

Eris Lifesciences

Estimate change	↔
TP change	↑
Rating change	↔

Bloomberg	ERIS IN
Equity Shares (m)	136
M.Cap.(INRb)/(USDb)	123.5 / 1.5
52-Week Range (INR)	972 / 605
1, 6, 12 Rel. Per (%)	2/-16/22
12M Avg Val (INR M)	164

Financials & valuations (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	20.1	31.0	35.5
EBITDA	7.0	10.8	12.5
Adj. PAT	4.0	4.5	6.1
EBIT Margin (%)	25.5	25.7	26.5
Cons. Adj. EPS (INR)	29.2	33.1	44.4
EPS Gr. (%)	5.2	13.1	34.1
BV/Sh. (INR)	188.1	215.7	254.5

Ratios

Net D:E	1.0	1.7	1.3
RoE (%)	16.8	16.4	18.9
RoCE (%)	11.8	10.4	10.9
Payout (%)	19.3	16.6	12.4

Valuations

P/E (x)	31.1	27.5	20.5
EV/EBITDA (x)	21.7	16.2	13.7
Div. Yield (%)	0.6	0.6	0.6
FCF Yield (%)	-1.7	-17.3	5.0
EV/Sales (x)	7.5	5.7	4.8

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	54.9	54.9	52.9
DII	15.6	14.6	10.0
FII	14.3	13.1	14.9
Others	15.2	17.4	22.3

FII includes depository receipts

CMP: INR908

TP: INR950 (+5%)

Neutral

Healthy execution and addition of business drive 4Q

Efforts towards integrating the acquired business and reduce debt

- Eris Lifesciences (ERIS) delivered better-than-expected revenue, while it missed on earnings due to a lower-than-expected EBITDA margin and a higher interest outgo. ERIS clocked organic revenue growth of 15%/10% YoY in 4QFY24/FY24.
- We maintain our estimates for FY25/FY26. We value ERIS at 23x 12M forward earnings to arrive at our TP of INR950.
- We factor in 21% earnings growth over FY24-26, led by: 1) an improving traction in dermatology, anti-diabetes, and women healthcare, 2) integration of the recently acquired business (Swiss Parenterals/Biocon's branded formulation business), and c) reduction in financial leverage from operating cash flows. However, the current valuation adequately factors in the upside in earnings. **Reiterate Neutral.**

Improved operating profit offset by higher interest/depreciation

- ERIS's 4QFY24 revenues grew 36.8% YoY to INR5.5b (vs. our est.: INR5.1b).
- Gross margin dipped 340bp YoY to 78.5% due to a change in product mix.
- There was a one-time expense of INR210m related to SAP implementation, deal-related expenses, and some donations.
- Adjusting for the same, EBITDA margin expanded 130bp YoY to 30.8% (our est. 34.6%), due to lower employee expenses/other expenses (-270bp/-200bp as a % of sales).
- Likewise, EBITDA increased 42.8% YoY to INR1.7b (in line).
- Adj. PAT grew 25% YoY to INR815m (vs. our est.: INR974m); PAT growth was lower than EBITDA growth due to higher interest and depreciation.
- During FY24**, revenue/EBITDA/Adj. PAT grew 19%/30%/5.3% YoY to INR20b/INR7b/INR4b.

Highlights from the management commentary

- On an organic basis, management expects 12-14% YoY revenue growth and focuses on maintaining the EBITDA margin at 36% in FY25.
- The outstanding debt, including funding for acquisition, is INR30b at the end of FY24. Eris intended to reduce the net debt by INR4b in FY25.
- Eris would implement a capex of INR700-800m annually for FY25/FY26, largely towards fill-finish blocks of hormones and Insulins.
- The excess operational cost at the Ahmedabad plant will be normalized by the end of 4QFY25.
- Eris has good visibility of 20+ first-in-market launches through the R&D pipeline.

Consolidated - Quarterly Earnings Model											(INR m)	
Y/E March	FY23				FY24				FY23	FY24	Estimate	Var %
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Gross Sales	3,986	4,605	4,233	4,028	4,666	5,053	4,863	5,509	16,851	20,091	5,139	7.2
YoY Change (%)	14.1	28.0	27.4	31.7	17.1	9.7	14.9	36.8	25.1	19.2	27.6	
Total Expenditure	2,694	3,091	2,861	2,839	2,969	3,242	3,108	3,811	11,484	13,129	3,362	
EBITDA	1,292	1,514	1,372	1,189	1,697	1,811	1,755	1,698	5,368	6,962	1,777	-4.4
Margins (%)	32.4	32.9	32.4	29.5	36.4	35.8	36.1	30.8	31.9	34.7	34.6	
Depreciation	234	286	299	351	409	421	457	539	1,171	1,830	522	
Interest	72	71	30	89	174	163	181	330	262	848	153	
Other Income	27	52	22	10	10	35	42	151	112	238	12	
PBT before EO expense	1,013	1,209	1,065	759	1,125	1,262	1,159	980	4,046	4,522	1,114	-12.0
Extra-Ord expense	0	0	0	0	0	0	0	0	214	0	214	0
PBT	1,013	1,209	1,065	759	1,125	1,262	1,159	766	4,046	4,308	1,114	
Tax	82	16	63	144	188	39	144	-30	305	342	187	
Rate (%)	8.1	1.3	5.9	19.0	16.7	3.1	12.4	-3.9	7.5	7.9	16.8	
Minority Interest & Profit/Loss of Asso. Cos.	15	13	13	39	12	11	13	-87	80	-51	48.0	
Reported PAT	946	1,207	1,015	654	948	1,234	1,027	710	3,822	3,916	974	-27.2
Adj PAT	946	1,207	1,015	654	948	1,234	1,027	815	3,822	4,021	974	-16.3
YoY Change (%)	-11.3	1.9	0.8	-18.2	0.3	2.3	1.2	24.6	-5.8	5.2	48.9	
Margins (%)	23.7	26.2	24.0	16.2	20.3	24.4	21.1	14.8	22.7	20.0	19.0	

E: MOFSL Estimates

Exhibit 1: Dermatology deals by ERIS

Period	Target	Sales of target company/ brands at the time of acquisition			Multiple (EV/Sales)	Deal structure	Comments	
		Consideration (INR m)	(INR m)	Multiple (EV/Sales)				
4QFY24	Biocon Biologics Indian formulation business	12,420	3,600	3.5x	Funded through debt at 8.65% cost	❖ Branded injectable business spanning across insulin, 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 Glargin.		
Total Consideration Paid (INR m)		35,105	10,824	3.2x				

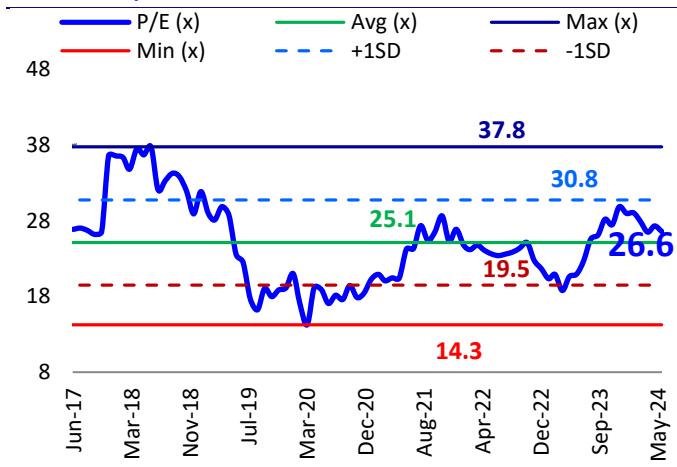
Source: MOFSL, Company



Highlights from the management interaction

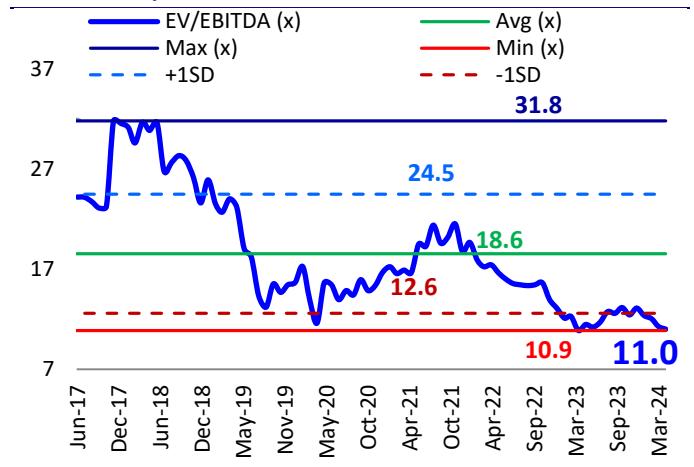
- Eris would have an interest expense of INR2.4b for FY25. The cash tax rate would be 17% for FY25. Operating cash flow would be 70-75% of EBITDA in FY25.
- The current MR productivity is INR5.5Lacs PCPM. The company has no plans to increase the MR count.
- Eris would share the outlook on Swiss Parenterals and business acquired from Biocon post-completion of 1QFY25.
- Initiated the manufacturing of products acquired from Biocon at Swiss Parenterals' manufacturing facility.
- About 58% of domestic branded formulation revenue in FY24 was used for in-house manufacturing.
- Swiss Parenterals' revenue was INR550m in 4QFY24.
- Eris is nearing EBITDA break-even in the Eris- MJ business in 4QFY24.

Exhibit 2: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 3: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Working on multiple fronts to enhance business prospects

Acquisitions to improve growth over the medium term

- Over the past few quarters, ERIS has been on an acquisition spree to enhance its product offerings. The latest ones are Swiss Parenterals and Biocon's injectable business.
- With the acquisition of Swiss Parenterals, ERIS has an opportunity to enter the RoW market. Further, the business' product range comprises more than 1,000 active dossiers across 190+ molecules. Interestingly, the pipeline is robust, with 90+ products under development.
- Moreover, with the acquisition of Biocon's injectable business, ERIS has gained access to the insulin, critical care, and oncology segments.
- Additionally, the recent acquisitions of the nephrology and dermatology businesses from Biocon Biologics (BBL), the derma portfolio from DRRD, and others have started to contribute to the growth of ERIS.

ERIS working on 20+ first-to-market launches

- In FY24, its revenue grew 19% YoY to INR20b. The robust performance in Anti-diabetic/Gynae/VMN segments led to superior growth.
- The revenue contribution of top-3 therapies was 63%, while the emerging therapies (Derma, CNS, and Gynae) now account for 30% of revenue.
- It has expanded its own R&D pipeline. Management has a good visibility of 20+ products to be launched, which are to be the "first in market". Moreover, the launch of Glargine and Liraglutide from MJ's pipeline remains on track, leading to a promising growth outlook.
- We expect ERIS to outperform the industry over the medium term, as it has established its presence in the cardiac/antidiabetic segments. Additionally, the new product pipeline and patent expiries in its focus therapies provide growth visibility. We expect ERIS to post an overall sales CAGR of 33% over FY24-26.

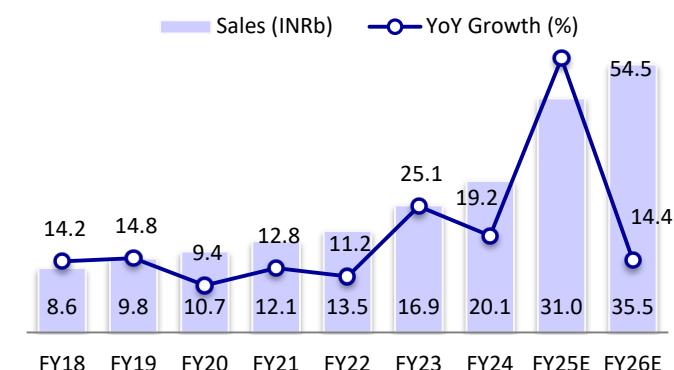
Valuation and view

- We maintain our estimates for FY25/FY26. We value ERIS at 23x 12M forward earnings to arrive at our TP of INR950.
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Reiterate Neutral.

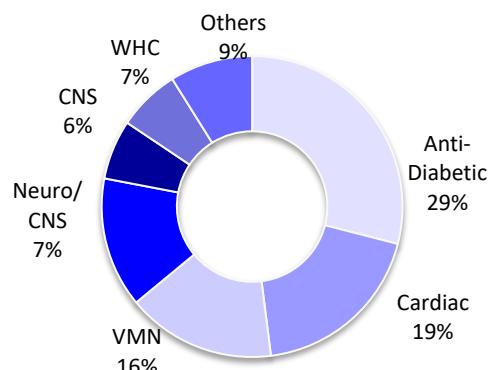
Story in Charts

Exhibit 4: Expect 33% revenue CAGR over FY24-26



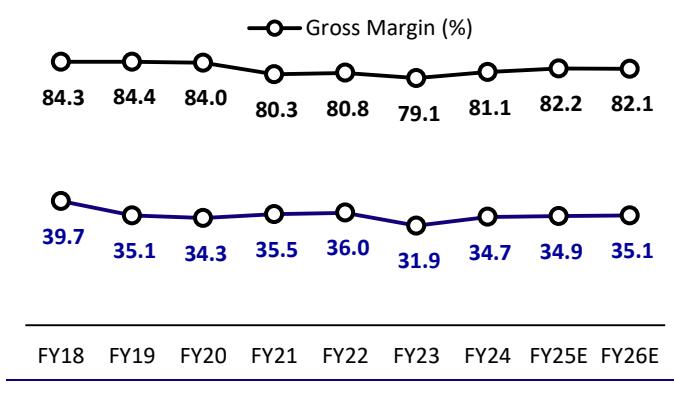
Source: MOFSL, Company

Exhibit 5: Therapy-wise chart MAT Apr'24



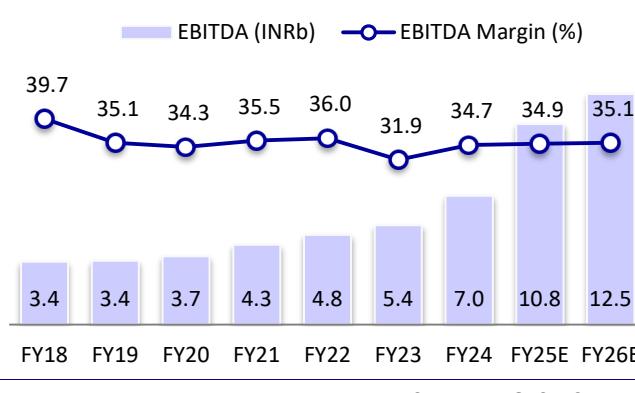
Source: MOFSL, Company

Exhibit 6: Gross margin to reach 82% by FY26E



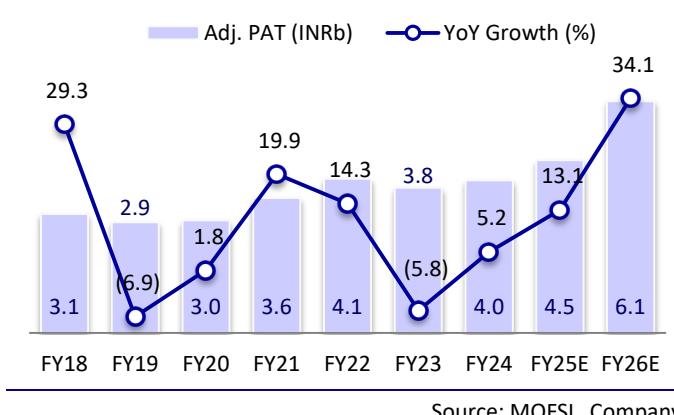
Source: MOFSL, Company

Exhibit 7: EBITDA margin to expand 50bp over FY24-26E



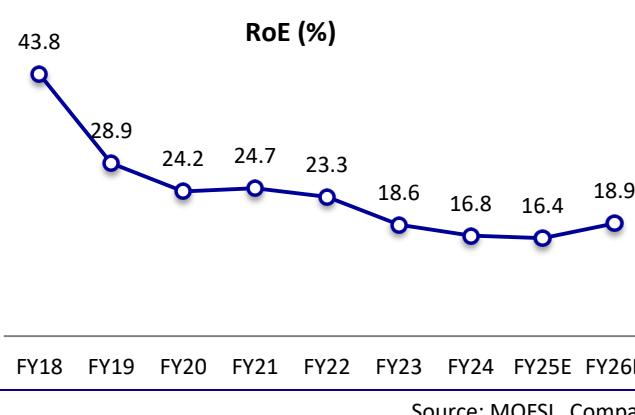
Source: MOFSL, Company

Exhibit 8: PAT to exhibit 23% CAGR over FY24-26E



Source: MOFSL, Company

Exhibit 9: RoE to stabilize at 19% over FY24-26E



Source: MOFSL, Company

Financial and valuations

Consolidated - Income Statement								(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	9,822	10,741	12,119	13,470	16,851	20,091	31,047	35,514
Change (%)	14.8	9.4	12.8	11.2	25.1	19.2	54.5	14.4
Total Expenditure	6,372	7,057	7,813	8,621	11,484	13,129	20,211	23,048
EBITDA	3,449	3,684	4,306	4,850	5,368	6,962	10,835	12,465
Margin (%)	35.1	34.3	35.5	36.0	31.9	34.7	34.9	35.1
Depreciation	364	502	430	647	1,171	1,830	2,851	3,046
EBIT	3,086	3,182	3,876	4,203	4,197	5,132	7,984	9,420
Int. and Finance Charges	229	22	18	41	262	848	2,283	1,721
Other Income	317	154	87	261	112	238	559	639
PBT bef. EO Exp.	3,174	3,314	3,945	4,422	4,046	4,522	6,260	8,338
EO Items	0	0	0	0	0	-214	0	0
PBT after EO Exp.	3,174	3,314	3,945	4,422	4,046	4,308	6,260	8,338
Total Tax	262	351	394	364	305	342	1,565	2,085
Tax Rate (%)	8.3	10.6	10.0	8.2	7.5	7.9	25.0	25.0
Minority Interest	0	0	0	0	80	-51	147	154
Reported PAT	2,912	2,963	3,551	4,058	3,822	3,916	4,548	6,100
Adjusted PAT	2,912	2,963	3,551	4,058	3,822	4,021	4,548	6,100
Change (%)	-6.9	1.8	19.9	14.3	-5.8	5.2	13.1	34.1
Margin (%)	29.6	27.6	29.3	30.1	22.7	20.0	14.6	17.2
Consolidated - Balance Sheet								(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	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	25,725	29,517	34,860
Net Worth	11,505	12,965	15,764	19,083	21,960	25,861	29,653	34,996
Minority Interest	183	0	0	-1	247	6,359	6,359	6,359
Total Loans	3	0	0	450	8,300	27,353	40,773	32,773
Deferred Tax Liabilities	-931	-1,203	-1,511	-1,970	-163	2,359	2,359	2,359
Capital Employed	10,760	11,762	14,253	17,562	30,344	61,931	79,143	76,487
Gross Block	1,097	1,584	1,757	2,506	4,634	6,726	10,093	12,758
Less: Accum. Deprn.	544	711	978	1,294	1,594	2,164	2,769	3,569
Net Fixed Assets	553	873	779	1,212	3,040	4,562	7,324	9,189
Gross intangible asset	6,350	7,320	7,366	7,439	20,546	32,621	47,281	47,281
Accumulated amortization	233	379	541	873	1,744	3,004	5,249	7,495
Net intangible asset	6,116	6,941	6,825	6,566	18,803	29,617	42,031	39,785
Goodwill on Consolidation	936	935	935	935	3,318	8,612	8,612	8,612
Capital WIP	7	44	16	270	217	197	3,249	715
Total Investments	3,765	780	2,940	5,204	367	155	155	155
Curr. Assets, Loans&Adv.	2,711	4,244	4,847	6,103	8,189	24,276	26,235	27,698
Inventory	827	695	945	1,179	1,314	1,890	2,910	3,318
Account Receivables	840	1,569	1,405	1,610	2,927	4,220	6,521	7,459
Cash and Bank Balance	75	673	383	523	560	942	-9,810	-13,524
Loans and Advances	970	1,307	2,114	2,791	3,387	17,224	26,615	30,445
Curr. Liability & Prov.	3,328	2,054	2,088	2,728	3,590	5,487	8,464	9,667
Account Payables	841	1,001	1,026	1,178	1,248	2,683	4,131	4,711
Other Current Liabilities	2,083	491	474	839	1,207	1,656	2,559	2,927
Provisions	404	562	588	712	1,136	1,148	1,774	2,029
Net Current Assets	-617	2,190	2,759	3,375	4,599	18,789	17,772	18,031
Appl. of Funds	10,760	11,762	14,253	17,562	30,344	61,931	79,143	76,486

E: MOFSL Estimates

Financial and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
EPS	21.2	21.5	25.8	29.5	27.8	29.2	33.1	44.4
Cash EPS	23.8	25.2	29.0	34.2	36.3	42.6	53.8	66.5
BV/Share	83.7	94.3	114.6	138.8	159.7	188.1	215.7	254.5
DPS	0.0	2.9	5.5	5.5	5.5	5.5	5.5	5.5
Payout (%)	0.0	13.3	21.3	18.6	19.8	19.3	16.6	12.4
Valuation (x)								
P/E	42.9	42.1	35.2	30.8	32.7	31.1	27.5	20.5
Cash P/E	38.1	36.0	31.4	26.5	25.0	21.3	16.9	13.7
P/BV	10.9	9.6	7.9	6.5	5.7	4.8	4.2	3.6
EV/Sales	12.7	11.6	10.3	9.3	7.9	7.5	5.7	4.8
EV/EBITDA	36.2	33.7	28.9	25.7	24.7	21.7	16.2	13.7
Dividend Yield (%)	0.0	0.3	0.6	0.6	0.6	0.6	0.6	0.6
FCF per share	14.1	9.1	25.4	18.8	-40.0	-15.3	-156.7	45.7
Return Ratios (%)								
RoE	28.9	24.2	24.7	23.3	18.6	16.8	16.4	18.9
RoCE	26.1	24.4	24.8	23.2	16.0	11.8	10.4	10.9
RoIC	37.4	33.1	32.9	34.3	19.0	10.5	8.2	8.1
Working Capital Ratios								
Inventory (Days)	31	24	28	32	28	34	34	34
Debtor (Days)	31	53	42	44	63	77	77	77
Creditor (Days)	31	34	31	32	27	49	49	48
Leverage Ratio (x)								
Net Debt/Equity	-0.3	-0.1	-0.2	-0.3	0.3	1.0	1.7	1.3

Consolidated - Cash Flow Statement

(INRm)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	3,174	3,314	3,945	4,422	4,046	4,312	6,260	8,338
Depreciation	364	503	430	647	1,171	1,826	2,851	3,046
Interest & Finance Charges	218	6	-5	41	262	848	1,724	1,081
Direct Taxes Paid	-716	-518	-685	-833	-772	-1,008	-1,565	-2,085
(Inc)/Dec in WC	-532	-527	53	-299	-1,755	-987	-9,736	-3,973
CF from Operations	2,506	2,777	3,738	3,979	2,952	4,992	-465	6,408
Others	-277	-66	16	-196	-34	-131	0	0
CF from Operating incl EO	2,230	2,712	3,754	3,783	2,917	4,860	-465	6,408
(Inc)/Dec in FA	-293	-1,458	-257	-1,203	-8,413	-6,960	-21,080	-130
Free Cash Flow	1,937	1,254	3,497	2,580	-5,495	-2,100	-21,545	6,278
(Pur)/Sale of Investments	350	2,880	-2,946	-1,881	4,904	-11,656	0	0
Others	-108	-189	-17	-112	-6,313	70	559	639
CF from Investments	-51	1,233	-3,220	-3,196	-9,821	-18,545	-20,521	509
Issue of Shares	9	0	0	0	0	45	0	0
Inc/(Dec) in Debt	-2,002	-1,841	-59	450	7,850	14,628	13,420	-8,000
Interest Paid	-217	-18	-18	-39	-234	-773	-2,283	-1,721
Dividend Paid	0	-470	-747	-816	-999	0	-756	-756
Others	0	-1,017	0	-42	264	167	-147	-154
CF from Fin. Activity	-2,211	-3,346	-824	-447	6,880	14,068	10,234	-10,631
Inc/Dec of Cash	-31	598	-291	140	-23	383	-10,753	-3,714
Opening Balance	106	75	673	384	523	560	943	-9,810
Others	0	0	0	0	60	0	0	
Closing Balance	75	673	383	523	560	943	-9,810	-13,524

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

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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