

**BUY**

TP: Rs 1,200 | ▲ 32%

**ERIS LIFESCIENCES**

Pharmaceuticals

22 May 2024

**Strong revenue growth; integration ongoing**

- ERIS posted strong revenue performance in Q4 with a beat of 8%, but EBITDA came below BBG consensus due to higher opex and one-offs
- Expects to reduce debt by Rs 4bn in FY25 and lower it to ~ Rs 20bn by FY26 from ~Rs 30bn in FY24
- We expect ERIS to post 23% earnings CAGR over FY24-26E. Revise TP to Rs 1,200 (from Rs 955) based on 15x FY26E EV/EBITDA

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**Robust revenue growth:** ERIS’s revenue grew strongly at 37% YoY to Rs 5.5bn in Q4FY24 and 19% in FY24 to Rs 20.1bn, supported by traction in new therapies and acquired businesses. In secondary terms, ERIS grew at 14.4% in Q4 as per the IQVIA and outperformed Indian Pharma market (IPM) by 507bps. The newly-acquired business of Swiss Parenterals contributed Rs 550mn to revenue in Q4. ERIS highlighted the visibility of 20+ first-in-market launches through the R&D pipeline. It expects the domestic branded formulations business to clock 12-14% organic growth for FY25. With its diversification exercise (FY22-24), ERIS’s concentration in top-3 therapies has reduced to 54% from 80%. Emerging therapies (Derma, Insulins, WHC, CNS, Onco, Nephro) now account for ~40%.

**Higher opex and one-offs impact margins:** EBITDA for the quarter grew 25% YoY to Rs 1.5bn, 16% below Bloomberg expectations due to higher opex, one-offs and lower capacity utilisation of the newly commissioned plant. Gross/EBITDA margin came in at 78.5%/26.9%, contractions of 340bps/260bps YoY. The gross margin contraction was due to the change in product mix. We expect ERIS to maintain EBITDA margin at 34-35% due to integration-related costs. The excess operational cost associated with the Ahmedabad plant will be normalised by the end of 4QFY25.

**Earnings call highlights:** (1) Organic revenue growth of 12-14% for FY25 on domestic branded formulation base business of FY24; expect to maintain EBITDA margin of 36%. (2) Good visibility of 20+ “first-in-market” launches through own R&D pipeline. (3) Capex for new “fill-finish” blocks of hormones and insulins at Ahmedabad facility amounting to Rs 700mn-800mn. (4) There was a one-time expense of Rs 210m related to SAP implementation, deal-related expenses, and donations.

**Maintain BUY; raise TP to Rs 1,200:** We expect ERIS to post 23% earnings growth over FY24-26E and EBITDA margin in the range of 34-35%. We apply 15x FY26E EV/EBITDA – an implied P/E of 25x – to arrive at a revised TP of Rs 1,200 from Rs 955. Reiterate BUY.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	ERIS IN/Rs 908
Market cap	US\$ 1.5bn
Free float	29%
3M ADV	US\$ 1.6mn
52wk high/low	Rs 972/Rs 611
Promoter/FPI/DII	55%/13%/16%

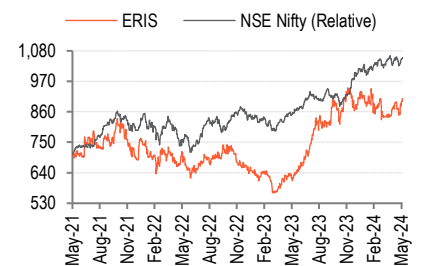
Source: NSE | Price as of 22 May 2024

**Key financials**

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	20,092	29,741	34,504
EBITDA (Rs mn)	6,748	10,007	11,971
Adj. net profit (Rs mn)	3,920	4,032	5,968
Adj. EPS (Rs)	28.9	29.7	44.0
Consensus EPS (Rs)	28.9	32.9	42.3
Adj. ROAE (%)	15.7	13.8	18.5
Adj. P/E (x)	31.4	30.6	20.7
EV/EBITDA (x)	18.8	13.4	11.6
Adj. EPS growth (%)	2.6	2.9	48.0

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**



Source: NSE

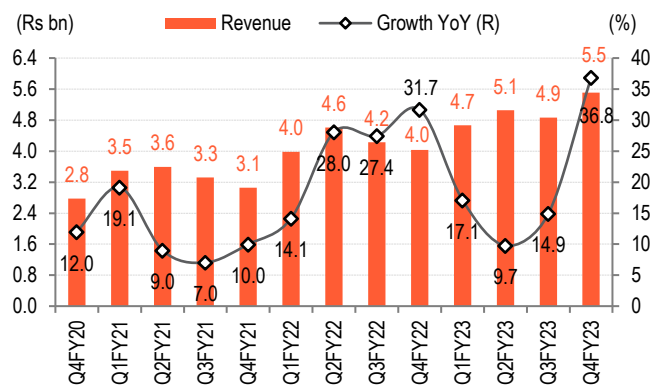


**Fig 1 – Quarterly performance**

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
<b>Revenue</b>	<b>5,509</b>	<b>4,028</b>	<b>36.8</b>	<b>4,863</b>	<b>13.3</b>	<b>20,091</b>	<b>16,852</b>	<b>19.2</b>
<b>EBITDA</b>	<b>1,484</b>	<b>1,189</b>	<b>24.8</b>	<b>1,755</b>	<b>(15.4)</b>	<b>6,748</b>	<b>5,368</b>	<b>25.7</b>
Depreciation	539	351	53	457	18	1,826	1,171	-
<b>EBIT</b>	<b>945</b>	<b>838</b>	<b>12.9</b>	<b>1,298</b>	<b>(27.2)</b>	<b>4,922</b>	<b>4,197</b>	<b>17.3</b>
Interest	330	89	273	181	82	848	262	-
Other Income	151	10	-	42	-	238	112	-
PBT	766	759	1.0	1,159	(33.9)	4,312	4,047	6.6
Less: Taxation	(30)	144	-	144	-	342	305	-
Minority Interest/Associate	87	(39)	-	(13)	-	51	(80)	-
<b>Recurring PAT</b>	<b>710</b>	<b>654</b>	<b>8.5</b>	<b>1,027</b>	<b>(30.9)</b>	<b>3,920</b>	<b>3,822</b>	<b>2.6</b>
Exceptional items	0	0	-	0	-	0	0	-
<b>Reported PAT</b>	<b>710</b>	<b>654</b>	<b>8.5</b>	<b>1,027</b>	<b>(30.9)</b>	<b>3,920</b>	<b>3,822</b>	<b>2.6</b>
<b>Key Ratios (%)</b>								
			(bps)		(bps)			(bps)
Gross Margin	78.5	81.9	(339)	81.7	(318)	81.1	79.1	199
EBITDA Margin	26.9	29.5	(257)	36.1	(915)	33.6	31.9	174
Tax / PBT	(3.9)	19.0	-	12.4	-	7.9	7.5	-
NPM	12.9	16.2	-	21.1	-	19.5	22.7	-
EPS (Rs)	5.2	4.8	8.5	7.6	(31.0)	28.9	28.2	2.6

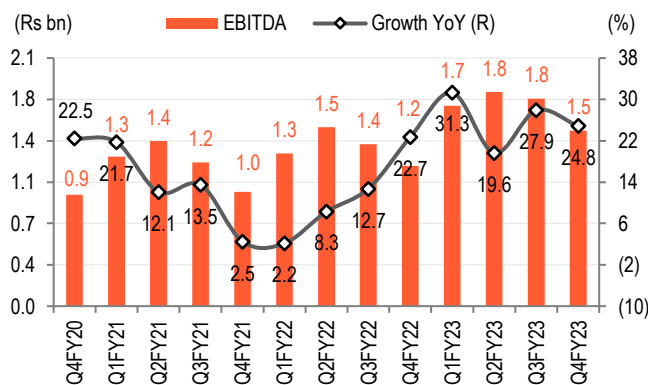
Source: Company, BOBCAPS Research

**Fig 2 – Revenue**



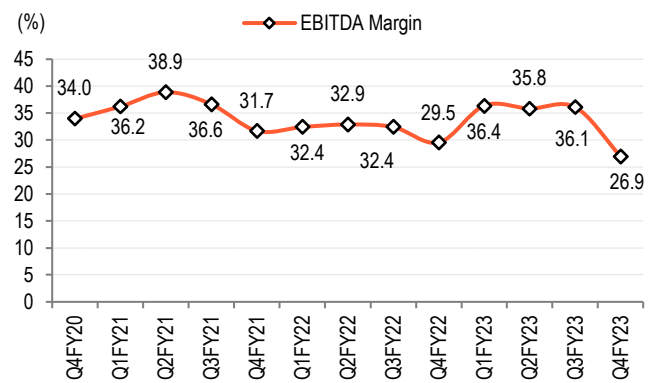
Source: Company, BOBCAPS Research

**Fig 3 – EBITDA**



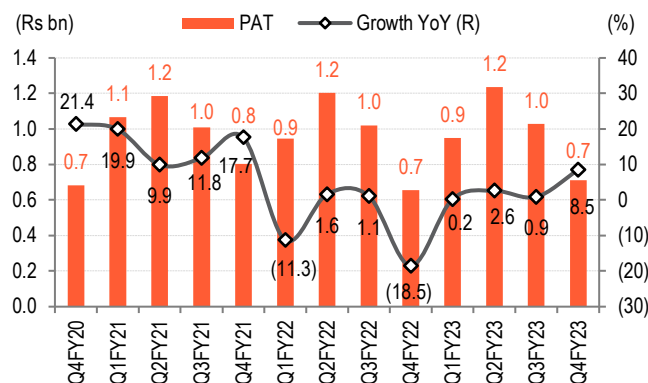
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA margin**



Source: Company, BOBCAPS Research

**Fig 5 – PAT**



Source: Company, BOBCAPS Research

## Valuation methodology

With total investments of Rs 35bn over FY23-24, ERIS has acquired interesting businesses primarily focused on the domestic market including Oaknet, a portfolio of brands from Dr. Reddy's and Glenmark Pharma, the acquisition of Derma, Nephro and injectable businesses from Biocon, and an international foray with the acquisition of Swiss Parenterals. ERIS is on track with regards to set objectives. Integration and optimisation of these businesses would bring in strong growth in coming years, in our view.

We expect ERIS to post 23% earnings growth over FY24-26 and maintain EBITDA margin at 34-35%. We apply 15x FY26E EV/EBITDA, an implied P/E of 25x, to arrive at a revised TP of Rs 1,200 from Rs 955.

**Fig 6 – Revised estimates**

(Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	29.7	34.5	22.7	NA	30.8	NA
EBITDA	10.0	12.0	8.6	NA	15.9	NA
EBITDA margin (%)	33.6	34.7	38.0	NA	(433)	NA
EPS (Rs)	29.7	44.0	40.4	NA	(26.6)	NA

Source: BOBCAPS Research

**Fig 7 – Key assumptions**

Rs bn	FY24A	FY25E	FY26E
Revenue	20.1	29.7	34.5
EBITDA	6.7	10.0	12.0
EBITDA margin (%)	33.6	33.6	34.7
EPS (Rs)	28.9	29.7	44.0

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- a delay in paring debt would impact earnings,
- delays in launch/ramp-up of new products,
- weaker supply security of products not manufactured in-house,
- adverse policy decision on fixed dose combination drugs, and
- inclusion of the company's products in the National List of Essential Medicines (NLEM) that carry a price cap.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	3.7	2,379	2,585	BUY
Alembic Pharma	ALPM IN	2.3	955	970	HOLD
Alkem Labs	ALKEM IN	7.7	5,304	4,800	SELL
Aurobindo Pharma	ARBP IN	8.7	1,223	1,100	HOLD
Cipla	CIPLA IN	14.6	1,482	1,576	BUY
Divi's Labs	DIVI IN	13.1	4,059	3,000	SELL
Dr Reddy's Labs	DRRD IN	11.9	5,873	5,900	HOLD
Eris Lifesciences	ERIS IN	1.5	908	1,200	BUY
Glenmark Life Sciences	GLS IN	1.2	832	790	HOLD
Laurus Labs	LAURUS IN	3.0	456	305	SELL
Lupin	LPC IN	9.5	1,716	1,600	HOLD
Sun Pharma	SUNP IN	44.9	1,539	1,550	HOLD

Source: BOBCAPS Research, NSE | Price as of 22 May 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Total revenue</b>	<b>13,470</b>	<b>16,851</b>	<b>20,092</b>	<b>29,741</b>	<b>34,504</b>
EBITDA	4,849	5,367	6,748	10,007	11,971
Depreciation	647	1,171	1,826	2,850	3,093
EBIT	4,202	4,197	4,922	7,157	8,878
Net interest inc./(exp.)	(41)	(262)	(848)	(2,408)	(2,080)
Other inc./(exp.)	261	112	238	420	854
Exceptional items	0	0	0	0	0
EBT	4,421	4,046	4,313	5,170	7,652
Income taxes	364	305	342	1,137	1,683
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(3)	(80)	51	0	0
<b>Reported net profit</b>	<b>4,060</b>	<b>3,822</b>	<b>3,920</b>	<b>4,032</b>	<b>5,968</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>4,060</b>	<b>3,822</b>	<b>3,920</b>	<b>4,032</b>	<b>5,968</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	1,178	1,248	2,683	3,641	4,228
Other current liabilities	411	966	1,196	1,477	1,715
Provisions	712	1,136	1,148	1,702	1,977
Debt funds	844	8,767	27,813	44,603	38,603
Other liabilities	0	0	0	0	0
Equity capital	136	136	136	136	136
Reserves & surplus	16,976	21,908	34,443	36,572	40,320
Shareholders' fund	17,112	22,044	34,579	36,708	40,456
<b>Total liab. and equities</b>	<b>20,256</b>	<b>34,160</b>	<b>67,419</b>	<b>88,130</b>	<b>86,978</b>
Cash and cash eq.	523	585	14,006	28,474	26,248
Accounts receivables	1,610	2,927	4,220	5,259	6,107
Inventories	1,179	1,314	1,890	2,832	3,288
Other current assets	2,320	3,068	3,675	5,345	6,207
Investments	5,204	367	155	155	155
Net fixed assets	1,679	3,560	5,046	3,196	2,103
CWIP	240	217	197	197	197
Intangible assets	7,501	22,121	38,229	42,672	42,672
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>20,256</b>	<b>34,160</b>	<b>67,419</b>	<b>88,130</b>	<b>86,978</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Cash flow from operations</b>	<b>4,384</b>	<b>4,102</b>	<b>5,797</b>	<b>7,432</b>	<b>10,075</b>
Capital expenditures	111	(9,723)	(8,643)	(1,000)	(2,000)
Change in investments	(2,263)	4,837	212	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(2,152)</b>	<b>(4,886)</b>	<b>(8,431)</b>	<b>(1,000)</b>	<b>(2,000)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	776	7,923	19,046	16,790	(6,000)
Interest expenses	(41)	(262)	(848)	(2,408)	(2,080)
Dividends paid	(951)	(1,269)	(1,586)	(1,903)	(2,221)
Other financing cash flows	(1,875)	(5,547)	(556)	(4,443)	0
<b>Cash flow from financing</b>	<b>(2,091)</b>	<b>846</b>	<b>16,056</b>	<b>8,036</b>	<b>(10,301)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>141</b>	<b>62</b>	<b>13,421</b>	<b>14,468</b>	<b>(2,226)</b>
<b>Closing cash &amp; cash eq.</b>	<b>523</b>	<b>585</b>	<b>14,006</b>	<b>28,474</b>	<b>26,248</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	29.9	28.1	28.9	29.7	44.0
Adjusted EPS	29.9	28.1	28.9	29.7	44.0
Dividend per share	6.0	8.0	10.0	12.0	14.0
Book value per share	126.0	160.5	207.8	223.5	251.1

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	9.1	7.3	6.3	4.5	4.0
EV/EBITDA	25.2	22.9	18.8	13.4	11.6
Adjusted P/E	30.4	32.3	31.4	30.6	20.7
P/BV	7.2	5.7	4.4	4.1	3.6

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	91.8	94.4	90.9	78.0	78.0
Interest burden (PBT/EBIT)	105.2	96.4	87.6	72.2	86.2
EBIT margin (EBIT/Revenue)	31.2	24.9	24.5	24.1	25.7
Asset turnover (Rev./Avg TA)	20.9	17.3	10.8	10.3	10.8
Leverage (Avg TA/Avg Equity)	1.0	1.3	1.9	2.5	2.5
<b>Adjusted ROAE</b>	<b>25.9</b>	<b>19.6</b>	<b>15.7</b>	<b>13.8</b>	<b>18.5</b>

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	11.1	25.1	19.2	48.0	16.0
EBITDA	12.6	10.7	25.7	48.3	19.6
Adjusted EPS	14.3	(5.9)	2.6	2.9	48.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	36.0	31.9	33.6	33.6	34.7
EBIT margin	31.2	24.9	24.5	24.1	25.7
Adjusted profit margin	30.1	22.7	19.5	13.6	17.3
Adjusted ROAE	25.9	19.6	15.7	13.8	18.5
ROCE	27.7	17.7	11.1	10.5	12.1
<b>Working capital days (days)</b>					
Receivables	44	64	77	65	65
Inventory	32	29	35	35	35
Payables	32	27	49	45	45
<b>Ratios (x)</b>					
Gross asset turnover	1.4	1.0	1.0	1.4	1.5
Current ratio	2.4	2.4	4.7	6.1	5.3
Net interest coverage ratio	101.3	16.0	5.8	3.0	4.3
<b>Adjusted debt/equity</b>	<b>0.0</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>

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

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**BUY** – Expected return >+15%

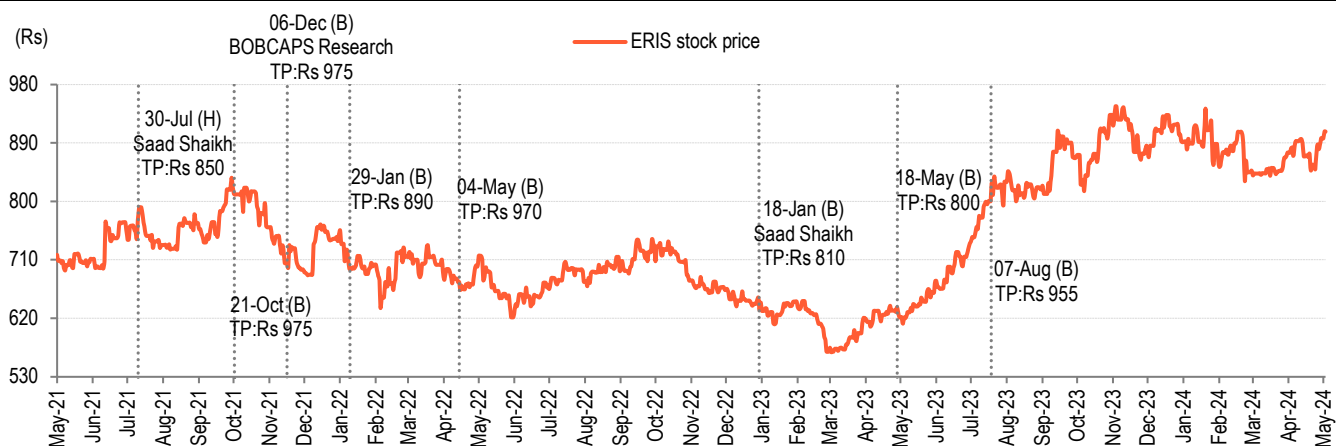
**HOLD** – Expected return from -6% to +15%

**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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