

Estimate change

TP change

Rating change



CMP: INR1,231

TP: INR1,270 (+3%)

Neutral

Recovery in base business, acquisitions drive operational performance

Preparing to benefit from GLP1 opportunity

- Eris Lifescience's (ERIS) 3QFY25 performance came in below our estimates. Lower-than-expected revenue growth led to lower operating leverage, which affected the overall performance. The base business witnessed some recovery in growth owing to new launches and price hikes.
- We reduce our FY25 EPS estimate by 4% (factoring in lower sales from biologics business) and largely maintain our estimates for FY26/FY27. We value ERIS at 25x 12M forward earnings to arrive at a TP of INR1,270.
- ERIS is building the GLP1 franchise by ensuring the sourcing of API for synthetic peptide and subsequently conducting clinical trials/enhancing manufacturing capacity for recombinant semaglutide. It continues to launch combination products in the SGLT2 space. Considering this and a reduction in financial leverage, we estimate a CAGR of 16%/42% in EBITDA/earnings over FY25-27. However, the current valuation leaves limited upside. Reiterate Neutral.

Business mix impact offset partly by better operating leverage (YoY)

- 3QFY25 revenue grew 49.6% YoY to INR7.3b (our est. INR7.7b). After the addition of Biocon II business, total domestic business grew 35% YoY to INR6.3b. Organic base domestic business grew 12% YoY to INR5.3b on the back of new product launches and price increases.
- Gross margin contracted 560bp YoY to 75.7% due to higher raw material costs and a change in the business mix.
- EBITDA margin contracted 170bp YoY to 34.4% (our est. 35.3%), owing to a change in the business mix, offset by lower employee expenses/other expenses (-300bp/-130bp as % of sales).
- EBITDA, however, increased by 43% YoY to INR2.5b (our est. INR2.7b).
- Adj. PAT declined 18.6% YoY to INR836m (our est. INR1b), due to higher interest (up 2.1x YoY) and depreciation (up 77% YoY).
- For 9MFY25, revenue/EBITDA grew 50.1%/45.3%, whereas PAT declined 19.5% YoY.

Highlights from the management commentary

- ERIS expects net debt at INR21b as of FY25 end vs. earlier guidance of INR26b.
- ERIS maintains its FY25 revenue/EBITDA margin guidance of INR30b/35%.
- ERIS aims to achieve 22% ROCE in FY25 (vs. 19% in FY24) through base business growth, operating leverage, and the addition of newer growth levers.

Bloomberg	ERIS IN
Equity Shares (m)	136
M.Cap.(INRb)/(USD\$)	170.2 / 2
52-Week Range (INR)	1594 / 809
1, 6, 12 Rel. Per (%)	-1/17/33
12M Avg Val (INR M)	243

Financials & valuations (INR b)

Y/E MARCH	2025E	2026E	2027E
Sales	29.7	33.9	39.2
EBITDA	10.5	11.9	14.1
Adj. PAT	3.8	5.5	7.6
EBIT Margin (%)	24.3	25.6	27.7
Cons. Adj. EPS (INR)	27.4	40.1	55.2
EPS Gr. (%)	-6.2	46.2	37.6
BV/Sh. (INR)	210.0	244.6	294.4

Ratios

Net D:E	0.7	0.5	0.2
RoE (%)	13.8	17.6	20.5
RoCE (%)	11.0	13.5	16.7
Payout (%)	20.0	13.7	10.0

Valuations

P/E (x)	44.7	30.6	22.2
EV/EBITDA (x)	18.1	15.5	12.6
Div. Yield (%)	0.4	0.4	0.4
FCF Yield (%)	4.8	4.3	4.8
EV/Sales (x)	6.4	5.4	4.5

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	54.9	54.9	54.9
DII	18.1	18.7	14.6
FII	8.4	8.0	13.1
Others	18.7	18.5	17.4

FII includes depository receipts

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Consolidated - Quarterly Earning

(INR m)

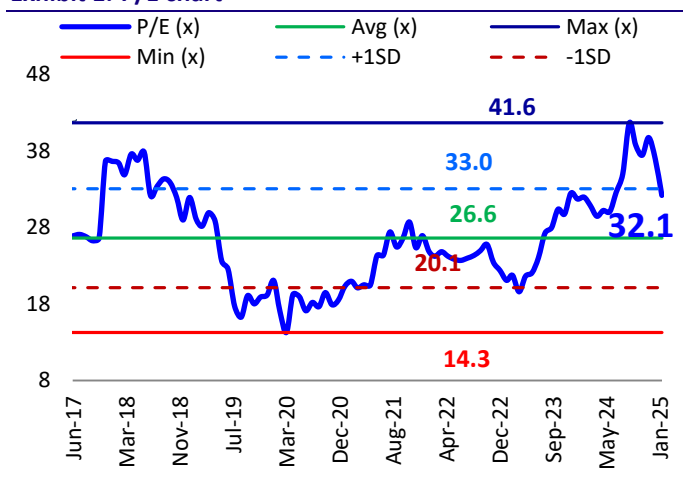
Y/E March	FY24				FY25E				FY24	FY25E	Estimate	Var %
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Gross Sales	4,666	5,053	4,863	5,509	7,197	7,412	7,275	7,863	20,091	29,747	7,732	-5.9
YoY Change (%)	17.1	9.7	14.9	36.8	54.2	46.7	49.6	42.7	19.2	48.1	59.0	
Total Expenditure	2,969	3,242	3,108	3,811	4,697	4,767	4,771	5,041	13,129	19,276	5,003	
EBITDA	1,697	1,811	1,755	1,698	2,500	2,645	2,503	2,823	6,962	10,471	2,729	-8.3
Margins (%)	36.4	35.8	36.1	30.8	34.7	35.7	34.4	35.9	34.7	35.2	35.3	
Depreciation	409	421	457	539	759	805	812	852	1,830	3,228	810	
Interest	174	163	181	330	604	595	572	579	848	2,349	610	
Other Income	10	35	42	151	16	46	42	193	238	297	65	
PBT before EO expense	1,125	1,262	1,159	980	1,153	1,291	1,162	1,586	4,522	5,192	1,374	-15.5
Extra-Ord expense	0	0	0	214	0	0	0	0	214	0	0	
PBT	1,125	1,262	1,159	766	1,153	1,291	1,162	1,586	4,308	5,192	1,374	
Tax	188	39	144	-30	259	328	292	393	342	1,272	330	
Rate (%)	16.7	3.1	12.4	-3.9	22.5	25.4	25.2	24.8	7.9	24.5	24.0	
MI & Profit/Loss of Asso. Cos.	12	11	13	-87	62	48	33	4	-51	147	37.0	
Reported PAT	948	1,234	1,027	710	832	916	836	1,189	3,916	3,773	1,008	-17.0
Adj PAT	948	1,234	1,027	815	832	916	836	1,189	4,021	3,773	1,008	-17.0
YoY Change (%)	0.3	2.3	1.2	24.6	-12.3	-25.8	-18.6	45.8	5.2	-6.2	-1.9	
Margins (%)	20.3	24.4	21.1	14.8	11.6	12.4	11.5	15.1	20.0	12.7	13.0	



Highlights from the management interaction

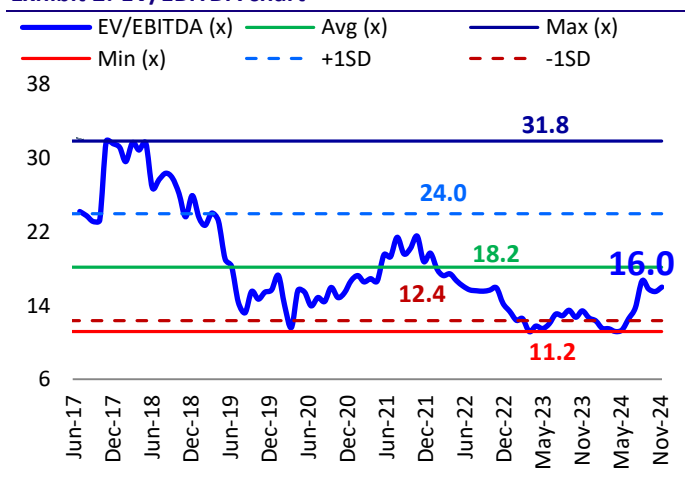
- ERIS expects its Bhopal facility to be operational from FY26 onward. Insourcing of vials will give benefits from 1QFY26. Subsequently, insourcing of cartridges would also drive margin expansion. ERIS targets EU-GMP and ROW market approvals.
- Brazil ANVISA inspection is expected in May'25 at its AMD unit.
- ERIS is launching new products (Dapagliflozin combination, sitagliptin combination) in 4QFY25.
- ERIS has already launched certain Dapagliflozin combinations in 3QFY25.
- Liraglutide sales reached INR10m per month after its launch in Sep'24.
- ERIS would be conducting human trials related to Levim. The commercial launch is expected by CY26 end.

Exhibit 1: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Acquisitions, new launches to drive growth in medium term

Gearing up to leverage the GLP-1 market opportunities

- As of Dec'24, Eris has 6% market share in overall diabetes therapy. Eris is the largest Indian company in the insulin market with a 10% market share.
- After the acquisition of Levim and Chemman labs, Eris received capabilities to develop analogies, GLP-1 agonists, rDNA and other monoclonal anti-bodies, enhancing its presence in niche and complex segments.
- Eris' first GLP-1 product, Liraglutide, launched in Sep'24 ramped up to monthly sales of INR10m.
- Moreover, Eris launched three first-in-market Dapagliflozin combinations in 3QFY25 – a differentiated play in the fast-growing SGLT2 space.
- Eris entered into a strategic partnership for the launch of Semaglutide, where Eris will be among the few players to launch it first in India.
- Further, Eris is preparing its Bhopal facility for “form-fill-finish” recombinant Sema for FY26.
- Eris has a strong pipeline opportunity in Gliclazide + combinations and Empagliflozin + combinations in 4QFY25.

Working on niche products to drive growth over medium term

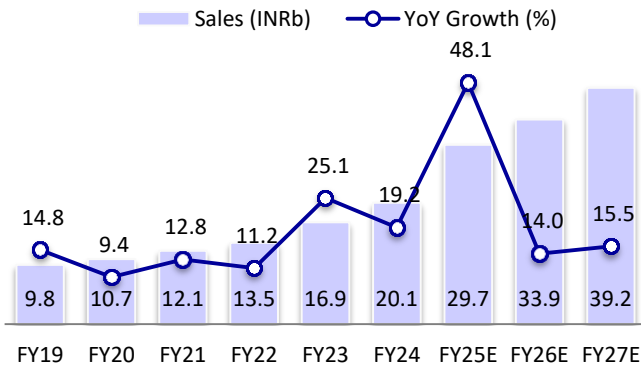
- In 9MFY25, total domestic formulation revenue grew 35% YoY to INR19b, driven by new product launches and price increases. Further, the integration of the acquired portfolio is also driving growth.
- Including the Biologic 1 acquisition, organic domestic formulation business grew 9% YoY to INR15b with EBITDA margin of 40%, while revenue from Biologic 2 business stood at INR3b in 9MFY25.
- ERIS plans to launch multiple new products with several first-to-market in FY26.
- 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 a CAGR of 9.6% in overall sales over FY25-27.

Valuation and view

- We reduce our FY25 EPS estimate by 4% (factoring lower sales from biologics business) and largely maintain our estimates for FY26/FY27. We value ERIS at 25x 12M forward earnings to arrive at a TP of INR1,270.
- ERIS is building the GLP1 franchise by ensuring the sourcing of API for synthetic peptide and subsequently conducting clinical trials/enhancing manufacturing capacity for recombinant semaglutide. It continues to launch combination products in SGLT2 space. Considering this and a reduction in financial leverage, we estimate a CAGR of 16%/42% in EBITDA/earnings over FY25-27. However, the current valuation leaves limited upside. Maintain Neutral.

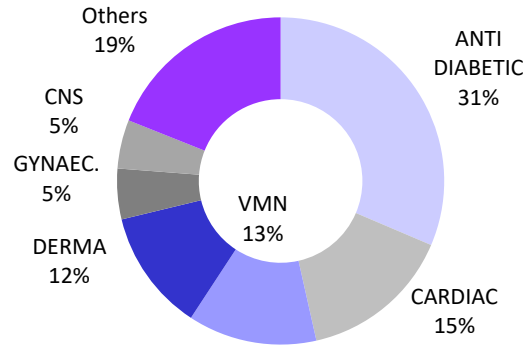
Story in Charts

Exhibit 3: Expect 15% revenue CAGR over FY25-27



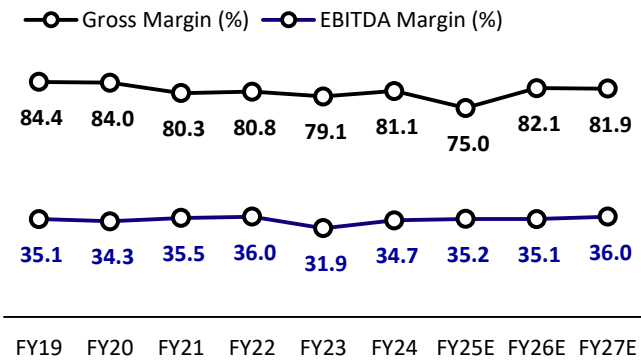
Source: MOFSL, Company

Exhibit 4: Therapy-wise chart MAT Sep'24



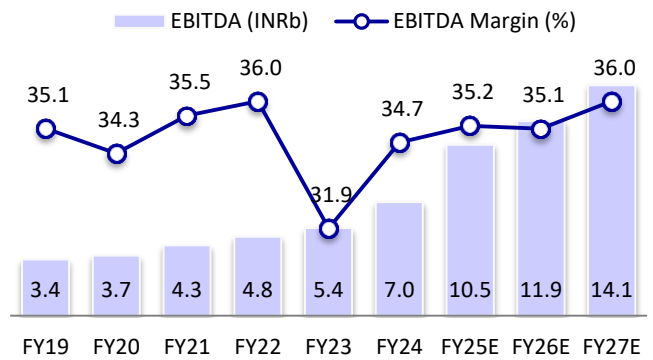
Source: MOFSL, Company

Exhibit 5: Gross margin to reach 82% by FY27E



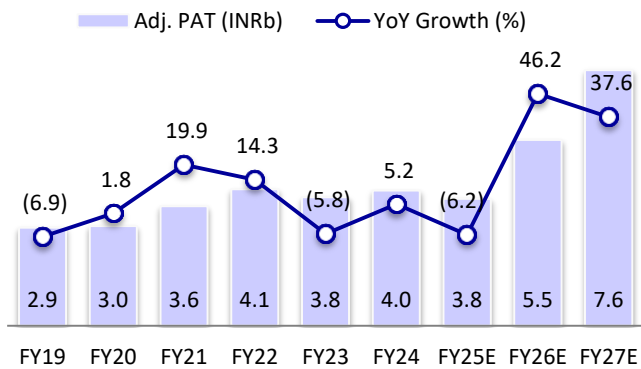
Source: MOFSL, Company

Exhibit 6: EBITDA margin to expand 130bp over FY24-27E



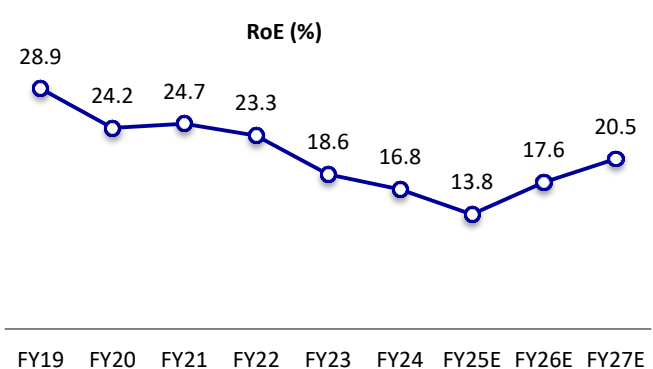
Source: MOFSL, Company

Exhibit 7: PAT to exhibit 42% CAGR over FY24-26E



Source: MOFSL, Company

Exhibit 8: RoE to expand to 21% by 27E



Source: MOFSL, Company

Financial and valuations

Consolidated - Income Statement							(INR m)
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	12,119	13,470	16,851	20,091	29,747	33,918	39,168
Change (%)	12.8	11.2	25.1	19.2	48.1	14.0	15.5
Total Expenditure	7,813	8,621	11,484	13,129	19,276	22,013	25,067
EBITDA	4,306	4,850	5,368	6,962	10,471	11,905	14,100
Margin (%)	35.5	36.0	31.9	34.7	35.2	35.1	36.0
Depreciation	430	647	1,171	1,830	3,228	3,236	3,233
EBIT	3,876	4,203	4,197	5,132	7,243	8,669	10,867
Int. and Finance Charges	18	41	262	848	2,349	1,517	977
Other Income	87	261	112	238	297	339	392
PBT bef. EO Exp.	3,945	4,422	4,046	4,522	5,192	7,491	10,282
EO Items	0	0	0	-214	0	0	0
PBT after EO Exp.	3,945	4,422	4,046	4,308	5,192	7,491	10,282
Total Tax	394	364	305	342	1,272	1,820	2,529
Tax Rate (%)	10.0	8.2	7.5	7.9	24.5	24.3	24.6
Minority Interest	0	0	80	-51	147	154	162
Reported PAT	3,551	4,058	3,822	3,916	3,773	5,517	7,591
Adjusted PAT	3,551	4,058	3,822	4,021	3,773	5,517	7,591
Change (%)	19.9	14.3	-5.8	5.2	-6.2	46.2	37.6
Margin (%)	29.3	30.1	22.7	20.0	12.7	16.3	19.4

Consolidated - Balance Sheet							(INR m)
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	136	136	136	136	136	136	136
Total Reserves	15,628	18,947	21,824	25,725	28,742	33,503	40,337
Net Worth	15,764	19,083	21,960	25,861	28,878	33,639	40,473
Minority Interest	0	-1	247	6,359	6,359	6,359	6,359
Total Loans	0	450	8,300	27,353	21,353	16,853	10,853
Deferred Tax Liabilities	-1,511	-1,970	-163	2,359	2,359	2,359	2,359
Capital Employed	14,253	17,562	30,344	61,931	58,948	59,209	60,044
Gross Block	1,757	2,506	4,634	6,726	6,943	7,088	7,221
Less: Accum. Deprn.	978	1,294	1,594	2,164	2,847	3,408	3,966
Net Fixed Assets	779	1,212	3,040	4,562	4,096	3,679	3,254
Gross intangible asset	7,366	7,439	20,546	32,621	32,621	32,621	32,621
Accumulated amortization	541	873	1,744	3,004	5,548	8,223	10,898
Net intangible asset	6,825	6,566	18,803	29,617	27,073	24,398	21,723
Goodwill on Consolidation	935	935	3,318	8,612	8,612	8,612	8,612
Capital WIP	16	270	217	197	99	85	82
Total Investments	2,940	5,204	367	155	155	155	155
Curr. Assets, Loans&Adv.	4,847	6,103	8,189	24,276	27,005	31,514	36,808
Inventory	945	1,179	1,314	1,890	2,775	3,169	3,609
Account Receivables	1,405	1,610	2,927	4,220	6,248	7,124	8,227
Cash and Bank Balance	383	523	560	942	134	870	1,472
Loans and Advances	2,114	2,791	3,387	17,224	17,848	20,351	23,501
Curr. Liability & Prov.	2,088	2,728	3,590	5,487	8,092	9,233	10,591
Account Payables	1,026	1,178	1,248	2,683	3,940	4,499	5,124
Other Current Liabilities	474	839	1,207	1,656	2,453	2,797	3,230
Provisions	588	712	1,136	1,148	1,699	1,938	2,237
Net Current Assets	2,759	3,375	4,599	18,789	18,913	22,280	26,217
Appl. of Funds	14,253	17,562	30,344	61,931	58,948	59,209	60,044

Financial and valuations

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
EPS	25.8	29.5	27.8	29.2	27.4	40.1	55.2
Cash EPS	29.0	34.2	36.3	42.6	50.9	63.7	78.7
BV/Share	114.6	138.8	159.7	188.1	210.0	244.6	294.4
DPS	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Payout (%)	21.3	18.6	19.8	19.3	20.0	13.7	10.0
Valuation (x)							
P/E	47.5	41.5	44.1	41.9	44.7	30.6	22.2
Cash P/E	42.3	35.8	33.8	28.8	24.1	19.3	15.6
P/BV	10.7	8.8	7.7	6.5	5.8	5.0	4.2
EV/Sales	13.9	12.5	10.5	9.7	6.4	5.4	4.5
EV/EBITDA	39.1	34.7	32.8	28.0	18.1	15.5	12.6
Dividend Yield (%)	0.4	0.4	0.4	0.4	0.4	0.4	0.4
FCF per share	25.4	18.8	-40.0	-15.3	59.2	53.3	58.9
Return Ratios (%)							
RoE	24.7	23.3	18.6	16.8	13.8	17.6	20.5
RoCE	24.8	23.2	16.0	11.8	11.0	13.5	16.7
RoIC	32.9	34.3	19.0	10.5	9.2	11.3	14.1
Working Capital Ratios							
Inventory (Days)	28	32	28	34	34	34	34
Debtor (Days)	42	44	63	77	77	77	77
Creditor (Days)	31	32	27	49	48	48	48
Leverage Ratio (x)							
Net Debt/Equity	-0.2	-0.3	0.3	1.0	0.7	0.5	0.2

Consolidated - Cash Flow Statement

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	3,945	4,422	4,046	4,312	5,192	7,491	10,282
Depreciation	430	647	1,171	1,826	3,228	3,236	3,233
Interest & Finance Charges	-5	41	262	848	2,051	1,178	585
Direct Taxes Paid	-685	-833	-772	-1,008	-1,272	-1,820	-2,529
(Inc)/Dec in WC	53	-299	-1,755	-987	-934	-2,631	-3,335
CF from Operations	3,738	3,979	2,952	4,992	8,265	7,453	8,235
Others	16	-196	-34	-131	0	0	0
CF from Operating incl EO	3,754	3,783	2,917	4,860	8,265	7,453	8,235
(Inc)/Dec in FA	-257	-1,203	-8,413	-6,960	-120	-130	-130
Free Cash Flow	3,497	2,580	-5,495	-2,100	8,145	7,323	8,105
(Pur)/Sale of Investments	-2,946	-1,881	4,904	-11,656	0	0	0
Others	-17	-112	-6,313	70	297	339	392
CF from Investments	-3,220	-3,196	-9,821	-18,545	177	209	262
Issue of Shares	0	0	0	45	0	0	0
Inc/(Dec) in Debt	-59	450	7,850	14,628	-6,000	-4,500	-6,000
Interest Paid	-18	-39	-234	-773	-2,349	-1,517	-977
Dividend Paid	-747	-816	-999	0	-756	-756	-756
Others	0	-42	264	168	-147	-154	-162
CF from Fin. Activity	-824	-447	6,880	14,069	-9,252	-6,927	-7,895
Inc/Dec of Cash	-291	140	-23	384	-809	736	602
Opening Balance	673	384	523	560	944	134	870
Others	0	0	60	0	0		
Closing Balance	383	523	560	944	134	870	1,472

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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

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