

Laurus Labs

Estimate change



TP change



Rating change



Bloomberg	LAURUS IN
Equity Shares (m)	532
M.Cap.(INRb)/(USDb)	229.5 / 2.8
52-Week Range (INR)	471 / 279
1, 6, 12 Rel. Per (%)	5/1/17
12M Avg Val (INR M)	953

Financials & valuations (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	50.4	58.6	69.0
EBITDA	7.8	11.6	15.3
Adj. PAT	1.6	4.6	7.4
EBIT Margin (%)	7.8	13.5	16.5
Cons. Adj. EPS (INR)	3.0	8.6	13.7
EPS Gr. (%)	-79.6	185.3	59.2
BV/Sh. (INR)	76.4	83.7	95.2

Ratios

Net D:E	0.6	0.5	0.5
RoE (%)	4.0	10.8	15.3
RoCE (%)	4.6	9.0	11.9
Payout (%)	15.6	15.6	15.6

Valuations

P/E (x)	140.9	49.4	31.0
EV/EBITDA (x)	32.6	21.8	16.7
Div. Yield (%)	0.1	0.3	0.4
FCF Yield (%)	-0.4	1.2	0.5
EV/Sales (x)	5.0	4.3	3.7

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	27.2	27.2	27.2
DII	11.8	11.1	9.7
FII	26.0	25.4	22.4
Others	35.1	36.3	40.6

FII includes depository receipts

CMP: INR426

TP: INR480 (+13%)

Buy

Product mix and reduced operating leverage hurt profitability

Benefits from investments made over FY22-24 to gain momentum

- Laurus Labs (LAURUS) delivered better-than-expected revenue in 4QFY24. However, EBITDA/PAT missed our estimates due to lower sales in the CDMO segment and weak pricing in the other API segment. The USD100m investment in CDMO is ongoing, with: a) supplies from animal health facilities to commence from FY25, and b) the facility qualification for intermediate manufacturing in the crop protection segment to be completed by end- FY25.
- We cut our earnings estimates by 26%/9% to factor in: 1) the gradual pick-up in CDMO business, b) the delay in ANDA approvals, and c) increased competition in the API segment. We value LAURUS at 31x 12M forward earnings to arrive at our TP of INR480.
- LAURUS invested INR26b over FY22-24 in the areas of CDMO (INR9b), API-CDMO combined (INR10.4b), and drug product/FDF (INR6.5b). Even assuming a current asset turn of 0.9x, the sales potential of these investments is INR23.4b, conservatively. While there has been a considerable decline in earnings over FY22-24, we expect the commercial benefits from investments to start contributing meaningfully over the next 2-3 years, thereby improving the return ratios as well. **Reiterate BUY.**

Revenue grows YoY after four quarters of decline

- LAURUS's 4QFY24 revenue was up 4.3% YoY to INR14.4b (our est. INR13.8b). Synthesis business (16% of sales) was up 4% YoY to INR2.4b. FDF sales grew 9% YoY to INR4.3b (30% of sales). API sales (52% of sales) rose 4% YoY to INR7.5b. Bio-division sales declined 37% YoY to INR290m.
- The gross margin (GM) was stable at 49.8% on a YoY basis.
- However, EBITDA margin contracted 390bp YoY to 16.8% (our est: 20.7%) on lower operating leverage (other expenses/employee costs rose 260bp/150p YoY as a % of sales). EBITDA declined 15.4% YoY to INR2.4b (est. INR2.9b).
- PAT declined at a higher rate of 28% YoY to INR756m (our est: INR1.1b) on account of a higher depreciation and a higher tax rate.
- For FY24, the company's revenue/EBITDA/PAT declined 16.6%/51.2%/79.6% YoY to INR50.4b/INR7.8b/INR1.6b.

Highlights from the management commentary

- With the increased scope of business and part of succession planning, the Board of Directors has proposed the appointments of Mr. Krishna Chava and Ms. Soumya Chava as Additional Director/ED.
- The company would be investing USD40m to build an additional facility for fermentation (capacity: 2m liters).
- LAURUS has formed a JV with KRKA to enhance its generic portfolio and market presence. The JV would invest EUR50m over the next three years to build a formulation facility in Hyderabad. The near-term needs of the JV would be met at the Vizag site.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Consolidated - Quarterly Earnings Model

(INR b)

Y/E Mar (INRb)	FY23				FY24E				FY23	FY24	FY24	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	15.4	15.8	15.4	13.8	11.8	12.2	11.9	14.4	60.4	50.4	13.8	4.1
YoY Change (%)	20.4	30.9	50.2	-3.1	-23.2	-22.3	-22.6	4.3	22.4	-16.6	0.2	
Total Expenditure	10.8	11.3	11.4	11.0	10.2	10.4	10.1	12.0	44.5	42.6	11.0	
EBITDA	4.5	4.5	4.0	2.9	1.7	1.9	1.8	2.4	15.9	7.8	2.9	-15.7
YoY Change (%)	14.9	30.1	41.5	-28.0	-63.3	-58.1	-55.0	-15.4	11.9	-51.2	0.3	
Margins (%)	29.5	28.5	26.1	20.7	14.1	15.3	15.2	16.8	26.4	15.4	20.7	
Depreciation	0.7	0.8	0.8	0.9	0.9	0.9	1.0	1.0	3.2	3.8	1.0	
EBIT	3.8	3.7	3.2	2.0	0.8	0.9	0.8	1.4	12.7	3.9	1.9	-26.3
YoY Change (%)	13.8	30.2	44.2	-40.0	-80.1	-74.3	-74.0	-29.9	8.3	-69.0	-4.9	
Margins (%)	24.9	23.3	20.7	14.4	6.4	7.7	6.9	9.7	21.0	7.8	13.6	
Interest	0.3	0.4	0.4	0.5	0.4	0.4	0.5	0.5	1.7	1.8	0.5	
Other Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.3	0.0	
PBT before EO expense	3.6	3.3	2.8	1.5	0.4	0.5	0.3	1.1	11.1	2.4	1.5	-27.2
Extra-Ord expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	3.6	3.3	2.8	1.5	0.4	0.5	0.3	1.1	11.1	2.4	1.5	-27.2
Tax	1.0	0.9	0.7	0.4	0.1	0.1	0.1	0.3	3.1	0.7	0.3	
Rate (%)	29.0	28.7	26.9	27.1	30.0	27.0	27.3	29.8	28.2	28.8	22.5	
Reported PAT	2.5	2.3	2.0	1.1	0.3	0.4	0.2	0.8	8.0	1.6	1.1	-33.8
Adj PAT	2.5	2.3	2.0	1.1	0.3	0.4	0.2	0.8	8.0	1.6	1.1	-33.8
YoY Change (%)	4.5	14.6	31.0	-54.6	-89.4	-84.2	-88.6	-28.1	-4.3	-79.6	8.6	
Margins (%)	16.4	14.8	13.1	7.6	2.3	3.0	1.9	5.3	13.2	3.2	8.3	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

(INR b)

Y/E March	FY23				FY24E				FY23	FY24	FY24
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
API	5.8	6.8	6.3	7.1	6.0	6.3	5.7	7.5	26.1	26.0	6.8
YoY Change (%)	6.2	29.0	49.1	32.5	2.4	(7.5)	(9.2)	4.3	28.0	(0.3)	(5.2)
Custom Synthesis	5.8	7.2	6.4	2.3	2.5	2.2	2.1	2.4	21.7	9.2	2.9
YoY Change (%)	195.9	364.5	210.1	(36.7)	(56.7)	(68.9)	(67.0)	3.5	136.3	(57.5)	26.8
Formulation	3.5	1.5	2.5	3.9	2.9	3.3	3.7	4.3	11.4	14.1	3.6
YoY Change (%)	(33.0)	(69.9)	(33.2)	(20.0)	(18.3)	122.8	47.4	9.4	(39.4)	24.0	(8.1)
Cost Break-up											
RM Cost (% of Sales)	42.4	44.9	46.6	50.3	49.4	47.5	45.6	50.2	45.9	48.3	45.7
Staff Cost (% of Sales)	9.9	9.3	9.5	9.7	13.5	13.4	13.0	11.2	9.6	12.7	11.1
Other Cost (% of Sales)	18.2	17.3	17.8	19.3	22.9	23.8	26.2	21.9	18.1	23.6	22.4
Gross Margin (%)	57.6	55.1	53.4	49.7	50.6	52.5	54.4	49.8	54.1	51.7	54.3
EBITDA Margin (%)	29.5	28.5	26.1	20.7	14.1	15.3	15.2	16.8	26.4	15.4	20.7
EBIT Margin (%)	24.9	23.3	20.7	14.4	6.4	7.7	6.9	9.7	21.0	7.8	13.6

E: MOFSL Estimates



Other highlights from the management commentary

- The Board of Directors has also proposed the appointments of Dr. Ravindranath Kancherla as the Non-Exec Chairman, and Mr. Karnam Sekar as an Additional Director.
- ARV-API sales rose 17% YoY to INR4b; Onco-API sales grew 16% YoY to INR1.5b; and Other API segment sales declined 21% YoY to INR1.8b.
- The ARV segment sales stood at INR7b and formed 49% of sales for 4QFY24.
- LAURUS would be producing the validation batches for four products and launch quantities for certain products in FY25 under the animal health CDMO segment.
- The intermediate facility qualification for the crop protection contract would happen by the end of FY25.
- The company has invested INR3.2b/INR1.2b/INR300m to date in fermentation/cell/gene therapy.
- Net debt at the end of FY24 was INR23.6b.
- The operating cash flow for FY24 stood at INR6.6b.

Key exhibits

Exhibit 1: Revenue grew 4.3% YoY in 4QFY24

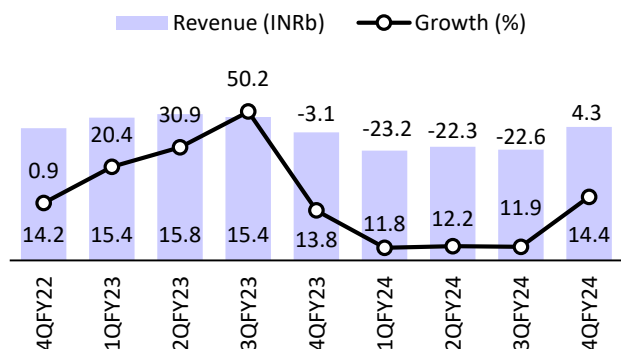


Exhibit 2: Share of ARV-API sales stood at 29% in 4QFY24

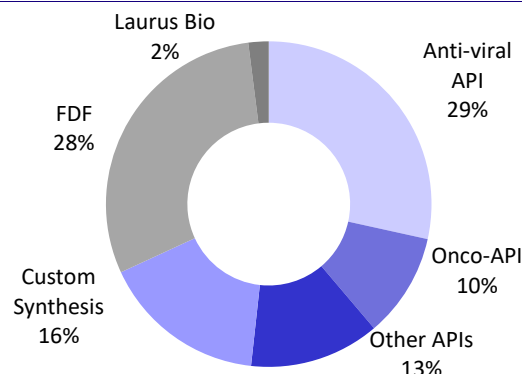


Exhibit 3: API sales grew 4% YoY

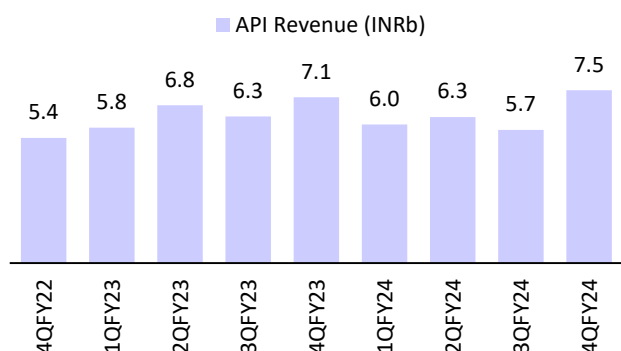


Exhibit 4: ARV-API sales grew 17% YoY in 4QFY24

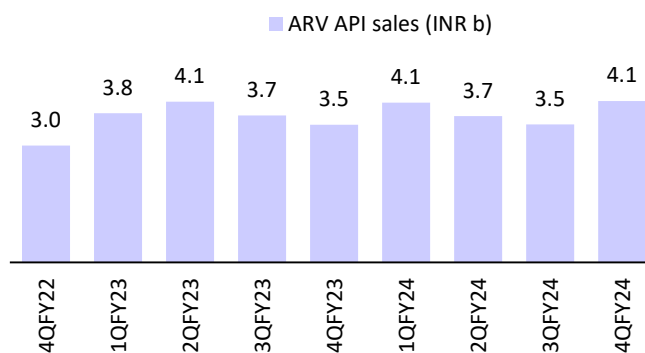
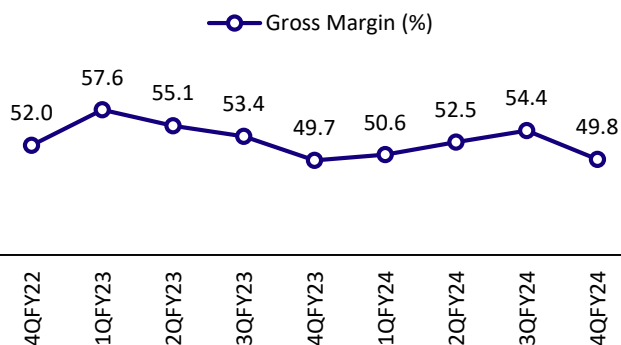
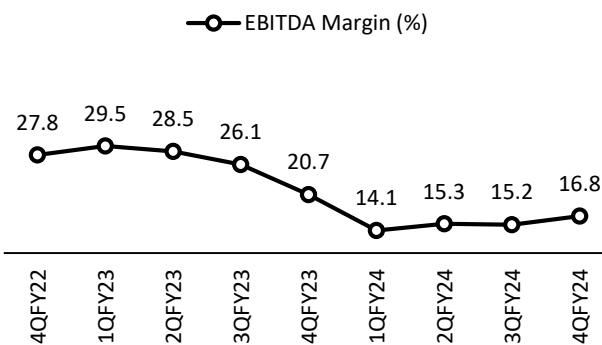


Exhibit 5: Gross margin stable YoY



Source: MOFSL, Company

Exhibit 6: EBITDA margin contracted ~390bp YoY



Source: MOFSL, Company

Work in progress on new capacity/partnerships across growth segments

Manufacturing asset build-up for animal health/crop protection/CDMO under way

- In FY24, CDMO sales declined 57% YoY to INR9.2b. This was due to the high base of last year due to a large PO executed during FY23.
- However, with an increase in RFP flows, the company is witnessing higher commercial opportunities for several late-stage NCE projects.
- LAURUS has started commercial validation of the animal health products, and it expects to validate about four products in FY25. Further, the company is gearing up to launch certain products.

- The crop science unit/fermentation unit is under construction, and it is likely to generate commercial benefit from FY26 onwards.
- We expect the CDMO business to register 35% CAGR over FY24-26 to INR16.8b.

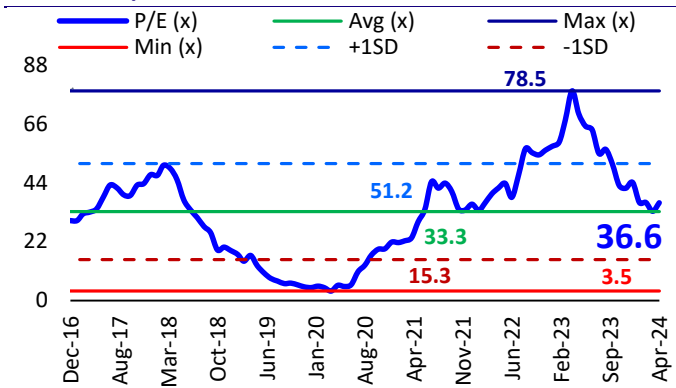
Optimization of existing capacities to drive API/FDF growth

- In FY24, LAURUS garnered sales of INR9.7b in ARV formulations driven by stable pricing and increased volumes in the developed market. The ARV-API segment witnessed a moderate growth of 2% in FY24 due to the ongoing logistics issue and lower realization, offset by a rise in volumes.
- In FY24, the Non-ARV FDF sales growth was driven by higher volume share in the US and Europe. Further, two more drugs are under the launch phase in the US.
- However, on the Non-ARV-API front, LAURUS registered a decline of 4% in FY24 due to transitional shipment impact/ subdued pricing.
- The company has signed a JV agreement with KRKA, which would enable LAURUS to expand its reach to the new markets such as India, LATAM, Africa, and South East Asia. Further, LAURUS would bolster its marketing reach of KRKA in the US to strengthen its portfolio further.
- Additionally, the cGMP FDF facility will be established in Hyderabad for KRKA, while addressing the near-term JV needs from the Vizag site.
- We expect the Non-ARV segment (FDF and API) sales to register a CAGR of 29% over FY24-26 to reach INR24b, due to favorable demand, increase in capacity utilization, market share gains in the US/Europe, and new partnership.

Reiterate BUY

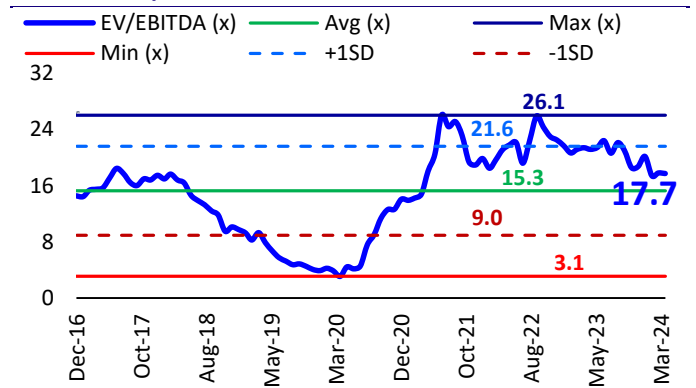
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- LAURUS invested INR26b over FY22-24 in the areas of CDMO (INR9b), API-CDMO combined (INR10.4b), and drug product/FDF (INR6.5b). Even assuming a current asset turn of 0.9x, the sales potential of these investments is INR23.4b, conservatively. While there has been a considerable decline in earnings over FY22-24, we expect the commercial benefits from investments to start contributing meaningfully over the next 2-3 years, thereby improving the return ratios as well. **Reiterate BUY.**

Exhibit 7: P/E chart



Source: MOFSL, Company, Bloomberg

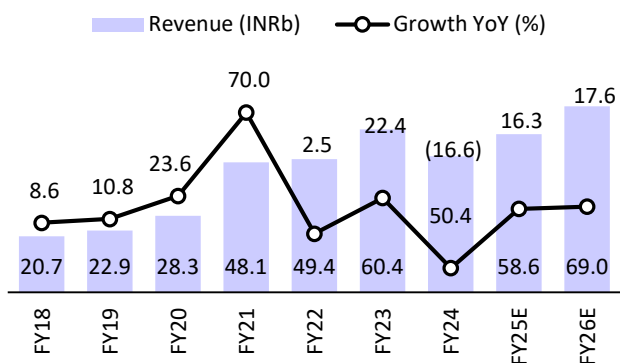
Exhibit 8: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

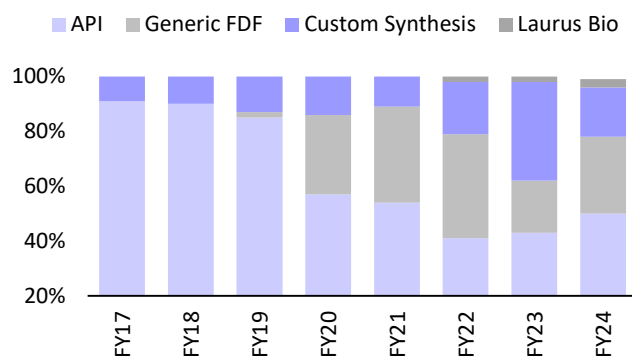
Story in charts

Exhibit 9: To post a sales CAGR of 17% over FY24-26



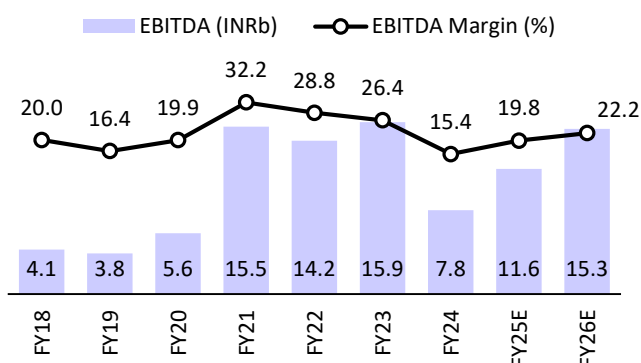
Source: MOFSL, Company

Exhibit 10: Diversified revenue mix



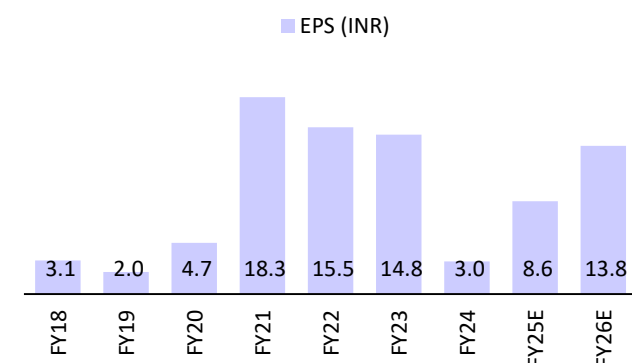
Source: MOFSL, Company

Exhibit 11: EBITDA CAGR to be 40% over FY24-26



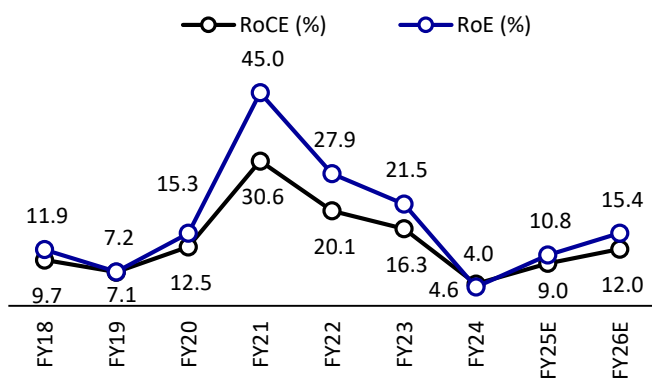
Source: MOFSL, Company

Exhibit 12: Expect strong EPS trajectory over FY24-26



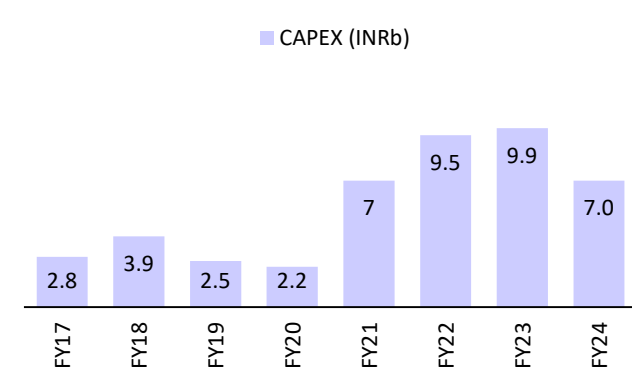
Source: MOFSL, Company

Exhibit 13: Return ratios to bottom out in FY24



Source: MOFSL, Company

Exhibit 14: Significant investment in capex since FY21



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement

(INRm)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	22,919	28,317	48,135	49,356	60,406	50,408	58,648	68,983
Change (%)	10.8	23.6	70.0	2.5	22.4	-16.6	16.3	17.6
Total Expenditure	19,155	22,672	32,628	35,131	44,483	42,633	47,036	53,669
% of Sales	83.6	80.1	67.8	71.2	73.6	84.6	80.2	77.8
EBITDA	3,764	5,645	15,507	14,224	15,923	7,775	11,612	15,314
Margin (%)	16.4	19.9	32.2	28.8	26.4	15.4	19.8	22.2
Depreciation	1,642	1,873	2,051	2,515	3,241	3,846	3,724	3,914
EBIT	2,122	3,773	13,456	11,709	12,682	3,929	7,888	11,400
Int. and Finance Charges	882	896	682	1,024	1,652	1,829	2,057	1,977
Other Income	162	59	237	153	60	263	411	483
PBT bef. EO Exp.	1,402	2,936	13,011	10,839	11,090	2,364	6,243	9,905
EO Items	-204	0	0	0	0	0	0	0
PBT after EO Exp.	1,198	2,936	13,011	10,839	11,090	2,364	6,243	9,905
Total Tax	260	383	3,173	2,514	3,123	684	1,548	2,437
Tax Rate (%)	21.7	13.1	24.4	23.2	28.2	28.9	24.8	24.6
Minority Interest	0	0	0	2	32	55	58	61
Reported PAT	938	2,553	9,838	8,322	7,965	1,625	4,636	7,408
Adjusted PAT	1,097	2,553	9,838	8,322	7,965	1,625	4,636	7,408
Change (%)	-34.5	132.6	285.4	-15.4	-4.3	-79.6	185.3	59.8
Margin (%)	4.8	9.0	20.4	16.9	13.2	3.2	7.9	10.7

Consolidated - Balance Sheet

(INRm)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	1,064	1,069	1,073	1,075	1,077	1,077	1,077	1,077
Total Reserves	14,520	16,629	24,902	32,437	39,298	40,032	43,944	50,171
minority interest			32	79	111	46	46	46
Net Worth	15,584	17,698	26,007	33,591	40,487	41,155	45,067	51,294
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	10,030	10,123	13,871	17,320	21,006	26,115	26,615	27,115
Deferred Tax Liabilities	-534	-739	192	691	825	570	570	570
Capital Employed	25,081	27,081	40,070	51,602	62,317	67,842	72,253	78,980
Gross Block	20,976	23,821	27,949	35,283	46,085	54,745	61,627	68,854
Less: Accum. Deprn.	4,783	6,655	8,706	11,221	14,462	18,308	22,032	25,946
Net Fixed Assets	16,193	17,166	19,243	24,062	31,623	36,437	39,596	42,908
Goodwill on Consolidation	97	97	2,463	2,463	2,463	2,463	2,463	2,463
Capital WIP	1,096	672	3,622	8,132	5,508	4,228	4,346	4,619
Total Investments	34	34	34	308	993	1,714	1,714	1,714
Curr. Assets, Loans&Adv.	15,357	18,589	32,145	34,715	36,017	39,028	38,543	43,648
Inventory	6,819	9,052	15,755	17,603	16,848	18,454	17,655	20,438
Account Receivables	7,099	7,914	13,061	13,542	15,804	16,629	15,747	18,710
Cash and Bank Balance	30	17	485	759	485	1,417	2,200	1,040
Loans and Advances	1,408	1,605	2,845	2,811	2,880	2,528	2,942	3,460
Curr. Liability & Prov.	7,697	9,477	17,437	18,079	14,287	16,029	14,408	16,371
Account Payables	4,883	6,156	11,787	8,764	7,107	10,512	7,990	8,822
Other Current Liabilities	2,449	2,753	4,894	7,753	6,165	4,334	5,042	5,930
Provisions	365	568	757	1,562	1,016	1,183	1,376	1,619
Net Current Assets	7,660	9,112	14,708	16,637	21,730	22,999	24,135	27,277
Appl. of Funds	25,081	27,081	40,070	51,602	62,317	67,842	72,254	78,981

E: MOFSL Estimates

Financials and valuations

Ratios								
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	2.0	4.7	18.3	15.5	14.8	3.0	8.6	13.7
Cash EPS	5.1	8.2	22.1	20.1	20.8	10.2	15.5	21.0
BV/Share	28.9	32.9	48.3	62.4	75.2	76.4	83.7	95.2
DPS	0.3	0.6	2.0	2.0	1.9	0.4	1.1	1.8
Payout (%)	20.4	15.1	13.1	15.6	15.6	15.6	15.6	15.6
Valuation (x)								
P/E	208.6	89.7	23.3	27.5	28.7	140.9	49.4	31.0
Cash P/E	83.6	51.7	19.3	21.1	20.4	41.8	27.4	20.3
P/BV	14.7	12.9	8.8	6.8	5.7	5.6	5.1	4.5
EV/Sales	10.4	8.4	5.0	5.0	4.1	5.0	4.3	3.7
EV/EBITDA	63.5	42.3	15.6	17.3	15.7	32.6	21.8	16.7
Dividend Yield (%)	0.1	0.1	0.5	0.5	0.5	0.1	0.3	0.4
FCF per share	0.7	2.0	0.9	0.6	0.1	-1.6	5.0	2.0
Return Ratios (%)								
RoE	7.2	15.3	45.0	27.9	21.5	4.0	10.8	15.3
RoCE	7.1	12.5	30.6	20.1	16.3	4.6	9.0	11.9
RoIC	7.2	13.0	32.7	23.0	18.6	4.8	9.5	12.7
Working Capital Ratios								
Fixed Asset Turnover (x)	1.1	1.2	1.7	1.4	1.3	0.9	1.0	1.0
Asset Turnover (x)	0.9	1.0	1.2	1.0	1.0	0.7	0.8	0.9
Inventory (Days)	109	117	119	130	102	134	110	108
Debtor (Days)	113	102	99	100	95	120	98	99
Creditor (Days)	78	79	89	65	43	76	50	47
Leverage Ratio (x)								
Current Ratio	2.0	2.0	1.8	1.9	2.5	2.4	2.7	2.7
Interest Cover Ratio	2.4	4.2	19.7	11.4	7.7	2.1	3.8	5.7
Net Debt/Equity	0.6	0.6	0.5	0.5	0.5	0.6	0.5	0.5
Consolidated - Cash Flow Statement								
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	1,198	2,936	13,011	10,839	11,089	2,364	6,243	9,868
Depreciation	1,642	1,873	2,051	2,515	3,241	3,846	3,724	3,914
Interest & Finance Charges	720	837	579	862	1,455	1,750	1,646	1,532
Direct Taxes Paid	-260	-383	-2,285	-1,823	-2,855	-1,046	-1,548	-2,427
(Inc)/Dec in WC	-187	-1,465	-5,941	-3,416	-3,153	-332	-352	-4,302
CF from Operations	3,113	3,797	7,415	8,977	9,778	6,581	9,712	8,585
Others	-136	-323	-85	135	161	33	0	0
CF from Operating incl EO	2,977	3,474	7,330	9,111	9,939	6,615	9,712	8,585
(Inc)/Dec in FA	-2,589	-2,421	-6,839	-8,767	-9,875	-7,476	-7,000	-7,500
Free Cash Flow	387	1,053	491	344	64	-862	2,712	1,085
(Pur)/Sale of Investments	0	0	-2,584	-393	-223	-800	0	0
Others	60	210	13	17	137	52	411	483
CF from Investments	-2,529	-2,211	-9,410	-9,143	-9,961	-8,224	-6,589	-7,017
Issue of Shares	4	5	74	43	74	26	0	0
Inc/(Dec) in Debt	429	139	3,804	1,968	2,138	5,078	500	500
Interest Paid	-882	-896	-580	-850	-1,404	-1,743	-2,057	-2,015
Dividend Paid	-191	-384	-750	-859	-1,075	-862	-724	-1,152
Others	193	-140	0	5	13	43	-58	-61
CF from Fin. Activity	-448	-1,277	2,547	307	-253	2,541	-2,338	-2,728
Inc/Dec of Cash	0	-14	467	275	-275	932	784	-1,161
Opening Balance	29	28	15	483	757	482	1,415	2,201
Closing balance	28	15	483	757	482	1,415	2,201	1,043
Bank balance	2	2	2	2	2	1	-1	-3
Total Cash and Cash equivalent	30	17	485	759	485	1,417	2,200	1,040

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NOTES

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UNDER REVIEW	Rating may undergo a change
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