biocon Biologics Indian formulation business	12,420	3,600	3.5x	Funded through debt at 8.65% cost	❖ Branded injectable business spanning across insulins, critical care and oncology
3QFY24	Swiss Parenterals	6,375	2,803	2.3x	Funded through debt at 8% cost + NCD issuance	❖ Augments the capability of Eris in the generics/specialty injectables segment
2QFY24	Biocon Biologics	3,660	1,000	3.7x	Funded through debt and internal accruals	❖ Branded Formulations' India (BFI) business units of Nephro/Derma
4QFY23	Dr. Reddy's Labs	2,750	621	4.4x	Funded through debt at 8% cost	❖ 9 Derma brands of DRRD. Enhance presence in the cosmetic derma segment. Top brands are HydroHeal/Cris ODT/Avarta had MAT sales of INR200m/130m/60m respectively.
3QFY23	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 is about 78%.
1QFY23	Oaknet	6,500	1,950	3.3x	Mix of internal accruals (INR3,000m) 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.
Total Consideration Paid (INR m)		35,105	10,824	3.2x		

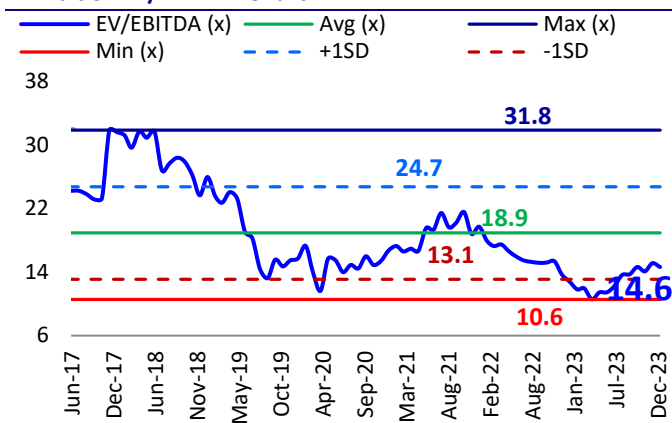
Source: Company, MOFSL

Exhibit 2: PE Chart



Source: MOSL, Company, Bloomberg

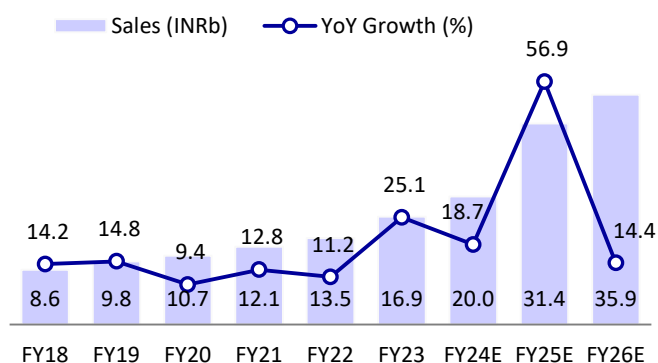
Exhibit 3: EV/EBITDA Chart



Source: MOSL, Company, Bloomberg

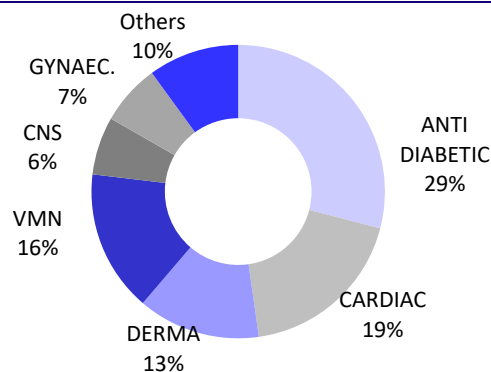
Story in charts

Exhibit 4: Total sales to see 34% CAGR over FY23-25



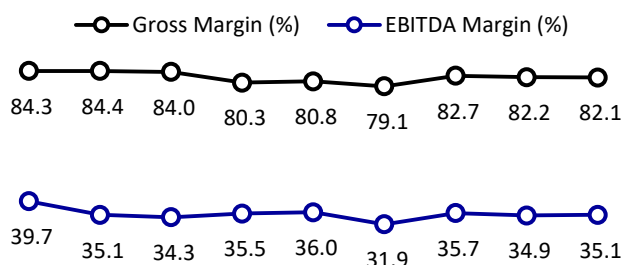
Source: Company, MOFSL

Exhibit 5: Therapy-wise chart for MAT Feb'24



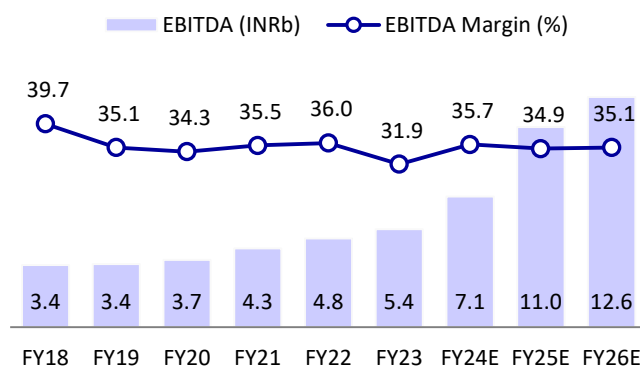
Source: IQVIA, MOFSL

Exhibit 6: Gross margin to reach 82% by FY26



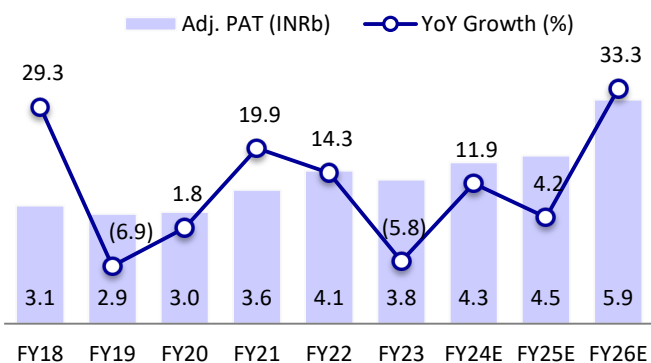
Source: Company, MOFSL

Exhibit 7: EBITDA margin to decline 60bp over FY24-26



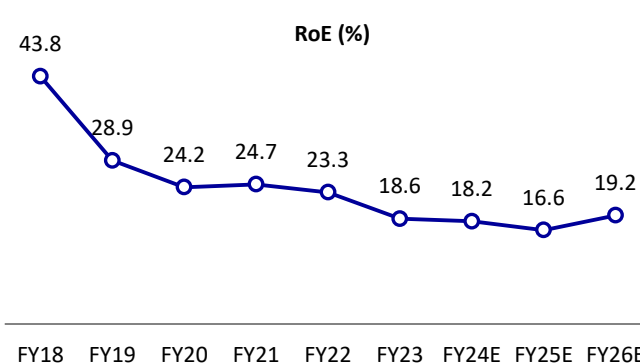
Source: Company, MOFSL

Exhibit 8: Adj. PAT to register 18% CAGR over FY24-26



Source: Company, MOFSL

Exhibit 9: ROE to bottom out in FY25



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement								(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	9,822	10,741	12,119	13,470	16,851	20,005	31,390	35,908
Change (%)	14.8	9.4	12.8	11.2	25.1	18.7	56.9	14.4
Total Expenditure	6,372	7,057	7,813	8,621	11,484	12,863	20,435	23,304
EBITDA	3,449	3,684	4,306	4,850	5,368	7,142	10,955	12,604
Margin (%)	35.1	34.3	35.5	36.0	31.9	35.7	34.9	35.1
Depreciation	364	502	430	647	1,171	1,809	2,768	3,069
EBIT	3,086	3,182	3,876	4,203	4,197	5,333	8,187	9,535
Int. and Finance Charges	229	22	18	41	262	671	2,053	1,429
Other Income	317	154	87	261	112	100	188	215
PBT bef. EO Exp.	3,174	3,314	3,945	4,422	4,046	4,762	6,322	8,321
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	3,174	3,314	3,945	4,422	4,046	4,762	6,322	8,321
Total Tax	262	351	394	364	305	571	1,581	2,080
Tax Rate (%)	8.3	10.6	10.0	8.2	7.5	12.0	25.0	25.0
Minority Interest	0	0	0	0	80	84	288	303
Reported PAT	2,912	2,963	3,551	4,058	3,822	4,275	4,453	5,938
Adjusted PAT	2,912	2,963	3,551	4,058	3,822	4,275	4,453	5,938
Change (%)	-6.9	1.8	19.9	14.3	-5.8	11.9	4.2	33.3
Margin (%)	29.6	27.6	29.3	30.1	22.7	21.4	14.2	16.5

Consolidated - Balance Sheet								(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	138	138	136	136	136	136	136	136
Total Reserves	11,368	12,828	15,628	18,947	21,824	24,999	28,352	33,190
Net Worth	11,505	12,965	15,764	19,083	21,960	25,135	28,488	33,326
Minority Interest	183	0	0	-1	247	247	247	247
Total Loans	3	0	0	450	8,300	12,900	26,320	18,320
Deferred Tax Liabilities	-931	-1,203	-1,511	-1,970	-163	-163	-163	-163
Capital Employed	10,760	11,762	14,253	17,562	30,344	38,119	54,892	51,730
Gross Block	1,097	1,584	1,757	2,506	4,634	4,857	8,142	10,790
Less: Accum. Deprn.	544	711	978	1,294	1,594	2,287	3,236	4,485
Net Fixed Assets	553	873	779	1,212	3,040	2,571	4,907	6,305
Gross intangible asset	6,350	7,320	7,366	7,439	20,546	23,246	37,906	37,906
Accumulated amortization	233	379	541	873	1,744	2,859	4,679	6,498
Net intangible asset	6,116	6,941	6,825	6,566	18,803	20,387	33,227	31,408
Goodwill on Consolidation	936	935	935	935	3,318	3,318	3,318	3,318
Capital WIP	7	44	16	270	217	93	3,229	711
Total Investments	3,765	780	2,940	5,204	367	367	367	367
Curr. Assets, Loans&Adv.	2,711	4,244	4,847	6,103	8,189	15,560	16,427	17,144
Inventory	827	695	945	1,179	1,314	1,472	2,339	2,667
Account Receivables	840	1,569	1,405	1,610	2,927	3,475	5,452	6,237
Cash and Bank Balance	75	673	383	523	560	6,592	2,327	1,022
Loans and Advances	970	1,307	2,114	2,791	3,387	4,021	6,309	7,217
Curr. Liability & Prov.	3,328	2,054	2,088	2,728	3,590	4,178	6,583	7,523
Account Payables	841	1,001	1,026	1,178	1,248	1,398	2,220	2,532
Other Current Liabilities	2,083	491	474	839	1,207	1,433	2,248	2,571
Provisions	404	562	588	712	1,136	1,348	2,115	2,420
Net Current Assets	-617	2,190	2,759	3,375	4,599	11,382	9,844	9,621
Appl. of Funds	10,760	11,762	14,253	17,562	30,344	38,119	54,892	51,730

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
EPS	21.2	21.5	25.8	29.5	27.8	31.1	32.4	43.2
Cash EPS	23.8	25.2	29.0	34.2	36.3	44.2	52.5	65.5
BV/Share	83.7	94.3	114.6	138.8	159.7	182.8	207.2	242.4
DPS	0.0	2.9	5.5	5.5	5.5	8.0	8.0	8.0
Payout (%)	0.0	13.3	21.3	18.6	19.8	25.7	24.7	18.5
Valuation (x)								
P/E	40.8	40.1	33.4	29.2	31.1	27.8	26.6	20.0
Cash P/E	36.2	34.2	29.8	25.2	23.8	19.5	16.4	13.2
P/BV	10.3	9.2	7.5	6.2	5.4	4.7	4.2	3.6
EV/Sales	12.1	11.0	9.8	8.8	7.5	6.2	4.5	3.8
EV/EBITDA	34.4	32.0	27.5	24.5	23.5	17.5	13.0	10.8
Dividend Yield (%)	0.0	0.3	0.6	0.6	0.6	0.9	0.9	0.9
FCF per share	14.1	9.1	25.4	18.8	-40.0	23.2	-105.0	67.7
Return Ratios (%)								
RoE	28.9	24.2	24.7	23.3	18.6	18.2	16.6	19.2
RoCE	26.1	24.4	24.8	23.2	16.0	14.0	13.5	13.7
RoIC	37.4	33.1	32.9	34.3	19.0	15.6	15.3	14.5
Working Capital Ratios								
Inventory (Days)	31	24	28	32	28	27	27	27
Debtor (Days)	31	53	42	44	63	63	63	63
Creditor (Days)	31	34	31	32	27	25	26	26
Leverage Ratio (x)								
Net Debt/Equity	-0.3	-0.1	-0.2	-0.3	0.3	0.2	0.8	0.5

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	3,174	3,314	3,945	4,422	4,046	4,762	6,322	8,321
Depreciation	364	503	430	647	1,171	1,809	2,768	3,069
Interest & Finance Charges	218	6	-5	41	262	571	1,865	1,214
Direct Taxes Paid	-716	-518	-685	-833	-772	-571	-1,581	-2,080
(Inc)/Dec in WC	-532	-527	53	-299	-1,755	-751	-2,727	-1,081
CF from Operations	2,506	2,777	3,738	3,979	2,952	5,819	6,647	9,442
Others	-277	-66	16	-196	-34	168	0	0
CF from Operating incl EO	2,230	2,712	3,754	3,783	2,917	5,987	6,647	9,442
(Inc)/Dec in FA	-293	-1,458	-257	-1,203	-8,413	-2,800	-21,080	-130
Free Cash Flow	1,937	1,254	3,497	2,580	-5,495	3,187	-14,433	9,312
(Pur)/Sale of Investments	350	2,880	-2,946	-1,881	4,904	0	0	0
Others	-108	-189	-17	-112	-6,313	100	188	215
CF from Investments	-51	1,233	-3,220	-3,196	-9,821	-2,700	-20,892	85
Issue of Shares	9	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-2,002	-1,841	-59	450	7,850	4,600	13,420	-8,000
Interest Paid	-217	-18	-18	-39	-234	-671	-2,053	-1,429
Dividend Paid	0	-470	-747	-816	-999	-1,100	-1,100	-1,100
Others	0	-1,017	0	-42	264	-84	-288	-303
CF from Fin. Activity	-2,211	-3,346	-824	-447	6,880	2,745	9,979	-10,832
Inc/Dec of Cash	-31	598	-291	140	-23	6,032	-4,266	-1,304
Opening Balance	106	75	673	384	523	560	6,592	2,327
Others	0	0	0	0	60	0	0	
Closing Balance	75	673	383	523	560	6,592	2,327	1,022

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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

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