

BUY
 TP: Rs 1,418 | ▲ 15%

ERIS LIFESCIENCES

Pharmaceuticals

05 February 2025

First player to launch GLP products in India

- Base domestic growth at 12% vs IMP growth of 8% due to new product launches and price increase
- To be first player to launch Semaglutide in Indian market (Rs 20bn-30bn market size) and Liraglutide launch to fetch Rs 10mn in sales monthly
- We maintain our BUY rating and value the stock at a P/E of 34x on Dec'26 rollover to yield a TP of Rs 1,418 (earlier Rs 1,648)

Foram Parekh

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Earnings below our estimates: ERIS's revenue declined by 3% YoY to Rs 7.2bn in Q3FY25, supported by the base domestic branded formulations business clocking sales of 11% ex of Biocon and 12% including Biocon. Change in business mix post acquiring Biocon portfolio and increase in raw material cost resulted in a 600bps drop in gross margin to 75.7%. EBITDA margin declined 168bps YoY to 34.4%, despite 43% YoY growth in EBITDA. During the quarter, the tax rate was 25% vs 12% in 3QFY24, resulting in a 19% YoY decline in PAT.

To be first participant of Semaglutide: ERIS has entered a strategic partnership for the launch of Semaglutide in the Indian market and expects the market to be Rs 20bn-30bn. Also, ERIS launched Liraglutide in India in Sep'24, which is clocking sales of Rs 10mn monthly. With the success of Liraglutide, we believe the company can scale up to tap the opportunity of GLP1 products in the Indian market.

Healthy product pipeline to sustain higher margins: EBITDA margin for the quarter was down by 168bps YoY due to lower gross margin. However, Insulin gross margin is expected to rise from 60% to 72% with the commissioning of the Bhopal plant and subsequent increase in overall gross margin. We expect ERIS to maintain EBITDA margin of 34-35% in FY25 driven by (1) higher productivity, (2) fixed-cost synergies through acquisition, and (3) several new launches in H2 mostly First to File (FtF).

Fully-integrated biologics: ERIS's profitability is expected to increase due to its fully vertically-integrated biologics presence, where it will conduct activities like product development and commercial manufacturing through Levim, fill finish through Chemman Labs and market products through Biocon's acquired portfolio.

Valuation outlook: We maintain our BUY rating and value the stock at a P/E of 34x on Dec'26 rollover to yield a TP of Rs 1,418 (earlier Rs 1,648). We expect such a premium valuation to sustain due to: (1) launch of GLP products in wave 1, (2) higher traction in value-added products, and (3) synergies from acquired businesses.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ERIS IN/Rs 1,232
Market cap	US\$ 1.9bn
Free float	29%
3M ADV	US\$ 2.0mn
52wk high/low	Rs 1,594/Rs 809
Promoter/FPI/DII	55%/13%/16%

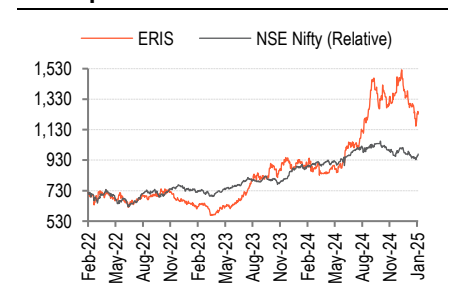
Source: NSE | Price as of 4 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	20,092	29,741	34,372
EBITDA (Rs mn)	6,748	10,214	11,924
Adj. net profit (Rs mn)	3,920	3,577	5,174
Adj. EPS (Rs)	28.9	26.3	38.1
Consensus EPS (Rs)	28.9	32.9	42.3
Adj. ROAE (%)	15.7	12.3	16.5
Adj. P/E (x)	42.7	46.8	32.3
EV/EBITDA (x)	25.4	17.5	15.3
Adj. EPS growth (%)	2.6	(8.7)	44.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

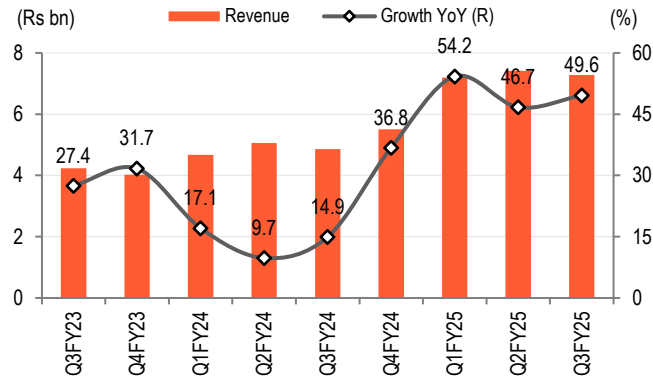


Fig 1 – Financial Highlights

(Rs mn)	Q3FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)	FY24	FY25E	FY26E	FY27E
Net Sales	7,275	4,863	49.6	7,412	(1.9)	21,883	14,582	50.1	19,914	29,531	34,162	39,370
Other Related Income												
Total Income						21,883	14,582		19,914	29,531	34,162	39,370
Total Expenses	4,771	3,108		4,767		14,235	9,318		13,343	19,527	22,448	25,438
(%) of net sales	66	64		64		65	64		67	66	66	65
Raw material consumed	1,769	889	99	1,863	(5.0)	5,437	2,619	108	3,800	4,725	5,124	5,118
(%) of net sales	24	18		25		25	18		19	16	15	13
Staff cost	1,254	987	27	1,256	(0.2)	3,836	3,013	27	4,038	6,497	7,516	8,661
(%) of net sales	17	20	(305)	17		17.5	21	(313)	20	22	22	22
SG&A	1,749	1,232	42	1,648	6.1	4,962	3,686	35	5,505	8,305	9,808	11,658
(%) of net sales	24	25	(130)	22		23	25		28	28	29	30
EBITDA	2,503	1,755	42.6	2,645	(5.4)	7,648	5,264	45.3	6,748	10,214	11,924	14,143
Depreciation	812	457	78	805	1	2,376	1,287		1,826	3,295	3,425	3,373
EBIT	1,691	1,298	30.3	1,840	(8.1)	5,272	3,977	32.6	4,922	6,919	8,500	10,770
Interest	572	181	216	595	(4)	1,770	518		848	2,408	2,080	1,780
Other Income	42	42	1	46	(7)	104	87		238	140	279	261
PBT	1,162	1,159	0.2	1,291	(10.0)	3,606	3,546	1.7	4,313	4,651	6,698	9,250
Less: Taxation	292	144	103	328	(11)	879	372		342	1,023	1,474	2,035
Minority Interest/Associate	33	(13)	(359)	48	(31)	37	(12)		51	51	51	51
Recurring PAT	836	1,027	(18.6)	916	(8.7)	2,690	3,186	(15.6)	3,920	3,577	5,174	7,165
Exceptional items	0	0		0		0	0		0	0	0	0
Reported PAT	836	1,027	(18.6)	916	(8.7)	2,690	3,186	(15.6)	3,920	3,577	5,174	7,165
Key Ratios (%)												
Gross Margin	75.7	81.7	(604)	74.9	82	75.2	82.0	(689)	80.9	84.0	85.0	87.0
EBITDA Margin	34.4	36.1	(168)	35.7	(128)	34.9	36.1	(115)	33.9	34.6	34.9	35.9
Tax / PBT	25.2	12.4	1273	25.4	(21)	24.4	10.5		7.9	22.0	22.0	22.0
NPM	11.5	21.1	(963)	12.4	(86)	12.3	21.9		19.7	12.1	15.1	18.2
EPS (Rs)	6.1	7.6	(18.6)	6.7	(8.7)	19.8	23.4		28.9	26.4	38.1	52.8

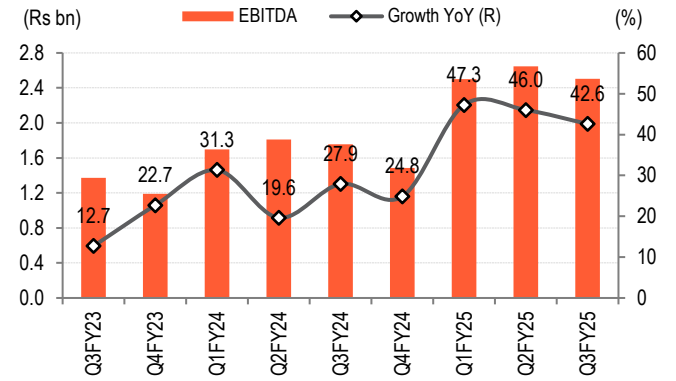
Source: Company, BOBCAPS Research

Fig 2 – Revenue growth driven by higher domestic base portfolio



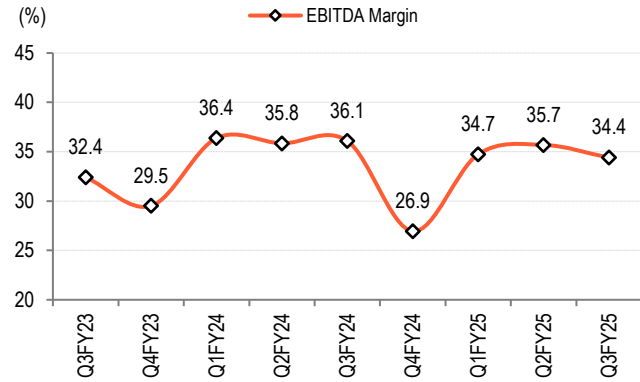
Source: Company, BOBCAPS Research

Fig 3 – EBITDA growth maintained above 40%



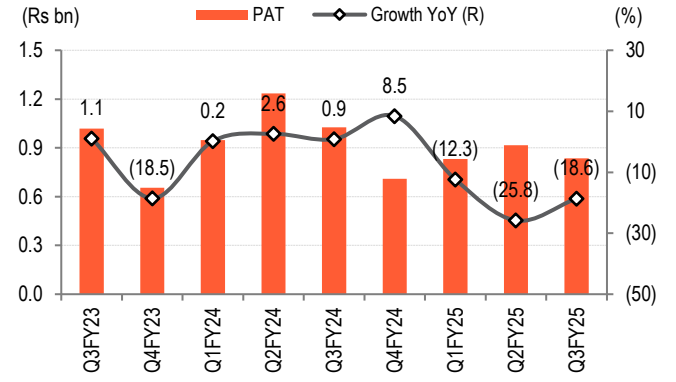
Source: Company, BOBCAPS Research

Fig 4 – Lower gross margin resulted in lower EBITDA margin



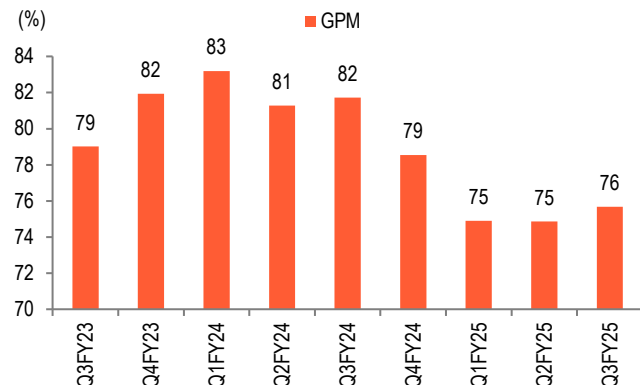
Source: Company, BOBCAPS Research

Fig 5 – PAT growth lower due to higher ETR



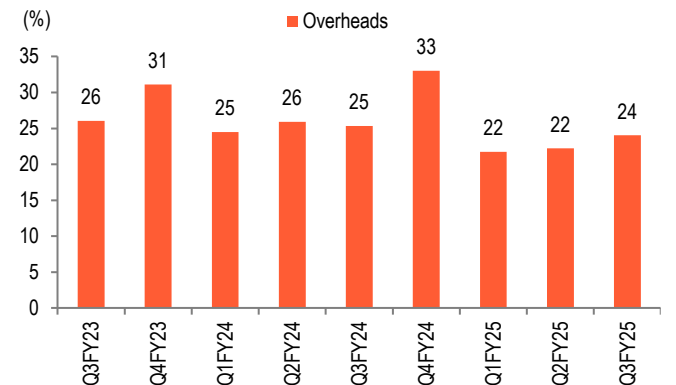
Source: Company, BOBCAPS Research

Fig 6 – Gross profit margin declined due to integration of Biocon’s portfolio



Source: Company, BOBCAPS Research

Fig 7 – SG&A overheads overall maintained



Source: Company, BOBCAPS Research

Concall highlights

Domestic business: Excluding Biocon, sales growth was 11%. Including Biocon, it was 12%.

Biocon business: It has grown much faster than 12%. But because the salience in the overall base is smaller, it moved from 11% to 12%.

Insulin business: Some shortages were created by the largest player. And these shortages have been there for some time. According to management, those shortages are giving the company and other players a chance to grow better. It expects plain human insulins, especially in cartridges, to give ERIS more room to grow going forward. The only caveat is the supply should get back to the right levels which management thinks should happen from March.

Insulin's gross margin: Currently it is at 60% and management expects it to rise to 72% with the commissioning of the Bhopal unit. It expects 80% in-house production from the current 60%.

Swiss Parental margin: Management believes whichever quarter sees more beta-lactam sales, margins will be lower. So it needs to be optimised and looked at on a YoY basis.

Semaglutide: ERIS is aiming to launch Semaglutide in the first quarter of the next calendar year. Seven people have already applied for the clinical trials. There are a couple of people in the clinical trial that has already started and ERIS has tied up with one of them.

India business pipeline: ERIS launched PEG asparaginase in Jan'25. It expects to launch Semaglutide in Jan'26, and target two more diabetes products.

Valuation methodology

ERIS has transformed its earlier business focus from Anti Diabetes to Super Speciality Therapies like oncology, nephrology and auto immune by acquiring Biocon's portfolio. ERIS has acquired many assets over the past two years, and expects them to scale up further. It has largely acquired Chronic portfolios, which when scaled up are expected to increase its chronic contributions.

We remain positive on ERIS given sustained traction in the base business and the acquired portfolios of Biocon. ERIS is also expected to be the first player in the Semaglutide launch in the Indian market. Hence, we maintain BUY on the stock. We expect the company's earnings to grow at a CAGR of 42% over FY25E-27E due to its strong domestic business and higher margin trajectory. We value the stock at a P/E of 34x on Dec'26, to yield a TP of Rs 1,418 (earlier Rs 1,648) reflecting gross margin improvement, healthy insulin sales and a fully vertically-integrated biologics facility.

Fig 8 – Revised estimates

(Rs mn)	Actual	New			Old			Change (%)		
	FY24	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	20,092	29,741	34,372	39,580	29,741	34,372	39,580	0.0	0.0	0.0
EBITDA	6,748	10,214	11,924	14,143	10,214	11,924	14,143	0.0	0.0	0.0
EBITDA margin (%)	33.6	34.3	34.7	35.7	34.3	34.7	35.7	0.0	0.0	0.0
EPS (Rs)	28.8	26.3	38.1	52.8	30.8	43.5	56.1	(14.7)	(12.6)	(6.2)

Source: Company, BOBCAPS Research

Fig 9 – Key assumption

Key assumptions	FY24	FY25E	FY26E	FY27E
Sales	20,092	29,741	34,372	39,580
EBITDA	6,748	10,214	11,924	14,143
PAT	3,920	3,577	5,174	7,165
EPS (Rs)	28.9	26.3	38.1	52.8
EBITDA Margin (%)	33.59	34.34	34.69	35.73
PAT Margin (%)	19.51	12.03	15.05	18.10

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- a delay in paring debt would impact earnings,
- delays in launching/ramping up new products, and
- weaker supply security of products not manufactured in-house.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	16,851	20,092	29,741	34,372	39,580
EBITDA	5,367	6,748	10,214	11,924	14,143
Depreciation	1,171	1,826	3,295	3,425	3,373
EBIT	4,197	4,922	6,919	8,500	10,770
Net interest inc./(exp.)	(262)	(848)	(2,408)	(2,080)	(1,780)
Other inc./(exp.)	112	238	140	279	261
Exceptional items	0	0	0	0	0
EBT	4,046	4,313	4,651	6,698	9,250
Income taxes	305	342	1,023	1,474	2,035
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(80)	51	51	51	51
Reported net profit	3,822	3,920	3,577	5,174	7,165
Adjustments	0	0	0	0	0
Adjusted net profit	3,822	3,920	3,577	5,174	7,165

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	1,248	2,683	4,854	7,488	10,786
Other current liabilities	966	1,196	1,477	1,708	1,969
Provisions	1,136	1,148	1,702	1,969	2,269
Debt funds	8,767	27,813	44,603	38,603	32,603
Other liabilities	0	0	0	0	0
Equity capital	136	136	136	136	136
Reserves & surplus	21,908	34,443	36,117	39,070	43,697
Shareholders' fund	22,044	34,579	36,253	39,207	43,833
Total liab. and equities	34,160	67,419	88,889	88,974	91,460
Cash and cash eq.	585	14,006	27,898	26,086	26,040
Accounts receivables	2,927	4,220	7,039	9,079	11,541
Inventories	1,314	1,890	2,832	3,276	3,775
Other current assets	3,068	3,675	5,345	6,183	7,126
Investments	367	155	155	155	155
Net fixed assets	3,560	5,046	2,751	1,326	(47)
CWIP	217	197	197	197	197
Intangible assets	22,121	38,229	42,672	42,672	42,672
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	34,160	67,419	88,889	88,974	91,460

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	4,102	5,797	6,855	10,488	12,272
Capital expenditures	(9,723)	(8,643)	(1,000)	(2,000)	(2,000)
Change in investments	4,837	212	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(4,886)	(8,431)	(1,000)	(2,000)	(2,000)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	7,923	19,046	16,790	(6,000)	(6,000)
Interest expenses	(262)	(848)	(2,408)	(2,080)	(1,780)
Dividends paid	(1,269)	(1,586)	(1,903)	(2,221)	(2,538)
Other financing cash flows	(5,547)	(556)	(4,443)	0	0
Cash flow from financing	846	16,056	8,036	(10,301)	(10,318)
Chg in cash & cash eq.	62	13,421	13,892	(1,812)	(45)
Closing cash & cash eq.	585	14,006	27,898	26,086	26,040

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	28.1	28.9	26.3	38.1	52.8
Adjusted EPS	28.1	28.9	26.3	38.1	52.8
Dividend per share	8.0	10.0	12.0	14.0	16.0
Book value per share	160.5	207.8	220.2	241.9	276.0

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	9.9	8.5	6.0	5.3	4.6
EV/EBITDA	31.1	25.4	17.5	15.3	12.9
Adjusted P/E	43.8	42.7	46.8	32.3	23.3
P/BV	7.7	5.9	5.6	5.1	4.5

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	94.4	90.9	76.9	77.2	77.5
Interest burden (PBT/EBIT)	96.4	87.6	67.2	78.8	85.9
EBIT margin (EBIT/Revenue)	24.9	24.5	23.3	24.7	27.2
Asset turnover (Rev./Avg TA)	17.3	10.8	10.4	10.8	12.8
Leverage (Avg TA/Avg Equity)	1.3	1.9	2.5	2.5	2.2
Adjusted ROAE	19.6	15.7	12.3	16.5	20.4

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	25.1	19.2	48.0	15.6	15.2
EBITDA	10.7	25.7	51.4	16.7	18.6
Adjusted EPS	(5.9)	2.6	(8.7)	44.6	38.5
Profitability & Return ratios (%)					
EBITDA margin	31.9	33.6	34.3	34.7	35.7
EBIT margin	24.9	24.5	23.3	24.7	27.2
Adjusted profit margin	22.7	19.5	12.0	15.1	18.1
Adjusted ROAE	19.6	15.7	12.3	16.5	20.4
ROCE	17.7	11.1	9.9	11.1	14.3
Working capital days (days)					
Receivables	64	77	87	97	107
Inventory	29	35	35	35	35
Payables	27	49	60	80	100
Ratios (x)					
Gross asset turnover	1.0	1.0	1.4	1.5	1.6
Current ratio	2.4	4.7	5.4	4.0	3.2
Net interest coverage ratio	16.0	5.8	2.9	4.1	6.0
Adjusted debt/equity	0.4	0.5	0.6	0.4	0.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

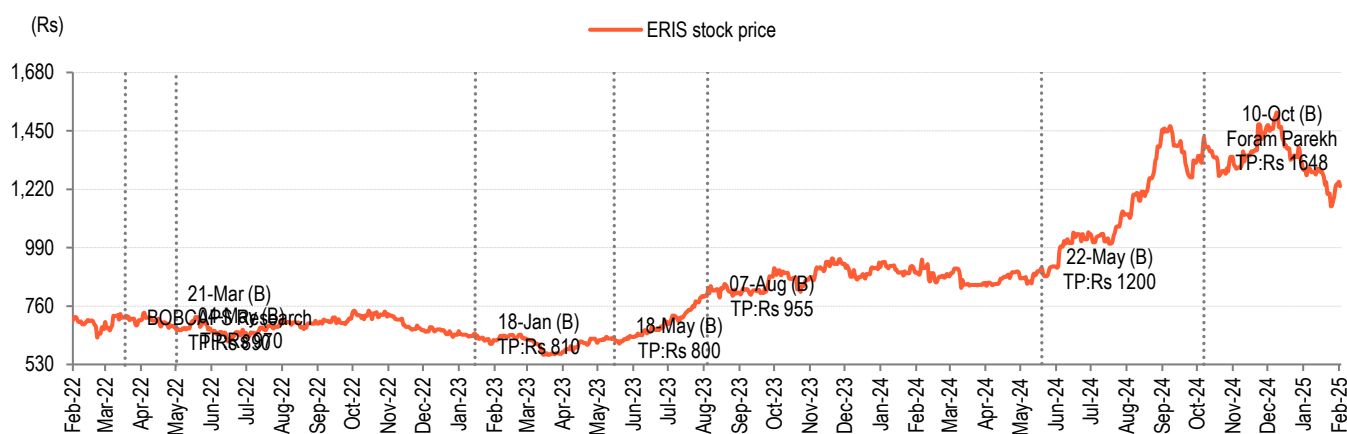
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): ERIS LIFESCIENCES (ERIS IN)



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

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