

Laurus Labs Ltd



Laurus Labs Ltd

Momentum in FDF, Bio and Oncology APIs strong, to aid in growth

CMP INR 379	Target INR 424	Potential Upside 12%	Market Cap (INR Mn) INR 2,03,999	Recommendation ACCUMULATE	Sector Pharmaceuticals
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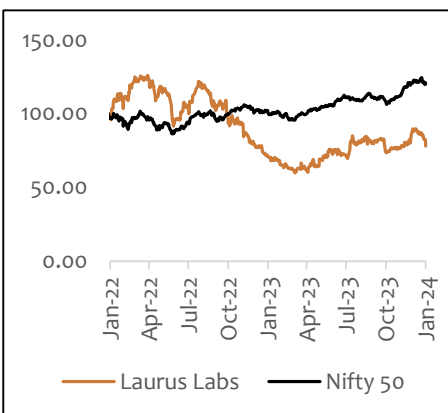
Result Highlights for Q3FY24:

- Laurus Labs' revenue declined 22.6% Y-o-Y (-2.4% Q-o-Q) to Rs. 11,949 Mn (vs. our estimate of Rs. 12,669, miss of 5.7%) in Q3FY24. The generic API sales declined at 9.2% Y-o-Y (-8.7% Q-o-Q) to Rs. 5,740 Mn (vs. our estimate of Rs. 6,627 Mn, a miss 13.4%) due to high base effect as anticipated with the loss of Paxlovid opportunity in the current period, that took place during Q4FY22-Q3FY23.
- Generic API largely declined due to 6.1% Y-o-Y (-5.7% Q-o-Q) decline in ARV APIs (61% of generic APIs, miss of 10.1%) and a 24.8% Y-o-Y (-0.4% Q-o-Q) decline in other APIs (24% of generic API, miss of 9.5%) revenue; partially offset by 13.5% Y-o-Y (-28.0% Q-o-Q) rise in Oncology API revenue (15% of generic APIs, miss of 52.0%).
- Laurus Labs' gross profits declined 21.3% Y-o-Y (+1.0% Q-o-Q) to Rs. 6,495 Mn (vs. our estimate of Rs. 6,335 Mn, beat of 2.5%) in Q3FY24, in line with the revenue decline. At the same time, Gross Profits Margins (GPMs) rose by 92 bps Y-o-Y (+181 bps Q-o-Q, a beat 436 bps) to 54.4% led by improved products mix favoring high value FDF segment in Q3FY24.

MARKET DATA

Shares outs (Mn)	539
Mkt Cap (INR Mn)	2,03,999
52 Wk H/L (INR)	445/279
Volume Avg (3m K)	2,120
Face Value (INR)	2
Bloomberg Code	LAURUS IN Equity

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	70,701
NIFTY	21,353

KEY FINANCIALS

INR Millions	FY22	FY23	FY24E	FY25E	FY26E
Revenue	49,356	60,406	50,464	61,900	82,941
EBITDA	14,224	15,922	7,652	9,285	16,588
PAT	8,275	7,901	1,586	2,333	7,675
EPS (INR)	15.4	14.7	2.9	4.3	14.1
EBITDA Margin	28.8%	26.4%	15.2%	15.0%	20.0%
NPM	16.8%	13.1%	3.1%	3.8%	9.3%
PE	24.0x	25.2x	126.8x	86.2x	26.2x

Source: Company, KRChoksey Research

Revenue growth lags estimates due to underperformance in generic API segment: Laurus Labs' revenue declined 22.6% Y-o-Y (-2.4% Q-o-Q) to Rs. 11,949 Mn (vs. our estimate of Rs. 12,669, miss of 5.7%) in Q3FY24. The generic API sales declined at 9.2% Y-o-Y (-8.7% Q-o-Q) to Rs. 5,740 Mn (vs. our estimate of Rs. 6,627 Mn, a miss 13.4%) due to high base effect as anticipated with the loss of Paxlovid opportunity in the current period, that took place during Q4FY22-Q3FY23. Generic API largely declined due to 6.1% Y-o-Y (-5.7% Q-o-Q) decline in ARV APIs (61% of generic APIs, miss of 10.1%) and a 24.8% Y-o-Y (-0.4% Q-o-Q) decline in other APIs (24% of generic API, miss of 9.5%) revenue; partially offset by 13.5% Y-o-Y (-28.0% Q-o-Q) rise in Oncology API revenue (15% of generic APIs, miss of 52.0%). The decline in generic API was due to client induced delayed shipments and subdued pricing environment. ARV APIs continue to experience steady volumes growth though. Custom synthesis (CDMO) segment witnessed 67.0% Y-o-Y (-5.4% Q-o-Q) decline in revenue (18.0% of total revenue, a beat of 4.0%) as anticipated with the loss of a paxlovid supply opportunity that added to sales during Q4FY22-Q3FY23. Similarly, generic FDF revenue (31% of sales, in line with the estimates) increased at 47.4% Y-o-Y (+10.5% Q-o-Q) driven by ongoing improvement in the ARV segment, stable pricing Q-o-Q and increased volumes from the developed markets. Bio segment revenue (3.5% of revenue, beat of 19.7%) increased at 90.9% Y-o-Y (+7.7% Q-o-Q) led by growth in CDMO segment's customer base.

Growth projects and investments in new technologies led to decline in operating and net profitability: Laurus Labs' gross profits declined 21.3% Y-o-Y (+1.0% Q-o-Q) to Rs. 6,495 Mn (vs. our estimate of Rs. 6,335 Mn, beat of 2.5%) in Q3FY24, in line with the revenue decline. At the same time, Gross Profits Margins (GPMs) rose by 92 bps Y-o-Y (+181 bps Q-o-Q, a beat 436 bps) to 54.4% led by improved products mix favoring high value FDF segment in Q3FY24. However, due to far higher than anticipated increase in employee and other expenses led to 55.0% Y-o-Y (-3.4% Q-o-Q) decline in EBITDA to Rs. 1,814 Mn (vs. our estimate of Rs. 2,534 Mn, a miss of 28.4%) and 10.9 points Y-o-Y (-16 bps Q-o-Q) decline in EBITDA margins to 15.2% (a miss of 480 bps) in Q3FY24. The EBITDA margins were impacted due to higher upfront expenses on growth projects and new technology initiatives. In addition, far higher finance costs than anticipated led to 88.6% Y-o-Y (-37.4% Q-o-Q) decline in net income to Rs. 231 Mn (vs. our estimate of Rs. 847 Mn, a miss of 73%)

SHARE HOLDING PATTERN (%)

Particulars	Dec-23 (%)	Sep-23 (%)	Jun-23 (%)
Promoters	27.2	27.2	27.2
FIIIs	25.4	24.0	22.5
DIIIs	11.1	11.0	10.4
Others	36.3	37.8	39.9
Total	100.0	100.0	100.0

11.1%

Revenue CAGR between FY23 and FY26E

-1.0%

PAT CAGR between FY23 and FY26E

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Key Concall Highlights:

- **Revenue growth outlook:** The company experienced softer CDMO and other APIs revenue due to volatility associated with timing of several customer contracts. Nevertheless, the volume trend remains upbeat across all its businesses. The company expects that there will be recovery in earnings from Q4FY24 onwards on the back of healthy order book and strong commercial execution from next quarter. In Q3FY24, excluding CDMO related Paxlovid opportunity revenue, the underlying business grew at 11.0% Y-o-Y and 6% in 9MFY24 and Q3FY24, respectively. Overall growth is likely to come from oncology API and other APIs, CMO, CDMO and Bio businesses.
- **FDF segment:** FDF sales was driven by consistent recovery in value and rise in direct market sales. Overall market volumes have remained stable along with stable pricing. The company is gaining market share in the products it is selling with increased volumes in the US. The company has several products under launch preparation for Q4FY24. That is expected to ensure utilization of its brownfield expansion of FDF capacity optimally from Q4FY24 onwards due to increased sales from partnered portfolio, new launches scheduled for Q4FY24, and stabilization in the ARV volumes. The company has filed 39 products till date of which 16 have been approved and 14 have been given tentative approvals in the US. Of these, 16 are para IV filings. In Canada, the company has 21 filings with 14 product approvals and 9 commercial launches. Similarly, for the EU market, the company has 18 filings, 14 product approvals and 6 commercial launches. The company is leveraging its existing Contract Manufacturing Organization (CMO) relationships and discussing additional opportunities with new customers to drive sales in the coming quarters. Less than 20% of FDF facility or 2 Bn dosages or rather 1.5 Bn dosages will be used for ARVs. And from the remaining 5 Bn capacity, the company expects to use it for new launches in the US and increased demand coming from CMO partner in Europe and hence the capacity is expected to be utilized optimally over the next 2 quarters.
- **ARV segment:** The company remains committed to stabilize its ARV franchise business in FY24 and beyond. The company has started supplies for recently bagged NACO tender that is expected to ensure volumes' growth in the coming quarters. The current order book looks promising for ARV APIs as it continues to maintain a leading market share in the first line HIV treatments.
- **Generic API:** The company's other APIs comprising of cardiovascular, diabetes, and asthma remained muted. This was due to delayed shipment from clients and subdued pricing. The company anticipates better revenue growth from Q4FY24 onwards owing to scheduled delivery of some of its CMO contracts. For 9MFY24 the company has filed 4 DMFs including 3 in non ARV therapy areas indicative of the diversification efforts on the part of the company in non ARV area. As of date, the company has filed 83 DMFs.
- **CDMO segment:** The project pipeline continues to scale up with its existing and new customers. The company is seeing strong traction from big pharma and leading biotech. The segment has 60 active projects under R&D with commercial supplies ongoing for 10 products including for APIs and intermediates. The crop science unit is under construction and its animal health unit has started with validation batches supplies and scaling it up as well. The animal health unit is contracted fully to one big pharma company and has the ability to handle steroids, hormones, hypertonic molecules besides large volume products. The dedicated R&D center is likely to be commissioned by the end of FY24 which can support its new business opportunity. Its NCE related synthesis is also expected to drive growth. Its Animal Health (LSPL -U2) facility has begun the commercial activities in Q3FY24 (Oct 23). However, its revenue was miniscule in Q3FY24 and is likely to pick up gradually from Q4FY24. However, it has been delayed by a couple of quarters due to delay in qualification of the facility and some delay in validation. Animal health is expected to get to stable mode in the next 3 years. The peak revenue for Animal Health are likely in FY26 as the company has to validate 20 APIs from the site. Currently, 3rd product validation is underway there and is expected to be completed in April 2026. Out of the validated products, 1 product will go in commercial scale sales in FY25 and the second products' order will come by the end of FY25.
- **Bio segment:** The company is witnessing strong momentum led by increase in customer base at CDMO. The company intends to grow its enzymes engineering and production capabilities in small molecule, clinical and commercial projects to augment its products pipeline using green chemistry. Downstream processing at R2 is now operational increasing its capacity by 20% which is likely to achieve its peak sales in FY25E. The company has gained the environmental clearance for its greenfield R3 facility whose construction is likely to begin in Q4FY24 with a target to install up to 2 Mn liters of fermentation capacity in a phased manner. In the first phase, the company will be adding 700,000 – 800,000 ltr of fermentation capacity and will come up in the next 24 months and the next phase will come up within 12 months of the 1st phase. The demand for fermentation based products and capacity expansion in Bio segment will drive demand for APIs and CDMO services as well.
- **R&D Spend:** R&D spend was at 4.8% of sales for 9MFY24. The R&D spend has been higher in line with its enhanced pipeline of products and additional initiatives in gene therapy assets. The company has in total 61 products in the pipeline either under review or under development. The company has filed 13 ANDAs in the US, 18 JCFs in Europe, 21 in Canada, 9 with WHO, 8 dossiers in South Africa and 1 in Australia while 20 dossiers were filed in India and 23 others in RoW market. The R&D spend is expected to be around 4.5% of sales in FY24.
- **Regulatory compliance:** For 9MFY24 a total of 97 quality audits were performed including several customer audits. To date, since inception, the company has successfully passed 96 regulatory audits, including 45 quality audits from major global regulatory agencies like USFDA and WHO.
- **Profitability:** The company has seen improvement in gross profitability in line with its guidance and improvements in several areas including in ARVs. The EBITDA and net profitability suffered due to operating de-leverage and lower CDMO business. The company believes that as sales volumes pick up the EBITDA margins can improve to around 20%. Gross profitability is expected to be around 54%. As the CDMO segment starts contributing to growth it can improve EBITDA margins in FY25E.
- **Capex:** The company has invested Rs. 1,910 Mn in Q3FY24 and for 9MFY24 it has been at Rs. 5,760 Mn which is majorly for synthesis and bio divisions. The gross block is expected to be around Rs. 60,000 Mn in FY24. The company has been investing into high growth segments like CDMO, animal health, crop sciences and disruptive therapies like cell and gene therapy and also into new age precision fermentation at Bio. These have added to the cost structure significantly. In Bio business the company expects to deliver Rs. 500 Mn of EBITDA in FY24E. ImmunoAct is expected to turn profitable in Q4FY24E. In case of Animal Health the company expects 12 months for the unit to turn profitable while crop sciences will take 18 months for the same. The company has invested Rs. 30,000 Mn in the last 3-4 years.
- **T-Car Cell therapy:** The company has started enrolling patients for the T-Car cell therapies and expects it to turn profitable from Q4FY24.

Valuation and view:

Laurus Labs is expected to see continued traction from oncology and ARV APIs, FDF, and Bio Businesses while CDMO business may continue to decline in Q4FY24 and in H1FY25E due to delay in Animal health business' realization in a meaningful way. The Animal Health is expected to clock in peak revenue in FY26E only. In addition, as it underperformed our estimates on profitability front in Q3FY24, we cut down its EPS estimates by 54.4%/54.8%/8.9% for FY24E/FY25E/FY26E, respectively. **Nevertheless, we expect the company to see a Revenue/ EBITDA/ PAT CAGR of 11.1%/ 1.4%/-1.0%, respectively over FY23-FY26E. The stock is trading at 129.9x/88.3x/26.8x our FY24E/FY25E/FY26 EPS. We apply a multiple of 30.0x (earlier 26.0x) on FY26E EPS of INR 14.1 (earlier Rs. 15.5) and arrive at a revised target price of INR 424, (earlier Rs. 403) implying an upside of 12.0% from the CMP. Accordingly, we maintain our "ACCUMULATE" rating on the shares of Laurus Labs Ltd. The increased multiple is to account for its high likelihood to get back to improved margins in FY25E itself as other APIs normalizes, and animal health and crop protection starts realizing ahead of our estimates.**

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KEY FINANCIALS

Exhibit 1: Revenue Segments

Segment-wise Revenue (INR Mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Total	15,450	13,810	11,820	12,240	11,950
Generic API	6,320	7,140	5,970	6,290	5,740
Antiretroviral (ARV) API	3,729	3,499	4,060	3,711	3,501
Oncology API	758	1,285	537	1,195	861
Other API	1,833	2,356	934	1,384	1,378
Custom Synthesis	6,420	2,280	2,500	2,240	2,120
Generic FDF	2,490	3,930	2,850	3,320	3,670
Bio	220	460	500	390	420

Segment-wise Growth YoY (%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Total	50.1%	-3.1%	-23.2%	-22.3%	-22.7%
Generic API	49.1%	32.5%	2.4%	-7.5%	-9.2%
Antiretroviral (ARV) API	50.1%	18.0%	7.1%	-7.5%	-6.1%
Oncology API	50.1%	83.4%	-16.2%	119.7%	13.5%
Other API	35.1%	36.6%	-33.3%	-38.3%	-24.8%
Custom Synthesis	210.1%	-36.7%	-56.7%	-68.9%	-67.0%
Generic FDF	-33.2%	-20.0%	-18.3%	122.8%	47.4%
Bio	-12.0%	31.4%	66.7%	44.4%	90.9%

Segment-wise Contribution (%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Generic API	40.9%	51.7%	50.5%	51.4%	48.0%
Antiretroviral (ARV) API	24.1%	25.3%	34.3%	30.3%	29.3%
Oncology API	4.9%	9.3%	4.5%	9.8%	7.2%
Other API	11.9%	17.1%	7.9%	11.3%	11.5%
Custom Synthesis	41.6%	16.5%	21.2%	18.3%	17.7%
Generic FDF	16.1%	28.5%	24.1%	27.1%	30.7%
Bio	1.4%	3.3%	4.2%	3.2%	3.5%

Source: Company, KRChoksey Research

Exhibit 2: Profit & Loss Statement

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Revenues	49,356	60,406	50,464	61,900	82,941
COGS	21,938	27,743	23,701	29,712	38,153
Gross profit	27,418	32,662	26,763	32,188	44,788
Employee cost	5,015	5,806	6,595	8,047	9,953
Other expenses	8,178	10,934	12,517	14,856	18,247
EBITDA	14,224	15,922	7,652	9,285	16,588
EBITDA Margin	28.8%	26.4%	15.2%	15.0%	20.0%
Depreciation & amortization	2,515	3,241	3,840	4,698	5,221
EBIT	11,709	12,681	3,811	4,587	11,367
Interest expense	1,024	1,652	1,771	1,928	2,067
Other income	153	60	102	433	581
PBT	10,839	11,089	2,142	3,092	9,881
Tax	2,514	3,123	457	659	2,106
PAT	8,275	7,901	1,586	2,333	7,675
EPS (INR)	15.4	14.7	2.9	4.3	14.1

Source: Company, KRChoksey Research

Exhibit 3: Cash Flow Statement

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Cash Generated From Operations	9,111	9,939	14,809	5,596	8,727
Net Cash Flow from/(used in) Investing Activities	(9,143)	(9,961)	(8,937)	(5,859)	(7,968)
Net Cash Flow from Financing Activities	303	(266)	(143)	(300)	(438)
Net Inc/Dec in cash equivalents	270	(288)	5,729	(563)	320
Opening Balance	484	753	456	6,185	5,622
Adjustment	(1)	(9)	1	1	1
Closing Balance Cash and Cash Equivalents	753	456	6,186	5,623	5,943

Source: Company, KRChoksey Research

Laurus Labs Ltd

Exhibit 4: Balance Sheet

INR Millions	FY22	FY23	FY24E	FY25E	FY26E
Total non-current assets	36,234	41,987	47,009	48,095	50,767
Current assets					
Inventories	17,603	16,848	17,301	21,689	27,851
Trade receivables	13,542	15,804	13,692	16,796	22,505
Cash and cash equivalents	754	457	6,186	5,623	5,943
Bank balances other than above	6	28	28	28	28
Loans	6	10	10	10	10
Other financial assets	20	163	136	167	224
Other current assets + Current Tax Assets	1,516	1,307	1,092	1,339	1,794
Total current assets	33,446	34,617	38,445	45,651	58,355
TOTAL ASSETS	69,680	76,604	85,454	93,747	109,122
EQUITY AND LIABILITIES					
Equity					
Equity share capital	1,075	1,077	1,077	1,077	1,077
Other equity	32,437	39,298	40,884	43,217	50,892
Equity attributable to the equity shareholders	33,512	40,375	41,961	44,294	51,970
Non-controlling interests	79	111	114	116	119
Total equity	33,591	40,487	42,075	44,410	52,088
Liabilities					
Total non-current liabilities	9,280	11,795	13,446	15,096	16,747
Current liabilities					
Financial liabilities					
Borrowings	11,357	12,106	12,106	12,106	12,106
Trade payables	8,764	7,107	12,944	16,227	20,837
Other financial liabilities	3,057	1,980	2,617	3,281	4,214
Other current liabilities	3,091	2,280	1,416	1,775	2,279
Provisions	165	201	201	201	201
Current tax liabilities (Net)	377	650	650	650	650
Total current liabilities	26,810	24,323	29,933	34,240	40,286
Total liabilities	36,090	36,117	43,379	49,336	57,033
TOTAL EQUITY AND LIABILITIES	69,680	76,604	85,454	93,746	109,121

Source: Company, KRChoksey Research

Exhibit 5: Key Ratios

Key Ratio	FY22	FY23	FY24E	FY25E	FY26E
EBITDA Margin (%)	28.8%	26.4%	15.2%	15.0%	20.0%
Tax rate (%)	23.2%	28.2%	21.3%	21.3%	21.3%
Net Profit Margin (%)	16.8%	13.1%	3.1%	3.8%	9.3%
RoE (%)	24.6%	19.5%	3.8%	5.3%	14.7%
RoCE (%)	23.0%	21.1%	6.0%	6.8%	14.8%
Current Ratio (x)	1.25	1.42	1.28	1.33	1.45

Source: Company, KRChoksey Research

Laurus Labs Ltd

Granules India Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
24-Jan-24	370	381	HOLD
01-Dec-23	380	404	ACCUMULATE

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

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 CIN-U67120MH1997PTC108958
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