

Estimate change

TP change

Rating change



CMP: INR345

TP: INR410 (+19%)

Buy

Operating deleverage hurts margins

Strengthens CDMO outlook with one more contract win

- Laurus Labs (Laurus) reported lower-than-expected earnings for 1QFY24, primarily due to reduced traction in the formulation segment. Despite the miss, the company remains committed to pursuing new contracts in both CDMO and formulation (FDF) segments. Additionally, the company is actively working on expanding its capacity/capabilities to cater to new orders in the animal health/human health/agro-chem segments.
- We cut our earnings estimate by 6%/3% for FY24/FY25, factoring a) the adverse impact on the Non-ARV API business, b) gradual pick-up in the formulation business, and c) higher operational cost. We value LAURUS at 21x 12M forward earnings to arrive at a price target of INR410.
- We remain positive on LAURUS on the back of a) building blocks across different aspects within the CDMO segment, b) limited scope of price pressure in the ARV segment and c) adding customers/new products in the Non-ARV API/Formulation segment. We reiterate our BUY rating on the stock.

Historically the lowest EBITDA margin on a quarterly basis

- LAURUS revenues were down 23% YoY to INR11.8b (our est. INR13.1b). CDMO business (21% of sales) was down 57% YoY to INR2.5b, due to the high base of last year (large Purchase order executed in 1QFY23). FDF sales declined 18% YoY to INR2.9b (24% of sales), mainly dragged by lower ARV business and weak pricing. API sales (51% of sales) grew 2% YoY to INR6b, driven by better volume. Within API, Onco API sales declined 16% YoY to INR537m. Other API segment sales declined 2% YoY to INR1.4b. ARV API sales grew 7% YoY to INR4b. Bio division sales (4% of sales) grew 67% YoY to INR500m.
- GM contracted 700bp YoY/up 90bp QoQ to 50.6% as percentage of sales, due to a change in the segmental mix.
- EBITDA margin contracted at a higher rate of 1540bp YoY to 14.1% (our est: 21%) due to reduced operating leverage (other expenses/employee cost up 480bp/360p YoY as percentage of sales).
- EBITDA declined 63% YoY to INR1.7b (Our est. INR2.7b).
- PAT declined at a higher rate of 90% YoY to INR268m (our est: INR1b) on account of higher depreciation.

Highlights from the management commentary

- While Laurus started FY24 on a weak note, it maintained its sales guidance (Stable YoY) for FY24.
- Ramp-up across CDMO/FDF (Non-ARV as well as ARV) is expected to drive better sales outlook for the remaining quarters of FY24.
- ARV business for 1QFY24 stood at INR6b (50% of sales). The prices have been stable QoQ. The volume offtake is expected to pick up 2QFY24 onwards.

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Bloomberg	LAURUS IN
Equity Shares (m)	532
M.Cap.(INRb)/(USDb)	185.2 / 2.3
52-Week Range (INR)	606 / 280
1, 6, 12 Rel. Per (%)	-11/-11/-51
12M Avg Val (INR M)	798

Financials & valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	60.4	61.1	68.4
EBITDA	15.9	14.3	17.7
Adj. PAT	7.9	6.8	9.6
EBIT Margin (%)	21.0	17.3	20.6
Cons. Adj. EPS (INR)	14.7	12.6	17.8
EPS Gr. (%)	-4.7	-14.4	41.1
BV/Sh. (INR)	75.2	85.8	100.8
Ratios			
Net D:E	0.5	0.3	0.2
RoE (%)	21.4	15.7	19.1
RoCE (%)	16.3	12.8	15.9
Payout (%)	15.6	15.6	15.6
Valuations			
P/E (x)	23.4	27.4	19.4
EV/EBITDA (x)	13.0	13.9	11.1
Div. Yield (%)	0.6	0.5	0.7
FCF Yield (%)	0.0	5.5	2.6
EV/Sales (x)	3.4	3.3	2.9

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	27.2	27.2	27.3
DII	9.7	9.5	7.9
FII	22.4	21.9	22.5
Others	40.6	41.4	42.4

FII includes depository receipts

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Consolidated - Quarterly Earnings Model

(INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	15,389	15,759	15,448	13,809	11,818	13,740	16,360	19,194	60,406	61,112	13,110	-9.9
YoY Change (%)	20.4	30.9	50.2	-3.1	-23.2	-12.8	5.9	39.0	22.4	1.2	-14.8	
EBITDA	4,542	4,489	4,036	2,855	1,667	2,501	4,335	5,797	15,923	14,300	2,753	-39.4
YoY Change (%)	14.9	30.1	41.5	-28.0	-63.3	-44.3	7.4	103.0	11.9	-10.2	-39.4	
Margins (%)	29.5	28.5	26.1	20.7	14.1	18.2	26.5	30.2	26.4	23.4	21.0	
Depreciation	708	818	844	870	906	910	925	962	3,241	3,703	810	
EBIT	3,834	3,671	3,191	1,985	762	1,591	3,410	4,835	12,682	10,597	1,943	-60.8
YoY Change (%)	13.8	30.2	44.2	-40.0	-80.1	-56.7	6.9	143.6	8.3	-16.4	-49.3	
Margins (%)	24.9	23.3	20.7	14.4	6.4	11.6	20.8	25.2	21.0	17.3	14.8	
Interest	293	401	427	531	392	410	420	438	1,652	1,660	510	
Other Income	18	11	14	17	36	40	41	48	60	165	15	
PBT before EO expense	3,559	3,281	2,779	1,471	406	1,221	3,031	4,445	11,090	9,103	1,448	-72.0
PBT	3,559	3,281	2,779	1,471	406	1,221	3,031	4,445	11,090	9,103	1,448	-72.0
Tax	1,033	943	748	399	122	311	764	1,081	3,125	2,278	377	
Rate (%)	29.0	28.7	26.9	27.1	30.0	25.5	25.2	24.3	28.2	25.0	26.0	
Reported PAT	2,525	2,338	2,031	1,052	268	909	2,267	3,364	7,965	6,809	1,072	-75.0
Adj PAT	2,525	2,338	2,031	1,052	268	909	2,267	3,364	7,965	6,809	1,072	-75.0
YoY Change (%)	4.5	14.6	31.0	-54.6	-89.4	-61.1	11.7	219.8	-4.3	-14.5	-57.6	
Margins (%)	16.4	14.8	13.1	7.6	2.3	6.6	13.9	17.5	13.2	11.1	8.2	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

(INR b)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			
API	5.8	6.8	6.3	7.1	6.0	6.6	7.1	8.2	26.1	27.9	6.3
YoY Change (%)	6.2	29.0	49.1	32.5	2.4	(2.6)	12.7	14.9	28.0	7.0	8.6
Custom Synthesis	5.8	7.2	6.4	2.3	2.5	3.2	4.8	5.8	21.7	16.3	2.9
YoY Change (%)	195.9	364.5	210.1	(36.7)	(56.7)	(55.6)	(25.2)	152.3	136.3	(25.0)	(49.7)
Formulation	3.5	1.5	2.5	3.9	2.9	3.4	3.9	4.7	11.4	14.8	3.5
YoY Change (%)	(33.0)	(69.9)	(33.2)	(20.0)	(18.3)	128.2	56.6	18.8	(39.4)	30.0	0.3
Cost Break-up											
RM Cost (% of Sales)	42.4	44.9	46.6	50.3	49.4	49.8	47.0	46.7	45.9	48.0	50.1
Staff Cost (% of Sales)	9.9	9.3	9.5	9.7	13.5	12.0	9.5	8.4	9.6	10.5	10.0
R&D Expenses(% of Sales)	3.2	3.1	3.6	3.5	4.1	3.6	3.4	2.6	2.8	2.8	3.7
Other Cost (% of Sales)	18.2	17.3	17.8	19.3	22.9	20.0	17.0	14.7	18.1	18.1	18.9
Gross Margins (%)	57.6	55.1	53.4	49.7	50.6	50.2	53.0	53.3	54.1	52.0	49.9
EBITDA Margins (%)	29.5	28.5	26.1	20.7	14.1	18.2	26.5	30.2	26.4	23.4	21.0
EBIT Margins (%)	24.9	23.3	20.7	14.4	6.4	11.6	20.8	25.2	21.0	17.3	14.8

E: MOFSL Estimates

**Other highlights from the management commentary**

- Laurus secured its first-ever multi-year contract with a global crop protection company. The manufacturing operations under this contract are expected to commence from 2HFY25 onwards.
- In the animal health CDMO segment, Laurus Labs is set to begin the commercial validation batches in 2HFY24. Following this, the company plans to scale up its operations starting from FY25.
- Laurus has 60+ projects across various stages of development in the CDMO segment.
- The non-ARV formulation business of Laurus is expected to pick up due to two key factors. First, the company expects improved volumes in its existing products in the European market and secondly, the company is looking forward to obtaining new product approvals in the North America market.
- New capacity (R2) related to the Biotech business has been implemented in 1QFY24 and is expected to ramp up over the near term.

Key exhibits

Exhibit 1: Revenue declined 23% YoY in 1QFY24

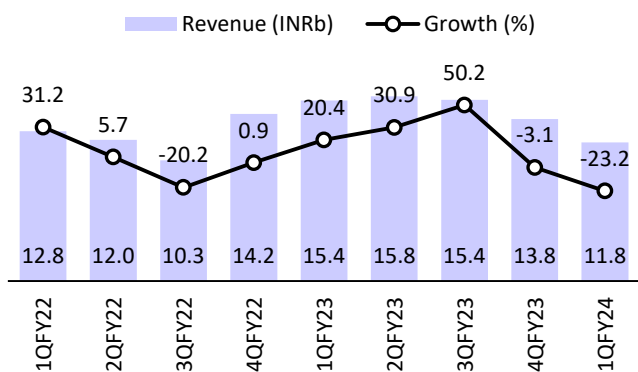


Exhibit 2: Share of FDF sales stood at 24% in 1QFY24

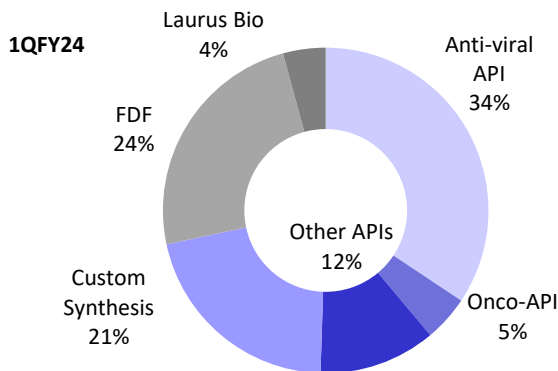


Exhibit 3: API sales grew 2% YoY in 1QFY24

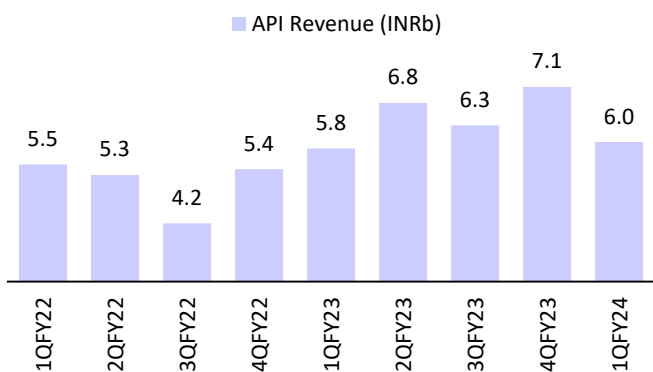


Exhibit 4: ARV-API sales up 7% YoY in 1QFY24

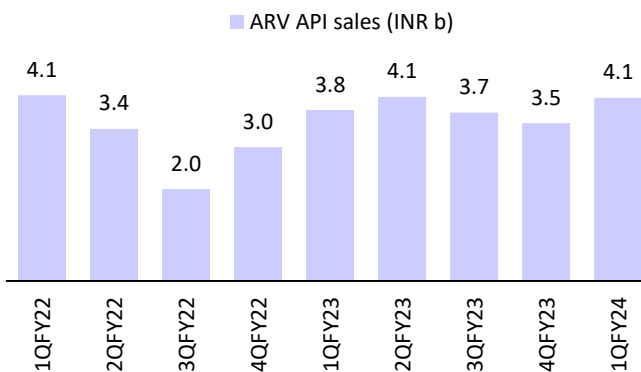
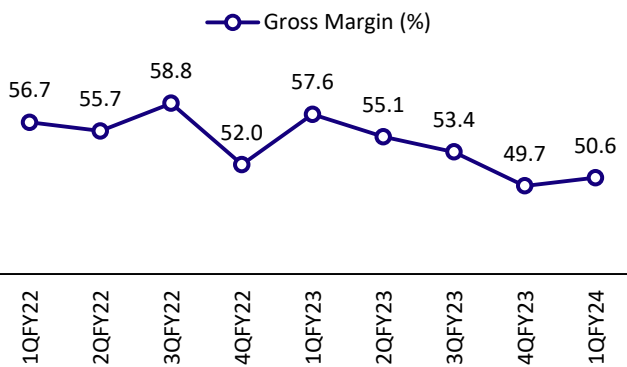
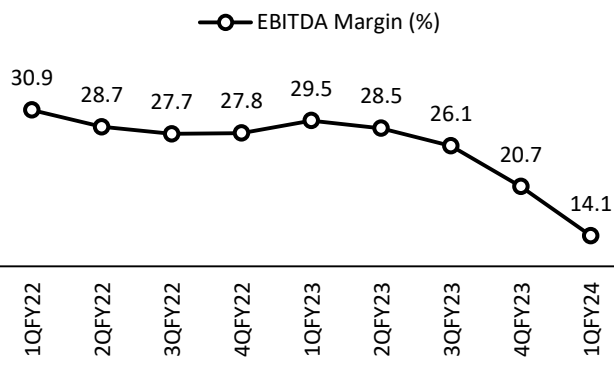


Exhibit 5: Gross margin contracted ~700bp YoY in 1QFY24



Source: MOFSL, Company

Exhibit 6: EBITDA margin contracted ~1,540bp YoY in 1QFY24



Source: MOFSL, Company

Work-in-progress to build better business prospects in CDMO/FDF segments

CDMO: WIP to build newer areas of growth/manufacturing capability

- In 1QFY24, the CDMO sales declined 57% YoY to INR2.5b. This was due to the high base of last year, led by large PO executed in 1QFY23.
- However, there are several promising opportunities in terms of 1) new customer additions, 2) initiation of commercial manufacturing of Animal health contract from 2HFY24 and 3) multi-year agreement with a leading Global Crop protection major for manufacturing & supply of critical APIs, of which, manufacturing is expected to begin in 2HFY25.
- LAURUS is working on 60 active projects at various stages of development with ongoing supplies for 10 commercial API projects.
- Moreover, to support the synthesis business, LAURUS invested INR3b in FY23 and would be investing INR7b in FY24.
- Considering the high base of FY23, we expect a 9% compounded decline to INR17.9b over FY23-25.

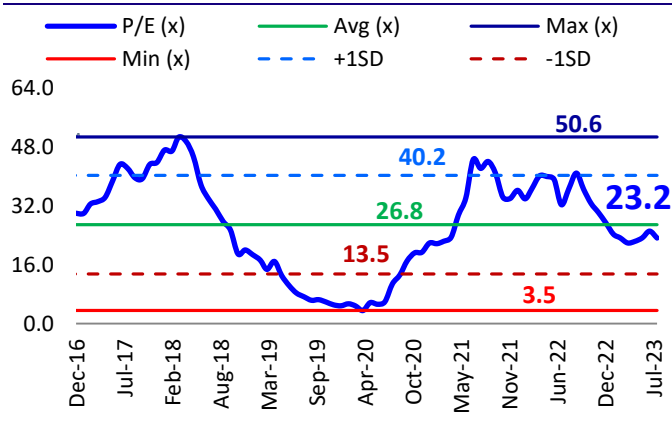
FDF growth to be led by new product additions/tender wins

- In 1QFY24, ARV formulation business declined 28% YoY due to steep price erosion. Having said this, the prices have been stable QoQ, implying limited scope of adverse pricing. With new tender wins, we expect ARV formulation business to pick up going forward.
- The Non-ARV FDF business grew 11% YoY on the back of enhanced contracts from Europe/NA.
- With better business prospects in the Non-ARV segment and stable ARV business, we expect a sales CAGR of 20% to INR16b in FDF over FY23–25.

Reiterate Buy

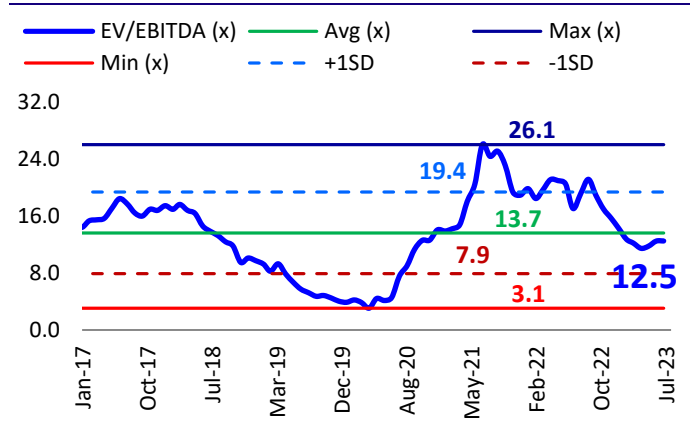
- We cut our earnings estimate by 6%/3% for FY24/FY25 factoring a) adverse impact on Non-ARV API business, b) gradual pick-up in the formulation business, and c) higher operational cost. We value LAURUS at 21x 12M forward earnings to arrive at a price target of INR410.
- We remain positive on LAURUS on the back of a) significant progress across different aspects within the CDMO segment, b) limited scope of price pressure in the ARV segment, and c) adding customers/new products in the Non-ARV API/Formulation segment. We reiterate our BUY rating on the stock.

Exhibit 7: P/E chart



Source: MOFSL, Company, Bloomberg

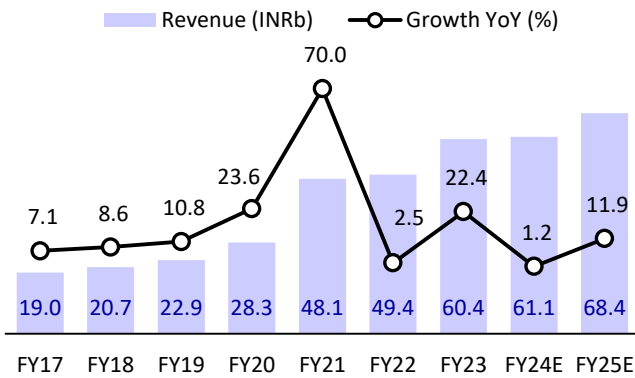
Exhibit 8: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

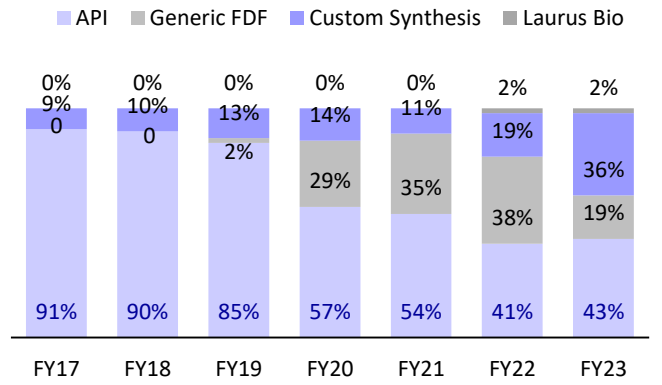
Story in charts

Exhibit 9: Sales CAGR to be 8% over FY23-25



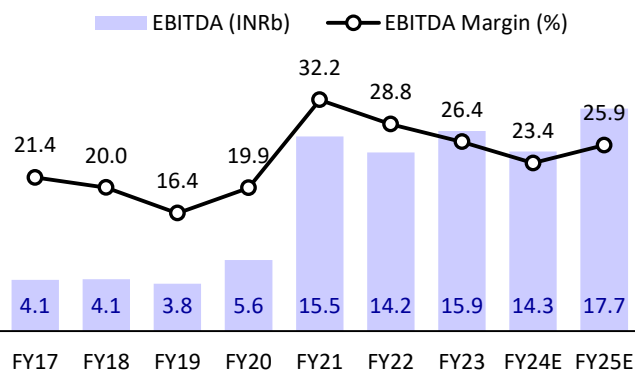
Source: MOFSL, Company

Exhibit 10: Diversified revenue mix



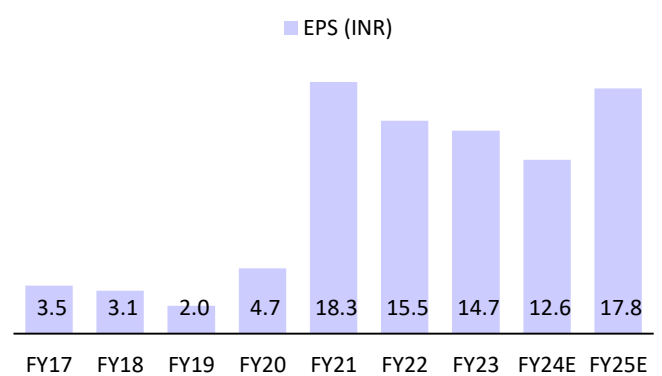
Source: MOFSL, Company

Exhibit 11: EBITDA CAGR to be 7% over FY23-25



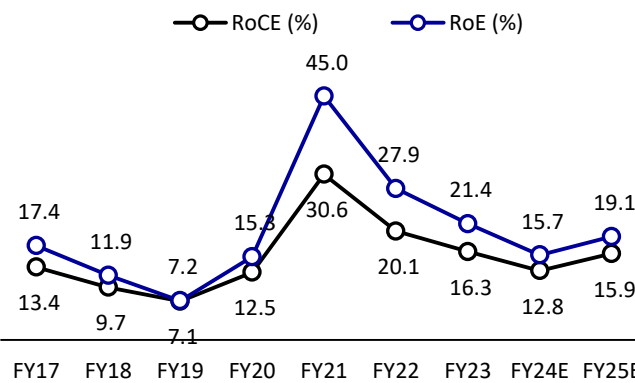
Source: MOFSL, Company

Exhibit 12: EPS CAGR to be 10% over FY23-25



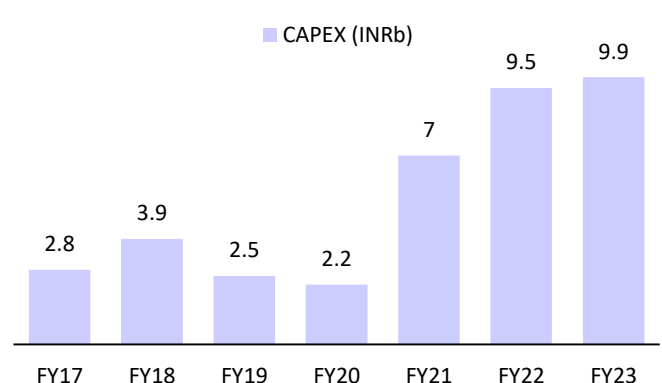
Source: MOFSL, Company

Exhibit 13: Return ratios to bottom out in FY24



Source: MOFSL, Company

Exhibit 14: Significant capex since FY21



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement										(INRm)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Inc. from Operations	17,776	19,046	20,690	22,919	28,317	48,135	49,356	60,406	61,112	68,413
Change (%)	34.0	7.1	8.6	10.8	23.6	70.0	2.5	22.4	1.2	11.9
EBITDA	3,622	4,076	4,133	3,764	5,645	15,507	14,224	15,923	14,300	17,719
Margin (%)	20.4	21.4	20.0	16.4	19.9	32.2	28.8	26.4	23.4	25.9
Depreciation	864	1,060	1,255	1,642	1,873	2,051	2,515	3,241	3,703	3,636
EBIT	2,758	3,016	2,879	2,122	3,773	13,456	11,709	12,682	10,597	14,083
Int. and Finance Charges	1,111	999	796	882	896	682	1,024	1,652	1,660	1,408
Other Income	44	334	292	162	59	237	153	60	165	185
PBT bef. EO Exp.	1,690	2,352	2,374	1,402	2,936	13,011	10,839	11,090	9,103	12,861
EO Items	0	0	0	-204	0	0	0	0	0	0
PBT after EO Exp.	1,690	2,352	2,374	1,198	2,936	13,011	10,839	11,090	9,103	12,861
Total Tax	349	439	698	260	383	3,173	2,514	3,123	2,276	3,241
Tax Rate (%)	20.6	18.7	29.4	21.7	13.1	24.4	23.2	28.2	25.0	25.2
Minority Interest	4	11	0	0	0	0	2	32	34	35
Reported PAT	1,337	1,903	1,676	938	2,553	9,838	8,322	7,935	6,793	9,584
Adjusted PAT	1,337	1,903	1,676	1,097	2,553	9,838	8,322	7,935	6,793	9,584
Change (%)	95.7	42.3	-11.9	-34.5	132.6	285.4	-15.4	-4.7	-14.4	41.1
Margin (%)	7.5	10.0	8.1	4.8	9.0	20.4	16.9	13.1	11.1	14.0

Consolidated - Balance Sheet										(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	158	1,058	1,060	1,064	1,069	1,073	1,075	1,077	1,077	1,077
Total Reserves	7,744	12,247	13,766	14,520	16,629	24,902	32,437	39,298	45,031	53,118
minority interest						32	79	111	111	111
Net Worth	8,568	13,304	14,826	15,584	17,698	26,007	33,591	40,487	46,219	54,307
Total Loans	10,277	8,417	9,649	10,030	10,123	13,871	17,320	21,006	18,506	15,006
Deferred Tax Liabilities	-549	-699	-529	-534	-739	192	691	825	825	825
Capital Employed	18,296	21,023	23,946	25,081	27,081	40,070	51,602	62,317	65,550	70,138
Gross Block	11,063	14,088	17,851	20,976	23,821	27,949	35,283	46,085	53,991	61,423
Less: Accum. Deprn.	853	1,886	3,141	4,783	6,655	8,706	11,221	14,462	18,165	21,800
Net Fixed Assets	10,210	12,202	14,711	16,193	17,166	19,243	24,062	31,623	35,827	39,622
Goodwill on Consolidation	0	97	97	97	97	2,463	2,463	2,463	2,463	2,463
Capital WIP	696	1,433	1,632	1,096	672	3,622	8,132	5,508	4,602	4,670
Total Investments	70	34	34	34	34	34	308	993	993	993
Curr. Assets, Loans&Adv.	10,710	12,069	13,165	15,357	18,589	32,145	34,715	36,017	43,807	46,771
Inventory	4,871	5,090	5,848	6,819	9,052	15,755	17,603	16,848	18,115	20,034
Account Receivables	4,449	5,676	5,706	7,099	7,914	13,061	13,542	15,804	17,245	19,493
Cash and Bank Balance	288	41	31	30	17	485	759	485	5,533	3,982
Loans and Advances	1,103	1,262	1,580	1,408	1,605	2,845	2,811	2,880	2,913	3,262
Curr. Liability & Prov.	3,390	4,812	5,692	7,697	9,477	17,437	18,079	14,287	22,141	24,382
Account Payables	2,476	2,631	3,123	4,883	6,156	11,787	8,764	7,107	14,877	16,250
Other Current Liabilities	770	1,988	2,316	2,449	2,753	4,894	7,753	6,165	6,237	6,982
Provisions	144	193	253	365	568	757	1,562	1,016	1,027	1,150
Net Current Assets	7,320	7,257	7,473	7,660	9,112	14,708	16,637	21,730	21,665	22,389
Appl. of Funds	18,296	21,023	23,946	25,081	27,081	40,070	51,602	62,317	65,550	70,138

Financials and valuations

Ratios										
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)										
EPS	2.4	3.5	3.1	2.0	4.7	18.3	15.5	14.7	12.6	17.8
Cash EPS	4.0	5.5	5.4	5.1	8.2	22.1	20.1	20.7	19.5	24.5
BV/Share	15.9	24.7	27.5	28.9	32.9	48.3	62.4	75.2	85.8	100.8
DPS	0.1	0.3	0.0	0.3	0.6	2.0	2.0	1.9	1.6	2.3
Payout (%)	4.4	10.0	0.0	20.4	15.1	13.1	15.6	15.6	15.6	15.6
Valuation (x)										
P/E	141.2	98.8	110.9	169.3	72.8	18.9	22.3	23.4	27.4	19.4
Cash P/E	85.2	63.2	63.4	67.8	42.0	15.6	17.1	16.6	17.7	14.1
P/BV	21.7	14.0	12.5	11.9	10.5	7.1	5.5	4.6	4.0	3.4
EV/Sales	11.0	10.2	9.4	8.5	6.9	4.1	4.1	3.4	3.3	2.9
EV/EBITDA	54.1	47.6	47.3	52.0	34.7	12.8	14.2	13.0	13.9	11.1
Dividend Yield (%)	0.0	0.1	0.0	0.1	0.2	0.6	0.6	0.6	0.5	0.7
FCF per share	-2.7	1.0	-1.0	0.7	2.0	0.9	0.6	0.1	18.8	8.7
Return Ratios (%)										
RoE	16.9	17.4	11.9	7.2	15.3	45.0	27.9	21.4	15.7	19.1
RoCE	13.0	13.4	9.7	7.1	12.5	30.6	20.1	16.3	12.8	15.9
RoIC	14.6	13.5	9.7	7.2	13.0	32.7	23.0	18.6	14.5	18.3
Working Capital Ratios										
Fixed Asset Turnover (x)	1.6	1.4	1.2	1.1	1.2	1.7	1.4	1.3	1.1	1.1
Asset Turnover (x)	1.0	0.9	0.9	0.9	1.0	1.2	1.0	1.0	0.9	1.0
Inventory (Days)	100	98	103	109	117	119	130	102	108	107
Debtor (Days)	91	109	101	113	102	99	100	95	103	104
Creditor (Days)	51	50	55	78	79	89	65	43	89	87
Leverage Ratio (x)										
Current Ratio	3.2	2.5	2.3	2.0	2.0	1.8	1.9	2.5	2.0	1.9
Interest Cover Ratio	2.5	3.0	3.6	2.4	4.2	19.7	11.4	7.7	6.4	10.0
Net Debt/Equity	1.2	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.3	0.2

Consolidated - Cash Flow Statement										IN Rm)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	1,690	2,352	2,374	1,198	2,936	13,011	10,839	11,089	9,103	12,861
Depreciation	864	1,060	1,255	1,642	1,873	2,051	2,515	3,241	3,703	3,636
Interest & Finance Charges	1,038	931	505	720	837	579	862	1,455	1,495	1,223
Direct Taxes Paid	-333	-501	-698	-260	-383	-2,285	-1,823	-2,855	-2,276	-3,241
(Inc)/Dec in WC	-1,544	-525	-226	-187	-1,465	-5,941	-3,416	-3,153	5,113	-2,274
CF from Operations	1,716	3,317	3,209	3,113	3,797	7,415	8,977	9,778	17,138	12,204
Others	103	3	216	-136	-323	-85	135	161	0	0
CF from Operating incl EO	1,820	3,320	3,425	2,977	3,474	7,330	9,111	9,939	17,138	12,204
(Inc)/Dec in FA	-3,262	-2,774	-3,962	-2,589	-2,421	-6,839	-8,767	-9,875	-7,000	-7,500
Free Cash Flow	-1,443	546	-537	387	1,053	491	344	64	10,138	4,704
(Pur)/Sale of Investments	140	-113	0	0	0	-2,584	-393	-223	0	0
Others	0	0	120	60	210	13	17	137	165	185
CF from Investments	-3,122	-2,887	-3,842	-2,529	-2,211	-9,410	-9,143	-9,961	-6,835	-7,315
Issue of Shares	3	2,860	3	4	5	74	43	74	0	0
Inc/(Dec) in Debt	2,063	-2,387	1,278	429	139	3,804	1,968	2,138	-2,500	-3,500
Interest Paid	-1,033	-950	-796	-882	-896	-580	-850	-1,404	-1,660	-1,408
Dividend Paid	0	-59	0	-191	-384	-750	-8359	-1,075	-1,061	-1,497
Others	0	0	-62	193	-140	0	5	13	-34	-35
CF from Fin. Activity	1,033	-536	422	-448	-1,277	2,547	307	-253	-5,254	-6,440
Inc/Dec of Cash	-269	-103	6	0	-14	467	275	-275	5,049	-1,551
Opening Balance	394	127	23	29	28	15	483	757	482	5,532
Closing balance	127	23	29	28	15	483	757	482	5,532	3,983
Bank balance	161	18	2	2	2	2	2	2	1	-1
Total Cash and Cash equivalent	288	41	31	30	17	485	759	485	5,533	3,982

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NOTES

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UNDER REVIEW	Rating may undergo a change
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