

BUY

TP: Rs 730 | ▲ 24%

ERIS LIFESCIENCES

Pharmaceuticals

05 March 2021

NDR takeaways – Execution on track

We hosted virtual investor meetings with V Krishnakumar, COO of Eris Lifesciences (ERIS). Management reiterated its strong FY22 outlook of 15% sales growth, 37%+ EBITDA margins and stronger cash generation. Launch of new molecules in the core cardio-metabolic segment, doctor reach expansion, productivity improvements and tech initiatives are key priorities that will underpin operating leverage in coming years. Retain BUY; Mar'22 TP Rs 730.

Retains strong FY22 outlook; emerging off-patent upsides to favour ERIS:

While ERIS maintained its FY22 sales growth guidance of 15%, margin expansion looks upbeat led by the core portfolio (37%+ margins by FY23 vs. 35% in FY21E). Management is targeting 12+ launches each year including extensions. Doctor reach has risen by 25%+ vs. FY20. Tailwinds from future off-patent opportunities (Empagliflozin, Linagliptin) are strong – ERIS believes each of these molecules could be a Rs 10bn market in the next four years.

Zomelis traction better than expected – payback in 3-4 years: Zomelis has grown 60%+ in volume terms and 26%+ in value terms led by generics which have captured 60% of the market (generics priced at 60% discount to innovator). Zomelis is clocking a sales run-rate of Rs 40mn per month, well above its FY21 target of Rs 400mn. ERIS envisages cash flow payback in 3-4 years.

Jan'21 continues to see healthy momentum; new launches on track: ERIS posted healthy volume growth for its covered market vs. IPM in Jan'21. It continues to target 8-10 launches in the cardio-diabetic segment in FY22. Initial trends for newly launched molecules are encouraging – ERIS achieved the first rank in Gluxit (Dapagliflozin: 21+ players, 40% generic share) and Zayo (Sacubitril + Valsartan) despite intense generic competition. Gluxit/Zayo are clocking sales of Rs 20mn/10mn per month. The company is well on track for three launches in Q4FY21 (including Dapagliflozin + Metformin combo).

Other takeaways: (1) Exploring in-licensing opportunities in non-core therapies of CNS, derma and gynaecology. (2) Trade generics not a focus area; can achieve 10% EBITDA margins. (3) Adequate capacity available at Guwahati unit for next five years – now operating at 45% on single-shift basis (scalable to three shifts). About 20% of products outsourced. (4) Dapa can outpace Vildagliptin's 26% growth as it has multiple benefits in diabetes, heart failure and chronic kidney disease. (5) ~6% of sales under price control; not heard of any new DPCO list.

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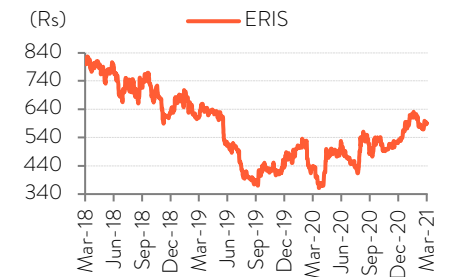
Ticker/Price	ERIS IN/Rs 590
Market cap	US\$ 1.1bn
Shares o/s	136mn
3M ADV	US\$ 1.5mn
52wk high/low	Rs 643/Rs 321
Promoter/FPI/DII	54%/11%/11%

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY21E	FY22E	FY23E
Total revenue (Rs mn)	11,903	13,566	15,355
EBITDA (Rs mn)	4,174	4,971	5,806
Adj. net profit (Rs mn)	3,346	4,113	4,910
Adj. EPS (Rs)	24.6	30.3	36.2
Adj. EPS growth (%)	12.9	22.9	19.4
Adj. ROAE (%)	25.7	26.0	25.5
Adj. P/E (x)	23.9	19.5	16.3
EV/EBITDA (x)	18.8	15.6	12.9

Source: Company, BOBCAPS Research

STOCK PERFORMANCE

Source: NSE

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): ERIS LIFESCIENCES (ERIS IN)



B – Buy, A – Add, R – Reduce, S – Sell

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