

Q2FY25 Laurus Labs Ltd



Laurus Labs Ltd.

Lower utilization and operating leverage impacted profitability

CMP* INR 464	Target INR 489	Potential Upside 5.4%	Market Cap (INR Mn) INR 250,970	Recommendation ACCUMULATE	Sector Pharmaceuticals
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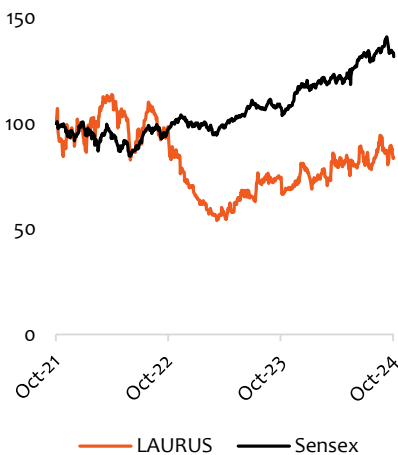
Result Highlights for Q2FY25:

- Laurus Labs' revenue missed our estimate due to weak demand in the Generic API segment. The profitability missed our estimates significantly due to operating leverage and lower utilization.
- We believe the performance will improve in H2FY25E as its newly established facilities will ramp up and additional CDMO orders will be delivered.
- We lower our FY26E EPS estimates by 5.5%, due to subdued demand in the Generic API segment while we maintain the P/E multiple of 36.6x on FY26E EPS of INR 13.4 (previously: INR 14.1) to arrive at a target price of INR 489/share (previously: INR 516/share). The demand for Generic API is reduced due to increased competition, and the challenge is to effectively manage the huge upfront costs invested. The company has to ensure that new projects will pick up as planned and start generating revenue to improve operating leverage in the coming quarters.

MARKET DATA

Shares outs (Mn)	539
Mkt Cap (INR Mn)	250,970
52 Wk H/L (INR)	518/349
Volume Avg (3m K)	2,486
Face Value (INR)	2
Bloomberg Code	LAURUS IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	79,402
NIFTY	24,181

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	60,406	50,408	52,734	67,160	89,521
EBITDA	15,922	7,775	9,688	16,001	20,586
PAT	7,901	1,606	2,710	7,225	10,106
EPS (INR)	14.7	3.0	5.0	13.4	18.7
EBITDA Margin	26.4%	15.4%	18.4%	23.8%	23.0%
NPM	13.1%	3.2%	5.1%	10.8%	11.3%

Source: Company, KRChoksey Research

Flat revenue growth as custom synthesis growth offsets decline in API segment

- For Q2FY25, the revenue decreased 0.1% YoY (2.4% QoQ), to INR 12,237 Mn. This was driven by a decline in the Generic API (Active Pharmaceutical Ingredient) segment and Generic FDF (Finished Dosage Formulation) segment which was offset by growth in Custom Synthesis.
- The Generic API segment (45.5% of total revenue) declined by 11.4% YoY (-16.1% QoQ) to INR 5,570 Mn, due to lower demand and increased competition in the Oncology portfolio, and lower ARV (Antiretroviral) volumes.
- Generic FDF (26.8% of total revenue) declined by 1.2% YoY (+19.7% QoQ) to INR 3,280 Mn, due to lower volume offtake in ARV business which was partially offset by growth in the developed markets portfolio.
- Custom Synthesis (24.4% of total revenue) grew by 33.5% YoY (+39.7% QoQ) to INR 2,990 Mn, due to advancing clinical projects with strong momentum for early-phase clinical and late-phase RFPs (Request for Proposal), which involved complex technology.

Gross margins improved but operating leverage impacted EBITDA

- Gross margins improved 265 bps YoY (+12 bps QoQ) to 55.2%, due to favorable CDMO (Contract Development and Manufacturing Organization) mix.
- EBITDA decreased 5.1% YoY (-24.3% QoQ) to INR 1,783 Mn. EBITDA margin contracted 77 bps YoY (-515 bps QoQ) to 14.6%, due to lower utilization of assets.
- Adj. Net profit decreased 46.3% YoY (58.6% QoQ) to INR 198 Mn. Adj. PAT margin contracted 140 bps YoY (+57 bps QoQ) to 1.6%, due to an increase in interest cost as net debt has increased due to continued capex investments.

SHARE HOLDING PATTERN (%)

Particulars	Sep-24 (%)	Jun-24 (%)	Mar-24(%)
Promoters	27.2	27.2	27.2
FIIIs	26.1	25.7	26.0
DIIIs	13.1	13.6	11.8
Others	33.7	33.5	35.0
Total	100.0	100.0	100.0

*Based on the today's closing
Note: All the market data is as of today's closing

15.4%

Revenue CAGR between FY24
and FY26E

102.9%

PAT CAGR between FY24 and
FY26E

Laurus Labs Ltd.

Key Concall Highlights:

- The company has opened a **new small molecular R&D center at IKP Hyderabad**, which will elevate its one-stop development and manufacturing service capability.
- Laurus Labs has a total of **62 products in the R&D pipeline**, either under review or under development, with a **significant addressable market size**.
- The company's R&D spending to revenue for the **H1FY25** was at **5.4%**, which is an increase of **25.0% YoY**.
- The company invested close to **INR 1,370 Mn in capex for Q2FY25** and **INR 2,620 Mn for H1FY25** which is for **growth projects to meet future demand**.
- The **planned shutdown of ARV manufacturing facilities** for modifications in Q2FY25 **impacted production** and sales volumes, **contributing to lower profitability in that segment**.
- Only **four DMFs** (Drug Master Files) have been **filed in H1FY25**, with three of them being non-ARV (Anti-Retroviral) products.
- Laurus Labs' entry into the **animal health and crop sciences** markets represents a key diversification strategy aimed at broadening its revenue base and **reducing reliance on the generic API business**.
- In the **CDMO segment**, the company is applying specialized technologies like **continuous flow and bio-catalysis across multiple projects, and it has a robust project pipeline**.
- Laurus Labs **expects a strong H2FY25E**, driven by **facility ramp-up and scheduled CDMO project deliveries**.
- Management acknowledged the **operating leverage stemming from investments** in new growth areas and capex but remained **committed to the 20.0% EBITDA margin target for FY25E**. They expect the deleveraging to subside within the next few quarters.

Valuation and view:

In Q2FY25, Laurus Labs faced a slight dip in revenue due to challenges in its Generic API and FDF segments, largely attributed to lower oncology demand and a decrease in ARV volumes. However, growth in the Custom Synthesis segment provided a relief, driven by momentum in advancing clinical projects that require complex technology. Despite a favorable product mix, which helped improve gross margins, the company's EBITDA declined due to lower asset utilization.

We lower our FY26E EPS estimates by 5.5%, due to subdued demand in the Generic API segment. We expect the revenue to grow at 15.4% CAGR and PAT to grow at 112.1% CAGR over FY24-FY26E. We believe performance will improve in H2FY25E as its newly established facilities will ramp up and additional CDMO orders will be delivered so we maintain a P/E multiple of 36.6x on FY26E EPS of INR 13.4 (previously: INR 14.1) to arrive at a target price of INR 489/share (previously: INR 516/share). The demand for Generic API is reduced due to increased competition, and the challenge is to effectively manage the huge upfront costs invested. The company has to ensure that new projects will pick up as planned and start generating revenue to improve operating leverage in the coming quarters. Given the 5.4% upside, we reduce our rating to “ACCUMULATE” from “BUY” on the stock.

Revenue segments

Revenue Mix (%)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Generic API	51.4%	48.0%	51.7%	55.6%	45.5%
Antiretroviral (ARV) API	30.3%	29.3%	28.5%	33.3%	30.0%
Oncology API	9.8%	7.2%	10.3%	10.0%	11.4%
Other API	11.3%	11.5%	12.9%	12.2%	4.1%
Custom Synthesis	18.3%	17.7%	16.4%	17.9%	24.4%
Generic FDF	27.1%	30.7%	29.9%	22.9%	26.8%
Bio	3.2%	3.5%	2.0%	3.6%	3.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Revenue Mix (YoY growth)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Total	-22.3%	-22.7%	4.3%	1.1%	-0.1%
Generic API	-7.5%	-9.2%	4.3%	11.2%	-11.4%
Antiretroviral (ARV) API	-7.5%	-6.1%	17.1%	-1.9%	-0.9%
Oncology API	119.7%	13.5%	15.9%	122.4%	16.5%
Other API	-38.3%	-24.8%	-21.0%	56.5%	-63.8%
Custom Synthesis	-68.9%	-67.0%	3.5%	-14.4%	33.5%
Generic FDF	122.8%	47.4%	9.4%	-3.9%	-1.2%
Bio	44.4%	90.9%	-37.0%	-14.0%	2.6%
Total					

Source: Company, KRChoksey Research

Laurus Labs Ltd.

Result Snapshot

Particulars (Mn)	Q2FY25	Q1FY25	Q2FY24	QoQ	YoY
Revenue from Operations	12,237	11,949	12,245	2.4%	-0.1%
Total Expenditure	10,454	10,237	10,366	2.1%	0.8%
Cost of Raw Materials	5,772	5,721	6,734	0.9%	-14.3%
Purchase of Stock	256	227	263	12.9%	-2.7%
Changes in Inventories	-545	-579	-1,186	NM	NM
Employee Cost	1,787	1,740	1,639	2.7%	9.0%
Other Expenses	3,184	3,129	2,916	1.7%	9.2%
EBITDA	1,783	1,712	1,879	4.2%	-5.1%
EBITDA Margins (%)	14.6%	14.3%	15.3%	25 bps	-77 bps
Depreciation	1,075	1,061	934	1.4%	15.1%
EBIT	708	651	945	8.7%	-25.1%
Other Income	46	25	18	83.3%	158.4%
Interest Expense	526	492	424	7.0%	24.1%
PBT before Exceptional	228	185	539	23.6%	-57.7%
Exceptional Items	0	0	0	NM	NM
PBT	228	185	539	23.6%	-57.7%
Tax	51	63	146	-18.6%	-65.1%
Share of Associates	22	5	-22	374.5%	-201.4%
Minority Interest	1	2	2	-35.3%	-35.3%
PAT	198	125	370	58.6%	-46.3%
PAT Margin (%)	1.6%	1.0%	3.0%	57 bps	-140 bps
EPS	0.4	0.2	0.7	60.9%	-45.6%
Adj. PAT	198	125	370	58.6%	-46.3%
Adj. PAT Margin (%)	1.6%	1.0%	3.0%	57 bps	-140 bps

Source: Company, KRChoksey Research

Laurus Labs Ltd.

Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Revenues	60,406	50,408	52,734	67,160	89,521
COGS	27,743	24,324	23,643	29,147	39,300
Gross profit	32,662	26,084	29,091	38,012	50,221
Employee cost	5,806	6,399	7,381	8,731	11,638
Other expenses	10,934	11,910	12,022	13,280	17,997
EBITDA	15,922	7,775	9,688	16,001	20,586
Depreciation	3,241	3,846	4,280	4,662	5,468
EBIT	12,681	3,929	5,408	11,339	15,119
Finance Costs	1,652	1,829	2,036	2,065	2,094
Other Income	60	263	178	252	337
PBT	11,089	2,364	3,551	9,527	13,361
Tax	3,123	682	907	2,386	3,340
PAT	7,901	1,606	2,710	7,225	10,106
EPS (INR)	14.7	3.0	5.0	13.4	18.7

Exhibit 3: Cash Flow Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
CFFO	9,939	6,657	10,839	14,551	13,289
CFFI	(9,961)	(8,224)	(6,171)	(11,775)	(11,971)
CFFF	(266)	2,498	(1,672)	(1,700)	(1,730)
Net Inc/Dec in cash	(288)	931	2,996	1,075	(412)
Opening Cash	753	456	1,389	4,385	5,460
Adjustment	(9)	3	1	1	1
Closing Cash	456	1,390	4,386	5,461	5,049

Exhibit 4: Key Ratio

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margin (%)	26.4%	15.4%	18.4%	23.8%	23.0%
Tax rate (%)	28.2%	28.8%	25.5%	25.0%	25.0%
Net Profit Margin (%)	13.1%	3.2%	5.1%	10.8%	11.3%
RoE (%)	19.5%	3.9%	6.2%	14.1%	16.5%
RoCE (%)	21.1%	5.9%	7.8%	14.7%	17.3%
Current Ratio (x)	1.4	1.2	1.3	1.2	1.3

Exhibit 2: Balance Sheet

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Capital	1,077	1,078	1,078	1,078	1,078
Other Equity	39,409	40,078	42,789	50,014	60,120
Total Equity	40,487	41,156	43,867	51,092	61,198
Non-Current Liabilities					
Borrowings	7,614	7,982	8,350	8,719	9,087
Other financial liabilities	1,286	1,045	1,045	1,045	1,045
Other Non-Current Liabilities	2,894	2,565	2,565	2,565	2,565
Total Non-Current Liabilities	11,795	11,592	11,960	12,328	12,696
Current Liabilities					
Borrowings	12,106	17,088	17,088	17,088	17,088
Trade Paybles	7,107	10,512	11,659	15,971	22,611
Other current liabilities	5,111	3,522	3,441	4,100	5,315
Total Current Liabilities	24,323	31,123	32,188	37,159	45,014
Total Liabilities	36,117	42,715	44,148	49,487	57,710
Non-Current Assets					
Property Plants and Equipments	31,494	36,247	39,289	46,131	52,167
Goodwill (Net)	2,463	2,463	2,463	2,463	2,463
Other Non-current assets	8,030	6,811	5,731	6,090	6,646
Total Non-Current Assets	41,987	45,521	47,483	54,684	61,276
Current Assets					
Inventories	16,848	18,454	17,489	20,363	25,841
Trade Receivables	15,804	16,629	17,337	18,400	24,526
Cash and Bank	485	1,417	4,413	5,488	5,076
Oher current assets					
Total Current Assets	34,617	38,350	40,532	45,895	57,632
Total Assets	76,604	83,870	88,015	100,579	118,908

Source: Company, KRChoksey Research

Laurus Labs Ltd.

Laurus Labs Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
25-Oct-24	464	489	ACCUMULATE	Buy	More than 15%
29-July-24	449	516	BUY	Accumulate	5% – 15%
29-Apr-24	437	503	BUY	Hold	0 – 5%
24-Jan-24	379	424	ACCUMULATE	Reduce	-5% – 0
01-Dec-23	380	404	ACCUMULATE	Sell	Less than – 5%

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