

Estimate change



TP change



Rating change



CMP: INR400

TP: INR460 (+15%)

Buy

Lower RM cost revives margin on sequential basis

Commercial validation of Animal health product initiated in Oct'23

Bloomberg	LAURUS IN
Equity Shares (m)	532
M.Cap.(INRb)/(USDb)	216 / 2.6
52-Week Range (INR)	531 / 279
1, 6, 12 Rel. Per (%)	3/20/-35
12M Avg Val (INR M)	855

Financials & valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	60.4	55.7	63.8
EBITDA	15.9	12.0	17.5
Adj. PAT	8.0	4.9	9.1
EBIT Margin (%)	21.0	14.8	21.4
Cons. Adj. EPS (INR)	14.8	9.1	16.9
EPS Gr. (%)	-4.3	-38.2	84.5
BV/Sh. (INR)	75.2	82.9	97.1

Ratios

Net D:E	0.5	0.4	0.4
RoE (%)	21.5	11.6	18.7
RoCE (%)	16.3	9.9	14.8
Payout (%)	15.6	15.6	15.6

Valuations

P/E (x)	27.1	43.8	23.7
EV/EBITDA (x)	14.8	19.6	13.5
Div. Yield (%)	0.5	0.3	0.5
FCF Yield (%)	0.0	1.3	1.4
EV/Sales (x)	3.9	4.2	3.7

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	27.2	27.2	27.3
DII	11.0	10.4	9.4
FII	24.0	22.5	22.7
Others	37.8	39.9	40.7

FII includes depository receipts

- Laurus Lab (LAURUS) delivered a miss for 2QFY24 earnings, led by gradual traction in the CDMO segment. Subsequently, reduced operating leverage affected profitability as well for the quarter.
- We have cut our earnings estimate by 21%/4% for FY24/FY25 to factor in a) slower ramp-up in Non-ARV formulation (FDF) and API business, b) gradual improvement in the CDMO segment over the medium term and c) front-loading of operational cost. We value LAURUS at 24x 12M forward earnings to arrive at a price target of INR460.
- The earnings are expected to decline 37% YoY in FY24 due to a) a high base related to one-time purchase order executed in FY23, b) pricing pressure and lower volume off-take in the ARV segment over the past 12M and c) delay in commercial benefit from non-ARV formulation business. However, given the significant investment of INR30b over FY22-24E, robust order-book in the CDMO segment in place, and new launches in Non-ARV formulation segment, we expect FY25 to be much better than FY24. We reiterate our BUY rating on the stock.

Lower CDMO sales drags earnings on YoY basis

- LAURUS 2QFY24 revenues were down 22.3% YoY to INR12.2b (our est. INR13.1b). Synthesis business (18% of sales) was down 69% YoY to INR2.2b. This decline was due to a high base set in the previous year when a large purchase order was executed. API sales (51% of sales) declined 7.5% YoY to INR6.3b. Other API segment sales declined 38% YoY to INR1.4b. ARV API sales declined 9% YoY to INR3.7b. Onco API sales grew 2.5x YoY to INR1.2b. FDF sales grew 2x YoY to INR3.3b (27% of sales), due to a sharp rebound in ARV and increased non-ARV sales. Bio division sales (4% of sales) grew 44% YoY to INR390m.
- The Gross Margin (GM) contracted 260bp YoY to 52.5%, due to lower raw material cost and higher benefit from backward integration.
- EBITDA margin contracted from 28.5% to 15.3% (our est: 17.2%) due to lower operating leverage (other expenses/employee cost up 650bp/410p YoY as a percentage of sales).
- EBITDA declined 58% YoY to INR1.9b (Our est. INR2.3b).
- PAT declined at a higher rate of 84% YoY to INR370m (our est: INR730m) on account of higher depreciation/interest expense and lower 'other income'.
- For 1HFY24, Revenue/EBITDA/PAT declined 23%/61%/87% YoY to INR24b/INR3.5b/INR640m.

Highlights from the management commentary

- LAURUS reiterated that FY24 is the year of consolidation. The sales run-rate would improve as animal health contract, generics and biotech business are expected to scale up going forward.

Tushar Manudhane - Research Analyst (Tushar.Manudhane@MotilalOswal.com)

Research Analyst: Sumit Gupta (sumit.g@motilalosal.com) | Akash Manish Dobhada- (Akash.Dobhada@motilalosal.com)

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- Due to regulatory setback faced by competitors, the onco-API business has seen improved prospects. The sales run-rate observed in 2Q is expected to sustain in the coming quarters as well.
- The Non-ARV formulation sales stood at INR1.1b for the quarter, up 12% YoY.

Consolidated - Quarterly Earning Model

Y/E Mar (INRb)	(INRb)											
	FY23				FY24E				FY23	FY24E	FY24E	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		2QE		
Net Sales	15.4	15.8	15.4	13.8	11.8	12.2	14.2	17.5	60.4	55.7	13.1	-6.8
YoY Change (%)	20.4	30.9	50.2	-3.1	-23.2	-22.3	-8.3	26.4	22.4	-7.8	-16.6	
Total Expenditure	10.8	11.3	11.4	11.0	10.2	10.4	10.7	12.4	44.5	43.7	10.9	
EBITDA	4.5	4.5	4.0	2.9	1.7	1.9	3.5	5.0	15.9	12.0	2.3	-16.9
YoY Change (%)	14.9	30.1	41.5	-28.0	-63.3	-58.1	-14.0	75.5	11.9	-24.5	-49.7	
Margins (%)	29.5	28.5	26.1	20.7	14.1	15.3	24.5	28.7	26.4	21.6	17.2	
Depreciation	0.7	0.8	0.8	0.9	0.9	0.9	0.9	1.0	3.2	3.8	0.9	
EBIT	3.8	3.7	3.2	2.0	0.8	0.9	2.5	4.0	12.7	8.3	1.4	-30.0
YoY Change (%)	13.8	30.2	44.2	-40.0	-80.1	-74.3	-20.7	102.3	8.3	-34.9	-63.2	
Margins (%)	24.9	23.3	20.7	14.4	6.4	7.7	17.9	23.0	21.0	14.8	10.3	
Interest	0.3	0.4	0.4	0.5	0.4	0.4	0.4	0.5	1.7	1.8	0.4	
Other Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.0	
PBT before EO expense	3.6	3.3	2.8	1.5	0.4	0.5	2.2	3.5	11.1	6.6	1.0	-45.0
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	2.2	3.5	11.1	6.6	1.0	-45.0
Tax	1.0	0.9	0.7	0.4	0.1	0.1	0.5	0.8	3.1	1.7	0.2	
Rate (%)	29.0	28.7	26.9	27.1	30.0	27.0	25.2	24.0	28.2	25.0	25.5	
Reported PAT	2.5	2.3	2.0	1.1	0.3	0.4	1.6	2.7	8.0	4.9	0.7	-49.4
Adj PAT	2.5	2.3	2.0	1.1	0.3	0.4	1.6	2.7	8.0	4.9	0.7	-49.4
YoY Change (%)	4.5	14.6	31.0	-54.6	-89.4	-84.2	-20.7	154.3	-4.3	-38.2	-68.8	
Margins (%)	16.4	14.8	13.1	7.6	2.3	3.0	11.4	15.3	13.2	8.8	5.6	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	(INRb)											
	FY23				FY24E				FY23	FY24E	FY24E	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		2QE		
API	5.8	6.8	6.3	7.1	6.0	6.3	6.6	7.2	26.1	26.0	6.3	
YoY Change (%)	6.2	29.0	49.1	32.5	2.4	(7.5)	3.6	1.4	28.0	(0.2)	(7.1)	
Custom Synthesis	5.8	7.2	6.4	2.3	2.5	2.2	3.7	5.6	21.7	14.1	3.2	
YoY Change (%)	195.9	364.5	210.1	(36.7)	(56.7)	(68.9)	(42.4)	147.6	136.3	(35.0)	(55.6)	
Formulation	3.5	1.5	2.5	3.9	2.9	3.3	3.5	4.0	11.4	13.7	3.1	
YoY Change (%)	(33.0)	(69.9)	(33.2)	(20.0)	(18.3)	122.8	40.6	2.0	(39.4)	20.0	108.1	
Cost Break-up												
RM Cost (% of Sales)	42.4	44.9	46.6	50.3	49.4	47.5	46.0	45.9	45.9	47.0	49.8	
Staff Cost (% of Sales)	9.9	9.3	9.5	9.7	13.5	13.4	10.5	9.3	9.6	11.4	12.0	
R&D Expenses(% of Sales)	3.2	3.1	3.6	3.5	4.1	4.7	3.9	2.8	2.8	3.1	3.7	
Other Cost (% of Sales)	18.2	17.3	17.8	19.3	22.9	23.8	19.0	16.1	18.1	20.0	21.0	
Gross Margins(%)	57.6	55.1	53.4	49.7	50.6	52.5	54.0	54.1	54.1	53.0	50.2	
EBITDA Margins(%)	29.5	28.5	26.1	20.7	14.1	15.3	24.5	28.7	26.4	21.6	17.2	
EBIT Margins(%)	24.9	23.3	20.7	14.4	6.4	7.7	17.9	23.0	21.0	14.8	10.3	

E: MOFSL Estimates

Other highlights from the management commentary

- The ARV business (FDF+API) formed 49% of 2QFY24 sales. The Non-ARV formulation sales stood at INR1.1b for the quarter.
- With marketing approval granted by CDSCO for CAR-T cell therapy, LAURUS intends to file for the Mexico market. LAURUS also has work-in-progress for a licensing deal specifically targeted for the EU market.
- LAURUS expects the bio division to generate INR900m in revenue for 2HFY24.



- In 1HFY24, the company has filed 1 ANDA. 1HFY24 Developed Market filings: 5 product dossiers were filed and a total of 4 approvals received (including Tentative approvals).
- LAURUS filed 3 DMFs during the quarter in the non ARV segment.
- Capex for the quarter stood at INR1.8b and for 1HFY24, it was INR3.8b.
- Commercial Validation of Products at Animal health site will be initiated in 2HFY24. R&D site will be ready by FY24.
- The capacity for biotech business is optimized and commercial benefit is expected from Dec'23.

Key exhibits

Exhibit 1: Revenue declined 22% YoY in 2QFY24

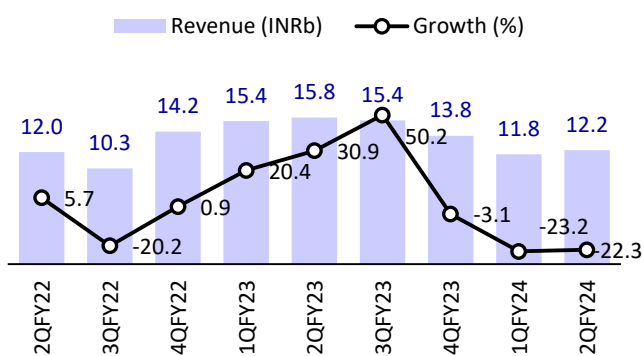


Exhibit 2: Share of FDF sales stood at 28% in 2QFY24

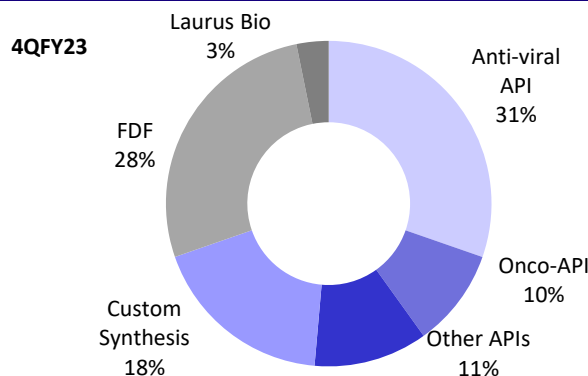


Exhibit 3: API sales grew 7.5% YoY in 2QFY24

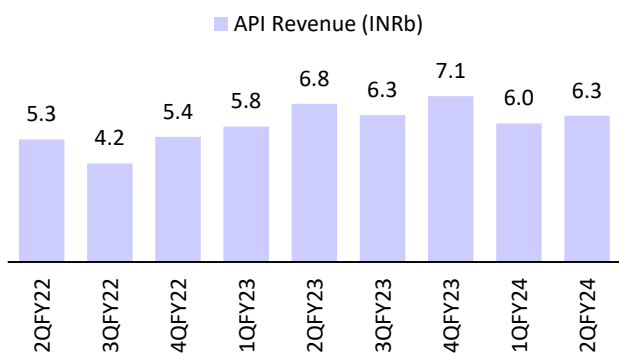


Exhibit 4: ARV-API sales declined 9% YoY in 2QFY24

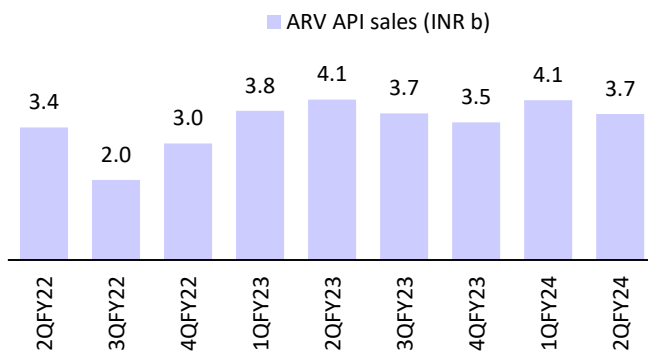
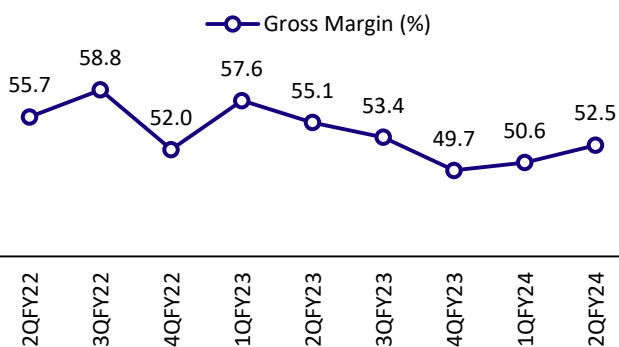
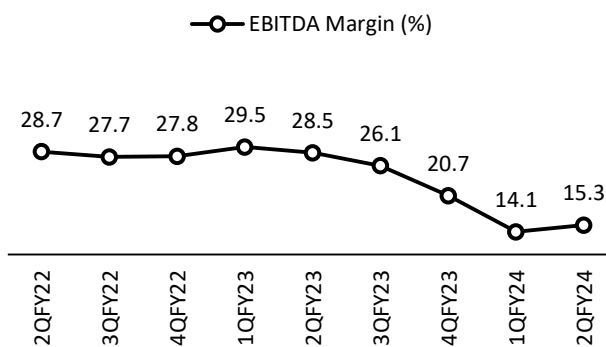


Exhibit 5: Gross margin contracted ~250bp YoY in 2QFY24



Source: MOFSL, Company

Exhibit 6: EBITDA margin contracted ~1,320bp YoY in 2QFY24



Source: MOFSL, Company

WIP on new capacity to lead growth in medium term

CDMO: Efforts underway to add capabilities, garner newer contract, and scale up existing contracts

- In 1HFY24, the CDMO sales declined 63% YoY to INR5b. This was due to the high base of last year, led by large PO executed in 1HFY23.
- However, accelerating demand on baseline projects and commercial validation of Animal health product would aid growth in the coming quarters.
- Additionally, new R&D lab is coming online by the end of FY24. Commercial manufacturing by the end of 2HFY25 would further boost the CDMO business.
- With an ongoing supply for 10 commercial API projects, LAURUS is working on 60 current projects at different levels of development.
- Adjusting for one-time purchase order in FY23, we expect 21% sales CAGR in the CDMO segment to reach INR17b over FY23-25.

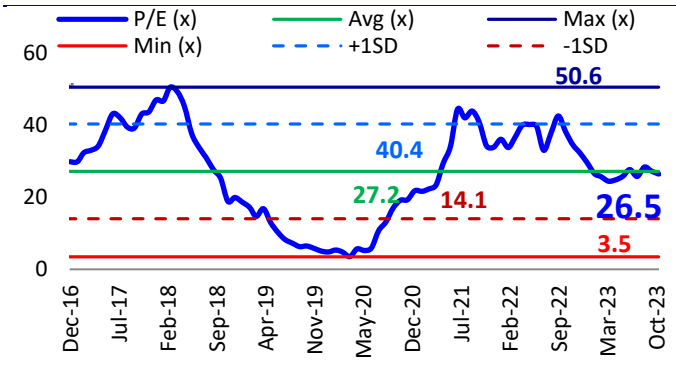
New product launches/new contracts to fuel growth in FDF/API segment

- In 1HFY24, ARV formulation business grew 31% YoY to INR4b as the ARV segment witnessed a sharp recovery, supported by price growth and increase in volumes in the developed market. While the ARV API segment witnessed a slight decline of 1% as lower realization was offset by increased volumes.
- We expect ARV (FDF and API) sales to remain flat over FY23-25 to INR25b as pricing pressure would keep growth under check.
- In 1HFY24, the Non-ARV FDF sales grew 11.6% to INR2b due to enhanced contracts from Europe and NA. However, in the Non ARV API segment, the company registered a decline of 5.7% due to shipment issues. This decrease was offset by better traction in the oncology API business.
- We expect Non ARV segment (FDF and API) sales to register a growth of 25% over FY23-25 to INR19b, due to favorable demand, healthy order book, and new approvals.

Reiterate Buy

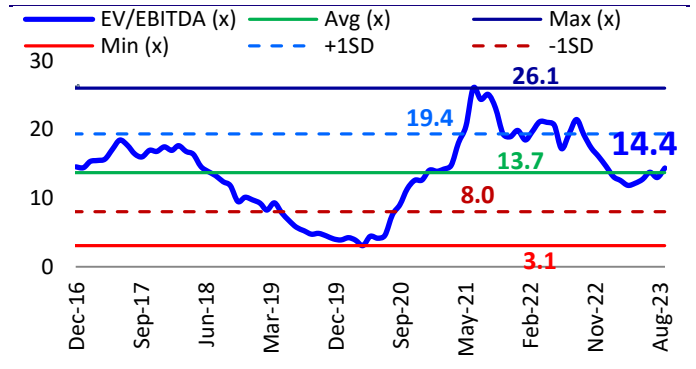
- We have cut our earnings estimate by 21%/4% for FY24/FY25 to factor in a) slower ramp-up in Non-ARV formulation and API business, b) gradual improvement in the CDMO segment over the medium term, and c) front-loading of operational cost. We value LAURUS at 24x 12M forward earnings to arrive at a price target of INR460.
- The earnings are expected to decline 36% YoY in FY24 due to a) a high base related to one-time purchase order executed in FY23, b) pricing pressure and lower volume off-take in the ARV segment over the past 12M and c) delay in commercial benefit from non-ARV formulation business. However, given the significant investment of INR30b over FY22-24, robust order-book in the CDMO segment in place, new launches in the Non-ARV formulation segment, we expect FY25 to be much better than FY24. We reiterate our BUY rating on the stock.

Exhibit 7: P/E chart



Source: MOFSL, Company, Bloomberg

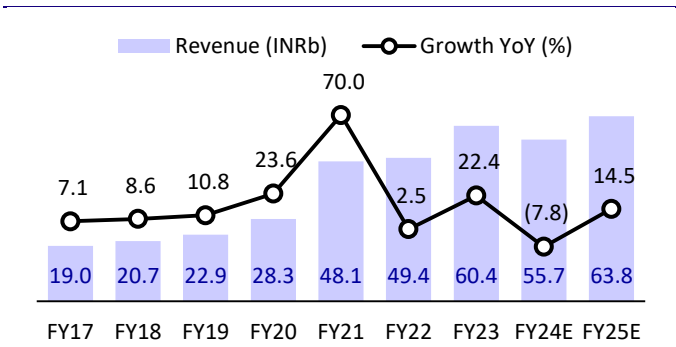
Exhibit 8: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

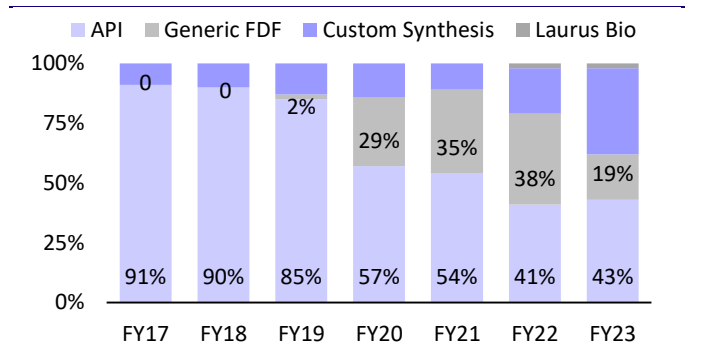
Story in charts

Exhibit 9: Sales CAGR to be 3% over FY23-25



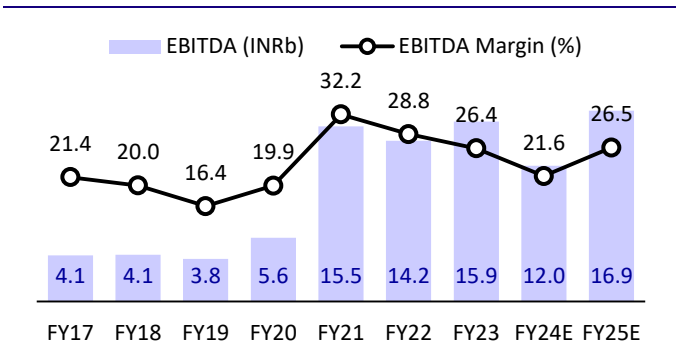
Source: MOFSL, Company

Exhibit 10: Diversified revenue mix



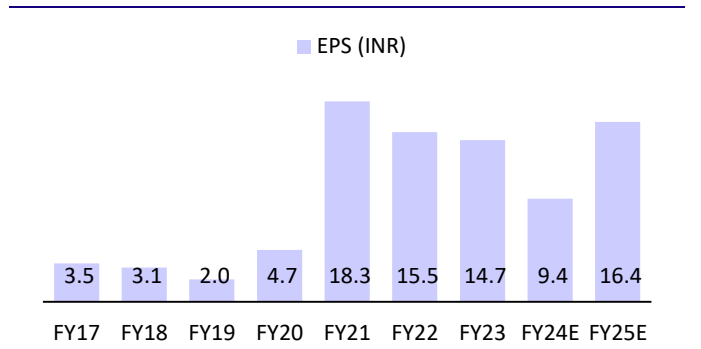
Source: MOFSL, Company

Exhibit 11: EBITDA CAGR to be 3% over FY23-25



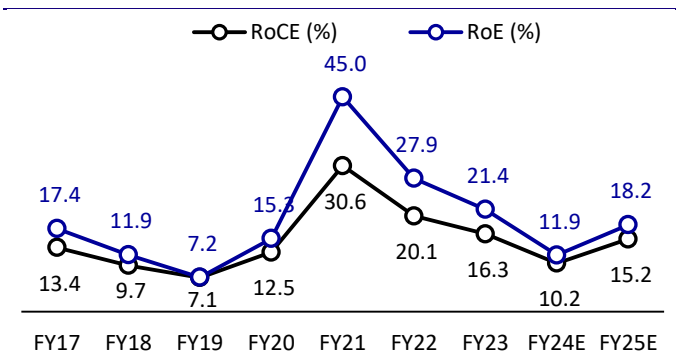
Source: MOFSL, Company

Exhibit 12: EPS CAGR to be 6% over FY23-25



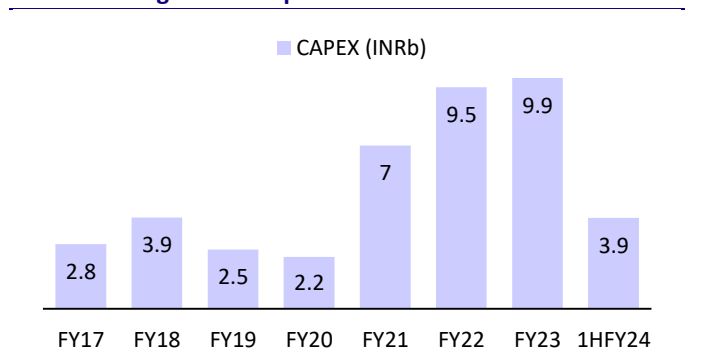
Source: MOFSL, Company

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	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	20,690	22,919	28,317	48,135	49,356	60,406	55,687	63,782
Change (%)	8.6	10.8	23.6	70.0	2.5	22.4	-7.8	14.5
Total Expenditure	16,557	19,155	22,672	32,628	35,131	44,483	43,659	46,306
% of Sales	80.0	83.6	80.1	67.8	71.2	73.6	78.4	72.6
EBITDA	4,133	3,764	5,645	15,507	14,224	15,923	12,028	17,476
Margin (%)	20.0	16.4	19.9	32.2	28.8	26.4	21.6	27.4
Depreciation	1,255	1,642	1,873	2,051	2,515	3,241	3,774	3,826
EBIT	2,879	2,122	3,773	13,456	11,709	12,682	8,254	13,650
Int. and Finance Charges	796	882	896	682	1,024	1,652	1,786	1,697
Other Income	292	162	59	237	153	60	150	172
PBT bef. EO Exp.	2,374	1,402	2,936	13,011	10,839	11,090	6,619	12,126
EO Items	0	-204	0	0	0	0	0	0
PBT after EO Exp.	2,374	1,198	2,936	13,011	10,839	11,090	6,619	12,126
Total Tax	698	260	383	3,173	2,514	3,123	1,657	3,007
Tax Rate (%)	29.4	21.7	13.1	24.4	23.2	28.2	25.0	24.8
Minority Interest	0	0	0	0	2	32	34	35
Reported PAT	1,676	938	2,553	9,838	8,322	7,965	4,923	9,083
Adjusted PAT	1,676	1,097	2,553	9,838	8,322	7,965	4,923	9,083
Change (%)	-11.9	-34.5	132.6	285.4	-15.4	-4.3	-38.2	84.5
Margin (%)	8.1	4.8	9.0	20.4	16.9	13.2	8.8	14.2

Consolidated - Balance Sheet								(INRm)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	1,060	1,064	1,069	1,073	1,075	1,077	1,077	1,077
Total Reserves	13,766	14,520	16,629	24,902	32,437	39,298	43,459	51,123
minority interest				32	79	111	111	111
Net Worth	14,826	15,584	17,698	26,007	33,591	40,487	44,647	52,312
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	9,649	10,030	10,123	13,871	17,320	21,006	21,506	22,006
Deferred Tax Liabilities	-529	-534	-739	192	691	825	825	825
Capital Employed	23,946	25,081	27,081	40,070	51,602	62,317	66,978	75,142
Gross Block	17,851	20,976	23,821	27,949	35,283	46,085	55,241	64,323
Less: Accum. Deprn.	3,141	4,783	6,655	8,706	11,221	14,462	18,236	22,062
Net Fixed Assets	14,711	16,193	17,166	19,243	24,062	31,623	37,005	42,260
Goodwill on Consolidation	97	97	97	2,463	2,463	2,463	2,463	2,463
Capital WIP	1,632	1,096	672	3,622	8,132	5,508	5,852	5,570
Total Investments	34	34	34	34	308	993	993	993
Curr. Assets, Loans&Adv.	13,165	15,357	18,589	32,145	34,715	36,017	34,461	39,303
Inventory	5,848	6,819	9,052	15,755	17,603	16,848	15,789	17,381
Account Receivables	5,706	7,099	7,914	13,061	13,542	15,804	14,799	17,125
Cash and Bank Balance	31	30	17	485	759	485	1,218	1,756
Loans and Advances	1,580	1,408	1,605	2,845	2,811	2,880	2,655	3,041
Curr. Liability & Prov.	5,692	7,697	9,477	17,437	18,079	14,287	13,796	15,447
Account Payables	3,123	4,883	6,156	11,787	8,764	7,107	7,177	7,866
Other Current Liabilities	2,316	2,449	2,753	4,894	7,753	6,165	5,683	6,509
Provisions	253	365	568	757	1,562	1,016	936	1,072
Net Current Assets	7,473	7,660	9,112	14,708	16,637	21,730	20,665	23,856
Appl. of Funds	23,946	25,081	27,081	40,070	51,602	62,317	66,978	75,142

Financials and valuations

Ratios								
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	3.1	2.0	4.7	18.3	15.5	14.8	9.1	16.9
Cash EPS	5.4	5.1	8.2	22.1	20.1	20.8	16.1	24.0
BV/Share	27.5	28.9	32.9	48.3	62.4	75.2	82.9	97.1
DPS	0.0	0.3	0.6	2.0	2.0	1.9	1.2	2.2
Payout (%)	0.0	20.4	15.1	13.1	15.6	15.6	15.6	15.6
Valuation (x)								
P/E	128.6	196.3	84.4	21.9	25.9	27.1	43.8	23.7
Cash P/E	73.5	78.7	48.7	18.1	19.9	19.2	24.8	16.7
P/BV	14.5	13.8	12.2	8.3	6.4	5.3	4.8	4.1
EV/Sales	10.9	9.8	8.0	4.8	4.7	3.9	4.2	3.7
EV/EBITDA	54.5	59.9	40.0	14.8	16.3	14.8	19.6	13.5
Dividend Yield (%)	0.0	0.1	0.1	0.5	0.5	0.5	0.3	0.5
FCF per share	-1.0	0.7	2.0	0.9	0.6	0.1	5.0	5.6
Return Ratios (%)								
RoE	11.9	7.2	15.3	45.0	27.9	21.5	11.6	18.7
RoCE	9.7	7.1	12.5	30.6	20.1	16.3	9.9	14.8
RoIC	9.7	7.2	13.0	32.7	23.0	18.6	10.8	16.3
Working Capital Ratios								
Fixed Asset Turnover (x)	1.2	1.1	1.2	1.7	1.4	1.3	1.0	1.0
Asset Turnover (x)	0.9	0.9	1.0	1.2	1.0	1.0	0.8	0.8
Inventory (Days)	103	109	117	119	130	102	103	99
Debtor (Days)	101	113	102	99	100	95	97	98
Creditor (Days)	55	78	79	89	65	43	47	45
Leverage Ratio (x)								
Current Ratio	2.3	2.0	2.0	1.8	1.9	2.5	2.5	2.5
Interest Cover Ratio	3.6	2.4	4.2	19.7	11.4	7.7	4.6	8.0
Net Debt/Equity	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.4

Consolidated - Cash Flow Statement								(INRm)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	2,374	1,198	2,936	13,011	10,839	11,089	6,619	12,126
Depreciation	1,255	1,642	1,873	2,051	2,515	3,241	3,774	3,826
Interest & Finance Charges	505	720	837	579	862	1,455	1,635	1,525
Direct Taxes Paid	-698	-260	-383	-2,285	-1,823	-2,855	-1,655	-3,007
(Inc)/Dec in WC	-226	-187	-1,465	-5,941	-3,416	-3,153	1,799	-2,653
CF from Operations	3,209	3,113	3,797	7,415	8,977	9,778	12,173	11,817
Others	216	-136	-323	-85	135	161	0	0
CF from Operating incl EO	3,425	2,977	3,474	7,330	9,111	9,939	12,173	11,817
(Inc)/Dec in FA	-3,962	-2,589	-2,421	-6,839	-8,767	-9,875	-9,500	-8,800
Free Cash Flow	-537	387	1,053	491	344	64	2,673	3,017
(Pur)/Sale of Investments	0	0	0	-2,584	-393	-223	0	0
Others	120	60	210	13	17	137	150	172
CF from Investments	-3,842	-2,529	-2,211	-9,410	-9,143	-9,961	-9,350	-8,628
Issue of Shares	3	4	5	74	43	74	0	0
Inc/(Dec) in Debt	1,278	429	139	3,804	1,968	2,138	500	500
Interest Paid	-796	-882	-896	-580	-850	-1,404	-1,786	-1,697
Dividend Paid	0	-191	-384	-750	-859	-1,075	-770	-1,418
Others	-62	193	-140	0	5	13	-34	-35
CF from Fin. Activity	422	-448	-1,277	2,547	307	-253	-2,089	-2,651
Inc/Dec of Cash	6	0	-14	467	275	-275	734	538
Opening Balance	23	29	28	15	483	757	482	1,217
Closing balance	29	28	15	483	757	482	1,217	1,757
Bank balance	2	2	2	2	2	2	1	-1
Total Cash and Cash equivalent	31	30	17	485	759	485	1,218	1,756

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NOTES

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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