

Eris Lifesciences

BSE Code : **540596**

Time Duration : **18 months**

CMP : **₹771 (as on 18 Jan., 2018)**

Target Price : **₹1002**



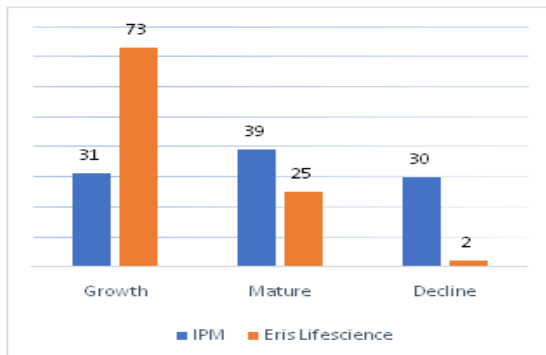
**Swiftest Performers
Among Heavy Weights**

The Large Rhino recommendation for the month of January is Eris Lifesciences. When the pharmaceutical industry was struggling due to US regulatory and pricing pressures, Eris grew its sales at 12.52% CAGR and profits by 50% CAGR over the last three years. This is due to its focus on lifestyle-related disorders that are chronic and hence require specialized treatment over a long period of time.

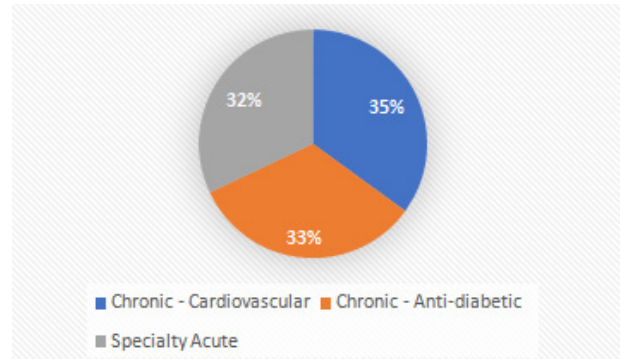
Presence in high growth segments

Eris Lifesciences operates in a superior product lifecycle with over 98% of its products lying in growth and mature stage, surpassing major pharma companies and IPM (Indian Pharmaceutical Market). The company operates in Cardiovascular and Anti-Diabetics segments where it reported staggering growth of 25.8% and 34.5%, respectively over FY13-17 as against a market growth of 11.6% and 19.1%.

Product Lifecycle



Segmental Revenue in FY17



Source: Company Data

Eris's major products (96.1%) are available on prescription and are recommended by only specialists and super specialists practitioners. Since these practitioners are relatively low in number and mostly concentrated in metro cities, it is relatively easier to service them. Moreover, the company's products have been ranked among the top three products in the market by specialists. Its top mother brands in their respective segment are as follows:

Cardiovascular	Anti-Diabetic	Specialty Acute
Eritel	GlimiSave	Rabonik
Olmin	Tendia	Remylin
AtorSave	Cyblex	Tayo

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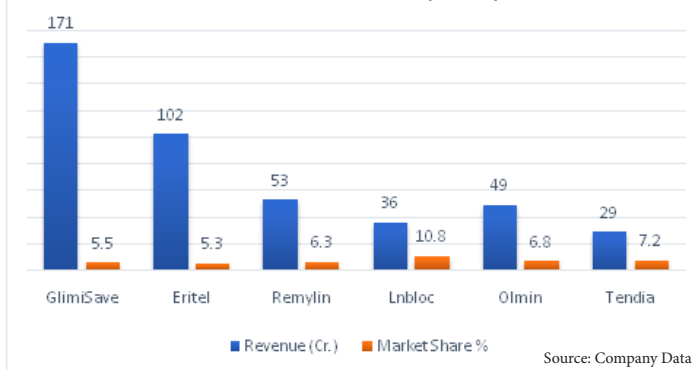
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Product Portfolio (FY17)



Inorganic expansions to strengthen Product Portfolio

To expand the group's product portfolio, Eris Lifesciences acquired Kinedex Healthcare in November 2016, which caters primarily to mobility-related disorders. Kinedex operations also include formulations of herbal medicines based on Ayurvedic principles.

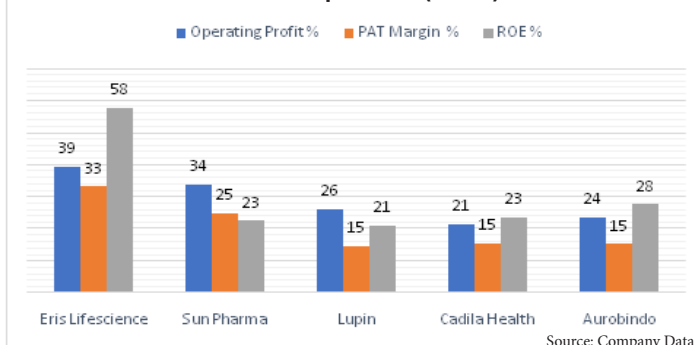
The company also acquired trademark of 40 brands in Amay Pharma to strengthen its chronic diseases segment. Also, Eris has entered into a distribution agreement in December 2016 with Medtronic to market 'i-Port advance' - an injection port. This port acts as a substitute for repetitive injections in chronic diseases. We believe this to have a huge potential as it is more efficient than the standard insulin delivery methods. These acquisitions paid off, as the revenue

clocked a 21% growth in FY17 compared to 8.3% over FY14-16. We believe Eris would continue to strengthen its product portfolio.

In November 2017, the company agreed to acquire Strides India business having a turnover of Rs. 181 crore for a consideration of Rs. 500 crore. This expansion will strengthen Eris's CNS therapy (Central Nervous System) along with gastro and women healthcare segments. The company is also leveraging its R&D facilities to target new product areas in its organic segment. However, with Strides acquisition, we believe the company would opt to borrow (currently debt-free status) which may have a minor impact on its margins in the current fiscal. However, considering ~10% margins on a conservative side, increasing sales may offset its finance cost in future.

Financial Performance

Peer Comparison (FY17)



Eris Lifesciences reported a revenue of Rs. 725 crore, clocking a growth of 12.5% over FY14-17. In FY17, EBITDA margins grew substantially by 1000bps to 39.4% YoY. PAT reported during the year came in at Rs. 242 crore, an increase of 79% YoY. The company came up with massive ROE and ROCE of 57.6% and 62.8%, respectively. The above reported revenue came up with around ~75% capacity utilization. Despite above expansions, the company maintained its debt-free status. Eris has also invested ~Rs. 254 crore in mutual funds advancing their other income. Its manufacturing facility is eligible for tax incentives for a period of 10 years (until 2025). When compared to its peers, the company posted better numbers in all comparable segments.

Valuation

The company is trading at TTM P/E of 44.63x with TTM EPS of Rs. 17.61. As per International Diabetes Foundation, India has the second largest number of diabetics, with over 69.2 million patients, which is expected to reach 87 million by 2030. Moreover, Cardiovascular diseases cause 26% deaths in India. With operations in this segment, we believe the company would endeavour to bring in better healthcare solutions. Also, as per IMS Prognosis Global, the chronic segment is expected to grow at 13.9% CAGR vs IPM growth of 11.6% CAGR over 2016-2020.

Thus, we expect the company to clock a topline growth of ~31% over FY17-19 to Rs. 1,247 crore. Diversification of product portfolio is expected to spike its margins by ~236 bps over FY17-19. The market is known to discount the future value quickly and the same is seen in Eris's high P/B ratio. Considering the technological innovations in the organic segment combined with inorganic expansions, we believe the company would continue its stellar performance. We see an upside of 30% with a target price of Rs. 1,002 over the next 18 months.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	724.96	597.02	545.56	508.82	393.06
Total Income	744.07	600.39	549.05	513.24	394.51
Total Expenditure	456.25	425.32	424.10	409.87	307.12
PBIDT	287.82	175.08	124.95	103.37	87.39
PAT	241.90	134.86	89.26	70.91	58.44
Dividend %		60420.00			
Adj. EPS(Rs)	17.61	9678.99	6466.23	5130.00	4217.25

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201709	201706	Q on Q Var%	201609	Y on Y Var%
Net Sales	249.23	185.21	34.57	198.92	25.30
Total Expenditure	151.48	113.77	33.14	125.04	21.14
PBIDT (Excl OI)	97.76	71.44	36.85	73.88	32.32
PAT	93.14	70.84	31.49	69.25	34.50
PBIDTM% (Excl OI)	39.22	38.57	1.69	37.14	5.60
PBIDTM%	41.81	42.28	-1.11	41.75	0.14
PATM%	37.37	38.25	-2.30	34.81	7.35
Adj. EPS(Rs)	6.75	5.15	31.07	5.02	34.46

