

RESEARCH
BOB Economics Research | Monetary Policy

RBI's Surprise move

Eris Lifesciences | Target: Rs 970 | +46% | BUY

Launch investments cramp margins; forays into derma

SUMMARY
India Economics: Monetary Policy

RBI clearly surprised markets by going for a rather abrupt 40bps hike in policy rate, signalling withdrawal of accommodation and also hiking the CRR rate by 50bps. Bond markets reacted negatively by trading as high as 7.47% during the announcement. Stock indices too fell by 2.3% today. Clearly, today's policy gear shifted to only inflation. We expect another 50-75bps policy rate hike during the year with another increase in the June policy. We expect RBI's CPI projection to go for another round of upward revision. Our CPI forecast is at 5.5-6%, with a clear upward bias towards 6%. Next all eyes will be on Fed, which is expected to go for a 50bps rate hike.

[Click here for the full report.](#)

Eris Lifesciences

- Q4 sales/EBITDA contracted 8%/20% QoQ (up 10%/3% YoY) due to structural decline in the cardiometabolic segment
- Growth nevertheless outperformed IPM across segments, except VMN which had a high base
- We raise FY23/FY24 EBITDA by 10% each incorporating the Oaknet (derma) acquisition; our TP rises to Rs 970 (vs. Rs 890) – maintain BUY

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Daily macro indicators

Indicator	02-May	03-May	Chg (%)
US 10Y yield (%)	2.98	2.97	(1bps)
India 10Y yield (%)	7.14	7.12	(2bps)
USD/INR	76.43	76.52	(0.1)
Brent Crude (US\$/bbl)	107.6	105	(2.4)
Dow	33,062	33,129	0.2
Hang Seng	20,276	21,089	4.0
Sensex	57,061	56,976	(0.1)
India FII (US\$ mn)	28-Apr	29-Apr	Chg (\$ mn)
FII-D	(155.1)	36.4	191.5
FII-E	246.7	(435.0)	(681.7)

Source: Bank of Baroda Economics Research

BOBCAPS Research

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MONETARY POLICY

04 May 2022

RBI's Surprise move

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Dipanwita Mazumdar
Economist

Rate decision: RBI in its off-cycle meeting today raised policy rate by 40bps to 4.40% (since Dec'18). Accordingly, the upper (MSF, bank rate) and lower (SDF) bound stands at 4.65% and 4.15% respectively. In another unexpected move, CRR has also been increased by 50bps to 4.5% (since 24 May 2021), which will amount to liquidity withdrawal of Rs 870bn from the system.

What was the reason behind RBI's sudden move?

- Since Apr'22 policies, the major factor which was incorporated to RBI's current reaction function has been the current-Mar'22 inflation print. Headline CPI shot up to 7% (against market consensus of 6.4%).
- If we closely look at the policy document, there is clear signalling that the inflation trajectory is indeed a concern. Statements such as 1) 'Confronted by elevated inflationary pressures that have shifted the future trajectory of inflation upwards', 2) 'collateral risk that if inflation remains elevated at these levels for too long, it can de-anchor inflation expectations' and 3) 'Sustained high inflation inevitably hurts savings, investment, competitiveness and output growth', are indicative of the fact that the focus has changed to inflation at the current juncture.

Below is the list of food prices which exhibited inflationary pressure. It is clear that among vegetables, tomato is posing considerable price pressure. Majority fruit items are also noticing increase in prices, so is sunflower oil. Fuel basket have also gone up considerably in Apr'22 due to consecutive increase in pump prices. All this will be translated into the Apr'22 CPI print, which is expected to above 7%.

The curious aspect of this rate hike is that it comes a month after the policy announcement where there has been only one data point available on CPI inflation for March which was 7%. Quite clearly the RBI does believe that the inflation threat is serious and as the economy appears to have settled in a stable state notwithstanding the global disturbances on balance higher inflation is a bigger threat. High inflation has the potential to affect consumption and in turn investment.



BUY
 TP: Rs 970 | ▲ 46%

ERIS LIFESCIENCES

Pharmaceuticals

04 May 2022

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Structural slowdown in core cardiometabolic segment induces QoQ decline:

ERIS reported 10% YoY sales growth in Q4FY22. With secondary sales up 9.2% YoY, the company outperformed India pharma market (IPM) growth of 3.9% across its segments of cardiometabolic, CNS and women’s health. Only VMN underperformed due to a high base. Sequentially, however, a structural slowdown in the cardiometabolic segment caused the company to report a decline of 8%/20% in sales/EBITDA for the quarter.

Insulin division launched: ERIS launched its human insulin product in Feb’22 with a dedicated division (140-strong field force) as part of its expansion in the core oral antidiabetic market. It plans to launch insulin Glargine in 2023. Other pipeline products under this division include Aspart, Lispro and Liraglutide.

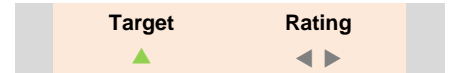
Oaknet acquired for Rs 6.5bn; guided to add Rs 500mn in EBITDA by FY24:

ERIS has acquired Oaknet Healthcare at 3.3x sales and 32.4x EBITDA (FY22) to expand its reach and portfolio in dermatology. Management plans to improve operational efficiencies and increase productivity, with guidance of Rs 2.5bn in sales and a 20% EBITDA margin (from 10% in FY22) from Oaknet in FY24. The all-cash acquisition at Rs 6.5bn will be funded via a mix of internal accruals (Rs 3bn) and external debt from Bajaj Finance (Rs 3.5bn at 6.7% interest, fixed for the first year).

Heavy investment on new products/division impacts margins: ERIS reported 150bps YoY gross margin expansion (-170bps QoQ), but heavy investment toward new product launches (Drolute, Xsulin, Linares) and the addition of field force for the insulin segment depleted the EBITDA margin by 230bps YoY and 500bps QoQ.

Maintain BUY; TP raised to Rs 970: We raise our revenue/EBITDA estimates for FY23 by 18%/10% and FY24 by 21%/10% after incorporating Oaknet into our numbers. Accordingly, our TP rises to Rs 970 (vs. Rs 890), based on an unchanged FY24E EV/EBITDA multiple of 19x – a 10% discount to branded players such as BOOT, GLXO and PFIZ (all Not Rated).

Key changes



Ticker/Price	ERIS IN/Rs 663
Market cap	US\$ 1.2bn
Free float	27%
3M ADV	US\$ 0.6mn
52wk high/low	Rs 863/Rs 586
Promoter/FPI/DII	53%/13%/10%

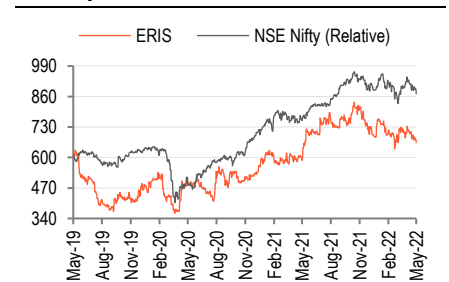
Source: NSE | Price as of 4 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	13,470	17,590	20,155
EBITDA (Rs mn)	4,849	5,973	6,956
Adj. net profit (Rs mn)	4,060	4,859	5,730
Adj. EPS (Rs)	29.9	35.8	42.2
Consensus EPS (Rs)	29.9	34.8	40.2
Adj. ROAE (%)	25.9	25.7	25.2
Adj. P/E (x)	22.2	18.5	15.7
EV/EBITDA (x)	18.3	15.0	12.6
Adj. EPS growth (%)	14.3	19.7	17.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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