

# Eris Lifesciences (ERIS IN)

Rating: BUY | CMP: Rs705 | TP: Rs954

December 6, 2021

## Event Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY23EE	FY24EE	FY23EE	FY24EE
<b>Rating</b>	<b>BUY</b>		<b>BUY</b>	
<b>Target Price</b>	<b>954</b>		<b>954</b>	
Sales (Rs. m)	15,615	17,651	15,615	17,651
% Chng.	-	-	-	-
EBITDA (Rs. m)	5,755	6,634	5,755	6,634
% Chng.	-	-	-	-
EPS (Rs.)	35.6	40.8	35.6	40.8
% Chng.	-	-	-	-

### Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	12,119	13,789	15,615	17,651
EBITDA (Rs. m)	4,306	5,029	5,755	6,634
Margin (%)	35.5	36.5	36.9	37.6
PAT (Rs. m)	3,551	4,249	4,830	5,539
EPS (Rs.)	26.1	31.3	35.6	40.8
Gr. (%)	20.1	19.6	13.7	14.7
DPS (Rs.)	6.1	6.3	7.1	8.2
Yield (%)	0.9	0.9	1.0	1.2
RoE (%)	24.7	24.4	23.0	22.1
RoCE (%)	27.0	25.5	24.4	23.3
EV/Sales (x)	7.8	6.8	6.0	5.2
EV/EBITDA (x)	22.0	18.8	16.2	13.8
PE (x)	27.0	22.5	19.8	17.3
P/BV (x)	6.1	5.0	4.2	3.5

### Key Data

ERIS.BO | ERIS IN

52-W High / Low	Rs.863 / Rs.474
Sensex / Nifty	57,696 / 17,197
Market Cap	Rs.96bn / \$ 1,275m
Shares Outstanding	136m
3M Avg. Daily Value	Rs.83.95m

### Shareholding Pattern (%)

Promoter's	52.68
Foreign	13.60
Domestic Institution	9.57
Public & Others	24.15
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(12.2)	1.1	33.4
Relative	(9.0)	(8.5)	3.2

### Param Desai

paramdesai@plindia.com | 91-22-66322259

### Akshaya Shinde

akshayashinde@plindia.com | 91-22-66322490

## JV with M.J.Biopharm Ltd. to widen offerings in diabetes market

**Eris Lifesciences (ERIS) announced its entry into India's Insulin and GLP1 agonists market through JV with MJ Biopharm. The 70:30 Joint Venture (with ERIS holding a 70% stake) will primarily engage in marketing and distribution of Human and Analogue Insulin and GLP-1 agonists, along with potentially other biopharma products in India. MJ Biopharm will be responsible for development, manufacturing and supply of these products to the JV.**

**Outlook & Valuation:** The JV with MJ Biopharm has made ERIS a full-service player in diabetes segment. However, insulin market in India over the years is largely dominated by MNC players. We believe market share gain could be gradual for ERIS and success of scale up will be a function of product efficacy rather than aggressive pricing or marketing, specifically in segments like Insulin. We maintain our positive stance on ERIS given 1) scheduled potential launches, 2) strong pipeline of patent expiration opportunities and 3) rapidly growing new-generation brands along with power brands in core therapies. ERIS's timely strategy of capacity expansion and higher contribution from chronic/sub-chronic products supported by insignificant regulatory risk, allows it to stand ahead in the industry. We have not factored any revenues and expenses from this JV. Maintain our 'BUY' rating with TP of Rs954 at 24x Sept 2023E EPS.

### Key Highlights:

- ERIS will pay upfront Rs150mn as one - time licensing fee to MJ Biopharm. The rationale to enter into JV was to have assured supply, say in product selection and also help to have better integration process. MJ Biopharm is one of largest 3<sup>rd</sup> party manufacturer of insulins that supplied more than 14 mn vials and over 4 mn cartridges of human insulin to 25+ countries since the year 2015.
- ERIS will focus on patient engagement program with more focus on technology initiation and will target more new patients and switches from oral to insulin. Currently 30% of physicians practicing in diabetic's segment write insulin and mgmt. sees lot of scope of penetration from oral to insulin. Globally 30% of diabetic population have insulins.
- Company expects to launch its first product (human insulin) under JV in Q4FY22. Currently human insulin market in India is at Rs15bn. Mgmt indicated Vials/Pens as preferred mode of delivery that are gaining traction in insulin market. Targeting 10% market share over period of time.
- The Glargine product is in phase-III expected to launch in CY23 while other analogues and bio-therapeutic formulation products are proposed to be launched by the JV over time.

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Net Revenues</b>	<b>12,119</b>	<b>13,789</b>	<b>15,615</b>	<b>17,651</b>
YoY gr. (%)	14.5	13.8	13.2	13.0
Cost of Goods Sold	2,383	2,655	2,925	3,313
Gross Profit	9,736	11,134	12,690	14,339
Margin (%)	80.3	80.7	81.3	81.2
Employee Cost	2,293	2,549	3,002	3,353
Other Expenses	3,137	3,556	3,934	4,352
<b>EBITDA</b>	<b>4,306</b>	<b>5,029</b>	<b>5,755</b>	<b>6,634</b>
YoY gr. (%)	22.2	16.8	14.4	15.3
Margin (%)	35.5	36.5	36.9	37.6
Depreciation and Amortization	430	594	645	791
<b>EBIT</b>	<b>3,876</b>	<b>4,435</b>	<b>5,109</b>	<b>5,844</b>
Margin (%)	32.0	32.2	32.7	33.1
Net Interest	18	32	23	26
Other Income	87	272	282	321
<b>Profit Before Tax</b>	<b>3,945</b>	<b>4,675</b>	<b>5,368</b>	<b>6,139</b>
Margin (%)	32.6	33.9	34.4	34.8
Total Tax	394	426	538	600
Effective tax rate (%)	10.0	9.1	10.0	9.8
<b>Profit after tax</b>	<b>3,551</b>	<b>4,249</b>	<b>4,830</b>	<b>5,539</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>3,551</b>	<b>4,249</b>	<b>4,830</b>	<b>5,539</b>
YoY gr. (%)	20.1	19.6	13.7	14.7
Margin (%)	29.3	30.8	30.9	31.4
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,551</b>	<b>4,249</b>	<b>4,830</b>	<b>5,539</b>
YoY gr. (%)	20.1	19.6	13.7	14.7
Margin (%)	29.3	30.8	30.9	31.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,551	4,249	4,830	5,539
<b>Equity Shares O/s (m)</b>	<b>136</b>	<b>136</b>	<b>136</b>	<b>136</b>
<b>EPS (Rs)</b>	<b>26.1</b>	<b>31.3</b>	<b>35.6</b>	<b>40.8</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>9,123</b>	<b>10,123</b>	<b>11,323</b>	<b>12,873</b>
Tangibles	1,757	2,557	3,557	4,857
Intangibles	7,366	7,566	7,766	8,016
<b>Acc: Dep / Amortization</b>	<b>1,519</b>	<b>2,095</b>	<b>2,741</b>	<b>3,531</b>
Tangibles	978	1,298	1,671	2,181
Intangibles	541	798	1,069	1,350
<b>Net fixed assets</b>	<b>7,604</b>	<b>8,028</b>	<b>8,583</b>	<b>9,342</b>
Tangibles	779	1,259	1,886	2,676
Intangibles	6,825	6,769	6,697	6,666
Capital Work In Progress	16	9	6	3
Goodwill	935	935	935	935
Non-Current Investments	2,937	3,641	4,570	5,739
Net Deferred tax assets	1,511	1,511	1,511	1,511
Other Non-Current Assets	180	205	250	305
<b>Current Assets</b>				
Investments	504	605	756	945
Inventories	945	1,209	1,497	1,789
Trade receivables	1,405	2,078	2,438	2,757
Cash & Bank Balance	383	769	1,920	3,032
Other Current Assets	923	1,061	1,326	1,658
<b>Total Assets</b>	<b>18,348</b>	<b>21,132</b>	<b>25,040</b>	<b>29,529</b>
<b>Equity</b>				
Equity Share Capital	136	136	136	136
Other Equity	15,628	18,902	22,767	27,198
<b>Total Network</b>	<b>15,764</b>	<b>19,038</b>	<b>22,902</b>	<b>27,334</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	313	235	176	132
Other non current liabilities	25	17	12	9
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	0	0	0	0
Trade payables	1,026	944	1,198	1,451
Other current liabilities	643	404	363	333
<b>Total Equity &amp; Liabilities</b>	<b>18,348</b>	<b>21,132</b>	<b>25,040</b>	<b>29,529</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	3,945	4,675	5,368	6,139
Add. Depreciation	430	594	645	791
Add. Interest	18	32	23	26
Less Financial Other Income	87	272	282	321
Add. Other	(7)	-	-	-
Op. profit before WC changes	4,386	5,300	6,036	6,956
Net Changes-WC	53	(1,457)	(957)	(1,094)
Direct tax	(685)	(701)	(698)	(798)
<b>Net cash from Op. activities</b>	<b>3,754</b>	<b>3,142</b>	<b>4,382</b>	<b>5,063</b>
Capital expenditures	(257)	(1,000)	(1,200)	(1,550)
Interest / Dividend Income	13	14	16	17
Others	(2,989)	(710)	(913)	(1,141)
<b>Net Cash from Invst. activities</b>	<b>(3,234)</b>	<b>(1,696)</b>	<b>(2,097)</b>	<b>(2,673)</b>
Issue of share cap. / premium	0	-	-	-
Debt changes	0	0	0	0
Dividend paid	(747)	(850)	(966)	(1,108)
Interest paid	(18)	32	23	26
Others	(46)	(288)	(216)	(269)
<b>Net cash from Fin. activities</b>	<b>(810)</b>	<b>(1,106)</b>	<b>(1,159)</b>	<b>(1,351)</b>
<b>Net change in cash</b>	<b>(290)</b>	<b>341</b>	<b>1,127</b>	<b>1,039</b>
Free Cash Flow	3,496	2,142	3,182	3,513

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b>Net Revenue</b>	<b>3,104</b>	<b>2,782</b>	<b>3,493</b>	<b>3,597</b>
YoY gr. (%)	18.6	14.0	19.1	9.0
Raw Material Expenses	564	604	689	664
Gross Profit	2,540	2,178	2,804	2,933
Margin (%)	81.8	78.3	80.3	81.5
<b>EBITDA</b>	<b>1,072</b>	<b>945</b>	<b>1,266</b>	<b>1,398</b>
YoY gr. (%)	48.6	30.1	21.6	12.1
Margin (%)	34.5	34.0	36.2	38.9
Depreciation / Depletion	106	115	145	150
<b>EBIT</b>	<b>966</b>	<b>831</b>	<b>1,121</b>	<b>1,249</b>
Margin (%)	31.1	29.9	32.1	34.7
Net Interest	4	5	8	11
Other Income	31	22	59	70
<b>Profit before Tax</b>	<b>993</b>	<b>847</b>	<b>1,171</b>	<b>1,308</b>
Margin (%)	32.0	30.5	33.5	36.4
Total Tax	91	165	104	124
Effective tax rate (%)	9.2	19.5	8.9	9.5
<b>Profit after Tax</b>	<b>902</b>	<b>682</b>	<b>1,067</b>	<b>1,184</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>902</b>	<b>682</b>	<b>1,067</b>	<b>1,184</b>
YoY gr. (%)	42.0	21.7	19.9	9.9
Margin (%)	29.0	24.5	30.5	32.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>902</b>	<b>682</b>	<b>1,067</b>	<b>1,184</b>
YoY gr. (%)	42.0	21.7	19.9	9.9
Margin (%)	29.0	24.5	30.5	32.9
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>902</b>	<b>682</b>	<b>1,067</b>	<b>1,184</b>
Avg. Shares O/s (m)	138	138	138	138
<b>EPS (Rs)</b>	<b>6.6</b>	<b>5.0</b>	<b>7.8</b>	<b>8.6</b>

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	26.1	31.3	35.6	40.8
CEPS	29.3	35.6	40.3	46.6
BVPS	116.0	140.1	168.6	201.2
FCF	25.7	15.8	23.4	25.9
DPS	6.1	6.3	7.1	8.2
<b>Return Ratio(%)</b>				
RoCE	27.0	25.5	24.4	23.3
ROIC	25.9	25.1	25.1	24.9
RoE	24.7	24.4	23.0	22.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	40	62	64	64
<b>Valuation(x)</b>				
PER	27.0	22.5	19.8	17.3
P/B	6.1	5.0	4.2	3.5
P/CEPS	24.1	19.8	17.5	15.1
EV/EBITDA	22.0	18.8	16.2	13.8
EV/Sales	7.8	6.8	6.0	5.2
Dividend Yield (%)	0.9	0.9	1.0	1.2

Source: Company Data, PL Research

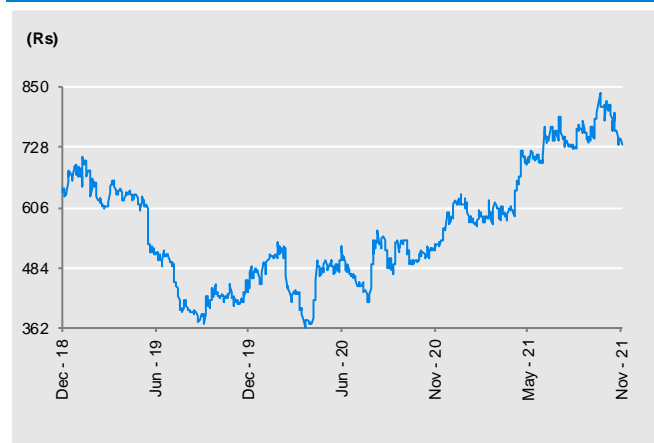
### Key Operating Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Top 25 Products	11,727	13,318	15,150	17,264
Top 10 Products	9,884	11,070	12,408	13,919
Next 15 Products	1,842	2,248	2,742	3,345
Ex-Top 25 products	5,483	6,195	7,001	7,911

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	02-Nov-21	BUY	954	813

## Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	780	677
2	Cadila Healthcare	BUY	590	504
3	Dr. Reddy's Laboratories	BUY	5,400	4,659
4	Eris Lifesciences	BUY	954	813
5	Glenmark Pharmaceuticals	Accumulate	600	536
6	Indoco Remedies	Accumulate	480	450
7	Ipca Laboratories	BUY	2,450	2,153
8	Lupin	Accumulate	1,004	882
9	Sun Pharmaceutical Industries	BUY	1,000	815

## 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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**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

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