

Result Update

Q3 FY24

Eris Lifesciences Ltd.

Institutional
Research

Eris Lifesciences Ltd.



Pharma | Q3FY24 Result Update

14th February 2024

Foray into fast-growing parenteral segment to enhance growth

Result Highlights

Eris Lifesciences Ltd. reported a revenue growth of 14.9% YoY / down 3.8% QoQ to Rs. 4,863 mn and was marginally above market expectations of Rs. 4,850 mn. The integration of Oaknet, Biocon Insulin business and robust growth in existing brands drove the company's performance. EBITDA for the quarter grew 27.9% YoY / down 3.1% QoQ to Rs. 1,755 mn. During the quarter, OPM expanded by 368bps YoY to 36.1% in Q3FY24, aided by an expansion in gross margins by 271bps YoY to 81.7%. Net income stood at Rs. 1,015 mn, up 1.2% YoY / down 17.0% QoQ in Q3FY24. PAT margin stood at 20.9% versus 24.2% in the previous quarter. There was disappointment on PAT on account of higher-than-expected tax outgo. The company has signed a definitive agreement to acquire a 70% stake in the Swiss Parenteral Sterile Injectables business for Rs. 63.8 bn, funded through internal accruals and borrowings. We like the strategic intent as Eris is foraying into the fast-growing Parenteral segment with more than 1,000 dossiers and 40 molecules through this acquisition. The company also gets access to the RoW market through this deal. The deal will be EPS dilutive for the first couple of years, but the management is confident of making it EPS accretive in FY26. Further, we expect Eris to outperform the industry over the near to medium term as it has an established presence in the cardiac/antidiabetic segments. Additionally, the company remains on track to improve the profitability of acquired businesses and build a new launch of the product pipeline going ahead.

Valuation and Outlook:

Eris Lifesciences Ltd. recorded robust annual revenue growth in Q3FY24, led by the smooth integration of Oaknet operations, Biocon Insulin business and robust growth in existing brands that aided growth during the quarter. Branded Formulations grew annually due to robust growth in the Chronic business and scale-up in the Insulin business. Further, the Swiss deal will give Eris access to Switzerland's large sterile portfolio, and Eris can build an SVP branded Formulation business in India focused on RoW markets. With the Biocon business acquisition, the company has entered the Nephrology segment and significantly consolidated its position in the Medical Dermatology (Psoriasis) space. The acquisition aligns with its strategy to enhance presence in Chronic and Sub-chronic therapy areas. Eris also aims to deliver market-leading growth in the coming years and is well-positioned in three of the top five chronic therapies. The company plans to continue its strategic priorities for FY24, including successfully commercializing its new product pipeline. In addition to its core anti-diabetes, cardiology and VMN therapies, Eris has enhanced its presence in dermatology and Nephrology through acquisitions, expanding its overall offering in the branded formulation space. We expect Eris to perform well, led by new launches amid patent expiries, ramp-ups in Dermatology, Insulin, & Parenteral segments and continuous market share gains in vital existing products. We also like Eris due to its pure domestic play, specialty focus, strong financials, healthy balance sheet and high return ratios. We expect the company to outperform within the cardio-metabolic, nephrology, and derma markets and expect robust growth over the next 2-3 years with vast patent expiration opportunities.

Key Highlights

Particulars (Rs. mn)	Q3FY23	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Net Sales	4,233	5,053	4,863	14.9%	-3.8%
Gross profit	3,345	4,107	3,974	18.8%	-3.2%
Gross margin (%)	79.0%	81.3%	81.7%	271bps	45bps
EBITDA	1,372	1,811	1,755	27.9%	-3.1%
OPM (%)	32.4%	35.8%	36.1%	368bps	25bps
Adj. PAT	1,002	1,223	1,015	1.2%	-17.0%
PAT Margin (%)	23.7%	24.2%	20.9%	-281bps	-334bps

Source: Company, BP Equities Research

Sector Outlook

Positive

Stock

CMP (Rs.)	864
BSE code	540596
NSE Symbol	ERIS
Bloomberg	ERIS IN
Reuters	ERIS.BO

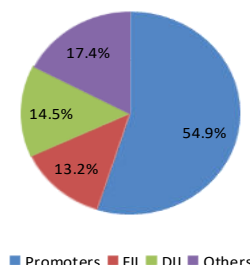
Key Data

Nifty	21,840
52 Week H/L (Rs.)	972/551
O/s Shares (Mn)	136
Market Cap (Rs. bn)	123
Face Value (Rs.)	1

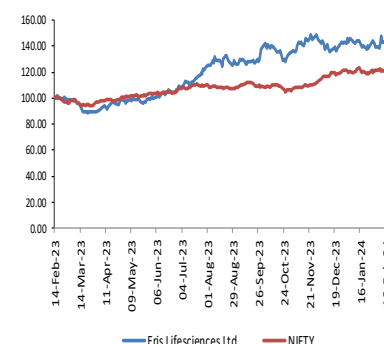
Average Volume

3 months	217,740
6 months	194,280
1 year	174,380

Share Holding (%)



Relative Price Chart



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Key Concall Highlights

Base business outlook:

The company's top 20 power brands accounted for 66% of revenues in Q3FY24. Of these, 14 brands are ranked among the top five in their respective segments. We expect this portfolio to continue growing well in the coming years, generating high margins and strong cash flows for investment.

Acquisition of Swiss Parenteral Ltd:

Eris has proposed acquiring a 70% stake in an SPI-driven business in generics and specialty injectables focused on RoW markets. Swiss manufactures a wide range of SVPs in its two manufacturing units in Gujarat, accredited by over 50 regulatory agencies worldwide, including EU-GMP, Brazilian Anvisa, Mexican Cofepris and Australian TGA. This acquisition will give Eris access to Swiss's large sterile portfolio, and Eris can build an SVP branded Formulation business in India.

Biocon business:

With the Biocon business acquisition, the company has entered the Nephrology segment and significantly consolidated its position in the Medical Dermatology space.

New product launches:

Eris has several first-in-market combinations coming through its R&D pipeline and has re-launched two at-risk products in FY24. The company plans to launch Glargine and Liraglutide from MJ's pipeline in 4QFY24. The company also expanded its R&D pipeline to 26 candidates, including several first-in-market FDCs for the Indian market.

Focus on therapy diversification:

The company strongly focuses on therapy diversification, with four emerging therapies (Derma, CNS, Nephro and Women's Health) accounting for 30% of Branded Formulations revenue in Q3FY24. Further, Eris will continue to invest in these therapies to achieve higher revenue growth.

Physician coverage:

Eris continues to make good progress in expanding the coverage of specialists and consulting physicians, which aligns with the company's expectations.

Financial Performance:

In FY17, Eris ranked 29 in IPM and had a covered market of ~Rs. 340 bn, and now the company is ranked 21 in IPM with a covered market of ~Rs. 900 bn. Eris is ranked among the top 10 fastest growing pharma companies in IPM in Q3FY24. The company grew 600bps more than IPM growth at 12.8% YoY as per MAT December 2023.

"Eris Lifesciences has guided for 33% EBITDA margin and 20% PAT Margin for FY24."



Eris Lifesciences Ltd.

Result Update Q3FY24

Key Financials

YE March (Rs. mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	12,120	13,470	16,850	20,344	24,820
Growth %	12.8%	11.1%	25.1%	20.7%	22.0%
EBIDTA	4,310	4,890	5,370	6,890	8,707
Growth%	15.9%	13.5%	9.8%	28.3%	26.4%
Net Profit	3,550	4,060	3,740	4,230	5,760
Growth %	19.5%	14.4%	-7.9%	13.1%	36.2%
Diluted EPS	26.2	29.9	28.1	31.1	42.3

Profitability & Valuation

EBIDTA (%)	35.6%	36.3%	31.9%	33.9%	35.1%
NPM (%)	29.3%	30.1%	22.2%	20.8%	23.2%
ROE (%)	22.5%	21.3%	16.0%	17.8%	20.3%
ROCE (%)	27.0%	25.0%	18.3%	20.6%	21.3%
P/E (x)	33.1	29.0	30.9	27.9	20.5
EV/EBITDA (x)	19.6	17.3	18.3	19.0	4.3
Net Debt/EBITDA (x)	0.0	0.0	0.1	0.6	-0.1

Source: Company, Bloomberg Estimates



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