Stock Note

Eris Lifesciences Ltd.

Oct 30, 2023

RETAILRESEARCH

Eris Lifesciences Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Pharmaceuticals	Rs 840.15	Buy in the band of Rs 836-848 & add more on dips to Rs 759	Rs 914	Rs 998	2-3 quarters

HDFC Scrip Code	ERILIFEQNR
BSE Code	540596
NSE Code	ERIS
Bloomberg	ERIS IN
CMP Oct 27, 2023	840.15
Equity Capital (Rs cr)	13.8
Face Value (Rs)	1
Equity Share O/S (cr)	13.8
Market Cap (Rs cr)	11428
Book Value (Rs)	160
Avg. 52 Wk Volumes	148327
52 Week High	928
52 Week Low	551

Share holding Pattern % (Sep, 2023)	
Promoters	54.91
Institutions	27.73
Non Institutions	17.36
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Eris Lifesciences has presence in the domestic formulations market, largely caters to chronic and sub-chronic therapeutic segments. Company has strong presence in Cardiovascular (CVS), Anti-diabetic, Vitamins (VMN), Dermatology and Central Nervous System (CNS) etc.

It has 14 marketing divisions catering to more than 80,000 super specialist and specialist doctors to promote its brands. Company has 3443 total Medical Representatives (MRs), strong distribution network of 2035 stockists and > 5 lakh retail chemists. Eris presents a strong growth opportunity, given its urban centric focus and a portfolio comprising high margin drugs that treat chronic lifestyle diseases.

Eris's focus on therapeutic areas, such as treating cardiovascular (CVS) and diabetes, allows for higher volume, better margin and strong growth across all age groups in urban India. We are upbeat on Eris' strategy of targeting chronic therapies where a major part of the growth accrues from the supplementary role to the treatment of chronic diseases. Company derives 85-90% of its revenues from chronic & sub-chronic area and the balance from acute segment.

Emerging off-patent upsides in cardio-diabetes, acquisition of Dermatology brands and Oaknet Healthcare and new greenfield capex at Gujarat are expected to drive 13.5% sales CAGR over FY23-25E. Top brands continue to grow at healthy pace, there is still enough scope for growth in the existing brands. Top-20 power brands contribute to about 70% of business and registered 13% growth for FY23.
Eris Life has five-pronged growth strategy in place that includes i) new product launches, ii) Expand doctor reach, iii) expand offerings in the diabetes space, iv) improve sales productivity, and v) scale up of recently acquired Derma portfolio.

With an established presence in the cardiac/anti-diabetic segments and now in Dermatology segment, we expect Eris to outperform the industry over the medium term.

Valuation & Recommendation:

We believe Eris' focus on lifestyle-related-disease therapies will continue to drive growth in its chronic category. In India chronic diseases have been rising because of modern sedentary lifestyles, unhealthy eating habits, greater work-related stress etc. Thus, Eris focuses on the fastest growing therapies in the industry. In FY19-23, Eris clocked a steady revenue, EBITDA and PAT CAGR of 14.5%, 11.7% and 7%. In FY23, EBITDA margin slipped 400bps YoY at 31.9% due to lower margin from acquired business while profitability got hit due to higher depreciation and interest costs. We estimate 13.5% CAGR in revenue over FY23-25E driven by strong growth from chronic area even as consolidating existing therapeutic areas remains on focus. We believe margin should remain around 35-36% over the same period, the highest among all domestic formulation companies. Company expects gross margin and operating margin to improve in FY24 on the back of Oaknet margin expansion, narrowing of insulin operating losses and scale-up of new products. Considering healthy revenue growth and strong EBITDA margin, we expect 11.3% CAGR in net profit over the same period. It would grow at slow pace due to higher depreciation, interest costs and tax expenses.

Eris has a manufacturing plant at Guwahati, Assam, which accounted for ~70% to its revenue in FY23. The Guwahati plant is eligible for certain tax incentives, incl. income-tax and excise-duty exemptions for 10 years (until FY24 and FY25, respectively), besides certain capital investment and trade subsidies. Eris is a pure domestic play with little regulatory or currency risks. Also its dependence on Chinese APIs/KSM is very limited. We are positive on Eris given its focus on the domestic market (chronic area), robust operating and net margin profile, strong return ratios. We think investors can buy Eris Lifesciences in the band of Rs 836-848 and add further on dips to Rs 759 (22x FY25E EPS) for base case fair value of Rs 914 (26.5x FY25E EPS) and bull case fair value of Rs 998 (29x FY25E EPS).

Financial Summary

Particulars (Rs cr)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Revenues	467	399	17.1	403	15.9	982	1,074	1,212	1,347	1,685	1,943	2,172
EBITDA	170	129	31.4	119	42.6	345	368	431	485	537	682	796
Depreciation	41	23	74.8	35	16.5	36	50	43	65	117	165	172
Other Income	1	3	-63	1	0	32	15	9	26	11	15	20
Interest Cost	17	7	140.3	9	94.4	23	2	2	4	26	63	52
Tax	19	8	129.3	14	30.6	27	35	39	36	31	70	130
PAT	95	95	0.3	65	45	291	296	355	405	382	407	474
EPS (Rs)						21.2	21.6	25.8	29.5	27.8	29.6	34.5
RoE (%)						28.9	24.2	24.7	23.3	18.6	17.3	17.7
P/E (x)						39.8	39	32.6	28.5	30.2	28.4	24.4
EV/EBITDA (x)						34.9	32.7	27.9	24.8	22.4	17.7	15.1

(Source: Company, HDFC sec)

Q1FY24 result update

Revenue for the quarter grew 17% YoY at Rs 467cr. It was driven by strong outperformance in Anti-diabetic and emerging therapies like Women's health (WHC). EBITDA was up 31.4% YoY at Rs 169.8cr. EBITDA margin improved 400bps YoY at 36.4%. Gross margin expanded 450bps YoY at 83.2%. PAT for the quarter remained flat YoY at Rs 94.8cr. PBT for the quarter was up 11% YoY at Rs 112.5cr. Finance cost increased 140% YoY at Rs 17.4cr.

Branded Formulations revenue grew at 21% with 30% growth in EBITDA. Consolidated revenue grew at 17% with a 31% growth in EBITDA. Company is setting up second manufacturing facility in Gujarat at capital outlay of Rs 230cr. Expansion is also underway to include a Dermatology block.

Top-20 power brands account for 70% of revenues and grew 17% during FY23. Net debt stood at Rs 672cr vs. Rs 774cr in Mar-2023. EPS for the quarter stood at Rs 7.

Concall Highlights

- Organic sales growth is expected to be in low double digits YoY in FY24. Guided for EBITDA margin at around 35% in FY24.
- With Q1FY24 sales of Rs 9cr from Insulin, it intends to reach Rs 50cr in FY24. The company also intends to achieve EBITDA break-even in Q4FY24.
- Eris would also be re-launching FCM injection after the favorable litigation verdict.
- About 8-10 launches are lined up in the remainder of FY24 in the dermatology category (hair care, anti-fungals, acne etc.). Eris would enter into Paediatric Derma area in Q2/Q3 FY24.
- Increased profitability of Oaknet, focus on the cosmetic segment, new launches, and entry into the pediatric dermatology segment, to drive further improvement in profitability.
- Revenue of top-20 brands increased 13% YoY in Q1FY24, accounting for 49% of sales.
- Additionally, Eris has launched Human Insulin and re-launched Zayo. Zayo has ramped up significantly to Rs 2cr/month revenue by Jun’23.
- With the loss of exclusivity of linagliptin in Aug-23 and an expected launch of Glargine and Liraglutide in Q4FY24, the overall growth outlook remains promising.
- Company has pipeline of 10 combinations in Anti-diabetic, Cardiac and CNS. Four combinations are expected to be launched by Q4FY24 while six are in various stages of development.
- Standalone Yield per MR (YPM) grew 20% YoY at Rs 5.02 lakh in Q1FY24.
- Oaknet has achieved 22% organic growth in base business after flat growth in past three years with EBITDA margin of 24% in FY23 from 10% margin in FY22. Eris continues to see scale up by increasing reach and thereby have further scope of margin improvement.
- Company has 24 products lined up for new launches which it is holding up at least for the two quarters. It has been working on some Formulation Development throughout the last year.
- Company guides for 14-15% tax rate for FY24 and intends to pay debt of around Rs 400cr.
- Eris has standalone 2200 MR and 700 in Oaknet. Total MR strength at about 2900.

- During Q1FY24, the company reduced net debt by Rs. 102 crores resulting in a net debt position of Rs. 672 crores as on June-2023, down from Rs. 774 crores as on March-2023.
- With Q1 margin of the acquired business getting close to overall Branded Formulations segment margin. the management expects 35% EBITDA margin for this piece in FY24 up from 24% last year and 10% at the time of acquisition.
- This Insulin business is on track for revenue of Rs. 50 crore this year with EBITDA breakeven by Q4FY24.
- Phase-III clinical trials of Glargine and Liraglutide from MJ's pipeline are complete, and it expects a commercial launch in Q4FY24.
- The investment of Rs 230 crore in the Gujarat facility and the commercialization of Derma block in Q4 will start delivering significant margin benefits later this year.
- Depreciation plus amortization to be to the tune of around Rs. 160 crores for the year. Company targets below Rs. 400 crores net debt by the end of the year.
- Overall revenue number with the guidance is around Rs. 2,000 crores to Rs. 2,100 crore and that would include everything. Guided for EBITDA of Rs. 700 - 720 crore this year.

Pure Play on Domestic Formulation Business

Eris Lifesciences has a fully integrated business model with manufacturing facility in Guwahati which contributed about 70% to its standalone sales in FY23. It has an established market presence in its core cardio-metabolic franchise in its 15 years of operations since inception. Eris is ranked at no.17 in the Indian pharmaceutical market (IPM) with strong distribution network across India with over 2,000 stockists, standalone MRs of around 2200 and over 5,00,000 chemists. Among the top therapies, Eris has channelised its efforts in the top 20 power brands, which contribute 70% to its revenue. Company generates a majority of its revenues from the metros and Tier I and II cities in India. Eris launched more than 100 products over FY18-23, while improving the brand franchises of existing products. Company has a limited exposure of 5-7% to the National List of Essential Medicines portfolio, implying the limited impact of price control. The company’s capital intensity is low, in terms of working capital as well as fixed assets, which, along with high margins, drive healthy cash generation. With Glimisave crossing Rs.300 crore mark and Zomelis crossing the Rs. 100 crore mark, it has 4 mother brands with revenue of Rs. 100+ crore, 6 mother brands with revenues of Rs. 70-80 crore and 5 mother brands with revenue of Rs. 50-60 crore.

Focus on Chronic & Sub-chronic

Eris Life's sales mix has consistently improved in favour of chronic and sub-chronic segments (90% of total sales), which are stable and enjoys higher margin than the other segments. Its product portfolio of cardiac and anti-diabetic drugs relies mainly on prescriptions by specialists and super specialists. With multiple acquisitions in the recent past, Eris has consolidated its position in cardiac, derma and women healthcare therapies. Diabetes, cardiac, vitamins (VMN) and Dermatology formed the top four therapies contributing around 80% to total revenue.

Targets specialists and super-specialists

Eris' product range primarily focuses on therapeutic areas requiring the intervention of specialists and super-specialists (cardiologists, diabetologists, endocrinologists, gastroenterologists). Its business model is of building strong and sustainable brands which has enabled the company to not only maintain, but also expand market share. Apart from its leading brands the company has deep routed network of MRs which are constantly serving the doctors. Its YPM in standalone operations grew to Rs.5.02 lakhs in Q1FY24 from Rs.4.5 lakh p.m. in FY21 and Rs 3.9 lakh p.m. in FY20 (Number of MRs in standalone operations at 2,200). The company focuses on metropolis and class-1 towns in India, which have a higher incidence of lifestyle disorders and a concentration of specialists and super-specialists. Sales are largely through prescriptions for Eris' products by such specialists and super-specialists. The combination of diagnostics with commercialization and marketing enhance the quality of diagnosis and prognosis. Initiatives to support doctors have helped it increase prescription rates of products.

M&A done over the past 2-3 years

In FY23, Eris Lifesciences has done three acquisitions – all in dermatology segments - 1) 100% stake in Oaknet Healthcare (Derma+ cosmetology), 2) 9 brands of medicated derma products from Glenmark and 3) 9 brands of cosmetic products from Dr.Reddy's. Overall, the company spent Rs 1265cr towards these acquisitions. Company has successfully scaled up profitability of Oaknet portfolio within its one year of acquisition at 24% OPM. Company guided for Rs 400cr of topline across these portfolios with 33-35% OPM in FY24E. The acquisition of brands from Glenmark enhances presence in medical dermatology (antifungal/anti-psoriasis) while acquisition of brands from Dr. Reddy's enhances presence in high growing cosmetic segment. On consolidation of dermatology portfolio, Eris will rank at no.3 in derma covered market with 7% market share.

Management eyes for 15-20% growth over the next 3-4 years. Also, cosmetic dermatology segment is growing faster vs. overall dermatology segment, and this could have a positive rub off effect on Eris' growth prospects. Therefore, synergies from the recent acquisition are likely to drive up the dermatology business revenues and, in the process, also enable Eris to diversify its revenue stream.

In Mar-2023, Eris Lifesciences announced the acquisition of nine trademarks from Dr Reddy's Laboratories Ltd.'s dermatology portfolio for Rs 275 crore. Sales of the brands owned by Dr Reddy's Laboratories was Rs 52.8 crore in FY21 and Rs 61.6 crore in FY22, according to AWACS. It had earned Rs 62.1 crore in the 11 months through February 2023. The acquisition would help the company to augment and expand the cosmetic dermatology business through its product offerings.

In Jan-2023, Eris Oaknet Healthcare, a wholly owned subsidiary of Eris Lifesciences entered into an agreement with Glenmark Pharmaceuticals to acquire few brands of dermatology segment, for India and Nepal territories. The divested Tail Brands include Onabet, Halovate, Sorvate, Luligee, Demelan, Aceret, Dosetil, Revize, and Powercort, and their sub-brands. This acquisition will deepen presence in Medical Dermatology - anti-fungal & anti-psoriasis segments. It is for a consideration of Rs 340.5cr and will be financed through borrowings. It reported revenue of Rs 81cr/Rs 87.3cr for FY21/FY22.

Eris Lifesciences acquired dermatology formulations company Oaknet Healthcare for Rs 650 crore. The acquisition gave Eris, an entry into the dermatology and cosmetology segment. The deal was financed by Rs 300 crore internal accruals and Rs 350 crore by borrowings. With a revenue base of Rs 195 crore in FY22, Oaknet brings a well-established portfolio of leading brands in dermatology and women's health to the Eris stable. Oaknet has near 100 per cent coverage of around 11,000 dermatologists across the country, it added. It covers 60,000 doctors including 11,000 Dermatologist with a field force of 700.
It derived 43% of its total prescriptions (in the Dermatology business) from Dermatologists as compared to 38% for the market. Oaknet has a stronger Specialty presence compared to the market.

Recent Developments
Though companies can heave a sigh of relief after the recent National Medical Commission (NMC) regulations have been kept in abeyance, this episode serves as a reminder of the regulatory risks attached to domestic businesses. Regulations stated that doctors must avoid prescribing branded generics and should prescribe generics, failing which they will be penalized. Robust GMP regulations across facilities with stringent testing requirements (< 1% of generics are tested for quality) are required before generic prescriptions are made mandatory. Presently, quality standards vary significantly across manufacturers, not providing egalitarian opportunities for all companies. Renowned brands come with a certain stamp of quality and track record, thereby lending comfort to doctors for prescribing these.
Apart from low testing, one of the key quality issues is the limited requirement of bio-equivalence (BE) studies, which establish that absorption, distribution, metabolism and excretion of a generic is similar to the innovator drug.

Oaknet Healthcare
Over FY20-22, Oaknet reported flat revenue of ~Rs 197cr with EBITDA margin of ~10%. Post-acquisition, Eris has digitized the whole field force besides expanding Dermatologist coverage from 60% to 90%; in this process, it has recorded revenue of ~Rs 250cr with margin of ~24%. Oaknet business has the potential to reach standalone EBITDA margin of 36-38%.

Insulin business
The insulin segment is expected to break-even in FY24 with ~Rs 50cr of sales. As per the current structure, MJ Biopharm manufactures the product and the JV Eris MJ Biopharm (70% held by Eris) markets the product.
Eris expects the Insulin business to clock revenue of Rs 130cr by FY27 with 30% EBITDA margin. The Insulin business is not expected to reach company-level EBITDA margin given the nature of the product.

AR 2023 Update

- FY23 EBITDA margin slipped 415bps YoY mainly due to the consolidation of Oaknet business and spending on the Insulin business.
- Company expects margin to be ~36% in FY24, with an improvement in Oaknet margin and a break-even in the insulin segment.
- In-house manufacturing declined from 80% to 70% in FY23 due to the acquisition of the Derma portfolio, which also affected margin. However, it is expected to revert back to 80% in FY24.
- Total gross block due to acquisitions stood at Rs 2000cr (includes Rs 1270cr of recent acquisition).
- In FY23, Eris spent ~Rs 1270cr on three acquisitions and additional ~Rs 230cr in capex for the new plant.
- Multiple patent expiries are due over the next few years in key therapy areas catered to by Eris, which would boost revenue growth.
- The new Gujarat facility will benefit from the concessional tax rate of 15%. The Guwahati facility enjoys income tax exemption till FY24 and GST subsidies till FY25.
- The company will continue to look for high-return inorganic opportunities to complement organic growth initiatives.
- Diabetes care is flagship therapy contributing to 28% of FY23 revenue. It entered the injectables diabetes care market in FY23 with the launch of Human Insulin and Glargine.
- Eris derives all its standalone revenue from the domestic branded formulations market. Chronic and sub-chronic therapies account for 87% of business vs 53% for IPM.
- During the year, Eris has significantly diversified its therapeutic mix. Company derived 80% of revenues from Cardiometabolic and VMN segments. Despite 15% plus growth in these segments during the year, the concentration of Cardiometabolic & VMN segments now stands at 66%. The contribution of three emerging therapies namely Dermatology, CNS and Women's Health has increased from 12% last year to 26% at the end of this year. Dermatology has emerged as fourth largest therapy with 14% share in overall revenue.
- Company invested Rs. 1,265 crore in consummating three Dermatology acquisitions in FY23. This has been largest single-year investment, and that too in a single therapy notwithstanding that Dermatology is a large and attractive therapy.
- The greenfield Insulin venture with MJ Biopharm has clocked Rs 17 crore of revenue in its first year of operations. This business recorded an operating loss of Rs 20 crore in FY23. Eris expects the losses to narrow in FY24 and the business is expected to be profitable starting FY25.
- Oaknet has demonstrated significant EBIDTA margin expansion from 10% to 24% since the time of acquisition, and Eris expects further expansion in FY24.
- The Renerve brand, which was acquired from Strides, now clocks sales of ~Rs 150cr vs. ~Rs 70cr at the time of acquisition.
- Company has significantly diversified revenue base in FY23. While Diabetes and Cardiac Care remain flagship therapies, they now contribute 49% to the business, down from 60% in FY22. The share of the 3 Emerging therapies (Dermatology, CNS and Women's

Health) has increased to 26% of revenue from 12% last year. Cardio-Metabolic portfolio has delivered an 18% growth in FY23 vs. a market growth of 8%, while emerging therapies have delivered 17% growth in FY23 vs. a market growth of 15%.

- Top-20 mother brands account for 70% of sales and have clocked a 17% growth in FY23. 15 of these brands are ranked among the Top-5 in their therapies. With Glimisave crossing Rs.300 crore mark and Zomelis crossing the Rs. 100 crore mark, it has 4 mother brands with revenue of Rs. 100+ crore, 6 mother brands with revenues of Rs. 70-80 crore and 5 mother brands with revenues of Rs. 50-60 crore.
- The greenfield manufacturing facility in Gujarat began commercial operations in March 2023 and augments capability in oral solids, oral liquids, sterile injectables and creams/ointments (in process). It expects to accrue significant insourcing and fiscal benefits starting FY24.
- The business has grown three-fold since the year FY17. It has maintained an average EBIDTA margin of 34-35% and operating cash conversion ratio of ~75% during FY17-23.
- It will continue to execute on growth levers of (i) Power Brands Expansion, (ii) New Product opportunities, (iii) Expansion of Physician Coverage and (iv) Leveraging balance sheet to leapfrog growth in strategic areas, while preserving industry-leading financial metrics.
- The manufacturing facility at Guwahati contributed 70% of products sold during FY23. As a part of capacity expansion strategy, greenfield manufacturing plant in Gujarat has been successfully commissioned, augmenting its manufacturing capabilities in oral solid dose, sterile injectables, oral liquids, creams /ointments (in process) and Formulation Development. The plant will start delivering in-sourcing and fiscal benefits starting FY24.
- Management sees multiple levers in the existing business to grow 14-15% annually with 35-36% EBITDA margin in the next 2-3 years. For FY24, the company expects Dermatology segment to clock revenue of ~Rs 400cr with gross margin of 78-80% and EBITDA margin in the vicinity of company-level EBITDA margin (Oaknet margin at ~24% in FY23). In the Insulin business, the company is confident of achieving breakeven in FY24, led by scaling up of existing products and new launches. Overall margin may improve on mainly on the back of: (1) Sharp improvement in Oaknet margin and MR productivity following the consolidation of acquired brands from Dr. Reddy's and Glenmark, shifting to in-house manufacturing and synergy benefits with standalone business (2) Reduced losses in the Insulin segment (expected to reach breakeven in FY24) and (3) operating leverage, especially driven by scale-up in new launches.

Diabetes

- Diabetes care is flagship therapy contributed to 29% of FY23 revenue. In the covered market of ~Rs 14,000 crore, Eris is ranked at no.8 in terms of revenue and no.5 as per Rx ranks.
- Eris has a full-service presence across Sulphonylureas, DPP4 Inhibitors and SGLT 2 Inhibitors – as well as injectable Anti-Diabetes therapies. Glimisave is ranked no.5, Cyblex is ranked no.4 and Tendia is ranked no.2. Glimisave is now a Rs. 300cr+ mother brand

with 10% growth in FY23; Cyblex has registered an 18% growth in FY23 followed by Tendia with 14% growth. The brands in the new age diabetes segments, namely Vildagliptin and Sitagliptin (DPP4 Inhibitors) and Dapagliflozin (SGLT2 Inhibitor) continue to maintain top ranks among generics since launch despite tens and hundreds of generic brands entering the space – Zomelis is ranked no.1 and Gluxit is ranked no.2.

- Company entered the Insulin market in Jan-2022 with the launch of first product, Xsulin – Regular and premix Human Insulin in the form of vials and cartridges. During the year, the company strengthened the Insulin franchise by launch of Xglar, brand in the Glargine segment.
- In FY23, while the IPM's Anti-Diabetes Care segment grew 5.9%, Eris outgrew with robust YoY growth of 24.9%. Over FY16 to FY23, Anti-Diabetes franchise has grown 1.8x faster than the market.

Cardiac

- Cardiac Care is the second largest therapeutic area, contributing to 21% of business. Over FY16 to FY23, Cardiac Care franchise has grown in-line with the market at a CAGR of 10.3%. In FY23, Cardiac Care franchise grew at 16%, excluding the impact of Zayo. This includes 19% growth in Eritel which is now a Rs. 175+ crore mother brand. LNBloc has grown at 15% in FY23, followed by Olmin at 14%, Crevast at 24% and Atorsave at 13%.
- Eris is ranked no.5 in terms of prescription rank among Cardiologists and no.9 in terms of revenue in the Cardiac space. It has five of Top-15 mother brands - Eritel, LNBloc, Olmin, Crevast and Atorsave – in the Cardiac segment.

Dermatology

- Dermatology contributed to Rs 331cr or 14% of business. During the year, Eris marked its entry in the Dermatology franchise with the acquisition of Oaknet Healthcare, a dermatology focused domestic formulations company. The acquisition brought several marquee brands into the Eris portfolio and provided significant impetus to Eris' specialty franchise and chronic presence.
- Dermatology franchise was further strengthened by acquisition of nine medical dermatology brands from Glenmark followed by acquisition of nine cosmetic dermatology brands from Dr. Reddy's Laboratories. On the back of series of acquisitions undertaken during the year, Eris is ranked no.4 in terms of prescription rank among Dermatologists.

Vitamins

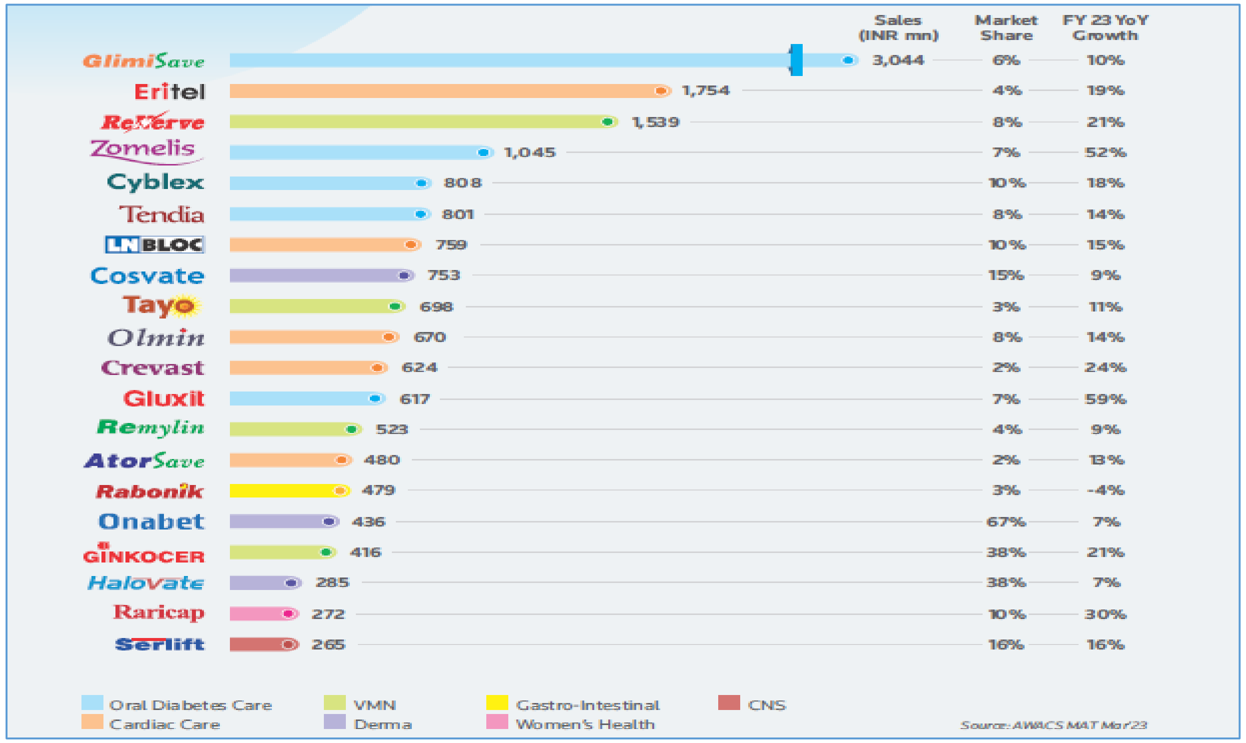
- Vitamins, Minerals and Nutrients (VMN) is the third largest therapy contributing to Rs 375cr or 16% of business. Over FY16-23, VMN franchise has grown at a CAGR of 7.7%.
- In FY23, VMN franchise grew 8.8% vs. market growth of 6.9%. Excluding the impact of ZACD (Covid product), VMN segment grew at 16% in FY23 with flagship brand Renerve growing at 21% to cross revenue of Rs. 150cr.

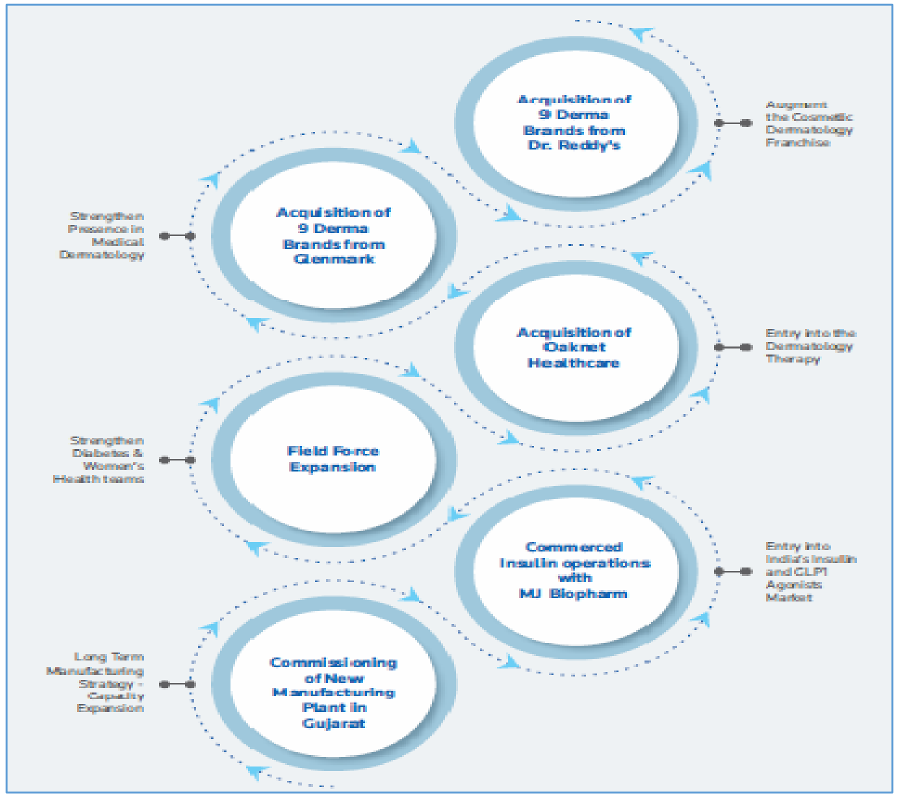
Women's Health

- Women's Health segment contributed Rs 133cr or 5% of business. Over FY16 to FY23, Women's Health franchise has grown at a CAGR of 9.8%. In FY23, Women's Health market grew 9.5%. Eris outperformed the market by growing at 36.6%. Company accelerated investments in this segment through the launch of strategic products like Drolute (Dydrogesterone) and FCM injection in FY23. Drolute brand clocked revenue of Rs 23cr in its first full year of operations whereas FCM injection franchise clocked Rs.16 crore of revenue in the 9-month period post its launch.

CNS

- CNS therapeutic area contributed to 7% of sales or Rs 157cr for FY23. In FY23, CNS market grew 12.4% YoY, Eris's CNS segment outperformed the market by growing at 16.5%. Over FY18 to FY23, CNS franchise has grown faster than the market by growing at a CAGR of 12.6% as against market growth of 9.4%.





Candidates/ Therapy	Development Status	Commercialisation
2 FDCs in Oral Anti-diabetes	Clinical Trials	Q3 of FY24
2 FDCs in Heart Failure & MI	Clinical Trials	Q4 of FY24
2 FDCs to address Diabetes-related complications	Submission	FY25
2 FDCs in Neurology	Development	FY25
2 FDCs in Gastro-intestinal	Development	FY25

- Active pipeline of 10 fixed dose combinations
- Aggregate investment of ~ INR 30 cr.

Dydrogesterone provides a decent opportunity

Eris Life launched the Dydrogesterone molecule (Drolute) in Jan-2022. Dydrogesterone is a synthetic Progesterone and is used to prevent complications during early stages of the pregnancy.

Interestingly, Duphaston was an Abbot India brand and the only product available in this segment till CY19. Mankind Pharma was the first player to launch a branded Generic version in India in Dec-2019. Mankind is also a manufacturing partner for other Indian companies.

Since then, there has been multiple branded Generics entries in this molecule in the market. Few companies that launched this product are: Emcure (Oct'20), Zydus Life (Jul'21), ALKEM (Jan'22), Torrent Pharma (Jan'22), and ERIS (Jan'22).
The manufacturing process of Dydrogesterone is too complex as it involves the conversion of natural Progesterone.

Key Positives

Strong Branded Portfolio: Company continues to focus on maintaining the strength of its brand portfolio; Top 20 Mother Brands contribute ~70% of its revenue and have grown at 17% in FY23. With 15 out of these 20 brands being ranked among the Top-5 in their respective segments, they are well poised for strong future growth.

Patent Expiration opportunities: A number of major molecules will lose exclusivity in the cardio metabolic segment in the next 3-5 years. On the back of its established position in this market, Eris is well positioned to leverage these opportunities as has been evidenced over the last 3 years.

Leading prescription ranks: Company's strong portfolio of Mother Brands enjoys leading prescription ranks with their respective doctor specialties. The Company holds a dominant position in key specialty areas such as diabetologists, cardiologists, neurologists, gynecologists, dermatologists and consulting physicians. Prescription ranks, implying growth in new prescriptions, are a leading indicator of growth.

Manufacturing footprint: The manufacturing facility in Guwahati, Assam currently operating at about 70% capacity utilisation on a two-shift basis is capable of being scaled up to triple shift basis. The unutilised capacity will provide operating leverage benefit to the company as sales of the products manufactured from the facility increases. The second manufacturing facility in Gujarat will support its pipeline of new product introductions and complement its existing manufacturing facility.

Increased lifestyle related diseases: Increasingly sedentary lifestyle, changing consumption patterns and rapid urbanization has led to a widespread rise in chronic ailments. As the market and economy mature, India is expected to see a higher share of chronic diseases in line with other emerging and most developed nations.

Domestic Pharma

India's Domestic Branded Pharmaceutical Formulations Market (the IPM), valued at more than US$ 23 billion grew 9.3% YoY in FY23. The growth was led by Chronic and sub-chronic therapies followed by Acute therapy. With a share of ~55% in the IPM, chronic and sub-chronic therapies have grown year-on-year at 10.6% in FY23, while acute therapy comprising ~45% of the IPM, grew by modest 7.8% for the similar period. This subdued growth of acute therapy is on account of a high base of the previous year, during which the IPM witnessed strong rebound from the aftermath of Covid-19. Besides, acute therapy registered low single digit growth of 3% during H1, only to grow in double digit in H2. The chronic and sub-chronic therapies during both the periods have sustained double digit growth.

According to IQVIA, the IPM is expected to reach US$ 37billion by FY27, growing at a CAGR of 10-11% during the period FY22 to FY27. While the international pharmaceuticals markets are challenged with several headwinds including but not limited to geopolitical tensions, regulatory pressures and higher research & development spends, domestic pharma market has witnessed robust growth potential and remains a good defence against recession.

Key Concerns

Regulatory overhang: The Drug Price Control (Amendment) Order limits price increases in schedule drugs mentioned in the National List of Essential Medicines (NLEM). While it has been observed that competitive forces in the market have been more effective in controlling prices, amendments in the list will continue to pose challenges for the industry. Currently, about 5-7% of company's revenue came from drugs scheduled in the NLEM.

Risk of trade margin capping for generics business: Eris has forayed into trade generics in FY20 (contribute ~6% of sales). This business operates in a dynamic regulatory environment tainted by uncertainty over proposed changes related to trade margins.

Concentration Risk: Company derives ~80% of business from four therapeutic areas (i.e. CVS, anti-diabetic, VMN and Dermatology). Any adverse news flow or heightened competition may lead to lower growth.

Any slowdown in IPM growth, delay in new launches and sales ramp up of new products may hurt its earnings.

Inability to sustain higher growth on the back of organic business. A large part of Eris growth in the last 3 years has been on account of acquisitions. Also inability to scale up brands/business acquisition could result in slower growth and longer payback periods.

Merger and acquisition integration risk

Eris has acquired large assets in recent times (acquisition of Eris Oaknet Healthcare for Rs 650cr in May-2022, nine dermatology brands from Glenmark Pharmaceuticals Limited for Rs 340cr in January 2023 and nine dermatology brands from Dr. Reddy's Laboratories Limited for Rs 275cr in March 2023) and demonstrated the willingness and ability to acquire more assets in future and integrate them into the main business. Any difficulty in integrating the acquired assets could have an adverse impact on revenue and profitability.

Jan Aushadhi/Pradhan Mantri Bhartiya Jan-aushadhi Pariyojna (PMBJY)

Jan Aushadi Kendras reported sales of Rs 893cr in FY22 and Rs 1236cr in FY23. Significant scale up of this may hurt branded players.

As on May-2023, the government has operationalised 9,500 Jan Aushadhi Kendras with products comprising 1,800 lifesaving medicines and 285 surgical, nutraceuticals and medical devices, at 50-90% cheaper than the branded ones.

The government of India is encouraging the use of generic products through various initiatives. This may have an impact on the company's domestic business as it has strong presence in branded generic space.

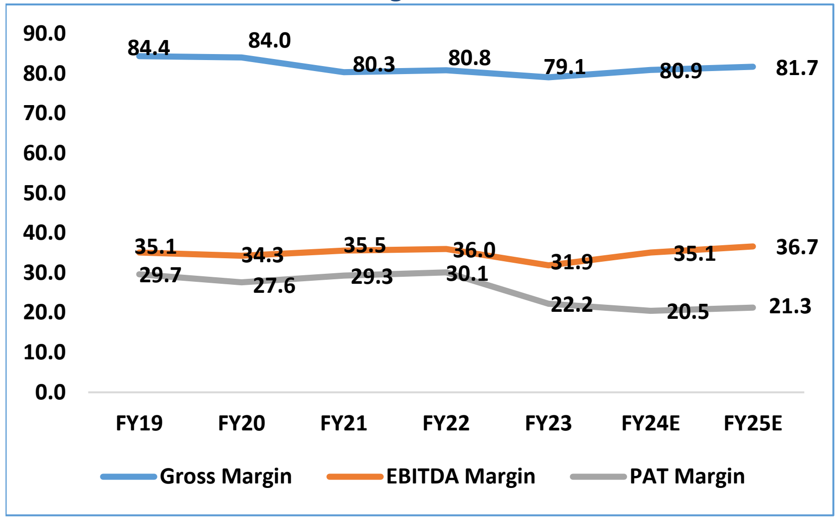
Company Background

Eris Lifesciences focuses on the branded generics business in the chronic & sub-chronic segment. The company has drugs across therapies such as anti-diabetes, cardiovascular, gastroenterology and gynaecology, CNS, Vitamins (VMN), etc. Company has total 3443 Medical Representatives (Standalone MRs at 2200). The company markets its products primarily to specialist/ super specialist doctors and high-end consulting physician.

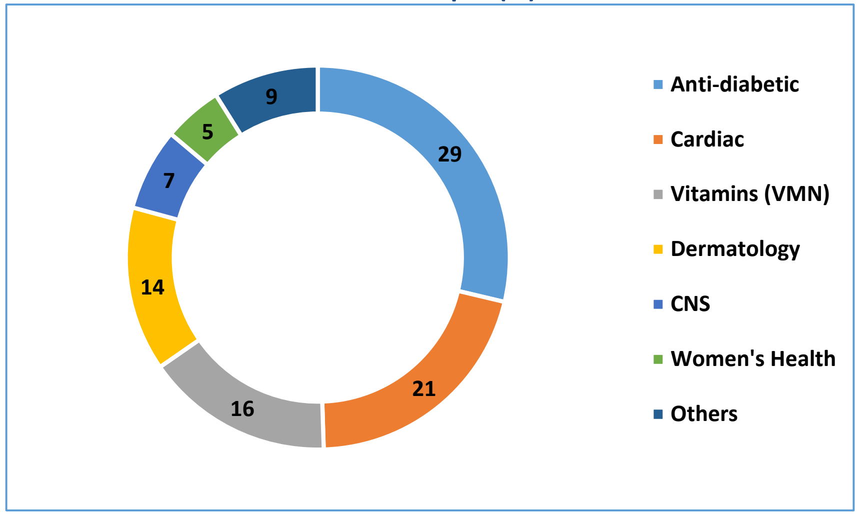
Eris has a pan India distribution network with over 2,000 stockists and 5,00,000+ chemists. Over 5,000 Erisians work in offices in Ahmedabad and Mumbai, the manufacturing facilities and on the field across the nation.

The company has a focused portfolio with top 20 mother-brands accounting for ~70% of FY23 revenues. 15 of their brands are ranked among top-5 in their respective segments. Eris has 4 mother brands with revenues of Rs 100cr+., Six mother brands with revenue of Rs 70-80cr and 5 mother brands with revenues of Rs 50-60cr. Eris spent 1265 cr. spent in 3 different acquisitions in dermatology therapy i) acquisition of Oaknet Healthcare for Rs 650cr ii) Acquired 9 Derma Brands from Glenmark (Medical dermatology) for Rs 340cr iii) Acquired 9 Derma Brands from Dr. Reddy (Cosmetic Dermatology) for Rs 275cr.

Margin Trend

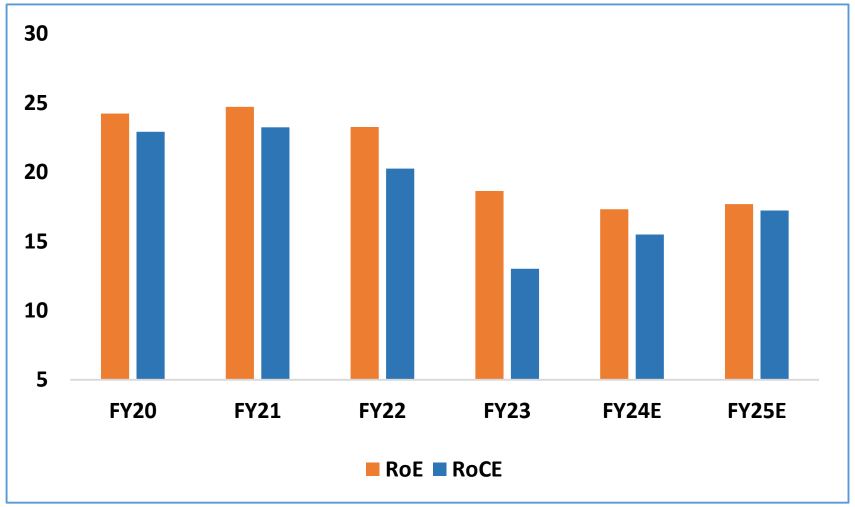


Revenue Split (%)

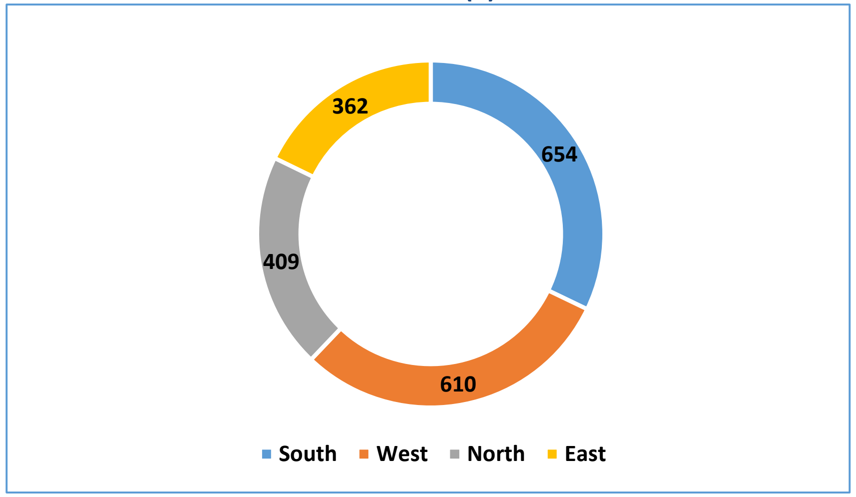


(Source: Company, HDFC sec)

Return Ratios



Stockist (#)



(Source: Company, HDFC sec)

Financials

Income Statement

(Rs Cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Revenue	1074	1212	1347	1685	1943	2172
Growth (%)	9.4	12.8	11.2	25.1	15.3	11.8
Operating Expenses	706	781	862	1148	1261	1376
EBITDA	**368**	**431**	**485**	**537**	**682**	**796**
Growth (%)	6.9	16.9	12.6	10.8	27.0	16.8
EBITDA Margin (%)	34.3	35.5	36.0	31.9	35.1	36.7
Depreciation	50	43	65	117	165	172
EBIT	318	388	420	420	516	624
Other Income	15	9	26	11	15	20
Interest expenses	2	2	4	26	63	52
PBT	331	395	442	405	468	592
Tax	35	39	36	31	70	130
PAT	**296**	**355**	**405**	**382**	**407**	**474**
Growth (%)	1.9	19.8	14.2	-5.7	6.3	16.5
EPS	21.6	25.8	29.5	27.8	29.6	34.5

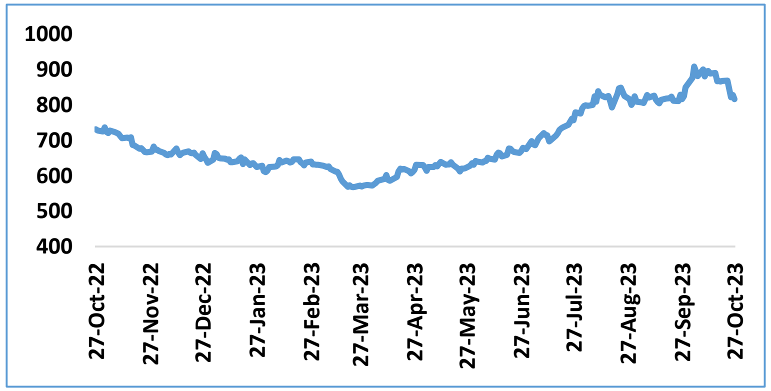
Balance Sheet

As at March	FY20	FY21	FY22	FY23	FY24E	FY25E
SOURCE OF FUNDS						
Share Capital	13.8	13.8	13.8	13.8	13.8	13.8
Reserves	1283	1563	1895	2182	2485	2846
Shareholders' Funds	**1297**	**1577**	**1908**	**2196**	**2499**	**2860**
Long Term Debt	12	0	45	644	432	341
Net Deferred Taxes	-123	-155	-201	-21	-21	-21
Long Term Provisions & Others	29	42	73	101	119	136
Minority Interest	0	0	0	25	25	25
Total Source of Funds	**1214**	**1463**	**1825**	**2945**	**3053**	**3340**
APPLICATION OF FUNDS						
Net Block	87	78	192	377	280	190
Intangible Assets	788	776	750	2212	2212	2212
Non-current Investments	9	244	421	7	17	26
Long Term Loans & Advances	16	66	35	27	50	79
Total Non-Current Assets	**900**	**1164**	**1397**	**2624**	**2560**	**2507**
Current Investments	75	50	100	30	34	44
Inventories	70	95	118	132	169	195
Trade Receivables	157	141	161	293	325	375
Cash & Equivalents	68	38	52	59	131	337
Other Current Assets	111	139	174	248	270	305
Total Current Assets	**480**	**467**	**627**	**765**	**935**	**1265**
Short-Term Borrowings	0	0	0	186	160	129
Trade Payables	100	103	118	125	142	157
Other Current Liab & Provisions	34	37	43	64	69	73
Short-Term Provisions	30	28	39	69	71	73
Total Current Liabilities	**165**	**167**	**200**	**443**	**441**	**432**
Net Current Assets	315	300	428	321	493	833
Total Application of Funds	**1214**	**1463**	**1825**	**2945**	**3053**	**3340**

Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	331	395	442	405	468	592
Non-operating & EO items	17	-9	-26	-11	-15	-20
Interest Expenses	2	2	4	26	63	52
Depreciation	50	43	65	117	165	172
Working Capital Change	-77	13	-23	-167	-100	-134
Tax Paid	-52	-69	-83	-78	-70	-130
OPERATING CASH FLOW (a)	**271**	**375**	**378**	**292**	**512**	**532**
Capex	-146	-26	-121	-841	-68	-82
Free Cash Flow	126	349	257	-549	444	450
Investments	253	-306	-225	-153	-34	-37
Non-operating income	15	9	26	11	15	20
INVESTING CASH FLOW (b)	**123**	**-323**	**-320**	**-982**	**-87**	**-99**
Debt Issuance / (Repaid)	-184	-6	41	790	-195	-74
Interest Expenses	-2	-2	-4	-26	-63	-52
FCFE	-61	341	294	214	186	324
Share Capital	0	0	0	25	0	0
Dividend	-148	-75	-82	-100	-95	-100
FINANCING CASH FLOW (c)	**-334**	**-83**	**-45**	**688**	**-353**	**-227**
NET CASH FLOW (a+b+c)	**60**	**-31**	**14**	**-2**	**72**	**207**

One Year Price Chart



Key Ratios

	FY20	FY21	FY22	FY23	FY24E	FY25E
Profitability (%)						
Gross Margin	84.0	80.3	80.8	79.1	80.9	81.7
EBITDA Margin	34.3	35.5	36.0	31.9	35.1	36.7
EBIT Margin	29.6	32.0	31.2	24.9	26.6	28.7
PAT Margin	27.6	29.3	30.1	22.2	20.5	21.3
RoE	24.2	24.7	23.3	18.6	17.3	17.7
RoCE	22.9	23.2	20.3	13.0	15.5	17.2
Solvency Ratio						
Net Debt/EBITDA (x)	-0.4	-0.2	-0.2	1.4	0.6	0.1
D/E	0.01	0.00	0.02	0.38	0.24	0.16
Net D/E	-0.1	-0.1	-0.1	0.3	0.2	0.0
PER SHARE DATA						
EPS	21.6	25.8	29.5	27.8	29.6	34.5
CEPS	25.2	29.0	34.2	36.3	41.6	47.0
BV	94	115	139	160	182	208
Dividend	3.5	3.5	2.5	6.0	6.3	6.5
Turnover Ratios (days)						
Debtor days	53	42	44	63	61	63
Inventory days	26	25	29	27	32	33
Creditors days	109	89	90	81	85	87
VALUATION						
P/E	39.0	32.6	28.5	30.2	28.4	24.4
P/BV	8.9	7.3	6.1	5.3	4.6	4.0
EV/EBITDA	32.7	27.9	24.8	22.4	17.7	15.1
EV / Revenues	11.2	9.9	8.9	7.1	6.2	5.5
Dividend Yield (%)	0.4	0.4	0.3	0.7	0.7	0.8
Dividend Payout	16.2	13.6	8.5	21.6	21.1	18.9

(Source: Company, HDFC sec)

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HDFC Sec Retail Research Rating description

Green Rating stocks
This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks
This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks
This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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