

RESEARCH
Eris Lifesciences | Target: Rs 850 | +10% | HOLD

Strong quarter; cut to HOLD post recent rally

Ajanta Pharma | Target: Rs 2,750 | +20% | BUY

Strong earnings growth; reiterate BUY

SUMMARY
Eris Lifesciences

- Q1 EBITDA/PAT growth strong at 22%/20% YoY to Rs 1.3bn/Rs 1.1bn, meeting street estimates
- New greenfield facility announced for sterile injectables and oral liquids, with phase-I outlay of Rs 1.2bn-1.3bn
- TP revised to Rs 850 (vs. Rs 730); downgrade from BUY to HOLD post 30% rally in the last three months

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

Ajanta Pharma

- Q1 PAT robust at Rs 1.7bn, up 17% YoY. Sales grew 12% YoY while EBITDA declined 2%
- Gross margin steady at 77% on a favourable product mix; higher R&D and staff cost drove 400bps YoY drop in EBITDA margin to 29.4%
- We raise FY22-FY23 EPS 4-5% and roll forward to a Jun'22 TP of Rs 2,750 (vs. Rs 2,300); maintain BUY

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

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.27	4bps	(21bps)	72bps
India 10Y yield (%)	6.23	0bps	17bps	41bps
USD/INR	74.28	0.1	(0.1)	0.8
Brent Crude (US\$/bbl)	76.05	1.8	1.8	77.1
Dow	35,085	0.4	2.3	33.3
Shanghai	3,412	1.5	(5.4)	3.8
Sensex	52,653	0.4	(0.2)	39.5
India FII (US\$ mn)	28-Jul	MTD	CYTD	FYTD
FII-D	42.4	(105.9)	(3,272.7)	(1,245.5)
FII-E	(328.2)	(1,337.5)	6,746.6	(579.7)

Source: Bank of Baroda Economics Research

BOBCAPS Research

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HOLD

TP: Rs 850 | ▲ 10%

ERIS LIFESCIENCES

| Pharmaceuticals

| 30 July 2021

Strong quarter; cut to HOLD post recent rally

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Saad Shaikh

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Sustained traction in core therapies: ERIS's Q1FY22 consolidated revenue grew 19% YoY to Rs 3.5bn on the back of (1) strong 11.6% growth in the cardio-metabolic segment (58% of sales) (2) 52.5% growth in the vitamins and minerals portfolio (VMN, 23% of sales). The company's top 3 therapies accounted for 88% of the Q1 topline. Chronic (63%) and sub-chronic (29%) therapies together formed 92% share.

Margin expands despite normalisation of A&P expense: Owing to higher in-house manufacturing (81% in Q1 vs. 60% in Q4FY21), EBITDA margin expanded 76bps YoY and 225bps QoQ to 36.2% in Q1. Management has maintained EBITDA margin guidance in the range of 38-40%.

Change in D&A policy: ERIS has reassessed its depreciation & amortisation policy and will be depreciating all assets on SLM basis vs. written down value method earlier, in line with industry practices. The company also revised the useful life of brands to 20 years from 50 years. Consequent to this, D&A expense increased by Rs 18mn in Q1.

New greenfield facility in Gujarat: Management announced a new greenfield facility to be commissioned by end-FY22. Phase-I outlay will total Rs 1.2bn-1.3bn (75% to be deployed in FY22) to be funded through internal accruals. This investment would help ERIS to increase in-house manufacturing, have better control over quality and cost, provide supply security and mitigate risk associated with single-location operations. The facility will be 10-12x larger than the Guwahati plant, house an R&D unit and manufacture dosage forms such as sterile injectables and oral liquids. It will attract a tax rate of 15%.

Cut to HOLD post stock rally: We marginally raise expected FY23 EPS and roll to a Jun'22 TP of Rs 850 (vs. Rs 730), based on a higher one-year forward EV/EBITDA multiple of 21.5x (vs. 20x). This implies a P/E of 26x vs. 24x for branded peers. The stock has run up ~30% in the last three months and is trading at 19x EV/EBITDA and 24x PE on Jun'22E valuations. Upsides look capped, driving our rating downgrade from BUY to HOLD.

Key changes

Target	Rating
▲	▼

Ticker/Price	ERIS IN/Rs 771
Market cap	US\$ 1.4bn
Free float	25%
3M ADV	US\$ 2.4mn
52wk high/low	Rs 793/Rs 441
Promoter/FPI/DII	53%/13%/10%

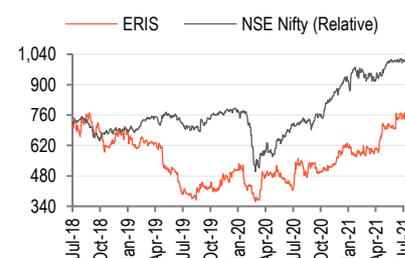
Source: NSE | Price as of 29 Jul 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	12,119	13,884	15,927
EBITDA (Rs mn)	4,306	5,113	6,161
Adj. net profit (Rs mn)	3,551	4,130	5,095
Adj. EPS (Rs)	26.2	30.4	37.5
Consensus EPS (Rs)	26.2	29.7	33.6
Adj. ROAE (%)	27.3	26.1	26.3
Adj. P/E (x)	29.5	25.4	20.6
EV/EBITDA (x)	24.0	20.3	16.6
Adj. EPS growth (%)	19.8	16.3	23.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



BUY
 TP: Rs 2,750 | ▲ 20%

AJANTA PHARMA

Pharmaceuticals

31 July 2021

Strong earnings growth; reiterate BUY

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- Gross margin steady at 77% on a favourable product mix; higher R&D and staff cost drove 400bps YoY drop in EBITDA margin to 29.4%
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Robust India growth: AJP's India sales grew 32% YoY (+5% QoQ) in Q1FY22 backed by a strong uptick in all its therapies owing to higher promotional activity. In export formulations, the company grew 12.8% YoY in the US, 4.1% in Africa and 2.5% in Asia. US sales totalled US\$ 23mn (-4% QoQ).

Stable gross margin; higher R&D and staff cost hurt EBITDA margin: A better product mix in favour of domestic formulations supported a stable Q1 gross margin of 77%. EBITDA margin contracted 400bps YoY and 485bps QoQ to 29.4% due to higher R&D spend at 6% of revenue (vs. 5.2%/4.6% in Q4FY21/Q1FY21) and higher staff cost at 21.1% of revenue (vs. 19.3%/20.3%).

Earnings call highlights: (1) Management lowered the FY22 tax guidance to 22% vs. earlier expectations of 26-27%. (2) Capex to be around Rs 2bn in FY22, with current capacity adequate for the next three years, implying that only maintenance capex will be required going forward. (3) The company launched five products in India and one in the US in Q1. It plans to have 3-4 launches in the US market in FY22.

Estimates and target price raised: We raise our FY22-FY23 EPS estimates by 4-5% on lower tax guidance. Based on sustained gross margins, improving domestic business and expected higher ANDA filings in the US (10+ p.a.), we upgrade our target one-year forward EV/EBITDA multiple from 16x to 19x – a 25% premium to the stock's eight-year mean, which translates to an implied P/E of 26x. On rollover, we have a new Jun'22 TP of 2,750 (vs. Rs 2,300).

Reiterate BUY: Shares of AJP have advanced 25% since 1 May 2021 and are currently trading at 16.4x one-year forward EV/EBITDA and 22.2x P/E. We find valuations attractive given that the company's stable brand franchise (India/EM), US operating leverage, lower tax burden and capex moderation are likely to drive a brisk 15% EPS CAGR over FY21-FY24. Further, improving FCF, 38%+ ROIC beyond FY24E and a steady pace of new launches (21 brands launched in India in FY21) should support stock upsides. Reiterate BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AJP IN/Rs 2,292
Market cap	US\$ 2.7bn
Free float	30%
3M ADV	US\$ 3.4mn
52wk high/low	Rs 2,435/Rs 1,425
Promoter/FPI/DII	70%/9%/12%

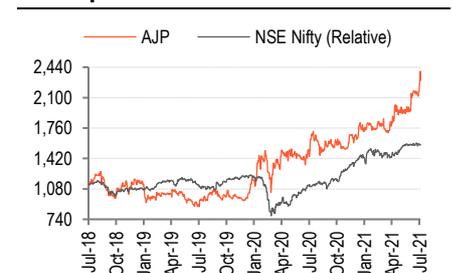
Source: NSE | Price as of 30 Jul 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	28,897	33,007	37,456
EBITDA (Rs mn)	9,990	10,108	11,834
Adj. net profit (Rs mn)	6,534	7,313	8,824
Adj. EPS (Rs)	74.5	83.4	100.6
Consensus EPS (Rs)	74.5	83.8	99.8
Adj. ROAE (%)	22.9	22.0	22.2
Adj. P/E (x)	30.8	27.5	22.8
EV/EBITDA (x)	19.8	19.5	16.6
Adj. EPS growth (%)	38.5	11.9	20.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Disclaimer

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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