

February 17, 2020

## Q3FY20 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	522		459	
Sales (Rs. m)	12,472	14,186	13,676	15,557
% Chng.	(8.8)	(8.8)		
EBITDA (Rs. m)	4,190	4,781	4,992	5,678
% Chng.	(16.1)	(15.8)		
EPS (Rs.)	26.2	30.0	33.2	37.9
% Chng.	(21.1)	(20.8)		

### Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	10,213	10,964	12,472	14,186
EBITDA (Rs. m)	3,646	3,745	4,190	4,781
Margin (%)	35.7	34.2	33.6	33.7
PAT (Rs. m)	3,449	3,207	3,604	4,124
EPS (Rs.)	25.1	23.3	26.2	30.0
Gr. (%)	17.2	(7.0)	12.4	14.4
DPS (Rs.)	1.0	1.0	1.0	1.0
Yield (%)	0.2	0.2	0.2	0.2
RoE (%)	34.3	24.6	22.2	20.7
RoCE (%)	28.7	24.8	22.0	20.7
EV/Sales (x)	6.0	5.4	4.6	4.0
EV/EBITDA (x)	16.7	15.9	13.8	11.7
PE (x)	18.6	20.0	17.8	15.6
P/BV (x)	5.6	4.4	3.6	2.9

### Key Data

ERIS.BO | ERIS IN

52-W High / Low	Rs.662 / Rs.358
Sensex / Nifty	41,258 / 12,113
Market Cap	Rs.64bn/ \$ 899m
Shares Outstanding	138m
3M Avg. Daily Value	Rs.200.92m

### Shareholding Pattern (%)

Promoter's	56.23
Foreign	8.85
Domestic Institution	11.81
Public & Others	23.11
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(7.8)	18.2	(24.9)
Relative	(6.2)	6.9	(34.7)

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## Forays into trade Generics

### Quick Pointers:

- One-time spend drags EBITDA Margin
- Zomelis and Rariset near term drivers for growth

Revenue grew 5% YoY to Rs2.6bn (PLe 2.9bn), while EBITDA and PAT declined by 19% YoY and 21% YoY to Rs 0.7bn (PLe 1.0bn) and to Rs0.6bn (PLe 0.9bn), respectively. EBITDA margin declined to 27.6% v/s 36.1% YoY (PLe 36.5%) due to one-time spend of Rs180m on promotional events for new brands (Zomelis and Rariset) and on boarding of 219 new BEs. Adj. to one-time spend EBITDA margin was 34.4%. ERIS marked its presence in trade generic space with 25 staff addition with 65 products in the pipeline for launch in few months. Guided its base portfolio would grow 10%.

With 65% contribution of Guwahati plant in revenues, ERIS guided for more capacity utilisation including captive productions of Strides portfolio. This helps for better tax management in FY21E onwards. It is adopting more aggressive approach with expansion of higher selling franchise, launches off-patent molecules, foray in new therapeutic areas, launching products in trade generics acquisitions of brands, in-licensing molecules and additions of new headcounts.

While its application new strategies gains only gradual traction vs. market expectation of better outcome of growth and margin in H2FY20E, we believe that its growth visibility and margin stability to be better off in H1FY21E. Though launching new molecules through in-license agreement as well as promotional expenditures may impact headline margins in near term, ERIS management is confident to achieve better traction of volumes and improve return ratios. We have reduced our earning estimate for FY21E and FY22E by 21% on account of reduction in EBITDA margin due to higher SG&A and other operating expense on account of launch of new products. We rolled forward our earnings estimates to FY22E and derived PE 17x (earlier 16x) of FY22E earnings with 30% premium to its earnings CAGR (FY20E-22E) of 13.4%. Our new TP of Rs522 (v/s old TP Rs458) PE of 17x of FY22E earnings. We maintain 'Accumulate'

## Conference Call and Key Highlights:

- ERIS acquired Zomelis from Novartis for Rs930m in Q3FY20 that had a MAT sale of Rs640m. ERIS launched a new division Aspire dedicated for Zomelis with 186BEs. Revenue realisation from Zomelis would be post Q4FY20E due to inventory held by Abbott. Guided revenue of Rs500m with 75-80% gross margin for FY21E and FY22E. ERIS plans to price the product at Rs9-10/Unit v/s Abbott price of Rs21-22/unit.

- **Rariset Launch:** In Q3FY20, ERIS launched Rariset, under in-licensing agreement with Pharmanutra S.P.A for their patent protected Sucrosomial Iron. The product would be prescribed by Gynaecologist and Nephrologist that will have product cycle of 9 months. ERIS conducted 400 medical meetings as a part of promotional activity for Rarise.
- **Foray in Generic:** It entered Generic space with 25 BEs at the higher managerial and plans to add further 25BEs at the lower levels in FY20E. Plans to launch 65 products initially with none of these will be manufactured in-house. Its generic division is expected to have annual fixed cost of Rs100-150m and gross margin would be in the range of 50-55%.
- **Other Segment:** Fertility and nutrition segment would achieve revenue of Rs110m-120m and Rs85-90m for FY20E
- Eris has a cash of Rs1.1bn and plans for dividend and buyback program in near term

**Exhibit 1: Q3FY20 Result Overview (Rs mn)**

Y/e March	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	9MFY20	9MFY19	YoY gr. (%)
<b>Net Sales</b>	<b>2,618</b>	<b>2,485</b>	<b>5.3</b>	<b>2,805</b>	<b>8,141</b>	<b>7,561</b>	<b>7.7</b>
Raw Material	428	394	8.7	457	1,344	1,188	13.1
<i>% of Net Sales</i>	<i>16.4</i>	<i>15.9</i>		<i>16.3</i>	<i>16.5</i>	<i>15.7</i>	
Personnel Cost	524	475	10.4	505	1,501	1,434	4.6
<i>% of Net Sales</i>	<i>20.0</i>	<i>19.1</i>		<i>18.0</i>	<i>18.4</i>	<i>19.0</i>	
Others	944	720	31.0	787	2,498	2,223	12.4
<i>% of Net Sales</i>	<i>36.1</i>	<i>29.0</i>		<i>28.1</i>	<i>30.7</i>	<i>29.4</i>	
Total Expenditure	1,896	1,589	19.3	1,749	5,343	4,846	10.3
<b>EBITDA</b>	<b>722</b>	<b>896</b>	<b>(19.5)</b>	<b>1,055</b>	<b>2,798</b>	<b>2,715</b>	<b>3.0</b>
<i>Margin (%)</i>	<i>27.6</i>	<i>36.1</i>		<i>37.6</i>	<i>34.4</i>	<i>35.9</i>	
Depreciation	127	96	32.4	117	359	251	42.9
<b>EBIT</b>	<b>595</b>	<b>800</b>	<b>(25.7)</b>	<b>938</b>	<b>2,438</b>	<b>2,464</b>	<b>(1.0)</b>
Other Income	131	142	(7.7)	95	279	312	(10.7)
Interest	4	51		5	18	185	(90.2)
<b>PBT</b>	<b>722</b>	<b>891</b>	<b>(19.0)</b>	<b>1,028</b>	<b>2,699</b>	<b>2,591</b>	<b>4.2</b>
Total Taxes	87	89	(2.5)	101	296	219	35.5
<i>ETR (%)</i>	<i>12.0</i>	<i>10.0</i>		<i>9.8</i>	<i>11.0</i>	<i>8.4</i>	
Minority Interest	-	1		-	0	6	
<b>Reported PAT</b>	<b>635</b>	<b>801</b>	<b>(20.8)</b>	<b>927</b>	<b>2,403</b>	<b>2,367</b>	<b>1.5</b>

Source: Company, PL

## Chapter Heading

### Sub heading 1

### Sub Heading 2

### Sub Heading 3

Body Text

## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>10,213</b>	<b>10,964</b>	<b>12,472</b>	<b>14,186</b>
YoY gr. (%)	23.5	7.4	13.7	13.7
Cost of Goods Sold	1,604	1,808	2,045	2,312
Gross Profit	8,610	9,156	10,426	11,874
Margin (%)	84.3	83.5	83.6	83.7
Employee Cost	1,915	2,039	2,307	2,624
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>3,646</b>	<b>3,745</b>	<b>4,190</b>	<b>4,781</b>
YoY gr. (%)	24.2	2.7	11.9	14.1
Margin (%)	35.7	34.2	33.6	33.7
Depreciation and Amortization	364	488	580	636
<b>EBIT</b>	<b>3,283</b>	<b>3,257</b>	<b>3,610</b>	<b>4,145</b>
Margin (%)	32.1	29.7	28.9	29.2
Net Interest	0	21	10	5
Other Income	511	409	449	494
<b>Profit Before Tax</b>	<b>3,793</b>	<b>3,645</b>	<b>4,049</b>	<b>4,634</b>
Margin (%)	37.1	33.2	32.5	32.7
Total Tax	334	437	445	510
Effective tax rate (%)	8.8	12.0	11.0	11.0
<b>Profit after tax</b>	<b>3,459</b>	<b>3,207</b>	<b>3,604</b>	<b>4,124</b>
Minority interest	10	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>3,449</b>	<b>3,207</b>	<b>3,604</b>	<b>4,124</b>
YoY gr. (%)	17.3	(7.0)	12.4	14.4
Margin (%)	33.8	29.3	28.9	29.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,449</b>	<b>3,207</b>	<b>3,604</b>	<b>4,124</b>
YoY gr. (%)	17.3	(7.0)	12.4	14.4
Margin (%)	33.8	29.3	28.9	29.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,449	3,207	3,604	4,124
<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>23.3</b>	<b>26.2</b>	<b>30.0</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>1,869</b>	<b>2,450</b>	<b>3,086</b>
Tangibles	931	1,009	1,150	1,541
Intangibles	450	860	1,300	1,545
<b>Net fixed assets</b>	<b>6,669</b>	<b>6,401</b>	<b>6,071</b>	<b>5,685</b>
Tangibles	553	645	705	514
Intangibles	6,116	5,756	5,366	5,172
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	901	1,196	1,360
Trade receivables	840	931	1,093	1,244
Cash & Bank Balance	75	965	1,437	1,944
Other Current Assets	776	1,320	2,375	4,276
<b>Total Assets</b>	<b>15,537</b>	<b>17,816</b>	<b>20,703</b>	<b>24,600</b>
<b>Equity</b>				
Equity Share Capital	138	138	138	138
Other Equity	11,368	14,410	17,848	21,807
<b>Total Network</b>	<b>11,505</b>	<b>14,547</b>	<b>17,986</b>	<b>21,945</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	-	220	110	55
Trade payables	841	871	854	972
Other current liabilities	2,214	1,107	554	277
<b>Total Equity &amp; Liabilities</b>	<b>15,537</b>	<b>17,583</b>	<b>20,212</b>	<b>23,829</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	3,793	3,645	4,049	4,634
Add. Depreciation	364	488	580	636
Add. Interest	0	21	10	5
Less Financial Other Income	511	409	449	494
Add. Other	206	(580)	(91)	165
Op. profit before WC changes	4,363	3,574	4,549	5,440
Net Changes-WC	(571)	(965)	(1,700)	(2,234)
Direct tax	(759)	(729)	(810)	(927)
<b>Net cash from Op. activities</b>	<b>3,032</b>	<b>1,881</b>	<b>2,038</b>	<b>2,279</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)	219	(111)	(55)
Dividend paid	(165)	(165)	(165)	(165)
Interest paid	0	21	10	5
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(2,904)</b>	<b>75</b>	<b>(266)</b>	<b>(216)</b>
<b>Net change in cash</b>	<b>(31)</b>	<b>890</b>	<b>472</b>	<b>507</b>
Free Cash Flow	2,768	1,653	1,781	2,022

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
<b>Net Revenue</b>	<b>2,111</b>	<b>2,719</b>	<b>2,805</b>	<b>2,618</b>
YoY gr. (%)	1.5	10.0	7.6	5.3
Raw Material Expenses	349	459	457	428
Gross Profit	1,762	2,260	2,347	2,189
Margin (%)	83.5	83.1	83.7	83.6
<b>EBITDA</b>	<b>584</b>	<b>1,021</b>	<b>1,055</b>	<b>722</b>
YoY gr. (%)	(13.6)	20.3	8.7	(19.5)
Margin (%)	27.7	37.6	37.6	27.6
Depreciation / Depletion	112	115	117	127
<b>EBIT</b>	<b>472</b>	<b>906</b>	<b>938</b>	<b>595</b>
Margin (%)	22.4	33.3	33.4	22.7
Net Interest	44	9	5	4
Other Income	155	52	95	131
<b>Profit before Tax</b>	<b>582</b>	<b>949</b>	<b>1,028</b>	<b>722</b>
Margin (%)	27.6	34.9	36.6	27.6
Total Tax	44	109	101	87
Effective tax rate (%)	7.5	11.5	9.8	12.0
<b>Profit after Tax</b>	<b>539</b>	<b>841</b>	<b>927</b>	<b>635</b>
Minority interest	(2)	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>541</b>	<b>840</b>	<b>927</b>	<b>635</b>
YoY gr. (%)	(3.0)	18.0	8.7	(20.8)
Margin (%)	25.6	30.9	33.1	24.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>541</b>	<b>840</b>	<b>927</b>	<b>635</b>
YoY gr. (%)	(3.0)	18.0	8.7	(20.8)
Margin (%)	25.6	30.9	33.1	24.3
Other Comprehensive Income	-	-	(1)	-
<b>Total Comprehensive Income</b>	<b>541</b>	<b>840</b>	<b>926</b>	<b>635</b>
Avg. Shares O/s (m)	138	138	138	138
<b>EPS (Rs)</b>	<b>3.9</b>	<b>6.1</b>	<b>6.7</b>	<b>4.6</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	25.1	23.3	26.2	30.0
CEPS	27.7	26.9	30.4	34.6
BVPS	83.7	105.8	130.8	159.6
FCF	20.1	12.0	12.9	14.7
DPS	1.0	1.0	1.0	1.0
<b>Return Ratio(%)</b>				
RoCE	28.7	24.8	22.0	20.7
ROIC	36.5	34.8	31.9	30.9
RoE	34.3	24.6	22.2	20.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.3)	(0.4)
Net Working Capital (Days)	29	32	42	42
<b>Valuation(x)</b>				
PER	18.6	20.0	17.8	15.6
P/B	5.6	4.4	3.6	2.9
P/CEPS	16.8	17.4	15.3	13.5
EV/EBITDA	16.7	15.9	13.8	11.7
EV/Sales	6.0	5.4	4.6	4.0
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	03-Jan-20	Accumulate	459	490
2	21-Nov-19	Accumulate	459	418
3	07-Nov-19	Accumulate	459	426
4	03-Oct-19	Accumulate	459	431
5	29-Jul-19	Accumulate	459	402
6	04-Jul-19	Accumulate	812	498
7	05-Apr-19	Accumulate	695	625

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	525	547
2	Cadila Healthcare	Hold	247	272
3	Cipla	Reduce	460	448
4	Dr. Lal PathLabs	Hold	1,797	1,741
5	Dr. Reddy's Laboratories	Accumulate	3,331	3,200
6	Eris Lifesciences	Accumulate	459	490
7	Glenmark Pharmaceuticals	Reduce	335	352
8	Indoco Remedies	Hold	198	234
9	Ipca Laboratories	BUY	1,826	1,423
10	Jubilant Life Sciences	Reduce	488	583
11	Lupin	Reduce	654	722
12	Sun Pharmaceutical Industries	Reduce	412	431
13	Thyrocare Technologies	BUY	724	603

**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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