

June 3, 2020

Q4FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		BUY	
Target Price	576		547	
Sales (Rs. m)	11,696	13,306	11,397	12,965
% Chng.	2.6	2.6		
EBITDA (Rs. m)	3,801	4,418	3,579	4,239
% Chng.	6.2	4.2		
EPS (Rs.)	23.6	27.9	22.2	26.5
% Chng.	6.3	5.5		

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	9,672	10,582	11,696	13,306
EBITDA (Rs. m)	3,300	3,274	3,801	4,418
Margin (%)	34.1	30.9	32.5	33.2
PAT (Rs. m)	2,886	2,670	3,211	3,793
EPS (Rs.)	21.0	19.7	23.6	27.9
Gr. (%)	(1.9)	(6.3)	20.3	18.1
DPS (Rs.)	1.2	2.9	2.9	2.9
Yield (%)	0.2	0.6	0.6	0.6
RoE (%)	28.7	21.8	22.4	21.7
RoCE (%)	25.7	22.6	22.6	22.1
EV/Sales (x)	7.1	6.5	5.7	4.8
EV/EBITDA (x)	20.7	21.2	17.6	14.6
PE (x)	24.8	26.4	22.0	18.6
P/BV (x)	6.2	5.4	4.5	3.7

Key Data

ERIS.BO | ERIS IN

52-W High / Low	Rs.595 / Rs.321
Sensex / Nifty	33,826 / 9,979
Market Cap	Rs.71bn/ \$ 937m
Shares Outstanding	136m
3M Avg. Daily Value	Rs.82.8m

Shareholding Pattern (%)

Promoter's	55.55
Foreign	10.19
Domestic Institution	11.18
Public & Others	23.08
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.8	16.7	(0.8)
Relative	3.5	40.8	16.5

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Chronic, Sub-Chronic products continue to outperform IPM

Quick Pointers:

- New BE's productivity to reap benefit from 2HFY21E.
- Top-10 brands to drive growth.

We continue to prefer ERIS over other mid-cap companies due to 1) pure domestic play, very limited regulatory and currency risk, 2) contribution of chronic/sub-chronic products with consistent demand structure and 3) strong balance sheet. In FY20, ERIS had been in expansion mode by launching off-patent molecules, foray in new therapeutic and trade generics, in-licensing molecules and added new headcounts. However benefit from this expansion is yet to yield benefit and has led EBITDA margin to declined to 28-30% in 2HFY20 versus 37-38% in 1HFY20 mainly on account of marketing expense and increase in MR count.

We have increased our earnings estimates for FY21E and FY22E by 6% post encouraging growth in top-10 brands, better gross margin (85%) in Q4FY20 and management guidance. Maintaining PE 21x of FY22E earnings, our new TP is Rs576 (previous Rs547) and we also change our rating to 'Accumulate' (earlier BUY) due to recent rally in stock price.

Performance better than expected: Revenue/EBITDA grew 16% and 24% YoY to Rs Rs2,441m (PLe Rs2216m) and Rs726m (PLe Rs595m). While EBITDA Margin was 30% (PLe 27%) v/s 28% YoY. Employee cost increased 17% YoY due to increase in MR count as guided by ERIS.

Conference Call and Key Highlights:

- During Q4FY20, Eris chronic therapies (65% of revenue) grew 19.6% yoy vs IPM growth of 12.1%. Sub chronic therapies grew 13.4% (22% of revenue) yoy vs IPM growth of 7.3%. Acute therapies underperformed with 7% de-growth v/s IPM growth rate of 8.8%.
- Guided gross margin decline of 100-150bps in Q1FY21E due to increase in API price. However, EBITDA margin would not be impacted due to lower marketing spend as MR's are still off the field.
- Top 10 brands contributed 66% of sales. This brands grew 15.2% yoy vs 11.3% yoy growth of their respective markets.
- 461 BE's were added in FY20 due to foray into new segment (Gx, derma). Total BE's count stands at 2,461.
- Guwahati plant contributed to 76% of revenue in Q4FY20 and guided to inch higher ~80% by Q1FY21E. Plants continued to operate smoothly even after the COVID lockdown.

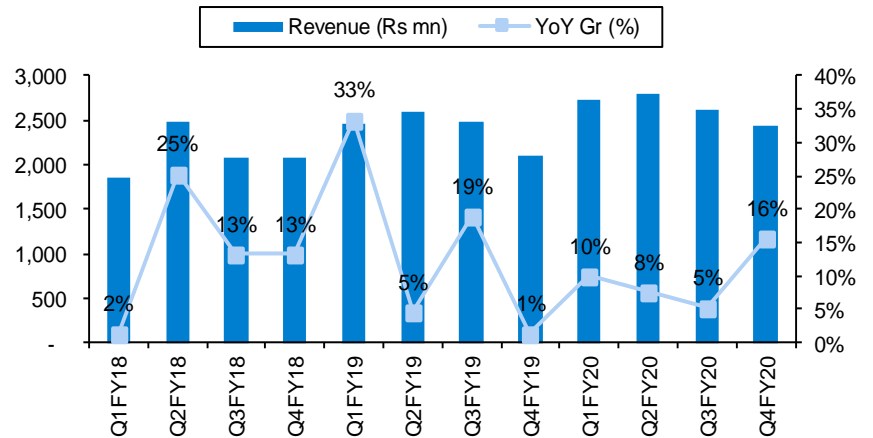
- Cash outflow was Rs1,470m towards buyback/dividend, Rs1,780m loan repayment and Rs1,170m acquisition of brand. Cash & equivalents stands at Rs1450m.
- ERIS acquired Zomelis from Novartis for Rs930m in Q3FY20 that had a MATsale of Rs640m. ERIS launched a new division Aspire dedicated for Zomelis with 1,86BEs. Revenue realization from Zomelis would be post Q1FY21E 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 Rariset.
- Foray in Generic: It entered Generic space by adding 25 BEs at the higher managerial and plans to add further 25BEs at lower levels in FY21E. Plans to launch 65 products initially, but 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%.

Exhibit 1: Q4FY20 Result Overview (Rs mn)

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net Sales	2,441	2,111	15.6	3,813	10,582	9,672	9.4
Raw Material	371	349	6.4	543	1,715	1,537	11.6
<i>% of Net Sales</i>	<i>15.2</i>	<i>16.5</i>		<i>14.2</i>	<i>16.2</i>	<i>15.9</i>	
Personnel Cost	553	472	17.0	663	2,053	1,907	7.7
<i>% of Net Sales</i>	<i>22.6</i>	<i>22.4</i>		<i>17.4</i>	<i>19.4</i>	<i>19.7</i>	
Others	791	706	12.1	1,133	3,289	2,929	12.3
<i>% of Net Sales</i>	<i>32.4</i>	<i>33.4</i>		<i>29.7</i>	<i>31.1</i>	<i>30.3</i>	
Total Expenditure	1,714	1,527	12.3	2,339	7,058	6,372	10.8
EBITDA	726	584	24.4	1,475	3,524	3,300	6.8
<i>Margin (%)</i>	<i>29.8</i>	<i>27.7</i>		<i>38.7</i>	<i>33.3</i>	<i>34.1</i>	
Depreciation	143	112	28.0	101	503	364	38.3
EBIT	583	472	23.5	1,374	3,021	2,936	2.9
Other Income	37	155	(75.9)	143	316	467	(32.3)
Interest	4	44		8	8	229	(96.4)
PBT	617	582	5.9	1,509	3,329	3,174	4.9
Total Taxes	56	44	28.8	189	352	262	34.4
<i>ETR (%)</i>	<i>9.1</i>	<i>7.5</i>		<i>12.5</i>	<i>10.6</i>	<i>8.3</i>	
Minority Interest	-	(2)		3	7	4	
Reported PAT	561	541	3.6	1,317	2,970	2,908	2.1

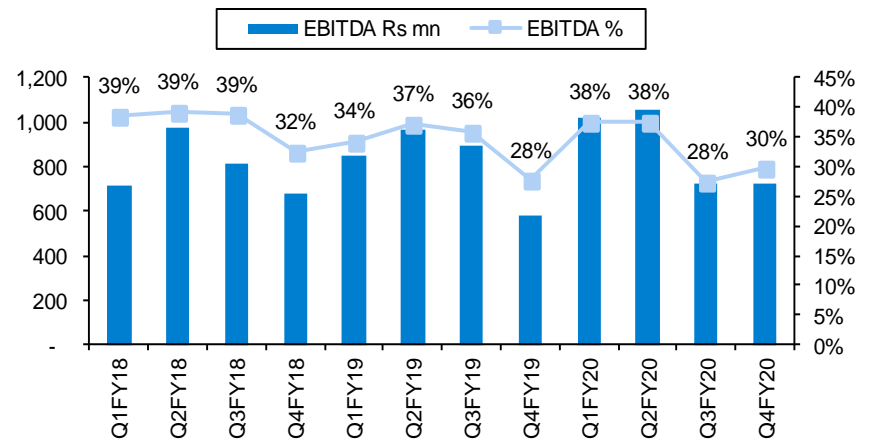
Source: Company, PL

Exhibit 2: Revenue (Rs mn) and YoY Growth (%)



Source: Company, PL

Exhibit 3: EBITDA (Rs mn) and EBITDA Margin (%)



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	9,672	10,582	11,696	13,306
YoY gr. (%)	16.9	9.4	10.5	13.8
Cost of Goods Sold	1,537	1,966	1,708	1,903
Gross Profit	8,135	8,616	9,989	11,403
Margin (%)	84.1	81.4	85.4	85.7
Employee Cost	1,907	2,053	2,222	2,462
Other Expenses	-	-	-	-
EBITDA	3,300	3,274	3,801	4,418
YoY gr. (%)	12.4	(0.8)	16.1	16.2
Margin (%)	34.1	30.9	32.5	33.2
Depreciation and Amortization	364	503	543	550
EBIT	2,936	2,771	3,258	3,868
Margin (%)	30.4	26.2	27.9	29.1
Net Interest	229	8	4	2
Other Income	467	316	354	396
Profit Before Tax	3,174	3,079	3,608	4,262
Margin (%)	32.8	29.1	30.8	32.0
Total Tax	279	399	397	469
Effective tax rate (%)	8.8	13.0	11.0	11.0
Profit after tax	2,894	2,679	3,211	3,793
Minority interest	9	9	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,886	2,670	3,211	3,793
YoY gr. (%)	(1.9)	(7.5)	20.3	18.1
Margin (%)	29.8	25.2	27.5	28.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,886	2,670	3,211	3,793
YoY gr. (%)	(1.9)	(7.5)	20.3	18.1
Margin (%)	29.8	25.2	27.5	28.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,886	2,670	3,211	3,793
Equity Shares O/s (m)	138	136	136	136
EPS (Rs)	21.0	19.7	23.6	27.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	8,051	8,271	8,521	8,771
Tangibles	1,485	1,655	1,855	2,055
Intangibles	6,566	6,616	6,666	6,716
Acc: Dep / Amortization	1,381	1,869	2,413	2,962
Tangibles	931	1,009	1,113	1,418
Intangibles	450	860	1,300	1,545
Net fixed assets	6,669	7,781	6,108	5,808
Tangibles	553	2,025	742	637
Intangibles	6,116	5,756	5,366	5,172
Capital Work In Progress	27	44	46	48
Goodwill	936	996	1,082	1,185
Non-Current Investments	486	115	141	172
Net Deferred tax assets	931	1,192	1,192	1,192
Other Non-Current Assets	152	85	123	179
Current Assets				
Investments	3,149	748	838	921
Inventories	827	695	1,057	1,167
Trade receivables	840	1,586	1,602	1,094
Cash & Bank Balance	75	673	3,090	5,336
Other Current Assets	776	986	1,775	3,195
Total Assets	15,537	15,533	17,648	20,848
Equity				
Equity Share Capital	138	136	136	136
Other Equity	11,368	12,825	15,636	19,029
Total Networkth	11,505	12,961	15,772	19,165
Non-Current Liabilities				
Long Term borrowings	3	-	-	-
Provisions	194	264	198	149
Other non current liabilities	56	31	22	15
Current Liabilities				
ST Debt / Current of LT Debt	-	86	43	22
Trade payables	841	1,023	801	911
Other current liabilities	2,214	572	286	143
Total Equity & Liabilities	15,537	15,533	17,648	20,848

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	3,174	3,329	3,608	4,262
Add. Depreciation	364	503	543	550
Add. Interest	229	8	4	2
Less Financial Other Income	467	316	354	396
Add. Other	206	(862)	(2,286)	37
Op. profit before WC changes	3,972	2,978	1,869	4,851
Net Changes-WC	(571)	(565)	(1,666)	(1,074)
Direct tax	(635)	(666)	(722)	(852)
Net cash from Op. activities	2,766	1,747	(518)	2,924
Capital expenditures	(264)	(220)	(250)	(250)
Interest / Dividend Income	10	11	12	13
Others	95	2,779	(95)	(89)
Net Cash from Inv. activities	(159)	2,570	(333)	(326)
Issue of share cap. / premium	0	(2)	-	-
Debt changes	(2,739)	84	(43)	(22)
Dividend paid	(165)	(400)	(400)	(400)
Interest paid	229	8	4	2
Others	-	-	-	-
Net cash from Fin. activities	(2,676)	(310)	(439)	(420)
Net change in cash	(69)	4,007	(1,290)	2,178
Free Cash Flow	2,501	1,527	(768)	2,674

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	2,719	2,805	2,618	2,441
YoY gr. (%)	10.0	7.6	5.3	15.6
Raw Material Expenses	459	457	428	371
Gross Profit	2,260	2,347	2,189	2,070
Margin (%)	83.1	83.7	83.6	84.8
EBITDA	1,021	1,055	722	726
YoY gr. (%)	20.3	8.7	(19.5)	24.4
Margin (%)	37.6	37.6	27.6	29.8
Depreciation / Depletion	115	117	127	143
EBIT	906	938	595	583
Margin (%)	33.3	33.4	22.7	23.9
Net Interest	9	5	4	4
Other Income	52	95	131	37
Profit before Tax	949	1,028	722	617
Margin (%)	34.9	36.6	27.6	25.3
Total Tax	109	101	87	56
Effective tax rate (%)	11.5	9.8	12.0	9.1
Profit after Tax	841	927	635	561
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	840	927	635	561
YoY gr. (%)	18.0	8.7	(20.8)	3.6
Margin (%)	30.9	33.1	24.3	23.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	840	927	635	561
YoY gr. (%)	18.0	8.7	(20.8)	3.6
Margin (%)	30.9	33.1	24.3	23.0
Other Comprehensive Income	-	(1)	-	(2)
Total Comprehensive Income	840	926	635	559
Avg. Shares O/s (m)	138	138	138	138
EPS (Rs)	6.1	6.7	4.6	4.1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	21.0	19.7	23.6	27.9
CEPS	23.6	23.4	27.6	32.0
BVPS	83.7	95.5	116.2	141.1
FCF	18.2	11.2	(5.7)	19.7
DPS	1.2	2.9	2.9	2.9
Return Ratio(%)				
RoCE	25.7	22.6	22.6	22.1
ROIC	32.6	22.2	27.6	30.6
RoE	28.7	21.8	22.4	21.7
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.1)	(0.2)	(0.3)
Net Working Capital (Days)	31	43	58	37
Valuation(x)				
PER	24.8	26.4	22.0	18.6
P/B	6.2	5.4	4.5	3.7
P/CEPS	22.0	22.3	18.8	16.3
EV/EBITDA	20.7	21.2	17.6	14.6
EV/Sales	7.1	6.5	5.7	4.8
Dividend Yield (%)	0.2	0.6	0.6	0.6

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Top 25 Products	8,869	10,449	11,727	13,318
Top 10 Products	7,748	8,914	9,884	11,070
Next 15 Products	1,121	1,535	1,842	2,248
Ex-Top 25 products	4,170	4,939	5,483	6,195

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	18-Apr-20	BUY	547	486
2	14-Apr-20	BUY	522	417
3	17-Feb-20	Accumulate	522	467
4	03-Jan-20	Accumulate	459	490
5	21-Nov-19	Accumulate	459	418
6	07-Nov-19	Accumulate	459	426
7	03-Oct-19	Accumulate	459	431
8	29-Jul-19	Accumulate	459	402
9	04-Jul-19	Accumulate	812	498

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	702	644
2	Cadila Healthcare	Sell	263	324
3	Cipla	Reduce	542	570
4	Dr. Lal PathLabs	Sell	895	1,583
5	Dr. Reddy's Laboratories	Accumulate	4,326	3,915
6	Eris Lifesciences	BUY	547	486
7	Glenmark Pharmaceuticals	Sell	257	314
8	Indoco Remedies	Hold	259	236
9	Ipca Laboratories	Accumulate	1,728	1,619
10	Jubilant Life Sciences	Hold	414	445
11	Lupin	BUY	1,001	870
12	Sun Pharmaceutical Industries	Hold	467	450
13	Thyrocare Technologies	Sell	307	503

PL's Recommendation Nomenclature (Absolute Performance)

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



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