

Mr. Sachin Shah
CFO
Eris Lifesciences Limited
Opp. Swati Bungalow, Shivarth Ambit, Ramdas Road,
Thaltej, Ahmedabad, Gujarat- 380059

May 28, 2024

Dear Sir/Madam,

Re: Rating Letter of Eris Lifesciences Limited

India Ratings and Research (Ind-Ra) has taken the following rating actions on Eris Lifesciences Limited (ELL) and its debt instruments:

Instrument Type	Date of issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/ Watch	Rating Action
Issuer rating	-	-	-	-	IND AA-/Positive	Outlook revised to Positive from Stable Rating affirmed
Proposed non-convertible debentures	-	-	-	INR12,500	IND AA-/Positive	Assigned
Term loan	-	-	March 2028	INR2,095 (reduced from INR2,239)	IND AA-/Positive	Outlook revised to Positive from Stable Rating affirmed
Term loan	-	-	March 2028	INR4,490	IND AA-/Positive	Assigned
Fund-based working capital facilities	-	-	-	INR3,390 (reduced from INR5,000)	IND AA-/Positive/IND A1+	Outlook revised to Positive from Stable Rating affirmed

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In this letter, "India Ratings" means India Ratings & Research Pvt. Ltd. and any successor in interest.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please email us at infogrp@indiaratings.co.in

Sincerely,

India Ratings



Rakesh Valecha
Senior Director

Annexure: Facilities Breakup

Instrument Description	Banks Name	Ratings	Outstanding/Rated Amount(INR million)
Fund Based Working Capital Limit	HDFC Bank Limited	IND AA-/Positive/IND A1+	1500.00
Fund Based Working Capital Limit	Citibank N.A.	IND AA-/Positive/IND A1+	1140.00
Term Loan	Axis Bank Limited	IND AA-/Positive	2095.00
Fund Based Working Capital Limit	Axis Bank Limited	IND AA-/Positive/IND A1+	750.00
Term Loan	Citibank N.A.	IND AA-/Positive	2602.00
Term Loan	HDFC Bank Limited	IND AA-/Positive	1888.00

Aradesh.

India Ratings Revises Eris Lifesciences's Outlook to Positive; Affirms Exiting Debt and Rates Proposed NCDs at 'IND AA-'

May 28, 2024 | Pharmaceuticals

India Ratings and Research (Ind-Ra) has taken the following rating actions on Eris Lifesciences Limited (ELL) and its debt instruments:

Details of Instruments

Instrument Type	Date of issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/ Watch	Rating Action
Issuer rating	-	-	-	-	IND AA-/Positive	Outlook revised to Positive from Stable Rating affirmed
Proposed non-convertible debentures	-	-	-	INR12,500	IND AA-/Positive	Assigned
Commercial papers*	-	-	90 days	INR9,750	IND A1+	Affirmed
Term loan	-	-	March 2028	INR2,095 (reduced from INR2,239)	IND AA-/Positive	Outlook revised to Positive from Stable Rating affirmed
Term loan	-	-	March 2028	INR4,490	IND AA-/Positive	Assigned
Fund-based working capital facilities	-	-	-	INR3,390 (reduced from INR5,000)	IND AA-/Positive/IND A1+	Outlook revised to Positive from Stable Rating affirmed

*The commercial paper (CP) programme is not carved out of the working capital limits, as the same is a bridge loan which will be converted into non-convertible debentures (NCDs) upon expiry.

Analytical Approach

Ind-Ra continues to fully consolidate ELL's [subsidiaries](#) to arrive at the ratings, due to the strong operational and strategic linkages among them. All the subsidiaries are engaged in the manufacturing and/or selling of pharmaceutical formulations.

Detailed Rationale of the Rating Action

The Outlook revision to Positive reflects Ind-Ra's expectation of strong growth in revenue and profitability in FY25, supported by the successful integration of the acquisitions made during FY24 and April 2024. The recent acquisition of a 70% stake in Swiss Parenterals Limited (SPL) and branded injectable business from Biocon Biologics Limited is expected to give ELL access to their large injectables portfolio, which it can leverage to build a branded injectable business in India, along with exposure to RoW markets (Africa, Asia-Pacific, Middle East and Latin America) among other benefits. Furthermore, Ind-Ra expects the consolidated net leverage (net debt including lease liabilities/EBITDA) to improve to 2x-3x in FY25 and further to below 2x from FY26, supported by an improvement in the operating profitability on account of increased operating leverage from the significantly higher capacities, a better product mix and a strong chronic portfolio in the absence of any additional debt-funded capex.

List of Key Rating Drivers

Strengths

- Strong business profile with predominant domestic formulation business
- Key focus on chronic therapy
- Healthy operational performance
- Healthy credit metrics

Weaknesses

- Regulatory risk
- Merger and acquisition (M&A) integration risk

Detailed Description of Key Rating Drivers

Strong Business Profile with Predominant Domestic Formulation Business: ELL has a fully integrated business model with a manufacturing facility each in Guwahati and Ahmedabad which together contributed 58% to its sales in FY24 (FY23: 70% and FY22: 79%). ELL also has an established market presence in its core cardio-metabolic franchise with an operating record of 16 years. According to the management, ELL is ranked 21st in the Indian pharmaceutical market (IPM) and has a strong distribution network across India with over 2,000 stockists, 4,858 field force and over 500,000 chemists. Among the top therapies, ELL has channelised its efforts in the top 20 mother brands, which contribute 70% to its total revenue. ELL generates a majority of its revenues from the metros and class I cities in the country.

ELL's salesforce efficiency (as measured by revenue per marketing representative) had improved by 69% over FY12 to FY23. It had launched over 150 products over FY16-FY23, while improving the brand franchises of existing products. Moreover, ELL has a limited exposure of 7% to the National List of Essential Medicines portfolio, implying the limited impact of price control. Being a predominant formulation player in the domestic market, ELL's balance sheet and profitability ratios stand out against that of its peers.

Key Focus on Chronic Therapy: Ind-Ra expects ELL's key therapies to grow at a CAGR of 12%-14% over FY24-FY27, including M&A completed up to April 2024. The sales mix has consistently improved in favour of the chronic and sub-chronic segments (87% of the total sales in FY23), which are stable and accrue higher margins than the other segments. According to Ind-Ra's analysis, ELL has emerged as the fastest-growing company in the chronic categories (13.5% CAGR over FY19-FY23) among the top 25 companies in India. ELL's product portfolio of cardiac and anti-diabetic drugs relies mainly on prescriptions by specialists and super specialists. With multiple strategic acquisitions in the recent past, ELL has entered into new therapies of dermatology, immunotherapy and cosmetology, and consolidated its position in cardio-metabolic and women's health therapies. The revenue contribution from the top three therapies i.e. diabetes, cardiac, and vitamins was 54% in FY24 (FY23: 66% and FY22: 80%), whereas that from emerging therapies i.e. derma, central nervous systems (CNS) and women's health reduced to 22% (26%) as a result of its diversification. As per All Indian Origin Chemists & Distributors Ltd-Advanced Working, Action & Correction System, ELL's key therapies such as anti-diabetic (19% vs IPM: 11%), cardiac (10% vs 10.3%), vitamins (8% vs 9%), women health (10% vs 11%), CNS (13% vs 9%) have outperformed IPM's therapy market in terms of sales growth (CAGR FY16-FY24). ELL's sales grew at a strong CAGR of 14% over FY16-FY24.

Healthy Operational Performance: ELL's consolidated revenue grew at a healthy 19.2% yoy to INR20,092 million during FY24, driven by growth in its key therapies such as a) anti-diabetes (23% of FY23 sales) which grew 25% yoy against IPM's anti-diabetes growth at 6%; b) cardiac (16%), 9% yoy vs IPM's 10%; and c) vitamins (14%), 9% yoy vs IPM's 7%. The revenue in FY24 was also supported by revenue contribution from Oaknet Healthcare Pvt Ltd, growth in the cardio-metabolic segment and emerging specialty therapies such as derma, CNS and women's health.

ELL has one of the highest gross margins and EBITDA margins among the other top Indian pharma players. The consolidated gross margin increased marginally to 81.1% in FY24 (FY23: 79.1% and FY22: 82.2%) due to a higher revenue contribution from the higher-margin business. This led to the consolidated EBITDA margin rising to 34% in FY24 (FY23: 32% and FY22: 36%).

Healthy Credit Metrics: The consolidated gross interest coverage (operating EBITDA/gross interest expense) reduced to 8x in FY24 (FY23: 21x and FY22: 117x) and the consolidated net leverage (net debt including lease liabilities /EBITDA) increased to 3.98x (1.47x; negative 0.14x), on account of a higher interest expense of INR848 million (INR262 million; INR41 million), resulting from an increase in the total debt on account of the recent acquisitions.

The deterioration in metrics would have been more if not for the strong absolute EBITDA which grew to INR6,748 million in FY24 (FY23: INR5,367 million and FY22: INR4,850 million). Ind-Ra however had already factored into the ratings the higher debt during the last review.

The agency expects the consolidated net leverage to improve to 2x-3x for FY25 and further to below 2x from FY26, supported by a robust operating profitability. FY25 will be the first financial year when the revenue and profitability of its recent acquisitions will be consolidated by ELL. According to the management of ELL, the increase in interest cost due to an increase in debt will be offset by a robust operating profitability of base business as well as acquired businesses. The agency has further factored into the ratings the company's major debt-funded acquisitions in 1QFY25; however, higher-than-Ind-Ra-expected debt-funded acquisitions will be negative for the ratings. While the

company has adequate leverage headroom, the agency will assess the impact of M&A on a case-to-case basis and review the ratings accordingly.

Ind-Ra expects the company's EBITDA to improve over FY24-FY26, driven by a strong revenue contribution from the higher-margin businesses, a better product mix and a strong chronic portfolio.

Regulatory Risks: ELL is exposed to price control risk as it derives majority of its revenue from the domestic formulation market. Its domestic portfolio is under price control at just 7% against IPM's 14%, as per All Indian Origin Chemists and Distributors Ltd-Advanced Working, Action and Correction System; moving annual total September 2023. Furthermore, the government's increased focus on generic medicine could impact the revenue growth and profitability of the company, as ELL is a branded pharmaceutical company in India with strong brand equity among specialists and super specialists.

M&A Integration Risk: ELL has made a series of acquisitions over FY21-FY24. It acquired Oaknet for INR6,500 million in May 2022; nine dermatology brands from Glenmark Pharmaceuticals Limited ('IND AA'/Stable) for INR3,400 million in January 2023; nine dermatology brands from Dr. Reddy's Laboratories Limited ('IND AA+'/Stable) for INR2,750 million in March 2023, Biocon Limited's ('IND AA'/Stable) nephrology and immunotherapy businesses for INR3,660 million in November 2023 and 51% stake in SPL for INR6,375 million in February 2024 along with an additional 19% stake in April 2024 for INR2,375 million. ELL has also acquired the Indian branded formulation business from Biocon Biologics Limited for a consideration of INR12,420 million in April 2024. Any difficulty in integrating the acquired assets could affect the revenue and operating profits.

Liquidity

Adequate: On a consolidated basis, the maximum utilisation of the fund-based limits was around 24% over the 12 months ended April 2024. ELL had unencumbered cash balances of INR942 million at FYE24 (FYE23: INR860 million, FYE22: INR1,504 million). The consolidated operating cash flow to EBITDA margin stood at 72% for FY24 (average of FY21-FY23: 73.2%).

ELL's net working capital cycle (on sales basis) remains short due to its predominantly India business (FY24: 62 days FY23: 64 days, FY22: 44 days). It had a receivable period of 77 days in FY24 (FY23: 63 days, FY22: 44 days), inventory holding period of 34 days (28, 32 days) and payable period of 49 days (28, 32 days). ELL paid nil dividends in FY24 (FY23: INR999 million and FY22: INR816 million).

The consolidated net debt (including lease liabilities) stood at INR26,870 million at FYE24 (FYE23: INR7,907 million, FYE22: negative INR660 million). On a consolidated basis, ELL has term loan repayment obligations of around INR2,958 million and INR2,560 million in FY25 and FY26, respectively.

Additionally, the company issued NCDs of INR4,375 million in February 2024 to the sellers of SPL and expects to repay them after 12 months through internal accruals. Also, the INR9,750 million raised through CPs for acquisition would be refinanced by NCDs of INR12,500 million to be raised in June 2024. The NCD proceeds will also be used to pay INR2,375 million to its promoters against the 19% stake acquired in SPL. Thus, it would not have any major impact on the liquidity of the company.

Rating Sensitivities

Positive: A substantial improvement in the revenue and EBITDA, led by a successful ramp-up of the enhanced production capacity and positive free cash flow generation, all on a sustained and consolidated basis, with net leverage dropping below 2x could lead to a positive rating action.

Negative: Lower-than-expected EBITDA generation and/or a higher-than-expected debt levels due to higher capex/working capital/investments, leading to an increased likelihood of the consolidated net leverage exceeding 2x beyond FY25, on a sustained basis, would lead to a revision of the Outlook back to Stable.

Any Other Information

Standalone Performance: ELL's revenue stood at INR14,867 million during FY24 (FY23: INR13,307 million, FY22: INR12,157 million) with an EBITDA of INR4,538 million (INR5,051 million, INR4,840 million) and EBITDA margin of 31% (38%; 40%). The interest coverage was at 8x in FY24 (FY23: 24x; FY22: 162x) while the net leverage (net debt including lease liabilities/EBITDA) was 5.55x (0.56x; negative 0.22x).

CP Programme Liquidity Backup: Ind-Ra typically expects investment-grade CP issuers to have a full liquidity back-up available for the outstanding CP in line with its Short-Term Ratings Criteria for Non-Financial Corporates. Hence, in case of issuers rated 'IND AA-' or below, the agency usually requires CP to be carved out of the entity's fund-based working capital limits, given the higher refinancing frequency in

CP. A variation from the rating criteria has been made in the case of ELL, given that the CP is a bridge loan and not a permanent feature of the capital structure. The CP will be refinanced by long-term debt upon expiry.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on ELL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

About the Company

ELL, a 100% domestic formulation company, was established in 2007. It was listed on BSE Ltd in June 2017. As on 31 March 2024, the promoters held a stake of 54.90% in ELL. It focuses on the branded generics business in the chronic (87% of sales) and acute segments (13% of sales). The company has drugs across therapies such as anti-diabetes, cardiovascular, dermatology, gastroenterology and gynaecology, anti-infectives, vitamins, and other therapeutic areas. ELL has two manufacturing facilities, one each in Guwahati, Assam and Ahmedabad, Gujarat. The company has a field force of 3,443 medical representatives and 1,415 field managers. The company markets its products primarily to specialist/ super specialist doctors and consulting physicians.

KEY FINANCIAL INDICATORS- CONSOLIDATED

Particulars	FY24	FY23
Revenue (INR million)	20,091	16,851
EBITDA (INR million)	6,748	5,367
EBITDA margin (%)	34	32
Interest expenses (INR million)	848	262
Interest coverage (x)	8	21
Net leverage (x)	3.98	1.47
Total debt (INR million)	27,813	8,767
Free cash and liquid investments (INR million)	942	860
Source: ELL, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	11 March 2024	17 May 2023	4 May 2023
Issuer rating	Long-Term	-	IND AA-/Positive	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable
Proposed non-convertible debentures	Long-term	INR12,500	IND AA-/Positive	-	-	-
Commercial papers	Short-term	INR9,750	IND A1+	IND A1+	-	-
Term loan	Long-term	INR6,585	IND AA-/Positive	IND AA-/Stable	IND AA-/Stable	-
Fund-based working capital facilities	Long-term/ Short-Term	INR3,390	IND AA-/Positive/IND A1+	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+	-

Bank wise Facilities Details

[Click here to see the details](#)

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Commercial papers	Low
Non-convertible debentures	Low
Term loan	Low
Fund-based working capital facilities	Low

For details on the complexity level of the instruments, please visit www.indiaratings.co.in/complexity-indicators.

APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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