Q3FY25
Laurus Labs Ltd

RESULT UPDATE

27th Jan 2025

Laurus Labs Ltd.

Late stage projects and high value API to drive growth

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 603	INR 687	13.9%	INR 3,24,828	ACCUMULATE	Pharmaceuticals

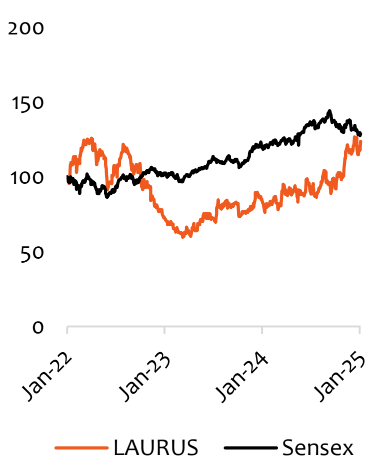
Result Highlights for Q3FY25:

- Laurus Labs' revenue beat our estimates significantly due to strong growth in Custom Synthesis segment and FDF segment. EBITDA beat our estimates due to better-than-expected gross profit and Adj. PAT beat our estimates due to strong operating performance.
- We increase our FY26E/FY27E EPS estimates by 0.6% and 5.0% to INR 13.5/INR 19.6, respectively showing our confidence that the company's strategic focus on advanced intermediates and APIs, several R&D launches are expected to drive growth in the medium term, and late-stage projects and shift towards advanced manufacturing capabilities indicate a solid long-term growth trajectory.
- **Currently, the stock is trading at a P/E multiple of 44.7/30.7 based on FY26E/FY27E EPS, respectively. We roll over our valuation multiple to FY27E and assign a PE multiple of 35.0x to arrive at a target price of INR 687 (previously: INR 489) and maintain "ACCUMULATE" rating.**

MARKET DATA

Shares outs (Mn)	539
Mkt Cap (INR Mn)	3,24,828
52 Wk H/L (INR)	619/361
Volume Avg (3m K)	2,636
Face Value (INR)	2
Bloomberg Code	LAURUS IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	76,190
NIFTY	23,092

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	60,406	50,408	53,453	66,934	90,089
EBITDA	15,922	7,775	9,901	15,522	20,817
PAT	7,901	1,606	2,847	7,291	10,611
EPS (INR)	14.7	3.0	5.3	13.5	19.6
EBITDA Margin	26.4%	15.4%	18.5%	23.2%	23.1%
NPM	13.1%	3.2%	5.3%	10.9%	11.8%

Source: Company, DevenChoksey Research

Solid Custom Synthesis and FDF performance propels top-line growth

- For Q3FY25, the revenue increased 18.4% YoY (+15.6% QoQ) to INR 14,150 Mn driven by robust growth in Custom Synthesis segment and high teen growth in FDF segment.
- Revenue from Custom Synthesis segment (28.4% of revenue) grew 88.7% YoY (33.8% QoQ) to INR 4,000 Mn led by strong demand, operational efficiency, a strategic shift towards high-value molecules, and increased collaborations.
- The company has a lot of capacity created for Custom Synthesis, which is now getting utilized. Previously, the capacities were delivering small quantities, but now capacities are seeing a gradual increase in production as projects move from earlier clinical phases to later clinical phases.
- Revenue from Generic FDF segment (31.0% of revenue) grew 18.8% YoY (32.9% QoQ) to INR 4,360 Mn, driven by increase in the developed market business portfolio.
- Revenue from Generic API segment (37.7% of revenue) declined 7.5% YoY (-4.7% QoQ) to INR 5,310 Mn due to decrease in the volume of ARV (Antiretroviral) and low contribution from Oncology APIs.

Favourable product mix and increased capacity utilization boost profitability

- Gross margin expanded 252 bps YoY (+169 bps QoQ) to 56.9%, driven by better product mix and process improvements as the company was able to produce these large volume APIs more efficiently.
- EBITDA increased 57.1% YoY (+59.9% QoQ) to INR 2,851 Mn. EBITDA margin expanded 497 bps YoY (+558 bps QoQ) to 20.1%, led by better operating leverage and improved utilization of the capacities in Custom Synthesis.
- Adj. Net profit increased 301.4% YoY (+368.2% QoQ) to INR 929 Mn. Adj. PAT margin improved by 463 bps YoY (+494 bps QoQ) to 6.6%.

SHARE HOLDING PATTERN (%)

Particulars	Dec-24 (%)	Sep-24 (%)	Jun-24 (%)
Promoters	27.6	27.2	27.2
FIIs	25.6	26.1	25.7
DIIs	12.7	13.1	13.6
Others	34.1	33.7	33.5
Total	100.0	100.0	100.0

*Note: All the market data is as of previous closing

21.4%

Revenue CAGR between FY24 and FY27E

87.7%

PAT CAGR between FY24 and FY27E

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Laurus Labs Ltd.

Key Concall Highlights:

- The **low contribution** from **Oncology API** is related to an order book shift from QoQ. This suggests that the sales of oncology APIs can **fluctuate**, depending on **customer demand** and **ordering patterns**.
- The company is spending about **5.0% of its sales on R&D** for the 9MFY25 with a focus on **product-specific approaches** based on **complexity**.
- The company continues to **prioritize investment** into **high-value business segments like CDMO** through its capital allocation strategy.
- The company has a **couple** of **R&D launches** expected to provide meaningful **growth in the next 1-2 years**.
- The **CDMO** division portfolio continues to shift towards **high-value, complex, small molecule products**.
- The company has a **diverse portfolio and pipeline**, including **products in franchises such as ARV, cardiovascular, diabetes, CNS, and gastrointestinal**.
- The company invested close to **INR 1,860 Mn** in Capex for Q3FY25 and INR 4,480 Mn for the 9MFY25.
- The company remains committed to its **FY25E growth outlook**, supported by **scheduled project deliveries for a few late-stage projects in Q4FY25E.**
- The pipeline is expected to be robust, and the company expects to do well in the **human health and animal health CDMO divisions** in **Q4FY25E and in FY26E.**
- The company is moving from offering **raw starting materials** (RSMs) and **intermediates** to providing **advanced intermediates** and **APIs,** which can result in **higher value and revenue.** This shift is supported by the **company's technology platforms** in areas such as **flow chemistry, biocatalysis, high-potent manufacturing, high-energy chemistry, and hydrogenation.**

Valuation and view:

The company delivered a strong performance in Q3FY25, driven by robust growth in its Custom Synthesis and Generic FDF segments. Custom Synthesis stood out as a key growth driver, benefiting from high demand, improved operational efficiencies, and a strategic shift towards high-value and complex molecules. The company achieved notable improvements in profitability, driven by a better product mix, process efficiencies, and operating leverage.

We increase our FY26E/FY27E EPS estimates by 0.6% and 5.0% to INR 13.5/INR 19.6, respectively showing our confidence that the company's strategic focus on advanced intermediates and APIs, several R&D launches are expected to drive growth in the medium term, and late-stage projects and shift towards advanced manufacturing capabilities indicate a solid long-term growth trajectory. We expect the revenue to grow at 21.4% CAGR and Adj. PAT to grow at 87.7% CAGR over FY24-FY27E. Currently, the stock is trading at a P/E multiple of 44.7/30.7 based on FY26E/FY27E EPS, respectively. We roll over our valuation multiple to FY27E and assign a PE multiple of 35.0x to arrive at a target price of INR 687 (previously: INR 489). Therefore, we maintain our "ACCUMULATE" rating on the stock with an upside potential of 13.9%.

Revenue segments

Revenue Mix (%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Generic API	48.0%	51.7%	55.6%	45.5%	37.7%
Antiretroviral (ARV) API	29.3%	28.5%	33.3%	30.0%	22.3%
Oncology API	7.2%	10.3%	10.0%	4.1%	3.0%
Other API	11.5%	12.9%	12.2%	11.4%	12.5%
Custom Synthesis	17.7%	16.4%	17.9%	24.4%	28.4%
Generic FDF	30.7%	29.9%	22.9%	26.8%	31.0%
Bio	3.5%	2.0%	3.6%	3.3%	2.8%

Revenue Mix (YoY growth)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Total	-22.7%	4.3%	1.1%	0.0%	17.7%
Generic API	-9.2%	4.3%	11.2%	-11.4%	-7.5%
Antiretroviral (ARV) API	-6.1%	17.1%	-1.9%	-0.9%	-10.5%
Oncology API	13.5%	15.9%	122.4%	-58.1%	-50.7%
Other API	-24.8%	-21.0%	56.5%	0.6%	27.2%
Custom Synthesis	-67.0%	3.5%	-14.4%	33.5%	88.7%
Generic FDF	47.4%	9.4%	-3.9%	-1.2%	18.8%
Bio	90.9%	-37.0%	-14.0%	2.6%	-4.8%

Source: Company, DevenChoksey Research

RESEARCH ANALYST
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Laurus Labs Ltd.

Result Snapshot

Particulars (Mn)	Q3FY25	Q2FY25	Q3FY24	QoQ	YoY	9MFY25	9MFY24	YoY
Revenue from Operations	**14,150**	**12,237**	**11,949**	**15.6%**	**18.4%**	**38,336**	**36,012**	**6.5%**
Total Expenditure	**11,299**	**10,454**	**10,135**	**8.1%**	**11.5%**	**31,990**	**30,652**	**4.4%**
Cost of Raw Materials	6,530	5,772	6,341	13.1%	3.0%	18,022	18,309	-1.6%
Purchase of Stock	348	256	175	36.0%	98.3%	831	702	18.4%
Changes in Inventories	-776	-545	-1,063	NM	NM	-1,900	-1,907	NM
Employee Cost	1,891	1,787	1,550	5.8%	22.0%	6,063	5,266	15.1%
Other Expenses	3,306	3,184	3,131	3.9%	5.6%	8,973	8,281	8.4%
EBITDA	**2,851**	**1,783**	**1,814**	**59.9%**	**57.1%**	**6,346**	**5,360**	**18.4%**
EBITDA Margins (%)	20.1%	14.6%	15.2%	558 bps	497 bps	16.6%	14.9%	167 bps
Depreciation	1,061	1,075	984	-1.3%	7.8%	3,197	2,823	13.2%
EBIT	**1,790**	**708**	**830**	**152.8%**	**115.6%**	**3,150**	**2,537**	**24.2%**
Other Income	94	46	24	104.8%	287.7%	165	78	111.7%
Interest Expense	578	526	508	9.9%	13.7%	1,596	1,324	20.5%
PBT before Exceptional	**1,306**	**228**	**346**	**472.7%**	**277.3%**	**1,719**	**1,291**	**33.2%**
Exceptional Items	0	0	0	NM	NM	0	0	**NM**
PBT	**1,306**	**228**	**346**	**472.7%**	**277.3%**	**1,719**	**1,291**	**33.2%**
Tax	401	51	95	687.2%	324.0%	514	362	42.0%
Share of Associates	23	22	-18	4.5%	-227.3%	50	-56	NM
Minority Interest	6	1	2	481.8%	220.0%	9	23	NM
PAT	**923**	**198**	**231**	**365.0%**	**298.7%**	**1,246**	**849**	**46.7%**
PAT Margin (%)	6.5%	1.6%	1.9%	490 bps	458 bps	3.3%	2.4%	89 bps
EPS	**0.4**	**0.4**	**0.4**	**0.0%**	**-14.0%**	**1.0**	**1.6**	**-38.2%**
Adj. PAT	**929**	**198**	**231**	**368.2%**	**301.4%**	**1,252**	**849**	47.4%
Adj. PAT Margin (%)	6.6%	1.6%	1.9%	494 bps	463 bps	3.3%	2.4%	91 bps

Source: Company, DevenChoksey Research

Laurus Labs Ltd.

Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Revenues	**60,406**	**50,408**	**53,453**	**66,934**	**90,089**
COGS	27,743	24,324	23,471	29,201	39,098
Gross profit	**32,662**	**26,084**	**29,982**	**37,734**	**50,990**
Employee cost	5,806	6,399	7,439	8,969	12,072
Other expenses	10,934	11,910	12,642	13,243	18,101
EBITDA	**15,922**	**7,775**	**9,901**	**15,522**	**20,817**
Depreciation	3,241	3,846	4,270	4,536	5,475
EBIT	**12,681**	**3,929**	**5,631**	**10,986**	**15,342**
Finance Costs	1,652	1,829	2,054	1,858	1,885
Other Income	60	263	266	446	600
PBT	**11,089**	**2,364**	**3,843**	**9,574**	**14,057**
Tax	3,123	682	1,054	2,350	3,514
PAT	**7,901**	**1,606**	**2,847**	**7,291**	**10,611**
EPS (INR)	14.7	3.0	5.3	13.5	19.6

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	42,926	50,220	60,833
Total Equity	**40,487**	**41,156**	**44,004**	**51,297**	**61,911**
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	11,575	16,000	22,495
Other current liabilities	5,111	3,522	3,420	4,106	5,291
Total Current Liabilities	**24,323**	**31,123**	**32,083**	**37,194**	**44,874**
Total Liabilities	**36,117**	**42,715**	**44,043**	**49,522**	**57,570**
Non-Current Assets					
Property Plants and Equipments	31,494	36,247	39,400	46,368	52,397
Goodwill (Net)	2,463	2,463	2,463	2,463	2,463
Other Non-current assets	8,030	6,811	5,749	6,084	6,660
Total Non-Current Assets	**41,987**	**45,521**	**47,611**	**54,915**	**61,520**
Current Assets					
Inventories	16,848	18,454	17,362	20,400	25,709
Trade Receivables	15,804	16,629	17,574	18,338	24,682
Cash and Bank	485	1,417	4,190	5,528	5,368
Oher current assets					
Total Current Assets	**34,617**	**38,350**	**40,436**	**45,905**	**57,960**
Total Assets	**76,604**	**83,870**	**88,048**	**100,820**	**119,481**

Exhibit 3: Cash Flow Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
CFFO	9,939	6,657	10,760	14,599	13,367
CFFI	(9,961)	(8,224)	(6,287)	(11,748)	(11,987)
CFFF	(266)	2,498	(1,700)	(1,513)	(1,540)
Net Inc/Dec in cash	**(288)**	**931**	**2,773**	**1,338**	**(160)**
Opening Cash	753	456	1,389	4,162	5,500
Adjustment	(9)	3	1	1	1
Closing Cash	**456**	**1,390**	**4,163**	**5,501**	**5,341**

Exhibit 4: Key Ratio

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margin (%)	26.4%	15.4%	18.5%	23.2%	23.1%
Tax rate (%)	28.2%	28.8%	27.4%	24.5%	25.0%
Net Profit Margin (%)	13.1%	3.2%	5.3%	10.9%	11.8%
RoE (%)	19.5%	3.9%	6.5%	14.2%	17.1%
RoCE (%)	21.1%	5.9%	8.1%	14.2%	17.4%
Current Ratio (x)	1.4	1.2	1.3	1.2	1.3
P/E(x)	41.2	203.0	114.5	44.7	30.7

Source: Company, DevenChoksey Research

Laurus Labs Ltd.

Laurus Labs Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
27-Jan-25	603	687	ACCUMULATE
25-Oct-24	464	489	ACCUMULATE
29-July-24	449	516	BUY
29-Apr-24	437	503	BUY
24-Jan-24	379	424	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%

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