

November 21, 2019

## Management Meet Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
<b>Rating</b>	ACCUMULATE		ACCUMULATE	
<b>Target Price</b>	459		459	
Sales (Rs. m)	13,676	15,557	13,676	15,557
% Chng.	-	-	-	-
EBITDA (Rs. m)	4,992	5,678	4,992	5,678
% Chng.	-	-	-	-
EPS (Rs.)	33.2	37.9	33.2	37.9
% Chng.	-	-	-	-

### Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	10,213	12,022	13,676	15,557
EBITDA (Rs. m)	3,646	4,323	4,992	5,678
Margin (%)	35.7	36.0	36.5	36.5
PAT (Rs. m)	3,449	3,953	4,569	5,206
EPS (Rs.)	25.1	28.7	33.2	37.9
Gr. (%)	17.2	14.6	15.6	13.9
DPS (Rs.)	1.0	1.0	1.0	1.0
Yield (%)	0.2	0.2	0.2	0.2
RoE (%)	34.3	29.5	26.1	23.4
RoCE (%)	28.7	29.7	26.1	23.5
EV/Sales (x)	5.3	4.4	3.7	3.1
EV/EBITDA (x)	14.9	12.1	10.1	8.4
PE (x)	16.7	14.5	12.6	11.0
P/BV (x)	5.0	3.8	2.9	2.3

### Key Data

ERIS.BO | ERIS IN

52-W High / Low	Rs.746 / Rs.358
Sensex / Nifty	40,575 / 11,968
Market Cap	Rs.57bn / \$ 800m
Shares Outstanding	138m
3M Avg. Daily Value	Rs.149.43m

### Shareholding Pattern (%)

Promoter's	56.23
Foreign	6.06
Domestic Institution	13.44
Public & Others	24.27
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(1.2)	(31.0)	(31.8)
Relative	(4.3)	(33.8)	(40.9)

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## Launch of products, foray in new therapies, additions of MRs to drive growth

### Quick Pointers:

- Growth drivers from new sources
- MR additions and productivity to ensure margins

**We met the management of ERIS and came out confident on its growth plans. Eris plans to change its gear from defensive approach (In FY18 and 19) in India formulations with plans to expand franchisee of current portfolio, launches off-patent molecules, foray in new therapeutic areas, acquisitions of brands, in-licensing molecules and additions of new headcounts. With CNS portfolio return to growth path along with aggressive launches and superior MR productivity, our revenue assumptions discounted visible growth levers and discount in earnings growth 15% CAGR in FY19-21E. We maintain our recommendation 'Accumulate' and retain TP Rs459.**

### Key pointers of the meet:

- Revenue growth for FY19 was 17% YoY, of which 1-2% of growth was driven by new product introductions. Currently, NLEM listed products contributes 8.5% revenue.
- Plans to increase MR headcounts by 435 reps in FY20E to cumulative MR strength of 2,500 in FY20E. It added 145 MRs in H1FY20 and plans to add 190 MRs in H2FY20 for existing portfolio as well as additional 100 MRs for expansion of new division in cosmetics and derma portfolio.
- MR productivity currently is sales of Rs4.5lacs/ month, which dipped to Rs3.2lacs/ month post acquisition of CNS portfolio from Strides. Before the acquisition, Eris had productivity of Rs4.6lacs/ month. Eris has high attrition rate of 22-25% annually at entry level job of MRs, while it has stability at level of manager-designation and above.
- It guided for acquisition size which will not exceed 1.5x of net Debt/EBITDA. Its current net Debt/EBITDA is 0.4x.
- ERIS has In-licensed Sideral (Iron supplement) and TPIAO (blood platelet stabilizer) with foreign partner. It launched Sideral in October CY19 while applied for TPIAO to DCGI and expect to launch in FY21E (nearly 12 months require to receive approval for new molecules from DCGI).
- With renewed focus on newly off-patent molecule, ERIS created new cardio-metabolic division and plans to launch first molecule Vildagliptin, a newly off patent molecule for new generation diabetic treatment. Management plans to launch more such new molecules, which are to be off-patent such as Ticagrelor (Dec FY19E) and Sitagliptin including combinations (FY22).

- CNS portfolio from Strides is back on growth path and had revenues of Rs534m in Q2FY20 and Rs985m in H1FY20. The portfolio had annual revenues of Rs1.8bn before acquisition though the relevant revenues were Rs1.25m as ERIS rationalized many unfocused products including HCV portfolio.
- Geography-wise, ERIS has major contributions from South and West India while North and East India have lower revenue contributions. Its sales of Chronic and Sub-Chronic segments mainly contributed from southern India.
- Revenue contribution from Vitamins portfolio was 18% of total revenue and plans to launch couple more brands in FY20E and 21E. Tayo sales growth is now normalized from tepid growth due to inclusion of the drug in the NLEM list.
- Management guided for maintaining EBITDA margin at 35-36% and onwards, depending on product-mix

## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>10,213</b>	<b>12,022</b>	<b>13,676</b>	<b>15,557</b>
YoY gr. (%)	23.5	17.7	13.8	13.8
Cost of Goods Sold	1,604	1,856	2,051	2,334
Gross Profit	8,610	10,166	11,624	13,224
Margin (%)	84.3	84.6	85.0	85.0
Employee Cost	1,915	2,236	2,530	2,878
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>3,646</b>	<b>4,323</b>	<b>4,992</b>	<b>5,678</b>
YoY gr. (%)	24.2	18.6	15.5	13.8
Margin (%)	35.7	36.0	36.5	36.5
Depreciation and Amortization	364	339	420	451
<b>EBIT</b>	<b>3,283</b>	<b>3,984</b>	<b>4,572</b>	<b>5,227</b>
Margin (%)	32.1	33.1	33.4	33.6
Net Interest	0	0	0	0
Other Income	511	409	449	494
<b>Profit Before Tax</b>	<b>3,793</b>	<b>4,392</b>	<b>5,021</b>	<b>5,721</b>
Margin (%)	37.1	36.5	36.7	36.8
Total Tax	334	395	402	458
Effective tax rate (%)	8.8	9.0	8.0	8.0
<b>Profit after tax</b>	<b>3,459</b>	<b>3,997</b>	<b>4,620</b>	<b>5,264</b>
Minority interest	10	44	51	58
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>3,449</b>	<b>3,953</b>	<b>4,569</b>	<b>5,206</b>
YoY gr. (%)	17.3	14.6	15.6	13.9
Margin (%)	33.8	32.9	33.4	33.5
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,449</b>	<b>3,953</b>	<b>4,569</b>	<b>5,206</b>
YoY gr. (%)	17.3	14.6	15.6	13.9
Margin (%)	33.8	32.9	33.4	33.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,449	3,953	4,569	5,206
<b>Equity Shares O/s (m)</b>	<b>138</b>	<b>138</b>	<b>138</b>	<b>138</b>
<b>EPS (Rs)</b>	<b>25.1</b>	<b>28.7</b>	<b>33.2</b>	<b>37.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>8,051</b>	<b>8,271</b>	<b>8,521</b>	<b>8,771</b>
Tangibles	1,485	1,655	1,855	2,055
Intangibles	6,566	6,616	6,666	6,716
<b>Acc: Dep / Amortization</b>	<b>1,381</b>	<b>1,721</b>	<b>2,140</b>	<b>2,592</b>
Tangibles	931	960	1,317	1,685
Intangibles	450	761	823	907
<b>Net fixed assets</b>	<b>6,669</b>	<b>6,550</b>	<b>6,381</b>	<b>6,179</b>
Tangibles	553	695	538	370
Intangibles	6,116	5,855	5,843	5,810
Capital Work In Progress	27	7	7	7
Goodwill	936	1,010	1,099	1,205
Non-Current Investments	486	555	647	754
Net Deferred tax assets	931	931	931	931
Other Non-Current Assets	152	194	280	406
<b>Current Assets</b>				
Investments	3,149	3,937	4,921	6,151
Inventories	827	988	1,311	1,492
Trade receivables	840	1,021	1,199	1,364
Cash & Bank Balance	75	1,060	2,192	3,411
Other Current Assets	776	1,320	2,375	4,276
<b>Total Assets</b>	<b>15,537</b>	<b>18,353</b>	<b>22,238</b>	<b>27,210</b>
<b>Equity</b>				
Equity Share Capital	138	138	138	138
Other Equity	11,368	15,155	19,559	24,599
<b>Total Networkth</b>	<b>11,505</b>	<b>15,293</b>	<b>19,696</b>	<b>24,736</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	3	2	1	1
Provisions	194	145	109	82
Other non current liabilities	56	39	27	19
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	841	955	937	1,066
Other current liabilities	2,214	1,107	554	277
<b>Total Equity &amp; Liabilities</b>	<b>15,537</b>	<b>18,353</b>	<b>22,238</b>	<b>27,210</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	3,793	4,392	5,021	5,721
Add. Depreciation	364	339	420	451
Add. Interest	0	0	0	0
Less Financial Other Income	511	409	449	494
Add. Other	206	(580)	(91)	165
Op. profit before WC changes	4,363	4,152	5,350	6,338
Net Changes-WC	(571)	(1,057)	(1,746)	(2,253)
Direct tax	(759)	(878)	(1,004)	(1,144)
<b>Net cash from Op. activities</b>	<b>3,032</b>	<b>2,216</b>	<b>2,599</b>	<b>2,940</b>
Capital expenditures	(264)	(227)	(257)	(257)
Interest / Dividend Income	10	11	12	13
Others	95	(849)	(1,055)	(1,311)
<b>Net Cash from Inv. activities</b>	<b>(159)</b>	<b>(1,065)</b>	<b>(1,300)</b>	<b>(1,556)</b>
Issue of share cap. / premium	0	-	-	-
Debt changes	(2,739)	(1)	(1)	0
Dividend paid	(165)	(165)	(165)	(165)
Interest paid	0	0	0	0
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(2,904)</b>	<b>(166)</b>	<b>(166)</b>	<b>(166)</b>
<b>Net change in cash</b>	<b>(31)</b>	<b>984</b>	<b>1,133</b>	<b>1,218</b>
Free Cash Flow	2,768	1,989	2,342	2,683

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
<b>Net Revenue</b>	<b>2,485</b>	<b>2,111</b>	<b>2,719</b>	<b>2,805</b>
YoY gr. (%)	18.9	1.5	10.0	7.6
Raw Material Expenses	394	349	459	457
Gross Profit	2,091	1,762	2,260	2,347
Margin (%)	84.1	83.5	83.1	83.7
<b>EBITDA</b>	<b>896</b>	<b>584</b>	<b>1,021</b>	<b>1,055</b>
YoY gr. (%)	10.5	(13.6)	20.3	8.7
Margin (%)	36.1	27.7	37.6	37.6
Depreciation / Depletion	96	112	115	117
<b>EBIT</b>	<b>800</b>	<b>472</b>	<b>906</b>	<b>938</b>
Margin (%)	32.2	22.4	33.3	33.4
Net Interest	51	44	9	5
Other Income	142	155	52	95
<b>Profit before Tax</b>	<b>891</b>	<b>582</b>	<b>949</b>	<b>1,028</b>
Margin (%)	35.9	27.6	34.9	36.6
Total Tax	89	44	109	101
Effective tax rate (%)	10.0	7.5	11.5	9.8
<b>Profit after Tax</b>	<b>802</b>	<b>539</b>	<b>841</b>	<b>927</b>
Minority interest	1	(2)	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>801</b>	<b>541</b>	<b>840</b>	<b>927</b>
YoY gr. (%)	8.1	(3.0)	18.0	8.7
Margin (%)	32.3	25.6	30.9	33.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>801</b>	<b>541</b>	<b>840</b>	<b>927</b>
YoY gr. (%)	7.4	(3.0)	18.0	8.7
Margin (%)	32.3	25.6	30.9	33.1
Other Comprehensive Income	-	-	-	(1)
<b>Total Comprehensive Income</b>	<b>801</b>	<b>541</b>	<b>840</b>	<b>926</b>
Avg. Shares O/s (m)	138	138	138	138
<b>EPS (Rs)</b>	<b>5.8</b>	<b>3.9</b>	<b>6.1</b>	<b>6.7</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	25.1	28.7	33.2	37.9
CEPS	27.7	31.2	36.3	41.1
BVPS	83.7	111.2	143.2	179.9
FCF	20.1	14.5	17.0	19.5
DPS	1.0	1.0	1.0	1.0
<b>Return Ratio(%)</b>				
RoCE	28.7	29.7	26.1	23.5
ROIC	36.5	43.1	40.5	38.0
RoE	34.3	29.5	26.1	23.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.4)	(0.4)
Net Working Capital (Days)	29	32	42	42
<b>Valuation(x)</b>				
PER	16.7	14.5	12.6	11.0
P/B	5.0	3.8	2.9	2.3
P/CEPS	15.1	13.4	11.5	10.2
EV/EBITDA	14.9	12.1	10.1	8.4
EV/Sales	5.3	4.4	3.7	3.1
Dividend Yield (%)	0.2	0.2	0.2	0.2

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY19	FY20E	FY21E	FY22E
Top 25 Products	8,869	10,449	11,848	13,456
Top 10 Products	7,748	8,914	9,975	11,171
Next 15 Products	1,121	1,535	1,873	2,285
Ex-Top 25 products	4,170	4,939	5,581	6,307

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	7-Nov-19	Accumulate	459	426
2	3-Oct-19	Accumulate	459	431
3	29-Jul-19	Accumulate	459	402
4	4-Jul-19	Accumulate	812	498
5	5-Apr-19	Accumulate	695	625
6	29-Jan-19	Accumulate	695	678
7	7-Jan-19	Accumulate	704	667

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	511	434
2	Cadila Healthcare	Hold	220	225
3	Cipla	Reduce	439	481
4	Dr. Lal PathLabs	Hold	1,437	1,442
5	Dr. Reddy's Laboratories	Accumulate	2,910	2,757
6	Eris Lifesciences	Accumulate	459	426
7	Glenmark Pharmaceuticals	Reduce	385	320
8	Indoco Remedies	Hold	157	159
9	Ipca Laboratories	Accumulate	1,238	1,074
10	Jubilant Life Sciences	Reduce	433	562
11	Lupin	Hold	760	736
12	Sun Pharmaceutical Industries	Reduce	396	441
13	Thyrocare Technologies	BUY	686	551

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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