

August 5, 2020

Q1FY21 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23EE	FY22E	FY23EE
Rating	BUY		BUY	
Target Price	576		576	
Sales (Rs. m)	13,306	15,137	13,306	15,137
% Chng.	-	-	-	-
EBITDA (Rs. m)	4,418	5,026	4,418	5,026
% Chng.	-	-	-	-
EPS (Rs.)	27.9	34.9	27.9	34.9
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	10,582	11,696	13,306	15,137
EBITDA (Rs. m)	3,524	3,801	4,418	5,026
Margin (%)	33.3	32.5	33.2	33.2
PAT (Rs. m)	2,968	3,211	3,793	4,734
EPS (Rs.)	21.9	23.6	27.9	34.9
Gr. (%)	4.2	8.2	18.1	24.8
DPS (Rs.)	2.9	5.5	5.1	5.1
Yield (%)	0.6	1.1	1.0	1.0
RoE (%)	24.3	25.2	30.4	37.7
RoCE (%)	24.6	25.4	30.9	38.8
EV/Sales (x)	6.4	5.8	5.1	4.5
EV/EBITDA (x)	19.3	17.8	15.3	13.5
PE (x)	23.4	21.6	18.3	14.7
P/BV (x)	5.4	5.5	5.6	5.5

Key Data

ERIS.BO | ERIS IN

52-W High / Low	Rs.595 / Rs.321
Sensex / Nifty	37,688 / 11,095
Market Cap	Rs.69bn/ \$ 923m
Shares Outstanding	136m
3M Avg. Daily Value	Rs.138.8m

Shareholding Pattern (%)

Promoter's	55.55
Foreign	10.11
Domestic Institution	11.33
Public & Others	23.01
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	14.0	(2.8)	21.5
Relative	9.0	5.2	19.7

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New launches delayed seeing current scenario

Quick Pointers:

- Cardio-Metabolic (62% of revenue) grew 13% vs. market 7%
- EBITDA margin lower by 330bps YoY due to launch of OTC products .

1QFY21 revenue was in-line but gross and EBITDA margin were lower by 300bps and 330bps YoY due to launch of low margin OTC products and increased employee expense by 21% YoY led by addition of new MR's. Contribution of the new MRs is lower than expected as new launches are rescheduled on later dates for better traction among target clientele. The ongoing COVID related headwinds have delayed launches of new brands while its current portfolio of cardio-metabolic brands gained market share and outgrew industry growth. We continue to prefer ERIS as our top pick in mid-cap space due to 1) pure domestic play with insignificant regulatory and currency risk, 2) contribution of chronic/sub-chronic products with steady demand structure, 3) strong balance sheet and 4) less dependance on Chinese API and KSM. We maintain BUY recommendation and retain TP of Rs576 based on PE 21x of FY22E.

Gross margin and employee cost brings EBITDAM lower: Revenue grew 6% YoY to Rs 2.8bn (PLe: Rs2.8bn), while EBITDA declined 3% YoY to Rs989m (PLe: Rs1.0bn). Gross margin was 300bps lower YoY at 80% due to launch of OTC products. EBITDA margin was 34.3% (PLe 35.5%) v/s 37.6% YoY. Employee cost grew 21% YoY due to addition of new MR's while marketing cost declined 10% YoY. PBT was flat YoY to Rs946m (PLe: Rs890m) while PAT grew 6% YoY to Rs890m (PLe: Rs783m).

Conference Call and Key Highlights:

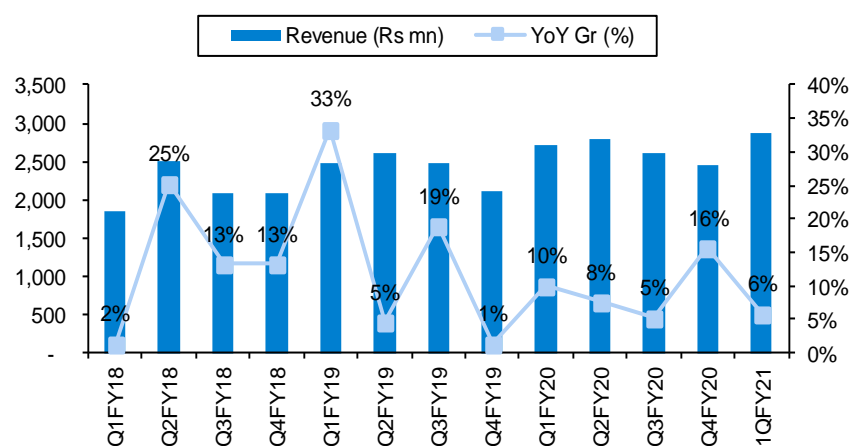
- Cardio Metabolic segment (Chronic) contributed 62% towards revenue with 13% growth YoY v/s market growth of 7% during the quarter. For the month of June-20, Cardio-Metabolic segment grew 25%.
- VMN (Vitamins/Minerals/Nutrients) contributed 18% to revenue. The segment witnessed decline of 6% YoY v/s market decline of 7% during the quarter.
- 461 BEs were added in FY20 due to foray into new segment (Gx, derma). Total BE headcount stands at 2,500 currently.
- Tax rate was 6% as Guwahati plant contributed to 81% (v/s 76% QoQ) of revenue in 1QFY21. Plant continued to operate smoothly even after the COVID lockdown.
- 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 186 BEs. Zomelis contributed **Rs87m** during the quarter and guided for Rs400m for FY21E.

- OTC segment:** Revenue was Rs253m in Q1FY21 with 4% EBITDA margin. Plans to launch 65 products initially, but none of these to be manufactured in-house. Its generic division is expected to have annual fixed cost of Rs100-150m, where gross margin would be in the range of 50-55%.

Exhibit 1: 1QFY21 Result Overview (Rs mn)

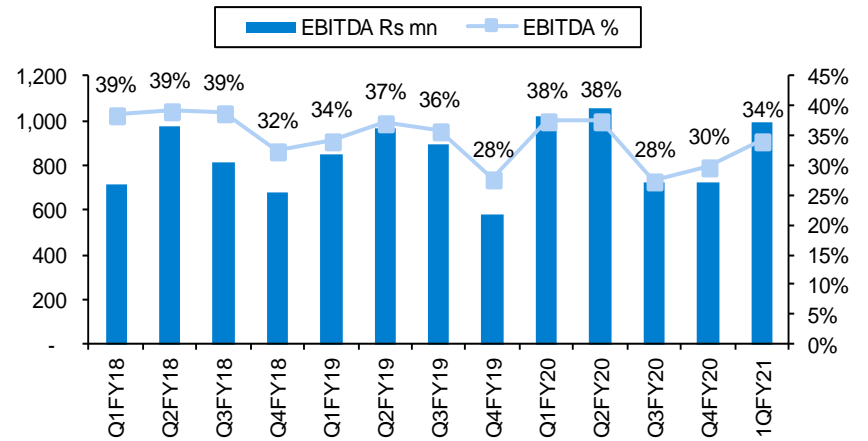
Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net Sales	2,881	2,719	6.0	2,441	11,696	10,582	10.5
Raw Material	576	459	25.5	371	1,708	1,715	(0.4)
<i>% of Net Sales</i>	<i>20.0</i>	<i>16.9</i>		<i>15.2</i>	<i>14.6</i>	<i>16.2</i>	
Personnel Cost	571	471	21.1	553	2,222	2,053	8.2
<i>% of Net Sales</i>	<i>19.8</i>	<i>17.3</i>		<i>22.6</i>	<i>19.0</i>	<i>19.4</i>	
Others	745	767	(2.9)	791	3,965	3,289	20.5
<i>% of Net Sales</i>	<i>25.9</i>	<i>28.2</i>		<i>32.4</i>	<i>33.9</i>	<i>31.1</i>	
Total Expenditure	1,892	1,698	11.4	1,714	7,895	7,058	11.9
EBITDA	989	1,021	(3.1)	726	3,801	3,524	7.9
<i>Margin (%)</i>	<i>34.3</i>	<i>37.6</i>		<i>29.8</i>	<i>32.5</i>	<i>33.3</i>	
Depreciation	104	115	(10.0)	143	543	503	8.0
EBIT	885	906	(2.3)	583	3,258	3,021	7.8
Other Income	65	52	24.1	37	354	316	12.0
Interest	4	9		4	4	8	(52.6)
PBT	946	949	(0.3)	617	3,608	3,329	8.4
Total Taxes	56	109	(48.3)	56	397	352	12.6
<i>ETR (%)</i>	<i>5.9</i>	<i>11.5</i>		<i>9.1</i>	<i>11.0</i>	<i>10.6</i>	
Minority Interest	0	0		-	-	9	
Reported PAT	890	840	5.9	561	3,211	2,968	8.2

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	FY20	FY21E	FY22E	FY23E
Net Revenues	10,582	11,696	13,306	15,137
YoY gr. (%)	9.4	10.5	13.8	13.8
Cost of Goods Sold	1,715	1,708	1,903	2,165
Gross Profit	8,867	9,989	11,403	12,973
Margin (%)	83.8	85.4	85.7	85.7
Employee Cost	2,053	2,222	2,462	2,800
Other Expenses	-	-	-	-
EBITDA	3,524	3,801	4,418	5,026
YoY gr. (%)	6.8	7.9	16.2	13.8
Margin (%)	33.3	32.5	33.2	33.2
Depreciation and Amortization	503	543	550	150
EBIT	3,021	3,258	3,868	4,876
Margin (%)	28.6	27.9	29.1	32.2
Net Interest	8	4	2	1
Other Income	316	354	396	444
Profit Before Tax	3,329	3,608	4,262	5,319
Margin (%)	31.5	30.8	32.0	35.1
Total Tax	352	397	469	585
Effective tax rate (%)	10.6	11.0	11.0	11.0
Profit after tax	2,977	3,211	3,793	4,734
Minority interest	9	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,968	3,211	3,793	4,734
YoY gr. (%)	2.8	8.2	18.1	24.8
Margin (%)	28.0	27.5	28.5	31.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,968	3,211	3,793	4,734
YoY gr. (%)	2.8	8.2	18.1	24.8
Margin (%)	28.0	27.5	28.5	31.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,968	3,211	3,793	4,734
Equity Shares O/s (m)	136	136	136	136
EPS (Rs)	21.9	23.6	27.9	34.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	8,271	8,521	8,771	9,021
Tangibles	1,655	1,855	2,055	2,255
Intangibles	6,616	6,666	6,716	6,766
Acc: Dep / Amortization	1,869	2,413	2,962	3,112
Tangibles	1,009	1,113	1,418	1,556
Intangibles	860	1,300	1,545	1,556
Net fixed assets	7,781	6,108	5,808	5,909
Tangibles	2,025	742	637	699
Intangibles	5,756	5,366	5,172	5,210
Capital Work In Progress	44	46	28	17
Goodwill	996	996	847	720
Non-Current Investments	115	130	113	99
Net Deferred tax assets	1,192	1,192	1,192	1,192
Other Non-Current Assets	85	108	86	69
Current Assets				
Investments	748	823	576	403
Inventories	695	801	911	995
Trade receivables	1,586	1,602	1,640	1,742
Cash & Bank Balance	673	827	1,151	1,390
Other Current Assets	986	1,016	1,046	1,077
Total Assets	15,533	14,241	13,921	14,047
Equity				
Equity Share Capital	136	136	136	136
Other Equity	12,825	12,389	12,284	12,537
Total Network	12,961	12,525	12,420	12,673
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	264	198	149	112
Other non current liabilities	31	22	15	11
Current Liabilities				
ST Debt / Current of LT Debt	86	43	22	11
Trade payables	1,023	641	729	829
Other current liabilities	572	286	143	72
Total Equity & Liabilities	15,533	14,241	13,921	14,047

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	3,329	3,608	4,262	5,319
Add. Depreciation	503	543	550	150
Add. Interest	8	4	2	1
Less Financial Other Income	316	354	396	444
Add. Other	(862)	(4,733)	(2,721)	(3,217)
Op. profit before WC changes	2,978	(578)	2,093	2,252
Net Changes-WC	(565)	(810)	(226)	(195)
Direct tax	(666)	(722)	(852)	(1,064)
Net cash from Op. activities	1,747	(2,110)	1,014	993
Capital expenditures	(220)	(250)	(250)	(250)
Interest / Dividend Income	11	12	13	14
Others	2,779	(80)	254	179
Net Cash from Inv. activities	2,570	(318)	17	(57)
Issue of share cap. / premium	(2)	-	-	-
Debt changes	84	(43)	(22)	(11)
Dividend paid	(400)	(750)	(688)	(688)
Interest paid	8	4	2	1
Others	-	-	-	-
Net cash from Fin. activities	(310)	(789)	(707)	(697)
Net change in cash	4,007	(3,217)	324	239
Free Cash Flow	1,527	(2,360)	764	743

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	2,805	2,618	2,441	2,881
YoY gr. (%)	7.6	5.3	15.6	6.0
Raw Material Expenses	457	428	371	576
Gross Profit	2,347	2,189	2,070	2,305
Margin (%)	83.7	83.6	84.8	80.0
EBITDA	1,055	722	726	989
YoY gr. (%)	8.7	(19.5)	24.4	(3.1)
Margin (%)	37.6	27.6	29.8	34.3
Depreciation / Depletion	117	127	143	104
EBIT	938	595	583	885
Margin (%)	33.4	22.7	23.9	30.7
Net Interest	5	4	4	4
Other Income	95	131	37	65
Profit before Tax	1,028	722	617	946
Margin (%)	36.6	27.6	25.3	32.9
Total Tax	101	87	56	56
Effective tax rate (%)	9.8	12.0	9.1	5.9
Profit after Tax	927	635	561	890
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	927	635	561	890
YoY gr. (%)	8.7	(20.8)	3.6	5.9
Margin (%)	33.1	24.3	23.0	30.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	927	635	561	890
YoY gr. (%)	8.7	(20.8)	3.6	5.9
Margin (%)	33.1	24.3	23.0	30.9
Other Comprehensive Income	(1)	-	(2)	(1)
Total Comprehensive Income	926	635	559	889
Avg. Shares O/s (m)	138	138	138	138
EPS (Rs)	6.7	4.6	4.1	6.5

Source: Company Data, PL Research

Key Financial Metrics

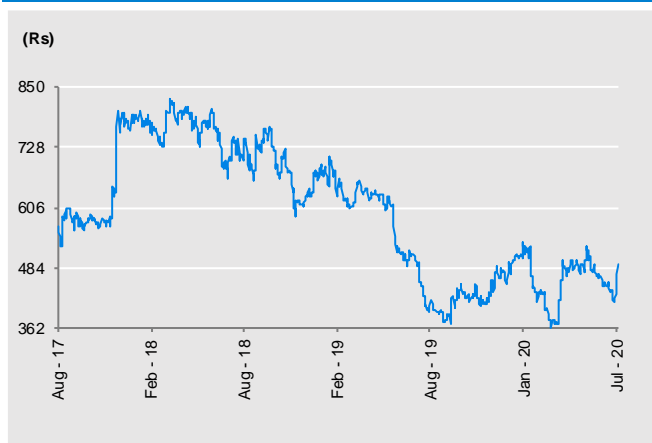
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	21.9	23.6	27.9	34.9
CEPS	25.6	27.6	32.0	36.0
BVPS	95.5	92.2	91.5	93.3
FCF	11.2	(17.4)	5.6	5.5
DPS	2.9	5.5	5.1	5.1
Return Ratio(%)				
RoCE	24.6	25.4	30.9	38.8
ROIC	24.9	26.0	31.9	40.3
RoE	24.3	25.2	30.4	37.7
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	43	55	50	46
Valuation(x)				
PER	23.4	21.6	18.3	14.7
P/B	5.4	5.5	5.6	5.5
P/CEPS	20.0	18.5	16.0	14.2
EV/EBITDA	19.3	17.8	15.3	13.5
EV/Sales	6.4	5.8	5.1	4.5
Dividend Yield (%)	0.6	1.1	1.0	1.0

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Top 25 Products	10,449	11,727	13,318	15,150
Top 10 Products	8,914	9,884	11,070	12,408
Next 15 Products	1,535	1,842	2,248	2,742
Ex-Top 25 products	4,939	5,483	6,195	7,001

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	BUY	576	446
2	03-Jun-20	Accumulate	576	520
3	18-Apr-20	BUY	547	486
4	14-Apr-20	BUY	522	417
5	17-Feb-20	Accumulate	522	467
6	03-Jan-20	Accumulate	459	490
7	21-Nov-19	Accumulate	459	418
8	07-Nov-19	Accumulate	459	426
9	03-Oct-19	Accumulate	459	431

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	838	802
2	Cadila Healthcare	Reduce	329	360
3	Cipla	Reduce	542	634
4	Dr. Lal PathLabs	Sell	1,006	1,892
5	Dr. Reddy's Laboratories	Hold	4,326	4,306
6	Eris Lifesciences	BUY	576	446
7	Glenmark Pharmaceuticals	Sell	365	419
8	Indoco Remedies	Hold	219	208
9	Ipca Laboratories	BUY	1,839	1,636
10	Jubilant Life Sciences	Sell	414	703
11	Lupin	BUY	1,001	865
12	Sun Pharmaceutical Industries	Reduce	479	532
13	Thyrocare Technologies	Sell	307	677

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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